



Microentrepreneurship Development in Bangladesh: Achievements and Shortcomings

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► To cite this version:

Md. Mahmudul Alam, Rafiqul Islam Molla, Mohammad Muntasir Hossain. Microentrepreneurship Development in Bangladesh: Achievements and Shortcomings. 2010, 978-3-8383-3044-0. hal-01588658

HAL Id: hal-01588658

<https://hal.science/hal-01588658>

Submitted on 16 Sep 2017

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LAP Lambert Academic Publishing AG & Co. KG
Saarbrücken, Germany
January, 2010

ISBN: 978-3-8383-3044-0

Citation Reference:

Alam, M.M., Molla, R.I., and Hossain, M.M. 2010. *Microentrepreneurship Development in Bangladesh: Achievements and Shortcomings*, LAP Lambert Academic Publishing: Saarbrücken, Germany. [[Online Link](#)]

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ABSTRACT

Micro-entrepreneurial activities play a pivotal role in rural economic development in the third world countries. As a result, in Bangladesh poverty alleviation through rural centric micro-entrepreneurship development has been focused for more than thirty five years. Over 600 registered and thousands unregistered microcredit organizations including globally prominent institutions like Grameen Bank, BRAC, ASA, BARD, ActionAid, CARE etc. are operating here with their own reputed models. However, the micro-entrepreneurship development and its achievements in the country are still lagging behind a satisfactory level due to a number of prevailing factors. This book examines its major achievements and shortcomings from the perspectives of the structured institutions, non-structured institutions, and non-institutional factors, and government's policy guidelines influencing development of micro-entrepreneurship, and makes recommendations for overcoming the shortcomings.

KEY WORDS: microentrepreneurship, microenterprise, petty traders, poverty alleviation, MFIs, NGOs, microcredit

CHAPTER I

INTRODUCTION

Microenterprises encompass small-scale as well as unregistered trade units involved in the production and distribution of goods and services outside the institutionalized business structures. Typically, the primary motive of the microentrepreneur is to create self employment opportunity and generate income eventually. Conceptually the scope of microenterprise is very wide. However, in the context of Bangladesh, microentrepreneurship is often associated with cottage industries and even referred to as the ‘informal sectors’ or ‘petty traders’, mostly engaged in livestock, agriculture, fisheries, cottage industries, food processing, trading, and small manufacturing businesses.

ILO (1972) defines microentrepreneurs as informal sector enterprises that usually possess the following features: ease of entry, family ownership, small-scale operation, reliance on indigenous resources, emphasis on labor intensive but low-level technology, acquisition of skills outside of the formal schooling within an environment of unregulated competitive market structure. World Bank (1978) noted that the definition of microenterprises can vary according to the stage of development, policy objectives, and the administrative structure of a country. The nature of microenterprises can be highly heterogeneous (Harvie, 2003) when viewed from the perspectives of size of investment, number of workers, geographical locations and the industry of a particular enterprise. Shaw (2004) classifies microentrepreneurs in two categories. (a) The survivors who low skills, low cost, low return activities; and (b) those who tend to require more skills as business owners and use a higher amount of capital and technology in production.

Microenterprises prefer to operate informally for a variety of reasons such as avoiding the additional costs, time and effort in formalization which includes incorporation, tax registration, licensing etc to meet regulatory requirements; further compounded by lack of literacy, skills and entrepreneurial knowledge (Malik and Abed, 2007). In some works, the extent of capital investment and personnel involvement are also identified as key factors in defining microenterprises. According to Credit and Development Forum (CDF), businesses with less than Bangladesh Taka (BDT) 10,000 (BDT68=\$1) capital investment can be considered as petty trades whereas microenterprises are those which require over 10 thousands and up to 1 million BDT (Alam and Miyagi, 2004). USAID (1997) states that in most cases microenterprises recruit ten or fewer people inclusive of the business owner(s) and any volunteer workers. In the case of Bangladesh, Mintoo (2006) found that almost all the microenterprises, ranging from petty traders to personal service

workers (barbers, street hawkers and small shop owners, are single person owner-operated business entities, or slightly larger units) engage one or more family members up to a maximum of 10 employees. In the existing literature, enterprises are considered as large, medium, and micro enterprises, although realistically a fourth category of petty traders or marginal enterprises exists. While we recognize the definitional differences, however, in this paper we use only very small scale investors as microenterprises (petty traders with total investment up to 50,000 BDT^a).

In a free economy, entrepreneurs are credited for their significant contribution in promoting economic growth in any nation. In the context of developing nations, small and microenterprises can impact on the economic growth potential significantly. McPherson (1996) argues that promotion of microentrepreneurship has been a popular strategy for poverty alleviation for many years, dating back to 1947. Evidence suggests that rural development of the many poorest nations were initiated by intense economic activity of smaller entrepreneurs, called microentrepreneurs, supported by the financial from institutions commonly termed microcredit associations (Bornstein, 2005). Another group argues that microenterprises can play complementary role, they alone cannot provide a viable long term strategy for any sustained economic growth in the developing countries, also echoed by the current finance minister of Bangladesh, AMA Muhith. However he observed that even though microcredit could not possibly pull people out of poverty but it gave them a way for living (Star Business Report, 2009). Department for International Development (DFID, 2001) report, on the other hand, noted that “International microfinance experience indicates that microcredit is not a suitable tool to assist the chronically poor”.

Existing literature identified very few factors that hinder the development of microentrepreneurship. Pisani and Patrick (2002) observes that microentrepreneurs suffer from poor efficiency and low productivity due to poor quality and unreliable supplies, antiquated machineries, unskilled personnel, small sizes, and limited access to financial institutions, government and non-government agencies. Hoque (2004) points out that a large chunk of microenterprises are failing because of economic enhancements. As infrastructures and transportation mechanisms improve, buyers can have access to more products and services from a more diverse set of outlets. As the standard of living rises, affluent people tend to spend on broader variety of goods and services which eventually pushes microenterprises out of businesses. For example, a consumer who used to buy local fruits from a local vendor now has the option to buy fruits, vegetables, etc., produced anywhere in the world. These stores are fancier and cheaper which puts the local microenterprises

^a According to recent definition, a small enterprise refers to such venture with either capital from 50,000 BDT up to 15 million BDT (about US\$215,000) or a number of 50 employed workers (Moazzem, 2008). Which implies that, up to BDT 50,000 investment can be considered as a micro-enterprise.

to competitive disadvantage. In their study of sari industry in India, Arunachalam and Asha (2006) and Prasad and Tata (2006) identified that microenterprises owners/operators were facing reduced market share due to falling demand for silk saris and changing tastes and expectations of potential customers. McElwee (2006) also found that microentrepreneurs go through significant difficulties in securing capital, establishing distribution channels, and securing relevant business supports.

In Bangladesh, along with the government, more than 611 registered Micro Finance Institutions (MFIs) / Microcredit Institutions (MCIs), and more than 4,500 unregistered MFIs are currently working towards fostering microentrepreneurship development, in direct or indirect ways. At the same time, internationally reputed rural development models like the Comilla, Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), and Grameen models, originated and developed in Bangladesh, are also engaged in the development of microentrepreneurship in Bangladesh. However, despite such initiatives, current and potential microentrepreneurs face several barriers that thwart the overall development of microentrepreneurship in Bangladesh.

Researchers across the globe differ from one another in defining the factors that affect the overall development process of microentrepreneurship. This book attempts to identify the key achievements and shortcomings of the microentrepreneurship development programs and strategies in Bangladesh.

CHAPTER II

GROWTH AND DEVELOPMENT OF MICROENTREPRENEURSHIP IN BANGLADESH

Microentrepreneurship has received special attention in Bangladesh because of its multidimensional contribution to socioeconomic development. From the very beginning of the post liberation period after 1971, microentrepreneurial initiatives emerged in Bangladesh as a spontaneous reflex of the poor to cope with the disastrous economic situation at that time. Starting with 71 percent population living below the poverty line in 1973-1974, the reduction of poverty has always been the highest priority of the government of Bangladesh. In the reality of having a large population, numerous low skilled workers, and soaring unemployment trend, one of the major development objectives of government was to create sustainable employment platform to generate income and eventually reduce poverty level. In doing so, poverty alleviation through rural centric microentrepreneurship development has been focused for more than the last thirty five years in Bangladesh.

The Government initiated several poverty alleviation programs such as Integrated Poverty Alleviation Program (IPAP), Rural Poverty Alleviation Program (RPAP), and Palli Pragati Prakalpa (PPP) through Bangladesh Rural Development Board (BRDB) - with a focus on development of microenterprises across the nation. In collaboration with foreign agencies like ADB, DFID and UNDP, government materialized several projects such as Rural Livelihood Project, Poverty Reduction Project with a special concentration on self employment generation through microentrepreneurship development. It deployed its Department for Youth Development with a view to facilitate the unemployed youth towards self-employment opportunities through providing relevant skill development training and microcredit facilities. Government established a national training institution called “Jubo Unnoyon” (Youth Development) where unemployed youths receive training and get access over micro loans (ranging from BDT 5,000 to BDT 50,000). According to Department of Youth Development (2009), till March 2008, it has provided training to 2.937 million people where 1.644 million (60%) have pursued self employment activities; it disbursed an amount of 7,908.12 million BDT among 0.72 million beneficiaries.

In the Poverty Reduction Strategy Paper (PRSP) 2005, the government adopted national policies to facilitate a development route involving women in all spheres, particularly in economic activities focusing on microentrepreneurship development. Recognizing the importance of microcredit for poverty reduction through microentrepreneurs, the Government also set up a special umbrella support institution, called Palli Karma Sahayak Foundation (PKSF) which is working as a

wholesaler of MFIs funds – collecting fund from various sources and then lending it to small and medium sized NGOs. In order to ensure transparency and accountability of microcredit activities of MFIs in the country, the government recently approved the “Microcredit Regulatory Authority Act, 2006” and established Microcredit Regulatory Authority (MRA) to regulate the activities of the MFIs.

The non-governmental institutions, especially NGOs and MFIs have come forward radiantly to support the rural poor in their pursuit to fight poverty. Professor Muhammad Yunus initiated Microcredit Program in 1976. He founded the Grameen Bank in 1983, to include the microcredit program of providing small loans to potential small entrepreneurs of the rural poor. In 2006 Grameen Bank and Prof. Yunus were awarded Nobel Prize for their contributions towards poverty alleviation. Grameen Bank viewed credit as a cost effective way to fight poverty and for socioeconomic development of the poor (Grameen Bank, 2009). It provides collateral-free loan to microenterprises. In 2008, Grameen Bank disbursed an amount of 62.1 billion BDT among the microentrepreneurs. Major share of the credit distribution was trading sector (30.2 percent). Livestock and fisheries received 20.5 percent, shop keeping sector received 17.7 percent, and agriculture and forestry received 16.6 percent. As of November 2009, it had 7.95 million borrowers, 97 percent of whom are women, covering 100 percent of the total villages in the country. The success of Grameen Bank in Bangladesh encouraged the establishment of Grameen Foundation, an organization which promotes Grameen Bank values and accelerates the development process of world’s poorest communities through disbursing microcredit facilities. It supports foreign microfinance institutions to expand their reach in their communities through introducing appropriate mechanisms. According to its 2007-2008 Annual Report, Grameen Foundation served in 27 countries, partnering with 48 MFIs, disbursed an amount of \$944.158 million among 6.876 million clients to start, establish, support, or expand small and self-sustaining businesses.

BRAC, another leading microcredit organization and world largest NGO, started its operation right after the liberation war in 1971. It has played a significant role in supporting the microentrepreneurs in Bangladesh since inception. With a vision to enhance the participation of women in microenterprises, BRAC uses an integrated approach to income generation and microenterprises creation that focuses on six sectors in which it found large numbers of women can be productively engaged: poultry, fishery, livestock, sericulture, agriculture, and agro forestry. Currently, BRAC’s microcredit programs- Daabi (landless women empowerment through entrepreneurship development), Unnoti (microenterprises development for marginal farmers), and Ultra Poor Program primarily revolve around microenterprises creation and their expansion

opportunities. In 2008, BRAC disbursed an amount of 84.29 billion BDT among around 6.37 million borrowers (BRAC, 2009). BRAC also extended its experience, expertise and attitude through deploying their mechanism in other developing countries. Currently it has operation in Afghanistan, Sri Lanka, Pakistan, Tanzania, Uganda, Southern Sudan, Liberia and Sierra Leone.

ASA is another one noteworthy MFI, have significantly contributed in the development of microenterprises across Bangladesh since 1978. It has started microcredit program in 1992. Through small loan programs, ASA disbursed 60.84 billion BDT among 7.28 million beneficiaries during 2008 (ASA, 2009). The ASA microfinance model has been established in several countries like Jordan, Afghanistan, Tajikistan, Ethiopia, Philippines, Nigeria and India.

Proshika is another largest MFI in Bangladesh working since 1976. It established SEED Trust which is a unique approach to developing the micro and small enterprise sectors of Bangladesh through action research aimed at developing micro and small entrepreneurial capacities. During the 2006-2007, it organized a number of 0.36 million group members and disbursed BDT 3.187 billion loans them. In doing so, 0.74 million new employment opportunities were created (Proshika, 2009). They also provided formal, non-formal training, business counseling, technological and marketing extension support to entrepreneurs.

According to CDF in 2006, the average loan size offered by the MFIs was 4,546 BDT, and 72 percent MFIs reported a loan recovery rate of more than 95 percent. Besides microcredit facilities, these institutions also offer various forms of assistance to the borrowers, such as – skills training, provision of higher quality inputs, technical assistance, and marketing supports for finished goods. A number of 611 registered MFIs along with thousands unregistered ones are currently operating in Bangladesh to provide microcredit support to microentrepreneurs. In order to be registered, an MFI must meet the MRA defined license criteria of having either 1000 borrowers or 4 million BDT principal loan outstanding. 611 MFIs have been selected primarily under the criteria, where 4,236 NGO-MFIs have applied for license till February 26, 2007. In Bangladesh NGO is a buzzword and used indiscriminately to mean any activity or organization that is neither government nor private owned, nor established and operated to earn profit. An estimated 14,000 – 19,000 registered and unregistered NGOs exist in the country (Hyder, 1997; Miah, 1998; Aminuzzaman, 1998). They are varied in kind and nature and are engaged in a wide variety of development activities. They are widely spread from centre to the grass-roots. Only a smaller number of them are actually registered either with the NGO Affairs Bureau of the government or some other authorities.

Approximately six million micro, small, and medium enterprises are currently active in Bangladesh (Daniels, 2003). Businesses with only one worker contributed 26 percent share of the total Micro, Small and Medium sized Enterprises (MSME) contribution to national economy. Enterprises employing 2-5 workers contributed 51 percent as well as those having 6-10 workers contributed around 10 percent. These statistics reinforce the importance of the microenterprises in the economy of Bangladesh. Moreover, successful microenterprises are likely to result in Small and Medium Enterprises (SME), which is considered as the most vibrant instrument of progress for many transition and developing economies.

In Bangladesh, previous development and poverty reduction initiatives were primarily built on national Five Year Plans where poverty reduction was at the forefront. After discontinuing these Five Year Plans, Bangladesh initiated PRSP with objectives to reduce poverty and eventually to achieve the relevant Millennium Development Goals. With this in view, both government and NGOs put their combined efforts for the development of microcredit programs and microentrepreneurship in Bangladesh. According to the Household Income and Expenditure Survey (2005), during the last decade, Bangladesh registered a modest poverty reduction rate of 1 percent per year from 50.1 percent in 1995 to 40 percent in 2005. However, latest CPD (2008) analyses reveal that, an additional 8.5 percent people have fallen below the poverty line in recent times because of high inflation. Consequent losses of purchasing power ultimately have initiated drastic reversal of poverty alleviation trends achieved so far. Moreover, it is quite evident from recent findings that, there is a highly vulnerable group of people who stand marginally above the poverty line. At this point, prudent microentrepreneurship development not only can neutralize the adverse effect on poverty reduction programs, but also at the same time carry on the poverty reduction level to the desired extent.

CHAPTER III

AN EMPIRICAL STUDY ON ECONOMICS OF MICROCREDIT BORROWING

Besides the government, MFIs, NGOs, and other financial institutions play important roles in the development process of microentrepreneurship in Bangladesh. The popularity of Grameen Bank influenced other MFIs and NGOs to initiate operations through offering collateral free microcredit in late 80s and 90s. The quick growth of MFIs and near to ideal loan recovery rate led every MFI to develop a wide range of loan product portfolio. These financial service providers claim that the high rate of growth of the borrowers at very high rate of interest indicates that the microcredit is highly productive and profitable for the borrowers enabling them to pay this high interest. Base on this argument, an empirical study ^b is conducted in terms of delivery cost and borrowers' benefits for proper evaluation of the claimed effectiveness of microcredit program as a strategy for poverty alleviation in Bangladesh.

This pilot study with a sample of 25 selected borrowers from 3 selected villages of sub-district Dagon Bhuyan, district Feni, Bangladesh is a small attempt to evaluate the traditional arguments of MFIs. Working convenience of the researchers, cooperation of the borrowers, and coverage of borrowers of different sizes and economic activities guided the selection of sample villages and borrowers. It was carried out in 2005/2006. Even though it suffers from all the usual methodological limitations of a pilot study - location specific and small sample size, its findings are very much interesting and revealing.

In analyzing the benefits of the borrowers and effectiveness of the microcredit programs, the NGOs take resort to calculating accounting profit of borrowers' business enterprises and ignore implicit costs under the plea that the opportunity cost of labor is near zero in these countries. This plea is certainly not tenable. And if insisted, it will amount to going back to the concept of distressed selling of labor (much like slavery) in the medieval age making it self defeating as a strategy for poverty alleviation. Moreover, under the circumstances of high rate of unemployment in the country many members of the rural poor households may have to remain virtually without any productive employment during a certain part of the year, but, of course, not the whole year. During the sowing and harvesting seasons there can be even shortages of labor and very high wages. This empirical study uses the concept of economic profit in benefit analysis of the borrowers

^b This empirical work was published in *Challenge: The Magazine of Economic Affairs*, Nov-Dec 2008 and *Journal of Business and Behavioral Sciences*, summer 2008.

to determine the maximum interest rate that the borrowers can afford to pay and still remain motivated to borrowing for carrying on with the economic operations earning normal profits (which is equal to at least the implicit costs). Keeping in mind the periodic fluctuation of employment and wages and other social circumstances in rural areas, a very low wage rate of BDT 5 for male and BDT 3 for female per hour has been used in calculating the imputed cost of economic operations of the microcredit borrowers.

Borrowers' use of the microcredit: One of the key and traditional features of microcredit is that the small borrowers usually borrow not necessarily for investment purposes but most often for consumption (including marriage of children and rituals) and debt repayment purposes. This study confirms this with the findings that only 48% of the borrowers (12 out of 25 sample borrowers) use the credit fund entirely for investment purposes in productive economic activities (Table 1). Of the remaining, 24% borrow exclusively for consumption and debt repayment purposes and 28% borrow for both consumption and investment purposes. Therefore bulks of the microcredit borrowings are for non productive purposes without any scope and expectation of revenue generation for repayment; these are mostly for survival and meeting contingencies. Economic demand (economic costs) from these borrowers are only nonsensical. It shows that the claim that microcredit is a 'strictly supervised credit', is no longer valid; often credit money gets diverted to non-productive purposes leading borrowers in utterly distressed situation when the time comes for repayment. In that situation, loan is repeated to keep the weekly installments going with tacit approval of the microcredit dispenser to keep their repayment rates high to the outside world.

Structure of borrowers' investment: In rare cases borrowers depend entirely on the borrowed fund for investment in productive economic activities. Usually they borrow only to supplement their own fund for investment. On an average borrowed fund constitute only 35% (BDT 4,806) and own fund constitute 65% (BDT 9,105) of the total investment (equivalent) of each borrower during the year (Table 1). Those who depend mostly on borrowed funds are the small investors each with a total investment of BDT 6,686 of which borrowed fund constitute 53%.

Table 1: Microcredit Borrowers' Economic Activities, Investments, and Net Worth, 2004-2005

Serial No. of Samples	Economic Operations	Borrowed Fund Used for consumption or Debt Repayment (BDT)	Borrowed Fund Invested (BDT)	Own Fund Invested at the Beginning of the Year (BDT)	Additional Own Fund Invested During the Year (BDT)	Total Own Fund Investment for Full Year Equivalent (BDT)	Total Investment for Full Year Equivalent (BDT)	Total Investment Used as Operating Cost, but Without Paying Wages for Family Labor and Interest (BDT)	Total Worth or Assets at End of the Year (BDT)	Net Worth or Surplus Before Paying Minimum Cost for Family Labor and Interest (BDT)	Imputed Minimum Cost of Family Labor: Male - 5/ ph (40 Per Day), Female - 3/ ph (24 Per Day) (BDT)	Net Worth or Surplus Available for Payment of Interest and Dividend(BDT)
1	Agriculture & grocery	0	9,500	10,000	1,800	10,900	20,400	21,300	46,050	24,750	26,162	-1,412
3	Rearing of cows	0	8,550	6,710	0	6,710	15,260	15,260	20,750	5,490	9,072	-3,582
5	Grameen Phone	0	4,750	5,250	9,600	10,050	14,800	19,600	43,850	10,700	29,512	-18,812
6	Agric & cow rearing	0	3,800	12,000	6,320	15,160	18,960	22,120	21,800	-320	8,812	-9,132
7	Ricshaw pulling	0	4,750	1,250	2,600	2,550	7,300	8,600	33,200	24,600	10,712	13,888
8	Rearing of bulls	0	4,750	22,000	4,010	24,005	28,755	30,760	41,000	10,240	10,162	78
11	Grocery & tea stall	0	4,750	15,000	3,600	16,800	21,550	23,350	38,950	15,600	29,512	-13,912
13	Grocery shop	0	4,750	10,000	2,640	11,320	16,070	17,390	46,250	28,860	22,212	6,648
14	Nursery of trees	0	4,750	5,000	36,917	23,459	28,209	46,667	130,000	83,333	18,562	64,771
15	Pharmacy	0	6,650	2,000	7,200	5,600	12,250	15,850	62,400	46,550	16,737	29,813
17	Fruit trading	0	3,800	15,000	8,500	19,250	23,050	27,300	105,050	77,750	22,212	55,538
18	Cloth trading	0	5,700	4,000	2,400	5,200	10,900	12,100	34,700	22,600	9,437	13,163
	Sub Total:		66,500			151,004	217,504				213,104	137,049
	Average:		5,542			12,584	18,125				17,759	11,421
2	Agriculture	430	6,220	0	0	0	6,220	6,220	9,000	2,780	1,512	1,268
4	Agriculture	3,860	1,840	0	0	0	1,840	1,840	1,500	-340	1,207	-1,547
9	Vegetable trading	1,750	3,000	0	9,620	4,810	7,810	12,620	39,000	26,380	13,087	13,293
10	Betel leaf trading	2,250	2,500	0	10,980	5,490	7,990	13,480	51,200	37,720	9,437	28,283
12	Betel leaf & nut trading	1,250	3,500	0	10,660	5,330	8,830	14,160	65,100	50,940	9,672	41,268
16	Vegetable trading	2,000	2,750	0	10,920	5,460	8,210	13,670	28,050	14,380	8,632	5,748
19	Coconut trading	2,600	5,000	0	1,800	900	5,900	6,800	39,400	32,600	5,512	27,088
	Sub Total:	14,140	24,810			21,990	46,800				49,059	115,401
	Average:		3,544			3,141	6,686				7,008	16,486
20		3,800										
21		4,750										
22		4,750										
23		5,700										
24		7,600										
25		7,600										
	Total:	34,200	91,310			172,994	264,304	329,087		514,610	262,163	252,450
	Average of 19:		4,806			9,105	13,911			27,085	13,798	13,287

Productivity of micro economic enterprises in economic term of net worth: In the traditional nature of rural society selling labor in the market is not a socially appreciable thing. As a result many insolvent and needy members of the society prefer, instead, working at their own

enterprises even if these are least rewarding or at times earning is even below subsistence level. Taking this and other social dynamics into consideration we use the least wages at BDT 5 per hour for man and BDT 3 for woman in imputing the least wages for family labor used in the economic enterprise.

Analysis in Table 1 shows that on an average the 19 enterprises are productive to generate surpluses barely enough to pay family labor wages at normal rate (BDT 10 per hour for male and BDT 6 for female) and left with nothing at all for payment of any interest for capital, not to speak of dividend for the household entrepreneurs. However, if family labor is paid wages only at a tolerance or below subsistence level (BDT 5 per hour for male and BDT 3 for female) a net worth or surplus of BDT 13,287 is available for paying interest and dividend. The surplus amounts to about 96% of capital invested. After paying interest for capital as high as 25% (BDT 3,478), an impressive amount of surplus BDT 10,433 is available even for paying dividend to households. But if we dispel the magic of average the real stories come out.

Table 2 shows that about 68% (13 out of 19) of them on average are productive and able to generate surplus high enough even to pay family labor wages at normal rate and leave with a balance i.e. net worth amounting to 83% of the capital available for paying interest for capital and dividend for the household. On the other hand 32% (6 out of 19) of them are not able to generate surplus sufficient enough even to fully pay family labor wages at a tolerance or below subsistence level, talk less of paying any interest or dividend. For them the average imputed tolerance level of family labor cost is BDT 17,380 where as the surplus available is BDT 9,313 i.e. only just over half the most minimum level of wages for family labor (Table 2). Therefore on top of it, if any interest is paid for the credit / capital it will be at the expense of sacrifice of this meager wages of the family labor. In fact this is the harsh reality and the core of the problems for a substantial number of micro economic enterprises operating in rural areas. In the absence of a built-in institutional provision for debt relief/exemption this large group of microcredit borrowers is pushed to a vicious circle of debt with no scope for gaining freedom from the bondage of debt.

Table 2: Microcredit Borrowers' Economic Activities, Investments, and Net Worth, 2004-2005

Serial No. of Samples	Economic Operations	Total Investment for Full Year Equivalent (BDT)	Total Investment Used as Operating Cost, but Without Paying Wages for Family Labor and Interest (BDT)	Total Worth or Assets at End of the Year (BDT)	Net Worth or Surplus Before Paying Minimum Cost for Family Labor and Interest (BDT)	Imputed Minimum Cost of Family Labor: Male - 5/ ph (40 Per Day), Female - 3/ ph (24 Per Day) (BDT)	Net Worth or Surplus Available For Payment of Interest and Dividend(BDT)
7	Ricshaw pulling	7,300	8,600	33,200	24,600	10,712	13,888
8	Rearing of bulls	28,755	30,760	41,000	10,240	10,162	78
13	Grocery shop	16,070	17,390	46,250	28,860	22,212	6,648
14	Nursery of trees	28,209	46,667	130,000	83,333	18,562	64,771
15	Pharmacy	12,250	15,850	62,400	46,550	16,737	29,813
17	Fruit trading	23,050	27,300	105,050	77,750	22,212	55,538
18	Cloth trading	10,900	12,100	34,700	22,600	9,437	13,163
2	Agriculture	6,220	6,220	9,000	2,780	1,512	1,268
9	Vegetable trading	7,810	12,620	39,000	26,380	13,087	13,293
10	Betel leaf trading	7,990	13,480	51,200	37,720	9,437	28,283
12	Betel leaf & nut trading	8,830	14,160	65,100	50,940	9,672	41,268
16	Vegetable trading	8,210	13,670	28,050	14,380	8,632	5,748
19	Coconut trading	5,900	6,800	39,400	32,600	5,512	27,088
	Sub Total:	1,71,494	2,25,617		4,58,733	1,57,886	3,00,847
	Average:	13,192	17,355		35,287	12,145	23,142
1	Agriculture & grocery	20,400	21,300	46,050	24,750	26,162	-1,412
3	Rearing of cows	15,260	15,260	20,750	5,490	9,072	-3,582
5	Grameen Phone	14,800	19,600	43,850	10,700	29,512	-18,812
6	Agric & cow rearing	18,960	22,120	21,800	-320	8,812	-9,132
11	Grocery & tea stall	21,550	23,350	38,950	15,600	29,512	-13,912
4	Agriculture	1,840	1,840	1,500	-340	1,207	-1,547
	Sub Total:	92,810	1,03,470		55,880	1,04,277	-48,397
	Average:	15,468	17,245		9,313	17,380	-8,066

Source: Table 1

Scope for higher investment in economic opportunities available for the borrowers:

Borrowers who used their entire borrowed fund for investment are relatively better-off households. They generally borrow to add to their own fund for investment. They are relatively larger investors. Their average total investment (BDT 18,125) is nearly 3 times larger than that of those who use only part of the borrowed fund for investment (Table 3). But their average net worth (BDT 11,421) is less than that of the smaller investors. Borrowers who rely heavily on borrowed fund for investment are generally small investors. This is revealed from analyses in Table 4. Where borrowed fund constituted 52-100% of total investment the average total investment is BDT 8,524, and where it is 16-22% the average total investment is BDT 24,105. However, it is not clear that large investors have necessarily large net worth. This tends to suggest that microcredit borrowers in rural areas are engaged in low-return economic activities; higher investment does not have much

scope in the types of economic opportunities available to them. It, therefore, lends support to the observation of the Consultative Group to Assist the Poor (CGAP) that bulk of the microcredit borrowers face only a very low-return economic opportunities.

Table 3: Microcredit borrowers' use of borrowed funds and net worth

Uses of Borrowed Fund	Serial No. of Samples	Economic Operations	Borrowed Fund Invested (BDT)	Total Investment for Full Year Equivalent (BDT)	Net Worth or Surplus Available for Payment of Interest and Dividend (BDT)
Entirely for Investment Purposes	1	Agriculture & grocery	9,500	20,400	-1,412
	3	Rearing of cows	8,550	15,260	-3,582
	5	Grameen Phone	4,750	14,800	-18,812
	6	Agric & cow rearing	3,800	18,960	-9,132
	7	Ricshaw pulling	4,750	7,300	13,888
	8	Rearing of bulls	4,750	28,755	78
	11	Grocery & tea stall	4,750	21,550	-13,912
	13	Grocery shop	4,750	16,070	6,648
	14	Nursery of trees	4,750	28,209	64,771
	15	Medicine store	6,650	12,250	29,813
	17	Fruit trading	3,800	23,050	55,538
	18	Cloth shop	5,700	10,900	13,163
Total:					217,504 137,049
Average:					18,12511,421
Partially for Consumption and Partially for Investment	2	Agriculture	6,220	6,220	1,268
	4	Agriculture	1,840	1,840	-1,547
	9	Vegetable trading	3,000	7,810	13,293
	10	Betel leaf trading	2,500	7,990	28,283
	12	Betel leaf & nut trading	3,500	8,830	41,268
	16	Vegetable shop	2,750	8,210	5,748
	19	Coconut trading	5,000	5,900	27,088
Total				46,800	115,401
Average				6,686	16,486
Entirely for Consumption and/or Debt Repayment	20				
	21				
	22				
	23				
	24				
	25				

Source: Reproduced from Table 1.

Productivity of microcredit in social term of creating scopes for self-employment:

Scholars and researches are in agreement that microcredit and micro economic enterprises cannot be taken as a growth strategy for economic development. However, rural development and for that matter rural small scale economic enterprises, and microcredit facilities are complementary features of any development strategy. Job creation for teeming millions of unskilled and semiskilled laborers is the bottom line for any development strategy in any labor abundant developing country. Therefore any microcredit program has to be assessed based on its productivity in job creation (its

role in promoting productive micro economic enterprises / self-employment). This social dimension of job creation (self-employment) is the most emphatic feature of microcredit program. Table 4 shows that in 37% cases (7 out of 19) borrowed funds constitute over 50% of their total investments. From the table it is also revealed that on average each borrower, with an investment of BDT 13,911, is able to create opportunities for 431 man-days of family labor (minimum total wages for family labor divided by average of male and female wages per hour divided by 8 hours of work per a day i.e., $[13,798 \div (5 + 3) \div 2] \div 8$). It means, for each one thousand BDT annual investment there is a creation of opportunities for about $431 \div 13,911 = 31$ man-days of family labor. Therefore, it requires investment of around BDT 12,000 for creating self-employment for a person for a year.

Table 4: Microcredit borrowers' borrowed fund investment as percentage of total investment, and net worth

Borrowed Fund Investment as Percentage of Total Investment %	Serial No. of Samples	Economic Operations	Total Investment (for full year equivalent) (BDT)	Total Family Labor Costs (@ BDT 5 per hour for mail, BDT 3 per hour) (BDT)	Net Worth or Surplus Available for Payment of Interest and Dividend (BDT)
100	2	Agriculture	6,220	1,512	1,268
100	4	Agriculture	1,840	1,207	(-) 1,547
85	19	Coconut trading	5,900	5,512	27,088
65	7	Ricshawpulling	7,300	10,712	13,888
56	3	Rearing of cows	15,260	9,072	(-) 3,582
54	15	Medicine shop	12,250	16,737	29,813
52	18	Cloth trading	10,900	9,437	13,163
Total:			59,670	52,677	80,091
Average:			8,524	7,525	11,442
47	1	Agric & grocery	20,400	26,162	(-) 1,412
40	12	Betel leaf & nut trading	8,830	9,672	41,268
38	9	Vegetable trading	7,810	13,087	13,293
33	16	Vegetable trading	8,210	8,632	5,748
32	5	Grameen phone	14,800	29,512	(-) 18,812
31	10	Betel leaf trading	7,990	9,437	28,283
30	13	Grocery shop	16,070	22,212	6,648
Total:			84,110	118,714	75,016
Average:			12,016	16,959	10,717
22	11	Grocery and tea stall	21,550	29,512	(-) 13,912
20	6	Agric & cow rearing	18,960	8,812	(-) 9,132
17	8	Rearing of bulls	28,755	10,162	78
17	14	Nursery of trees	28,209	18,562	64,771
16	17	Fruits trading	23,050	22,212	55,538
Total:			120,524	89,260	77,343
Average:			24,105	17,852	19,469
Grand Total				2,64,304	2,62,163
Average				13,911	13,798

Source: Reproduced from Table 1.

For groups of large and small investors, job creation per thousand BDT invested ranges from 23 to 44^c man-days of family labor. Therefore there is no clear indication that higher investment, within limits, creates opportunities for higher number of self-employments. This again suggests that higher investment has limited social and economic scopes in economic activities open to the microcredit borrowers in rural areas.

Closing remarks of the empirical study: Rural development is a complementary feature of any development strategy of any developing country. Microcredit and micro economic enterprises are essential features of any integrated rural development program. Findings of this study lend support to the view that microcredit has limited scope both in terms of creating productive self-employment and economic returns. It requires an investment of BDT 12,000 for creating job opportunity for one rural labor for the whole year. There are indications that if family labor is paid a most nominal or tolerance level of wages at BDT 5 per hour for male and BDT 3 for female the micro enterprises on average may have surpluses enough to pay the current high rate of interests charged by the NGOs. This will however mean that the credit suppliers gain at the expense of distressed selling of family labor (at less than subsistence level of wages). Yet the most concerned feature of microcredit borrowing is that for a substantially large number, as high as over 32%, of the borrowers the net worth or surplus is not enough even to fully pay the most nominal or tolerance level (below subsistence level) of wages for family labor, talk less of payment of interest and dividend. The prevalent microcredit management in Bangladesh does not have any institutional provision for equitably and justifiably dealing with such cases. As a result these borrowers are trapped in a vicious circle of debt.

^c $[16,959 \div (5 + 3) / 2] \div 8 = 12.016 = 44$; $17,825 (5 + 3) / 2] \div 8 = 24.105 = 23$; and $7525 (5 + 3) / 2] \div 8 = 8.524 = 28$

CHAPTER IV

ACTIVITIES OF OTHER INSTITUTIONS

A CASE STUDY

Apart from the Government Organizations (GOs), NGOs and MFIs, local governance also sets environment which influences the growth of entrepreneurial movements. Different community based laws, such as tribal laws, affect the development of microenterprises. It is an undisputed fact that culture holds a deep impact on all aspects of entrepreneurial initiatives particularly in rural societies (Hayton, George and Zahra, 2002). In Bangladesh, microentrepreneurs are also influenced by the local norms, customs, mores, traditions, and religion.

There are a number of organizations working simultaneously with an objective to promote microentrepreneurship development in Bangladesh. Through different development projects, International Organizations and Specific Purpose Organizations take part in the development of microentrepreneurship. Different local clubs, international forums and agency also provide various direct and indirect supports through awareness creation, information dissemination, awarding, training, and financial support programs. In addition, the civil society and the media are now widely recognized for their contributions in the public policy formulation process, unleashing corrupt acts, generating mass opinion and awareness (OECD, 2003). Moreover, corporate sector can play a good role in terms of their social responsibility that is widely practiced now in different forms of Corporate Social Responsibility (CSR). In Bangladesh, these supports from the relevant businesses are not ensured and integrated.

Other locality based institutions, such as general educational institutions, old-age educational institutions, social institutions, religion and charity based institutions are also considered as remarkable facilitators of microentrepreneurship. These institutions have their own capacity as well as regulatory limitations. Without proper guidelines and supports from government these rural institutions suffer from lack of sustainability. Therefore, their supports for the rural development activities as well as entrepreneurship development cannot be sustainable.

As a case study of microentrepreneurship supportive local institution, the experience of Sheba Polly has been presented below. In the case study of Sheba Polly, it is clear that there is the need for government support for successful implementation of its current and planned programs.

Sheba Polly: An Integrated Rural Development Centre

(The original article was published in the *Journal of Business and Behavioral Sciences*, spring 2008)

Introduction

Well-being of mankind is the sole purpose of the entire creation of Allah the Lord Almighty (Al-Quran: 14:32-33; 31:20). This divine scheme is a **total** welfare plan. It is a project of material, intellectual and spiritual betterment, a project of welfare here and the hereafter. It is a plan for world peace. However, it is left for mankind to actualize it through a strategy of balanced commitment to spiritual and worldly aspects of life. Islam, as a religion of peace, is fully committed to this holistic approach to development. In Islam, and similarly in other established religions, development is seen in its entirety to include betterment of spiritual, social, and economic aspects of human endeavors. *Sheba Polly* is an Islam-based action research in Bangladesh for actualizing integrated rural development in conformity with the divine scheme of total wellbeing.

In capitalist and socialist system economic development is largely viewed as a material advancement - growth plus improved redistribution of income. It is not concerned with human quality (spiritual and intellectual betterment) of the society. Though recently a somewhat holistic approach, to include ethics and value for giving it a human face, started gaining recognition in the conventional development concepts and strategies. Development is now a days seen by and large as a move away from a condition of life widely perceived as unsatisfactory towards a condition regarded as *materially and spiritually better*. This is observed, for example, in the works of Amartya Sen in his works on theory of social choice (Molla and Sarah, 2006; Todaro, 2006).

Sheba Polly is one of the two operating arms of the Bangladesh Association for Total Social Advancement (BATSA¹). It is a field level action program for development. It is an integrated rural development scheme. It is the field level action project of BATSA. *It is a project of a series of rural services centers, each armed with facilities ranging from Hospital, Technical Institutes, and other Services outlets built primarily through local initiatives to provide various social services in the community and motivate members of public commit to social services with realization that ‘serving humanity is serving religion’.* It is a charitable institution to provide six categories of aids at cost and under a **charity scheme** of ‘**service according to need and payment according to ability**’. Under the scheme, those who are incapable to pay full cost for the services may apply and negotiate

with ‘Sheba Fund’ management (created for this purpose) for payment of the balance. Recipients of services thus only pay according to their ability.

An overwhelming majority of population in Bangladesh and most other developing countries live in rural areas. Rural development therefore plays a crucially important role for any meaningful development in those countries. Bangladesh has already experienced three world famous models for rural development namely the Comilla Model ², Bangladesh Rural Advancement Committee (BRAC) Model ³ and the Grameen Model ⁴ (Rahman, 2006). Now there is the Sheba Polly. Each of these models addresses rural development through a strategy of broadening rural capacity and transforming rural population into social capital. However their approaches and focuses are different. Comilla model puts primary emphasis on modernization of agriculture through labor intensive technology and necessary rural institutions. BARC model has its primary emphasis on improved physical infrastructure, skill development, and rural industrialization for job creation. Grameen model’s primary emphasis is on providing collateral free credit to the economically and socially under privileged population for investment in productive activities. Sheba Polly on the other hand has a distinctly different approach and focus; it is a faith-based development model under a charity scheme relying on religious and moral commitments of society’s resourceful and able members for material and spiritual wellbeing of their underprivileged brethren. It conforms to the Islamic spirit and strategy of development stated earlier.

Covered by the 6 categories of aids-health aid, skill development and job creation aid, educational, religious, cultural & social aid, legal aid, and agricultural aid, it has a balanced emphasis on all aspects of development. It is a social movement for promoting ‘service to humanity’ as a means for empowerment and wellbeing of the rural underprivileged.

For any social system or institution to be operationally successful, effective, and sustainable, it must have the three fundamental components: legitimacy, order, welfare (LOW), with legitimacy as the first and foremost condition (Rashid, 1997). Sheba Polly has all these three fundamental components. Being founded on religious values (divine expectations) it enjoys the highest legitimacy and thus greatest scope for sustainability.

Sheba Polly Bhadughor

Sheba Polly Bhadughor (rural services centre at Bhadughor) is the first Sheba Polly. It was established by individual initiative of Professor Rafiqul Islam Molla, under the auspices of BATSA.

For building the physical facilities it cost Bangladesh BDT (BDT) 9 million (US\$ 140,000). It is located in his village Bhadughor, a sub-urban area of the District town Brahmanbaria. It started operations in 2004. However, it was formally opened by the Honorable Minister of Social Welfare, Government of Bangladesh, on December 20, 2005.

Its slogans are:

a. *Dharme shakti, Dharme mukti, Drarmo muder Dhayan*

Shabae Shanti, Shabae Tripti shaba Dharmer Pran

(Religion is the goal and guide; in it lies our strength and salvation;
service to humanity is the source of satisfaction, peace, and happiness; it is the soul of religion)

b. *Polly rupashi Banglar besh, shebia polly shebi desh*

(Countryside (rural) makes up the real body of Bangladesh; serving
countryside is serving the nation).

It stands to offer the following 6 categories of development Aids:

- Health Aid (Health first ! Health for all !)
- Employment Generation Aid (Everyone must have access to work & earning for a living)
- Educational and Religious Aid (Everyone must have access to basic education and religion)
- Legal Aid (Everybody must have access to justice)
- Socio-cultural Aid (Everyone must have the right to promote his/her culture and live with social dignity)
- Agricultural Aid (Every farmer must have access to modern agricultural technology)

Emancipation and empowerment of underprivileged and weaker sections of the community is its underlying goal. It operates through the following /arms:

- a. A modern hospital for providing modern health services with priority for economically weaker groups.

- b. A Nursing Institute and a Medical Technology Institute for producing trained nurses & midwives cum health assistants and medical technologists especially for rural health care services.
- c. A Handicrafts & Technical Institute for vocational training and job creation for the economically disadvantaged members of the society.
- d. Services Shops for educational, legal, religious, cultural, social, agricultural, and other aids.
- e. Sheba Club (a youth club) for creating cadres of good citizens motivated and committed to religious practices and social services.

There is a built in insistence that we do the *sheba* (serve the needy) by ourselves instead of relying or depending on others (outsiders). There the slogan is: *amra nijera sheba kari* (we ourselves serve the needy). At the present level of development and production & delivery of services its monthly operating cost is USD 1,500.

a. Ali Azzam Molla Hospital

It is a 25-bed capacity modern hospital (for now officially approved only for 10 beds) with the plan to expand to 100-bed capacity. For the fact that access to modern health services is a basic human right, its ruling principle and slogan is '**Health first and for all**'. Its operating strategies are :

- a. It emphasizes on modern & quality health services delivery system with a priority for the underprivileged members of the community.
- b. It emphasizes on mother and child health.
- c. To make its modern health services easily and conveniently available for a greater number of population in remote areas it has 3 out-reached stations at convenient locations for mobile out-door health services delivery by both male and female doctors on a weekly basis under the concept 'let hospital reach patients'.

It is equipped with a modern operation theatre for various major and minor operations. It is now serving only 15 - 20 outdoor patients daily and performing 4 - 5 major and minor operations per month. Its facilities are yet to be fully utilized.

Holding of Medical Camps periodically in remote areas is its one other function. It already most successfully held 2 such Camps in two remote areas.

b. (i) Halima Nursing Institute⁵

It is named after his late mother Halima Khatoon. It is currently a 12-student capacity residential school with a plan to expand to 24-student capacity. The underlying objective is empowerment of underprivileged women by making them professional nurses & midwives cum health assistants to practice primarily in rural areas and thus making most rewarding contributions to rural health services delivery system.

It offers a Junior Nursing and Midwifery Certificate program of 18 months duration and a Junior Nursing and Midwifery Training program of 18 months duration. Holders of Junior Nursing and Midwifery Certificates will have the option to have additional 6 months training in medicine at our Medical Technology Institute to qualify to obtain a certificate or diploma in local medical assistant and family planning (LMAF) and thus practice as professional nurses & midwives cum health assistants in the areas of their living. SSC pass is a minimum requirement for admission in Certificate program. Priority is given to female candidates with weak socio-economic background and age ranging from 19 - 25 years. At the moment it has 19 female students in two batches. The first batch of 9 students passed out and received certificates at the first Annual *Shebok* Title Awarding and Certificate Distribution Ceremony held on February 12, 2007.

Its slogan is:

Nursingshudhu pasha noi, sheber brata, deekhashomo

Rugir shebay nibedita pran abirata

(Nursing is not only a profession, but a mission –
a mission for always serving the sick & disabled)

b. (ii) Ayesha Medical Technology Institute⁵

It is named after his wife Mrs. Ayesha Begum. It runs diploma and certificate programs in laboratory medicine, dentistry, and local medical health assistant and family planning (LMAF). It has a modern pathology laboratory and a modern dental operation theater.

Its slogans are:

a. Pathology chikitshar pran; tar-i lalone bare shebar maan.

(Pathology is the heart of medical treatment; better pathological investigation improves quality of treatment)

b. Pollybashir nitta shathi polly chikitshok, bondhu beshe shabia polly shebese desh

(As constant companions and friends of villagers, village doctors serve villages and thus the nation)

At the moment it has 16 students (in two batches) in laboratory medicine program, 3 students (first batch) in LMAF program, and 4 students (first batch) in dentistry. The first batch of 11 students of diploma in laboratory medicine passed out and received certificates at the Annual *Shebok* Title Awarding and Certificate Distribution Ceremony held on February 12, 2007.

c. Shaheen Handicrafts and Technical Institute

It is named after the wife of his brother who contributed two-thirds of the premises of Sheba Polly. It has vocational training certificate programs on handicrafts and various vocations. It includes a set of workshops and schemes for vocational training on various trades for persons from lowest and marginal economic strata. Creation of rural employment opportunities is its primary objective. Through vocational training programs it aims to generate and facilitate self employment in the locality. It has embroidery, block, Batik, and other handicrafts project for young ladies from (landless) families living in abject poverty. It has a workshop for 20 workers with a plan to expand it for 200 workers. This project aims to create job opportunities for ladies of those categories of families for earning supplementary income. Gradually projects on more trades will be added to it.

Its slogan is :

Karme srusti karme tusti, karma shustha jiboner shupan

Dharon kore take gori jiboner ma-an.

(In work there is creation and satisfaction; it is the means of healthy life,
a means of improving quality of life)

At present it offers certificate courses of 3 months duration in embroidery, and sewing, block and batiq. Already a batch of 15 students in embroidery, and a batch of 32 students in sewing, block and batiq successfully completed the courses and passed out and received certificates at the Annual *Shebok* Title Awarding and Certificate Distribution Ceremony held on February 12, 2007

d. Services Shops

It has a profit-sharing production venture scheme and has a plan to introduce microcredit loan system on profit-sharing basis to generate self employment opportunities and facilitate mobilization of rural small scale savings in the locality. It also offers legal, social, cultural, educational, religious, agricultural, and other aids to the community ⁶. Its other objective is to support and protect the interest of the economically weaker and underprivileged sections of the society for maintaining justice and social stability.

a. It runs a cattle rearing project. Marginal farmers are supplied with cattle for rearing on profit-sharing basis, inconformity with Islamic mudaraba principle, with 75% share of profit going to the farmer. So far about 20 marginal farmers benefited from this scheme.

b. Its legal aid section has a 4-member Council of Legal Consultants available for consultation and mitigation of conflicts between members in the community judiciously without going through unnecessary and expensive court case procedures and delay. In the event arbitration fails and the case needs to go to court, economically weaker party may request for lawyers and any other necessary support from this section to fight the case. 'Access to justice is a basic human right' is the mentor of this aid scheme. So far two cases were reported but these could not be finally dealt with due to lack of commitments of the plaintiffs.

c. Agricultural aid section is yet to be developed and set ready for operation. It will have agricultural experts available at the Shop for consultation. This section may often represent the farming community to the local Agricultural Extension and other Offices. It will have a few important equipment like power tiller, low lift pump, sprayer, etc as stand-by to support agricultural operations in the locality.

d. Micro credit aid section is yet to be developed and set ready for operation. It will deal with arrangement for production credit on profit sharing basis, in conformity with Islamic mudaraba principle, under 'Poroshi' (neighborhood) model. Under this scheme, relatively better-off families with small savings will be encouraged and motivated to extend production credit to their poor but enterprising neighbors on profit-sharing basis against a social collateral from Sheba Polly for refund of the loan in the event of losses. Most of these small savers are afraid of losing their money due to negligence or insincerity of the

borrowers. In addition, the lenders may require their money back any time for emergency reasons. Sheba Polly will remain stand-by to repay the amount whenever the lender demands and the borrower fails.

Through the Sharaiah provisions of quard hasana (benevolent loan), use of zakat fund for repayment of debts, and mudaraba type business operations (where one party supplies labor and the other party supplies capital and share the profit on an agreed ratio; in case of loss the capital supplier loses the capital and the labor supplier loses the labor) Islam recognizes 'Access to credit as a basic human right'. This is the mentor of this credit aid scheme. Since the borrower is the neighbor and known to the lender he can easily and most effectively supervise the use of the credit. This credit aid scheme will, in fact, enable mobilization of small savings for productive investment and development of the community on a self reliant track. It is envisaged that there will be 10-15% cases of failures and the borrowers will fail to repay the loan. The Sheba Polly will have to repay the lenders this amount, hopefully for recycling the loan, from the fund created for that purpose. This fund will be created with the contributions and grants received from the proposed members of Sheba Polly and or the zakat and sadaka received from public to the Sheba Polly fund. Since zakat can be used for repayment of loan it can be used as an important source for building that fund.

The Centre for Islamic Development Management Studies of Universiti Sains Malaysia has shown interest to collaborate and participate in this Porshi Micro Credit Model.

e. Socio-cultural aid section mobilizes and/ or provides financial support to individuals and institutions in the community for promotion of social wellbeing and educational, cultural, and religious developments.

During the last devastating flood it distributed 1 ton rice to the affected families. It housed a number of affected families in its premises and buildings. It successfully distributed relief materials, received from Islamic Relief Bangladesh, among the flood affected families in the locality. It has been distributing Qurbani meat (sacrificed meat), received every year from the Islamic Relief Bangladesh, among the poor families in the locality.

We have, as part of our General Studies course, a continuing study program called 'Islam and Life Studies' for the generality of public in the area. We enjoyed some support fund from Muslim Aid Bangladesh for that program. During last Ramadan it distributed, on

behalf of Muslim Aid Bangladesh, Iftar gifts (food for breaking the fast) among all its staff and students including participants from public to our continuing study program 'Islam and Life Studies'.

It spends a substantial amount of money for regularly providing support fund for marriages of the young girls of the poor families and giving sadaka to needy families in the locality. It has contributed a large sum of money for development of a local secondary school.

e. Sheba Club

It is a Club of children and youths of various age groups and categories formed under 6-Founding Principles to create Cadres imbued with the motto: '**Serving humanity is serving religion**'. It is a strategy to help grow and nurse in minds of club members, in particular, and the public, in general, the concept that serving humanity lies at the heart of religion, and thus serving humanity amounts to serving religion. It, therefore, forms the nerve centre of reform movement of Bangladesh Association for Total Social Advancement and as such the Sheba Polly. Its underlying objective is to continuously produce cadres of morally strong good citizens committed to religious practices and social services based on a realization that serving humanity is in fact serving religion.

Its slogan is:

Manob sheba dharmo sheba, sheba dharmer pran

Manob shebar brote amra jiban karbo da-an

(Serving humanity is serving religion; it is the soul of religion;
we dedicate lives for service to humanity)

Founding Principles: Cadres are trained, motivated, and mentally and physically shaped based on following 6-FH principles:

Faith-Believing in the Almighty Creator and worshipping Him.

Commitment to religious practices & culture.

Fairness-Commitment to justice and morality.

Heart -Kind and sympathetic to human and all other beings.

Head - Skill and intellectual development.

Hand - Hardworking and respect for labor.

Health- Keeping a sound health

In order for the Cadres to attain and maintain a high standard of these qualities there is a 'scouting type' continuous training and camping programs for all categories of cadres. In addition, there are general studies, English and computer learning programs for them.

Its band and marching songs are:

a. Dharne shakti, Dharne mukti, Dharmo muder Dhayan

Shabae Shanti, Shabae Tripti shaba Dharmer Pran

(Religion is the goal and guide; in it lies our strength and salvation;

service to humanity is the source of satisfaction, peace, and happiness; it is the soul of religion)

b. Manab sheba Dharma sheba, Sheba Dharmer Pran

(Serving humanity is serving religion; service to humanity is the soul of all religions')

Through continuous training programs and camping activities under the spirit and culture of this motto its basic objective is to imprint in the young minds of Cadres the fact that serving humanity is a fundamental religious duty. It will similarly help educate and motivate public for commitment to religious practices and social services.

Grades of Cadres: On consideration of age, experience, and levels of achievements club members will be admitted into **6-S** hierarchical grades as below :

Shikor: (root/beginning). They are the hopefuls and the beginners. Children who accept and follow a faith and accept honesty as a cardinal principle of life and remain mindful of it are awarded and admitted to this cadre.

Shujon: (likeable). They are the promoted Shikors with additional qualities like good personal and social behavior. They are liked by people around them. They are the likeables in the society.

Shathi: (associate). They are the promoted Shujons with additional qualities like benevolence, participation and interest in social works, some academic participation and achievements. They are the trusted and literate associates.

Shikha: (flames/candles). They are the promoted Shathies with additional qualities like participation in intellectual activities, organizing and leadership some social works in the locality. They are the candles and pride of the society.

Shakty: (might/strength). They are the promoted Shikhas with additional attributes like intellectual achievements, leadership and dedication to higher level intellectual and social service activities. They are society's strength and base for progress and advancement.

Shebok: (social workers). They are the promoted Shakties and the highest grade cadres who made significant contributions to the promotion of intellectual and social advancement at national and / or international level. They are the dedicated social workers contributing to well-being of the society.

It is expected that these Cadres will eventually form a large contingent of morally sound ideal citizens ready to successfully initiate a movement for promoting the right, and forbidding the wrong in the society so as to establish an environment for people to live in peace, harmony, trust, and prosperity, without fear and intimidation.

Sheba Club started with a batch of 30 student-cadets. The second batch of 30 was added to it later. A third batch is in the process of admission and the response is encouraging.

It may be also mentioned that the students of nursing, laboratory medicine students, local medical assistant and family planning, handicrafts and sewing, and the members of Sheba Club participated in 5 groups at the National Independence Day Celebration of 2006 and each group received awards from the District Commissioner for their performances.

Awarding of *Shebok* title⁷

It has been noticed that social works and social workers are not often given due recognition and honor by the society in many developing countries. If social workers are given adequate recognition and respect institutionally by the public for their dedications and sacrifices for wellbeing of underprivileged people, many wealthy persons and institutions would be motivated and encouraged to come forward to use their resources for improving living conditions of society's weaker communities. . Sheba Polly therefore introduces a scheme of annually awarding the honorable title *Shebok* (dedicated social worker) to individuals and institutions as a mark of *public* honor and

recognition for their dedications to social works. Awarding of such title as a mark of respect and honor may cost the society almost nothing, but it may attract a great number of resourceful persons to social works and dedicate their wealth to the cause of humanity. Many of them will find social work as an attractive and most satisfying alternative means than political and other means for gaining *public* respect and honor in the society.

A 9-member *Citizens Committee* with dignified personalities in the society (preferably to include Chairman of Municipal Corporation, Chairman of Committee of Local Government Council Presidents, President of Teachers' Association, President of Bar Association, President of Press Club, President of Traders' Association, and some enlightened and respectable elders) selects and recommends a list of awardees every year. This year 4 such distinguished social workers – three in the area of education and one in the area of health services -received this award at the Annual *Shebok* Title Awarding and Certificate Distribution Ceremony on February 12, 2007.

Epilogue

Sheba Polly is a faith-based rural development institution founded based on a charity scheme - *service according to need and payment according to ability* - following the broad philosophical foundation of man's humanity - 'in your wealth there is a share of the poor and the needy' (Al-Quran : 51:19). It is a movement aimed at motivating people of means to come forward with their helping hands and take initiative to found Sheba Polly (rural services centers) to discharge their moral and religious duty for improving the quality of life of the economically less privileged members in their own localities. Because of its faith-based nature its approaches and focuses are distinctly different from the other nationally and internationally reputed rural development models, like the Comilla, BRAC, and Grameen models, originated and developed in Bangladesh. In fact it is a social movement promoting 'service to humanity' as a means for empowerment and wellbeing of the rural underprivileged. Having had the faith-based foundation and thus enjoying the highest level of legitimacy, it has the best scope to be a sustainable integrated rural development institution.

Sheba Polly Bhadughor is the first such services outlet. It is still at embryonic stage. According to some professionals associated with rural development activities its achievements so far are found rather encouraging. Its monthly operating cost is BDT 100,000 (US\$ 1,500). As of now it has been able to generate fund enough to cover only *one-fifth* of the running costs. It is hoped that in another 2-3 years it will be able to attract many more users of its services and therefore can generate enough revenue to cover substantial portion of its operating costs. Based on its copes of

success Sheba Polly, like Grameen bank which recently gained exalted recognition for its role as a model for 'development from below' to ensure sustainable world peace, will eventually spread all over the country and gain recognition nationally and internationally as a model of faith-based institution for sustainable integrated rural development in economically less advanced countries.

Notes:

¹ BATSA has been established as a non-governmental organization (NGO) within the principles of non-profit organizations as laid down in the *Societies Registration Act of 1860* (amended to date) of Government of the Peoples' Republic of Bangladesh, Ministry of Law, Dhaka, Bangladesh.

² The Comilla model was launched in the 1960s at Kashinathpur Village in Kotowali Thana of Comilla Districe, Bangladesh, under the leadership of Mr. Akhter Hamid Khan, ICS. The model has four components, namely village-level primary cooperatives, a thana-level training and development centre, a work Programme, and an irrigation program. The primary cooperatives are integrated at the thana levels and an integrated rural development programme provides all essential and critically needed farming inputs on credits to the farmers to be paid after selling harvests during the off-season when prices are high.

³ The Bangladesh Rural Advancement Committee (BRAC) model was launched in 1972 to carry out reconstruction works in the rural areas after the war of independence, and was then extended to all-round development works. Its activities now span from emancipation to enlightenment, from empowerment to advocacy and knowledge building for preserving civil and human rights, and include rural development, microcredit supply, non-formal education to tertiary education, health, sanitation, development of low-lying areas (haor and coastal areas), disaster prevention, and many other programs for grassroots development.

⁴ The Grameen model was initiated in December 1976 to provide microcredit to the landless farmers and who could not provide land collateral or crop hypothecation as needed in any traditional money lending system operated by bank. It now focuses on the women especially and activities relate to the economic and overall social development of the marginal classes.

⁵ Programmes of these institutes are temporarily suspended due to changed government regulations.

⁶ This comprehensive services list include all types of services so far offered and are under consideration to be offered.

⁷ This title is awarded as a symbol of public honor and respect.

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CHAPTER V

SHORTCOMINGS IMPEDING THE MICROENTREPRENEURSHIP DEVELOPMENT

In Bangladesh, both structured and non-structured institutions influence the development of microentrepreneurship. Structured Institutions refer to formal institutions that navigate the development course of microentrepreneurship by providing the strategic, financial, and technical supports. Though structured local institutions administered by local government and non-government bodies have received large applause for their contributions in promoting microentrepreneurship, roles of numerous and diverse non-structured institutions that directly affect the economic activities of these existing or potential entrepreneurs cannot be overlooked. In rural areas, these institutions are in charge of defining various social, political and cultural norms, values and the order of rural livelihoods. Locality specific cultural, social, political or religious practices strongly persuade the lifestyle of the respective population and eventually affect their growth as microentrepreneurs.

Government Policy and Action

The government is the major structured institution which serves in both national and local levels. National government takes infrastructure development initiatives, ensures uninterrupted supplies of utility, maintains proper law and order, supports specific finance and loan policies, tax (direct, indirect, positive, and negative) policies, license policies for the growth of microentrepreneurship and so on. Local government functions in micro level in formal as well as informal ways. It facilitates microenterprises by ensuring local security, relevant business environment, and customized training.

In Bangladesh, microenterprise was always viewed from a development, i.e. poverty alleviation perspective, rather than as an entrepreneurial activity and a potentially growing business entity (Mead and Liedholm 1998, Toye 1993). The lack of legal framework to foster microentrepreneurs is the first and foremost challenge. Moreover, there is no particular definition of microentrepreneurs' business activities, scopes, ranges and categories etc. An appropriate regulation policy for all relevant stakeholders - MFIs, NGOs, various other local and foreign supportive institutions - is essential when the motives, activities, and financial systems of NGOs and MFIs are incessantly questioned in Bangladesh. Currently, government has no rigorous control mechanism to monitor and follow-up the monetary operations of the microcredit institutions i.e. loan policy,

transaction procedures etc. Microcredit Regulatory Authority has not yet organized its activities. Commercial banks are found acting in their own ways, as they do not have any legal obligation to lend credit to microentrepreneurs.

A very common phenomenon in Bangladesh is that various illegal toll collector forces the microentrepreneurs to pay a certain amount of hush money to them on a daily basis. Small entrepreneurs are bound to pay whatever amount these illegal toll collectors ask at any given point of time. Usually these groups are strongly backed up by the political groups. The money they collect everyday through this illegitimate approach, goes to different levels of administrative groups, legal authorities, local political leaders of various political parties, parliament members, police forces as well as illegal entities such as drug addicts and several criminal associations. Malik and Abed (2007) also noted that the microentrepreneurs require bribing a number of individuals such as- local extorters, officials from government, and musclemen endorsed by local political leaders. Even though microentrepreneurs pay the money, they often lack the necessary protection of law and security in order to conduct their businesses and ensure survivals. Everywhere, even in the city areas, microentrepreneurs like cobblers, hawkers, street vendors and many others are unable to escape this ferocious trap. Absence of proper regulatory and supervisory structure leads towards emergence of corruption which eventually affects the sector's overall performances. Devising right law and order mechanism for microentrepreneurship development and its management should be considered as a key priority of the government.

In order to promote microentrepreneurship, target oriented policy measures are strongly required. In PRSP, no specific direction is found focused towards development of microentrepreneurship in Bangladesh. However, it is observed that the strategic priority of the government has been shifted towards the upper chunk of the potential entrepreneurs i.e. those with investment from BDT 50,000 to BDT 500,000 and have been elevated from the status of the microenterprise. Government showed a fallible performance in implementing the current PRSP, as observed by the civil society representatives who contributed in the development of PRSP. M. Yunus (2002) observed that in Bangladesh, because of the pressures from donors, government always has to rush and develop this policy document within a very short deadline. He further argued that the general reluctance of parliamentarians to implement PRSP rigorously is one of the key obstacles retarding the development quest of the nation.^d

^d See also Kamruzzaman, P. The PRSP of Bangladesh - Ownership, Participation and Poverty Reduction. *Unnayannews*. Available at [<http://www.unnayannews.net/?p=612>]

For sustainable microentrepreneurship development, necessary physical infrastructures such as roads, highways, bridges, irrigation facilities, electrification, rural markets, and trading network have to be ensured. Most of rural areas are still running short of basic infrastructures, especially transport, communication system, and power supply. When country has been frequently unable to meet the demand for electricity in city areas including the capital Dhaka, unsurprisingly, rural areas remain dark. Small microentrepreneurs suffer from substantial losses through receiving substandard prices as they trade perishable goods which expire shortly because of poor communication system and shortage of power supply. Due to lack of better transport system, inter- and intra-regional markets are not integrated enough. As a result, the transportation becomes costly. Moreover, in the current scenario, there is no protection policy for compensating any uncertain losses of microentrepreneurs.

NGOs and MFIs Practices

Non-governmental organizations (NGOs) are engaged in the promotion of economic and social development typically at grass-roots level and nonprofit organizations (NPOs) are engaged in generating profits not for their owners but to fund their activities (Rahman et al., 2008). Micro Finance Institutions (MFIs) are involved in financing microenterprises through a segmented approach i.e. they classify their borrowers and offer differentiated credit products to different groups. Almost all the models of microcredit provide small loans to female clients. Unfortunately, a number of factors tend to impede the growth of women as microentrepreneurs. First, they often lack self confidence. Second, the society also shows poor confidence in women's ability which is manifested in family affairs, bank's reluctant attitude to finance a woman's venture, and in the general unwillingness to acknowledge women's capabilities to take decisions

Still now, the rural society does not fully appreciate women to initiate business activities. Social customs in Bangladesh allow women to have restricted access in resources like land, capital, and education. Under the circumstances women are only used as a means to secure the loan amount for their male family members. These occurrences certainly dent the progress of woman entrepreneurs and more importantly jeopardize government and MFIs' priority to provide credit to woman entrepreneurs.

The MFIs are often criticized for their higher interest rates. They usually incur quite high operating cost, i.e. cost of administering and mobilizing loans, training groups, and covering bad debts. Many of these MFIs' funds are supported by foreign donors. These MFIs are frequently

accused for charging an excessive interest rate on their loans. According to Bangladesh Bank (1997), Grameen Bank is reported to charge an interest rate of 22.45 percent while the formal sector charges from 10 percent to 12 percent for the small and cottage sector. However, its effective interest rate is 30.5% (Ahmad, 2007). Needless to mention that the interest rate being charged by the Grameen Bank and other NGOs in Bangladesh is extremely high – as high as 25-65% (Third Sector, 2004). Another research work finds that the exorbitantly high rate of interest charged by the loan providers, are in fact pushing the borrowers to sell their labor at or below subsistence rate of wage (Molla, Alam and Wahid, 2008).

The providers of microcredit to rural poor are constantly under harsh criticisms from economists, development activists, and politicians. In 2005, Saifur Rahman - the Finance Minister of Bangladesh at that period, argued that if the microcredit lending NGOs would continue charging such unusually high interest rate from their poor beneficiaries, a significant chunk of them could not get out of poverty even in centuries. According to him, as the microcredit providers get a large bulk of its fund from the government and international agencies at only 4-5% interest rate, they should not charge the poor borrowers more than 8-9% interest (The Independent, 2005). The Consultative Group to Assist the Poor (CGAP) observes that the poor borrowers deal with very low-return economic opportunities, therefore, it is unreasonable to believe that they can payback at such a high interest rate (Todaro, 2006).

Though many of the MFIs began their operations to reduce poverty, most of them started behaving like traditional financial organizations within no time. In recent years, MFIs registered a remarkable profit growth through the interest earnings from their borrowers, such as, Grameen Bank showed profit 1.3 billion BDT in 2008; BRAC showed profit 1.83 billion BDT in 2008. Against this most common criticism of high interest charges, MFIs often tend to justify their charges due to heavy operation cost as well as profits to generate more funds for expanding their services. However, the scale of profits in these organizations has been persistently receiving the attention of critics who argue that MFIs are often overlooking the overarching social objective to alleviate poverty through reducing monetary burden on the poor. Now they should provide subsidy to the poor from their other profit venture activates.

In an empirical study Chavan and Ramakumar (2002) suggests that the microcredit programs and institutions have generated a positive but marginal transformation in the incomes of beneficiaries. Another researcher argues that a wide range of studies have been attempted to measure the impact of microcredit in terms of income, employment, and other socioeconomic

outcomes, but these analyses have largely failed to indicate whether the measured benefits are due to participation of the borrowers in such microcredit programs or not (Khandker, 1998). Entrepreneurs find the current amount of microcredit as very inadequate capital to initiate any reasonable business or expand a business. The dimension of funding required for a start-up business are chiefly determined by the nature of the business, local business situation, activity sector, structure of enterprise, as well as by personal traits such as educational and income levels. All of these factors can create varying financial needs which are often poorly covered by the credit received from MFIs. Access to capital is not just a debt repayment issue, but some researchers have argued that microentrepreneurs are positioned in a perpetual “debt trap” (Sharma, 2002). Therefore, microenterprises require sufficient savings from the revenue of the credit invested to become free from loan dependency syndrome and break the vicious poverty cycle.

Although numerous MFIs and NGOs are in operation, only four of them (Grameen Bank, BRAC, ASA, Proshica) are the dominant players in the market which leads towards imbalance in the competition. The MFI spread in the regions are also not symmetric. Therefore, in some places, too many MFIs can be found operating, which makes more capital lending that ultimately encourages borrowing for consumption purposes. This increases the debt and default rate. There is no synchronization among the MFIs and NGOs regarding their product portfolio and target customer segments. As all the MFIs focus on expanding their outreaches in any possible way, they often end up operating in a single place, fighting for clients and eventually targeting the same pool of beneficiaries and providing credit to the same group by several of the lending agencies at the same time. In the process, MFIs overlook their clients’ objective to take the loans- whether for entrepreneurial activities or mere consumption purposes. Their priority to increase the market share ultimately endangers their intention to develop entrepreneurship as a sustainable tool of poverty alleviation.

MFIs usually do not classify the microentrepreneurs according to their unique characteristics; rather they offer generic loans to all types of small scale enterprises. In most of the cases, they start collecting installment payments from the subsequent week of loan disbursement. It is nearly impossible to generate significant return within a week after initiating a business, for example, agriculture and livestock activity cycle requires certain time period. Most importantly, MFIs disburse the full amount of credit at-a-time to the borrowers which in fact, is not required at the beginning of the business cycle, like in agriculture, livestock activities where investment is needed in different phases. Ultimately, not only the unutilized cash endangers the safety level of the grassroots but also persuades them to spend the money in other unproductive areas i.e. consumption

activities. Moreover, if the loans are disbursed in different phases, it reduces interest charge dramatically.

Effective training enhances the quality of the entrepreneurs to run businesses in the right course. Microentrepreneurs, in most cases, lack the proper skill to plan and manage their businesses in the long run. There are ample scopes for training and motivating the loan takers to engage in microentrepreneurship initiatives. MFIs fail to provide relevant training to its clients to run a microenterprise. They often highlight on their own rules and regulations, some social and cultural values and norms, but rarely focus on entrepreneurial skill development.

Influences of Non-Structured Institutions

Non-structured institutions, especially in the context of Bangladesh, have an extensive control over the societies. Numerous and varied non-structured institutions can be observed in rural areas. These refer to informal groups in villages, comprising influential elders, opinion leaders, religious leaders, etc. They possess a huge influence over rural people and usually define various social and cultural norms by their own judgments. Entrepreneurs, more precisely, woman entrepreneurs need to secure their endorsements at first before starting businesses. An example of a non-structured institution is “Shalish” – a body of opinion leaders who act as custodians of a particular village community and have the authority to declare a specific act as right or wrong and punish the guilty ones. Another example can be the “Local religious leaders” who are also highly powerful in implementing social decisions and influencing public outlooks. However, the decisions taken by them often are criticized because of their interest towards certain social or political groups. They also show a considerable reluctance in promoting woman entrepreneurs in their locality.

Influences of Non-Institutional Factors

A broad range of controllable and uncontrollable non-institutional components shape up the overall development process of microentrepreneurship and its sustainability in the long run.

Local economic factors such as - size of the local market and its demand generated by local purchasing power influence the business decisions of entrepreneurs. Specific business types depend historically on the location characteristics. A key factor of production like labor and its availability and price (wage rate) are considered as crucial factors for entrepreneurship development. High rate of wages may lead many microentrepreneurs leave the business because of high cost of labor.

Instead they would themselves turn to be wage labors. Local standard of living alters the characteristics of the microentrepreneurships. In cases of superior living standards, people are most likely to prefer SME over microenterprise to receive relevant services. The geographical position also defines microenterprise businesses, such as, microenterprises mostly run in the remote villages. Moreover, the quality of land plays an immense role for the success of agricultural businesses. The sustainability of microenterprises also depends heavily on availability of supplies, raw materials, price volatility of relevant goods, and price inflation of the product, substitute goods, demand elasticity of the goods and so on.

The economy of Bangladesh is hugely affected by the frequent natural catastrophes like flood, cyclone, and drought. Flood is a recurrent crisis in Bangladesh. During monsoon period, Bangladesh goes through the longest rainy season in the world.^e Here, 20-25 percent of total land is flooded by rain almost every year. Heavy floods have occurred every after two or three years and wiped out about 70-80 percent of the total land damaging crops, houses, bridges, and even human lives over the last 30 years. These calamities gravely damage the course of microenterprises. Ensuring immunity from the adverse effect of climate change will be a major concern in upcoming days to sustain microentrepreneurship growth.

New technologies bring a robust shift in business approaches. Whenever a new technology arrives, the challenges for microentrepreneurs amplify. The activities of microentrepreneurs are indigenous with traditional production methods and equipments; where new technologies are modern and more efficient in terms of quality and cost of the products. Also, as there is no thorough and updated market information system, micro-entrepreneurs fail to explore new opportunities, effective technologies, attractive markets, and relevant scopes for their businesses.

A common attribute of microentrepreneurs in Bangladesh is that most of them are forced to become self employed as they had no option left to ensure their survival without being typical entrepreneurs. Most of these people are poor, with little or no education and without any protection of labor law and social security (Maik and Abed, 2007). Another important feature is their small size and their linkage with local markets only. They generally hold low public status. Individual capacity development is a key priority area for the sustainable growth of these small scale entrepreneurs. Capacity development programs such as trainings on business start-up plans, regular operations, and enterprise developments are long overdue. Disseminating marketing knowledge to

^e According to *Bangladesh State of the Environment Report 2001*, about 90 percent of the rainfall occurs during the four months of the monsoon period (June-September).

equip entrepreneurs with necessary skills to promote their ventures and other professional education such as management, sales, accounting, and strategies will be quite useful to enhance the capacity as a whole. Effective training on various managerial as well as social aspects will contribute largely in enhancing economic independence, self confidence, awareness, decision making process, sense of achievement, social interaction, leadership quality, and personal and social capabilities.

CHAPTER VI

POLICY RECOMMENDATIONS TO OVERCOME THE SHORTCOMINGS

Government, MFIs, NGOs, development organizations, public and private, national and international organizations have been working together to promote microentrepreneurship in Bangladesh for a long time but with limited success. Sustainable growth of microenterprises is considered as a development process combining the three aspects like microfinance, entrepreneurship, and relevant supportive facilities.

Government needs to form a combined and integrated approach including all sorts of groups who are active in this sector. It is observed that the valuable micro credit is often misused or used for unproductive purposes by the borrowers. Government should focus on proper planning and allocation of these available monetary resources and work as an umbrella institution whose primary objectives would be to bring synergy among the credit lenders by supervising them to play integrated as well as complementary roles together to overcome the controllable barriers and minimize the uncontrollable ones to alleviate poverty through developing microentrepreneurship among population who live marginally above as well as below the poverty line.

At first, government should define and classify microenterprises in terms of domains of operation and then design effective policy measures for each group. Considering its extremely diversified and highly flexible characteristics, microenterprises can be categorized based on following criteria:

- *Capital*: small or large scale, own or rental, tangible or intangible, growing or depreciable, value of the capital, cost of the capital, updated technology required or not;
- *Labor*: individual or household, direct or indirect involvement;
- *Skills*: special skills involved or not, training required or not;
- *Ownership*: temporary or permanent, single or combined, individual or household;
- *Entry and Exit*: easy or tough. skills can be used in other activities or not;
- *Scale of Operation*: possible to expand or not, market demand increasing or not, capital or labor intensive;
- *Business Category*: specific regulation required or not, dependency on any other industry or not, linkage with other industry or not, manufacturing or agriculture or services,

geographical area specialty or not, location biased or not, environmental friendly or not, special security required or not;

- *Level of Engagement*: full or part time, seasonal or regular;
- *Level of Stability*: *potential microentrepreneur*- when one does not find any reasonable employment, he starts some small business on a temporary basis while looking for an acceptable employment or a better economic engagement; *steady microentrepreneurs*- who are already involved in operations that are quite stable and incurring modest revenue with little opportunity of growth; *transforming microentrepreneurs*- who have the potential to grow and upgrade their operations to small enterprises.

Government need to initiate a massive reformation of microenterprise policies such as improved business regulations, introduction of substantial tax relief, subsidies, investment allowances, easy licensing requirements and other relevant incentives to support microentrepreneurs. Moreover, it should focus on infrastructure development in rural areas. The local government will have to be aligned and empowered in a way so that it can back up the microentrepreneurship development in remotest areas. Also the local development institutions and microenterprise supportive facilities are required to be in place. Moreover, government supports are also needed for local institution that facilitate or help to develop the favorable environment of microentrepreneurship development in grass root level.

One of the most important tasks for the government is to implement appropriate law to regulate the functions of financial institutions i.e. MFIs, NGOs, commercial banks, donor agencies, and others. Especially the operations of MFIs and NGOs need to be monitored effectively against some of the common complains such as charging excessively high interest rates, earning high revenue, providing multiple loans to same borrower at the same time, presence of multiple lenders in a same place at the same time, motive to increase outreach instead of creating entrepreneurial opportunities, inflexible size of loan, generic product portfolio without any differentiation, inappropriate supervision, insufficient or no training to the borrowers, lack of business guidelines or technical advice, lack of initiatives to develop new market for entrepreneurs and so on. There might be separate policies for the international, national, and local level MFIs. In this regard , Microcredit Regulatory Authority (MRA) needs to become active quickly without further delay.

A prudent policy is also required for commercial banks to support microenterprises, especially the petty traders. It needs to be clearly defined that each bank will lend a certain minimum amount of commercial loan to the micro enterprises. Commercial banks will find it

difficult to recover the loan from grassroots as they do not have wide networks like the MFIs, instead they can establish separate branches dedicated to this segments in targeted areas. Worldwide it has been observed that commercial banks are interested in microcredit operation for its high level of interest rate (Nance-Nash, 2005). This tendency has to be addressed in case of Bangladesh with appropriate rules and regulations.

In Bangladesh, NGOs are ill defined in laws. Governing bodies and legal frameworks for them are inadequate and cumbersome. An innumerable number of small NGOs in the villages work as organized chaotic syndicate, polarize power with rural politics and power brokers, and are virtually out of the reach of government administrative agencies (Khondaker, 2006). Some NGOs do not possess any specific mission and objectives, and work even as gossip forums of the members and leaders. They use a wide array of ambiguous catch-phrases and acronyms with their names, which in many cases do not conform to the behavior of the founder, top management, and staff. Vocabularies used in classifying NGO activities are confusing and misleading. The governing laws, agencies, and NGO forums do not have commonly defined terms and vocabularies to convey their uniform and consistent meaning for use in plans, policies, and actions. They are registered often under various authorities and agencies under different legal codes and frameworks. The situation of their activities is chaotic and often violent resulting in street demonstration, picketing, fighting and human and social calamities (Moniruzzaman, 2004). Government needs to guide these NGOs through better regulatory frameworks and use their resources and capacities as supportive to the development of microentrepreneurship.

Formation of a Specialist Agency or Department

In an integrated approach covering related workgroups from NGOs, MFIs, government, donor agencies, local elite groups and others, a specialist agency or department, in addition to other regulatory measures, can be established to provide right advice and assistance to microentrepreneurs at the local level. It will work for capacity building of the microentrepreneurs through offering educational courses and training, just like mass education system, on initial startup plans, marketing approaches, business expansion strategies, problem solving skills, record maintenance of transaction etc. This agency will be responsible to evaluate business plans, monitor the progress and provide necessary advices in various phases. It will also provide guidelines to a microenterprise to grow and transform into a SME. This approach will drive the microentrepreneurs to envision themselves in long run and they will participate with fullest enthusiasm to attain that objective.

This agency will also monitor the local markets and determines the potential sectors where it can further expand existing micro business initiatives. There are many sectors to be explored such as, organic vegetables production, growing flowers, oilseeds and seed production, mushroom production, bee-keeping, drying out of fruits and vegetables, packaging of pickles, chutneys (a special type of jam), jams, squashes, dairy and other food products which are ready to eat. In agricultural sector there are few new fruits- new types of plum- Bowcul, Applecul, Strawberry, Tang etc. have been developed for mass production in Bangladesh. Entrepreneurs can utilize both their technical skills and raw resources from the farm and livestock in the production of livestock feed and vermin-compost using the animal waste to generate income. They can be widely benefited through establishing small scale agro-processing units. However, it is a continuous process to explore different potential sectors where microenterprises have enough potentiality to grow. The agency will persistently look for new scopes of business activities, run pilot studies, and most importantly, encourage new entrepreneurs with necessary supports. It will also help to bring diversity in the microentrepreneurs' portfolio and even focus on an export oriented approach which will definitely broaden the horizon for these small scale businesses.

Locality specific focus is crucial for local entrepreneurship development. Customized development plan, such as “Jubo Unnoyon”, for a particular locality can also be deployed in order to address a certain scope for improvement. As there is no specialist government agency to provide with relevant advice and assistance to local entrepreneurs, easy official requirements for licensing, investment allowances and other facilities, the proposed agency can work for it. Local government has to be more robust in ensuring local security, training, and business suggestions in the light of local culture and barriers.

World Bank recently discovered a regional imbalance in wealth generation in Bangladesh. Therefore, geographical area-wise and specific sector-wise policies are vital for healthy microentrepreneurship development. The geographical area should be focused because the urbanization is increasing and the western part of the country lags behind the eastern part in poverty reduction. Moreover, a proficient linkage among the microentrepreneurship businesses across various sectors and localities is important for growth, sustainability, and expansion of their business operations. This agency will take the initiatives to form an association of microentrepreneurs to maintain sufficient production level to take the opportunity of economy of scale in production. It will help to adopt training and capacity building programs at the community level to introduce and familiarize the technological implication among microentrepreneurs. It will also provide enough networking support to get updated market information and exploration of the market.

Government should formulate a national microentrepreneurs protection fund through this specialized agency which will be sponsored by donation from the government, a certain share from the revenues of MFIs and NGOs, aid collected from corporate social responsibility acts, regular charities, religious charities (such as, Zakath), and donation from international bodies, etc. This protection policy will help the microentrepreneurs recover the uncertain losses, for an example, for recovering and restarting after a natural disaster. This will also facilitate microentrepreneurs to overcome the debt cycle.

Moreover, a built-in provision for debt relief / exemption is essential in the microcredit management models in Bangladesh to enable those borrowers gain freedom from bondage of debt. A microcredit model modified by Islamic Mudarabah principal^f - whereby the microcredit lender (the capital supplier) and the borrower (the household / entrepreneur) share the business profit / surplus on an agreed ratio, but in case of any loss the lender alone bears it and the borrower loses only rewards for his labor - is perhaps a likely more suitable alternative for economic emancipation of the rural poor and needy families. Thus it is essential to find out the effectiveness of several existing models and emphasize on most effective model, instead of diversified model followed by NGOs and MFIs. In a recent seminar on 'microfinance interest rate and transparency' at the Institute of Microfinance and Microcredit Regulatory, Dhaka various speakers observed that MFIs have to assert it that they are different from the people called loan sharks (Star Business Report, 2009). Current finance minister of Bangladesh, AMA Muhith, remarked that poverty alleviation is a big challenge in Bangladesh, where microcredit is one of the major weapons to achieve the goal in 20 years. Similarly, the government of Bangladesh Bank, highlighted the importance of microcredit by saying that if there were no microcredit more people would have migrated to cities. Therefore, to utilize the microcredit tool properly an extra care needs to put on determining its nature and feature effective for the coming years.

Further, focus should be made on the capacity building of local microcredit retailers and the marketing of the new microcredit products. The agency will establish the codes and standards of operation for the microcredit lenders and provide an extensive microentrepreneurship loan policy by

^f Under the Mudarabah principle a productive activity is organized by combining one's non-human resources with someone else's human resources. The profits of such an activity are shared by the rab-ul-mal (who supplies non-human resources) and the mudarib (who supplies human resources) on a mutually agreed ratio. The financial losses of such an activity, however, are born entirely by the rab-ul-mal. Shari'ah does not allow mudarib to bear any part of financial loss unless he deliberately and willfully causes or contributes to such a loss. He is also not allowed to claim any wages; share in the profit is the only reward for his efforts. Similarly shari'ah does not allow financial resources (capital) to claim any fixed reward determined in advance in respect of outcome of the activity (Khan, 1988).

aligning the MFIs, NGOs, government and donor agencies in funding microentrepreneurs. It will provide new modalities of loan financial arrangements on the basis of profit and loss sharing where both risk and effort will be shared, and loan-loss guarantees - defined as a certain percentage of the loan, and flexible financing and installment schedule based on types of business activities etc.

Finally, this agency will work to neutralize the existing non-institutional pressures that obstruct the development course. It will counsel and train the local elite groups and run several awareness campaigns to soften their reservation against woman microentrepreneurs and entrepreneurs as a whole. Through sharing ideas, organizing workshops, seminars and award programs involving media it will promote a healthy business environment for the microentrepreneurs.

CHAPTER VII

CONCLUSION

In order to reduce the poverty level by accelerating the growth of microentrepreneurship in Bangladesh, the government, policy makers, donors, NGOs, MFIs and other relevant agencies and organizations need to consider and address all of the observed factors cautiously. The integrated approaches focusing on the development of microenterprises can significantly alleviate poverty and sustain economic development through welfare of households at grassroots level. That is why the finance minister of Bangladesh recently observed that even if microcredit could not pull people out of poverty, but it gave them a way for living. Poor people in Bangladesh carry out variety of activities in their domestic lives and possess basic indigenous understanding, skill set, and resources which can be utilized to establish and manage microenterprises. All they require are- awareness, motivation, sound business plans and an integrated external support. Insightful emphasis on developing microenterprises will eventually integrate them with export orientation through a sub-contracting linkage with larger export oriented enterprises. With right amount of support coming from institutional as well as non-institutional factors microentrepreneurs can strengthen their own capacities to be able to contribute to the family and national earnings. Since microentrepreneurial contributions and capacity building are imperative for economic and social development in Bangladesh, the employment of an integrated approach is necessary without further delay.

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