

# Crises Afflicting the Ultra Poor: Ways to Make Emergency Loan More Effective in Coping Mechanism

A Study on Programmed Initiatives for Monga Eradication:  
An Intervention of PKSF for the Ultra Poor  
*Conducted by Ultra Poor Cell and Research Division of PKSF*

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## Executive Summary

Palli Karma-Sahayak Foundation (PKSF) demonstrates its sensitivity to the various poverty types and needs of the poor through its interventions. This apex body of microcredit assists employment generation for the poor across the country in general, in typical poverty situations like *monga* (a chronic poverty situation) and in identified poverty pockets like *baor*, char lands, etc, in particular. It implements the Disaster Management Loan (DML) across the country in order to help the poor cope with crisis. However, the Emergency Loan (EL) which is included in DML is implemented in the *monga*-prone areas for the same purpose. At present DML, constitutes 23 percent of total loan disbursement of PKSF, consisting mostly of EL.

PKSF designed DML by making it more flexible so that the poor can afford to receive and utilize it during emergencies or crises. The flexibilities include allowing the ultra poor to use it for consumption smoothening alongside coping with crises; scope for two simultaneous loans for crisis coping; longer loan-period (25 months) and grace period (one month); lower interest rate (only 8 percent); and scope of savings withdrawal commensurate to the volume of damages incurred. In the *monga*-prone area health, education and technical services accompany EL for servicing the ultra poor. For the POs the flexibilities include lower cost of fund (.0.50% in declining balance method); two equal shots of repayment in two years towards giving them greater scopes to retain and revolve it as capital; waiver of Loan Loss Provision (LLP); and some autonomy in decision making for prompt servicing.

This study's intention is to see, in spite of very flexible financial services under EL for the ultra poor, why they do not take EL at the expected level instead they take ML at exorbitant rates to face crises.

The objective of the study is to determine how to make EL of PKSF more effective in the crisis coping mechanisms of the ultra poor. This was further broken down to specific areas of inquiry: to know the nature of a crisis afflicting the ultra poor and the finances they receive and use to cope with it; to explore the role and efficiency of financial services, particularly EL and ML (included in informal loan); to identify the factors influencing the EL disbursement behavior of POs, and to recommend strategies to make EL more available to the ultra poor.

Conclusive and exploratory in nature, the study adopted a participatory approach involving all stakeholders. The methods, approaches and processes used include literature reviews, rapid appraisals, in-depth interviews, Key Informant Interviews (KIIs), Focus Group Discussions (FGDs), case studies, stakeholder consultations, direct interviews, and observations. To achieve and establish rationale, the study uses literature review, and to build-up its design, a Rapid Appraisal (RA) on the proposed site of investigation was conducted.

The study basically has followed the stratified random sampling technique for selecting sample households, where at first it determined size of EL implementing branches or EL Branch (39), and non-EL implementing branches or Non-EL Branches (8). Then it drew EL and non-EL branches with probability proportional to size; where size referred to the number of participants under a branch. Again, it determined size of the branches for

identifying ML taking households (ML Households). In selecting the branches it adopted probability proportion to size, where size referred to the number of members under a branch. The procedure made proportional allocation while allocating the sample branches to different clusters. The sample size of EL Households was 237, Non-EL Households under EL Branches 237, and Non-EL Households under Non-EL Branches 237, while the size of ML Households was 183. Thus, they together made the sample size for the household survey 894; 901 households were surveyed, including 276 EL Households and 625 Non-EL Households.

The study maintains that disaster or crisis is a sudden, abrupt or unacceptable situation causing human, material, economic or environmental losses, exceeding the ability of the affected people to cope with them. It sees no difference between 'disaster' and 'crisis' as terminology, but prefers 'crisis' in regards to the ultra poor in relation to intervention of EL. It categorizes five types of crises afflicting the ultra poor—natural, social, life and health related, and others, referring to incidents bearing prospect but create problems for them for not having the needed resources. The latter basically are a prospect-problem mix. 'Other Crisis' and 'Prospect-Problem Mix' have been used interchangeably in the study.

Overall, 83.46 percent of the sample households were afflicted by crises over a three-year period, Bengali year 1417 to 1419. The highest (59.97 percent) households were afflicted by Life and Health Related Crises, followed by Natural Crises ((22.87 percent), Social Crises (8.37 percent), Business or IGA Related Crises (1.59 percent), and Other Crises (7.18 percent). Incidents of crises varied in different income groups with the highest number of incidents in the bottom.

Whether or not a household was using EL, the number of incidents of crises in the EL Branch Households was smaller in most cases. It was observed that the number of Natural Crises, and Other Crises that were mainly about accruing immediate opportunity were larger in EL Households. But the other three that were preventable were smaller in EL Households. Among them, there was a visible difference in the number of incidents in Business or IGA Related Crises. Still in 11 percent of PRIME branches EL was not implemented; where the affliction of crises was greater. An ML taking household was more prone to crises than that not taking ML.

The largest damage, in monetary terms was done by the Social Crises (Tk 44908) followed by Business or IGA Related Crises (Tk 44,083). The lowest average damage was due to Natural crises. Average total loss owing to crisis was Tk 8,615. The loss differed according to level of income of the households. Those who had a little also lost a little, though the shock was bigger in terms actual repercussion. The households had to bear greater expenditure on overcoming a crisis (Tk 9053) than the damage it incurred (Tk 8616).

The highest average cost for coping in a household was with Social Crises followed by Business or IGA Related Crises, and the smallest for Natural Crises. In coping with all types of crises, the main sources of funds used by the ultra poor were personal income, followed by informal borrowing, asset sale and formal loans. Internal fund covered 49 percent of the expenditure used for coping with crises, followed by safety net (12 percent), EL (11 percent), PO-Other Loan (11 percent), ML (10 percent), interest-free borrowing (6 percent), and other (1 percent).

The overall position of formal loan and informal loan in the recent days seems remain unchanged. In the early 1980s Ghate (1999) finds share of informal loans about 60 percent in the rural Bangladesh. Khandakar (1998) finds it drops to 34 percent in 1992/92, while Khalily et. al. (2011) sees it to drop to 28.19 percent. This study finds it about at same level i.e. 30 percent. There is a great homogeneity in sample households of this study and that of Khalily. The smaller sample size of households in this study and greater vulnerability of the households (affliction crisis upon many of them) may have made this little difference..

The contributions of sources like personal income, asset sales, stock sales, gifts or donation, gifts from individuals were greater in financing the cost of coping with crises by the households under EL Branches, while the contribution of savings, deferred payment, social safety net, gifts from individuals, and informal borrowing was greater in the households under Non-EL Branches. Although it cannot be said that EL made this difference, three important things did emanated from these: the EL Branch Households mobilized more resources from internal sources like personal income, asset sales, and stock, though they are more prone to erode savings and distress sale of asset; use formal loans; and are less dependent on safety nets and personal loans or charity.

About 77 percent afflicted households recovered completely, 15.41 percent partially and 8.11 percent failed completely to recover. The highest (83.97 percent) complete recovery was in Health and Life Related Crises followed by that in Natural and Other Crises. The lowest rate of complete recovery was in Business or IGA Related Crises. Partial recovery was the highest in Business or IGA Related Crises followed by Social Crises. Complete failure was the highest in Business or IGA Related Crises followed by that in Social Crises, and the lowest in Business or IGA Related Crises. Helping the ultra poor to manage Businesses or IGAs Related Crises can be a big avenue for EL interventions.

Overall the main reason for failure in overcoming a crisis was inevitability (despite all efforts) followed by untimely steps, inefficiency or lack of knowledge, and lack of money. The lack of or no NGO loan was the main factor behind their failure. Lapses in initiative were the main reason for failure to overcome a Natural Crisis. Inevitability, lack of money and inefficiency were mainly responsible for failure in Health and Life Related Crises. In such failures, microcredit and lack of supports from fellow people were responsible in no way. For failure in coping with Social Crises inefficiency was principally responsible. Inadequacy of resources also had a role. Lack of resources and inefficiency were the principal reasons for failure in recovering Business or IGA Related Crises.

Lapses in initiatives were reasons for failure in coping with crises in the households taking neither EL nor ML. Lack of resources was more serious a cause of failure for the households not taking EL, but ML. For an ML Household under a Non-EL Branch a main reason for failure was lack of microcredit support, but not in any household under EL Branches. Failure due to lack of support from relatives was also seen in an ML Households. Lapses in initiative were causes of failure in more ML Households than Non-ML Households.

EL users said that this loan helped them in meeting emergencies (58 percent), escaping usuries (42 percent), increasing income (26.45 percent), maintaining household expenditure (24.28 percent) and coping with risks (23.91 percent). But, they did not like its size (60.14

percent), scope of loan use (49.64 percent), mode of repayment (35.14 percent), and non availability of EL during emergency (17.39 percent). So, they suggested some changes to EL.

Many ultra poor reservations had about EL. Many other factors were responsible for low disbursement of EL. The other reasons included the backward status of the ultra poor in livelihood indicators, unawareness about this loan of a vast number of ultra poor (though participating under PRIME), and overall initiatives of the POs. The elemental nature of DMF guidelines was also partially responsible, as it was unable to explain everything to the implementers.

Main Reasons for not taking EL by the afflicted ultra poor to overcome crises were unawareness (79 percent), not feeling the necessity of it (11 percent), denial by the POs (6 percent) although applied for, and not daring to apply for it as not knowing whether as a second loan it could be taken (5 percent). A very minimal percentage of the households did not take this loan for lack of confidence about their ability to repay a loan. Unawareness about EL of the ultra poor contributed positively to their taking ML. A household taking ML took PO loans including EL in lesser amount and number.

In the most yardsticks of efficiency: minimum bureaucracy—application process, number of persons to consult, and number of documents to be used; quick extension—timeliness; correct placement; flexibility—sensitivity and diversity in constituent services and operation modalities; security—ensuring repayment with close and cost-effective monitoring, and using easy means for repayment, all formal loans, including EL were far behind of ML.

On the supply side, the POs' lack of adherence to DMF guideline was the foremost reason for low disbursement of EL. Generalized approach in the process of PKSf loan disbursement to the POs worsened the problem. The elemental state of the guideline clauses was also responsible for this.

On the demand side, income, asset, migration, land ownership and farm size, gender, health condition, marital problem, dependency ratio, education, occupational pattern, infrastructural set up in the locality, severity of crisis (not number) and vulnerabilities—food condition, child labor, involvement of non-eligible members in earning, and association with moneylenders, had influenced the disbursement of EL indirectly. This descriptive analysis was supported by the findings of econometric analyses.

The ultra poor mobilize resources from internal and external sources to maintain their household affairs. Of the total funds used, non-loan funds covered 84.26 percent and loan funds covered 15.74 percent. Internal sources covered 74.52 percent and transfer payment 8.92 percent of total funds mobilized. In the loan funds informal loan covered 30 percent, formal loan 69.10 percent and quasi-formal loan covered 0.90 percent.

Overall, 18.78 percent of the total fund mobilized by a household was used for IGA, 7.36 percent for crises coping, 58.20 percent for household expenditure, 12.54 percent for gaining assets, 1.26 percent for relending and 1.87 percent was kept in hand. About 30 percent of EL was used in crises coping, 29.83 percent in IGA, 15.53 percent in household consumption, 34.70 percent in gaining assets, 0.59 percent in lending while 1.90 percent was cash in hand. More than 42 percent of ML was used for crises coping, 17.02 percent for IGA, 24.75 for household expenditure, 1.08 percent for lending and 0.66 percent was cash in hand. These once again prove frangibility of money, even in the context of ultra poor.

The average size of EL was Tk. 4163 and ML Tk. 5931. The largest ML was that received from a friend, Tk 6056, followed by Tk 5366 from relatives, Tk 5227 from professional moneylenders, and Tk 5031 from neighbors. The overall rate of interest on ML was around 123 percent. Rate of interest on ML from friends was the highest (annual 137 percent) followed by that from professional moneylenders (136 percent) and relatives (100 percent).

The diversity in duration of loan periods was the main feature of ML that attracted the ultra poor. The duration ranges from below one day to more than two years. Interestingly, the highest 17.18 percent loans were given for a three-month period, followed by 15.37 percent for two months, 14.53 percent for 6 months, and 11.96 percent for 1 month. Loan-time of EL rarely matched these durations.

The study recommends enhancement of awareness of the stakeholders about crises, coping mechanism and EL and ML. For PKSf specifically it suggests ensuring implementation of DMF guidelines at all levels, making some guideline aspects clearer; altering EL disbursement policy: component-wise disbursement of loan; setting up of an EL Cell with adequate staff, ensuring disbursement from an utterly reluctant PO; and discussion and exchange of views with the POs on different issues. For the POs specifically the suggestions are: ensuring awareness about crises of all; upholding objectivity of this targeted loan; implementation of EL in all branches; nurturing risk taking spirits; removing anomalies and distortions in the loan operations; setting up a cell or deployment of staff to deal with crises coping and EL; uninterrupted financing to the branches; effective dissemination of instruction and information; diversity in *modus operandi*; working on overall efficiency; making the ultra poor aware of merits of using EL and demerits of ML; and ensuring proper use of EL by them.

On the intellectual front, this study recommends undertaking a study on money lending as it appears as a direct competitor of all the formal loans including that of PKSf in particular while they operate loans for the ultra poor. The particular focus of it would be its lending pattern in the rural credit market during the paradigm shift of modalities and nature of clientele groups; a study on overall frangibility of money, a study on the evaluation of the DMF Loan of PKSf (similar to the this one accomplished here), and proposition of funding moneylenders by any apex body towards greater efficacy in servicing the ultra poor as they demonstrate efficiency in the rural financial market. On a pilot basis PKSf can also try it as this system is in force in many countries including the United Kingdom. In Bangladesh, without making any delay PKSf, MRA and other responsible institutions should take a greater intellectual initiative to investigate why the ultra poor still prefer ML to a highly subsidized formal loan tailored for them for using in coping with crises and what should be the imperatives to dissuade them from taking ML at its present shape.