
Contribution of the Palli karma Sahayak Foundation (PKSF) in Microfinance Sector in Bangladesh

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Abstract:

Microfinance is a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Microfinance institutions through their operations have been recognized globally as the modern tool to fight against poverty and for rural development. The paper attempts to explore the contribution of Palli Karma Sahayak Foundation (PKSF) in the development of microfinance sector in Bangladesh. The study implies that PKSF has already made a great contribution in financing in the financial market. It has also succeeded substantially in attracting the number of beneficiaries to the rural area through it 272 partner organization ahead of Grameen Bank. PKSF are free from political interference in its management and have high profiled efficient panel, which are the most important key factors for the success.

Key words: Microfinance, Loan Disbursement, Partner Organization (POs)

Introduction:

One may ask a man or woman on the street of any city in the first world, if they can name a development policy that works.

They will possibly think you are demonstrable, unless one of the minority of rich world citizens with an interest in development or aid, in which case it will be quite possible to say 'microcredit', and tell you that they have heard its greater performance in Bangladesh. In general, and as stated by many economist, microfinance has been successful. The microfinance industry has introduced globally, where more than 92 million clients reported in developing countries¹. It is quite rear to find a Poverty Reduction Strategy without microfinance as an element of National Development. It is required to define the idea of microfinance before the study goes further analysis. Microfinance- provision of formal financial services for the poor without requiring collateral, rests upon the concept that the most impecunious people in developing countries typically don't otherwise have right of entry to traditional financial services, but that they acquire modest survival skills that make them credit-worthy. According to United Nations definition, microfinance is loans, savings, insurances, transfer services and other financial products for low-income clients ^[2]. However, poor people use their loans, deposits and other financial services to reduce their vulnerability, and, in turn, they utilize these loans for self-employment projects, to generate income and eventually become self-sufficient.

Bangladesh is the pioneer adopter of modern notion of microfinance in the world. Microfinance has come forward as an important sector in many countries for providing financial services such as savings, credit, insurance, remittance services, education, skill training and social awareness etc to the poor. Microfinance institutions (MFIs) have been establishing to acquire a goal of reaching financial services to the poor who are

¹ According to *The State of the Microcredit Summit Campaign Report 2005*, at the end of 2004, 3,164 microcredit institutions reported reaching 92,270,289 clients, 66,614,871 of whom were among the poorest (<US\$1/day, or bottom half of those below national poverty line) when they took their first loan. Data from 330 institutions, representing 87.7% of the poorest clients, was verified by the Campaign.

otherwise not reached by commercial banks and insurance companies, with an eventual goal of promoting livelihoods of the poor and empowering them. More specifically, microfinance has been empowering the poor particularly the women in a society. As a result, huge part of the loans goes to female borrowers because their nature of repayment is better than that of man. Earlier studies have shown that women are more likely to reinvest their earnings in the business and in their families, which lead to expansion of their business, increase in employment, rise in civic participation and women are accepted as valuable members of their families and societies.

Encouragingly, Bangladesh is the largest, most inventive and best known NGO and MFI communities in the world [3]. Hence, the country has acquired great success in developing innovative micro-credit models, service diversification, financial sustainability and reaching microfinance to poor clients since its inception in 1970s. In Bangladesh, government programs, nationalized commercial banks and private commercial banks also provide microfinance services. According to Bangladesh Bank approximation, NGO-MFIs (probable at 5,000 in number) are the largest supplier of microfinance services in the country -serving 61 percent of all borrowers. An outstanding 90 percent of MFI clients are women and the loan size on an average is about BDT 4,000 (\$57).

A study reveals that NGOs initiated credit program in mid eighties and their activities increased noticeably higher after 1990 (CDF, 2000). With the increasing number of collateral free micro credit disbursement by MFIs, some Nationalized Commercial Banks (NCBs), and Specialized Banks like Bangladesh Krishi Bank (BKBO and Rajshahi Krishi Unnayan Bank (RAKUB) have been encouraged to provide a considerable amount of their rural credit to the poor without security. The four grand players in Bangladesh in terms of MFI members and market share are Grameen Bank, BRAC, ASA, and Proshika. However, the historically strong

portfolio quality of these four MFIs turned down in FY08 due to the effects of two floods and a cyclone.

Palli Karma Sahayak Foundation (PKSF) has brought out new era in the history of microfinance in Bangladesh. PKSF has been established as a zenith microcredit institution of the country and provides organizational support, training to borrowers, starts financing this market segment through its Partner Organizations and the supervising the credit. PKSF has successfully contributed to expand the outreach of microfinance while ensuring a strong focus on financial sustainability.

Objective of the Study

- To examine the functioning of PKSF in Bangladesh.
- To analyze the development practice of PKSF in Bangladesh.

Sources of Data and Methodology

The paper is mainly based on secondary data, has collected from the Annual Report and website of PKSF. Compound annual growth rate has been used to analyze the growth over the trend. The study has used graph wherever necessary.

PKSF and its Vision

Palli Karma-Sahayak Foundation completes a journey of more than two decades has not been altogether a rosy story. However, PKSF movement has always been distinguished by both horizontal and vertical expansion. That has been the key to its continuous growth. The Government of Bangladesh established Palli Karma-Sahayak Foundation in the year 1990 under the Companies Act 1913/1994 as a non-profit organization with the vision of poverty reduction, while

reduction of poverty is the end, the means it concentrates relate to employment generation at the rural level. PKSF has started in the form of microcredit to help the poor people. However, it has been realized with the passage of time that only microcredit cannot be able to break the centuries-old circles of poverty. Therefore, PKSF has started a number of strategic reforms to expand its interventions to address the requirements of the poor.

Objectives and Functions of PKSF

PKSF is the apex funding organization of microfinance programme carried out by various Microfinance Institutions (MFIs) in Bangladesh. The specific objectives of PKSF are:

1. To provide assistance for generating income or employment opportunities for the landless and assetless for alleviating poverty, in various forms and manners, including financial, institutional, advisory and training, to non-government, semi-government and government organizations, voluntary agencies and societies, local government bodies, institutions and groups of individuals as Partner Organizations (POs).
2. To make available employment opportunities for the poor as well as education and training as may be necessary for development of their skills.
3. To help building and strengthening the institutional capacity of the POs for improving their efforts at providing access to resources for the poor.
4. To support, promote and sponsor innovative programmes and projects for creating awareness for the improvement in the quality of life of the poor and self-reliance in the process of creating productive employment opportunities.
5. To be a promoter and stimulator of innovative ideas and methods and to encourage, promote and assist efforts, which emphasize and focus on new technologies and ideas for

employment creation and productive activities for poverty alleviation.

6. To initiate, undertake and promote research activities directed towards poverty alleviation and employment generation; to establish and support research and training institutions; to grant stipends, scholarships, fellowships for such research activities; to organize seminars, workshops, conferences and to undertake publication of reports, periodicals, monographs, bulletins, journals, books, etc. in furtherance of the objectives of PKSF.

7. To set up an effective Management Information System (MIS) for regular and proper monitoring and evaluation of the poverty alleviation activities of the POs supported by PKSF.

8. To establish and maintain contact and collaboration with POs, other institutions, bodies and societies in Bangladesh and abroad including relevant international agencies, constituents of the UN system interested in similar objectives and to coordinate with such institutions, bodies and organizations for furthering the objectives of PKSF.

9. To undertake, sponsor, support or aid any educational, social, commercial, agricultural or industrial activities for attaining the objectives of PKSF.

10. To do all such other lawful things as are conducive and/or incidental to furthering the growth and the attainment of the objectives of PKSF.

Functions

As a top financing institution engaged in long-term financing of organizations with microfinance services, PKSF gives greatest importance on the attainment of both financial and institutional sustainability of these organizations. In order to acquire the objective of sustainability, PKSF performs the major functions probable of an apex institution. These include, among others:

Credit Programme

PKSF makes available loanable funds to its 206 POs – 3 big, 195 small and medium and 8 Pre-PKSF POs – under its typical credit programme as well as under some projects. PKSF’s typical credit programme includes four components, viz. Rural Microcredit; Urban Microcredit; Microenterprise Credit and Microcredit for the Hardcore Poor.

There are several projects under which credit funds are provided like (i) Participatory Livestock Development Project (PLDP); (ii) Integrated Food Assisted Development Project (IFADEP); (iii) Training, Employment and Income Generation Programme (TEIGP) of Jamuna Multipurpose Bridge Authority (JMBA); (iv) Southwest Flood Damage Rehabilitation Project (Socioeconomic Rehabilitation Fund); (v) Sundarbans Bio-diversity Conservation Project (SBCP); (vi) Financial Services for the Poorest (FSP) project; and “Microfinance and Technical Support Project” funded by the International Fund for Agricultural Development (IFAD) and the Government of Bangladesh.

Credit Programmes by PKSF at a glance

Year	Name of the Programmes	Main Features	Supported by
1991	Microcredit Programme	Financing the poor	Government of Bangladesh
1996	Poverty Alleviation Micro-finance Project-I	Scaling up existing programme	The World Bank
1997	Participatory Livestock Development Project (PLDP)	Financing livestock development with technical support	Asian Development bank
1998	Training Employment and Income Generating Project (Jamuna Multipurpose Bridge Authority-JMBA)	Rehabilitation loan for the affected people	Government of Bangladesh
1999	Integrated Food Assisted Development Project (IFADEP)	Financing the poorest with technical support	European Union
1999	Sundarban Bio-diversity Conservation Project (SBCP)	Financing to ensure alternative employment opportunities for the forest users	Asian Development Bank
1999	Urban Microcredit	Financing the urban poor	PKSF
2000	Socio-Economic Rehabilitation Loan Programme (SRLP)	Financing the disaster-stricken people	Asian Development Bank

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2001	Microenterprise (ME) Loan	Financing the progressive borrowers	Government of Bangladesh
2001	Poverty Alleviation Micro-Finance Project-II	Loan for the hardcore poor through Rural Microcredit Urban Microcredit Microenterprise	The World Bank
2002	Financial Services for the Poorest (FSP)	Financing the poorest	The World Bank
2003	Micro-Finance and Technical Support (MFTS) Project	Finance for livestock development with technical support	International Fund for Agriculture Development (IFAD)
2004	Livelihood Restoration Project (LRP)	Loan for recovery from disaster	The World Bank
2004	Participatory Livestock Development Project-II (PLDP-II)	Finance for livestock development with technical support	Asian Development Bank
2004	Ultra Poor Programme (UPP)	Loan for the ultra poor	Government of Bangladesh
2005	Micro-Finance for Marginal and Small Farmers Project (MFMSFP)	Loan for the small and marginal farmers	International Fund for Agricultural Development (DFID)
2005	Micro-Finance for Marginal and Small Farmers Project (MFMSFP)	Initiatives to reduce seasonal hunger	The World Bank
2005	Seasonal Loan (SL)	Supporting the opportunities to strengthen livelihoods	PKSF
2006	Learning and Innovation Fund to Test New Ideas (LIFT)	Financing to innovate new ideas	Department of International Development (DFID)
2006	Programmed Initiatives for Monga Eradication (PRIME)	Initiatives to reduce seasonal hunger	Department for International Development (DFID)
2007	Emergency 2007 flood Restoration and Recovery Assistance Programme (EFRRAP)	Loan for recovery from disaster	The World Bank
2007	Financial Services For the Overseas Employment of the Ultra Poor (FSOEUP) Project	Help to secure overseas employment for the ultra poor	PKSF
2007	Micro-finance Support Intervention for FSVGd and UP Beneficiaries project	Technical support with credit to the ultra poor	European Union
2007	Rehabilitation of Non-Motorized Transport Pullers and Poor Owners (RNPO) Project	Rehabilitation loan for the nonmotorized transport pullers	The World Bank
2007	Rehabilitation of SIDR-affected Coastal Fishery, Small Business and Livestock Enterprise	Finance for recovery from disaster	Government of Bangladesh

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	(RESCUE)		
2007	Rural Electrification Development Project (REDP)	Support for access to electricity	Department for International Development (DFID)
2007	Special Assistance for Housing of SIDR Affected Borrowers (SAHOS)	Finance for recovery from disaster	Government of Bangladesh
2008	Finance for Enterprise Development and Employment Creation (FEDEC) Project	Value Chain Development and Capacity support for the micro-entrepreneurs and their products	International Fund for Agriculture Development (IFAD)
2008	Agriculture Sector Microcredit (ASM)	Helping farmers who secure the nation's food	PKSF
2010	Enhancing Resources and Increasing Capacities of Poor Households towards Elimination of their Poverty (ENRICH)	Insurance support for the poor	Asian Development Bank
2010	Developing Inclusive Insurance Sector Project (DIISP)	Holistic family development to ensure human dignity	Government of Bangladesh & PKSF
2010	Special Fund (SP)	Emergency support for the poor	PKSF
2010	The Health Insurance for the Poor of Bangladesh (HIPB)	Capacity building support to implement insurance project	Rockefeller Foundation
2011	Community Climate Change Project (CCCP)	Support to the poor to increase their resilience to climate change through civil society organizations	Multiple Donors
2011	Kuwait Goodwill Fund for the Promotion of Food Security in Islamic Countries (KGFPSIC)	Extended loan support to the microentrepreneurs	Kuwait Fund for Arab Economic Development (KFAED)
2011	Programmes-Support Fund (PSF)	Need-based support for the poor	PKSF
2012	Bangladesh Climate Change Trust Fund (BCCTF)	To increase resilience to global warming effects of the poor through financial support	Government of Bangladesh
2013	Ujjibito	Sustainable graduation from ultra poverty of vulnerable and womenheaded households	EU, Government of Bangladesh & PKSF

Source: Annual Report 2013 by PKSF, Dhaka.

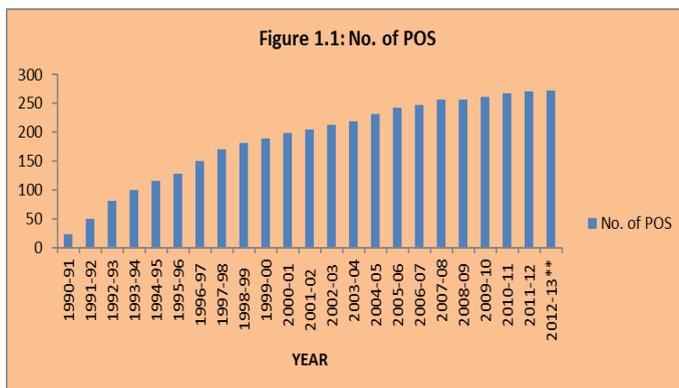
Features of PKSF Credit Programmes

- PKSF provides loans to three categories of POs – Organisations Operating in Small Areas (OOSA); Big Partner Organisations Operating in Large Areas (BIPOOL); and Pre-PKSF POs.
- PKSF uses to fund five categories of microcredit programmes of its POs under its mainstream credit programme; (i) Rural microcredit (ii) Urban microcredit, (iii) Micro-enterprise credit, (iv) Ultra-Poor Credit and (v) Seasonal Loan.
- 4.5 per cent service charge per year has been charged by the PKSF from its OOSA and Pre-PKSF category POs and 7% service charge per year from its BIPOOL category POs.
- OOSA and Pre-PKSF category POs received loans from PKSF that are repayable within a period of 3 years. First 6 months are considered as a grace period and loans along with service charge are to be repaid in 10 quarterly installments within the rest 30 months.
- Loans received by BIPOOL category POs are payable in 4 years in 12 equal installments with a grace period of 12 months.

Partner Organizations (POs)

PKSF operating its mainstream microcredit programmes in all over the country through various POs, therefore, selection of PO is a crucial task of PKSF and this is an ongoing process. Under this process, PKSF assesses various types of nongovernment, semi-government and government organisations, voluntary agencies, societies and local government bodies to select these as POs which have gained experience and expertise or which have the potentials to function a successful microcredit programme for self-employment and income generation of the landless and

assetless. As considering an organisation, PKSF maintains a clear guideline, which can be divided into the following areas: (1) Organisation; (2) Organiser; (3) Management; (4) Human Resources; (5) Working Area; (6) Field Activities; (7) Past performance; (8) Management Information System (MIS) and (9) Accounting System.



Source: Annual report 2013 by PKSF, Dhaka.

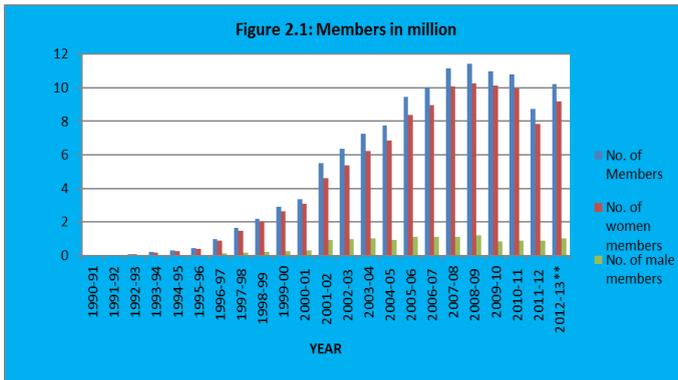
The figure 1.1 shows that as of 31 December 2013, the total number of Partner Organizations (POs) of PKSF stands at 272 with the CAGR of 7.95. Since beginning, PKSF has followed extremely severe procedures to make certain the potentiality of an organization before enrollment. These POs implement the programs and projects of PKSF.

Developing Best Practices for Micro credit Sector

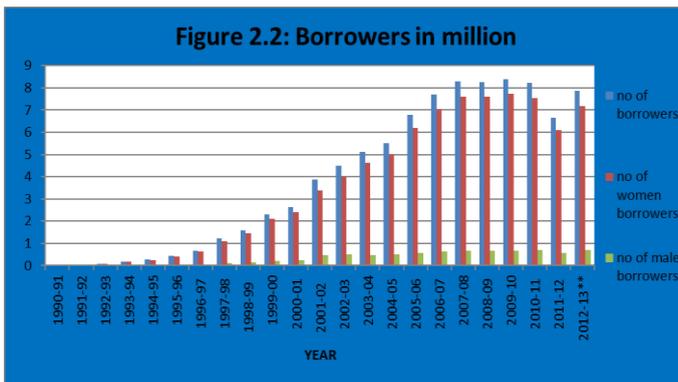
Members and Borrowers

The members of the POs are at the heart of all kinds of field level operations of PKSF, who are structured within groups. Figure 2.1 reveals that 10.21 million members are mobilizing up to 2012-13 followed by 0.02 million in 1991-92. During the period 1991-2013, the added numbers of new members are 10.19 million with a significant CAGR of around 28.67 per cent by the POs of PKSF. Among the members, the number of

women is 9.19 million, which is 89.97 per cent of total and shows the CAGR of 29.70 per cent over the trend. The figure 2.2 states that as of 31 December 2013, the number of borrowers is 7.87 million with a considerable CAGR of 27 per cent. The number of women borrowers is 7.17 million, which is 91.12 per cent along with the CAGR of 28.10 percent.



Source: Annual Report 2013 by PKSF, Dhaka.

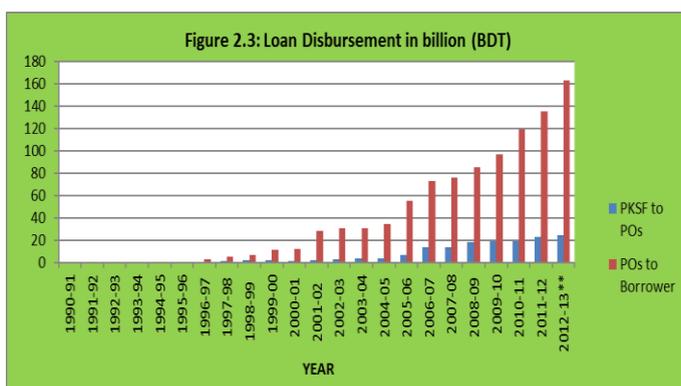


Source: Annual Report 2013 by PKSF, Dhaka.

Loan Disbursement

The increasing number of borrowers will have impact on loans disbursement. Let's turn to this figure 2.3 shows that in 31 December 2013, loans amounting to Tk. 24.50 billion has been disbursed from PKSF to POs as compared to Tk. 0.03 billion in 1991-92. Over the trend, the loans disbursement increased to

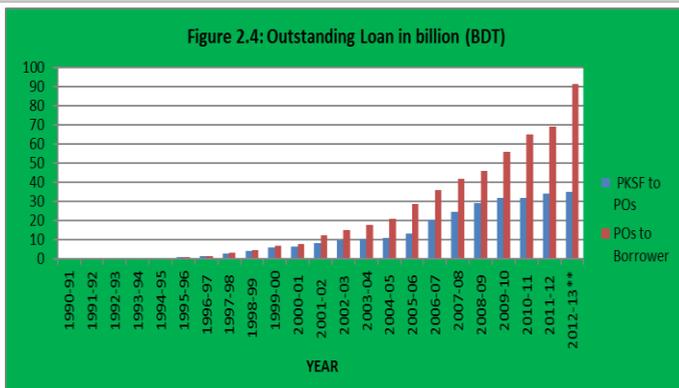
Tk. 24.47 billion with the considerable CAGR of 32.21 per cent. On the other hand, loan has been disbursed from PKSF to POs Tk 163.15 in December 2013 as compared to Tk 0.05 billion in 1991-92. The disbursement of loan increased to Tk 163.10 billion with the significant CAGR of 40.72 per cent. The rise in the loans disbursement shows a monotonic increasing trend over the period 2012-13 through 1990-91. Partner Organizations made available this loan under various programs and projects in far-flung areas of the country through all of their branches.



Source: Annual Report 2013 by PKSF, Dhaka.

Loan Outstanding

As parallel, with the increase in loan disbursement, outstanding loan also increases. There are several reasons to fail make repayment of loan, which borrowers have received from the lending institution. Generally, they use their loan on unproductive purpose and face several natural disasters. The figure 2.4 shows that 31 December 2013 the amount of loan outstanding of PKSF with Partner Organizations (POs) and Partner Organizations with Borrowers stood at Tk 35.17 billion and Tk 91.23 billion respectively. It can be easily realized that the outstanding loan of POs to PKSF is near about three times higher than the outstanding loan of POs to Borrowers.



Source: Annual Report 2013 by PKSF, Dhaka.

Summary and Conclusion

The above summary clearly reveals that PKSF have and will play an important role in the economic development of Bangladesh as a whole and for the microfinance institutions in particular. PKSF has been a leader among other MFIs through its contribution in the generation of employment, reduction of poverty, by providing loans to poor and oppressed class, with the help of its partner organizations. Studies show that in spite of its enormous contribution, lot of young entrepreneurs and households are still not getting enough credit for the expansion of their business, which acts as an obstacle in the overall development of Bangladesh. Therefore it is the responsibility of MFIs mainly PKSF, operating in Bangladesh, to increase their outreach in remote areas so that most of the poor and depressed class people are able to increase their income, which will lead to increase in the standard of living and help the common people to come out of the vicious circle of poverty.

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