

**Microfinance and Poverty  
Alleviation**

A case study of Grameen Bank and BRAC

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# Microfinance and Poverty Alleviation

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## **Abstract**

Microfinance and micro credits are concepts that are used frequently when talking about poverty reducing actions. This paper is a case study of the poverty alleviation impacts of microfinance institutions and it contrasts the effects of Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) operating in Bangladesh. The case study examines the institutions' effects in the 21st century since most of the reports have compared the effects in the past not reflecting on future conditions. The questions at issue are if Grameen Bank and BRAC can affect the poverty status of its members in a positive way and if there is a positive effect, which of the approaches are the best to use? To analyse the non monetary dimension, concepts such as health and education have been used as indicators for poverty reduction and the monetary indicator used is income through employment. Simultaneously economic models and concepts have been considered throughout the paper.

The findings of this case study implied that both institutions have positive effects on reducing poverty among its members, but BRAC has the broadest view seeing to all factors investigated and therefore its approach is the best to use. Nevertheless, as previous studies have implied, sustainability and cost-effectiveness within the microfinance programme is important for the long-run poverty reduction. Evaluating the economic performance of the two institutions Grameen Bank is more efficient in using its resources than BRAC, but Grameen Bank shows a decreasing rate of efficiency while BRAC is improving significantly. With this in consideration BRAC is still showing the best poverty reducing result for its members today, but if the organisation does not find a way to improve its economical performance its actions will not be sustainable in the long run.

Key words: Microfinance, micro credit, poverty, Bangladesh, Grameen Bank, BRAC

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## Section 1, Introduction

In this section the reader is introduced to the subject of the paper. Firstly there will be a discussion around the problem area and a focus on the background to why this subject is of importance and interest. Then follows the paper's aim, method and what limitations there might be in consideration to chosen direction. The introduction section is finished off by a clear identification of the issue in question.

### 1.1 Problem discussion

Today microfinance and micro credits are concepts that are frequently used when talking about poverty reducing actions. Micro credits are believed to help people lift themselves out of poverty. There have been several studies discussing whether the microfinance institutions have an impact on poverty or not. Some earlier studies are the ones from Ranjula Bali Swain (2004) from the organisation Sida<sup>1</sup> and the work of Shahidur R Khandker (1998), but critical voices have been heard in reports from for instance Morduch (1999) and Coleman (2004) saying that village banking may not reach the poorest of the clients.<sup>2</sup> Conclusions made by Swain suggest that microfinance help household to higher consumption and smoothing, but a microfinance programme that lack sustainability and cost-effectiveness hinders long-term effects on income expansion and poverty. Swain gave a wider picture on microfinance in general while Khandker focused on Bangladesh where he found that participant households did remove from poverty when investigating Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) in Bangladesh. Many studies of Grameen Bank and BRAC are from the 1990s and few reports have compared the effects in the 21<sup>st</sup> century.<sup>3</sup>

There are many different microfinance institutions operating all over the world, starting with different basic conditions and using various programme approaches. Previous studies on micro credits' effects give indicators on how the different approaches work, but there is a need of a comparison of two differentiated micro credit programmes, finding the structure giving the best programme performance.

### 1.2 Aim

During the report two different microfinance institutions in Bangladesh will be addressed, Grameen Bank and BRAC. Their mission statements indicate that they have different views on microfinance, and this is what is aimed to investigate. The reason for choosing these institutions and the country of Bangladesh is that Bangladesh has a long tradition of micro credits and these institutions have been around for decades and they also act as models for similar institutions all over the world.

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<sup>1</sup> Swain R.B (2004), *Is microfinance a good poverty alleviation strategy?- Evidence from impact assessment.*

<sup>2</sup> Weiss and Montgomery (2005), *Great Expectations: Microfinance and Poverty Reduction in Asia and Latin America*

<sup>3</sup> Weiss and Montgomery (2005), *Great Expectations: Microfinance and Poverty Reduction in Asia and Latin America*



Grameen Bank's statement is "by providing comprehensive financial services, we empower the poor to realize their potential and break out of the vicious cycle of poverty."<sup>4</sup> BRAC on the other hand states, "BRAC works with people whose lives are dominated by extreme poverty, illiteracy, disease and other handicaps. With multifaceted development interventions, BRAC strives to bring about positive changes in the quality of life of the poor people of Bangladesh"<sup>5</sup>.

### **1.3 Method**

This paper will be made as a case study of chosen questions at issue. The material analysed will be books, articles, annual reports from Grameen Bank and BRAC together with internet pages. The paper will be based on much prior work. To gain an answer to the questions at issue a fixed number of parameters for development will be used to define poverty reduction and the changes of these will also be studied. To analyse the non monetary dimension the concepts of health and education will be used. The monetary indicator used will be income analysed through employment. These factors are chosen with respect to World Bank's definition of poverty. Simultaneously economic models and concepts will be considered.

### **1.4 Limitations**

The reasoning around micro credits will only be based on information and figures from the Grameen Bank, BRAC and Bangladesh, resulting in an evaluation that solely applies for these two institutions in this specific country. A fixed number of parameters will be used to define poverty reduction, and the institutions' performance will only be evaluated based on these and no consideration is taken to other factors that may affect the outcome.

### **1.5 Questions at issue**

The goal with this paper is to find the answer to two questions;

1. Can Grameen Bank and BRAC affect the poverty status of its members in a positive way?
2. If there is a positive effect which approach is the best to use, Grameen Bank or BRAC?

### **1.6 Disposition**

Section two presents an overview of economic models and concepts. Section three is an introduction to Bangladesh as a country and its development with consideration to the factors investigated. Section four gives an explanation of what poverty and microfinance is. Section five is used to describe the two institutions explored and functioning of these. Section six is an analysis of the empirical data and the last section, number seven, is a conclusion.

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<sup>4</sup> <http://www.grameen-info.org/annualreport/commonElements/htmls/index.html> (Grameen Bank Annual Report 2005) 20070427

<sup>5</sup> <http://www.brac.net.downloads> (annual report 2005) 20070427

## Section 2, Economic models and concepts

This part of the paper will give the reader guidance to the economic models and concepts that the analysis will be based on.

### 2.1 Economic growth - exogenous view

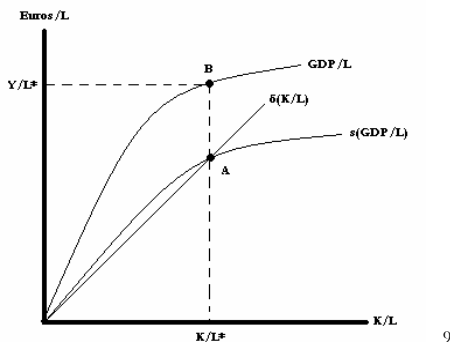
Economic growth is often defined as an increase in the total output of an economy, meaning that the economy's capacity to produce goods and services will increase in the long run. The key arguments for economic growth are that it saves time, improves the standard of living and is the only way to improve the situations for the poor.<sup>6</sup> Studies made by Deininger and Squire (1998) and Ravallion and Chen (1997) have found a strong connection between growth and poverty reduction.<sup>7</sup> The GDP of a country is defined as the market value of all final goods and services produced within a country in a given period of time. GDP is a good measure that comes in handy when trying to interpret the size of a country's economy, but it does not say much about living standards and the material well-being of the people.

The Solow model is a model that explains growth in the GDP per capita (GDP/L). The Solow model identifies three sources of GDP/L growth, capital accumulation, population growth and technological process.

$$Y = AK^\alpha L^{1-\alpha}, 0 < \alpha < 1 \quad ^8$$

The GDP/L is positively related to the capital labour ratio, K/L, where K/L is positively related to capital accumulation and negatively to the increase in the labour force, hence to diminishing marginal productivity of labour. The K/L ratio faces diminishing marginal returns and an increase in K/L increases GDP/L, but at a decreasing rate. Gross investments in the aggregated equilibrium are equal to private savings and in turn related to the marginal propensity to save, and this is a proportional part of GDP/L. (Figure 1) Under the assumption of the decreasing marginal return, savings and gross investments increase with an increase in GDP/L, but at a decreasing rate. Furthermore, depreciation per worker is assumed to be a constant fraction of the K/L ratio. The depreciation of the capital stock is assumed to be at a constant level. The GDP/L level is determined by the K/L ratio where gross capital accumulation equals depreciation and increases in the labour force are defined as the steady state condition.

Figure 1, Solow model



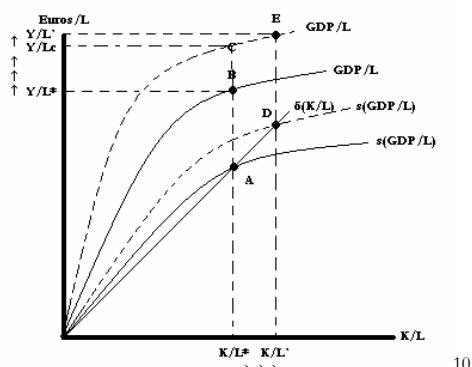
<sup>6</sup> Case et al, (1999) *Economics*

<sup>7</sup> Bigsten A, (2003) *Utvecklingens ekonomi och politik*

<sup>8</sup> Bigsten A, (2003) *Utvecklingens ekonomi och politik*

When import, export and the concept of integration is taken into account, scarce resources can be better allocated and firms can exploit economies of scale, which makes it possible to reach a higher growth level and a temporary growth increase. (Figure 2)

**Figure 2, Solow model**



Capital accumulation and population growth can explain a certain GDP/L level, but not continuous changes and growth in GDP/L. The long-run Solow model focuses on continuous changes in technology or productivity, A, as the exclusionary factor for continuous changes in GDP/L. Technological process is the engine of growth since it does not face high diminishing marginal returns the input of A will exceed the  $\delta (K/L)$  rate, giving a continuous GDP/L growth. This is due to exogenous factors.<sup>11</sup>

In the Solow model, low income per capita is a result of bad capital accumulation due to insufficient saving rates. The insufficient saving rate occurs with wars, natural disasters or a non functioning market economy. However, low savings rates alone cannot explain the large difference in growth and income level that different countries experience, or poorer countries' inability to close this gap. Since this gap is present, the Solow model must be questioned. The gap suggests that there is something endogenously that works that the model does not take into account. Consequently the production function of capital and labour might be too simple. One way to explain poverty in developing countries is by including other endogenous input factors.<sup>12</sup>

## 2.2 Economic growth - endogenous view

Technology is not just something that happens, it is a result of many hours and much capital spent on research, producing knowledge and thereby development in new ways of using the technology and knowledge. Even so, since research and development is a factor itself it should face diminishing marginal returns. However in this theory the production function is somewhat extended. Labour is no longer seen as totally homogenous and since there is a difference in skills, there is an additional production factor besides labour and capital and that is human capital, which includes aspects such as skills acquired on the job or through investment in education, and kept through good health care and public infrastructure.

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<sup>9</sup> Baldwin & Wyplosz (2004) *The economics of European integration*

<sup>10</sup> Baldwin & Wyplosz (2004) *The economics of European integration*

<sup>11</sup> Burda & Wyplosz (2005), *Macroeconomics- A European text*, Baldwin & Wyplosz (2004) *The economics of European integration*

<sup>12</sup> Burda & Wyplosz, (2005) *Macroeconomics- a European text*,

## 2.2.1 Human Capital

Increased knowledge is an investment, and will only take place when it pays off. For example; higher skilled employees usually are more productive and productivity tends to lead to higher wages, but more educated employees also improve the productivity of other factors.

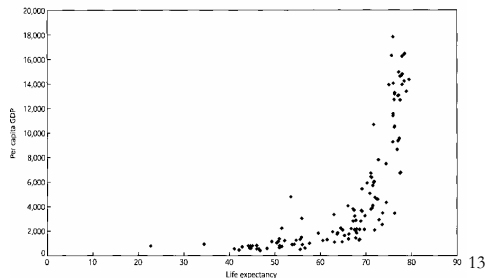
Human capital contributes to output per capita and investments in education and training can be seen as long run commitments, and if there are many well-educated persons the marginal productivity of human capital may not decline. In reality, educated poor migrate to wealthier countries, since they will benefit from the externality of other educated human capital.

## 2.2.2 Health

One important source in human capital accumulation is health. In regions where health services are limited life expectancy is low. A low life expectancy decreases the incentives to invest in human capital and with no investments in human capital the productivity of human capital over all decreases.

There is a connection between health and income, yet it is difficult to see which one is affecting which. Figure 3 shows that life expectancy and income is positively related stated by Bloom et al (2000) Life expectancy in poor countries is very low, but the benefits that could come from improved human conditions are very high.

**Figure 3, Life expectancy and income**



Furthermore if a country experiences a negative trend with many diseases that shorten the life expectancy, this decreases the motivation to invest in human capital and thereby future growth.

A high fertility rate has a negative relationship to growth. First of all when population grows too rapidly, the investments in the capital stock does not only need to cover the annual depreciation rate, but also be able to supply the rising population/labour force with the same equipments and conditions of those already employed. This explains why countries with a very high population growth often experience a low economic growth. Secondly, time spent in childbearing could have been spent in production.

## 2.2.3 Growth and knowledge

In the Solow model technological progress is the only factor for continuous growth, and it is considered to be an exogenous factor. This view is not satisfactory, instead the focus need to be on what affects technological changes.

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<sup>13</sup> Bloom et al (2000), *Out of poverty: On the feasibility of halving global poverty by 2015*

Accumulation of knowledge needs to be considered. Knowledge is seen as a public good that is both non-excludable and non-rivalrous and due to this, knowledge will not face diminishing returns. Capital accumulation could not be the source of continuous growth as it faced diminishing returns and depreciation. Instead knowledge can be the source. However the non-excludable goods have the disadvantage of that their producers will not be compensated enough to produce a sufficient amount, therefore a large quantity of research has to be financed by governments or non-profit institutions.

The conclusions that can be drawn with regard to knowledge are that knowledge is unlikely to face diminishing returns and seems therefore to be one source of continuous growth.<sup>14</sup> The use of all knowledge is impossible to estimate, so one can never be sure if enough has been spent in production. Finally to encourage private produced knowledge, society needs to find ways to make it profitable.

#### **2.2.4 Growth and the economic environment**

Property rights can be explained at different levels, at national level when firms are taken over by the state, and at individual level extended to human rights. The individual level is when people are deprived of their freedom to take part in activities as they please to, due to gender, race, political opinion or religion, their property right is taken away. The presence of property rights at national level is a condition for long term growth, because investors will not invest if they do not control their own investments. Even if the return on capital is higher, the lack of property rights prevents the investment.

War is something that also affects the property rights, and therefore expected peace encourages investments, which is seen in Europe after 1945. The general view is that democracy promotes growth, but there is no evidence. In addition there is not any evidence that democracy harms economic growth. The arguments say that even if democracies are assumed to encourage growth with respect to property rights, economic and political stability, health and so forth, democracies are unable to do the sacrifices needed within these areas for sustained economic growth.<sup>15</sup>

Economic development depends on individual property rights and peace, but there are other aspects needed such as a stable economic and political environment to attract investments, especially foreign direct investments. Openness is important, and growth and openness are known to be positively related. Countries which have large import/export ratios tend to have higher economic growth. Nations with less openness exclude for example the transfer of knowledge.<sup>16</sup>

#### **2.2.6 Growth and inequality**

When addressing the subject of poverty reduction, the distribution of the country's resources is of importance. Early studies within this subject suggested that economic growth and income inequality had a U-shaped relation, initially growth increased with inequality, but then the relationship changes and inequality decreases with growth, known as the "Kuznets curve."

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<sup>14</sup> Burda & Wyplosz, (2005) *Macroeconomics- a European text*, chapter 18

<sup>15</sup> Burda & Wyplosz, (2005) *Macroeconomics- a European text*, chapter 18

<sup>16</sup> Burda & Wyplosz, (2005) *Macroeconomics- a european text*, chapter 18

Inequality set growth aside when the income inequality is large, the average voter, who is assumed to “control” politics, will affect the policies in the way that gain themselves the most, proposing to increase taxes for the wealthier in the society, affecting savings negatively.

Another aspect that explains the negative relationship between inequality and growth is the functioning of the financial market. Inequality in financial assets prevent a large part of the population from gaining credit, resulting in less financial investments, educational investments, health investments and so forth, affecting growth negatively. The absence of assets decreases the possibilities to engage in the political and economical playground.

An additional explanation for the negative relationship is social conflicts, which is followed by an unstable political climate. A volatile political environment decreases the effectiveness in the production and the savings/investments rate. Further an insecure environment restrains property rights.

Countries with high inequality have a harder time to fight poverty due the negative effect inequality has on growth.<sup>17</sup> The gini coefficient is an index that measures inequality in a country. The gini measures the degree of how the distribution of income among individuals or households within an economy differs from a totally equal distribution. The coefficient varies between zero and one where zero corresponds to perfect income equality, meaning everyone has the same income and one is referring to perfect income inequality.<sup>18</sup>

### **2.3 Human Development Index, HDI**

This index was created as another way of measuring prosperity and draws the attention away from the normal economic statistics that are used. It is meant to stress the importance of that people and their capabilities should be the accurate measure to see how a country has developed, instead of economic growth. Two countries with similar GDP per capita may experience large differences within the countries. The HDI is an index that, with different instruments, measures a country’s average well-being and there are three fundamental aspects of human development; longevity, knowledge and standard of living. These three are measured by life expectancy indices, education indices and GDP indices. The HDI is a good help when trying to analyze a country’s development but it is not a perfect index either although it give a broader view than the GDP alone. A HDI of 0.8 or more is considered to represent high development and a HDI below 0.5 is considered to represent low development.<sup>19</sup>

### **2.4 Income and Consumption**

In microeconomics the emphasis is on when to consume and focus is the choice between to consume now or later. Households may choose any combination of consumption today or tomorrow as long as they remain on, or inside of their budget constraint. The choice depends on preferences. Households want to achieve their highest utility, which is the highest indifference curve due to the budget constraint. When households are on their budget line the total income is spent over the lifecycle. The consumption pattern over time depends only on the present value of our expected income which is the budget constraint.

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<sup>17</sup> Bigsten A, (2003) *Utvecklingens ekonomi och politik*,

<sup>18</sup> Burda & Wyplosz, (2005) *Macroeconomics-a European text*, chapter 18

<sup>19</sup> [http://hdr.undp.org/statistics/faq/#21\\_20070503](http://hdr.undp.org/statistics/faq/#21_20070503)

People generally dislike highly variable consumption patterns therefore when faced with a temporary change in income consumers save or borrow to spread the effects on consumption over time. This behaviour is called consumption smoothing, which makes it possible for people to in bad times use saved money, or borrow to consume and in good times accumulate assets to repay debts. Only if there has been a change in permanent income there will be a change in real consumption.

## **2.5 Asymmetric information**

The official lending intermediaries requires collateral before they take on lending clients, reducing the risk of default for different reasons. For example the risk of asymmetric information might be present, meaning that the lack of information can create problem in the financial system. Asymmetric information is when a party does not know enough about the other party to make accurate decisions. One asymmetric information problem is moral hazard, with occurs after the transaction takes place. Moral hazard is the risk that once the loan is received the borrower might engage in activities that are undesirable from the bank's point of view, increasing the default risk. This possibility makes it less likely that a loan will be paid back and due to this lenders may decide not to disburse any loans. Adverse selection is the problem created by asymmetric information before the transaction takes place. Adverse selection happens when the potential borrower who is most likely to produce an undesirable outcome, meaning a bad credit risk, is the one most actively seeking a loan. Since these risky borrowers more frequently ask for loans they are most likely to be selected. Because adverse selection makes it more likely that loans might be given to bad credit risks, lenders may decide not to disburse any loans even though there are some good credit risks as well.

Having no transactions carried out would be very negative for the banks and the economy as a whole, since this is one aspect of what generates economic growth according to the previously mentioned Solow model.

It is impossible and very costly for the financial intermediaries to collect enough data to exclude asymmetric information and investigate the default risk on all borrowers, therefore high regulations on who qualifies as a borrower and the interest rates as price determinants on loans are needed. Further, if being a large-scale borrower, with fewer loans the cost of carrying out financial transactions diminishes in relation to the loan, for a small-scale borrower the transaction cost per borrowed unit is much higher and furthermore small-scale borrower are seen as riskier than large borrowers<sup>20</sup>. Due to these factors the poor and women in developing countries are excluded from the financial markets.

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<sup>20</sup>Miskin F.S, (2006) *The economics of money, banking, and financial markets*

## Section 3, Introduction to Bangladesh

To be able to get a better understanding of the specific situation of Bangladesh, an overview of the country's history and development is needed, looking at factors of growth; education and health. Bangladesh's economical situation and its human capital play a part when later evaluating the impact of micro credits.

### 3.1 Economic features

Bangladesh became independent in 1971, and it was decided that the country should be a democracy based on socialism and nationalism. The first election was held in 1973, but almost instantly protests were heard implementing corruption and inability in conquering the widespread poverty. The new born country was already in political and economical distress and in 1975 the prime minister declared Bangladesh a dictatorship. After some rough years with protests and military actions, Bangladesh once again became a democracy in 1977.

During the 21<sup>st</sup> century the political violence has escalated once again and an election should have been held in January 2007, but due to disturbances, European Union and United Nations withdrew their representatives, and the election is postponed on undetermined time. Due to volatility in economic and political stability foreign investors have avoided the country. This affects the country's growth negatively when referring to the Solow model.<sup>21</sup>

Economic development depends on individual property rights and peace, but there are other aspects such as a stable economic environment which is needed in order to attract investments. Openness is important and growth and openness are known to be positively related. Countries which have large import/export ratios tend to have faster economic growth, according to growth theory.<sup>22</sup>

Bangladeshi export has increased since the 70s from 859 million US\$ to today reach 9 571 million US\$. The import quote has also increased from 1 292 million US\$ to 13 320 million US\$. In other words, the country has a higher import than export.<sup>23</sup> Sweden has during the same time period changed its export figures from 8 291 US\$ to 173 791 US\$. On the import side the figures expand from 8 532 to 146 208 US\$. (*Seen in appendix no 3*). Sweden exports more than it imports.<sup>24</sup> These figures indicate that Bangladesh has increased its openness, but still the country needs to advance to reach the level of industrialised countries.

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<sup>21</sup> <http://www.landguiden.se.persefone.his.se> 2007-05-07

<sup>22</sup> Burda & Wyplosz, (2005) *Macroeconomics-a European text*, chapter 18

<sup>23</sup> <http://unstats.un.org/unsd/snaama/resultsCountry.asp?Country=50&SLevel=1&Year=2005&Year=2000&Year=1995&Year=1990&Year=1985&Year=1980&Year=1975&Year=1970&Selection=country&x=38&y=14>, 20070507

<sup>24</sup> <http://unstats.un.org/unsd/snaama/resultsCountry.asp?Country=752&SLevel=1&Year=2005&Year=2000&Year=1995&Year=1990&Year=1985&Year=1980&Year=1975&Year=1970&Selection=country&x=39&y=3>, 20070507



Since the 70s Bangladesh GDP per capita has increased from 370 to 1 700 US\$ (current prices), still this figure is quite low, with is understood when viewing Sweden’s figure, for the same period, from 6 060 to 26 050 US\$<sup>25</sup>

HDI is an alternative way of examine a country’s development. Since the 70s Bangladesh has moved from 0.347 in HDI to reach over the threshold and today having 0.530 in HDI. (*Calculations on HDI seen in appendix no 1*) The HDI implies that Bangladesh has improved in areas besides GDP such as health and education, see table 1. The level of the HDI can be better understood with a comparison with Sweden who has gone from 0.868 to 0.951 in HDI.<sup>26</sup>

**Table 1, Factors of human development**

Year	Life expectancy at birth	Adult Literacy rate	Primary school enrolment	GDP per capita
1980	46.9 years	28.9%	n/a	590 USD
1990	53 years	34.2%	71.2%	950 USD
2000	58.4 years	40%	87.7%	1560USD

(Extractions from appendix no 3)

In 1981 Bangladesh had a gini index of 37.07<sup>27</sup> and in 2005 it was 31.8.<sup>28</sup> The gini index implies a measure of the degree of inequality and Bangladesh gini states that it has lowered its inequality. For comparison, Sweden’s Gini was 25 in 2005<sup>29</sup> implementing that Bangladesh has a more unevenly distribution of income than Sweden has.

Over all the economic performance of Bangladesh has improved the last decades. Bangladesh has managed to increase it openness and raise its GDP per capita level successfully, but the country still experience volatilities in its political environment, which restrict growth, stated in endogenous growth theory. Since growth and reduced poverty has a strong connection this affects poverty reduction negatively, but due to the increases in other factors poverty is reduced gradually.

### **3.2 Land features**

Due to the landscape’s characteristics of much low land and very large delta landscape and Bangladesh tropical monsoon climate, the country is vulnerable to floods during monsoon periods and to cyclones and tidal waves.

Besides the need of a stable economical climate within the country to attract investors, the environmental climate is also of importance. If there are risks associated with the country landscape such as lack of property rights, investors need to hedge against the risks before investing and the cost of the investment increases. The climate that Bangladesh has affects investments negatively.

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<sup>25</sup> Globalis, [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=19](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=19) 20070507, [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=19](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=19) 20070507

<sup>26</sup> <http://hdr.undp.org/hdr2006/statistics/>, 20070507

<sup>27</sup> <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20699070~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html> 20070510

<sup>28</sup> [http://devdata.worldbank.org/wdi2005/Table2\\_7.htm](http://devdata.worldbank.org/wdi2005/Table2_7.htm) 20070510

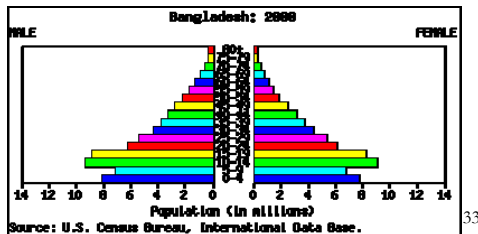
<sup>29</sup> <http://earthtrends.wri.org/datatables/index.php?theme=4>, 20070510

Two thirds of the land are cultivated and employ most of the inhabitants. The agriculture land is unevenly distributed, and approximately half of the population in the countryside stand without ownership. In 2005 the amount of landless was 45.8 per cent.<sup>30</sup> This inequality of land owning has contributed to poverty. Unemployment is a large problem in Bangladesh.<sup>31</sup> The employments are divided as; agriculture sector support 63 per cent of the employed, while industry and service only support 11 per cent respectively 26 per cent.<sup>32</sup>

### 3.3 Population features

Bangladesh has a population of 141 million people. The country has had a typical population pyramid (*Figure 4*) for developing countries, with a very high birth rate and with few that reaches the high ages, referring to the demographic transition. Even though Bangladesh only has an area of one third of Sweden, it is fifteen times as populated. Nevertheless, the latest years the government's family and health programmes have started and these programmes are estimated to have reached the majority of the population.

Figure 4, Population pyramid



The fertility rate in Bangladesh has decreased significantly the last decades from 6.8 children per woman in 1960 to 3.4 children per woman today. To compare with Sweden that has had a decrease from 2 children per women to 1.7 children per woman. Fertility rate and the population growth rate are two different measures, giving an indicator on how much the population is increasing. Since the fertility rate has decreased so has the population growth. During the 70s Bangladesh had a population growth of 2.7 per cent today it has decreased to 2.0 per cent. To get a better understanding for the figure, Sweden has during the same period had a decrease from 0.3 per cent to 0.2 per cent.<sup>34</sup> Economic theory in section 2 states that high fertility rate and economic growth are negatively related.

Another indicator of a country's well being is the life expectancy at birth since this index is positively related to income. Bangladesh has improved its life expectancy from being 44 years during the 70s to being 64 years during the 2000s. Still this is a low figure when comparing to Sweden which, for the same time periods, has had 74 years respectively 80 years.<sup>35</sup> (*Further years are presented in appendix no 3*)

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<sup>30</sup> [http://www.bracresearch.org/publications/Povestimates\\_BRAC\\_Dec06.ppt#287,22,Characteristics of the Poor 20070515](http://www.bracresearch.org/publications/Povestimates_BRAC_Dec06.ppt#287,22,Characteristics of the Poor 20070515)

<sup>31</sup> <http://www.landguiden.se.persefone.his.se> 20070507

<sup>32</sup> <https://www.cia.gov/cia/publications/factbook/geos/bg.html>, 20070315

<sup>33</sup> <http://www.census.gov/cgi-bin/ipc/idbpys.pl?cty=BG&out=s&ymin=200,20070507>

<sup>34</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=29](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=29) 20070507

[http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=2920070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=2920070507)

[http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=13820070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=13820070507)

[http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=13820070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=13820070507)

<sup>35</sup> <http://www.unicef.org/infobycountry/> 20070507

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The literacy rate is also an indicator of a country's performance and education and growth is positively related. Its effect on annual growth rate is 2.1 per cent. In Bangladesh the literacy rate has increased, but still half of the population is illiterate. In the countryside and among women the situation is even worse, where only every third person can read or write. Net primary school enrolment has also increased from the 80s from 60 per cent to 94 per cent in 2004. During the 90s the government has acknowledged the importance of education, and the number of children in school has increased, but not all children fulfil their studies.<sup>36</sup>

The figures concerning Bangladesh's population illustrate a population moving in the right direction, with decreased population growth rate and increased educational level.

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<sup>36</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=100,20070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=100,20070507)  
[http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=100,20070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=100,20070507)

## **Section 4, Poverty and Microfinance**

This part of the paper will work as an introduction and defines sources of poverty and the foundation of micro credits. One aim of micro credits is to reduce poverty, but before solving a problem it is essential to find the source of it.

### **4.1 Definition of poverty**

Poverty has many dimensions and is considered through many indicators, The World Bank's definition focuses on a monetary dimension addressing the relation between income and consumption, and a non monetary dimension seeing to areas of health, nutrition and education.<sup>37</sup> To be able to use these instruments to measure poverty, an index to compare with is needed, a minimum threshold such as a poverty line. Living on less than 1US\$ per day is often used as a poverty line.

### **4.2 Sources of poverty in Bangladesh**

Bangladesh has a history of a large agriculture sector and less industrial elements. Furthermore the country has, as many developing countries, experienced a rapid population growth. Khandker (1998) believes that a rapid population growth and large labour force has been the major problem for the economy in Bangladesh. A rapid population growth is also discussed in the Solow model as being negative for a country's growth. The rural sector provides the most employment opportunities, but this sector is unable to expand. This is due firstly to scarce land resources which are fixed and secondly to technical constraints. An increase in productivity is needed, which is essential in other sectors as well.<sup>38</sup>

Bangladesh needs to find alternative employment opportunities besides agriculture, but other sectors do not have the ability to absorb the huge labour force either and therefore along with a productivity increase reducing poverty also requires lowered population growth and an improved health and educational situation.<sup>39</sup>

### **4.3 Microfinance**

Microfinance is a concept that has been spread throughout the world the last decades, where Bangladesh is considered to be the origin of the concept. Microfinance is well established in Asia where 76 per cent of micro credits are executed, followed by Latin America with 21 per cent.<sup>40</sup>

The term microfinance is used to describe financial services available for less fortunate ones. The most common service is loans; also known as micro credits, which are small amounts of money lent to the poor. Institutions working with microfinance vary in size and regulations. There can be everything from a small local organisation to large banks with hundred of thousands of clients. These microfinance institutions (MFI's) are one way of helping people to increase their capability of living above the poverty line. The main

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<sup>37</sup> <http://www.worldbank.org/>, 20070315

<sup>38</sup> Khandker S.R(1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

<sup>39</sup> Khandker S.R (1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

<sup>40</sup> [http://www.sida.se/shared/jsp/download.jsp?f=SIDA4289en\\_EvidenceMF\\_web.pdf&a=3340](http://www.sida.se/shared/jsp/download.jsp?f=SIDA4289en_EvidenceMF_web.pdf&a=3340) 20070303

goal is to create opportunities for the poor by giving them access to different micro financial services.

#### **4.4 Micro credit**

Ordinary financial services available to poor are very restricted due to high costs and risks. The poor are not seemed as creditworthy. One option for the poor to gain credit is through micro credits.

The size of the loan may vary, but is often between 500 taka to up to 5000 taka and the time for repayment is everything between 30 days to 24 months, and sometimes even longer. The micro credits are normally carried out without any back-up as security and are intended to give the client a chance to improve its living standards. Micro credits are known to be the building stone in microfinance.<sup>41</sup>

Indifferent to financial institutions that target clients by selecting those who are most likely to repay their loans and follow the regulations established by the institution, micro credit programmes have to work in a different way. Finding the client with highest incentives to repay the loan always includes problems like asymmetric information and moral hazard, but micro credit programmes have found ways to work around these problems. In contrast to commercial lending institutions that only lend money based on assets and have numerous rules to avoid adverse selection, micro credit programmes have a closer relation to its clients relying on peer pressure. This cooperation gives incentive to repay loan. Micro credit institutions have a self-targeting process, where people choose to join in a group, but also the explicit target of owning less than one acre land.<sup>42</sup>

Evans et al (1999) discussed troubles reaching the right target groups and studied existing barriers to reach the poorest clients. Issues such as membership and its requirements, vulnerability and the lack of education were brought up. Other topics regarding preferences, expectations and institutional incentives were also analysed together with the supply of micro-credit programmes and the supply of means.<sup>43</sup>

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<sup>41</sup> <http://www.mikrofinans.nu/ommikrofinans.htm> 20070308

<sup>42</sup> Khandker S.R (1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

<sup>43</sup> Evans et al. (1999), *Demystifying Nonparticipation in Microcredit: A Population-Based Analysis*

## Section 5, Grameen Bank and BRAC

This section in the paper will start with an overview of Grameen Bank and BRAC, where data over the institutions will be presented. This with consideration to economic performance, educational and health investments and poverty alleviation. Grameen Bank and BRAC have received global attention, both positive and negative. Some argue that the institutions operate as a positive and increasing space for civil society<sup>44</sup> or as the materialization of a new social economy<sup>45</sup>. However, the institutions have also been criticised for their social control and disciplinary imperatives<sup>46</sup> together with the subsidised system of lending that they apply.<sup>47</sup>

**Table 2, Key features of Grameen Bank and BRAC**

Programme Feature	Grameen Bank	BRAC
Membership criteria	Maximum landholding of half an acre of land. Only one member allowed per household.	Maximum landholding of half an acre of land; at least one household member must work for wages. One household member may earn daily wages. Since 1992 one member allowed per household.
Group feature	Five members form a group. Five to eight groups constitute a centre. Separate groups and centres for men and women. Weekly meetings of groups.	30-40 members form village organisations (VO). VOs are divided into solidarity groups of five to seven members. Separate groups form men and women. Each men's group has a counterpart women's group. Weekly meetings of solidarity groups.
Saving mobilisation	Tk 1 per week. 5 per cent of each loan (non-refundable) goes to group fund. 0.5 per cent of each loan used for group insurance. Option to buy shares worth Tk 100 per member.	Tk 2 per week. 4 per cent of each loan (non-refundable) goes to group fund. 1 per cent of each loan used for group insurance.
Credit delivery mechanism	No collateral but group liability. 50 week instalment of loan. Interest at the end of loan cycle. 20 per cent interest rate for general loan, 8 per cent for household loan. Maximum loan Tk 10 000	No collateral but group liability. 50 week instalment of loan. Interest at the end of loan cycle. 20 per cent interest rate for production loan. Maximum loan Tk 10 000
Social development	Training duration 15-30 days	Training duration 3-6 months.

<sup>48</sup>

### 5.1 The Grameen Bank

According to Dr Muhammad Yunus himself, who founded Grameen Bank in 1976, the idea of Grameen Bank opposes the traditional view of financial intermediaries, offering

<sup>44</sup> Hulme and Edwards, (1997) *NGOs, States and Donors: Too Close for Comfort?*

<sup>45</sup> Defourny et al (2000) *The Social Economy North and South*

<sup>46</sup> Bornstein D, (1997), *The Price of a Dream: The Story of the Grameen Bank and the Idea that is helping the poor to change their lives*

<sup>47</sup> Robinson (2001), *The Microfinance Revolution: Sustainable Finance for the Poor*

<sup>48</sup> Khandker S.R (1998), *Fighting Poverty with Micro credit- experience in Bangladesh*

loans without collateral in small scale to the poor part of the population otherwise excluded from the official lending institutions.<sup>49</sup> The vital objective is to improve the welfare of the poor. Dr Yunus states that the lack of credit is the biggest reason for being trapped in a poverty cycle.

The pillar of Grameen Bank is micro credit and it includes five key concerns;

1. Expand the banking facilities to the poor
2. Reduce exploitation of the poor by money lenders
3. Create opportunities for self employment for the poor
4. Bring the underprivileged an comprehensible organisational framework
5. Change the vicious circle of “low income-low savings-low investment” to a positive one; “credit means investment, investment means income, income means more credit and more investment” and so forth.

Even if Grameen Bank’s belief is that access to credit is the most important tool away from poverty it has developed a social development programme with focus on “the 16 decisions of Grameen Bank.” in order to improve the living standards of its members. The decisions are the members’ code of conduct and aims to improve factors such as income education and health.

### **5.1.1 Economical and organisational indicators**

Since its establishment as a formal bank in 1983, the Grameen Bank has expanded its branches, centres and number of members. In 1985 Grameen Bank had 171 622 members and today it is 7 millions. Since Grameen Bank has increased its operating areas the number of employees and branches has grown as well.<sup>50</sup> Grameen bank was initially sponsored by the central bank in Bangladesh together with nationalized commercial banks. Today Grameen Bank is owned by its members, which hold 90 per cent of the shares. 10 per cent of the shares are owned by the Bangladeshi government. Grameen Bank is not reliant on donor funding any more. It lends funds from the deposits made within the institution.<sup>51</sup>

In 2005 Grameen Bank had a return on assets (ROA) on 0.32 per cent and a return on equity (ROE) on 1.95 per cent, which both are indicators on efficiency. The operational self-sufficiency (OSS) percentage reached the same year the level of 102.24 per cent and its portfolio at risk (PAR) fell to 2.57 per cent from 7.98 per cent the year before. The low PAR is related with Grameen Bank’s loan loss reserve (LLR) ratio which was 6.44 per cent in 2005. The overall repayment percentage shows the borrowers repayments of loans before due. The average repayment percentage for eight selected commercial banks in Bangladesh is 87 per cent which implies that Grameen Bank has fewer defaulters, when having a repayment rate of 99.01 per cent in 2005. <sup>52</sup> (*Further figures in appendix no 5*)

### **5.1.2 Monetary indicators**

Income is a monetary indicator viewed through the employment rate. The employment generated by the organisation’s micro credit programme can indicate how the poverty rate

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<sup>49</sup> <http://www.grameen-info.org/bank/index.html>, 20070507

<sup>50</sup> [http://www.grameen-info.org/bank/hist2005\\$.html](http://www.grameen-info.org/bank/hist2005$.html) 20070416

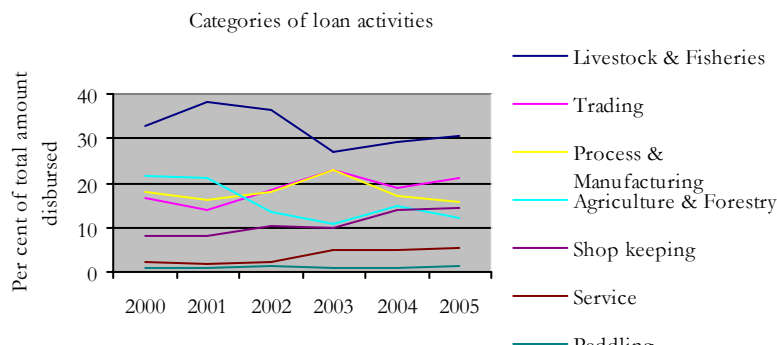
<sup>51</sup> <http://www.grameen-info.org/bank/hist.html> 20070604

<sup>52</sup> <http://www.bwtp.org/arcm/documents/Awal.pdf> 20070506

has reduced or not, since employment results in an improved financial situation and the inequality can diminish. Improvements in inequality are positively related to economic growth, according to Burda & Wyplosz (2005)

Studies made by Rahman and Khandker (1994) showed that Grameen Bank was successful in expanding the opportunities of self-employment for its members<sup>53</sup>. In 2005 Grameen bank disbursed over five million loans to different categories of activities where over 30 per cent of the loans disbursed went to livestock and fisheries which is the largest entry. (Figure 5)

**Figure 5, Loan activities**



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Looking at the chart the trend for trading activities is positive while agriculture and forestry has a declining trend. The fact that more loans are disbursed every year during the same period implements that more people are engaged in these activities.

Grameen Bank has given incentives to increase employment in agriculture and fisheries by creating the Krishi (agriculture) and Motso (fisheries) foundations. It has also invested in new areas such as solar and wind energy, telecommunications and in textiles.<sup>55</sup>

### 5.1.3 Non monetary indicators

Education and health are non monetary indicators used to define poverty. Regarding the educational indicator Grameen Bank offers higher education loans to its members and in 2002 the organisation disbursed 395 loans and in 2005 this figure had increased to 8 926, and the increase in education loans is higher then the increase in borrowers. The Higher Education Loan Programme, founded in 1997, aim is to offer an opportunity to study at higher levels. The trend of the increasing amount of loans disbursed is a pointer of that education is important for the members.

Grameen Bank also has a Scholarship Programme, founded 1999, giving talented children, especially girls, better educational opportunities. The programme was founded in order to keep the children in school. The programme gives money to different levels of education such as primary school, secondary and cultural schools. Grameen Bank has through the programme disbursed in average 3 359 scholarships per year during 1999-2005.<sup>56</sup>

<sup>53</sup> <http://www.hiva.be/docs/paper/P2.pdf> 20070427

<sup>54</sup> <http://www.grameen-info.org/annualreport/commonElements/htmls/index.html> (Grameen Bank Annual Report 2005) 20070427

<sup>55</sup> <http://www.grameen-info.org/>, 20070427

<sup>56</sup> <http://www.grameen-info.org/annualreport/commonElements/htmls/index.html> 20070427



Through the social development programme members get training and education in for instance nutrition care, maternal health and child care, which are all health indicators. As a result of the training, the members and their children have an improved nutritional status. They have increased their food intake and the food is of better quality. These changes have led to that 50 per cent of the children in Grameen Bank are considered to have a normal nutritional status in terms of height and weight. For non-members the per cent is 30.<sup>57</sup> Research made by Pitt et al (2003) states that Grameen Bank has effect on the children's health status in relation to increased credit when given to female members.<sup>58</sup> Grameen Bank's 16 decisions are partly emphasizing the importance of health and nutrition for the members which affects the members' living standards.

#### **5.1.4 Grameen Bank and poverty**

A study made by Khandker (1991,1992) showed that Grameen Bank's micro credit programme had the ability to help people out of poverty and the longer the member participated within the programme the higher the poverty reduction result was. The average result was 61.6 per cent or 10.3 per cent leaving poverty, depending on what poverty level the individual started from. By being part of the programme the members could also increase their consumption level.<sup>59</sup> (For entire table see appendix no 6)

According to an internal survey made by Grameen Bank, 57.9 per cent of its surveyed members have crossed the poverty line and the remaining families are moving towards the poverty line. The survey also says that 0.6 per cent of them fell back under the poverty line after once crossing. In 2005 Grameen Bank had 41.59 per cent of its members still below the poverty line.<sup>60</sup> This states that there has been a positive trend in crossing the poverty line during the last years.<sup>61</sup>

Grameen Bank has also introduced the Struggling Members Programme (2002) intended to reach out to the beggars. The aim is to make financial services available for them and by the disbursement of loans giving them a decent livelihood.

#### **5.2 BRAC**

Bangladesh Rural Advancement Committee (BRAC) was founded by Fazle Hasan Abed, in 1972. Today it is one of the largest developing institutions in the southern districts of Asia working with poverty alleviation. BRAC is a non-governmental organisation which is one form of microfinance institutions<sup>62</sup>. BRAC argues that micro credit is a central tool in reducing poverty, but training its members in income generating activities, education and awareness is essential.

Indifference to Grameen Bank's focus on micro credits, BRAC has four core pillars for the organisation and its members. These are economic development, education, health and

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<sup>57</sup> Rahman A (1986) *Impact of Grameen Bank on the nutritional status of the rural poor*.

<sup>58</sup> Weiss and Montgomery (2005), *Great Expectations: Microfinance and Poverty Reduction in Asia and Latin America*

<sup>59</sup> Khandker S.R (1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

<sup>60</sup> <http://www.grameen-info.org/annualreport/commonElements/htmls/index.html> (Annual Report 2005) 20070427

<sup>61</sup> <http://www.grameen-info.org/annualreport/commonElements/htmls/index.html> (Annual Reports 2002-2004) 20070427

<sup>62</sup> <http://www.gdrc.org/icm/model/1-credit-model.html> 20070302

social development, human rights and legal services. These four pillars are equally important to reach the goals of poverty alleviation according to BRAC's ideology.<sup>63</sup>

Within the first core pillar of BRAC, economic development, the Microfinance Programme exists, including micro credit lending, founded in 1994. This programme relay upon five key concerns;

1. Make credit available to poor women, especially in rural areas
2. Provide credit at a reasonable price
3. Involve poor women in income generating activities through credit provision
4. Promote the economic development of the country by increasing the income level of the rural poor
5. Operate self-sustaining credit activities.

The second pillar, education, includes education programmes. BRAC's Education Programme was founded in 1985 to reach BRAC's goal of poverty reduction by giving the people who normally were outside formal schooling access to primary education.

The third pillar refers to the different health programmes. BRAC's Essential Healthcare Programme, founded in the 70s, makes health services which are preventive, curative as well as rehabilitative, available to the people. Each month meetings are held were subjects as family planning, pregnancy-related care, immunization, water and sanitation, personal hygiene, child health, and nutrition are discussed, this to inform and educate the members.

The last pillar, social development, human right and legal services "aims to promote greater awareness of social, political and economic issues".<sup>64</sup> The vital element of BRAC's social development programme is the Human Rights and Legal Services Programme (1986) which aspire to increase the awareness of women's basic rights according to the Bangladeshi Constitution. The programme improves individual property rights as well. Besides this programme the Social Development Programme aims to strengthening women's socio-political and socio-economical level, also viewable in BRAC's 17 promises.<sup>65</sup> In addition, the Social Development Programme entails the Popular Theatre Programme which was created to be a communication network and to operate as a channel describing the changes in rural areas. The theatre is considered to be an entertaining way of learning about important issues.<sup>66</sup>

### **5.2.1 Economical and organisational indicators**

BRAC started as an almost entirely donor funded institution but is today self-financed. Funds are raised within the institution. BRAC had in 2005 4.86 million members in village organizations, but it reaches over 100 million people in Bangladesh, trough its different programmes.<sup>67</sup>

BRAC's efficiency can be measured through indicators such as ROA and ROE. In 2005 BRAC had a negative ROA on -18.13 per cent and a ROE on -175.37 per cent. The OSS percentage reached the same year the level of 50.60 per cent stating that BRAC is not

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<sup>63</sup> <http://www.brac.net/history.htm> 20070403

<sup>64</sup> <http://www.brac.net/socialdev.htm> 20070403

<sup>65</sup> <http://www.brac.net/socialdev.htm> 20070403

<sup>66</sup> <http://www.brac.net/populartheatre.htm> 20070403

<sup>67</sup> <http://www.brac.net/history.htm> 20070604

considered to be operationally self-sufficient. Its PAR increased to 3.87 per cent from 0.5 per cent the year before. The rising PAR is related with BRAC's LLR ratio which was 4.22 per cent in 2005. The overall repayment percentage shows the borrowers repayments of loans before due. The average repayment percentage for the eight selected commercial banks in Bangladesh was 87 per cent which implies that also BRAC has fewer defaulters with a repayment percentage of 99.49 per cent in 2005. <sup>68</sup> (Further figures in appendix no 8)

### 5.2.2 Monetary indicators

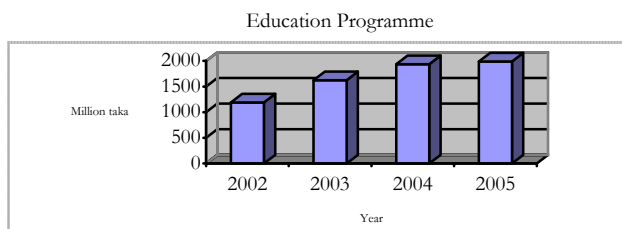
The job opportunities generated by the organisation's micro credit programme can as mentioned previously indicate how the poverty rate has reduced or not. Old studies made by Rahman and Khandker (1994) showed that BRAC were successful in expanding the opportunities of self-employment for its members. <sup>69</sup> According to BRAC's annual reports new job opportunities created have increased by 11.5 per cent from 2004 to 2005. The sector that has increased the most during this period is the handicraft producers with approximately 143 per cent.

BRAC also has different programmes for skills development such as agriculture extension programme, legal education and fisheries extension programme. The agriculture programme aims to increase the productivity through technology improvements. <sup>70</sup> BRAC has during 2002-2004 reallocated its invested capital moving from its traditional extension programmes to focusing more on non monetary programmes such as health and education.

### 5.2.3 Non monetary indicators

BRAC's Education Programme aims at giving those who normally are outside formal schooling access to primary education. The BRAC schools have the same proficiency as the government schools and BRAC's schools accounts for 11 per cent of the Bangladeshi primary schools. In the 21st century over 34 000 schools are operating and up to 2005 3.12 million students had graduated from BRAC's Education Programme. <sup>71</sup> BRAC has increasingly injected capital into this programme showing an awareness of the impact education has. (Figure 6) The entry is the largest one in BRAC's balance sheet during the 2000's.

Figure 6, Education programme



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<sup>68</sup> <http://www.bwtp.org/arcm/documents/Awal.pdf>, 20070506

<sup>69</sup> <http://www.hiva.be/docs/paper/P2.pdf> 20070427

<sup>70</sup> <http://www.brac.net/incomegeneration.htm> 20070429

<sup>71</sup> <http://www.brac.net/education.htm> 20070429

<sup>72</sup> <http://www.brac.net/downloads> 20070427 (audit report 2003, 2005, annual report 2004, 2005)

Besides education BRAC also offers extensive healthcare to over 31 million people and they have introduced programmes such as the National Nutrition Programme and the Tuberculosis Control Programme, funded in 1984, reaching over 83 million people, which is two thirds of the population<sup>73</sup> A new programme was implemented in 2001 named Micro Health Insurance of BRAC (MHIB) but is so far only active in two districts.<sup>74</sup>

Evidence for positive effects on poverty and health was found by Pitt and Khandker (1998), stating that credit programmes can change the members' attitudes and positively change the old characteristics, such as large families and low nutritious food intake. This is also true for Grameen Bank but Khandker (1996) proved that the nutritional status is lower in Grameen Bank villages than in BRAC villages.<sup>75</sup> Studies made by Pitt et al (2003) states that BRAC has effect on the children's health status in relation to increased credit when given to female members.<sup>76</sup>

#### **5.2.4 BRAC and poverty**

Prior studies made about BRAC and poverty reduction provided views on if poverty has been reduced or not. Khandker (1991, 1992) stated that BRAC's micro credit programme had the capacity to lift people out of poverty and the longer duration within the programme the higher the poverty reduction result was. The average result was 70.4 per cent to 13.7 percent leaving poverty, depending on what poverty level the individual started from.<sup>77</sup> (*Entire table in appendix no 10*)

A poverty reduction programme within BRAC is the Challenging the Frontiers of Poverty Reduction Programme, founded in 2002, which BRAC has increasingly invested capital in. The capital input has more than doubled since 2003 to 2005 increasing by 139 per cent. It is a programme specially developed to reach the poorest people in Bangladesh trying to make a positive change in their lives. Within this programme the Ultra Poor Programme is active which has the objectives of skill development through training and to improve and strengthen the livelihood conditions for the target group economical, social and cultural. Evidence for the programmes effect is given by Haseen (2007) stating that they have a significant impact on food and energy consumption.<sup>78</sup>

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<sup>73</sup> <http://www.brac.net/essentialhealthcare.htm> 20070506

<sup>74</sup> Matin et al, (2005) Micro Health Insurance (MHI) pilot of BRAC, a demand side study, BRAC, Unpublished.

<sup>75</sup> Khandker S.R (1996) *Do targeted credit programs improve the nutritional status for the poor? Gender analysis and policy division*

<sup>76</sup> Weiss and Montgomery (2005), *Great Expectations: Microfinance and Poverty Reduction in Asia and Latin America*

<sup>77</sup> Khandker S.R (1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

<sup>78</sup> Haseen F (2007) Change in food and energy consumption among the ultra poor: Is the poverty reduction programme making a difference? Volume 16

## **Section 6, Analysis**

In this section an analysis of Bangladesh as a country and microfinance in general will be made together with a comparison of Grameen Bank and BRAC. The analysis will focus on the monetary concept of income through employment and the non monetary concepts of health and education as indicators on poverty alleviation.

### **6.1 National effects**

The economic performance of Bangladesh has improved, as seen in the empirical data. Nevertheless, the country still experience volatilities in its political environment, offsetting property rights, which restrict growth. Bangladesh has an uneven distribution of the country's resources not at least seen in the large amount of landless. Bangladesh's environment affects the poor people who often live in vulnerable areas, leading to more unequal distribution of resources. This imposes a negative effect on poverty, referring to the theory on income inequality and a decline of the unequal distribution would lead to an increase in growth, and as a next step decreased poverty. A step towards reduced poverty is that Bangladesh has managed to diminish its high fertility rate and has experienced an increased life expectancy. Since this index is positively related to income, the increased life expectancy has increased the general income level, leading to a less unequal society.

Educational-wise Bangladesh has seen an enlarged literacy rate but still the illiteracy rate is high. Bangladesh has acknowledged the importance of education and the net primary school enrolment has had a large increase. The number of schools in Bangladesh is affected positively by the microfinance institutions investigated and the annual growth rate in a country is positively affected by education, but there is still the problem of unequal access to education. An unequal distribution gives implications in the income inequality and it limits the impact of economic growth on poverty reduction

Bangladesh has improved its situation but still the country has a large amount of poor that lack the ability to improve their living standards. Access to financial means creates opportunities to improve the poor's situation.

### **6.2 The need of microfinance**

Microfinance institutions have the ability to reduce the adverse selection and moral hazard and thereby making it possible to disburse loan to people otherwise considered not being credit worthy. The use of peer pressure and group meetings gives a transparency to the institutions and thereby reducing the risk of default. When not being able to borrow money people cannot invest in increased productivity, knowledge or health, which are all essential factors when referring to economic theory on poverty. Having the ability to gain credit decreases inequality and increases the possibility of consumption smoothing which lowers households' vulnerability.

Microfinance institutions help to reduce poverty, but there are still some barriers to reach the right target groups. An obstacle mentioned is the one of savings requirements. Members do not have the possibility to use the whole amount for investments. Less investment implies less growth. Nevertheless, private savings help to smooth consumption over time, something that Swain (2004) agrees with. The participation in training activities and group meetings is an enhancement in knowledge but also time consuming. Time is a scarce resource and people may have a greater opportunity cost of spending that time on

something else. According to Evan's study (1999), this is crucial for the poorest people who need that time just to survive the day. Institutions require membership which may be seen as an obstacle since one is demanded to be a member in order to gain access to capital.

Microfinance institutions supply the possibility for people to invest in poverty reducing factors. An alternative solution to commercial banks, such as Grameen Bank and BRAC is needed, by giving poor people access to credit the institutions help to diminish the inequality and thereby reduce poverty.

### **6.3 Organisational performance**

The organisation's performance only work as a substitute when looking at the trends on the individual level and the institutions overall sustainability. Taking the ROA, ROE and OSS ratios into consideration when comparing the two institutions Grameen Bank is more efficient in using its resources than BRAC. Grameen Bank has had a higher ROA than BRAC but BRAC has improved its percentage rate more than Grameen Bank, but its ROA is still negative imposing that it is not yet using its assets efficiently. Referring to Swain (2004) a cost-effective and sustainable institution is necessary for a long-term income expansion and poverty reduction.

Comparing the institutions ROE, Grameen Bank is seen as the most efficient one. Grameen Bank has besides a reduced LLR, a lower PAR, implying fewer defaulters and smaller reserves. BRAC's increase in LLR and PAR, although not with a high percentage change, implies that it has more defaulters and bigger reserves than before. This suggests that Grameen Bank has a positive trend in reducing the number of defaulters and BRAC has a reversed trend. Connecting this with the overall repayment percentage, Grameen Bank and BRAC's rates imply that both institutions have fewer defaulter percentage wise than the commercial banks in Bangladesh. The repayment rates suggest that their credit delivery models are more efficient in reducing default rates than the commercial banks'.

When observing the institutions solely economically, Grameen Bank is operating better.

### **6.4 Monetary effects**

Both Grameen Bank and BRAC have on their agendas to provide their members with financial means, connecting this with economic theory that says that one way to increase employment is by increased productivity, due to capital input or technological inputs. This capital input implies that both institutions contribute to a productivity increase and thereby increasing the demand for labour, helping to solve the problem of unemployment. Grameen Bank follows the traditional exogenous view on economic growth and poverty reduction, with a high focus on micro credits only. The exogenous view with the Solow model in the centre put attention to capital accumulation and so does Grameen Bank, viewable in their key concerns. Both Grameen Bank and BRAC have highlighted the importance of employment opportunities by including this in their five key concerns. By enhancing the importance of this the institutions have target the source of poverty which is essential if wanting to reduce poverty. Secondly improved technology can increase productivity and thereby employment. Grameen Bank does not have a typical training division and its duration is much shorter than BRAC's is. This implies that BRAC has an advantage in the creation of higher productivity, supplying both inputs that increase productivity.

Rahman and Khandker (1994) stated a positive impact on expanding the opportunities of self-employment for Grameen Bank members. Looking at the figures of today Grameen bank has increased its loans to different categories of activities. Grameen bank's incentives to increase employment in alternative sectors are positive. New sectors need to be explored since agriculture is restrained by fixed land resources. If Grameen Bank invests in the agricultural sector, the investment needs to increase technology hence to the disability of expansion. The trend for producing activities is positive. Moving towards other sectors, gives people new opportunities for self-employment. Agricultural loans are declining, but livestock and fisheries are the largest entry which implies that the members are still depending on the agricultural sector since poultry and fisheries belongs to this sector nationally. This shows that Grameen Bank has adopted a vision of alternative and new employment areas, while its members still are operating in more familiar areas, but the fact that more loans are disbursed every investigated year implements that more people are engaged in self-employment activities. The lack of training exclude the possibility to expand and operate in new areas, members have to rely upon the skills they already possess.

BRAC on the other hand, offers skills training instead of loans and training is not needed to be repaid. Knowledge is a sustainable good. BRAC's annual reports states that new job opportunities are increasing by the year, leading to permanent income increases and thereby increases in real consumption.

BRAC has had an increase in all sectors, but as Grameen Bank, the producing sectors have increased the most, but the enlarged agricultural sector suggests that members still are involved in this area. The agriculture programme aims to enhance the productivity through technology improvements. This is necessary if wanting to increase long term growth. BRAC is contributing to knowledge enhancement through its programmes. Education makes it possible to evolve and exploit other sectors than those most familiar and if not expanding into other sectors, BRAC's training makes the businesses more productive. Employment opportunities are important since a job generates an income, which can increase consumption and investments in areas such as education and health, resulting in a decreased poverty.

### **6.5 Non monetary effects**

Education and employment are related to each other since higher skilled employees usually are more attractive to the employer as skilled employees usually are more productive, leading to higher wages. Employees with higher wages affect their economic situation hence that they can either consume more today or save more for consumption in the future implying a consumption smoothing factor. This reduces the members' vulnerability since they are more prepared to handle differences in their economy, giving them a more stable environment.

Grameen Bank's rate of higher education loans implies that more people want to loan money for educational purposes. This could be seen as an indicator that Grameen Bank's social development programme is well implemented. The investment in the Scholarship Programme indicates that Grameen Bank has realised the importance of education and keeping children in school, also mentioned in its 16 decisions.

BRAC is injecting capital in its Education Programme. The capital spent implies that education is important for BRAC. Instead of only supplying loans for education, BRAC contributes to expand the entire educational range in Bangladesh. The amount net primary school participants in Bangladesh have increased significantly the last decades where BRAC's presence has contributed to this expansion. The importance of schooling is also included in its 17 promises.

Investments in education and training are investments in the human capital, which can be seen as long run commitments since knowledge is the only factor that can explain continuous economic growth. Poverty reduction has a strong relation to the health level of a population. There are many health indicators, such as life expectancy and population growth. Both Grameen Bank and BRAC have in their 16 decisions and 17 promises addressed the importance of family planning. That these institutions chose to encourage its members to adopt family planning indicates a will in reducing poverty since high population growth is negatively related to growth. Both Grameen Bank and BRAC was founded when the reduction in population growth rate in Bangladesh started and an assumption is that their increased information on family planning has help to reduce the high population growth rate.

Grameen Bank and BRAC also highlight different health increasing actions. The fact that Grameen Bank has implemented the social development programme, is leading to members receiving training and education on health care. This has resulted in an improved nutritional status and an augmented effect on the members' food intake and food quality. An optimistic trend in health care implies an optimistic trend in poverty alleviation.

BRAC as well stresses the importance of health. BRAC has extensive health programmes reaching a large part of the population. Khandker (1996) stated that the nutritional status was higher for BRAC members than for Grameen bank members which are likely to be correct hence to BRAC's equal importance of its four pillars in contrast to Grameen Bank's focus on its credit delivery model. Pitt et al (2003) give evidence for a positive relation between female credits and children's health. Where health services or enlightens are reduced, life expectancy is low and this reduces the income level leading to higher inequality and poverty. Therefore both Grameen Bank and BRAC's contributions are important if wanting to reduce poverty

## **6.6 Poverty impact**

Khandker (1991, 1992) gave the result that both Grameen Bank and BRAC managed to help people away from poverty, and the study showed that BRAC achieved the best penetration. Modern figures show that approximately half of Grameen Bank's member leave poverty and the fall back ratio is impressively low, implying that Grameen Bank's model is sustainable regarding taking members out of poverty.

Poverty does not only relay upon monetary factors, an improved health and educational situation is also needed. This is something that Grameen Bank has acknowledged in its 16 decisions but not put focus on. BRAC on the other hand has a broader view on poverty reduction and has given economic, education, health and social development equal importance. In economic theory, as seen in section 2.2, there are many different factors besides pure economical that affect growth and improvements in living standards. BRAC's broad view suggests that it is better on reducing poverty, since it highlights all areas that



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affect poverty, not just one. Evidence of its Challenging the Frontiers of Poverty Reduction Programme's success is given by Haseen (2007) stating that BRAC reaches the poor.

## Section 7, Conclusion

The questions at issue were whether or not Grameen Bank and BRAC affect the poverty status of its members in a positive way, and if there is a positive effect which approach is the best to use, Grameen Bank or BRAC?

Bangladesh has improved its situation yet the country experiences volatilities in its political environment, offsetting property rights, which restrict growth. The distribution of land is still uneven and contributes to inequality.

Microfinance institutions are necessary, since they give people who otherwise would stand without credit the possibility to borrow capital and thereby increase their living standard and improve equality.

Both Grameen Bank and BRAC have in their agendas addressed the sources of poverty and are working towards a reduction of these. An important tool used by the institutions is the code of conducts. These decisions and promises affect the member's actions in a positive way and one assumption is that without this code of conducts the effect on poverty would be less.

Grameen Bank and BRAC use different approaches to reduce poverty for its members. The idea with Grameen Bank loans is to supply capital, which can be used for investments that in turn can lead to an increased income and this would mean an increase in consumption in the long run. Nevertheless, we assume that, since Grameen Bank only supply a loan which needs to be repaid, the process towards an increased income takes longer time then in the case of BRAC, where the member is not restrained by repayments.

When turning to employment opportunities, both institutions have acknowledged the importance of evolving new employment areas beside traditional ones, but all members are not moving towards these new sectors. Grameen Bank only supplies financial loans to support self-employment and its members choose to operate in familiar areas. BRAC member's self-employment has increased in all sectors with the producing sectors in the front line, but still agriculture is a large sector. BRAC's training makes the agriculture business more productive and thereby sustainable. Further the training makes it possible to evolve and exploit other sectors than those most familiar. Grameen Bank's lack of training exclude the possibility to expand and operate in new areas, members have to rely upon the skills they already posses. BRAC's skills development gives a more sustainable effect on poverty.

When referring to indicators on education, BRAC has a better effect on poverty through education. It offers free education and has founded schools, increasing the entire number of educational institutions in Bangladesh and the more knowledge within the country the better the growth possibilities are.

Focusing on indicators on health, old studies implied that BRAC had a better effect on poverty through health, but due to the lack of up to date figures it is hard to discern which organisation is the better one today. One can only state that there is a positive relation between female credits and the children's health in Grameen Bank and BRAC villages.

When turning to the three sources of poverty, the result shows that BRAC with its approach is the most effective poverty reducer.

However, as previous studies have implied sustainability and cost-effectiveness within the microfinance programme is important for the long-run poverty reduction. Evaluating the economic performance of the two institutions Grameen Bank is more efficient in using its resources than BRAC, but Grameen Bank shows a decreasing rate of efficiency while BRAC is improving significantly. With this in consideration BRAC is still showing the best poverty reducing result for its members today, but if the organisation does not find a way to improve its economical performance its actions will not be sustainable in the long run. The advice for Grameen Bank is to increase training to make it possible for its members to exploit other sectors of self-employment.

According to basis and evidence found the conclusion is that even if the institutions have different approaches and purposes, they both contribute to growth and a reduction of poverty. Nevertheless, focusing on factors investigated BRAC is the institution that best affects the poverty status of its members in a positive way.

## **Section 8, Suggestions to future research**

Hence to the fact that there are many poor in Bangladesh the government seems to lack a well-functioning social welfare net and microfinance institutions like Grameen Bank and BRAC are needed. Taking the positive development of the nation into consideration, microfinance institutions may no longer have the same importance in the future. This question at issue is something that could be developed in a future thesis.

A further issue of interest is to look at other factors, besides employment through income, education and health, such as self-confidence, empowerment and democracy improvements. Our belief is that these factors are positively affected by Grameen Bank and BRAC, and this would be interesting to investigate further in another thesis.

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## Appendix no 1, Glossary list

### Capital accumulation

Households and firms are assumed to save one part of their income and this part is stored in the financial system where it can be used in the lending/borrowing process and the creation of new investments. Firms borrowing, for example to increase productivity by increasing their capital stock, will gain higher output and this generates more savings and investments. This process is called capital accumulation.<sup>79</sup>

### Demographic transition

The demographic transition includes five demographic steps that countries advance through as they develop

### Exchange rates

1USD = 70 Taka<sup>80</sup>  
1USD = 6,64 SEK<sup>81</sup>

### Gini coefficient

The Gini measures the degree of how the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy differs from a completely equal distribution. The Gini coefficient calculates the area between the Lorenz curve and a theoretical line of perfect equality. The Gini is expressed as a percentage of the maximum area under that theoretical line. A Gini index of 0 corresponds to perfect equality, while an index of 100 implies perfect inequality.

### Human development index

Indice	Measure	Minimum value	Maximum value	Formula
<b>Longevity</b>	Life expectancy at birth (LE)	Years	Years	$L = ((LE) - \text{Minimum value}) / (\text{Maximum value} - \text{Minimum value})$
<b>Education</b>	Literacy rate (LR)  Combined gross enrollment ratio (CGER)	0 per cent  0 per cent	100 per cent  100 per cent	$E = ((2LR) + (CGER)) / (3)$
<b>GDP</b>	GDP per capita (PPP)	Lowest GDP	Highest GDP	$G = (\log(\text{GDPpc}) - \log(\text{Lowest GDP})) / (\log(\text{Highest GDP}) - \log(\text{Lowest GDP}))$

<sup>82</sup>

### LLR - Loan Loss Reserve

A loan loss reserve is a valuation of reserves that need to be held in case of default. It is calculated with a bank's total loans on the balance sheet, representing the approximated amount sufficient to cover estimated losses in the loan portfolio. MFI's often establish a loan loss reserve equal to 2-5% of the value of their active portfolios.<sup>83</sup>

<sup>79</sup> Burda & Wyplosz (2005) *Macroeconomic-A European text*

<sup>80</sup> [http://www.swedenabroad.com/Page\\_\\_\\_\\_\\_24259.aspx](http://www.swedenabroad.com/Page_____24259.aspx), 20070513

<sup>81</sup> <http://www.forex.se> 20070517

<sup>82</sup> [http://en.wikipedia.org/wiki/Human\\_Development\\_Index](http://en.wikipedia.org/wiki/Human_Development_Index), 20070604

<sup>83</sup> [http://www.accion.org/micro\\_glossary.asp#l](http://www.accion.org/micro_glossary.asp#l) 20070427

# Microfinance and Poverty Alleviation

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### **Non-excludable**

A good is non-excludable when making it available to one person makes it available to all.

### **Non-rival**

A good is non-rival when its usage by one person does not detract from others' usage.

### **Opportunity cost**

Since an economy has scarce resources, trade-offs are made on a daily basis. A trade-off will then in turn result in opportunity costs. It appears when we have to choose between two or more goods and services. Often we think of costs in monetary terms but the opportunity cost measures the costs and benefits of choices in non-monetary terms. The opportunity cost of a decision is based on what we must give up as a result of the decision.

### **OSS- Operational Self-Sufficiency**

The OSS reflects the organisations ability to cover all actual costs with their actual operating income. Operationally sustainable MFI's are able to cover the administrative costs with client revenues.  $OSS > 100$ : the organisation is considered to be operationally self-sufficient.<sup>84</sup>

$OSS = \text{Total operating income} / (\text{interest expense} + \text{loan loss provision} + \text{administrative expenses})$

### **PAR - Portfolio at risk**

PAR is an indicator of the total outstanding balance of loans past due divided by the active portfolio.

### **Productivity increase**

Two factors can increase the productivity of labour, either more capital input or improved technology increasing the labour productivity still using the existing capital stock/equipment. If productivity is able to increase, the marginal productivity of labour, the quantity of additional output which results from one more unit of labour input, will increase and the demand for additional labour increases.<sup>85</sup>

### **ROA- Return on assets**

The return on assets is a sign of how profitable BRAC and Grameen are in relation with their total assets. ROA implies how efficient the organisations are at using the assets to make more earnings. A high ROA number is good since they then are making more money on less investment.<sup>86</sup>

$ROA = \text{Net income} / \text{Total assets}$

### **ROE- Return on equity**

The ROE is useful for comparing the profitability of a company with other companies within the same industry, for instance MFI's. The ROE tells how much profit a company generates with the money that the shareholders have invested. A high ROE normally implies that the company is efficient in generating profit. This is not true for all industries. One cannot assume that certain firms have better investments than others just because of their ROE.<sup>87</sup>

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<sup>84</sup> [http://www.accion.org/micro\\_glossary.asp#o 20070427](http://www.accion.org/micro_glossary.asp#o 20070427)

<sup>85</sup> Burda & Wyplosz, 2005, *macroeconomics- a European Text*, chapter 4

<sup>86</sup> Föreläsning Max HT06

<sup>87</sup> [http://en.wikipedia.org/wiki/Return\\_On\\_Equity 20070427](http://en.wikipedia.org/wiki/Return_On_Equity 20070427)

## Appendix no 2 Microfinance impact studies on Asia

Study	Coverage	Methodology	Results
Hulme and Mosley (1996)	Indonesia (BKK, KURK, BRI), India (Regional Rural Banks), Bangladesh (Grameen, BRAC, TRDEP), Sri Lanka (PTCCS)	Borrowers and control samples, before and after.	Growth of incomes of borrowers always exceeds that of control group. Increase in borrowers income larger for better-off borrowers.
MkNelly et al (1996)	Thailand (village banks —Credit with Education)	Non-participants in non-program villages used as controls	Positive benefits, but no statistical tests for differences reported.
Khandker (1998)	Bangladesh (Grameen, BRAC)	Double difference comparison between eligible and ineligible households and between program and non-program villages	5% of participant households removed from poverty annually. Additional consumption of 18 taka for every 100 taka of loan taken out by women.
Pitt and Khandker (1998)	Bangladesh (BRAC, BRDB, Grameen Bank)	Double difference estimation between eligible and non-eligible households and programs with and without microfinance programs. Estimations are conducted separately for male and female borrowing.	Positive impact of program participation on total weekly expenditure per capita, women's nonland assets and women's labor supply. Strong effect of female participation in Grameen Bank on schooling of girls Credit programs can change village attitudes and other village characteristics
Coleman (1999)	Thailand (village banks)	Double difference comparison between participant and non-participant households and between villages in which program introduced and villages where not yet introduced	No evidence of program impact. Village bank membership has no impact on asset or income variables.
Chen and Snodgrass (2001)	India (SEWA bank)	Control group from same geographic area	Average income increase rises for bank's clients in comparison with control group. Little overall change in incidence of poverty, but substantial movement above and below poverty line.

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Study	Coverage	Methodology	Results
Gertler et al. (2003)	Indonesia (Bank Rakyat Indonesia, Bank Kredit Desa, commercial banks)	1) Basic consumption-smoothing test on household's ability to perform daily living activities (ADL Index) 2) State dependence tests of basic regression (relative man-woman earning, physical job, savings) 3) Test of geographical proximity to financial institutions on consumption smoothing	Significantly positive correlation between household's consumption and measure of health. Wealthier households are better insured against illness. Households that live far from financial institutions suffer more from sudden reduction in consumption.
Khandker (2003)	Bangladesh (Grameen bank, BRAC, BRDB)	1) Fixed effect Tobit estimation of borrowing dependent on land education endowments of households. 2) Panel data fixed effects IV estimation to define long-term impact of microfinance borrowing on expenditure, non-land assets and poverty (moderate and extreme)	Households who are poor in landholding and formal education tend to participate more. Microfinance helps to reduce extreme poverty much more than moderate poverty (18 percentage points as compared with 8.5 percentage points over 7 years). Welfare impact is also positive for all households, including non-participants, as there are spillover effects.
Pitt et al (2003)	Bangladesh (BRAC, BRDB, Grameen Bank)	Maximum likelihood estimation controlling for endogeneity of individual participation and of the placement of microfinance programs. Impact variables are health of boys and girls (arm circumference, body mass index and height-for-age)	Significantly positive effect of female credit on height-for-age and arm circumference of both boys and girls. Borrowing by men has either negative or non-significant impact on health of children.

<sup>88</sup> Weiss & Montgomery (2005) *Great Expectations: Microfinance and Poverty Reduction in Asia and Latin America*

## Appendix no 3, Figures over Bangladesh development

### Economics

**Table 3, GDP at current prices and growth rate, Bangladesh**

Period	GDP at current prices		Growth rate
	Taka	US Dollars	Percent
1970	75214	10333	...
1975	145481	9180	5.7
1980	305196	19749	3.4
1985	614824	21962	4.3
1990	1100331	31830	3.4
1995	1663240	41294	4.6
2000	2535464	48626	5.3
2005	4120664	64058	5.5

89

**Table 4, GDP at current prices and growth rate, Sweden**

Period	GDP at current prices		Growth rate
	Swedish Krona	US Dollars	Percent
1970	181445	35074	...
1975	316886	76318	2.6
1980	553207	130795	1.7
1985	907341	105457	2.2
1990	1433404	242179	1
1995	1787889	250641	3.9
2000	2217290	242003	4.3
2005	2672998	357683	2.7

90

**Table 5, GDP pc Bangladesh**

Year	1975	1980	1985	1990	1995	2000	2002
GDP per capita (PPP-dollar)	370	590	770	950	1 210	1 560	1 700

91

**Table 6, GDP pc Sweden**

Year	1975	1980	1985	1990	1995	2000	2002
GDP per capita (PPP-dollar)	6 060	9 170	13 200	17 100	19 620	24 530	26 050

<sup>89</sup> <http://unstats.un.org/unsd/snaama/resultsCountry.asp?Country=50&SLevel=0&Year=2005&Year=2000&Year=1995&Year=1990&Year=1985&Year=1980&Year=1975&Year=1970&Selection=country&x=20&y=7,20070507>

<sup>90</sup> <http://unstats.un.org/unsd/snaama/resultsCountry.asp?Country=752&SLevel=0&Year=2005&Year=2000&Year=1995&Year=1990&Year=1985&Year=1980&Year=1975&Year=1970&Selection=country&x=27&y=16,20070507>

<sup>91</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=1920070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=1920070507)

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**Table 7, Exports and Imports, (million US dollars)/ (Shares of GDP) Bangladesh**

Period	Exports of goods and services	Imports of goods and services	Period	Exports of goods and services	Imports of goods and services
1970	859	1292	1970	8	13
1975	331	1229	1975	4	13
1980	1099	3022	1980	6	15
1985	1209	2762	1985	6	13
1990	2130	3909	1990	7	12
1995	4577	7719	1995	11	19
2000	7480	10455	2000	15	22
2005	9571	13320	2005	15	21

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**Table 8, Government consumption expenditure and Exports and Imports, (million US dollars)/ (share of GDP) Sweden**

Period	Exports of goods and services	Imports of goods and services	Period	Exports of goods and services	Imports of goods and services
1970	8291	8532	1970	24	24
1975	21069	21337	1975	28	28
1980	38233	40909	1980	29	31
1985	36964	35583	1985	35	34
1990	72150	71916	1990	30	30
1995	98254	82019	1995	39	33
2000	111168	96917	2000	46	40
2005	173791	146208	2005	49	41

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**Table 9, Human development index Bangladesh**

Year	1975	1980	1985	1990	1995	2000	2005
Index	0.347	0.366	0.391	0.422	0.454	0.510	0.530

**Table 10, Human development index Sweden**

Year	1975	1980	1985	1990	1995	2000	2005
Index	0.868	0.878	0.890	0.901	0.933	0.949	0.951

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<sup>92</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=19](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=19) 20070507

<sup>93</sup> <http://unstats.un.org/unsd/snaama/resultsCountry.asp?Country=50&SLevel=1&Year=2005&Year=2000&Year=1995&Year=1990&Year=1985&Year=1980&Year=1975&Year=1970&Selection=country&x=38&y=14>, 20070507

<sup>94</sup> <http://unstats.un.org/unsd/snaama/resultsCountry.asp?Country=752&SLevel=1&Year=2005&Year=2000&Year=1995&Year=1990&Year=1985&Year=1980&Year=1975&Year=1970&Selection=country&x=39&y=3>, 20070507

<sup>95</sup> Human development report



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**Table 11, Income distribution**

Survey year	Gini index	Lowest 10 %	Lowest 20 %	Highest 20 %	Highest 10 %
2000	31.8	3.9	9.0	41.3	26.7

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## Population

**Table 12, Annual population growth Bangladesh**

Year	1955	1960	1970	1980	1990	2000	2005	2015	2050
Annual population growth rate (Percent)	1.94	2.13	2.41	2.32	2.28	2.03	1.91	1.64	0.62

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**Table 13, Annual population growth Sweden**

Year	1955	1960	1970	1980	1990	2000	2005	2015	2050
Annual population growth rate (Percent)	0.70	0.59	0.78	0.29	0.49	0.11	0.37	0.32	0.16

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**Table 14, Fertility rate Bangladesh**

Year	1955	1960	1970	1980	1990	2000	2005 (prognosis)	2015 (prognosis)	2050 (prognosis)
Total fertility rate (Average number of children)	6.70	6.76	6.60	5.60	4.75	3.95	3.46	2.75	1.85

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**Table 15, Fertility rate Sweden**

Year	1955	1960	1970	1980	1990	2000	2005 (prognosis)	2015 (prognosis)	2050 (prognosis)
Total fertility rate (Average number of children)	2.21	2.23	2.16	1.66	1.91	1.56	1.64	1.80	1.85

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## Education

**Table 16, Adult illiteracy Bangladesh**

Year	1980	1985	1990	1995	2000	2003
Adult illiteracy (Percent)	71.1	68.5	65.8	62.9	60.0	58.4

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<sup>96</sup> [http://devdata.worldbank.org/wdi2005/Table2\\_7.htm](http://devdata.worldbank.org/wdi2005/Table2_7.htm), 200705010

<sup>97</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=29](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=29) 20070507

<sup>98</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=29](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=29) 20070507

<sup>99</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=138](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=138) 20070507

<sup>100</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=138](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=138) 20070507

<sup>101</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=27](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=27) 20070507

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**Table 17, Primary school enrolment Bangladesh**

Year	1990	1998	1999	2000	2001
Primary enrolment ratio (Gross) (Percent)	71.2	90.3	88.8	87.7	86.6

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**Table 18, Primary school enrolment Sweden**

Year	1990	1998	1999	2000	2001
Primary enrolment ratio (Gross) (Percent)	99.8	99.8	99.7	99.7	99.8

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## Health

**Table 19, Life expectancy at birth Bangladesh**

Year	1955	1960	1970	1980	1990	2000	2005 (prognosis)	2015 (prognosis)	2050 (prognosis)
Life expectancy at birth (Number of years)	37.5	39.3	43.4	46.9	53.0	58.4	61.4	65.4	75.0

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**Table 20, Life expectancy at birth Sweden**

Year	1955	1960	1970	1980	1990	2000	2005 (prognosis)	2015 (prognosis)	2050 (prognosis)
Life expectancy at birth (Number of years)	71.8	72.7	74.1	75.2	77.3	79.3	80.1	81.1	84.6

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**Table 21, Infant mortality rate Bangladesh**

Year	1960	1970	1980	1990	2000	2002
Infant mortality rate (per 1000 live births)	149	145	129	96.0	54.0	48.0

106

**Table 22, Infant mortality rate Sweden**

Year	1960	1970	1980	1990	2000	2002
Infant mortality rate (per 1000 live births)	16.0	11.0	7.00	6.00	3.00	3.00

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**Table 23, Undernourished people Bangladesh**

Year	1980	1991	1996	2001
Undernourished people (Percent)	40.0	34.9	39.9	30.2

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<sup>102</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=100,20070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=100,20070507)

<sup>103</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=100,20070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=100,20070507)

<sup>104</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=18,20070604](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=18,20070604)

<sup>105</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=18,20070604](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=18,20070604)

<sup>106</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=25,20070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=25,20070507)

<sup>107</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?country=SE&indicatorid=25,20070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?country=SE&indicatorid=25,20070507)

<sup>108</sup> [http://globalis.gvu.unu.edu/indicator\\_detail.cfm?Country=BD&IndicatorID=55,20070507](http://globalis.gvu.unu.edu/indicator_detail.cfm?Country=BD&IndicatorID=55,20070507)

## Poverty

**Table 24, Poverty line in Bangladesh**

Year	Population living below poverty \$1.
1991-92	42.7%
1990-03	
1990-04	36%
1995-96	
2000	36%

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<sup>109</sup>Human development report, [http://www.unicef.org/infobycountry/bangladesh\\_statistics.html](http://www.unicef.org/infobycountry/bangladesh_statistics.html), 2007-04-29, <http://devdata.worldbank.org/hnpstats/HNPPoverty/countryData/Bangladesh%201996.xls>, 2007-04-29, <http://www.un.int/bangladesh/ga/st/others/poverty.htm>, 2007-05-06

## Appendix no 4, The 16 decisions of Grameen Bank

1. We shall follow and advance the four principles of Grameen Bank --- Discipline, Unity, Courage and Hard work – in all walks of our lives.
2. Prosperity we shall bring to our families.
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the plantation seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure that they can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink water from tube wells. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry at our sons' weddings; neither shall we give any dowry at our daughters wedding. We shall keep our centre free from the curse of dowry. We shall not practice child marriage.
12. We shall not inflict any injustice on anyone; neither shall we allow anyone to do so.
13. We shall collectively undertake bigger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
15. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.
16. We shall take part in all social activities collectively.<sup>110</sup>

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<sup>110</sup> <http://www.grameen-info.org/bank/the16.html> 20070427

## Appendix no 5, Extraction from Financial information on Grameen Bank

	2002-12-31	2003-12-31	2004-12-31	2005-12-31
<b>Overall Financial Performance</b>				
Return on Assets (%)	n/a	0.77%	0.18%	0.32%
Return on Equity (%)	n/a	2.99%	0.92%	1.95%
Operational Self-Sufficiency (%)	96.28%	105.34%	101.21%	102.24%
<b>Risk</b>				
Portfolio at Risk > 30 days Ratio (%)	18.41%	6.98%	7.98%	2.57%
Loan Loss Reserve Ratio (%)	15.81%	12.18%	9.24%	6.44% <sup>111</sup>

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<sup>111</sup> [http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=1658\\_20070423](http://www.mixmarket.org/en/demand/demand.show.profile.asp?token=&ett=1658_20070423)

## Appendix no 6, Poverty reduction Grameen Bank

Grameen Bank								
	0-36 months in programme	0-36 months in programme	36-60 months in programme	36-60 months in programme	60- months in programme	60- months in programme	Aggregate	Aggregate
	Before programme	After programme	Before programme	After programme	Before Programme	After programme	Before programme	After programme
People in moderate poverty	89.5%	80.7%	86.5%	62.4%	75.8%	51.7%	82.9%	61.6%
People in extreme poverty	45.6%	22.8%	38.4%	10.5%	20.8%	4.2%	32.9%	10.3%
Per capita yearly consumption	3 688taka	4 393taka	4 043taka	5 074taka	4 623taka	5 672taka	4 202taka	5 180taka

<sup>112</sup>

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<sup>112</sup> Shahidur R. Khandker (1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

## Appendix no 7, BRAC's 17 promises

1. We will not engage in malpractice or injustice.
2. We will work hard and bring prosperity to our family.
3. We will send our children to school.
4. We will adopt family planning and keep our family size small.
5. We will try to be clean and keep our house tidy.
6. We will always drink pure water.
7. We will not keep our food uncovered and will wash our hands and face before we take our meal.
8. We will construct latrines and will not leave our stool where it does not belong.
9. We will cultivate vegetables and trees in and around our house.
10. We will try to help each other under all circumstances.
11. We will fight against polygamy and injustice to our wives and all women.
12. We will be loyal to the organisation and abide by its rules and regulations.
13. We will not sign anything without having a good understanding of what it means (we will look carefully before we act).
14. We will attend weekly meetings regularly and on time.
15. We will always abide by the decisions of the weekly group meeting.
16. We will regularly deposit our weekly savings.
17. If we receive a loan we will repay it.<sup>113</sup>

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<sup>113</sup> Shahidur R. Khandker (1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

## Appendix no 8, Extraction from Financial information on BRAC

	2003-12-31	2004-12-31	2005-12-31
<b>Overall Financial Performance</b>			
Return on Assets (%)	-37.67%	-52.92%	-18.13%
Return on Equity (%)	-1,146.33%	-569.44%	-175.37%
Operational Self-Sufficiency (%)	23.27%	23.02%	50.60%
<b>Risk</b>			
Portfolio at Risk > 30 days Ratio (%)	0.00%	0.50%	3.87%
Loan Loss Reserve Ratio (%)	3.86%	4.17%	4.22%

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<sup>114</sup> <http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=170520070423>



## Appendix no 9, BRAC Balance sheet 2002-2005

**Balance sheet page 1**

(taka)	2002	2003	2004	2005
<b>ASSETS</b>				
Property, plant and equipment	3,749,559,706	3,715,718,935	4,077,284,843	4,732,938,330
Investment in related undertakings	467,510,714	887,104,181	991,808,643	1,307,965,572
Investment in securities and others	314,474,853	430,906,861	210,593,765	152,961,388
Loans to VO members	8,599,032,470	10,855,808,970	13,374,678,938	16,652,963,824
Motor cycle loans	214,606,333	245,084,529	316,313,194	438,863,344
Inventories	791,174,834	968,960,304	1,053,995,636	1,223,831,654
Grants and accounts receivable	1,097,564,545	686,777,380	1,068,207,404	728,709,543
Advances, deposits & prepayments	600,005,624	582,859,158	682,426,064	895,729,684
Fixed deposits	1,576,587,644	1,964,259,588	3,560,872,504	4,105,998,516
Cash in hand and at banks	375,703,955	457,267,909	626,009,950	1,249,954,566
<b>TOTAL ASSETS</b>	<b>17,786,220,678</b>	<b>20,794,747,815</b>	<b>25,962,190,941</b>	<b>31,489,916,421</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities:</b>				
Deferred income	477,179,751	431,315,162	433,928,776	451,957,172
Term loans	3,725,747,360	4,149,157,346	5,914,074,360	6,771,785,935
VO members' savings deposits	4,983,956,968	6,285,938,837	7,657,087,732	9,159,249,306
Other long term liabilities	1,231,700,816	1,410,411,324	1,692,213,337	2,050,748,010
VO members' project and current account	40,888,528	31,551,382	32,088,660	28,975,169
Grants received in advance account	218,631,804	350,232,107	939,856,649	1,136,028,604
Other current liabilities	607,386,381	689,335,936	698,946,885	783,746,770
Provision for taxation	31,741,030	31,741,030	31,740,030	60,741,030
Bank overdraft	284,557,455	506,164,508	713,349,797	1,333,049,411
Total liabilities	11,601,790,093	13,885,847,632	18,311,287,226	21,776,281,407
<b>Net Assets:</b>				
Capital fund:				
unrestricted	6,060,360,457	6,775,001,652	7,692,206,210	9,527,438,332
temporarily restricted	124,070,128	133,898,531	156,696,805	186,196,682
Total net assets	6,184,430,585	6,908,900,183	7,848,903,715	9,713,635,014
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>17,786,220,678</b>	<b>20,794,747,815</b>	<b>25,962,190,941</b>	<b>31,489,916,421</b>

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**Balance sheet page 2**

(taka)	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>INCOME</b>				
Donor grants	1,980,018,615	2,293,325,830	3,438,268,216	4,139,006,947
Revenue from:				
Commercial projects	1,217,762,521	1,505,708,077	1,585,219,547	1,930,997,947
Programme support enterprises	1,717,513,559	2,251,326,409	2,336,960,301	2,481,189,299
Service charge on loans to VO members	2,403,926,404	2,838,603,785	3,610,151,992	4,553,013,881
Investment income	138,672,657	217,190,158	370,701,061	582,378,905
Other income	141,255,005	158,446,882	92,736,889	192,788,049
Rental income from House property	89,356,811	88,472,321	87,978,674	88,949,483
<b>TOTAL INCOME</b>	<b>7,688,505,572</b>	<b>9,353,073,462</b>	<b>11,522,016,680</b>	<b>13,968,324,511</b>
<b>EXPENDITURE</b>				
Commercial Projects	1,089,285,430	1,340,268,713	1,429,166,640	1,704,778,606
Program Support Enterprises	1,593,950,104	2,205,080,068	2,343,264,970	2,378,887,231
House property related expenses	76,173,241	72,459,403	58,978,742	66,262,687
Education Programme	1,189,999,196	1,624,385,309	1,936,412,656	1,989,847,134
Challenging the frontiers of poverty reduction programme	-	435,481,618	586,809,236	1,041,366,789
Nutrition Programme	355,255,789	113,470,763	487,711,719	430,383,121
Health and Population Programme	133,877,866	134,294,906	165,473,832	407,977,198
Micro Finance Programme	2,157,087,769	2,371,869,988	3,181,818,401	3,617,701,615
Relief and rehabilitation			185,646,799	216,305,542
Poultry Extension Programme	155,562,573	107,773,181	72,655,553	39,704,802
Fisheries Extension Programme	80,435,811	45,670,241	20,716,032	12,377,593
Agriculture Extension Programme	87,929,132	55,004,597	53,650,152	42,163,036
Sericulture and Silk Development Programme	61,490,980	24,802,092		
Human Rights and Legal Education Programme	92,380,807	-		
Rural Enterprise Development Programme	103,992,175	23,027,654		
Training, Workshop and Seminars	42,391,907	42,156,508		
Grant to BRAC Afghanistan	6,091,290	5,508,710		
Grant to BRAC Sri Lanka				10,178,542
Livelihood Development Programme			16,986,500	
Research, Monitoring and Evaluation	23,731,428	21,294,118	42,721,916	33,028,594
Provision for impairment in value of investment in related undertakings		6,055,995		
<b>TOTAL EXPENSES</b>	<b>7,249,635,498</b>	<b>8,628,603,864</b>	<b>10,582,013,148</b>	<b>12,074,593,212</b>
<b>Surplus of income over expenditure before taxation</b>	<b>438,870,074</b>	<b>724,469,598</b>	<b>940,003,532</b>	<b>1,893,731,299</b>
Taxation	-	-	-	29,000,000
<b>Net surplus for the year</b>	<b>438,870,074</b>	<b>724,469,598</b>	<b>940,003,532</b>	<b>1,864,731,299</b>

<sup>115</sup>

<sup>115</sup> www.brac.net/downloads 20070427 (audit report 2003, 2005)

## Appendix no 10, Poverty reduction BRAC

BRAC								
	0-36 months in programme	0-36 months in programme	36-60 months in programme	36-60 months in programme	60- months in programme	60- months in programme	Aggregate	Aggregate
	Before programme	After programme	Before programme	After programme	Before programme	After programme	Before programme	After programme
People in moderate poverty	81.8%	67.0%	85.5%	76.3%	78.8%	69.2%	81.3%	70.4%
People in extreme poverty	38.6%	13.6%	31.6%	13.2%	32.5%	14.2%	34.2%	13.7%
Per capita yearly consumption	4 534taka	5 296taka	4 183taka	4 870taka	4 286taka	4 984taka	4 335taka	5 050taka

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<sup>116</sup> Shahidur R. Khandker (1998) *Fighting Poverty with Microcredit- experience in Bangladesh*

## Appendix no 11, Loans

Sl No.	Name of the Bank	Cumulative Disbursement (Million US\$)	Total Loan Outstanding (Million US\$)	Recovery Rate (%)
1	Sonali Bank	75.71	35.69	76
2	Agrani Bank	38.70	14.68	90
3	Janata Bank	52.69	20.18	85
4	Rupali Bank	0.28	0.22	84
5	Bangladesh Krishi Bank	19.13	7.34	83
6	Rajshahi krishi Unnayan Bank	3.03	0.97	89
7	Ansar-VDP Unnayan Bank	5.99	0.88	98
8	Social Investment Bank	0.52	0.13	94
<b>Total</b>		<b>196.05</b>	<b>80.09</b>	<b>87</b>

Source: CDF statistics 2004

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Grameen Bank	2000	2001	2002	2003	2004	2005
Overall repayment percentage	72	81	98.74	99.06	99.05	99.01

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BRAC	2004	2005
Overall repayment percentage	98.74	99.49

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<sup>117</sup> <http://www.bwtp.org/arcm/documents/Awal.pdf>, 20070510

<sup>118</sup> <http://www.grameen-info.org/annualreport/commonElements/htmls/index.html> 20070510 (Grameen Bank Annual Reports 2000-2005)

<sup>119</sup> <http://www.brac.net/downloads> 20070510(BRAC Annual Reports 2004-2005)