

**International Workshop  
Promoting Microfinance for Economic Development in IORA Region**

Organized by the Ministry of Foreign Affairs, Government of Bangladesh;  
Indian Ocean Rim Association (IORA); and Palli Karma-Sahayak Foundation (PKSF)

*Remarks by*  
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- **Microcredit:** Traditionally, it is a small amount of money lent collateral-free for a year, repayable in weekly installments (usually in 46 weeks). Currently the amount is, on average, the equivalent of about US\$300 in Bangladesh.
- **Microfinance:** It consists of microcredit + micro savings, micro insurance and other (if any) financial services.
  - ✓ In Bangladesh, all micro-borrowers routinely deposit tiny amounts of money, usually on a weekly basis, to the lending institutions as savings; and insurance is still extremely limited. The savings made does not amount to much on a yearly basis. Hence, in terms of availability of investible funds year by year, it makes little difference whether we talk of microcredit or microfinance.
- Impact of microcredit/microfinance on household income or poverty reduction:
  - ✓ There are debates on the impact of microcredit on household income and poverty reduction. On balance, however, I find that with regard to both, evidence suggests little positive impact. Let me cite two reliable studies in this context.
  - ✓ A study<sup>1</sup> sponsored by Washington-based Microcredit Summit Campaign (2010): 9.4% of the poor households that took microcredit could rise above the poverty line during 1990-2008 in Bangladesh.
  - ✓ A Summary Report<sup>2</sup> prepared by Abdul Latif Jameel Poverty Action Lab at MIT and Innovations for Poverty Action, New Haven, USA, based on seven country studies (Bosnia and Herzegovina, Ethiopia, India, Mexico, Mongolia, Morocco, and Philippines) shows the impact of microcredit on some key outcomes, as follows:

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<sup>1</sup> Sajjad Zohir, "Number of Microcredit Clients Crossing the US\$1.25 A Day Threshold during 1990-2008 (Estimates from a Nation-wide Survey in Bangladesh)", Prepared for Microcredit Summit Campaign, Economic Research Group, Dhaka, March 2010.

<sup>2</sup> 'When credit is due' in Policy Bulletin published by Abdul Latif Jameel Poverty Action Lab at MIT and Innovations for Poverty Action, based in New Haven, February 2015.

## Summary of Microcredit's Impact on Some Key Outcomes

Outcome	Bosnia and Herzegovina	Ethiopia	India	Mexico	Mongolia	Morocco	Philippines
Business ownership	↑	-	-	-	↑	-	-
Business profit	-	-	-	-		↑	-
Household income	-	-	-	-	-	-	-
Household spending/consumption	-	↓	-	↓	↑	-	-
Social well-being	-	-	-	↑		-	↓

The studies also find little evidence that access to microcredit has had substantial effects on women's empowerment or investment in children's education.

- The seven-country study and recent Palli Karma-Sahayak Foundation (PKSF) and Institute of Microfinance (InM) studies suggest that expanded access to finance can create useful economic opportunities for the borrowers.
  - ✓ Household income rises and poverty declines notably when other services such as training, information, advice, facilitation of improved technologies, marketing assistance, etc. are available along with appropriate funding.
- The PKSF has been implementing multidimensional, integrated programmes<sup>3</sup> with highly encouraging results – for ultra-poor, poor, and non-poor.
  - ✓ The components include education, training, health services, infrastructure, social capital, managing climate change impacts, technological improvement, access to market information, marketing assistance, campaign against social evils, and, of course, financing. But, in each case, an appropriate amount of credit is provided for the planned activities to be undertaken by the household along with other services, as appropriate. As of now, the maximum amount of credit provided is Tk. one million, i.e. US\$12800.
- The PKSF covers all poverty groups – ultra-poor, poor groups at different levels of poverty, and groups just above poverty line, often tenuously so. It also supports enterprise development. Such a support scheme, ensures the progression: sustained poverty reduction → poverty elimination → improved socio-economic conditions.
- Conclusion: An appropriate level of funding together with other services as required, provided to a household being supported, can contribute significantly and sustainably to their poverty reduction, poverty eradication, and economic uplift. Microcredit/microfinance alone is of little avail in this context.

<sup>3</sup> See Ahmad, Qazi Kholiqzaman (ed.), ENRICH: A Holistic Approach to Household-Focused Poverty Eradication; A New PKSF Approach, Dhaka, September 2014.