

## DROPPING OUT: AN EMERGING FACTOR IN THE SUCCESS OF MICROCREDIT-BASED POVERTY ALLEVIATION PROGRAMS

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### I. INTRODUCTION

#### A. *Microcredit Approach: A New Hope in Poverty Alleviation*

Recently microcredit has been increasingly used as an effective tool for poverty alleviation throughout the world.<sup>1</sup> Faced with the failure of the earlier adopted “trickle-down” approach<sup>2</sup> to reducing poverty, the microcredit approach, regarded as a “trickle-up” approach,<sup>3</sup> has created a new hope in poverty alleviation. The microcredit approach believes that the poor can be trustworthy and, if provided with loans, can use them successfully in micro-enterprises to generate income. Thus, these programs provide small loans<sup>4</sup> to the poor for self-employment to increase income allowing them to improve their standard of living, and hence rising out of poverty. In addition to providing credit, microcredit programs usually offer a package of services and resources to the poor. These include training, savings facilities, housing, family planning and health services, education, peer support, etc. Some scholars term these programs as “credit plus” approaches (Berger 1989, p. 1017).

The Grameen Bank of Bangladesh is considered the pioneer in this tradition. It has been highly successful in its banking with the poor as well as in its poverty alle-

<sup>1</sup> See “Microcredit Summit 1997,” Goetz and Gupta 1996, Khandker and Chowdhury 1995, Yunus 1994, Nojonen 1992, Tendler 1989, Berger 1989. The Microcredit Summit 1997 was held on February 2-4, 1997 in Washington D.C. Information about the summit has been taken from the Internet (URL: <http://microcreditsummit.org/declaration.html>).

<sup>2</sup> The trickle-down approach to poverty alleviation emphasizes the economic growth of a country as a whole and believes that the benefits of economic growth would also spread to the poor and, hence, reduce the poverty level of the country (Ayres 1983; Townsend 1984).

<sup>3</sup> This approach targets the poor directly, particularly through microcredit. It believes that growth should be initiated at the micro-level, i.e., with the poor, which would ultimately contribute to growth at the macro-level (Bornstein 1996, p. 24).

<sup>4</sup> The average Grameen Bank loan is U.S.\$150 (Yunus 1997b).

viation. The program has been replicated worldwide, in developed<sup>5</sup> as well as developing countries.<sup>6</sup> According to the “Microcredit Summit 1997,” ten years ago in the United States there were less than ten programs; today there are approximately three hundred programs empowering tens of thousands of people to start up and operate their own businesses. It mentioned that microcredit is a powerful anti-poverty tool that has demonstrated relevancy for the people of six continents and in nearly every country. The summit ended with a commitment of reaching 100 million of the poorest families with microcredit by 2005.

### B. Bangladesh: Poverty Alleviation Largely Depends on Microcredit Programs

Poverty has always been endemic in Bangladesh. With 93.2 million people (78 per cent) of the total population in poverty during 1980–90, Bangladesh accounted for 7.2 per cent of the world’s poor (Hye 1996, p. 1). According to a recent study by the Bangladesh Bureau of Statistics (BBS), the proportion of rural and urban poor was 47.9 per cent and 44.4 per cent respectively in April 1996.<sup>7</sup> These indicate that despite decades of massive development and poverty alleviation programs, poverty continues to be pervasive and overwhelming.

Poverty alleviation efforts in Bangladesh started under the purview of rural development<sup>8</sup> at the beginning of this century through organizing credit cooperatives for protecting the poor peasants from the exploitation of the landlords and money-lenders, and alleviating poverty of the rural people (Rahman 1996, p. 219). Since then both *credit* and the formation of *cooperatives* or *groups* for delivering services, including credit and savings, have been used as the principal tools in almost all development and poverty alleviation programs in Bangladesh.

The Village Agriculture and Industrial Development (V-AID) program,<sup>9</sup> the first large-scale rural development program launched in 1953, organized a large number of Chand Tara Clubs<sup>10</sup> and Youth Clubs, and encouraged the villagers to work on a cooperative basis (Hussain 1996, pp. 95–101). The V-AID program was

<sup>5</sup> Replications of Grameen Bank programs in developed countries are termed “First Third World technology transfer” (Bornstein 1996, p. 26).

<sup>6</sup> As of January 1996, Grameen Trust listed thirty-two projects in ten countries worldwide as its partners (*Grameen Dialogue*, no. 26, p. 16). In a *Newsweek*’s interview, Professor Yunus, the founder of Grameen Bank, mentioned that the minimum loan program of Grameen Bank has spread to about forty countries of the world including the United States, Russia, and Norway [*Vorer Kagoch* (Dhaka), December 8, 1993].

<sup>7</sup> Meaning those consuming less than 2,122 and 2,112 calories per day in rural and urban areas respectively [Reported in *Independent* (Dhaka), February 14, 1998, Internet edition, URL: <http://www.independent-bangladesh.com/>].

<sup>8</sup> Proponents of rural development often defined it as a package of economic and social activities with the ultimate objective of upgrading the living conditions of the rural poor (Rahman, 1996, p. 221).

<sup>9</sup> For details about the V-AID program, see Hussain (1996).

<sup>10</sup> *Chand* and *tara* are Bengali words meaning moon and star respectively.

abruptly abandoned in 1960 without any significant success except for creating an awareness among the rural people about their problems and among the policy-makers about the need for rural development as the precondition for national development.

The V-AID program was followed during the 1960s by the infamous "Comilla Model" developed through a series of pilot research projects by the Bangladesh Academy for Rural Development (BARD). The Comilla Model was also largely based on a group approach and providing credit (Hye 1996, p. 121). It was expanded throughout the country in 1971 as the Integrated Rural Development Program (IRDP). Farmers were organized into two-tier cooperative groups. Credit and other development inputs<sup>11</sup> were mobilized through these cooperative groups. Until Grameen Bank's innovative collateral free credit model was developed in 1975, however, the benefits of these credit services had gone to the better-off sections of the society. Grameen Bank, for the first time, successfully reached the poor with credit through innovative small groups and used both as powerful tools for poverty alleviation. In 1982 the government sponsored IRDP program, which failed even to reach the poor, was reorganized as the Bangladesh Rural Development Board (BRDB) and this new organization also started organizing landless poor men and women separately into cooperative groups.

Now almost all government, semigovernment and international, national, and local nongovernmental organizations (NGOs) engaged in poverty alleviation efforts have included microcredit<sup>12</sup> as the major component in their programs. A large proportion<sup>13</sup> of Bangladesh's 60 million<sup>14</sup> absolutely poor<sup>15</sup> are participating in these programs. Grameen Bank itself had 2.06 million (*Grameen Dialogue*, no. 27, p. 16) members in April 1996. This is about 20 per cent<sup>16</sup> of the poor in the country. The *Bangladesh Economic Review 1997* (GOB 1997, pp. 85–87) listed some of the prominent microcredit-based poverty alleviation programs and the numbers

<sup>11</sup> Such as distribution of fertilizer, irrigation facilities, HYV seeds, etc. for increasing agricultural production.

<sup>12</sup> Hye (1996) listed 151 NGOs engaged in poverty alleviation in Bangladesh. Among these 85 had a credit component (pp. 251–58). Hye also mentioned twenty government programs that had credit components (p. 249).

<sup>13</sup> *Report of the Task Forces* (1991, p. 26) mentioned that such programs covered more than 2.5 million families, about one-third of the functionally landless households of Bangladesh.

<sup>14</sup> In 1991–92 the proportion of the poor in Bangladesh was 49.7 per cent (Ravallion and Sen 1996, p. 773) and the population of Bangladesh in 1991 was 111.4 million ("Country Paper Bangladesh," 1995, p. i).

<sup>15</sup> Those people whose income is below the poverty line set at the price of a minimum food bundle required for 2,112 calories and 35 per cent of that food price for nonfood necessities (Ravallion and Sen 1996, pp. 769–71).

<sup>16</sup> Only one person from one household is eligible to become a member of Grameen Bank. The average household size in Bangladesh is 5.6 persons (GOB 1996, p. 25).

participating as of December 1996; these were: BRDB 3.73 million,<sup>17</sup> Small Farmer and Landless Labour Development Project<sup>18</sup> 0.05 million, Bangladesh Rural Advancement Committee (BRAC)<sup>19</sup> 1.8 million, Rural Employment Facilitator Organization (Palli Karma Sahayak Foundation, PKSF)<sup>20</sup> 0.55 million, and Shawnirvar (self-reliance) Bangladesh 0.76 million. Some other such programs and the numbers participating included: Rural Social Service (RSS)<sup>21</sup> 0.23 million (“Country Paper Bangladesh” 1995); PROSHIKA-Human Development Center, an NGO, 0.7 million; Association for Social Advancement, an NGO, 0.34 million; and Rangpur Dinajpur Rural Service, another NGO, 0.18 million (Hye 1996, pp. 169–93). Although many other government and nongovernmental organizations are using microcredit and have organized a large number of rural poor, just the above ten programs alone covered a total of 10.4 million<sup>22</sup> poor people in Bangladesh. Assuming one member per household, this is about 52.1 per cent of the total households in Bangladesh.<sup>23</sup> These households are mostly rural. Thus it may be assumed that if these programs have concentrated on their target population, i.e., the poor, all poor households<sup>24</sup> in Bangladesh could already be covered by these programs. Considering this extensive coverage by microcredit-based poverty alleviation programs, the success of poverty alleviation in Bangladesh depends greatly on the successes of these programs.

### C. *Microcredit Programs: Exemplary Successes in Poverty Alleviation*

The successes of microcredit programs<sup>25</sup> have been well documented in numerous studies.<sup>26</sup> It is assumed that the positive impact of these microcredit programs

<sup>17</sup> This is the number of the landless poor organized in *bittahin* (asset-less) cooperatives. However, all together the program organized a total of 7.5 million members (including a broad spectrum of farmers from marginal to medium size) as of 1994–95 into farmers and landless cooperatives (GOB 1996, p. 409). These cooperatives also extend credit services to their members.

<sup>18</sup> Implemented by BARD.

<sup>19</sup> BRAC is a large national NGO with an international reputation.

<sup>20</sup> PKSF, a national NGO, works through participatory NGOs.

<sup>21</sup> The RSS program is implemented by the Ministry of Social Welfare, Government of Bangladesh.

<sup>22</sup> Note that all these persons may have not received loans.

<sup>23</sup> There were 19.98 million households in Bangladesh in 1991 (GOB 1996, p. 25).

<sup>24</sup> The proportion of rural and urban poor in Bangladesh was 47.9 per cent and 44.4 per cent respectively in 1996. The population of Bangladesh was 124 million in January 1997 and the proportion of urban population was 20 per cent (GOB 1997). Given these figures, the absolute numbers of rural and urban poor are approximately 47.5 million and 11.0 million respectively, all together 58.5 million. As the average household size is 5.6 persons, the coverage of the above mentioned microcredit programs, in terms of population, stands at 58.24 million.

<sup>25</sup> Studies referred to in this section are mostly on Grameen Bank.

<sup>26</sup> See “Microcredit Summit 1997”; Hashemi, Schuler, and Riley 1996; Bornstein 1996; Goetz and Gupta 1996; Rahman 1995; Khandker and Chowdhury 1995; Khandker, Khalily, and Khan 1995a; Amin et al. 1994; Fuglesang and Chandler 1993; *Report of the Task Forces* 1991; Berger 1989; Hossain 1988; and others.

in Bangladesh has brought a decline in the proportion of the poor since the early 1980s (*Report of the Task Forces* 1991, p. 26; Osmani 1996, p. 9). It has also been found that these programs are sustainable (Khandker, Khalily, and Khan 1995b; "Microcredit Summit 1997"). The success of Grameen Bank has been exemplary. Yunus (1997b) recently said that one third of Grameen Bank's 2.1 million borrowers have lifted themselves above the poverty line. The massive acceptance of Grameen Bank among the rural poor and its rapid expansion in Bangladesh as well as worldwide replication exemplify its excellent success.

Grameen Bank is now the largest microcredit program in the world and is considered as the model in the field of poverty alleviation. Consequently, Grameen Bank has drawn the attention of scholars and policymakers on a massive scale. Research on the Grameen Bank system and its impact have already contributed significantly to development literature. Some studies see Grameen Bank as a model of hope for reducing poverty worldwide ("Microcredit Summit 1997"; Hulme and Turner 1990; Siddiqui 1984; Hossain 1984), while others have found the program contributing significantly to alleviating poverty and increasing the resource base of the poor in a sustainable manner (Khandker and Chowdhury 1995, p. 33), increasing income (Hossain 1983, p. 17; Hossain 1988, p. 66; Rahman 1995), empowering women (Hashemi, Schuler, and Riley 1996; Shehabuddin 1991; Mizan 1994; Rahman 1995), practicing family planning to reduce family size (Amin, et al. 1994), increasing nutritional status (Rahman 1989), and so on. Some other studies found it had an impact on the community characteristics, such as changes in the rural power structure in favor of the poor (Rahman 1987), and increases in the wages of man and children (Khandker, Khalily, and Khan 1995b; Shehabuddin 1992).

At the macro level the impact of Grameen Bank has not yet become evident, but it is expected that it will have a perceptible influence over the national economy (Yunus 1997a). This is attributable to the fact that in contrast to the failures of a number of earlier programs, Grameen Bank has been able to reach the poor successfully. It has been able to provide social resources as entitlements for the first time to the poor of the society and to mobilize the long neglected and confined women of Bangladesh. These are great achievements. Although some factors, such as control over credit by male relatives of female borrowers (Goetz and Gupta 1996), low profitability of the program due to high operational costs (Hossain 1984; Khandker, Khalily, and Khan 1995b), problems of replicating the program on a large scale (Ahmad and Hossain 1985), problems of securing stable demand and marketing of the goods produced by Grameen Bank members (Rahman 1994), and high interest rates, have been mentioned as potential limitations, so far none of these has had any negative impact on the success of the program. One of the major concerns in this regard is the sustainability of the program over the long run. Khandker, Khalily, and Khan studied Grameen Bank's sustainability and found that the bank recorded profits at the program level each year during 1986–93, except in

the year 1992 because of a nationwide salary increase in 1991 (1995a, p. 64). Although they estimated that Grameen Bank enjoyed subsidies (both economic and financial<sup>27</sup>) at a rate of 20 per cent of the amount of funds disbursed, they concluded that given its operational cost and sources of funding, Grameen Bank is financially viable (1995b, p. 98).

#### *D. Dropouts: A Potential Problem That May Hinder the Wonderful Success*

It is likely that some members of microcredit programs will leave the program over time. However, if a large number of members leave the program, that could undermine the success of the program. Dropouts could occur at two points, i.e., before or after rising out of poverty or economic graduation. Such dropouts could affect the program as well as the program participants. For the participants, dropping out before rising out of poverty or economic graduation means losing the chance of overcoming poverty which is contrary to the ultimate objective of poverty alleviation. Dropping out after rising out of poverty or economic graduation means that members would be deprived of other services provided by the program. However as crisis and insecurity are common in rural Bangladesh and contribute significantly to the vulnerability of rural people (Hossain 1995), the question of the ability of graduated dropouts, if any, to maintain themselves above the poverty line also deserves special attention.

From the program's side, dropouts both before and after rising out of poverty or economic graduation would affect the program adversely. Dropping out, even after rising out of poverty, ultimately leads to a decline in the number of continuing members in the program which, in turn, would decrease the amount of credit disbursement and, hence, profit. The possible remedy is to recruit new members or expand the program. However, this could also affect the program in a number of ways. Firstly, increasing the amount of loans per borrower can be a way of attaining both cost-efficiency and the profitability of the program (Khandker, Khalily, and Khan 1995b, p. 100; Mizan 1994, p. 152; Hossain 1988, p. 74). But this may not be possible with new members as they borrow smaller loans (Khalily and Chowdhury 1995, p. 25). Secondly, the marginal cost<sup>28</sup> of new membership is high, hence, Grameen Bank can not support a high rate of dropout (Khandker, Khalily, and Khan, 1995a, p. 71). Thirdly, due to the already extensive coverage of microcredit programs, there would be a scarcity of eligible persons for new recruitment.

<sup>27</sup> According to Khandker, Khalily, and Khan, an economic subsidy is the benefit derived from obtaining inexpensive funds and grants, measured as the difference between the actual interest rate and the opportunity cost of such funds (1995b, pp. 52–53), while a financial subsidy is one that is received as a grant for operating expenses such as training, research and development, monitoring, etc. (1995a, p. 65).

<sup>28</sup> Khandker, Khalily, and Khan (1995a, p. 71) estimated the marginal cost of mobilizing an additional member as Tk.138.

Thus, dropouts from microcredit programs should be considered as a potential problem and deserves close study. However, thus far very few studies have looked into the matter. Noponen (1992) studied the model microcredit program of the Working Women's Forum in Madras, India and concluded that the wonderful success of the program might be undermined by the "leftouts." In Bangladesh, Khandker, Khalily, and Khan (1995a, 1995b) mentioned dropouts for the first time as an indicator of borrowers' viability, important for the economic viability of the program. They estimated the dropout rate of Grameen Bank at about 14 per cent and concluded that this was low (1995b, p. 97). Compared to the rate of leftouts (45 per cent) found by Noponen, the Grameen Bank dropout rate might be considered as low; however, Khandker, Khalily, and Khan (1995b) used the aggregate data of those years when the Grameen Bank program was expanding rapidly. Every year large numbers of new members were entering the program. As dropouts begin to occur a considerable time after taking membership, these new members might have pulled down the actual dropout rate. In fact, to measure the actual extent of dropouts, panel data of membership for particular years are necessary. If new dropouts occur every year, the actual dropout rate for a particular year's membership would increase over the years. This situation would be further aggravated if recruitment of new members slows down due to the scarcity of eligible persons or as the program approaches its full capacity.

Thus far Grameen Bank has not regarded dropouts as a potential problem. This is probably because studies (such as Khandker, Khalily, and Khan 1995a, 1995b) have showed the dropout rate to be low and the program expanding rapidly. Thus, Grameen Bank has no explicit policy yet for combating dropouts from the program. Grameen Bank allows a member, who is unwilling to continue, to drop out from the program. When a member drops out, the respective group can accept another eligible person as a new member of the group. The important policy question for Grameen Bank in this regard seems to be what will happen to a member after rising out of poverty or graduation.<sup>29</sup> If Grameen Bank would like to continue as a bank exclusively for the poor, the graduated members would be expected to quit

<sup>29</sup> Bringing the members out of poverty and their graduation is the most desired objective of the Grameen Bank program. To assess the poverty status of a member's family, Grameen Bank has developed ten criteria. A family is considered out of poverty if: (i) it has a house roofed with CI sheets or has a minimum value of Tk. 25,000 and its members sleep on a bed(s) not on the floor; (ii) it drinks safe water either from a tubewell or sterilizes it by boiling; (iii) all school-age children go to school; (iv) its weekly loan repayment installment is at least Tk.300; (v) it uses a sanitary latrine; (vi) it has mosquito net(s) and essential clothing such as winter clothes; (vii) it has extra income such as from vegetable gardening around the house which can be used to repay the loan; (viii) within the last three years the member did not become a "loanee exceeding fifty-two weeks" or purposely default; (ix) it can eat three meals a day throughout the year; and (x) its members are conscious about health and it has the necessary funds for treatment when members fall ill (*Grameen Bank*, Circular No. -04/96, January 24, 1996). However, these criteria were not observed being applied at the branch of the bank where this study was undertaken.

the program. However, if this actually occurred, as will be discussed, over the long run the financial viability, even the existence, of Grameen Bank would be in question. Thus, for practical reasons, Grameen Bank has no policy of inspiring its members to quit the program even after rising out of poverty or graduation.

It is clear that if large-scale dropouts occur, the objective of poverty alleviation and the viability of the microcredit programs would be adversely affected. This paper, for the first time, examines the extent of the dropout problem and its possible impact on the program by examining the data of the Grameen Bank, Bangladesh. The paper proceeds first with a brief discussion of Grameen Bank to get an idea of the characteristics of a successful microcredit program. This is followed by sections on methodology and findings, an interpretation of the findings and their policy implications, and finally the conclusions.

## II. SUCCESSFUL MICROCREDIT PROGRAM: THE GRAMEEN BANK, BANGLADESH

### A. *Grameen Bank: A Poverty-Focused Women's Development Bank*

Grameen (rural) Bank is an autonomous, semigovernmental, special type of financial institution. It provides small amounts of credit for self-employment in simple terms (without any collateral) along with other socioeconomic services to the rural poor, specially women, of Bangladesh to promote their socioeconomic betterment. Berger (1989, p. 1021), termed Grameen Bank as a "poverty-focused development bank." As about 94.1 per cent (*Grameen Dialogue*, no. 27, p. 16) of Grameen Bank members are women, it might be better to call it a "poverty-focused women's development bank." It was started as a project in 1976 by Muhammad Yunus, a university professor, and finally came into existence in 1983 through a government ordinance. The ultimate target of the Grameen Bank is to achieve sustainable poverty alleviation for the vast number of poor in the country (Yunus 1982, p. 11).

### B. *Program Components of Grameen Bank: Holistic in Nature*

As already stated, the main component of the Grameen Bank program is to provide credit for the poor to increase their income through self-employment so that they can overcome poverty. To make this sustainable, the Grameen Bank program also includes social development components, such as savings, functional education, child education, health care, family planning, housing, training, and so on. In addition, Grameen Bank's sixteen decisions<sup>30</sup> also widely cover different socioe-

<sup>30</sup> In 1984, Grameen bank adopted "sixteen decisions" as a code of conduct for its members. These decisions are mainly concerned with instilling discipline in the members of the program and improving the socioeconomic conditions of the members. For example, it calls on members to increase their incomes through the cultivation of vegetables around their houses, to construct new houses and sanitary latrines, to keep family sizes small through family planning, to educate their children, and to increase solidarity among the members.



conomic and environmental aspects. Yunus (1993) described the Grameen Bank program as not merely a bank but a full-range system. Independent researchers also refer to the Grameen Bank program as holistic<sup>31</sup> (Amin et al. 1994; Fuglesang and Chandler 1993).

### C. Program Implementation

#### 1. The organization

Grameen Bank implements its programs at the field level by organizing the rural poor into groups and centers.

*The group.* The landless group is the grassroots-level organization of Grameen Bank. Its formation is the first necessary step to receive loans. It consists of five like-minded poor persons of the same sex and from the same socioeconomic background. The group selects one chairperson and one secretary every year by election. The group functions as the social collateral for the loans received by its members as no members in the group can get another loan if any member defaults (Fuglesang and Chandler 1993; Hossain 1988).

*The center.* The center is the heart of all Grameen Bank activities. At least two and as many as eight groups together form a center. There is one center chief elected from among the group chairpersons and one deputy center chief elected from among the group secretaries for a one year term. A center constructs a shelter where all the common activities are carried on, such as regular weekly meetings, loan decisions, repayments, and social functions. All members must attend the meetings. A Grameen Bank worker also attends the meetings where loan decisions and repayments are discussed openly.

#### 2. The administrative units

The branch is the lowest administrative unit of Grameen Bank. It is the unit responsible for profitability. It borrows money from Grameen Bank at 10 per cent interest and disburses to its members at 20 per cent interest. A branch can have around 60 centers composed of six to eight groups having five members (Fuglesang and Chandler 1993, p. 53). Ten to fifteen branches are supervised by an area office and about twelve area offices are supervised by a zonal office. The head office, with

<sup>31</sup> Grameen Bank has increasingly emphasized the lending of credit compared with the other components in its program, which scholars have termed, a "minimalist microcredit approach" (Hashemi et al. 1996; Streefland et al. 1993). This term is also based on the fact that Grameen Bank does not provide any training or support in loan investments. However, the other non-credit components still exist as an integral part of the bank's program. Training, education, workshops, regular supervision of investment activities, distribution of seeds, etc. were found in practice during field trips for this study. Also the different types of loans provided by Grameen Bank address not only the need for capital to support income-generating activities but also other needs such as housing, sanitation and the like (see the following section). Thus it seems that Grameen Bank program are still holistic in nature.

Professor Yunus as the managing director, is responsible for all operational activities. The board of directors (composed of nine representatives from Landless Female Centers, four government officials, and the executive director) functions as the highest policy-making body (Grameen Bank 1995, p. 6).

#### D. *Types of Loans: Designed to Cover Different Socioeconomic Needs*

Grameen Bank has developed several types of loans according to the financial and social development needs of the poor. These are: (i) general loans: All members of Grameen Bank have to start with this loan. They can borrow it for economic activities for a period of one year at 20 per cent interest. These loans rotate every year; (ii) seasonal loans: These are for seasonal cultivation and can be borrowed for a period of six months at 20 per cent interest; (iii) tubewell loans: These loans address the important health need of safe drinking water. They can be borrowed for a period of two years at 20 per cent interest; (iv) housing loans: These are for the construction of house and run for a period of ten years at the low interest rate of 8 per cent; (v) sanitary loans: These loans are for constructing sanitary latrines, another urgent health requirement in rural Bangladesh. Members can borrow for a period of two years at the interest rate of 8 per cent; (vi) leasing loans: These loans are for larger enterprises to procure new or higher technology; (vii) family loans: These are borrowed by the family as a whole, i.e., husband, wife, adult children. However, ultimate responsibility for such a loan lies with the member herself; and (viii) collective loans: These are given to the centers that have existed for three or more years and which have showed good compliance with the bank's rules and regulations and which want to take up some larger economic enterprise.

In addition, members can take loans from their group fund for purposes such as children's school examination fees, medical expenses, etc.

#### E. *Grameen Bank Funds*

*Group fund.* This fund is composed of (a) Individual savings: Tk.1 per day per member during the first one week, thereafter Tk.1 per member per week; (b) Group tax 1: 5 per cent of the loans received by the members from the bank; (c) Group tax 2: 5 per cent of the loans received from the group fund; (d) Penalties: Being absent from or late for meetings, disobeying bank rules, regulations, and discipline, or any other irregularities are subject to penalties;<sup>32</sup> and (e) Interest from the bank: 8.5 per cent interest on the group fund is deposited. The group fund is known as the members own "little bank." Individual members can take loans from the group fund for different purposes.

*Center fund.* This fund is composed of (a) Special savings: Tk.1–5 per member

<sup>32</sup> The amount of a penalty is not fixed. The center chief sets it according to the extent of irregularity. However, during the study no penalties were seen levied.

per week according to the center's decision. Creation of this fund is needed for loans for joint enterprises. It is used for other collective purposes also, such as the construction of the center's house; and (b) Children's fund: Tk.1 per member per week for children's welfare, such as school expenses or income generating activities taken by the children.

*Emergency fund.* This is kept centrally. Tk.5 per Tk.1,000 for loans exceeding Tk.1,000 is paid into this fund. It is basically used as insurance in case of default, death, disability, etc.

*Individual savings deposits.* Grameen Bank encourages its members to save in their personal accounts.

In addition, Grameen Bank receives loans in simple terms and donations from different international and national organizations such as the Bangladesh Bank, the International Fund for Agricultural Development (IFAD), the Overseas Economic Cooperation Fund (OECF, Japan),<sup>33</sup> the Ford Foundation, the Canadian International Development Agency (CIDA), and the United Nations Children's Fund (UNICEF).

#### F. *Loan Disbursement and Repayment*

Grameen Bank's loan delivery and repayment systems are very simple. The bank's strategy is to go to the people instead of waiting for people to come to the bank, which is a major break from the age-old practices of banking and other service sectors, particularly in the developing societies. This deserves high praise.

All loans from Grameen Bank are repaid in weekly installments started from the second week of the loan allotment. The bank's loan repayment rate is about 98 per cent, the highest in the world. The major factors behind this high rate are: the "installment system" which necessitates only a small amount of money each repayment (Yunus 1994, p. 11-12); group pressure and solidarity (Hulme and Turner 1990, p. 209); the bank's physical proximity to its clients (Shehabuddin 1992, p. 141); the high commitment of the bank's employees due to the extensive organizational training they receive (Hossain 1988; Jain 1996).

### III. METHODOLOGY AND FINDINGS

#### A. *Methodology*

Data on one branch of Grameen Bank were used in this study. The branch, Parila Paba of Rajshahi District, is located in northern Bangladesh. It was started on

<sup>33</sup> In October 1995, OECF agreed to provide a loan totaling 2,986 million yen to Grameen Bank mainly for its housing loan program. The amount was to be disbursed by June 1998. At the exchange rate of 0.39 taka per yen, that is about 1,164.54 million takas. This was 10.42 per cent of total loans and advances and 21.05 per cent of total house loans of Grameen Bank in 1995.

TABLE  
YEARLY CUMULATIVE MEMBERSHIP AND

Year	Female						Male		
	Membership			Dropouts			Membership		
	Cum. Total	Sex (%)	% of Increase <sup>a</sup>	Cum. Total	% of Increase <sup>a</sup>	% of Cum. Membership	Cum. Total	Sex (%)	% of Increase <sup>a</sup>
1985	116,460	64.9	—	4,098	—	3.5	63,110	35.1	—
1986	183,747	73.4	57.8	9,862	140.7	5.4	66,621	26.6	5.6
1987	295,962	80.4	61.1	20,362	106.5	6.9	72,319	19.6	8.6
1988	457,337	85.1	54.5	36,372	78.6	8.0	80,157	14.9	10.8
1989	645,508	88.3	41.1	56,706	55.9	8.8	85,890	11.7	7.2
1990	884,122	90.5	37.0	92,516	63.2	10.5	92,499	9.5	7.7
1991	1,128,503	92.1	27.6	142,130	53.6	12.6	97,283	7.9	5.2
1992	1,535,435	93.3	36.1	201,150	41.5	13.1	109,483	6.7	12.5
1993	1,947,973	93.8	26.9	240,418	19.5	12.3	128,210	6.2	17.1
1994	2,217,945	93.7	13.9	325,638	35.5	14.7	149,414	6.3	16.5

Source: Calculated from Table 7.1 of Khandker, Khalily, and Khan (1995a, p.124; 1995b, p.149).

<sup>a</sup> Calculated over the previous year's cumulative number.

January 24, 1989. There were fifty-nine centers, 391 groups and 2,305 members in the branch as of the end of 1994. Ninety-nine per cent or 2,274 of 2,305 members were female and only 31 were male. Data on membership status were collected up to the end of 1995<sup>34</sup> from the official records of the branch. Two trained investigators having master's degrees in social science (MSS) compiled the data. In order to estimate the extent of dropout at the national level, data from published materials<sup>35</sup> were examined. The branch under study during the time of data collection had almost reached its full capacity. This situation is especially important when looking at the actual extent of dropout and its impact on the program as these are unlikely to be depicted accurately during the expanding phase of the program.

## B. *Extent and Trend in Membership*

### 1. *Rapid increase in membership*

The number of members in Grameen Bank has increased very rapidly. Membership in 1994 increased to 2,367,339 from 179,570 in 1985, a total increase of 1,218.3 per cent in nine years. The average rate of increase over the previous year's cumulative membership during the period 1986–94 was 33.6 per cent. A constant increase (ranging from 14.0–47.1 per cent) over the previous year's cumulative membership could be seen from the data presented in Table I. The rate of increase

<sup>34</sup> Other data were collected up to 1994.

<sup>35</sup> In particular, data published in the reports of the study by Khandker, Khalily, and Khan (1995a, 1995b) were used.

## I

## DROPOUT RATE BY SEX, GRAMEEN BANK

			Total					
Dropouts			Membership		Dropouts			
Cum. Total	% of Increase <sup>a</sup>	% of Cum. Membership	Cum. Total	% of Increase <sup>a</sup>	Cum. Total	% of Increase <sup>a</sup>	% of Cum. Membership	
3,850	—	6.1	179,570	—	7,948	—	4.4	
6,163	60.1	9.2	250,368	39.4	16,025	101.6	6.4	
8,763	42.2	12.1	368,281	47.1	29,125	81.9	7.9	
10,759	22.8	13.4	537,494	46.0	47,131	61.8	8.8	
12,429	15.5	14.5	731,398	36.1	69,135	46.7	9.4	
14,567	17.2	15.8	976,621	33.5	107,083	54.9	11.0	
17,230	18.3	17.7	1,225,786	25.5	159,360	48.8	13.0	
19,373	12.4	17.7	1,644,918	34.2	220,523	38.4	13.4	
20,849	7.6	16.3	2,076,183	26.2	261,267	18.5	12.6	
28,571	37.0	19.1	2,367,339	14.0	354,209	35.6	15.0	

continuously decreased except in 1992 when it increased to 34.2 per cent from 25.5 per cent in 1991. However, it started to decrease again from 1993 and reached its lowest in 1994 (14.0 per cent). This decreasing trend in the rate of membership increase might have been due to the impact of more and more branches approaching full capacity. Nevertheless, the findings indicate a tremendous expansion of the program within a short period. This has been possible because of the spectacular success of the program followed by its high acceptance among the vast number of rural poor in Bangladesh.

## 2. Proportion of female members increased most rapidly

Another important finding is that the rate of increase in female membership was much higher than that of male. The total increase in female membership for the period 1985–94 was 1,804.5 per cent, an yearly average of 200.5 per cent. For male membership the figures were only 136.8 per cent and 15.2 per cent respectively, more than thirteen times lower. This difference can be more clearly seen by looking at the yearly increase of membership over the previous year's cumulative membership of both sexes shown in Table I and Figure 1. The rate of increase in male membership was almost always much lower than that for female membership. The average yearly rate of increase in membership for males was only 10.1 per cent during the period 1985–94 while it was about four times (39.6 per cent) higher for females. This difference in the rate of increase between male and female membership brought a notable change in the proportion of female to male members in Grameen Bank. The proportion of female members increased to 93.7 per cent in

Fig.1. Increase in Membership by Sex, Bangladesh

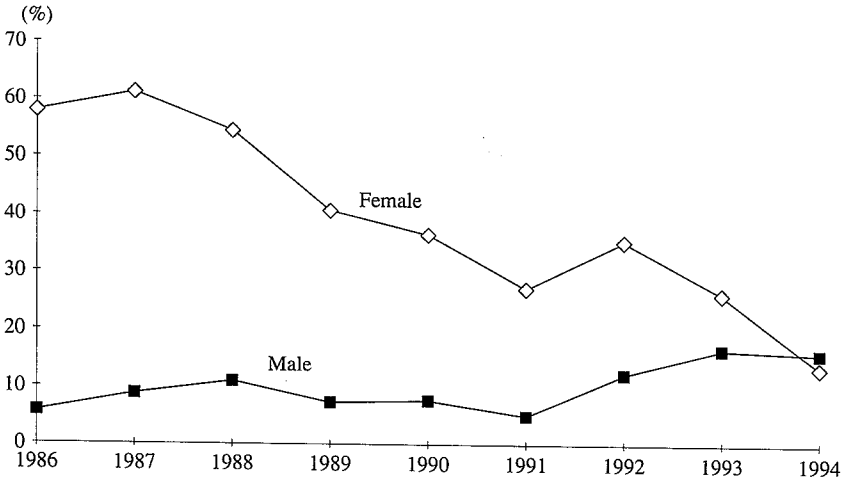
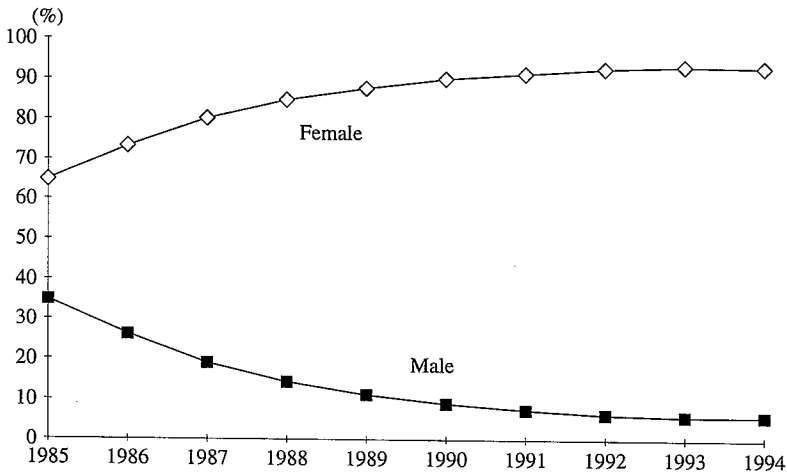
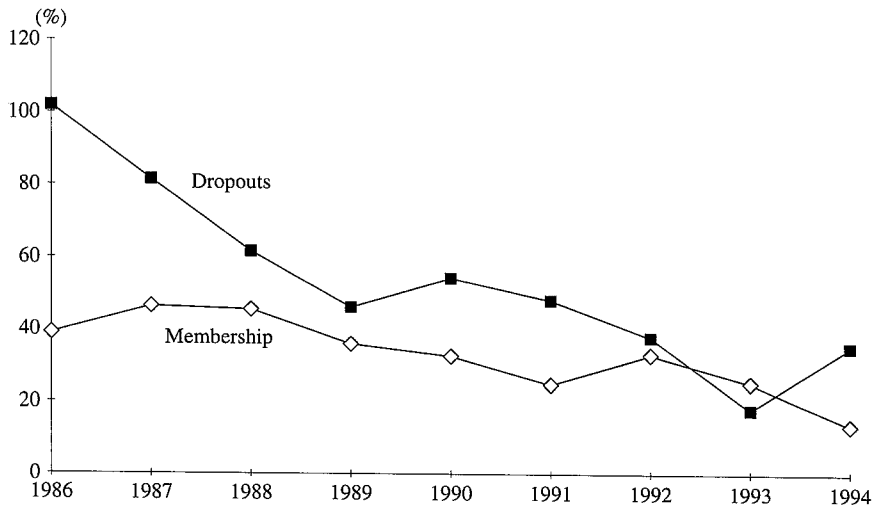


Fig.2. Proportion of Membership by Sex, Bangladesh



1994 from 64.9 per cent in 1985 (Table I and Figure 2). Thus Grameen Bank literally turned into a women's bank. This change could be considered as the result of Grameen Bank's increasing focus on women who are, in general, more vulnerable to poverty than are men (Shehabuddin 1992; Kabeer 1991). It is also argued that women are good at cooperating with the program, such as loan repayment, attend-

Fig.3. Increase in Membership and Dropouts, Bangladesh



ing program meetings, etc. (Goetz and Gupta 1996, p. 45); and if women have access in income, living standards of the total household increase more (Shehabuddin 1992, pp. 76–77).

### C. Extent and Trend in Dropout Rate

#### 1. Increasing dropout trend

Of the 2,367,339 members in Grameen Bank as of 1994, 354,209 (15 per cent) had dropped out by 1994 (Table I). The proportion of dropouts has continued to increase from 4.4 per cent in 1985 to 15 per cent in 1994 with a slight decrease in 1993 (12.6 per cent) over that in 1992 (13.4 per cent). The important point is that during the period 1985–94, the total increase in dropouts (4,356.6 per cent) was more than three times higher than the increase in membership (1,218.3 per cent). The increase in dropout rate was constantly higher than the increase in membership rate except in 1993<sup>36</sup> (Table I and Figure 3). From the findings it could be concluded that if this trend continues, the number of ongoing members in the program will decrease in the future.

In the branch examined in this study, the dropout rate was found to be higher than the national level; 415 (18.0 per cent) out of a membership of 2,305 as of 1994 had dropped out by the end of 1994 (Table II). The higher dropout rate in the branch could be explained by the fact that during 1994 the branch had almost reached its

<sup>36</sup> This one year exception might have been due to an intensified expansion and performance of the program to cover up the losses experienced in 1992 caused by nationwide salary increases in 1991.

TABLE II  
YEARLY INCREASE IN MEMBERSHIP AND DROPOUTS IN THE PARILA PABA BRANCH OF GRAMEEN BANK

Year	New Members			Increase in Cumulative Membership			Increase in Cont. Members			Increase in Dropouts			
	No.	%	Cum. %	No.	%	%	Cum. No.	Yearly Increase		Cumulative		Yearly Increase % <sup>b</sup>	
								No.	% <sup>a</sup>	No.	% <sup>a</sup>		No.
1989	531	23.0	23.0	531	—	—	530	530	—	1	—	1	—
1990	673	29.2	52.2	1,204	126.74	126.74	1,175	645	121.7	29	2,800.0	28	2,800.0
1991	334	14.5	66.7	1,538	27.74	27.74	1,429	254	21.6	109	275.9	80	285.7
1992	500	21.7	88.4	2,038	32.51	32.51	1,823	394	27.6	214	96.3	105	131.3
1993	195	8.5	96.9	2,233	9.57	9.57	1,924	101	5.5	308	43.9	94	89.5
1994	72	3.1	100.0	2,305	3.22	3.22	1,889	-35	-1.8	415	34.7	107	113.8

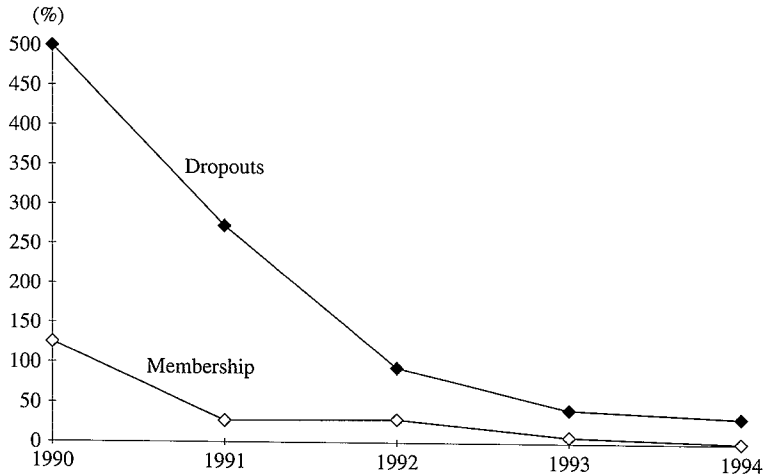
Source: Parila Paba Branch.

<sup>a</sup> Calculated over the previous year's cumulative numbers.

<sup>b</sup> Calculated over previous year's number.



Fig.4. Increase in Membership and Dropouts, the Parila Paba Branch



defined full capacity<sup>37</sup> and membership increase through expansion of the program had decreased significantly,<sup>38</sup> while at the national level, the program was expanding rapidly which caused a lowering of the dropout rate. It is also evident that the rate of increase in dropouts was almost always higher than that of the rate of increase in membership both at the national level and at the branch studied (Figure 3 and Figure 4). This again confirms the earlier findings of an increasing rate of dropouts from the program over the increase in new membership.

## 2. Differences in dropout rate between sexes

Up to 1994 at the national level, the cumulative dropout rate for Grameen Bank was 19.1 per cent for males and 14.7 per cent for females (Table I). It would appear that male members dropped out more than female members. The increasing emphasis on females would also contribute to a lower rate of female dropouts. However, this may not be the reality. It was already mentioned that members drop out after a considerable time of membership. Thus if new membership increases at a higher rate, it would cause the dropout rate to be lower. This has actually happened in this case. Male membership increased slower than female membership (Figure 1). This

<sup>37</sup> According to Grameen Bank job assignments, a bank worker is supposed to look after ten centers, composed of two to eight groups of five members (Fuglesang and Chandler 1993, p. 83). Considering that there were six bank workers in the branch we studied in 1994, there could have been a total of sixty centers. The data showed that there were a total of fifty-nine centers meaning that the branch had already nearly reached its full capacity and had little scope for further expansion.

<sup>38</sup> The slowing of the increase in membership might also have happened because of the scarcity of eligible persons caused by the already extensive coverage of the microcredit programs and the increasing competition among these programs.

TABLE III

NUMBER OF DROPOUTS BY YEAR OF MEMBERSHIP IN THE PARILA PABA BRANCH OF GRAMEEN BANK

	1989	1990	1991	1992	1993	1994	Total
1989							
No.	1	—	—	—	—	—	1
%	0.2	—	—	—	—	—	0.1
% Cum.	0.2	—	—	—	—	—	0.1
1990							
No.	27	1	—	—	—	—	28
%	5.1	0.1	—	—	—	—	1.2
% Cum.	5.3	0.1	—	—	—	—	1.3
1991							
No.	33	46	1	—	—	—	80
%	6.2	7.0	0.3	—	—	—	3.5
% Cum.	11.5	7.1	0.3	—	—	—	4.8
1992							
No.	35	50	15	5	—	—	105
%	6.6	7.6	4.5	1.0	—	—	4.6
% Cum.	18.1	14.7	4.8	1.0	—	—	9.4
1993							
No.	26	29	16	21	2	—	94
%	4.9	4.4	4.8	4.3	1.1	—	4.1
% Cum.	23.0	19.1	9.6	5.3	1.1	—	13.5
1994							
No.	29	20	19	36	2	1	107
%	5.5	3.0	5.7	7.4	1.1	1.4	4.7
% Cum.	28.5	22.1	15.3	12.7	2.2	1.4	18.2
1995							
No.	23	26	13	15	6	2	85
%	4.3	4.0	3.9	3.1	3.1	2.8	3.7
% Cum.	32.8	26.1	19.2	15.8	5.3	2.8	21.9
Total							
Dropouts	174	172	64	77	10	3	500
Cont.	357	486	270	412	180	69	1,774
Total	531	658	334	489	190	72	2,274

Source: Parila Paba Branch.

Note: Female members only.

higher rate of increase in new female membership may have contributed to their lower rate of dropout while conversely the lower rate of increase in male membership may have produced their higher rate of dropout. This is further supported by the fact that the rate of increase in the number of female members dropping out over the years was higher than for male members. Hence, it should not be concluded that male members dropped out more than females. Rather, the situation might be the opposite, i.e., dropouts might have been greater among females. Also in the branch we studied, the dropout rate was lower among males. Of thirty-one male members

(fifteen joined in 1990, eleven in 1992, and five in 1993) as of the end of 1994, only one, who took membership in 1990, dropped out in 1992.

### 3. *The actual dropout rate is higher.*

Although the above analysis helps to get an idea of the extent and trend of dropouts both at the national level and at the study branch, the actual rate of dropout could not be estimated from this data. The actual picture of the dropout problem, as discussed earlier, could be estimated only through following the members who took membership in a particular year. At the national level this data was not available and was difficult to collect. However, in the branch we studied, all female members (2,274) during 1989–94 were followed up to 1995. As expected, the proportion of cumulative dropout among members of a particular year has continuously increased as the duration of membership has lengthened (Table III). Of 531 members who joined in 1989, 32.8 per cent (174 persons) had dropped out by 1995. Moreover, the considerably high percentage (4.3 per cent) of dropouts that occurred in 1995 indicates the possibility of increasingly more dropouts in the years to come which would further increase the proportion of dropouts. No particular pattern could be seen in the trend of increase in dropouts with the lengthening duration of membership. However, as indicated earlier, a very negligible proportion (averaging only 0.7 per cent) dropped out within the same year of taking membership. The average dropout rate for each additional year of membership duration was found to be 3.9 per cent in the second year, 5.8 per cent in the third year, 5.0 per cent in the fourth year, 3.9 per cent in the fifth year, and 4.3 per cent in the sixth year. These findings indicate that the actual dropout rate could have been higher for the national level, as evident at the branch studied, if it were not being pulled down by the high growth in new membership due to the rapid expansion of the program. Nevertheless, the higher rate of increase in dropouts than in new members joining indicates that the dropout rate will increase at the national level in the coming years.

## IV. INTERPRETATION OF FINDINGS AND POLICY IMPLICATIONS

### A. *Have Dropouts Risen Out of Poverty or Economically Graduated?*

It has already been stated that members could drop out before or after they have overcome poverty or economically graduated. Khandker and Chowdhury (1995) estimated that it takes Grameen Bank members about five years to move out of poverty<sup>39</sup> and seven years for economic graduation.<sup>40</sup> In the present study, the num-

<sup>39</sup> Khandker and Chowdhury (1995) defined "rising out of poverty" as rising above a designated poverty line. They set this line at the amount of income needed for a person to have an intake of 2,112 calories per day (pp. 17–18).

<sup>40</sup> According to Khandker and Chowdhury (1995), a member is economically graduated if he/she stops taking loans from microcredit program irrespective of continuing with the program or not (p. 33).

TABLE IV  
DURATION OF MEMBERSHIP BEFORE DROPPING OUT OF  
GRAMEEN BANK

Membership Duration	No. of Dropouts	%	Cum. %
Within 1st year	24	4.8	4.8
Within 2nd year	131	26.2	31.0
Within 3rd year	143	28.6	59.6
Within 4th year	86	17.2	76.8
Within 5th year	57	11.4	88.2
Within 6th year	52	10.4	98.6
Within 7th year	7	1.4	100.0
Total	500	100.0	
Mean = 3.4	Standard deviation = 1.4		

Source: Parila Paba Branch.

Note: Female members only.

ber of years that members were in the program before they dropped out has been compared with Khandker and Chowdhury's criteria to see whether they dropped out before or after rising out of poverty or reaching economic graduation. The data presented in Table IV clearly show that more than 88 per cent of the dropouts did not move out of poverty as they dropped out within five years of their membership, and none of them economically graduated as they had all dropped out within their seventh year of membership. The average duration of membership in the program was 3.4 years. Only 11.8 per cent of the members could be considered as having dropped out after rising out of poverty as they stayed more than the five years required for overcoming poverty as estimated by Khandker and Chowdhury. However, even if these members have risen out of poverty, given the frequent crises and insecurity they face in Bangladesh society (Hossain 1995), close attention also needs to be given to how long these members are able to keep themselves above the poverty line. Nevertheless, from the findings of this study, indications are that Grameen Bank's contribution to poverty alleviation has already been undermined by the increasing number of dropouts.

### B. *Impact of Dropping Out*

It is evident that dropping out can affect both the program and the members. For the members, dropping out means losing the opportunity of overcoming poverty and being deprived of services provided by the program. Likely there is also an impact on the families of members and on their communities. There needs to be extensive fieldwork study on such impact as these are important for overall poverty alleviation in Bangladesh and for Grameen Bank itself. At the program level the

TABLE V  
RECENT TREND IN THE COVERAGE OF GRAMEEN BANK

Year	Branches in Operation			Villages Covered			Members Continuing			Members per Branch
	No.	Increase	%	No.	Increase	%	No.	Increase	%	
1994	1,045	—	—	34,913	—	—	2,013,130	—	—	1,926.4
1995	1,055	10	0.96	35,533	620	1.8	2,065,661	52,531	2.6	1,957.97
1996	1,079	24	2.3	36,420	887	2.5	2,059,510	6,151	0.3	1,908.72

Source: Grameen Bank, Internet homepage.

impact of dropping out is visible in several ways. Two important ones are the effect that dropping out has on the number of continuing members and the economic viability of the program.

1. *Number of continuing members may decrease.*

For the viability of Grameen Bank's program, it is important that the number of continuing members remains steady or increases. However, this could be adversely affected if the number of dropouts surpasses the number of new members entering the program. It was shown above that at the national level, except in 1993,<sup>41</sup> the rate of increase over the previous year's cumulative numbers was almost always higher for dropouts than for new members (Table I and Figure 3). If this trend continues it is likely that the number of continuing members in the program will decrease. This has already become evident at the national level and at the branch we studied. At the national level, the number of continuing members in Grameen Bank has decreased, although on a small scale, from 2,065,661 in 1995 to 2,059,510 in 1996, a decrease of 0.3 per cent in one year (Table V). The other important fact is that during this period (1996) the number of Grameen Bank branches increased by 24 (by 2.3 per cent) and the number of villages covered increased by 887 (by 2.5 per cent). This increase in the operational area and decrease in the number of continuing members certainly indicates that there has been a large number of dropouts from the program. Data of the branch studied also support the above findings. The increase in dropouts was always higher than the increase in membership (Table II). And as seen at the national level, a negative increase (by -1.8 per cent), i.e., a decrease in the number of continuing members, occurred in 1994. It is clear that dropping out has already adversely affected the number of members continuing in the program which weakens the viability of the program.

<sup>41</sup> This could be explained by an intensification of program expansion and program performance to cover up the loss at the program level which were incurred in 1992 because of salary increases in 1991.

TABLE VI  
YEARLY LOAN DISBURSEMENT AND PROFIT OF THE PARILA PABA BRANCH OF GRAMEEN BANK

	(Tk.)					
Year	1989	1990	1991	1992	1993	1994
Loan disburse	911,200	3,141,000	4,073,600	9,415,000	14,801,300	15,714,000
Profit	-58,272	-84,131	-132,525	68,228	193,898	182,454

Source: Paba Branch.

## 2. *Economic viability of the program may be adversely affected.*

Continuation or increase in the level of membership in the program is important for its economic viability. Thus dropping out can adversely affect the economic viability of the program. It was seen that the number of continuing members decreased while the operational area of the program increased. An increase in the operational area means an increase in operational costs. While a decrease in the number of continuing members would lower the amount of disbursements, it also means a decrease in revenues. Thus a decrease in the number of continuing members and an increase in operational costs would ultimately adversely affect the economic viability of the program.

This can also be understood by looking at the profits of the program. According to Grameen Bank's reports, it derived profits every year except 1992, caused by salary increases in 1991. Grameen Bank's reported profits include the grants received from international and national donors as income. Thus it may not reflect the actual profits of the bank calculated based on the interest it earned by lending money. Khandker, Khalily, and Khan (1995b, p. 137) showed that when revenue grants are not included, Grameen Bank incurred losses every year during the period 1987-93. Hence it is difficult to measure the impact of dropping out on profits at the national level. However, it can be done at the branch level as Grameen Bank considers each branch as an exclusive unit for profit and loss. Data for the branch studied presented in Table VI show that although the amount of loan disbursement has increased by about 6.2 per cent in 1994 over 1993, the amount of profit decreased by Tk.11,444 in 1994. This is a decrease of 5.9 per cent over the previous year's profit.

## C. *Reasons for Dropping Out*

To formulate policy for lessening the dropout problem, Grameen Bank needs to identify the reasons for dropping out. The decision to drop out could be taken by the members themselves or decided by the bank's authorities. The former could be regarded as the result of the adverse conditions members face in performing their roles, both traditional and those required by Grameen Bank, related to the program. The latter would include factors such as expulsion by the bank due to failure to

TABLE VII  
REASONS FOR DROPPING OUT OF GRAMEEN BANK

Reasons	No.	%
Willingly	310	62.0
Family	82	16.4
Husband unwilling	23	4.6
Marital	14	2.8
Migrated	21	4.2
Undiscipline	33	6.6
Died	13	2.6
Others	4	0.8
Total	500	100.0

Source: Parila Paba Branch.

Note: Female members only.

comply with the program. Data presented in Table VII show that in the overwhelming majority (90.8 per cent) of the cases, the decision to drop out was taken by the members themselves. Among the specific reasons for such a decision, the majority (62.0 per cent) reported that they had dropped out "willingly." However, this category simply recorded those who stated they had dropped out willingly when in actual fact many had been compelled to express their willingness to drop out because they had been unable to continue with the program due to the adverse conditions around them. Other reasons for dropping out were: "familial" 16.4 per cent, "husband unwilling" 4.6 per cent, "migrated" 4.2 per cent, and "marriage" 2.8 per cent. Only thirty-three members (6.6 per cent) were expelled by the bank, while thirteen members (2.6 per cent) were found to have died.

#### D. Discussion

The reasons for dropping out show that in the majority of cases there is scope for policy intervention to lessen the dropout problem. We will now look at individual, household, community, and program factors that can compel members to drop out from the program early.

One factor is conflicting individual and family roles which cause difficulties for members. A Grameen Bank loan has to be invested quickly into an income-generating project as repayments start just two weeks after receiving the loan. A loan can be invested by the member herself or by her male relatives or by both. However, loan repayment responsibility remains with the member herself. In case of Grameen Bank, most members invest their loans themselves (Goetz and Gupta, 1996, p. 60). A majority of members were unemployed<sup>42</sup> prior to joining Grameen Bank, and the role of "income earner" was new for them. Adhering strictly to the bank's rules and

<sup>42</sup> Hossain (1984) found that 65 per cent of the members were unemployed and the rest were domestic workers prior to joining Grameen Bank.

regulations and joining actively and regularly in the program as a "program participant" is another new role for the women as they have never been engaged in such programs before. A member's success or continuation in the program depends on how effectively she can play these roles.

In rural Bangladesh where the husband and male members of the family do not share the women's responsibilities, the roles in the Grameen Bank program must be played in addition to her traditional roles as wife, housekeeper, child-rearer; and post-harvest laborer.<sup>43</sup> Apart from the question of skills as entrepreneur, these new roles require extra time to perform and can create conflicting situations with a member's traditional roles. This is particularly true for those who have young children in the family, and it has been found that the engagement of women in work other than in the household creates child care problems (Chen and Ghuznavi 1977; Whyte and Whyte 1982; Popkin 1978).

This raises the question of the need for child care support and assistance in household activities. This support and assistance can come from two main sources, either from formal institutions in the society or from the family. As institutional child care is totally absent in rural Bangladesh, this leaves the family as the only source of such support. Furthermore, the projects into which the loans are invested may also require extra labor in addition to the labor of the women themselves. As it might not be feasible to hire paid labor from outside, other family members would most likely be the source of such labor. Usually the husband's involvement in the project is discouraged because it can cause conflict over control of the loans and the empowering of women. Thus, the presence of older children and/or kin in the family can be helpful. The fact that the majority of families among Grameen Bank members are nuclear<sup>44</sup> lessens the chance that there are extended kin in the family. Hence, in most cases support can only come from the older children if there are any. This conclusion is supported by Karim's findings (1995, pp. 281–82) that among Grameen Bank members, those that are in the early stages of the family cycle,<sup>45</sup> where there are as yet no children or where the eldest child is less than six years old, have a higher dropout rate than those in later stages of the cycle where the eldest child is older than six years of age. This indicates that older children of program members have to help with household and/or income-earning activities.

<sup>43</sup> Following the rice harvest a woman's work typically consists of preparing the courtyard, threshing the rice to separate the grains from the stalks, then drying, winnowing and sieving, parboiling, husking, polishing, milling, and finally storing the rice (Mizan, 1994, p. 37; Shehabuddin 1992, p. 64).

<sup>44</sup> Among Grameen Bank members, Mizan (1994) found that 76 per cent of the households were nuclear and only 13 per cent were joint (p. 108).

<sup>45</sup> The family life cycle is composed of several consecutive stages that a family passes through from its beginning (marriage) to its end, i.e., the departure of either spouse through death, divorce, etc. (see Glick 1947).



In the absence of such family support, members can find it difficult to continue with the program and decide to drop out.

A woman borrower can lose much of her control over loans although the responsibility for repaying remains solely with her. One major factor in this regard is being able to go to the market, an essential condition for any income-generating activity. The seclusion of women in Bangladesh society prevents them from going to the market.<sup>46</sup> Thus women are depending on the male members of the family in this regard. It is also evident that women are willing (but sometimes also forced by their husbands) to give the loans to their male relatives for investment as it is difficult for them to invest. There are arguments that even in cases where men control the women's loans, the status of the women increases. But where relationships are bad or loans are poorly invested or misuses by male relatives, the women can face dire economic hardship to repay the loans themselves.

Marital relations with one's husband are another point of vulnerability for rural poor women in Bangladesh. Usually a woman moves into her husband's house after marriage. However, in cases of marital conflict or divorce, she has no alternative other than returning to her home of birth. This, however, will nullify her membership in Grameen Bank as her home of birth is usually far from her husband's village. The situation is similar for an unmarried Grameen Bank member; she loses her membership because she has to move to her husband's house after marriage.

All these indicate that Grameen Bank has to take into consideration different individual and family factors when formulation policy to reduce dropping out. One measure that should be considered in this regard is the establishment of a formal child care system. This is an essential precondition for the involvement of women in income-earning activities. However, introduction of such a system throughout Bangladesh will not be easy. Grameen Bank could use its centers for the purpose. Young children of the members engaged in income-earning activities could be kept in centers under the supervision of members. A honorarium could also be given to the supervising member(s), and this could come from the center or child welfare fund. This would also provide employment for some members. The government of Bangladesh could also come forward in this regard and establish day care centers by using its facilities, such as, family welfare centers and primary schools in the rural areas.

An atmosphere cannot be created immediately where most women can go and sell things at the market. However, marketing activities such as selling milk regularly to neighbors, selling eggs and vegetables to hawkers who come into the village, establishing grocery shops within the household compounds, and so on are common in rural Bangladesh. It is also not uncommon to see women, particularly

<sup>46</sup> This has been identified as the most important obstacle to the empowering women and their success in microcredit programs (Goetz and Gupta 1996).

the poor, in the markets. The initiative could be taken by Grameen Bank to organize these traditional marketing activities in such a way that they would complement each other. Members engaged in production, for example, could market their products through members having access to the market and engaged in business projects. Another possibility is to expand formal markets in villages. The government could easily take the initiative in this regard through local government bodies.

The dependency of women on male relatives for economic activities is deeply rooted in Bangladesh culture and cannot be changed quickly. However, it should not be viewed as preventing poverty alleviation or women's empowerment. A smooth relationship and mutual respect between male and female in the family, particularly between husband and wife, can play a positive role in this regard. In rural Bangladesh most decisions are taken at the family level. Thus, decisions regarding loans are also likely to be taken by the family as a whole. This should also be seen as positive for increasing interaction between household members and hence promoting cohesion in the family. However, misunderstanding and conflict can arise. In such cases fellow group or center members and Grameen Bank workers can play a role in mitigating conflicts. For the purpose, Grameen Bank workers and members need to be sensitive about the systems and dynamics of the families in rural Bangladesh.

The restricted mobility of rural women is a concern for the whole society. This is particularly a problem for women who are at the early stage of their marriage. These women were less restricted before marriage while they were living in their villages of birth. Thus marriage is creating the obstacle to their mobility. Overcoming this requires a change in the attitude toward newly married women. This cannot be achieved immediately, but the increased participation of women in income-generating activities is contributing significantly to overcoming this attitude (Hashemi, Schuler, and Riley 1996). Another effective way to enhance the mobility of women is education.

Another factor compelling members to drop out is group dynamics. Grameen Bank members participate in the program through groups and centers. As discussed at the beginning of this paper, from the very beginning of the development and poverty alleviation programs, the group has been the vehicle for implementing policies and delivering services. Despite this, very little attention has been given to group dynamics and processes. In group theory conflict is inevitable in the group process. Huge numbers of cooperative groups in Bangladesh have become dormant because of conflicts among the members. Although Grameen Bank policy ensures the maximum homogeneity among group members socioeconomically, there are certain to be differences in individual and family characteristics among the members. These differences will lead to differing achievements among the members in the program which over time will decrease the groups' homogeneity. Thus far Grameen Bank has followed a strategy of replacing dropouts with new members.

However, as mentioned earlier, the growing scarcity of eligible recruits as the program expands will likely restrict this strategy. This could open the door to the inclusion of people now outside of the bank's targeted socioeconomic stratum. Should this happen, it would lessen the homogeneity of the groups. All these are likely to create conflicts among the objectives of group members. Apart from these, some program-related factors, such as who should get the loan first,<sup>47</sup> who should get what amount of loan and loan repayment,<sup>48</sup> can also cause conflicts among group members. Such conflicts significantly jeopardize group cohesion which can be expected to contribute to dropping out.

Groups and centers are the vital organizations of the Grameen Bank program. Thus these should get the highest priority in the implementation of the bank's program. However, we found no study that looked exclusively into this matter. What is needed is a study of the dynamics of the Grameen Bank groups and centers to identify their potentials and problems. Bank workers need to be properly trained in group dynamics so that they can monitor the groups and take necessary steps to maintain group cohesion.

Community norms and practices can also be factors contributing to members dropping out of the program. As a strongly patriarchal society, everything in Bangladesh is controlled by men. Women are mostly confined within the household domain due to the institution of *purdah*,<sup>49</sup> religious practices, and the social negation of women. These create conflicts with the members' "income earning" role which requires mobility. The question of opportunity to go to the market has already been discussed. Other community-level factors can also contribute significantly to dropping out. Khandker, Khalily, and Khan (1995b) found that the more developed the local economy, the more rapidly members leave Grameen Bank as there are more opportunities for alternative employment. They also found that commercial bank density increases the dropout rate among Grameen Bank members who have borrowed for more than three years (p. 90). It was mentioned earlier that an increasing number of organizations are now engaged in microcredit activities. It is now very common for a number of microcredit organizations to be operating in the same area. This can create some unhealthy competition among them as they

<sup>47</sup> All members of a group do not get a loan at the same time. First one member gets it, and if she satisfactorily repays it then others get a loan in turn.

<sup>48</sup> The loan repayment rate in Grameen Bank is extremely high, about 98 per cent. Peer pressure, i.e., pressure from other group/center members, is considered one of the key factors for this (Hulme and Turner, 1994, p. 209). If a member defaults others will not get loans or the group's performance will be discredited. This pressure can be a potential source of conflict among the members as adversities and fluctuations in income can compel members to delay their weekly loan installments.

<sup>49</sup> Literally, *purdah* means screen or curtain. It generally involves the seclusion and differential conduct of women and the separation of the men's public domain from the women's domestic sphere (Shehabuddin 1992, pp. 52-53).

are all desperately strive to extending their coverage. Some of these organizations are not as equally committed to the objective of self-sufficiency as is Grameen Bank, and this creates problems for the smooth operation of Grameen Bank. The manager of the branch we studied reported that some members dropped out at the instigation of other microcredit organizations. He also reported that although they had several meetings with BRAC personnel to coordinate their activity and avoid duplication, these talks had not worked out. Our field study also found people who had membership in more than one microcredit organization.

It seems that uncoordinated operation in the same area by several microcredit organizations could severely limit the credibility of such programs. Thus coordinating the activities of such organizations should be considered as an urgent need. Apex bodies, composed of representatives of the microcredit programs, could be formulated at the national as well as field level for this purpose. The government could play an important role in this regard through its local agencies and local government officials.

Yet another factor for dropping out is failure of the income-earning project. As all Grameen Bank loans are invested via self-employment, success in the Grameen Bank program means success as an entrepreneur. In this sense every Grameen Bank member needs to be a successful entrepreneur. However, not every member will turn out to be successful. Some unforeseen events, sometimes called Acts of God, such as market hazards, natural calamities,<sup>50</sup> sickness, or death of livestock can cause the project to incur loss. Such loss can confront a member and her whole-family with severe economic hardship in trying to repay the loan, and this can lead to a decision to drop out from the program.<sup>51</sup> Research needs to be done on how members are repaying their outstanding loans in such situations. Insurance coverage could be a possible remedy for such cases. Grameen Bank had an Emergency Fund that partly performed this role. However, it seems that the activity of this fund has been suspended since 1995. This Emergency Fund should be reintroduced immediately with a full system of insurance to cover members who lost their investment in failed projects and to save them from possible distress caused by the frequent crises and insecurity in Bangladesh.

Early in this study it was mentioned that some scholars classified the Grameen Bank program as a "minimalist approach" principally because it does not provide

<sup>50</sup> Fuglesang and Chandler, in their book on Grameen Bank (1992, pp. 165–76), described how the flood of 1987 caused the virtual collapse of the Grameen Bank system in the Rangpur area. Despite intensive efforts, such as relief and special loans, attendance at the weekly meeting dropped to 10–20 per cent, and Tk.85 million remained overdue until 1993.

<sup>51</sup> Bornstein, in his book (1996, pp. 149–51), cited the case of Grameen Bank member Aleya. She borrowed Tk.3,500 and bought a cow which stopped lactating after six months. At the time Aleya still owed Tk.1,700 to Grameen Bank. Under Grameen Bank rules the cow could not be sold unless the loan had been repaid. As a result, the whole family, including her seven-year old daughter, had to work hard outside and cut down on eating to repay the loan.

entrepreneurial training or technical services to its members. It is difficult especially for the poor to always make proper investment decisions, particularly in a place like Bangladesh where investment options are limited and risks are high. And with the increasingly larger investments by its members, Grameen Bank should include managerial training and technical advice as a regular component in its program. But even with such inclusions, there will be members who are unsuccessful in their projects. The creation in the bank's program of full- or part-time jobs, such as child-care workers at centers, as mentioned earlier, could help such members who failed as entrepreneurs to tide over their difficult situation and prevent their dropping out.

## V. CONCLUSION

Data used in this article was the aggregate national level data and panel data from one branch of Grameen Bank. Thus the data may have limitations in indicating the actual extent of dropping out at the national level and the representativeness of all branches. However, the findings of the study clearly indicate that the dropout problem is an emerging difficulty that likely will hinder the success of microcredit-based poverty alleviation programs. Research is revealing that the microcredit program hypothesis which says that "if loans are provided with reasonable terms and conditions to the poor, they can use those successfully in micro-enterprises through self-employment to generate income without help from outside" may not work well for all poor people. Clearly, this is not working well for an increasing number of dropouts.

Nevertheless, there is no doubt that the present microcredit approach shows real potential of being the way to alleviate endemic poverty in both developing and developed countries. For this reason there needs to be a large-scale effort to study the dropout problem focusing on the factors at the individual, family, community, and program level that work against the participants' efforts to rise out of poverty. This is an urgent task as the problem badly affects not only the successes of microcredit programs but also the prospect of future poverty alleviation. The frustration of failure demoralizes the poor and can inhibit further efforts on their own part to overcome poverty. As Galbraith (1979, p. 62) wrote, "Poverty is cruel. A continuing struggle to escape that is continuously frustrated is more cruel." The obvious result is accommodation with poverty which is the real dynamics of persistent mass poverty in developing countries.

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