Banking with the Poor: A Study of the Impact of Linked Micro-credit Programs for Poverty Alleviation in Bangladesh

A Thesis Submitted to the University of Dhaka in Fulfillment of the Requirements for the Degree of

DOCTOR OF PHILOSOPHY

in

ECONOMICS

BY

MD. NURUZZAMAN

DEPARTMENT OF ECONOMICS

UNIVERSITY OF DHAKA

July, 2008

CERTIFICATE

I have the pleasure to certify that the thesis entitled "Banking with the Poor: A Study of the Impact of Linked Micro-credit Programs for Poverty Alleviation in Bangladesh" is the personal work of MD. NURUZZAMAN and as far as I know, no other person was any way associated with its preparation.

I also certify that I have gone through the draft thesis thoroughly and found it satisfactory for submission to the Department of Economics, University of Dhaka, in fulfillment of the requirements of the degree of Doctor of Philosophy in Economics.

(Dr. Momtaz Uddin Ahmed)
Professor
Department of Economics
University of Dhaka

Dated: Dhaka, 1 July, 2008

DECLARATION

I do hereby declare that the thesis "Banking with the Poor: A Study of the Impact of Linked Micro-credit Programs for Poverty Alleviation in Bangladesh" submitted to the University of Dhaka, Bangladesh, for the Degree of Doctor of Philosophy in Economics is my original work. No part of this thesis, in any form, has been submitted to any other university or institute for any Degree or Diploma.

MD. NURUZZAMAN
Dated: 1 July, 2008
Reg. No. :32 / 2006-7(Re)

Countersigned:

Dr. Momtaz Uddin Ahmed
Professor of Economics
University of Dhaka
Dated: 1 July, 2008

ABSTRACT

Although many studies have been done on the linked micro-credit as opposed to direct linkage between Bank and MFI, there is dearth of research studies, especially involving the formal banking sector and MFI collaboration for poverty alleviation. As such the present study was undertaken to fill this gap and encourage further studies and research in this important policy sensitive area.

The study was based on five linked micro-credit programs implemented by GOs and NGOs. It was found that in early 80's, the Asia and Pacific Regional Agricultural Credit Association (APRACA) took the initiative to popularize this approach among its fourteen member countries in their poverty alleviation programs. Till now, there are as many as eighteen poverty alleviation micro-credit programs based on linkages in which Banks, GOs , NGOs and informal credit sectors are participating in their own capacity. The review of performance of the programs reveals that the linked programs show better results both in terms of institutional and financial coverage and greater positive impact on poverty reduction as compared to those of the normal programs of Banking with the poor. The salient feature of these linkage programs are that these are area specific with well defined scope of activities and sharing of work among linkage partners which helps to reduce transaction costs and ensure better recovery, higher profit and thus enhance poverty reduction in a more collaborative and cost-effective manner. The study further shows that considering the rapid coverage of uncovered areas of micro-credit under different development schemes, the NGOs and the banks could work jointly. It was found that the net average return to family labor from the investment on different activities comes to Tk 14,574.0 per annum and on per capita basis this comes to Tk 2478.57 per annum. The rate of return on capital employed in all the activities is higher than the cost of the loan. This return on investment by gender reveals that the net return to labor per hour is Tk 6.5 for male loanee and Tk 5.06 for female loanee. The rate of return in credit is 275.63% for male loanees as compared to 206.61% for female loanees. The average income of loanee members compared to non-members has increased from -10.98% to 39.23%, that is, on absolute increase of 50.21% over the same period.

In analyzing the impact of the linked micro-credit program some socio-economic characteristics of loanee members have been analyzed. It was found that out of 750 respondents, 58.59 percent are female and 41.41 percent are male loanees. More than 60 percent of the female beneficiaries belong to the age group of 25 to 40 years. It reveals that 31.72 percent of loanee members are illiterate and female illiteracy rates is still higher i.e. 23. 86 percent compared to the male members i.e. 7.88 percent. Thus on overall sample, percentage of women is higher i.e. 58.59 percent which indicates higher educational performance of female as compared to male i.e. 41.23 percent. The occupational status of the respondents reveals that petty trade, domestic household work and farming are the three major occupations which accounts for 33, 18 and 17 percent of the loanees employed. It further shows that only 5 percent of the loanees are employed in service. Regarding credit investment it was found that the amount of outstanding loan was Tk 13737.79 which is 35 percent of cumulative disbursement. Extent of overdue loans reveals that cattle fattening and small trade enjoyed the highest status. Regarding the changes of household income it reveals that per capita household annual income increased from Tk 7163 in pre-loan period to Tk 9258 in post loan period. The micro-credit beneficiaries have been able to raise their land holding size from 0.24 acre in pre-loan period to 0.30 acre in post loan period i.e. an increase of 0.06 acre. The 't' test was found statistically significant at 1% level. It further revealed that about 15 percent household had food deficit during pre-loan period which was reduced to 10 percent in post loan period. Moreover number of food deficit months among the food deficit households reduced. It was also found that there is a significant relationship between changes of living condition as a result of micro-credit intervention among the sample beneficiaries. There was also a significant association between sources of energy for cooking and micro-credit intervention. There is a positive relationship between floor condition of houses and micro-credit intervention. Significant association was found between sources of drinking water and micro-credit operation as well as social status of the respondents as a member of the community and micro-credit intervention. The estimated model in the study reveals that year of schooling, household size, participation in linked micro-credit programs and landownership are the significant contributing factors of household income during the community and micro-credit intervention. During the pre-loan period 77 percent households were below the poverty line and 23 percent were above the upper poverty line. But in the post loan period it was 53 and 47 percent respectively.

The study recommends that the Banks can establish both direct and indirect linkages with NGOs on agreed terms and conditions acceptable to the linkage partners. Banks may provide funds against some admissible percentage of Guarantee Fund (GF) to be provided by the linkage actors. The linkage partner like NGOs should have access to the funds arranged by the Government through credit line of international agencies on easy terms with less cumbersome process. Moreover, interest rate should be fixed at a point which is acceptable to all linkage partners considering the banks cost of fund, transaction costs, and risk/ profit premium. This will create encouragement among linkage partners in poverty alleviation efforts through banking. The government should give official recognition as well as support to these linked micro-credit programs in performing their banking activities with the poor. The Bangladesh Bank as Central Bank should support and promote such linked micro-credit programs by providing wholesale lending services through banking system to other linkage partners.

The study further argued that the conventional regulatory framework for formal banks and financial institutions is not appropriate MFIs in view of the fact that many MFIs are not accepting deposits with checking facilities. User-friendly prudential norms or indicative guidelines in the form of a concrete 'Code of Norms/Conduct' should be appropriate which would ensure sound and organized growth of MFIs on a sustained basis. MFIs 'apex body' or 'coalition of apex bodies' incorporating PKSF, Federation of NGOs, CDF or ADAB can impose voluntary code of conduct. MRA can take the lead role to ensure voluntary code of conduct rather than duplicating the same work done by CDF. Non-compliance of voluntary code of conduct by the MFIs should be regularly monitored and may ultimately result in canceling the permission/registration of defaulting MFIs. A set of financial standards, reporting formats and performance standards developed and applied by PKSF may be used by the MRA and further developed. Greater autonomy should be given to the MRA outside the government's control to ensure the compliance of 'Code of Conduct' and the micro-credit standards by the MFIs.

Private ownership in the microfinance industry should be encouraged to minimize investment risk and broaden the base of investment. Private limited companies (for profit) may be set up to carry out microfinance with licensing from the central bank.

Central Bank should search and promote the ideas of inclusive finance for the non-bankable that must be supported by a sound policy, legal status and regulatory framework. There should have a continuum of financial institutions to offer appropriate financial products and services to the non-bankable so that access of all households and enterprises to the range of financial services viz. savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and foreign remittances can be ensured at a reasonable cost.

Bangladesh Bank can create a Micro Finance Development Fund (MFDF) with a substantial contribution from the donor's and government to finance BKB, RAKUB, NCBs, private commercial banks and other institutions to provide funds to micro finance institutions and infrastructure support for capacity building and arrangement for database and information flow. Bangladesh Bank can also set up an Micro-finance task force to look into (i) Legal status of MFIs, (ii) Capacity building at all levels, (iii) Regulations and supervision of MFIs, (iv) Developing rating norms for MFIs-NGOs and CBOs, (v) Protection of savings of members, (vi) Setting minimum performance standards, (vii) developing financial and accounting system, and (viii) allowing local NGOs to provide banking and other services. Bangladesh Bank can set up a Micro Credit Research Cell and invite national and international experts, researchers, commercial bankers to suggest appropriate measures for up-scaling, mainstreaming and flow of micro credit. The cell will undertake special studies to address the current problems and suggest policy measure in a regular basis.

There should a policy framework to give weightage to all approaches of receiving mechanism at the grassroots levels including SHGs and co-operatives in the operations of micro-credit irrespective of their heterogeneity in credit lines, outreach, inner visions and roadmaps to reach the ultimate goals of poverty alleviation in Bangladesh

ACKNOWLEDGEMENTS

This thesis is an outcome of a strenuous but sincere attempt at the study of Banking with the Poor: A Study of the Impact of Linked Micro-credit Programs for Poverty Alleviation in Bangladesh. Above all my great indebtedness is due to Dr. Momtaz Uddin Ahmed, Professor of Economics, University of Dhaka, who supervised the preparation of the thesis. The merits of the study, if it has any, is due largely to his inspiring guidance, sympathetic understanding of academic deficiencies, full-time availability for frequent discussion and host of other kindness shown to me; without those the work would not have been completed. However, the researcher alone bears all responsibilities for any error that may still remain.

Words fail to express my thankfulness to Dr. M. K. Alamgir, noted development economist of the country, for his personal interest in the research. Dr. Alamgir arranges for me generous financial help from Social Science Research Council (SSRC) of the Bangladesh Planning Commission without which my extensive library and fieldwork in Bangladesh would have been well nigh impossible.

I must take this opportunity also to express my profound regards to Dr. Mihir Kumar Roy, Director, Bangladesh Academy for Rural development (BARD), Comilla for his multifarious help in my research work. I remain also beholden to all my year long teachers of the Department of Economics, University of Dhaka, for their help in various stages of the research work. I am particularity grateful to Dr. Ashraf Uddin Chowdhury and Professor Abu Ahmed of Economics Department, Professor Ferdous Hossian of Political Science Department and Professor M. Asaduzzaman, Chairman, University Grants Commission of Bangladesh for their all out support and encouragement during the study.

The preparation of the thesis held me in gratitude to many individuals for their help and advice. My very special thanks, however, go to Dr. Debapriya Bhattacharya, Executive Director, CPD, Dr. Mustafizur Rahman, Director (Research), Dr. Toufic Ahmed Chowdhury, Director, Bangladesh Institute of Bank Management (BIBM), Mr. Ruhul Kabir, Chairman, RAKUB and Dr. M.R. Khan , Managing Director , RAKUB, Mr Lokman Hakim, Executive Director, PAGE, S. M. Abdul Mannan, Joint Project Director ,SFDP, Mrs Sultana Naznin, Executive Director, Shristy, Comilla.

Likewise commendable had been the help that I received from the library staff of the following institutions in Bangladesh: Dhaka University, Bangladesh Institute of Development Studies, World Bank Bangladesh Resident Mission, Bangladesh Bank, Bangladesh Institute of Bank Management (BIBM), Credit and Development Forum (CDF), Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank (RAKUB), Bangladesh Academy for Rural Development. To all of them I offer my sincerest thanks.

Thanks are due to the numerous interviewees in study area who ungrudgingly disclosed to me the secrets of their credit activities. Beyond these acknowledged tokens of gratitude, I never can forget the warm hospitality offered to me by the respondent beneficiaries during my field work. I must admit, all of them have helped me in the preparing the thesis.

I express my deep sense of gratitude and sincere thanks to my former employer, the Hon'ble Minister for Local Government, Rural development and Co-operatives (LGRDC) and Chairman, Governing Board of BARD, for having granted me study leave and financial assistance which rendered completion of the work easier.

During the last phase of the research, I had to make such drastic deviation from my normal schedule of life that I would now publicly acknowledge my deep appreciation to my wife, Arifa Mohsina, and daughter Ahlam Nashrah Zaman for cheerfully sharing my agonies during this period of the work.

Last but not the least, especial thanks are also to my parents Md Asaduzzaman and Nurun Nahar Begum, and my younger brother and sisters Md. Shamsuzzaman Mehedi and Fahmida Zaman who were always a great source of support and inspiration.

MD. NURUZZAMAN

TABLE OF CONTENTS

LIST OF TABLES

LIST OF CHARTS

ABBREVIATIONS

ADAB	:	Association of Development Agencies in Bangladesh
ADB	:	Asian Development Bank
ADIP	:	Agricultural Diversification and Improvement Project
ADP	:	Annual Development Program
AIL	:	Agricultural Investment Loans
AKF	:	Aga Khan Foundation
APRACA	:	Asia and Pacific Regional Agricultural Credit Association
ASA	:	Association for Social Advancement
ATDP	:	Agro-based Industries and Technology Development Project
AUSAID	:	Australian Agency for International Development
BAAC	:	Bank for Agriculture and Agricultural Co-operatives
BARD	:	Bangladesh Academy for Rural Development
BB	:	Bangladesh Bank
BIDS	:	Bangladesh Institute of Development Studies
BKB	:	Bangladesh Krishi Bank
BRDB	:	Bangladesh Rural Development Board
BRAC	:	Bangladesh Rural Advancement Committee
BRI	:	Bank Rakayat Indonesia
BSBL	:	Bangladesh Samabaya Bank Limited
BSS	:	Bityahin Samabaya Samity
CARE	:	Cooperation for American Relief Everywhere
CBO	:	Community Based Organization
CDP	:	Crop Diversification Program
CDF	:	Credit and Development Forum
CFPR	:	Challenging Frontiers of Poverty Reduction
CGAP	:	Consultative Groups to Assist the Poorest
CLP	:	Char Livelihood Project
COOP	:	Co-operatives
PADABIC	:	Palli Daridro Bimochon Karmashuchi
DAE	:	Department of Agricultural Extension

DANIDA	:	Danish International Development Agency
DFI	:	Development Financial Institutions
DFID	:	Department for International Development
DTW	:	Deep Tube Well
DWA	:	Department of Women's Affairs
DYD	:	Department for Youth Development
EU	:	European Union
FAO	:	Food and Agriculture Organization
FSRP	:	Financial Sector Reforms Project
FSVGD	:	Food Security and Vulnerable Group Development Program
GB	:	Grameen Bank
GDP	:	Gross Domestic Product
GKF	:	Grameen Krishi Foundation
GNI	:	Gross National Income
GOB	:	Government of Bangladesh
GRS	:	Grameen Rin Shohojugi
GTZ	:	German Agency for Technical Co-operation
HH	:	Households
IDA	:	International Development Association
IFAD	:	International Fund for Agricultural Development
IFDC	:	International Fertilizer Development Corporation
IFI	:	Informal Intermediary
IFPRI	:	International Food Policy Research Institute
IGA	:	Income Generating Activities
ILO	:	International Labour Organization
IRDP	:	Integrated Rural Development Program
JOBS	:	Job Opportunity Business Support
KSS	:	Krishak Samabaya Shamity
LPG	:	Loan Portfolio Guarantee
MACH	:	Management of Aquatics Ecosystem through Community Husbandry
MBI	:	Member Based Institution
MD	:	Managing Director

MDG	:	Millennium Development Goals
MEDU	:	Micro-enterprise Development Unit
MFG	:	Marginal Farmer Group
MRP	:	Micro-credit Rehabilitation Project
MOF	:	Ministry of Finance
MSFSCIP	:	Marginal and Small Farm Systems Crops Intensification Project
MSS	:	Mohila Samabaya Samity
MTMF	:	Medium Term Marcoeconomic Framework
NABARD	:	National Bank for Agriculture and Rural Development
NBFI	:	Non-bank Financial Institution
NBR	:	National Board of Revenue
NCB	:	Nationalized Commercial Bank
NGO	:	Non Government Organizations
NOVIB	:	Netherlands International Development Cooperation
PAGE	:	Poverty Alleviation and Gender Equity
PB	:	Participatory Bank
PDBF	:	Palli Daridro Bimochon Foundation
PEP	:	Poverty Alleviation Program
PKSF	:	Palli Karma Shahayak Foundation
PO	:	Partner Organization
PSI	:	Public Sector Institution
PVO	:	Private Voluntary Organizations
RLF	:	Revolving Loan Funds
RACA	:	Regional Agricultural Credit Association
RAKUB	:	Rajshahi Krishi Unnayan Bank
RCS	:	Registrar of Co-operative Society
RDRS	:	Rangpur Dinajpur Rural Services
RFM	:	Rural Financial Market
ROSCA	:	Rotating Savings and Credit Association
SB	:	Swanirvar Bangladesh
SDF	:	Social Development Foundation
SFDP	:	Small Farmer's Development Program

SHGs	:	Self help Groups
SHPI	:	Self Help Promotional Institution
SIDA	:	Swiss International Development Agency
SIDA	:	Swedish International Development Agency
SLDP	:	Small Holder's Livestock Development Program
SSRC	:	Social Science Research Council
STW	:	Shallow Tube Well
TC	:	Transactional Cost
UNCDF	:	United Nations Capital Development Fund
UNDP	:	United Nations Development Program
USAID	:	United States Agency for International Development
WESML-LIML-FE	:	Weighted Exogenous Sampling Maximum Likelihood-Limited Information Maximum Likelihood Fixed Effects

CHAPTER-I

INTRODUCTION

1.1 Rationale of the Study

One of the major policy thrusts of the government of Bangladesh is to attain self-sufficiency in food grains production to save hard earned foreign currency spent to import food grains. The role of the rural banks has been found to be very instrumental in whatever achievement could be made to increase food production and to develop the rural economy as a whole. But their contribution in dispensing credit for poverty alleviation has always been negligible as compared to that of the NGOs in terms of coverage and outreach. The Nationalized Commercial Banks, BKB and RAKUB collectively with 3233 branches are providing banking services in rural areas. As the denationalization and privatization policy started, the opening of more branches did not increase and NCBs were observed consolidating existing rural bank branches. It is also found that having 66 percent of the total branches in rural areas, rural banking is commanding only 18 to 19 percent of total deposits which shows a poor performance. Moreover, the bank marketing approach in rural areas has been not so supportive to the actual customer. Many studies (Adams and Vogel, 1986; Braverman and Gaush, 1986 etc.) have also pointed to the failure of rural banks in developing countries specially in generating enough resources for lending activities. Chowdhury et.al. (1994) in a study observed that in post reform period, rural banking activities of the government banks have been reducing because of poor performance in profit earning activities. It is estimated that around 50 percent of rural bank branches are incurring losses. As a result, their contribution is questionable to all concerned. Moreover, absolute volume of rural credit is much lower than rural deposit, implying that through rural banking network, a substantial amount of fund are being transferred from rural to urban areas. This exacerbates the already skewed rural-urban income distribution and adds to regional disparity in development. In the rural sector, low recovery rate is heavily inducing the bankers not to provide credit to the rural sector. Many factors such as concessionary rate of interest, directed lending, politicization of credit, screening as well as incentive problem, lack of repayment enforcement etc. are contributing to the poor credit performance in the country. Rural banking network which grew over the years did not develop spontaneously rather reluctantly at the instance of government which could not give birth to a viable and comprehensive rural banking system.

Some development experts feel that since viable rural banking operation is not possible by formal banks, the rural banking operations may be left in the hands of NGOs like BRAC, ASA, PROSHIKA, and Grameen Bank through some linkage arrangements and collaborative efforts. Because, commendable success have been achieved in poverty alleviation through creating income generating activities for the rural poor specially the women. The linkage approach is now a widely talked issue among the development partners. In a seminar on "Promotion and Linkages of Self-Help Groups (SHGs) with Financial Institutions" held at Bangladesh Bank, it was argued that the linkage between NGOs, GOs and financial institutions has drawn attention as an effective method for development of the rural poor in low income countries. It is strongly suggested that the formal banks can meet the credit needs by adopting well-conceived delivery system, using NGOs and SHGs as financial intermediaries. Thus commercially sound linkages may be established among the partners in providing credit to the poor. In this process, the main advantage to the banks would be externalization of a part of work items of the credit cycle-assessment such as of credit needs, appraisal, disbursal, supervision and repayment, reduction in the formal paper work involved and a subsequent reduction in the transaction costs. This collaborative approach could also be justified on the ground that it means bringing the process of institutional dialectics in operation by meshing the comparative advantages of the one with the other in maximizing impact of utilization of scarce resources. Bhattacharya and Ahmed (1995) found that most of the banks are supply oriented i.e. they are involved in supplying credit from which most of the poor are deprived as they can not make effective demand. In that case the NGOs can help create effective demand for the poor by organizing them in-groups, developing their awareness and creating income through gainful employment. They also argued that this approach may contribute towards emergence of a system of organizations having functional specialization which will ensure removal of overlap, foster mutual help and assistance, supplement each others work and facilitate resolution of conflicts. In such a situation, the study will not only help to diagnose the problems of effective linkages in rural development but also to assist the policy makers regarding formulation of institutional policy in the rural development sector of Bangladesh.

1.2 Review of Literature

In this section, various linkage studies on banking with the poor have been reviewed in order to highlight the areas covered, methodologies used, findings reported and suggestions made by the earlier studies so that comparison with the overall aspects of the present study can be made and the new areas can be identified for further study.

Dupuis (1994) in a study on "The Linkage Scheme of Kurigram Project" found that there were four principal actors involved in the project i.e. the Group Members (households), the Groups of Marginal and Small Farmers, the Market Partners of the Groups and Supporting actors like Bangladesh Bank (BB) including NCBs and RAKUB, Rangpur Dinajpur Rural Services (RDRS) and Department of Agriculture Extension (DAE). The study reported the following important findings: (i) groups and banks were meeting freely and the beneficiaries were meeting properly; (ii) the motivational aspects were excellent; (iii) the banks took decision independently and duly supported by high officials. The study suggested that through linkages, the self-help capacity of the farmers could be more strengthened and they were to be encouraged to identify their own problems, skill gaps etc.

Maurer and Choudhury (1995) in a study on "Marginal and Small Farm Systems Crop Intensification Project (MSFSCIP) found that the main actors in the linkage scheme were the Banks, the SHGs and their members who pursued a direct financial linkage between the Banks and GOs and the SHGs. It was found that the linkage project was concerned with compulsory savings to be used as a compensating balance and emphasized more on credit disbursement rather than capital formation .of the group. The study suggested that more attention should be given to voluntary savings of the group members and household economy approach of lending should be followed. In group guidance, the bank should be more active to give guarantee of continuation and sustainability of the established linkages. The graduation strategy as suggested in the study included phasing out of direct support, institutionalization of linkage approach within the banks for internalization of costs through adjustment of the interest rate structure. This strategy should be implemented individually by clusters and this should be determined on the basis of criteria for graduation, which included maturity of linkages, committed bank staff regional/ geographical consideration etc. On this basis, a mapping of linkages on defined categories may be developed. The study concluded that this linkage approach should be institutionalized with the main stream of the bank's lending operations and internalization of costs should be made through adjustment of the interest rate.

Hasanullah (1991) in another study found that in evolving interface of GO and NGO activities a symbolic functional relationship that might be formal or informal, institutional or behavioral was desirable. The study revealed that in the specific setting of Bangladesh, the collaboration between GOs and NGOs were taking place at two tires i.e. policy as well as implementation level. The past experiences provided examples of both single and double tired linkages which involved a series of activities, ranging from planning, exchange of ideas, designing as well as execution of projects. The study further showed that the participating actors had transcended from the role of 'facilitator' to 'performer' and paved the way of improving their respective role from 'assistance' to 'collaboration' and subsequently 'partnership'.

Nanda (1994) in a study on "Significance of Establishing Linkages of SHGs with the Bank in India" analyzed various models implemented by National Bank of Agricultural and Rural Development (NABARD) in collaboration with Reserve Bank of India, Commercial Banks and the NGOs. The study showed that 667 groups linked with 16 Commercial Banks and 122 Regional Rural Banks (RRBs) sanctioned loan amounting to Rs. 79.9 lacs through refinance facility provided by NABARD in four states of India. The results of the linkage scheme in these states resulted in: (i) large participation of women in savings and credit management in poor region; (ii) membership of SHGs came initially from the poorest sections; (iii) demand for credit was frequent; (iv) the hardcore poor were able to save more; (v) shift the credit from consumption purposes to acquisition of income generation assets, use of credit for non-traditional economic activities, increase in income of the group members, development of thrift and self-help among members, reduction in transaction cost both for the banks and SHGs with cent percent loan recovery. The study concluded that the linkage scheme should be expanded in more areas considering the quality of loan portfolio, people's participation and self-help grass-roots institutions.

Ghate (1992) in a study on "Interaction between the Formal and Informal Financial Sectors: The Asian Experience" found that the nature of interaction in developing countries is a subject with policy implications for the future of informal finance as the formal sector expand in the long-term with the informal sector wither away, as the traditional view of financial dualism assume or will it continue to play an important complementary role, perhaps even growing in absolute size. Secondly, the pattern of inter-linkage between the two sectors has important implications for the prospects of success of two major policy approaches often advocated toward the informal sector- offering stronger competition so as to induce it to improve its term and promoting linkages with it to take advantage of lower transaction costs in reaching the borrowers; thirdly : the existence of a large informal sector has implications for the efficacy of monetary and credit policy in achieving stabilization objectives and finally, the inter-linkage between the formal and informal financial sectors also has implications for the effects of financial liberalization through removing restriction on the deposit rate of interest.

Choudhuri et al. (1996) in a study examined the rationality, different models and results of existing credit linkage scheme among banks, NGOs and informal credit providers for the matter of rural development. The study showed that as opposed to traditional individualistic approach of formal financial institutions to rural banking, the linkage approach is far more promising in creating a viable rural banking structure. Despite a number of weaknesses, the linkage schemes have so far given an indication that rural banking is possible and rural poor may also be made bankable through linkage schemes.

Sabri and Khan (1991) in their study have tried to identify innovative rural technologies developed as well as disseminated by NGOs and GOs in order to explore the prerequisites for successful GO-NGO collaboration. The study showed that PROSHIKA, an NGO, was involved in helping livestock production among the target groups and women were prioritized within the program. It was observed that cattle vaccination had been carried out by group members in collaboration with GO and the members were trained by PROSHIKA to provide vaccination service to group members. This was also provided to non-members in the village who were entered in improving the management of cattle. PROSHIKA had also organized village forest promotion groups and attempted to mediate between the local poor and the NGO contributes contributed to grater environmental awareness among local government officials and planners/planters.

Islam (1996) in a study on linkage scheme between Shakti Foundation and BASIC Bank found that for the sake of organizational sustainability, Shakti established a linkage with the banks on four grounds i.e. (i) to establish a business relationship with the bank which can serve as a track record for future funding ; (ii) use of local resources and avoid dependency on donor money; (iii) widening the scope for the poor people so that they can take loan from the bank directly without collateral; and (iv) to establish example for other commercial banks so that poor can be ensured credit. The study further showed that the BASIC Bank had apprised, sanctioned and supervised credit mechanism where as Shakti had identified micro-enterprises, prepared loan form, followed up fund utilization and recovered loan from the beneficiaries. The study concluded that the linkage has been a new concept for both the organizations so that the emerging constraints should be solved on mutual basis.

Hakim (1996) in a study of Janata Bank and PAGE linkage program observed that the later approached the bank for revolving loan fund in order to link it to the poverty alleviation program of the bank. The bank devised policy guidelines for linkage on two options (i) direct lending to NGOs and (ii) linkage with SHGs organized by NGOs. The main issue of consideration of this linkage scheme were (i) the PAGE had to deposit guarantee fund worth 25 percent of sanctioned loan; (ii) it had to maintain all financial transactions through Janata Bank; (iii) the interest rate on loan to be paid to JB was 11 percent; (iv) the PAGE was responsible for proper disbursement of, realization and repayment of loan; (v) loan realization and repayment was made on weekly basis. The study identified some problem areas in the linkage scheme like longer time in loan processing, under finance, interest rate fluctuation with high transaction cost and collateral biased. On the contrary, subsidized rate of interest, shortage of trained manpower and absence of legal vis-à-vis regulatory framework were some of the problems from banking perspectives. The study concluded that both the NGO and government bank should create national consultative mechanism to help each other in the sphere of exchanging ideas, views, information and evaluating the impact of the credit activities.

The World Bank Study (1996) on "Bangladesh Rural Finance" revealed that the effective solution for the emerging delinquency problem of the financial system would be to link formal banks as GOs and established NGOs to exploit their respective comparative advantages. The study advocated three useful models of such linkages i.e. (a) the NGO established itself as a bank; (b) the NGO acted as an intermediary; and (c) the NGO acted as facilitator or broker, when banks lend directly to group without NGO support, the recovery rate was too low to be viable at current interest rates. The break-even analysis revealed that the effective interest rate would have to be 55 percent for the program to be sustainable. The study further showed that, The Grameen Rin Shohogogy (GRS) scheme of BKB and RAKUB has an innovative initiative using loan agents to deliver credit to rural areas. One problem of such scheme was that the margin allowed to GRS was insufficient and fully exploited advantages of informal lenders, restrictions on on-lending rates should be removed.

Saha (1993) in a study "BKB Linkage Program in Credit Delivery" observed that it had taken the advantage of bringing the asset owned people into its credit need directly and the asset less rural people indirectly through the organizations target group approach. The study showed that BKB's linkage program with Grameen Bank (GB), Swanirvar Bangladesh (SB) and CARE were the oldest credit delivery program. The linkage of BKB with CARE was based on profit sharing concept. Many NGOs were linked with the system. The study concluded that in the new approach, technologically developed economic activities should be restored and the task of identifying viable activities, skill training, group formation, social cohesiveness creating as well as financial discipline related task might be given to the NGOs.

Saha (2002) in a study found that micro-credit has been considered to be a productive financial tool to reach the poor people and to enter to their needs. However, in the last decade, experience showed that the Banks with traditional individualistic techniques was not only failed to increase outreach substantially but also proved their incapability of reducing interest rate charged by the informal money lenders. Hence, a linkage strategy between the formal and the informal sector for micro-credit could be viewed as one of the alternative attractive financing techniques which could create a viable rural banking structure. In this context, different models, extent and performance of existing linkage schemes (among banks and informal lenders) for the matter of rural development were examined. It also attempted to survey the experiences of some banks of South Asia that had successful linkage programs.

Kropp and Suran (2003) in a study on "Linking Banks and SHGs in India" observed that the SHG banking pioneered and promoted by NABARD emerged as a primary micro-finance service mechanism for the *nonbanked* poor in India. The multiple initiatives led by capacity building made tremendous inroads into the conventional banker's mindset. This now viewed SHG-Banking as a new dimension of quality portfolio with low risks and with marginal increase in operating cost. The study further showed that being predominantly women focused SHG-Banking became the first step towards feminization of the banking portfolio of Indian banks. Stimulating self-help capacity of the poor does spark off the entrepreneur enthusiasm and risk mitigation mechanisms in low-income households, which also served as an entry-road to overcome poverty and addressed other directed micro-savings and credit programs.

Dave and Seibel (2002) in their study on commercial aspects of SHG Banking in India found that the program was the largest non-directed micro-savings and micro-credit programs in the developing world and its bank lending rates fluctuated at market rates around 7% in real terms were among the lowest. The study applied average cost analysis, attributing all costs *duly* to each product and marginal cost analysis in response to the advice of the bank managers to ignore personnel costs of SHG banking because of existing idle capacities. The methodology was applied to seven units of three banks. The results showed that the non-performing loans to SHG were nil which testified the effectiveness of group lending to the poor. In contrast, consolidated NPL ratio ranged from 2.6% to 18% and Cash Credit (CC) as well as agriculture term loans up to 55% to 62% respectively. Returns on average asset of SHG banking ranged from 1.4% to 7.5% by average and 4.6% to 11.8% by marginal cot analysis, compared to –1.7% to 2.3% consolidated. The operational self-sufficiency of SHG banking range from 110 % to 165% by average and 42% to 286% by marginal cost analysis, compared to 86% to 145% consolidated.

Puhazhendhi and Badatya (2002) conducted a study on SHG Bank linkage program for rural poor. An Impact assessment found that the socio-economic conditions of the members had made significant progress compared to pre SHG period. There was a significant increase in the asset structure, mean annual savings, average loan per member, overall repayment percentage, average annual net income, employment per sample household's etc. Availing loans from moneylenders and other informal sources with higher interest rate was significantly reduced due to SHG intervention. There was remarkable improvement in social empowerment of SHG members in terms of self-confidence, investment in decision making and better communication.

A large number of studies have been conducted on the impact of micro-credit banking at the household level during last fifteen years. Most of the studies (e.g., Hashemi et al., 1996; Pitt and Khandher; 1998; Colman, 1999; Dunn and Arbucle, 2001; Wydicl, 1999) used quasi-experimental design (program group and control group) to estimate the effect of micro-credit banking (cited in Khalily, 2004). Quasi-experiments seek to compare the outcomes of an intervention with a simulation of what the outcomes would have been, had there been no intervention (Hulme, 2000). First method is multiple regression, but this has rarely been used in impact assessment because of its enormous demands for data on other possible casual factors and its assumptions (Mosley, 1997). A second method is the control group approach which has been widely used. This requires a 'before and after' comparison of a population that received a specific treatment (i.e. MFP participants) and an identical population (or as near as possible) that did not receive the treatment (non-participants of MFP). There is another non-experimental method, which known as 'with and without method' (Oberi, 1992). According to Oberi (1992), an ideal application of the impact assessment technique require to fulfill: (i) a large number of randomly selected areas should be chosen for implementation of the project; (ii) there be no other development interventions in the study area; (iii) information be collected before and after the project. Under control group approach (i.e. 'before and after'), it is very important for researchers to collect base line data (before data) as well as data after implementation of the development program. However, collection of base line data as well as data after implementation of the project are very expensive as well as time consuming (cited in Chowdhury, 2000). Some times 'before and after' method is also applied on the basis of 'memory recall', when the base line data is not available. Development program participants or beneficiaries are asked about their status before the intervention on the basis of memory recall. The shortcoming of this approach is that the information provided by the respondents has less credibility. The extent of reliability of the information provided by the respondents depends on the time difference between before and after the intervention, and the longer the time span between before and after the intervention the lesser is the reliability of information.

During the period between before and after intervention, data collection on socio-economic conditions in the study area may have been influenced by developments other than one whose impact is being assessed. In a situation like this, it may be difficult, if not possible, to single out the impact of one specific intervention. For these reasons, researchers very seldom adopt the 'before and after' method to assess the impact of development interventions. It has been found that researchers have extensively used the 'with and without method', for example, Mustafa et al. (1996); Khandaker and Chowdhury (1996); Hussain (1998). Under the 'with and without' method a control group is selected from the area where the specific development intervention has not been implemented. The control group and the area from where the control group is selected should possess the same characteristics of the program group and the area where the development program is implemented. The impact of development intervention are assessed through a comparison of socio-economic conditions between the control group and the program group after the intervention has been given a period of time to make its impact felt. The major advantage of the 'with and without method' is that this method can be implemented easily and is less time consuming and less expensive. But the 'with and without method' has one major disadvantage, unlike the 'before and after method', this method is not able to diagnose the observed differences, which prevailed between the program group and the control group prior to the program intervention. Since in reality, it is always difficult, if not almost impossible, to find two identical group to begin with. The difference between the program group and the control group under the 'with and without method' may not reflect the net impact of the program intervention but rather the effects of (a) systematic differences between the program and the control group before implementing of the program, and (b) different event other than the program happening at the same time in the program area (Oberi, 1992). Some important factors should be given careful attention in impact assessment studies to identify the real impact of a specific development intervention (Oberi, 1992) which are selection bias, choosing and defining appropriate variables, time frame, short-term and long-term effects and interpreting and generalizing the results.

Khandker (1998) examines the impact of three group based credit programs (Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), and Bangladesh Rural Development Board (BRDB). The outcome parameters considered in the household level analysis were consumption, savings, income, education, nutrition, and wealth accumulation. At the individual level, the major indicator was female empowerment. The village level outcome parameters were wage and employment. The institutional outcome parameters were outreach, cost-efficiency and sustainability. A set of comprehensive questionnaires were designed, pre-tested and administered for data collection. One of the strength of this study is the application of sound econometric techniques in solving the problems of endogeneity and determining efficiently impact outcomes. Khandker (1995) found First, microfinance contributes to poverty alleviation (household level, 5% of GB and 3% of BRAC). At village level, there were significant decline in moderate poverty and extreme poverty. Second, there has been an increase in average household income (30% for GB and 33% for BRAC). Several factors like increase in self-employment and wages because of shrinkage in labor supply contribute it, which further enhances wages and self-employment in off-farm activities in program villages (cited in Khalilly, 2004). Using the same data Pitt and Khandker (1998) found that program credit has significant impact on the well-being of poor households and that this impact is greater when credit is targeted to women. This paper provides separate estimates based on WESML-LIML-FE (Weighted Exogenous Sampling Maximum Likelihood-Limited Information Maximum Likelihood Fixed Effects) of the influence of borrowing by both men and women for each of three credit programs (the GB, BRAC, BRDB) on household expenditure, financial assets held by women, male and female labor supply, and boy's and girls' schooling.

The research studies so far reviewed on banking with the poor through linkage schemes did not provide any conclusive evidence on the essence from micro perspective on rural lending. Most of the studies identified information and incentive as the core problem of credit delivery to rural poor. From the institutional point of view information is the major drawback because it is very costly to gather information on the livelihood of a borrower defaulting on a loan and monitoring the action borrower once a loan is given (Fuentes, 1996). Formal financial institutions operating in rural financial markets face a number of problems that do not appear in other segments of a financial system (Ibid). He identified that the major problems are (i) the synchronic financial demands placed on the institutions due to the seasonal nature of agriculture production; (ii) are widely dispersed potential clients over a geographical area; (iii) the covariance of risk among borrowers; and (iv) the large number of small transactions that are made by borrowers. In addition potential clients are in an industry that faces unanticipated movements in price, incomes and yields (Adams and

Vogel, 1988). However, the inceptive problems started when the formal lender face a difficulties in ensuring repayment of the loan. These problems for lender are endemic in all credit markets but in rural credit markets these problems are severe. In order to overcome these problems, conventional banks have developed sophisticated techniques of loan analysis. But these techniques are prohibitively expensive when banks deal with small loans, as the associated expenses tend to be invariant to loan size (Ibid).Moreover these techniques are not possible to utilize with the rural borrowers simply because they rely on data which are not available in that segment of the market. However, alternative approaches of credit delivery to the rural poor have been developed mainly to overcome the information and incentives problems that hamper the performance of the formal financial institutions and also lower the administrative and processing cost of loan so that those poor people can get excess to the formal credit market to meet their credit needs. However, it is not possible to arrive at conclusions regarding the effects of linked micro-credit programs in poverty alleviation. It was also not possible to *draw* from these studies a clear trend of impact as these studies did not provide adequate analysis of historical pattern. Further, these studies did not raise many of the questions and issues which were required to explore the dynamics of change in micro-credit operations. Therefore, at this moment, the point of departure is to undertake more specific and contemporary look at the state of banking specially in terms of linkage program with the poor at rural setting of Bangladesh. Although studies based on secondary data were available in this area, a new study based on field data would be of much important to throw detail light on the impact of their new area of development. It is hoped that the study would contribute to new knowledge in the area of banking with the poor in Bangladesh.

1.3.Objectives of the Study

The overall objective of the study is to evaluate the linked micro-credit programs with special reference to Banking with the poor in Bangladesh.

In specific terms, the objectives of the study are as follows:

(i) To trace the origin and evolution of Banking with the poor through linkage program;

(ii) To study the organizational and managerial effectiveness of linkage micro-credit programs;

(iii) To analyze the economic efficiency and effectiveness of such programs;

(iv) To assess the impact of linkage programs on poverty alleviation of the beneficiaries;

(v) To recommend policy implications arising out of the study.

1.4. Methodology of the Study

1.4.1 Sources of data

The data for the study were collected both from secondary and primary sources.

1.4.2. Secondary sources

The data collected from secondary sources were required to fulfill the objective of origin and evolution of banking with the poor through linkage micro-credit program in Bangladesh. The data were collected through consulting various documents such as Annual Reports, By- Laws, Booklets, Periodicals and so on relating to the linkage micro-credit programs. Furthermore, various government reports; such as Statistical Year Book of Bangladesh, reports of the Planning Commission and Credit and Development Forum (CDF) Statistics were consulted. Data were also collected through consulting such other documents as NABARD Annual Reports, GTZ documents, ADB research documents, the World Bank documents etc. related to linkage programs.

1.4.3. Primary sources

For the remaining objectives, data were collected from a carefully designed sample survey, the details of which are discussed below:

1.5. Sample Design

1.5.1. Selection of the study area

The sample area of the study was based on two stage sampling method with the linkage schemes being the first stage and beneficiaries the last stage unit. Because of various constraints imposed by time and fund, the study area was confined only to the availability of the linkage schemes in micro-credit operation with the poor.

1.5.2. Selection of the linkage schemes

Before selecting the linkage schemes the first step was the consideration of the coverage by the linkage schemes which is shown in the Table-1.

Table-1

Linkage Micro-credit Schemes Working in Bangladesh

Sl. No.	Name of Linkage Schemes	Target Group	Total Outreach of Members (in lakh)	Linkage Status
1.	Swanirvar Bangladesh (SB) with NCBs, BKB, RAKUB	Marginal/Landless People	7.33	GO-NGO
2.	PAGE with Janata Bank	Marginal/Landless People	0.16	GO-NGO
3.	MSFSCIP-RDRS-Agrani Bank	Poor farmers	0.78	GO-NGO
4.	*BRDB-Sonali Bank:*	Land Poor Farmers	14.81	GO-GO
	Crop Loan	Marginal Farmers	0.31	GO-GO
	Shrimp Culture	Marginal Farmers	0.31	GO-GO
	Irrigation Pump	Marginal Farmers	0.97	GO-GO
	Women's Program	Rural Poor Women	2.70	GO-GO
	Rural Livelihood Project	Rural Poor	9.0	GO-GO
5.	*NGO-Sonali Bank:*			
	Grameen Krishi Foundation (GKF)	Marginal Farmer's and SHGs	0.18	GO-NGO
	Shakti Foundation	Rural Poor	0.93	GO-NGO
	PROSHIKA	Rural Poor	0.08	GO-NGO
	VARD	Rural Poor	.009	GO-NGO
	BURO-Tangail	Rural Poor	.015	GO-NGO
	BRAC	Rural Poor	0.40	GO-NGO
6.	*Other Linkages with Sonali Bank:*			
	RDA-Sonali Bank	Asset-less Rural Man and Women	0.027	GO-GO
	BARD-Sonali Bank	Assetless Rural Man and Women	0.0230.41	GO-GO
	Bittohin Program	Assetless Rural Man and Women	0.41	GO-GO

Sl. No.	Name of Linkage Schemes	Target Group	Total Outreach of Members (in lakh)	Linkage Status
7.	Small Farmer's Development Program (SFDP) with JB & BKB	Small Farmers and Landless Laborers	0.54	GO-GO
8.	*Janata Bank-NGO Linkage:*			
	BRAC	Rural Poor	1.76	GO-NGO
	VVC, Jessore	Rural Poor	0.08	GO-NGO
	ASED	Rural Poor	0.30	GO-NGO
	MSFSCIP-RDRS	Small Farmers and Landless Laborers		GO-NGO
9.	Agrani Bank-GO Linkage			
	Crop Diversification Program (CDP)	Marginal Farmers	-	GO-GO
	Daridro Bimochon Karmashuchi (DABIC)	Landless Farmers	0.25	GO-GO
	Production Employment Project (PEP)	Rural Poor	1.40	GO-GO
	RPP	Rural Poor	-	GO-GO
	KPAP	Rural Poor	0.61	GO-GO
	MEDU	Small /marginal Farmers	-	GO-GO
10.	*PKSF-BB-NGO:*			
	PKSF-NGO	Rural Poor	17.00	GO-NGO
	Grihayan Tahabil (BB)-NGO	Rural Poor	0.30	GO-NGO
11.	Agrani Bank-NGO Linkage			
	IFAD (Netrokona- IARDP)	Marginal/Small Farmers/ Landless Laborers	0.10	GO-NGO
	Khudro Uddog Prokalpo	Marginal Farmers		GO-NGO
	Special Micro-credit Program	Landless Laborers		GO-NGO
	ADIP	Small/ Marginal Farmers		GO-NGO
12.	BKB-NGO Micro credit Program	Poor Men and Women	0.17	GO-NGO
	RWECP	Poor Unemployed Rural Women	0.63	GO-NGO
	UNCDF	Small Entrepreneurs	0.18	GO-GO
	Palli Progati Prokalpa	Rural poor	-	GO-GO

Sl. No.	Name of Linkage Schemes	Target Group	Total Outreach of Members (in lakh)	Linkage Status
13.	PKSF-Partner Organizations	Rural poor via NGOs	67.68	GO-NGO
14.	RAKUB-NGO	Rural Poor	0.05	GO-NGO
	MSFSCIP	Small farmers and Landless Laborers	0.218	GO-GO
	WEDP	Rural poor	0.061	GO-GO
15.	Small Holders Agricultural Improvement Project-DLR-BKB	Marginal / Small farmers	1.31	GO-NGO
16.	Sunamgong Community Based Resource Management Project-LGED –BKB	Rural Poor	34.29	GO-NGO
17.	Dristi Income Generating Activities-NBL	Rural Women	0.18	GO-NGO
18.	Sristi	Vulnerable Women	0.175	GO-NGO

Source: Official documents of various Banks and NGOs.

It was thought that the linkage programs with acceptable coverage would be most suitable for the purpose of the study. Thus it was observed that some of the linkage schemes like Swanirvar Bangladesh (SB), Small Farmer's Development Program (SFDP), Poverty Alleviation and Gender Equity (PAGE), DRISTI and SRSTI etc. showed progress in banking with the poor through micro-credit services. However, because of time and fund constraints, the following linkage programs were purposively selected for the study:

Table-2

Linkage Programs Included in the Study Sample

Sl. No	Name of the Linkage Program	Linkage Actors	Linkage Mode
1.	Swanirvar Bangladesh (SB)-an NGO	Sonali Bank Janata Bank Agrani Bank BKB RAKUB PKSF Grihayan Tahabil	FI(GO)-SFI-RC*

Sl. No	Name of the Linkage Program	Linkage Actors	Linkage Mode
2.	Small farmers Development Program(SFDP)	BKB Janata Bank	GO-FI-RC*
3.	Poverty Alleviation and Gender Equity (PAGE)	Janata Bank PKSF ASA Grihayan Tahabil	FI-SFI-RC*
4.	DRISTY	BASIC Bank CNDN	FI-SFI-RC*
5.	SHRISTY	BASIC Bank Dept. of Youth	FI-GO-RC*

Note: FI= Financial Institution; *
SFI= Semi Financial Institution; *
GO= Government Organizations; *
RC= Rural Customers. *

1.5.3. Selection of Respondents:

As micro-credit schemes and their rural customers are important components of banking with the poor, it was necessary to select rural clienteles very carefully. Each micro-credit scheme under the study maintained register for various categories of loans which helped to know the total number of loanee beneficiaries under each scheme which is shown below:

Table-3

Selected Linkage Schemes with their Active Members

Sl .No.	Name of Micro-credit Linkage Schemes	Total No. of Active Member
1.	SFDP	70,000
2.	Swanirvar Bangladesh (SB)	7,33,000
3.	PAGE	16,056
4.	Shristy	1,755
5.	Dristy	1,800

Source: Various Documents of Linkage Schemes (2002)

It was found that the total membership varied from one linkage scheme to another depending on their volume of coverage and product diversification. Thus, considering the heterogeneity of volume of membership as well as diverse nature of micro-credit beneficiaries, 150 beneficiaries from each of the five linkage schemes were selected for in-depth field study. Accordingly, a total of 750 beneficiaries were selected purposively on the basis of their participation in the linkage credit programs. In order to make a member-nonmember comparison especially on the impact issue, 10% of total sample under each linked micro-credit programs located in the same area were purposively selected in the study. The total non-members stand to 75. No executives and field workers included in the sample of non-members. The program specific locations of beneficiaries and their sample size are presented below:

Sl No	Name of Linkage Program	Total Sample		Study Area
		Member	Non-member	
1.	Swanirvar Bangladesh (SB)	150	15	Natore Rajshahi
2.	SFDP	150	15	Mymensingh Patuakhali
3.	PAGE	150	15	Comilla
4.	Shristy	150	15	Comilla
5.	Drishty	150	15	Comilla
	Total	750	75	

Another set of guided interview schedule was framed to obtain the views on role of central bank, regulation and supervision of MFIs and creation of MRA, issues of MFI self regulation, interest rates and challenges of MFIs. Twenty five (25) academics, policy makers, development practitioners, micro-credit leaders, representative of funding agencies and researchers were interviewed. Thus total sample size stands at 850.

1.6. Organization of Field Work:

Three types of interview schedules were used in the study, one was for the executives of the linked programs and the other was entirely for the beneficiaries and non-members. The third one was only for the independent professionals to reveal opinion on emerging MFI issues. The interview schedule meant for the executives included financial information on deposit, credit and volume of business of the linked programs. The respondent beneficiaries schedule included data on socio-economic issues and impact of micro-credit on the beneficiaries. Before finalizing the schedules, these were pre-tested, which aimed at providing some ideas about the length of time required for interview, feedback on the suitability of the questions and the flow of the sequence of the questions.

Necessary rectification, modification and change in the schedules were made on the basis of findings of the pre-testing.

The researcher and the field investigators carried out field interview in the study area. It took a period of six months from April-September, 2003. The period covered was normal one in the sense that no unusual flood, drought and famine affected productive activities in the study areas during April-September 2003. For the purpose of supplementing the data and testing their reliability of the data so far collected, arrangement was made to move around with the villagers details of which are *firstly*, the researcher maintained a diary to record all observations related to micro-credit in poverty alleviation. Regular work was done which helped very much in getting and analyzing the data in right perspectives. During the field interview, it was possible to consult the beneficiaries on various aspects of their day to day work experience with micro-credit, which helped understand the actual performance of the beneficiaries in loan transaction; *secondly*, various documents were consulted which revealed additional information on the activities of the linkage programs. The researcher also observed the distribution pattern of inputs and group based credit system working in the village. This was an important basis to understand the problems they faced and benefit they received in reality. Certain norms of conduct were followed at the fieldwork such as refusal of gifts, observance of neutrality, politeness, due respect to protecting social customs and taboos etc. we noticed a general trend of suspicion among the respondents although they were assured that facts disclosed by them would strictly be kept confidential and their identity would not be disclosed. This strategy worked well. In spite of that the researcher visited the study areas several times so that as far as possible the schedules were filled correctly.[1]

1.7 Data Processing and Analysis

After completing the field work and receiving all schedules in hand, efforts were made for processing and analyzing the collected data.

[1] Some sort of participatory observation was adopted to understand the situation and verified the stated facts in the interview schedules. This method was useful to raise reliability of the data to a fairly acceptable level of accuracy even in data from memory were recalled in response to establishing cost and output structure of different crops. Thus, it is hoped that though cross checking of the answers of the respondents on the spot from different sources, the data used in the study could be brought to a fairly acceptable degree of accuracy.

1.7.1 Data Processing

The data processing work included editing, coding and tabulation of survey data. *Editing:* This was done to ensure that survey schedules were fully and correctly completed and the facts recorded or the responses to the interrelated questions were consistent with one another. The editing work was done by the researcher with the help of one experienced tabulator.

Coding: Editing also involved coding of the questions for which code cards were made. It contained blank column numbers and item names, indicating the column in which particular items were coded. Provisions were made for coding information on both sides of the cards. Depending on the size of the schedules, the number of code cards need per schedule varied between 01 and 10.

Tabulation: It was done both by the researcher and trained tabulator with help of manual and digital calculator. At first, one way tables or univariate frequency distributions were made column wise to include such items as number, age, education, occupation and land holdings of family members. Secondly: two way tables by one item first and the second item by making bivariate frequency distributions were made.

1.7.2. Analysis of Data

The techniques of analysis of data were adopted in keeping with the objectives of the study. Simple tabulation technique was used in the study to classify the data into meaningful categories. The researcher used simple arithmetic mean, ratio and percentages in most of the tables of the study. Moreover, Chi-square test and multiple regression analysis were done. In order to make an effective impact of the linked micro-credit programs, a before-after comparison as well as member-nonmember comparison was employed in the study. This gives us a better picture of the situation. It was neither possible nor desirable to convert all the qualitative data, except for some that were important, into qualitative to support analysis of facts. The researcher's observations and impressions were helpful for analyzing the true picture of the study area.

1.8. Organization of the Study

The study begins with a background of the research problem and extensive review of the extensive literature on the impact of micro-credit program on poverty alleviation. The review not only narrates the story of linkage programs in poverty alleviation but also indicates the justification of the study. The introductory review is followed by detailed discussions on the methodology of the study. Chapter II discusses theories and new approach of micro-credit banking. Chapter III discusses the economy of Bangladesh. Chapter IV of the study discusses the Banking with the poor: overall achievements and new challenges. Chapter V discusses the origin, donor's views and future trends of banking with the poor through linked micro-credit programs. Organization and management of the linked micro-credit programs have been discussed in chapter VI. Chapter VII examines the economic efficiency and effectiveness of micro-credit programs on poverty alleviation of the beneficiaries. The impact of linked micro-credit program on poverty alleviation has been shown in chapter VIII. The last chapter provides a summary of the findings and suggests policy implications for poverty alleviation.

1.9. Limitations of the Study:

In spite of all efforts made, there are still some limitations of the study which are as follows:

(i) The study was confined to specific areas and the results obtained might not be adequate to make generalization on other parts of the country. Even among the different districts within the same region, there are differences in natural conditions, land ownership, social values and norms which affected micro-credit activities directly.

(ii) The researcher could not cover the entire population due to paucity of time and fund allocated in the study which had to be completed within a specific period. Considering all these limitations, the study has hopefully fulfilled its objectives and indicated some important recommendations for future research agenda and for formulation of policy instruments. It is expected that, the study will contribute, in a large measure to advancement of our understanding of the banking with the poor through linkage micro-credit programs in Bangladesh.

CHAPTER -II

THEORIES AND NEW APPROACH OF MICRO CREDIT BANKING WITH THE POOR

2.1 Theories of Micro-credit Banking with the Poor

Micro credit is a fairly new phenomenon. Several views have been emerged on its application. Over the past decades two most distinctive theories of the micro-credit finance (MCF) have been developed; (i) The self-sustainability approach or the institutionalist approach and (ii) The poverty approach or the welfarist (Morduch, 1997; Schreiner 1999). The theories have been developed from the practice of micro-credit finance institutions in different countries.

2.1.1 The Institutionalist or Self-sustainable Approach

The institutionalist or self-sustainability approach has received the greatest acceptance in practice as well as in micro-credit literature. Studies by Dhumale et al. (2001a, 2001b), Chiristen et al. (1995), Malhotra (1997) and Rahman (2000) provide the institutonalist argument. Essentially institutionalist or self-sustainable micro-credit suggests that the main objective of MCF is "financial deepening", that is the creation of a new sustainable system of finance, aimed at the poor. The institutionalists approach focuses on the following;

- Emphasis is placed on providing finance through unsubsidized profitable institutions. It is argued that only sustainable institutions can meet the demand of the poor (Malhotra, 1997; Dhumale et al. 2001a).
- There is a focus on breath of outreach (number of clients) as opposed to depth of outreach (composition of clients) (Christen et al. 1995).
- Micro-credit is only given to micro-entrepreneurs.
- An MCFI should only be concerned with providing financial services. The argument is that institutions that undertake social development programs alongside finance provision are likely to suffer from *"Institutional schizophrenia"*.

- There is support/encouragement for micro-credit to be integrated into established commercial banks, arguing that due to scale, expertise, and already substantial credit bases finances could be provided more efficiency, Dhumale (2001b).

However, institutionalist theory focuses on creating financial institutions to serve the clients who are either not served or under-served by the formal financial system. Under this theory the operating principles behind the emerging techniques for offering financial services to the poor are the same as relates to the following elements; a market perspective that knows the preferences of the client group and designs products to meet them; a recognition that savings can be as important as credit, for microenterprises, for financial institutions and for the economy; and insistence that financially viable institutions provide financial services (Rhyne and Otero, 1992). The institution requires break-even or to turn profit in its financial operation and raise funds from non-subsidised sources. The institutionist theory focuses on institutions and their ability to provide services on a sustainable and widespread basis. Two primary examples are Bank Rakyat Indonesia (BRI) and BancoSol in Bolivia.

2.1.2 The Welfarist or the Poverty Approach

The welfarist or poverty approach is fundamentally different in that welfarists believe that MCFI should have two key objectives – providing credit for the poorest and ensuring that such credit leads to poverty alleviation through the simultaneous undertaking of social development schemes. The welfarist argument is thus:

- There is a focus on depth of outreach – an exclusive focus on the poorest of the poor, and increasingly there is focus on empowering women as clients (Yunus, 1993; Khandker, 1998).

- Provision of finance is to perform hand in hand with social development schemes and so group lending is common and credit provision is not necessarily restricted to micro-entrepreneurs. (Yunus, 1993; Woller et al. 1999).

- The evolution to fully sustainable institutions is ultimately desirable but not an exclusive focus. Efficiency and sound management are still very much firm goals, but subsidy funding is not shunned. Chau-Beroff (1997:5) explains *"....if priority is given to making (MCFIs) profitable as quickly as possible, then the poorest will* *automatically be marginalized in favour of populations that are supposed to be more credit worthy. Similarity, the rural areas, in favour of urban areas, which are more densely populated and provide better commercial opportunities"*

Both institunalists and welfarists have the same primary objective–poverty alleviation–and both are committed to providing finance to the poor. However, interpretation over how this is best achieved causes a rift in their preferred methods of application such as :

- Differences in population segments served – poor entrepreneurs vs. those on the margins of subsistence.
- Differences in service delivery – lending to individuals vs. small solidarity groups vs. large village banks.
- Differences in the institutional structure of micro-credit finance provider – Social NGOs vs. community based credit unions/community banks vs. commercial banks and finance companies.

The optimum positions is perhaps somewhere in the middle, that is a self-sufficient institution, with social outlook for its clients, or as Yunus (1993), Woller et al. (1999) suggest, a social enterprise.

2.2. New Approach and Emergence of Linked Micro-credit Banking with the Poor

2.2.1 New approach of Banking with the Poor

The model of subsidized credit was subjected to steady criticism from the mid-1970s as donors and other resource allocators switched attention from state intervention to market-based solutions. Policy-makers were reminded that credit can also be described as debt and that the oversupply of subsidized credit without realistic assessment of debtors/borrowers' ability to repay could result in impoverishment of borrowers. High and dispersed interest rates and their adverse impact on the rural poor in developing countries have been noted for a very long time by many people and has been the subject of debate. Initially it was thought that the absence of institutional banking facilities allowed private moneylenders to enjoy a monopoly over the rural borrowers. Accordingly it was anticipated that an extension of institutional credit facilities would reduce interest rates. It was also realized by the policy makers, however, that a large part of the rural credit market operates in terms of unsecured credit facilities, where commercial banks would not be interested in entering into this market. It is also noted that lending to the poor is expensive, and costs can be high, especially for formal lenders, if the cost of information on the borrower's ability and willingness to repay is not easily available. Problems with regard to information may lead to market failure, and, in the absence of collateral, the poor may never be able to borrow. Thus, the cost of credit market failure is likely to be highest for the poorest, which are least able to self-insure and self-finance (Sinha, 1998).

However, several decades of experience indicates that, government-sponsored agencies have in fact benefited large land-owning and middle-class farmers who could otherwise have obtained loans at commercial rates from their local banks without much difficulty. Thus the small farmers and the rural poor for whom these agencies were initially established still rely either on informal sources (friends and relatives, and private moneylenders). Mickinnon (1973) and Shaw (1973) argue that the ceiling on interest rates prevented banks or government-sponsored credit agencies from advancing loans to the poor borrowers. They further argue that the ceiling on interest rates does not permit banks to incorporate the additional administrative costs that are involved in advancing small loans and also does not permit banks to offer risk-adjusted interest rates, and thus they remain reluctant to extend credit facilities to the rural poor.

The failure of formal financial institutions to provide credit to the rural poor led to the evolution of alternative systems of rural financial intermediation, such as credit co-operatives, lending in groups and village intermediaries or agents (Huppi and Feder, 1990; Fuentes, 1996; Warning and Sadoulet, 1998; Chaves and Gonzalez-Vega, 1996). All these credit delivery approaches have addressed the problems of screening, incentives and enforcement by incorporating joint liabilities and monitoring. It will be discussed in detail in later section. It was expected that these approaches would reduce the default risk and transaction cost of delivering credit to the rural poor. In practice, the credit co-operative is successful in Sri-Lanka and a group based approach is successful in Bangladesh, Bolivia and Malaysia due to better incentives and control and monitoring mechanisms (Yaron, 1992; Khandker et al. 1995b; Hulm and Mosley, 1996). On the other hand, village intermediary or the village agent approach is successful in Senegal, South Africa and Indonesia (Warning and Sadoulet, 1998; Hulm and Mosley, 1996; Chaves and Gonzalez-Vega, 1996).

Grameen Bank in Bangladesh and BancoSol in Bolivia are the examples of alternative systems of rural financial intermediation. Both Banks target credit to the rural poor, those who are functionally landless or marginal landowners. Since collateral is not required, the bank relies on the group mechanism to ensure effective repayments. The group mechanism transfers risk of non-repayment from the bank to the group itself. The problems of asymmetrical information (the bank having limited information on borrowers) are resolved through the selection of members by the group (screening-out high risk borrowers), and through imposition of joint liability on the group. While individual borrowers receive loans, sanctions (in the form of the suspension of a new loan) are imposed on the group in the case of default by any individual borrower. Peer monitoring therefore, reduces transaction costs and allows for successful implementation of targeted credit programs (Stiglitz, 1990; Besley and Coate, 1995).

Hoff and Stiglitz (1993) relate the major problems in providing financial services to the poor in developing countries to asymmetric information and imperfect enforcement. They argue that even better financial intermediation would not ensure those crucial groups, such as the rural poor and women, to be able to obtain formal credit in the wake of information asymmetries. The MCF institution lends to the rural poor in a credit market characterized by incomplete information about borrowers and imperfect contract enforcement. Hoff and Stiglitz (1993) argue that unless innovative policy interventions are introduced to contract market imperfections, rural financial institution may not succeed. The process of development is itself unlikely to resolve market imperfections. The lenders face the problem of managing the risk of loan default in imperfect financial markets. Demand for insurance and information is inevitable to avoid problems of adverse selection and moral hazard in the presence of high information costs, calculation of the risk of default is difficult, which makes it costly to screen the borrowers. Hence, information asymmetries cause adverse selection that accentuates the moral hazard behavior on the part of the borrowers. In such an environment, contracts are not a binding force on making contract enforcement difficult (Khandker et al. 1995a). These problems force the interest rate to act as a price and incentive screening mechanism. The imperfect information theory of institutions is closely related to that of transaction costs, since information costs constitute an important part of transaction costs (Meier, 1995). Transaction costs include those of information, negotiation, monitoring, co-ordination and enforcement of contracts. Transaction costs of lending and borrowing are a major barrier to provide access to micro-credit services for the poor on a sustainable basis. Lending typically incurs a range of costs in providing loans, as do borrowers in receiving them. For smaller loans these transaction costs can be burdensome in relation to the value of the loan itself, from the perspective of either lender or borrower. In relation to the micro loans needed by the very poor, transaction costs typically associated with loans from orthodox financial institutions will almost inevitably prevent any such lending from occurring in the absence of subsidies. Unless it can be demonstrated that transaction costs can be significantly reduced through innovative forms of financial intermediation, sustainable MCF will not be possible.

Braverman and Gausch (1986) argued that small-scale producers lack access to formal credit because the transaction cost per unit of lending for small loan are much higher than in the case of large borrowers. Furthermore, when formal lending is entirely dependent on physical collateral because lenders perceive credit risk to be inversely related with asset ownership, the poor and women are excluded from of the formal credit system. However, Adams et al.(1984) argue that new direction require that policy makers place much more emphasis on market forces to allocate services in rural financial markets, with interest rate reform as a cornerstone.

Charitonenko and Campion (2004) argue that reliable access to credit is more important to the rural poor and microentrepreneurs than the interest rate for production and investment decisions. Their study observes that a significant proportion of the rural community has proved to be willing and able to save, as deposit mobilization is increasingly used as a tool for expanding outreach and achieving financial self-sufficiency. The revolution in microfinance for the poor over the last two decades was led by practitioners who developed methodologies that achieved very high rates of repayment and cost recovery and also reached predominantly poor clients, especially women (Robinson, 2001). Table below outlines the features of the old paradigm of agricultural credit and new approach of rural finance:

Table- 4

Primary Features of the Old and New Paradigms in Rural Finance

Sl. No.	Features	Old: Directed, Subsidized Agriculture Credit	New: Financial System
1.	Chief aims	Boost agricultural production Reduce poverty	Reduce market imperfections and transaction costs for income expansion and poverty reduction
2.	Role of financial markets	Help the poor Stimulate production	Intermediate efficiently
3.	View of users	Beneficiaries: borrowers	Clients: borrowers and depositors
4.	Subsidies	Heavily subsidy dependent	Increasingly independent of subsidies
5.	Sources of Funds	Vertical: Governments and donors	Horizontal: Primary voluntary deposit
6.	Associated information systems	Dense, fragmented and vertical- assessing whether targets were met.	Less dense and mainly horizontal – management information
7.	Sustainability	Largely ignored	Major concern
8.	Outreach	Short-term focus	Long-term focus
9.	Evaluations	Credit impact on beneficiaries- mainly primary data	Performance of financial institutions-mostly secondary information

Source: Adapted from Vogel and Adams, 1997; and Yaron, Benjamin, and Piprel, 1997.

Christen (2000) argues that profit driven microfinance institution has greater opportunity to fulfill their social objectives of expanding access of the poor to an array of demand driven microfinance products and services on a sustainable basis.

Rhyne and Otero (1992) emphasizes on providing financial services to the poor from locally generated funds without external subsidies. The experience of the last decade has produced a successful technology for credit delivery that utilizes sound financial principles such as understanding the needs of the client, increasing efficiency by cutting administrative costs, and using various techniques to motivate repayment. The institutional dimensions behind this approach focus on the need to achieve self-sufficiency. It is argued that institutions, which adopt certain key principles of credit delivery and savings services, constitute a promising strategy for providing wider access to financial services. Such an institutional set-up in the context of the development of a financial system is a basis of developing what is known as financial system approach to microenterprises.

The principles behind the emerging techniques for offering financial services to the poor are the same as those found in any financial system. These include: (i) a market perspective that defines the preferences of the client group and designs products to meet them; (ii) a recognition that savings can be as important as credit, for microenterprises, financial institutions and for the economy as a whole; and (iii) insistence that financially viable institutions provide financial services. This requires ability for the institution to break even or turn a profit in its financial operations, and raise funds from non-subsidized sources.

Fundamental changes that occurred during last two decades that successful microfinance institutions (like BRI-Unit Desa of Indonesia, GB of Bangladesh, BancoSol of Bolivia) ensures governance, by granting management board control over operational decision and holding accountable for financial decision, new products and mode of delivery of services, cost-containment, pricing and spreads, technology and efficient management information system, all these allows management to assess the performance, apply a sophisticated employee/ customer incentives system that encourages profitability, loan recovery and savings mobilization (Yaron and Benjamin,2002; Rhyne, 2002; Christen,2001; Zaman,2004).

2.2.2. Emergence of Linked Micro-credit Programs

Rural development of a country is greatly influenced by the savings-investment process of its rural financial market[2]. The more a rural financial market is integrated /inter-linked (among its various segments) the better is its savings-investment process as well as contribution towards rural economic development. From the perspective of the rural financial market of Bangladesh, its different segments may be broadly classified into three groups -formal, semiformal and informal financial markets. The formal sector comprises government sponsored organizations like Nationalized Commercial banks (NCBs), Specialized Commercial banks like Bangladesh Krishi Bank (BKB); Rajshahi Krishi

[2] There is another group of people who prefers to use institutional-non-institutional (or organized-unorganized) terminology in place of formal, semi-formal and informal one, which is not appropriate. While formal financial market is definitely institutional, semi-formal and informal financial markets are not always non-institutional. There are many semi-formal and informal lenders such as NGOs, Pawnshops, Rotating Savings and Credit Associations (ROSCAs) etc. which are very much institutional in nature but not subject to central monetary authority's regulations-an essential condition for being treated as formal market.

Unnayan Bank (RAKUB) and Bangladesh Samabaya Bank Ltd. (BSBL) operating in the rural areas. The semi-formal, some authors (like Kropp, 1991; Bedard, 1991; Adams and Vogel, 1986) also call it quasi-formal sector consisting of institutions such as Grameen Bank, NGOs and co-operatives like BRDB providing credit services (with or without other social services such as social awareness, education, health etc.) through its affiliated societies.[3]

The last segment i.e. the informal credit sector comprises professional money lenders, friends, unregistered co-operatives and clubs. The line of demarcation between formal on the one hand and semi-formal as well as informal financial market on the other hand is generally drawn on the basis of the regulations imposed (on the formal sector) by central monetary authority in respect of capital, revenue and liquidity requirements, ceiling on lending and deposit rates, mandatory credit targets and audit and reporting requirements.[4] But the semi-formal and informal financial sectors are outside the purview of the monetary regulations. Thus, from the above point of view linkage in the rural financial market shows the interrelationships between formal (GOs), semi-formal (NGOs, GB) and informal (money lenders, self-help groups etc.) segments for better transforming savings into investments for the matter of rural economic development in Bangladesh. Sometimes this linkage might also happen between the sub-segments within a single segment (either formal or semi-formal or informal).The financial technology linking different segments of a financial market is yet to get a firm root in the rural financial market. Indeed, the technology has been first developed by the Asia Pacific Regional Agricultural Credit Association (APRACA) in the late 1980's and implemented first in Indonesia, replicated subsequently in a number of countries, namely the Philippines, Thailand, Nepal, and India. Of late, Bangladesh has also been trying this technology to a limited extent.

Like other developing countries, the financial sector policy, specially for rural areas in Bangladesh was being formulated with a view to expand the network of rural financial

[3]Some authors may like to brand NGOs and Grameen Bank as formal institutions. Since from the view point of monetary regulations, formal institutions are not strictly guided by monetary regulatory bodies (though they are very much formal because of their internal and external regulations) they should be better named as semi-formal rural institutions.

[4] Due to adoption of financial sector reform measures in many developing countries during the economic regulations like mandatory credit targeting , ceiling of deposit and lending rates etc. have been gradually liberalized or withdrawn and the prudential and informational regulations like capital, liquidity and audit requirements etc. are being strengthened.

institutions comprising specialized commercial and co-operative banks and increasing its share specially in terms of loans in the rural financial market. The main motivation behind such a policy was to curtail the so-called "monopoly power" of rural money lenders which was observed to be exercised by rural money lenders in terms of charging high interest rates from the rural poor. But last twenty five years of experience of rural financial market suggests that though the expansion of formal financial institutions in the rural areas has been possible, yet it has failed to increase it's share in terms of loan in the rural financial market. The formal financial institutions through providing cheap credit have not only failed to drive the traditional money lenders out of the rural financial market but also proved incapable of reducing interest rates as charged by informal lenders, specially village money lenders (Chowdhury et al., 1996).

The rural financial market of Bangladesh is still dominated by the informal sector, which proclaims high rate of success in terms of accessibility to the poor, disbursement of credit to them and recovery of loans. Murshid and Rahman (1990), for example, found that the rural informal market is still meeting as much as two-thirds of rural credit needs. Here, it is noteworthy that real effective rate of interest to all these informal markets varies from 35 percent to 120 percent. But surprisingly, despite impressive expansion of formal financial institutions in rural areas in the post liberation period, banking sector has a very frustrating story in banking with the poor. The underlying reasons are often cited as the requirement of collateral, equity margin, high transaction costs, manpower crisis, high risk premium and asymmetric information which prevent them from disbursement of micro-credit. Linkage strategies may help them in this regard. The Foundation for Development Co-operation, India (1994) in a study found that intermediation by NGO/ SHGs reduce considerably the time spent by bank personnel in borrower's selection, follow-up and recoveries which in turn influence the reduction in transaction costs of rural lending. Sen (1988) observes that the average annual interest rate for all types of loan transactions by moneylenders is at a level of 103.57 percent. This is significantly higher than the formal rural financial market's "Effective rate of interest" which is at the level of 60 percent (Adams, 1984, quoted in Sen, 1988). In addition to high default rates of around 85 percent, large scale politicization of rural credit and low volume of deposit mobilization have prevented the formal institutions in Bangladesh from being self-financing for which often large injections of government's fund have been required. Despite these subsidiaries, formal sector has had little success in reaching rural people without collateral or with below average income, mainly because of high transaction costs both from their own (lenders) as well as borrowers point of view (Chowdhury op. cit). More or less same level of unsatisfactory performance of the rural financial institutions in the context of other developing countries have been reported by many authors such as Adams and Vogel (1986), Braveman and Gaush (1986), and Kehnart and Pischke (1982). All these outcomes have led the formal institutions to believe that rural banking with the poor is unprofitable. The performance of the semi-formal and informal sector in the developing countries including Bangladesh has been observed noteworthy. Regarding effective transaction costs of borrowers, many authors (Ahmed, 1989; Banik, 1993) have shown that it is lower in the informal sector than formal sector, which has prompted others to suggest governments of developing countries not to prohibit rather encourage the activities of rural informal credit market (Allen, 1990). Stigler (1975) has observed that interests charged by the informal lenders are a reflection of perfect credit markets that take into account the risks of defaults. Hoff and Stiglitz (1990) are of the opinion that rural credit markets of developing countries are characterized by screening problem[5] , incentive problem[6], and enforcement problem[7], which can better be resolved by "group lending" approach of semi-formal institutions like NGOs and Grameen Bank and also by the mechanisms adopted by the informal lenders, not by the lending strategies of the formal rural financial institutions of developing countries. Yaron (1994) and Stiglitz (1990) have observed that one key to success of NGOs, other semi-formal institutions and informal credit sector appears to be the introduction of a social mechanism that lowers transaction cost, while supplying effective peer pressure for screening loan applicants and collecting loans and thus lowering delinquency rate and leading to viable operation . The absence of the above mentioned features in the formal segment thus calls for adopting those features in their lending strategy, instead of being intervened by government in the form of providing cheap and politicized credit to rural customers (World Bank Policy Paper, 1994).

---

[5] Borrowers differ in the likelihood that they will default and it is costly to determine the extent of the risk of each borrower. This is known as screening problem.

[6] It is costly to ensure that borrowers take those actions make repayment most likely. This is incentive problem.

[7] It is difficult to compel repayment. This is enforcement problem.

For ensuring financial viability and enough outreach, the two important criteria for measuring success of a formal financial institution- another strategy has been suggested by APRACA, some donor agencies like GTZ and also by some professionals, which calls for establishing "linkages" between formal, semi-formal and informal segments of rural financial markets. They argue that this linkage will not only help formal institutions achieving viability and increasing outreach, but also will provide substantial benefit to both semi-formal and informal lenders and borrowers. According to the proponents of the linkage strategy, main stumbling blocks on the part of the formal segment for its viable operations are lack of information (asymmetric information) and enforcement of credit, high transaction costs and politicization of credit. Such problems could be well managed by adopting "group lending" approach of the semi-formal sector. Moreover, because of their social measures, minimum formalities and independence of government control, semi-formal and informal sector can better ensure viable operation than formal sector. On the contrary, opportunity cost of fund on the part of semi-formal and informal lenders is generally observed to be higher than that of formal lenders (Ghate, 1992). Moreover, the latter has a large repository of funds mobilized from the rural people. Chowdhury et al. (1994) shows that the rural branches of NCBs are transferring a huge amount of funds every year out of total deposit mobilized by them because of lack of profitable opportunities for fund deployment. In case, a linkage is established between formal and semi-formal and /or informal lenders for the purpose of further on-lending to the borrowers, it will not only increase the possibility of viable operation by the formal sector and reduce the cost of fund on the part of semi-formal and informal lenders, but also will help to increase flow of funds in the rural areas. It is also to be mentioned here that if lower opportunity cost on the part of formal lenders can accommodate its higher transaction cost including risk premium, then competition rather than linking with semi-formal and informal lenders should be the strategy of formal institutions. But in the case of revenue position, linkage is profitable for the formal institutions. However, the main emphasis of such linkage must be focused on increasing the outreach of the formal institutions specially to the rural poor and improving their viability by reducing transaction costs as well as default risks. In the context of India, Nanda (1994) reports that linkage between banks and self-help groups reduces lender's transaction cost by 40%, borrower's transaction cost by 85% and also ensures almost cent percent recovery of loans.

Some development experts (i.e. Yunus, 2004) opine that since viable credit operation is not possible by the formal institutions, they should leave the rural areas in the hands of NGOs through some linkage arrangement, because the later have made commendable success in poverty alleviation through creating income generating activities for the rural poor. In a seminar on "Promotion and Linkage of Self-help Groups (SHGs) with Financial Institutions" held at Bangladesh Bank in 1994, it was argued that the GOs (Banks) could meet the credit needs by adopting well conceived delivery system using NGOs and SHGs as financial intermediaries. Thus commercially sound linkages might be established between GOs and NGOs in providing credit to the poor. In this linkage, the main advantage to the GOs, specially Banks could be externalization of work items of the credit cycle-assessment of credit needs, appraisal, disbursal, supervision and repayments of loan. Improvement in recoveries and also in the margins would lead to wider coverage of the group. In another study, Hossain (1995) found that the necessity to linking together the GOs and NGOs has been a felt need of the day. Because, injecting subsidies into credit program has not benefited the poor due to the attitude of GOs (Banks) towards the poor because of lack of collateral, high administrative costs and high incidence of default associated with such programs. To overcome these drawbacks, concerted effort should be made to bring the loanees into the formal credit system through SHGs.

Economic development has been the dominant concern of people of the third world during the second half of the twentieth century. Despite almost four decades of developmental efforts, a sizeable number of developing countries have failed to get out of the poverty trap. Governments in developing countries, donors and non-governmental organizations have been trying to use their resources in ways that steer the benefits towards the poor people (Lipton, 1988). Since the 1950s, agricultural credit has been viewed as a primary tool for increasing farmers' productivity. Specialized rural credit institutions have provided input financing to raise agricultural production, giving rise to the belief that provision of cheap credit is necessary to boost agricultural production, and that the rural poor could be brought into the mainstream of development through supervised credit programs (Von Pischke et al., 1983). Many specialized financial institutions created in the 1950s and 1960s proved unable to meet the dual challenge of institutional and financial sustainability on the one hand, and outreach to large numbers poor people on the other.

The state-owned agricultural credit institutions have since been providing supply-led credit at subsidized interest rates mostly to the rural elite. As a result, loans were often not repaid. Most direct credit programs targeting small farmers and other priority groups have failed. Such programs have not been financially self-sufficient; they have not reached the poor, and have distorted financial markets. The credibility and financial viability of these subsidized credit schemes were further weakened by the use of public money to waive outstanding and overdue loans at election time (Adams and Von Pischke, 1992; Lipton, 1976; Wiggins and Rogaly, 1989).

Evaluations of many credit programs sponsored by state-owned institutions and other agencies revealed that most financing institutions were unable to break-even and that most of the credit supplied did not reach the intended beneficiaries (World Bank, 1975). They often gave preference to large farmers who took out large loans and benefited from concessions on lending interest rates. So, the real objective to expand financial services to the rural poor by these credit institutions has never been fulfilled.

In most developing countries, the rural poor rely primarily on moneylenders or informal sources for credit, and may not have access to safe, convenient financial services. Informal finance is often thought to be anti-developmental, exploitative, geared to consumption rather than investment behavior, and incapable of providing an appropriate volume and range of financial services. It is widely acknowledged the importance of rural household's access to formal credit to allow them to start or expand business activities and/or income generating activities, which in turn promote rural economic development.

The private sector has generally been reluctant to enter this market because, low-income populations are frequently perceived as being poor credit risks, they often lack access to collateral, their income may be dependent on highly weather-sensitive agricultural production, and their ethnicity and culture is frequently different from that of the urban-based financial community (Ravicz,1998). Also, poor infrastructure and the small value of individual savings and loan transactions raise the costs of providing services to this population. The importance of financial services for low-income poor households together with the private sectors' reluctance to enter this market and the perceived inability of low-income populations to pay market interest rates led governments to launch highly subsidized rural credit programs. These programs suffered from a number of shortcomings (Ravicz, 1998). Firstly, because the program offered very low interest loans, the volume of funds they could supply was limited, and it was impossible for the lending institutions to achieve self-sustainability. Secondly, lending volume and sustainability were further eroded because these institutions lacked an incentive to undertake careful underwriting and enforce timely repayment. Thirdly, state-run programs, particularly those that lack a profit-incentive, are very vulnerable to political influences. Borrowers are frequently selected for political reasons rather than fitting the profile of the ostensibly targeted beneficiaries or are sound credit risks. Finally, wealthy households appropriated the benefits of many of these programs because they preferred to borrow from them rather than from unsubsidized formal sectors (Khandker et al., 1995; and Von Pischke et al., 1983).

In this situation, a search for alternative arrangements to reach the rural poor with credit was necessary. Linked approach for micro-credit finance institutions and micro-banking is the alternative arrangements to reach the rural poor. The rural poor could benefit from expansion of formal and/or semi-formal micro-credit financial institutions if they can reach clients with financial products that are more useful and less expensive than those available from moneylenders. Micro-credit finance (or microenterprise finance) institutions provide financial services to the rural poor to build a stronger enterprise, and improve their incomes and quality of life.

CHAPTER -III

THE ECONOMY OF BANGLADESH

3.1 Macroeconomic Trends and Policy Issues

Since its liberation in 1971, Bangladesh has taken lot of development initiatives for the upliftment of the rural people. Eventually, the country has achieved a lot in terms of impressive growth in food production, reducing child mortality and maternal mortality, increasing life expectancy, bringing gender parity in primary and secondary education, expanding rural road network etc. The coordinated efforts of government and the non-government organizations made it possible to make success in those fields. Despite development in those sectors, poverty still remains a centre piece of development agenda in Bangladesh. Nearly 76 % of the total population and 85% of the total number of poor people live in the rural areas. The rural economy contributes more than 60% of the total GDP in Bangladesh while agriculture and non-farm sectors are the main fuel of the rural economy. In case of employment generation, agriculture still plays a vital role as nearly two thirds of the total employment is absorbed by this sector. So, rural development is considered a very pertinent issue for the overall development.

Government has undertaken wide-ranging reforms to promote good governance through strengthening local government institutions, enhancing people's participation, reforming public administration institutions and improving service delivery in every sphere of development. Macro-economic policies have been redesigned to alleviate poverty and generate employment. Education, particularly primary education, and education for girl child, has been given due priority. Wide-ranging initiatives have been taken for social integration of disadvantaged groups, women, children, disabled and marginalized poor. The development strategies of the government seek to accelerate economic growth, enforce higher investments in basic services and social sectors, enhance poor people's crisis - coping capacities and build-up their asset base and targeted income and employment programs. The main objective of different programs being implemented by the government is the alleviation of poverty in the country.

The major macroeconomics trend as per Bangladesh Economic Review (2006) is shown in Table-5 and Table-6.

Table: 5
Macroeconomic Indicators 2002-03 to 2005-06

(Billion Tk.)

Indicators	Years			
	2002-03	2003-04	2004-05	2005-06
GDP at current price	3005.8	3329.7	3707.1	4161.6
GDP at Constant price	2371.0	2519.7	2669.7	2849.0
Growth rate of GDP at constant price (%)	3.26	6.3	6.0	6.7
Per capita GDP (TK) at current price	22530	24628	27061	29986
Population (million)	133.4	135.2	137.0	138.8
Consumption	2445.7	2679.3	2965.1	3318.2
Public	160.7	184.1	205.3	231.2
Private	2285.0	2495.2	275.8	3087.0
Savings				
Domestic	547.5	450.5	742.0	843.3
National	784.9	847.2	958.0	1107.6
Total Investment	703.5	799.9	909.2	1039.1
Private	517.2	593.7	679.2	777.0
Public	186.3	206.2	230.1	262.1
Budget Total Revenue	311.2	354.0	392.0	457.2
Tax revenue	249.5	283.0	319.5	373.1
NBRTAX Revenue	237.5	270.5	305.0	356.5
Non NBRTAX Revenue	12.0	12.5	14.5	16.6
Non Tax Revenue	61.7	71.0	72.5	84.1
Total Expenditure	437.0	493.7	556.3	643.8
Revenue Expenditure	253.1	283.9	333.2	373.3
ADP	169.0	190.0	205.0	245.0
Other expenditure	14.9	19.8	18.1	25.50
Budget Deficit (except grants	-125.8	-139.7	-164.3	-186.6
Budget Deficit (including grants)	-101.4	113.0	-137.9	-153.6
Financing	108.1	152.6	164.3	186.6
Net Foreign Finance	69.9	79.9	88.3	103.2
Grants	24.5	26.6	26.4	33.1
Loan	74.3	84.2	89.0	1005
Repayment	-28.9	-30.9	-27.1	-30.3
Domestic Financing	38.1	72.7	76.0	83.4
Bank Loan	-9.8	26.7	36.0	36.4
Central Bank	-25.9	16.5	--	--
Commercial Bank	16.1	10.2	--	--
Non-Bank Loan (Net)	47.9	46.0	40.0	47.0
Import	559.2	462.6	808.9	698.1
Exports	379.2	448.1	532.3	497.6
Trade Balance	-180.0	-194.3	-276.6	-140.3
Current Balance	19.0	10.4	-34.2	15.3
Foreign Exchange Reserve (m.$)	2470.0	2705.0	2930.0	3040
Net Foreign Assets	140.9	163.3	186.7	196.2
Broad Money Supply (M2)	1140.0	1297.7	1515.9	1682.4
Inflations	4.380	5.83	6.48	7.04

Source: Bangladesh Economic Survey (2006). pp.189

Table-6

Macroeconomic Indicators: 2002-03 to 2005-06

(as percent of GDP)

Indicators	Years			
	2002-03	2003-04	2004-05	2005-06
Consumption	81.4	80.5	80.0	79.7
Public	5.4	5.5	5.5	5.6
Private	76.0	74.9	74.5	74.2
Savings				
Domestic	18.6	19.5	20.1	20.3
National	24.9	25.4	25.8	26.6
Total Investment	23.4	24.0	24.5	25.0
Private	6.2	6.2	6.2	6.3
Public	17.2	17.2	18.3	18.7
Budget				
Total Revenue	10.4	10.6	10.6	11.00
Tax Revenue	8.3	8.5	8.6	3.0
NBR tax Revenue	7.9	8.1	8.2	8.6
Non-NBR Tax Revenue	0.4	0.4	0.4	0.4
Non Tax Revenue	2.1	2.1	2.0	2.0
Total expenditure	14.6	14.8	15.0	15.5
Revenue Expenditure	8.4	8.5	9.0	9.0
ADP	5.6	5.7	5.5	5.9
Other Expenditure	0.6	0.6	0.5	0.6
Budget Deficit (except Grants)	- 4.2	- 4.2	-4.4	-4.5
Budget Deficit (including grants)	-3.4	-3.4	-3.7	-3.7
Financing	3.2	4.6	4.4	4.5
Net Foreign Finance	2.3	2.4	2.4	2.5
Grants	0.8	0.8	0.7	0.8
Loan	2.5	2.5	2.4	2.4
Repayment	-1.0	-0.9	-0.7	-0.7
Domestic Financing	1.3	2.2	2.1	2.0
Bank Loan	-0.3	0.4	1.0	0.9
Central Bank	-0.9	0.5	--	--
Commercial Bank	0.5	03	--	--
Non-Bank Loan (Net)	1.6	1.4	1.1	1.1
Imposts	18.6	19.3	21.8	16.8
Exports	12.6	1.5	14.4	12.0
Trade Balance	-6.0	-6.5	-7.5	-3.4
Current Account Balance	0.6	0.3	-0.9	0.4
Net Foreign Assts	3.7	4.9	5.0	4.7
Broad Money Supply (M_2)	37.9	39.0	40.9	40.4

Source: Bangladesh Economics Review (2006), P. 190.

The Bangladesh economy experienced a respectable growth rate of about 6 percent during Financial year 2004-05 as compared to 5.27 percent to 6.27 percent from FY 2000 to 2004 and 6.7 percent in 2005-06 in spite of having to struggle with two exogamous shocks i.e. flood of 2004 and phasing out of apparel quota from 1 January, 2005, However, the fiscal year 2005 ended with a macro-economic situation that experienced a certain degree of pressure from multiple sources. These pressures emanated from the failure to implement public investment programs, coupled earth poor revenue collection, particularly from non-NBR and non-tax components. The macroeconomic correlates were particularly strained due to stressed state of balance of payment as import greatly outpaced export growth. Further, fiscal balance got stretched in the face of high growth of revenue expenditure. The weakening of macro economic fundamentals was coupled with creeping rise in consumer price index.

The national budget for FY 06, remaining cognizant of the emerging economies situation, was prepared ostensibly under the three year frame work of the poverty reduction strategy (PRS). The Medium Term Macroeconomic Framework of the PRS set the growth target for FY 06 at 6.5. The government supposed to collect Tk 45,722 crore in FY 06 i.e. 16.7 percent more revenue compared to the performance of FY 05. The contribution of NBR supposed to be 79 percent of the total revenue growth, while the rest 21 percent should come from Non-NBR and Non-tax revenue. The target for the ADP for FY 06 was ambitiously set at Tk. 25,500 crore which were respectively 11.4 percent and 19.5 percent higher than the original and revised ADP of FY 05. As a whole, the government's initial fiscal stance for FY 06 was to go for a bigger budget deficit mostly financed by foreign sources. Concurrently, to control the inflation and to minimize the inflationary impact of a higher ADP, the government went for a contractionary approach in its monetary stance. It seemed that government was more inclined to absorb the shocks through monetary policy.

Revising the provisional GDP to a significant extent has now become a recent tradition in Bangladesh's national income accounting. The latest instance of this trend was the large upward revision in GDP growth rate estimate for FY 04 which renewed the discussions about the empirical basis, estimation mythology and process transparency of the National Incomes Accounts of Bangladesh, the revision also attracted attention as it provided the first ever above 6 percent growth in Bangladesh economy. If it was assumed that the growth figures were accounted right and the fact that the growth momentum of the Bangladesh economy had been sustained during the past five years with a modest 5 percent plus growth, it was indisputable that the poor failed to proportionately benefit from this incremental growth for the inequitable distributional consequences of the GDP growth.

While the economy was growing at a faster pace during the 1990's compared to 1980's, inequality was growing even more rapidly. In one hand, average GDP growth increased from 3.5 percent during the 1980's to more than 5 percent during the 1990's. On the other hand, Gini coefficient increased from 0.348 to 0.417 during this period indicating serious deterioration in income inequality. Most recent figures show that this income inequality at the national level had increased further at a significant level. Between 1999 end 2004, national income attributable to the poorest 10 percent of Bangladesh's population declined from the miniscule proportion of 1.7 percent to 1.5 percent. Conversely, the control on the national income by the richest 10 percent of the population increased form 33.9 percent in 1999 to 36.5 percent in 2004.

Bangladesh has largely experienced a non-agricultural and non-manufacturing sectors driven growth. The modern service sector activities those developed in the urban areas are not usually labor intensive and it requires certain educational qualification that the poor segment lacks. The magnitude of growth of the export-oriented sector could not significantly absorb the unemployed rural work force. Besides, the difference between wages of skilled and non-skilled workers in the non-farm sector has also widened resulting in increase of income disparity and foreign remittances have further aggravated the situation.

Bangladesh has been experiencing a lopsided structural transformation in the national economy with a falling share of the real economic sectors in the backdrop of increasing contribution of the service sector. There is usually a complementary relation between the decreasing share of agriculture and increasing share of industry sector in any transitional developing economy. However, the space left behind by the agriculture sector was not adequately picked up the on manufacturing sector in Bangladesh. Instead, the share of construction and supplies of gas, water, and electricity doubled from 5.2% in FY 80 to 10.3% in FY 05 over the last two and half decade. As result, the contribution of real economic sectors kept falling over the period.

3.2 Implementation of Poverty Reduction Strategy

Since FY 06, is the first year of implementation of the poverty Reduction Strategy (PRS) in Bangladesh which aims to adopt a "pro-poor" growth strategy instead of a growth maximization approach to achieve faster decline of poverty. In reality, achieving a higher growth per se becomes the main target of current development discourse. To ensure a pro-poor growth process, PRS suggests taking actions on income distribution that will provide adequate purchasing power in the hands of the poor and ensure effective food security for them. As a matter of fact, existing income equality has only widened during the recent past. For instance, national income attributable to the poorest 10 percent of the population declined from the miniscule proportion of 1.7 percent in 1999 to 1.5 percent in 2004. The Gini Co-efficient also deteriorated form 0.42 to 0.45 during this period. During the period FY 05-FY 07, some 8.02 million new jobs were to be created in the economy by promoting employment generating growth process. In other words, around 2.7 million new jobs were supposed to be created annually to match this target.

The low-revenue GDP ratio of Bangladesh economy remained stagnant at 10.64 percent in FY 05. As the humble target of PRS i.e. 10.7 percent was not achieved in FY 05, the target for FY 06 was set at 10.96 percent which was lower than the corresponding PRS projection. Earnings from both tax and non-tax revenue fell short of corresponding PRS targets in FY 05. One was surprised to observe that, no withstanding, the very high growth of import demand, collection from custom duty grew by a modest 6.8 percent. It possibly means that the over whelming part of the import came from in either duty or at a very low tariff partly as a result of recent tariff reduction. It was known that NBR accounted for a little above three fourth of total revenue receipt of the government, the rest one fourth was accruable to non-NBR taxes (4 percent) and non-tax revenue (18 percent) sources.

For macro-economic stability as well as for a redistribute fiscal approach, revenue earning needs to grow at a faster rate than the public expenditure. During the recent five years (FY 05), average annual growth of revenue earnings (about 12.9 percent) was higher than that of average public expenditure (8.2 percent) which happened largely by default as ADP remained severely under implemented. Curiously, in FY 05 for the first time in the recent past total revenue earning grew by only 7.9 percent as against 12.7 percent growth in public expenditure. It may be recalled that Bangladesh is distinguished by low public expenditure-GDP ratio (13.5 percent) among comparable countries. So there is a need to enhance the level of public expenditure, but definitely without compromising its quality and the fiscal stability. The analysis reveals that factors contributing to the fragility of the

Bangladesh economy at the end of the fiscal year 2005-06 was either accentuated or acquired new forms during the early months of FY 06. This has happened in spite of the fact that the government undertook measures such as streamlining nominal interest rate and orderly adjustment of exchange rate. To be true, the government has also made an effort to harness the recurrent expenditure as well as to accelerate Annual Development Program (ADP).

Sings of a problematic macro-economic situation are becoming increasingly evident. Indeed, it has created an apprehension that the Medium Term Macroeconomic Framework of the Poverty Reduction Strategy (PRS) may get scuttled in the very first year of its implementation. Here an analysis was made to understand the dynamics of the emerging situation. First, the fiscal balance has weakened notwithstanding robust revenue growth, harnessed recurrent expenditure and an all time low level of ADP implementation. This happened largely due to negative flow of net foreign financing. Secondly, strains on the balance of payment and drawdown on foreign exchange reserve increased significantly in the recent past due to slowdown of export, high growth of import, high outflow on account of foreign debt servicing as well as transfer of profits by foreign investors. In fact, energetic flow of remittances reaming the only was saving grace for arresting the backsliding of the balance of payment situation. In recent years, inflation increased significantly which affected the livelihood pattern of the common people. The increase of prices of major food staffs specially rice increased the food insecurity issue in a very vulnerable situation. The last amon crop was meticulously lost because of natural calamities and the major rice exporting countries to Bangladesh could not supply required amount of food staff (rice, wheat etc.) because of the low productivity in their countries. In the mean time, prices rose in the international market because of price hike of oil and fluctuation of exchange rates has aggrieved further the situation. So there was need for parity between import price and domestic price otherwise the native importers specially in the private sector could not be encouraged to do so. The recent sidr in 18 districts of south western Bangladesh adversely affected the livelihood strategy of the people specially the poor. Accordingly the major relief operation to revitalize the broken economy is going on and the poverty alleviation programs have rescheduled their micro-credit repayment for specific periods. Major donor agencies strengthen their aid flows for repatriation of the affected families. It is hoped that the economy would be improved if the programs taken by the government and NGOs are implemented judiciously in the years to come.

3.3 Micro-credit as an Instrument for Poverty Alleviation in Bangladesh:

Till now, the structure of Bangladesh economy is based on land and land based economic activities specially agriculture still dominates in the rural sector. But it is a hard fact that the intervention of micro-credit since its inception could not address the agriculture sector rather it plays the major role in off-farm and non-farm economic activities both in urban and rural areas. The fact is that the operation of micro-credit always safeguards the interest of the poor who have minimum or even no land excepting the homesteads under their disposal. In such a situation there is minimum or even no scope to use land as a viable enterprise for the poor and different leasing arrangements through which the poor people involve themselves in farming activities are proved to be an unprofitable venture. The only way opens to the rural poor is to involve themselves in those activities which have little or no linkages to the land. Accordingly if we analyze the scenario of micro-credit over three decades there is enough ground to believe that the non-farm activities established as an important portfolio for the micro-credit institutions run by the government, semi-government, non-government and private sector as viable sector. Till now, nearly 50% of the targeted households who are living below the poverty line have been able to address under MFIs and the lion share of them are female beneficiaries who were neglected under the existing credit system of the country. But now the situation is quite reverse and the main focus of micro-credit program is women beneficiaries at the grassroots level.

The intervention of micro-credit broke down the traditional bureaucratic based lending system and created a poor friendly institutional structure under which the beneficiaries enjoyed credit with less or even no transaction cost and this save them from the exploitation of the conventional rural money market. The scenario of unemployment, under employment and disguised unemployment was superseded by self employment which allowed the beneficiaries to employ themselves in any sort of rural economic productive activities. This had created an opportunity to increase production as well as income which were unthinkable before. The age old curse of vicious circle of poverty is now on the face of a treat and the movement of economic variables like savings, investment, production, income and employment are now more mobile then before. Now the poor people think for themselves as to how to plan for a small business enterprise and implement this plan in their favor to earn profit in a cost effective manner. Their level of living as compared to the past have tremendously changed and their asset formation i.e. houses, durable goods, equipments, machineries etc. are now a visible phenomenon. Not to speak of income poverty, the scenario of human poverty had tremendously changed because intervention of micro-credit is not as such a credit program rather this is a community development approach under which the recipients learn how to think, how to plan, how to manage, how to administer an enterprise and mobilize resources to make it a successful one. Their out look and mental build up as an entrepreneur made them a fighter to win the race against poverty. The social position of the poor as was traditionally told could not claim to be a favorable game in the context of our social system. The intervention of micro-credit thus reversed the whole scenario and brought it in favor of the beneficiaries in the household economy. Poverty is the root cause of unhappiness and this is a hard fact. Attacking poverty with micro-credit is an innovative strategy which brings prosperity and peace in many of the households especially in attaining self sufficiency, educational status, food security, health status and overall environmental conditions. The empowerment of women is a difficult task in a traditional bound society like ours and micro-credit as an economic instrument addressed for the first time the issue of women empowerment which brings good results.

The MFIs is now in an adult stage and Bangladesh as a nation is proud as a pioneer and path finder of micro-credit to the outside world. The world micro-credit summit categorically recognized the leadership of Bangladesh as a birth place of micro-credit and a success story to other countries those practices this approach in their poverty alleviation. The direct contribution of micro-credit is to make a poor men and women as dignified human being with all dignity, honor, self-esteem etc. Every year there is a micro-credit fare in Bangladesh where the MFIs projected their innovative products and creates new markets as well as new customers to sustain their business enterprises. It also shows how the small initiatives can create a big venture especially by the poor womenfolk. The traditional power structure was always against the women empowerment and they are now facing constant challenges to the new social order because of the micro-credit organizations at the grassroots. The rural wage rate has increased because of self-employment of the poor who are supposed to work as a wage earner in rich man's households with less dignity and honor. The tenancy market in agriculture has also changed because the poor involved in different tenurial arrangement with the rich farmers/land holders in a competitive approach and tried to bring benefits in their favor.

The MFIs not only involved in credit transaction rather as a commitment to the community, involved themselves in many social programs like voices against dowry, break down of childhood marriage, encouraging adult education, awareness building, violence against women and legal support at the time of needs. These bring direct social benefits to the society as a whole.

Due to creation of micro-enterprises by micro-credit intervention it contributed directly to the value addition to the GDP. Through the MFIs, many poor household members received skills training as well as financial support to go abroad as remittance earner which added to the hard earned foreign exchange reserve of the country. Many of the MFIs chalked out programs how as to how utilize the earnings of the poor through remittances in poverty alleviation programs and this is a new dimension regarding the involvement of MFIs in productive enterprises of the poor.

CHAPTER-IV

BANKING WITH THE POOR: OVERALL ACHIEVEMENT AND NEW CHALLENGES

4.1 Policies and Programs

The banking with the poor is currently at the center of policy discussions related to financial sector development and poverty alleviation. The experiences in Bangladesh have made important contributions to the emergence of this concept globally. International agencies and development professionals have accepted this as a tool for poverty alleviation although the models are diverse. The institutions have managed to develop important innovations that enabled them to expand financial frontiers in a developing country like Bangladesh and permitted to serve poor clients successfully without collateral i.e. normally required by banks. For the last two decades Bangladesh has been able to draw the attention of the whole world for its collateral free banking activities to the poor.

In Bangladesh there are four types of institutions involved in banking with the poor which are Grameen Bank – a specialized bank; NGOs – like BRAC, PROSHIKA, ASA, RDRS; Commercial and Specialised Banks – Sonali, Janata, Agrani, BKB, RAKUB; Government Agencies – like BRDB, PDBF, SFDF, DYD, DWA. As of June 2003 the total coverage of this banking system under different organizations is over 15 million households as shown in table 7. It is a sector that has created jobs for over one lakh employees.

Semiformal NGOs are the major players in the microfinance market in Bangladesh; in macro context, micro credit loans, constitute around 5% of the total private sector credit in the economy (Table-8) which shows a rising trend for the share of microfinance institutions in the total private sector credit but in terms of the aggregate number of borrowers, the MFI sector may have a larger share than other private sector lending organizations. The institutions within banking with the poor have nearly 15 million borrowers who had received only 5.30% of total private sector credit in the financial year 2004 while the private sector's borrowers number only 7.85 million (from the banking sector, the largest supplier of credit).

Table–7

Coverage of Banking with the Poor in Bangladesh

(as of June 2003)

Organization	Borrowers
NGO-MFIs	8,894,969
Grameen Bank	2,786,748
BRDB	709,073
PDBF	272,349
Department of Youth Development (DYD)	123,800
Department of Social Service	48,469
BSCIC	42,837
BARD	43,123
(A) Sub Total	*12,921,368*
Nationalized Commercial Banks	2,159,927
Private Banks	117,954
(B) Sub Total:	*2,277,881*
Grand Total (A+B)	15,199,249

Source: Maps on Micro-credit Coverage in Upazilas of Bangladesh, June 2003, PKSF

Table–8

Share of Microfinance in Total Private Sector Credit

Outstanding (in billion Takas)

Source of Credit	FY 02	FY03	FY04
Banks	675.70	776.60	902.20
Non-banks	24.60	31.60	40.20
MFIs	36.30	43.10	53.00
Total	736.60	851.30	995.40
Microfinance as % of Private sector credit	4.90	5.10	5.30

Source: Bangladesh Bank

The table–9 gives a comparative profile of the MFIs (NGOs and Grameen Bank) who are pursuing banking with the poor since long. By the end of December 2004, BRAC commanded around 23.99% of the total borrowers while Grameen Bank's share was 20.04%. Grameen Bank's share in credit disbursement, on the whole, was 33.51% while BRACs was 24.27%.

Table – 9

Outreach and Credit Operation of some Prominent Institutions Pursuing Banking with the Poor

MFI	No. of members (million)	No. of active borrowers (million)	Outstanding loan Portfolio (million taka)	Member savings (million taka)
Four Big MFIs*				
Grameen Bank	4.06	3.70	20,008.20	13,793.10
BRAC	4.86	3.99	14,491.54	7,656.09
ASA	2.99	2.77	13,775.62	2,828.24
PROSHIKA	2.75	1.54	4,851.07	2,103.56
PKSFs other partners	1.7	1.25	3,021.74	2,557.66
Other NGO-MFIs	3.9	0.8	3,561.43	1,446.34
Total	20.26	14.30	59,709.60	30,384.99
Big four as % of total	72.36%	85.66%	88.97%	86.82%

*Figures for the big four are from December 2004;

**Figures for other NGOs are from June 2004.

The government has been promoting public sector collateral free credit programmes with financial support from donors and own revenue heads. 17 departments of the 13 ministries of the Government of Bangladesh have programs related to banking with the poor (Table–10). By the end of 2003 the total outstanding loan of the projects was about Tk. 8.89 billion and the cumulative disbursement was Tk. 52.88 billion. The program implemented by the BRDB under the Ministry of LGRD&C is the largest program run by the government. It has disbursed Tk. 0.34 billion in 1,02,342 cooperative societies/groups comprising 3.6 million members, Pally Daridra Bimochon Foundation (PDBF) is another big program of the government and the two organizations (BRDB and PDBF) together have achieved significant mobilization of members over 3.95 million in number.

Table – 10

Banking with the Poor Program of Different Ministries

(As of December 2003)

Name of the Ministry	Cumulative Disbursement Tk. in million	Cumulative Recovery Tk. in million	Recovery Rate (%)
Ministry of Finance	1359.90	1106.30	81.35
Rural Dev. and Cooperative	30374.30	25880.00	85-95
Ministry of Women & Children Affairs	2353.10	1589.70	64-00
Social Welfare Ministry	5503.50	5002.20	90.89
Ministry of Labour & Employment	1474.20	376.30 (past due)	255.64
Cabinet Division	89.90	76.90	85.54
Ministry of Fisheries & Livestock	1567.80	1055.50	45-77
Ministry of Industry	1968.20	1747.60	69-91
Ministry of Agriculture	2673.10	1914.30	71-98
Ministry of Land	684.60	554.30	80.97
Ministry of Local Government	561.80	237.50	42.27
Ministry of Youth & Sports	5331.70	4365.30	81.87
Ministry of Textile	262.30	89.20	34.01
Total	52877.50	43990.60	83.19

Source: Bangladesh Economic Survey 2004, Ministry of Finance.

The concept of banking with the poor is perceived a bit differently by the Nationalized Commercial Banks (NCBs), specialized banks and development banks (DBs). They consider any loan of Tk. 50,000.00 and extended without any collateral either based on individual or group basis as micro-credit. This can be termed as small loans to encompass both micro and small loans. From this perspective, the NCBs and the DBs have been making very significant contributions to microfinance. By the end of June 2003, 12 banks disbursed a cumulative amount of Tk. 990.35 billion among 10.80 million beneficiaries (Table–10).Bangladesh Krishi Bank (BKB) is one of the specialized banks that has been providing financial services largely in rural financial markets. It had disbursed Tk. 9.5 billion by the end of December, 2003.

Table – 11

Outreach and Disbursement under Banking with the Poor Program by Banks

(As of December 2003)

Name of the Bank	No. of Beneficiaries	Cumulative Disbursement (in million Tk)	Recovery Rate (%)
Sonali Bank	4302144	46937.70	98.87
Agrani Bank	3073802	14338.10	99.47
Janata Bank	756901	18317.40	89.83
Bangladesh Krishi Bank	1507863	9488.80	86.26
Rajshahi Krishi Unnayan Bank	183975	1691.70	77.55
Rupali Bank Ltd.	32546	254.70	85.00
Ansar VDP Bank	632222	2835.70	98.43
Social Investment Bank	32799	232.70	94.00
National Bank Ltd.	14473	93.70	95.00
Islamic Bank (BD) Ltd.	130465	2923.60	98.00
The Trust Bank Limited	3000	1564.90	95.00
Basic Bank Limited	159576	673.30	98.00
Total	10827246	99352.30	

Source: Bangladesh Economic Survey, 2004.

Palli Karma-Sahayak Foundation (PKSF) is the apex organization that deals with banking with the poor and was established by the government in 1999. It also works for Capacity Building of the organization which does not involve directly in money lending with the poor and it reaches its target groups through its partner organizations (POs). It currently provides loanable funds funds to 233 POs at 4.5% interest to small and medium POs and 7% to large POs. PKSF is also widely credited for sharpening the focus of many NGO-MFIs towards financial sustainability and in setting appropriate standards that would ease the way for a strengthened regulatory structure for microfinance. Up to September 2005, PKSF has provided Tk. 23291.74 million to its POs that enable them to disburse Tk. 23175.46 million to targeted group. Outstanding number of borrowers of the micro-credit programs directly supported by PKSF stood at 5.68 million as on September 2005. Loan outstanding stood at Tk. 10947.76 million. Repayment rate is around 98 percent due to strict monitoring and incentives for POs to repay in order to access new loan trenches.

Many impact studies on banking with the poor have been undertaken in Bangladesh by various organizations including individual professional researchers. The highlights of some of the studies are worth mentioning here:

Microfinance Impact Studies

Study	Coverage	Results
Rushidan Islam (1994), BIDS	Partner Organizations of PKSF	Positive impact both on income and other aspects of lives observed.
Alamgir (1994), PKSF	Partner Organizations of PKSF	Strong positive impact on income observed
Hulme and Mosely (1996)		Generally, a positive impact is found on borrower income with on average an increase to around 30% over the non-borrower
Khandaker (1998)	Grameen Bank and BRAC	5% of participant households removed from poverty annually. Additional consumption of 18 taka for every 100 taka of loan taken out by women
Pitt and Khandaker (1998)	BRAC, BRDB, Grameen Bank	Positive impact of program participants on total weekly expenditure per capita, women's non-land assets and women's labor supply. Strong effect of female participation in Grameen Bank on schooling of girls. Credit programs can change village attitudes and other village characteristics.
BIDS, Study (2001)	Partner Organizations of PKSF	Positive impact on income of micro-credit program participant in comparison to non-program participants. Other social indicators also revealed positive impact.
Amin et al. (2003)	Grameen Bank BRAC, ASA	Members are poorer than nonmembers. Programs are more successful at reaching poor, but less successful at reaching vulnerable are effectively excluded from membership
Khandker (2003)	Grameen Bank BRAC, BRDB	Households who are poor in landholding and formal education tend to participate more.

Study	Coverage	Results
		Microfinance helps to reduce extreme poverty much more than moderate poverty (18 percentage points as compared with 8.5 percentage points as compared with 8.5 percentage points over 7 years). Welfare impact is also positive for all households, including non-participants, as there are spillover effects.
Pitt et al. (2003)	BRAC, BRDB Grameen Bank	Significantly positive effect of female credit on height-for-age and arm circumstance of both boys and girls. Borrowing by men has either negative or non-significant impact on health of children
PKSF	Partner Organizations of PKSF	Absolute poverty declined by nine percent points between 1991/92 and 2000 and moderate poverty declined by five percentage point between 2000 and 2004. Mobility of women in male dominated public places has increased remarkably

Source: ADB (2003) and PKSF (various publications)

4.2. Major Achievements of Banking with the Poor in Bangladesh

Collateral free micro-credit sector in Bangladesh could indeed take pride in its substantial achievements especially in terms of outreach, sustainability and its impact on the borrowers, within only two decades. Some of the significant features of achievements are as follow:

Outreach or coverage –The growth in the MFI sector, in terms of the number of MFIs as well as outreach, was phenomenal during the 1990s and continues till today. The total coverage of microfinance programs in Bangladesh is over 15 million households. A survey conducted by the PKSF (PKSF, October 2004) mentions that overlapping would be around 33%. After adjusting the overlapping the effective coverage of MFIs stands at 10.05 million, and that covers around 37% of all households in the country. If 80% of them are living below poverty line then it can be said that this program covers more than 8 million poor households.

Savings collected by the sector – Till December 2004 Grameen Bank and NGO-MFIs had collected more than Tk. 30,384.99 million from over 14 million poor people of rural Bangladesh as savings. This clearly indicates that the notion that poor people cannot and do not save is completely wrong. This means that there is a huge demand of savings in the rural Bangladesh, along with the demand for credit. This demand for savings product is not properly recognized by the banking sector operating there.

Sources of fund and financial sustainability – With the exception of Grameen Bank, no other MFIs are equity-based organizations. Although initially all MFIs were very much dependent on donor funds, different sources have emerged over time. In the initial years, commercial banks were not involved in micro-lending for poverty alleviation. PKSF emerged as an effective organization in the nineties for wholesale lending to its partner MFIs. Since MFIs are financial intermediaries, they mobilize resources from the members and raise funds from external sources for financing lending activities. 'Loan Revolving Fund' is financed with flow of funds from different sources. They are: (a) Member savings; (b) PKSF; (c) Local Commercial and Development Banks; (d) International NGOs; (e) International donors; (f) Local NGOs; (g) Own Fund and Reserve; and Net revenue. During the last few years there have been significant changes in the composition of loan revolving fund of the non-government MFIs. Now the sector is accumulating more funds from local sources, i.e., members' savings and service charges; these two sources contributed more than 50 percent into the revolving loan fund in the year 2004. Local banks are now more responsive and they contributed more than 12 percent to the loan revolving funds of the MFIs in the year 2004. Because of the growing importance of PKSF and internal sources (net revenue and member savings) of finance, the share of international donors has declined from around 48 percent to around 10 percent over a span of eight years. These results suggest an emerging role of PKSF and the internal sources. It has been observed that the sector has made impressive progress towards financial sustainability; MFIs in Bangladesh have been consistently covering cost of operation as well as cost of finance over the last several years. Smaller MFIs rely more on PKSF loan than savings, whereas big MFIs rely more on savings and accumulated surplus. An interesting research observation is that MFIs can be profitable in every level of operations if they can appropriately match their income and expenses with their size of operation.

Impact of Banking with the Poor – A number of studies on the impact of microfinance highlight the fact that access to microfinance has resulted in an increase in employment and income. The most comprehensive and rigorous among them was carried out by the Bangladesh Institute of Development Studies (BIDS). Three important studies could be mentioned here – (i) Joint study of BIDS and the World Bank on the impact of group-based credit programs in Bangladesh, (ii) survey report of BIDS on PKSF's Monitoring and Evaluation Systems (MES) (BIDS, 2001) and (iii) follow up study on PKSF's Monitoring and Evaluation Systems (MES) done by HB Consultants Limited (PKSF, 2005). Summary findings of these three are as follows:

Impact on Income and Employment – The programs do help poor in consumption smoothening, as well as in building assets. The average annual income of participant households is higher than that of non-participants. Self-employment activities had contributed more than 50% of the total income of the participants as against 43% in case of non-participants. Compared to non-participants the participants' households were better able to cope with flood, sustain their income, achieve higher purchasing power and consumption level. Wage and self-employment in non-agricultural sector is also higher for the participant households due to their access to microfinance program. The last study shows that the total household income has increased from 2.8 percent to as high as 12.2 percent per annum during 1997-2004(PKSF, 2005). Wage employment for women participant has increased significantly between 1998 and 2004.

Social Impact – Microfinance programs promote investment in human capital (such as schooling) and contribute to increase awareness of reproductive health among poor families. Adult literacy rate is significantly higher among the eligible participants. The second study also found that program participation increases the chance of both boys and girls to be enrolled in schools.

Impacts on Women Empowerment – Findings suggest that women do acquire assets of their own and exercise power in household decision-making. One of the most visible recent changes in the lives of rural women in Bangladesh has been a significant increase in their access to credit. In Bangladesh, in the last 15 years hundreds of thousands of women have become more visible through increased mobility. Micro-credit programs make women come to the center meeting and that helps build their confidence. Micro-credit allows a woman to handle money; she becomes a financial manager. Anyone can see this great transformation in Bangladesh. One simple example from Grameen Bank is its housing loan; there is a precondition that to take housing loan, the land has to be transferred to the women's name. A great legal change is involved here! There are some evidences that members are able to stop domestic violence due to personal influence in income generation and through group action. In Bangladesh, micro-credit programs have also increased women's participation in the activities of local government.

Impacts on Local Economy – The programs have spillover effects in local economies, thereby increasing local village welfare. The results of the studies strongly support the view that microfinance not only affects the welfare of participants and non-participants, but also facilitate aggregate welfare at village level.

Nevertheless, there has been little work on the aggregate poverty reduction impact of microfinance at the local or national level in Bangladesh. A World Bank study based on the 1991/92 household survey indicates that only about less than five percent of micro finance borrowers can lift themselves out of poverty each year, even if the estimated impacts on consumption are sustained over time. Such percentage represents only about 1 percent of the population; thus the aggregate poverty impact of micro finance programs was quite negligible in the period 1991/92. The last study (PKSF, 2005) mentions that according to the most recent national estimates, absolute poverty declined by nine percentage points between 1991/92 and 2000 and 11 percentage points between 1998 and 2004. However, the moderate poverty declined by less than five percentage point between 2000 and 2004. The declining trend implies a positive and statistically significant effect of micro credit.

4.3 Emerging Issues

Micro finance market in Bangladesh has come quite a long way. However, there are certain issues that need special attention. Stakeholders frequently talk about the following issues:

Interest Rate – The effective annual interest rate of micro credit usually varies between 20 to 30 percent. Though apparently higher than the commercial banks' lending rate, it cannot be considered so from the perspective of sustainability approach. Considering the enormous effort needed in mobilizing the large numbers of poor borrowers and making financial services available at their doorsteps it seems really tough to keep the interest rate close to that of the commercial banks and make the institution financially sustainable. Lending interest rates probably will come down if MFIs operate efficiently in a competitive market. But this requires restructuring of MFIs and functional regulatory agency. The interest rate is still a debatable issue among the policy makers and needs to be handled carefully.

Programs for the Extreme Poor – The extreme poor, who constitute about 15% of the total population of Bangladesh, have remained outside the traditional micro-credit programs. Those deprived include beggars, slum dwellers, day laborers, bonded laborers, female headed households, physically disabled and elderly persons without a source of income. The current micro-credit program design does not fit with the needs of these groups, who require different products with more flexibility. Though present day micro-credit programs are characterized by predomination of a single loan product and one/two savings instrument, there are encouraging moves by MFIs to diversify their products in order to meet the varied needs of the poor people. PKSF, Grameen Bank and some other NGO-MFIs have recently taken some special programs to reach the excluded groups. MFIs are however, yet to meet the challenge of diversifying their products adequately to meet the growing demand of the hardcore poor and microfinance needs to be prepared for the extreme poor. Accordingly financial inclusion of the poor (unbanked) in the formal sector, prudential norms of MFI-NGOs and receiving mechanism at the grassroots levels other than self-help groups (SHGs) and co-operatives should be treated as the most urgent phenomenon in the present context.

Graduated Borrowers and Microenterprises – As borrowers have become more skilled the average size of the loans made by MFIs has grown. Currently, many growing micro-credit borrowers are attempting to become scaled-up micro enterprises. Research shows that there has been a growing demand from micro-credit borrowers for larger loans. MFIs are being encouraged to support these borrowers in order to help them generate additional income and employment. While not all MFIs are able to provide these borrowers with adequate funds, some are responding to their customers' needs. Unlike MFIs, banks have not traditionally provided smaller loans to poverty graduates or to other microenterpreneurs. In addition, bank credit is generally collateralized, which makes it almost impossible for micro enterprises to qualify. Therefore, there arises a serious financial demand from these growing small and medium enterprises, which needs to be met.

Commercial Viability and Self-reliance—Currently nearly half of the revolving loan fund of microfinace programs of MFIs comes from interest earning and their members' savings. The rest is coming from subsidized sources, donors' fund and commercial lending. Access to commercial borrowing is still difficult for MFIs because of the legal system. Commercial borrowing is also very costly for them. Therefore, the question of commercial viability without subsidy is an important issue for them. It is true that access to public deposits helps Grameen Bank to reduce its dependency on subsidized fund. Without having access to public deposits MFIs need start up funds as grants or concession, which can often seriously damage their spirit of self reliance.

Ownership and Governance Issues – As the existing legal framework to register the micro credit operating NGOs is inadequate, these organizations have been usually registered under different charters of the government of Bangladesh, where the issues of ownership and governance are not appropriately defined. Research findings indicate that governance and financial sustainability are closely interrelated. Weak governance and management characterize many micro finance NGOs in Bangladesh. The problems of governance are mostly due to the inadequacy of the existing laws and regulations and lack of reporting, supervision and monitoring. At the same time the ownership structure of NGOs is not well organized. Both the issues are important, now that the sector has become institutionalized.

Regulation and Supervision – The issue of regulation and supervision has come to the forefront because MFIs are providing financial services and products to the poor, outside the formal banking system. NGO-MFIs should be subjected to appropriate but a friendly regulatory framework. Regulation would shield them from political interventions. It would enable MFIs to protect the interest of its members. It would also enable MFIs to grow and develop like financial intermediaries. If they operate under a proper regulatory authority, the monitoring system of MFIs will develop to comply with certain regulatory requirements.

Considering the above mentioned issues, the Government of Bangladesh established a "Micro Credit Regulatory Authority (MRA)" in Bangladesh Bank through the enactment of Micro-credit Regulatory Act-2006 (Act no-32, 2006) and constituted a Board of Directors consisting of eight members under the chairmanship of the Governor of the Bank to ensure transparency and accountability and efficient control of micro-credit sector. The main functions and responsibilities of the authority as mentioned in the MRA-2006 are (i) to issue and cancel license to MFIs; (ii) to audit, analyze and supervises establishment of MFIs or their branch offices; (iii) merger of MFIs; (iv) to audit, accounts of MFIs upon their request; (v) to send information as required by financing organizations; (vi) to formulate by-laws, and finally (vii) to take measures for implementation of the duties/responsibilities as mentioned above. The Act recognized all existing regulatory acts/ordinances and ensured implementation of this act for micro-credit sector.

4.4 Views of Some Independent People (micro-credit leaders, professionals, researchers, funding agencies etc.) on Emerging Issues

In order to have a clear and deeper understanding of emerging micro-credit issues, efforts have been made to obtain the views of independent people like academics, policy makers, development practitioners, micro-credit leaders, representative of funding agencies and researchers on the role of central bank, creation of MRA and regulation and supervision of MFIs, issues of MFI self regulation, interest rates, challenges of inclusive finance and receiving mechanism of micro-credit at the grassroots levels rather than SHGs and co-operaties. Twenty five (25) such independent professionals were interviewed through a guided schedule. Summary of their views are as follows:

Regulation of MF-NGOs

In Bangladesh, very few micro finance NGOs have the right management, financial discipline, and information systems to be as a safe deposit takers. NGOs are mobilizing deposits mostly from their target clients. Many microfinance experts feel that it is not necessary to regulate these institutions if the outstanding balance on loans usually exceeds the deposit amount. This logic assumes that, if the institution fails, most clients would be net beneficiaries and therefore are not in need of protection. From the institution's perspective, the disadvantage of this approach is that it is not likely be able to fund its entire loan portfolio from retail savings. Questions are being raised as to whether an NGO that does not mobilize savings from the public should be regulated? Many experts are of the view that regulation is necessary only when deposits are taken from the general public. The regulation in Peru provides an example of a specialized law that has been developed for transitional purposes. It allows regulators to become familiar with the MFI and its capacity and vice versa thereby laying the groundwork for authorizing deposit taking at a later date. Regulation refers to a set of enforceable rules that restrict or direct the actions of the market participants, altering, as result, the outcomes of those actions. It may not be just confined to government regulation. The regulators have two primary responsibilities: (i) to preserve the integrity of the financial system and (ii) to protect the depositors. There are two broad approaches to regulating MFI operations: (i) Self-regulation or internal regulation through governance and (ii) prudential regulation or external regulation including that by a supervisory agency. Self-regulation requires an individual NGO to strengthen their institutions and share information on a consistent basis. Self-regulation may take variety of forms, ranging from a voluntary code of conduct that MFIs agree to adhere, to a rigorous licensing system administered by an apex body and backed by the force of law. For microfinance NGO to regulate itself, it requires three elements: (i) an independent executive council with technical expertise and authority to hold management accountable; (ii) well-formulated and properly implemented internal control and risk management policies; and (iii) high quality auditor who are educated about microfinance. Self-regulation is only possible if these three elements are combined. The board of directors or the executive committee members, the donors and other funding agency can perform the ultimate responsibility and accountability for internal oversight and governance over management in microfinance operations with transparent disclosure. Given the requirement of self-regulation to function, it is difficult to be workable, if it is freewheeling. To enforce compliance, an organization either existing or new has to be set up backed by legal or quasi-legal power to oversee and implement the entire gamut of activities. So in essence, there has to be a regulator to enforce self-regulation, otherwise it will not be effective. In fact, self-regulation is a less stringent form of external regulation.

A study on regulatory framework carried out by the central bank and CDF shared the findings with more than 300 NGOs in six regional workshops. The smaller NGOs however, favored self-regulation and suggested that it should be free from any bureaucratic influence. The approaches to external regulation of MFIs can however range from minimal to full regulation specifying the limits to types of financial services as well as the prudential guidelines to be offered. It is estimated that more than 1000 NGOs are undertaking microfinance activities in the country and many more are coming to this field as time goes on. There also exists a wide dispersion among these NGOs in terms of outreach, savings, portfolio, products as well as price differentiation. So it will not be a prudent thinking to subject all of them under a uniform regulation.

Currently, NGOs are registered under more than one acts of parliament or ordinances such as voluntary social welfare agencies (registration and control), ordnance, 1961, societies act 1860, foreign donations act, 1978 and companies' act (section 28/1994 limited by guarantee that is not for profit). As mentioned earlier, the savers and loanees (and other clients) of NGOs are not practically their members from legal point of view. The members of development programs of such organizations are, therefore, invariably the public. So the perception that usually exists in terms of members and non-members among the NGO practitioners is not tenable, as there is no legal basis of it. In meaning both are truly the same. Hence, NGOs cannot at all mobilize any savings and take deposits from the general public in so far as the regulation of our central bank is concerned. This is also true for many countries, as for instance, in Sri Lanka; according to law NGOs are not allowed to provide any savings facilities. This applies to all deposits whether from members or non-members and includes compulsory savings that may be a precondition for obtaining a microfinance loan. Any such savings must be invested in a bank account and cannot be used for re-lending by the NGO. In practice, the prohibition on mobilizing savings has generally not been applied strictly. In the Philippines too, the legal situation with regard to mobilizing savings from the members is unclear. Under the banking act, NGOs in the Philippines are not permitted to accept savings and deposits in any form. However, many NGOs are known to have informal deposit-taking relationships with members using certain side tracking devices. As mentioned earlier, only one country that has clarified the situation recently is Nepal, where the central bank has issued two types of 'limited banking' authorizations. In the first category, so far information are available, two large NGOs have been authorized to accept savings from both members and non-members. While in the second category, NGOs are permitted to mobilize savings from members. We can emulate to apply this experience in Bangladesh.

NGOs in Bangladesh are recently being subjected to Government's high handedness. It seems that with myopic attitude the government leaders tend to evaluate them. The NGOs consequently feel quite uncomfortable and are eventually looking for institutional and operational safeguards. In Bangladesh, the expectations of NGOs are not much. The NGOs first and foremost need a legal coverage to carry on microfinance operations and above all want access to formal financial system. This can be done through amending the existing laws under which they are registered and subjected them to self-regulation in order to enable them to undertake poverty alleviation programs through limited microfinance activity.

Issues of Prudential and Non-prudential Regulation:

Prudential regulation requires detailed standards for financial structure and accounting policy, with monitoring and enforcement mechanisms by the financial authority. It can create substantial burden on the central financial authority of a country and requires the physical capacity and level of expertise to regulate all licensed institutions throughout the country.

Non-prudential regulation, on the other hand does not imply the sanction of the financial authority. It offers guidelines and invokes standards that do not involve the implicit guarantee of the financial authority. Examples of non-prudential regulation could include truth in lending laws, or reporting of borrowers to a credit information bureau.

Centralizing regulation of the financial system in government agencies and authorities has responsibility for ensuring the soundness of and confidence in the financial system. As operations of deposit-taking institutions can directly affect financial stability in the country, the government has an interest in monitoring deposit-taking MFIs and ensuring that they meet a series of prudential norms. Through special microfinance windows in the central bank or financial regulatory authority, the government brings microfinance institutions that mobilize public deposits under the same system as other financial intermediaries mobilizing funds from the public.

Others advise that centrally controlled oversight is too cumbersome for effective microfinance operations. Indeed, several analysts suggest that a single government oversight approach to all MFIs mobilizing deposits would force many MFIs out of savings operations, leaving a currently underserved market without access to an important financial service. Rather, some advocate a tiered approach to regulation, whereby more central banking regulatory compliance is required only as an institution directly intermediates public savings into loans. Instead, independent bodies, such as credit union, rating agencies or market-driven deposit insurance schemes would put the information on deposit risk in the hands of the poor savers, allowing them to choose how and where to save. There is, however, general agreement that the market should shape the regulations, rather than the regulations shaping the market.

Micro-credit Self Regulation:

There has been general consensus that as long as microfinance sectors do not mobilize deposits from the general public they should not be regulated. It is also generally agreed that it is also unnecessary and may even be counter productive to subject them to formal prudential regulation and supervision by Government agency. For instance - in most countries 85 percent of NGOs in micro finance sector are not financial intermediaries – i.e., they are lenders only, and do not take deposits from the public. There is probably no strong reason for public prudential oversight of such organizations, since protection of depositors is usually viewed as the principal rationale for such oversight. Further there would also be significant practical difficulties in subjecting Micro Finance Sector to prudential regulation supervision. One issue would be to find a suitable regulatory agency to regulate them. Most central banks in the ASIA region do not seem to have a unit responsible for microfinance, nor do they have a sound knowledge and understanding of the requirements of micro finance sector. A number of analysts from different disciplines and professional background argued that in the absence of significant changes in the methods of regulation and supervision, placing micro finance sector under the supervision of the central bank would be likely to stifle them. It is also not obvious that there are any other government agencies that would be better placed to regulate and supervise MFIs of demand / supply stream. Moreover, in most countries the cost of subjecting micro finance sector to full prudential regulation and supervision would be prohibitive. In Bangladesh, for instance, there are around 1,000 non-governmental organizations (NGOs) involved in microfinance. And while the actors of demand and supply stream in other countries do not have nearly the same outreach as in Bangladesh, the number of intermediaries is not necessarily less. In India there are perhaps as many NGOs engaged in microfinance as in Bangladesh, plus some 90,000 primary agricultural credit societies and thousands of self-help groups. In the Philippines, there are some 500 MFIs reaching a combined total of only 30,000 borrowers. In Thailand there are more than 1,500 community organizations engaged in microfinance. Clearly, it would not be possible to subject all of these bodies to prudential regulation and supervision.

Interest Rate:

NGOs should have freedom to decide their rate of interest while a bar on the interest ceiling may be worthwhile to constrict the NGOs to become neo moneylenders. Although, more than 70% NGOs currently charge interest @15-16% in flat method, while a few are also seen to apply as much as @ 30%. The potential danger is that when the market leaders will be constrained to supply credit, others will have a tendency to raise their interest rates, as the clients will shift towards them to meet their credit needs. In many countries there is no general ceiling applying to MFIs but this does not mean that MFIs of those countries are free to determine their own interest rates. Given the current microfinance methodologies in Bangladesh, there is no doubt that the microfinance is inherently a costly activity as the program is highly supervised. Some people argue that there should not be any cap on the interest rate because it is necessary for them to attain financial sustainability. It is not probably proper to raise income by simply increasing interest rate. Though, many are using it as an easy weapon to fall back upon. This kind of practice hardly reflects any management wisdom and professional sophistication. Sustainability should not be maneuvered just enhancing the interest rate. Rather efforts should be made to bring in efficiency applying cost-effective operational methodology enabling both the borrowers and the lenders to enjoy the benefits simultaneously. Programs should be expanded carefully covering more clients, mobilizing more savings, increasing the loan sizes to meet their needs, enhancing productivity and cutting down costs where necessary. There are many NGOs that do not give any interest on savings at all. The savers are being deprived and hence there should be a floor rate on savings so that the savers are benefited. However, if needed, the government may from time to time change the cut off point. In this context, there can be a stipulation that the current loan outstanding of an NGO shall be significantly higher than the net savings and an appropriate financial ratio can be worked out also in this respect to conform to the idea. This is, however, a flimsy safeguards for savers' protection under the prevailing legal provision.

Research findings have revealed that 1% NGOs out of 495 surveyed by CDF have savings outweighing credit presumably putting the saver money at potential risk. The NGOs should also invest their own capital whatever to ensure its own participation. Many people tend to support this as they contend that microfinance program is a financial venture per se since the actors are not prepared to incur any loss. So, they think that the NGOs should have a stake. The MRA Act would require to be amended, however, should not apply to the NGOs taking deposits from the public (treated as non-members) despite the fact that there is no real distinction between members and non-members in so far as the relevant acts are concerned. Under these amended laws, the NGOs carrying on limited savings and credit program should not be subjected to any external regulation and these NGOs should be called microfinance NGOs (MF-NGOs).

Setting Performance Standards:

Performance standards based on the level of NGOs should be introduced that will also assist government agencies, donors, banks and other financial institutions in identifying effective MF-NGOs. Self-regulation may take a wide variety of forms ranging from a voluntary code of conduct to which the NGOs agree to comply with a rigorous licensing backed by an appropriate authority. The feasibility of various forms of self-regulation depends on a range of factors including the extent to which there is an 'apex body' or may be a 'coalition of several apex bodies' that can represent MF-NGOs as a whole, quantum of resources available for monitoring and supervision and the availability of incentives and/ or sanctions to enforce compliance. But the apex body will need additional resources to monitor individual MF-NGOs regularly and ensure that the agreed standards are met. In our country, a Coalition of three leading apex bodies viz. PKSF, CDF and ADAB or Federation of NGOs may be an effective arrangement to work with self-regulation apart from other probable options and may set up a secretariat to conduct its business. This coalition will be able to work as a highly professional body. Hopefully, it will be able to work without any conflict and leadership crisis since this apex mix is likely to get an overwhelming acceptance in the NGO community because of all major actors having been involved. With necessary backing from the central bank/government, the coalition of apex bodies may reinforce the system of self-regulation with some quasi-legal system of incentives or compulsion.

Experiences of many countries indicate that microfinance institutions can operate effectively through the lending policies of second tier microfinance institutions. Such institutions are not regulatory agencies and cannot indeed impose any legal obligation on MFIs to meet certain performance and reporting standards. In countries, where there is one dominant second tier institution and this institution is a principal source of funds for MFIs, there is a strong incentive for MFIs to meet these standards. Notably, PKSF is the largest and most successful second tier institution in Bangladesh. Second tier institutions are also an important part of the microfinance sector in India, Sri Lanka, the Philippines and Thailand. PKSF has already funded 184 NGOs and is in a strategic position to reinforce the system. The combined efforts of these organizations are expected to produce synergy effect. To start with, these apex bodies may draw upon a memorandum of understanding clearly spelling out their respective tasks and an initiative may be taken forthwith without losing any time. Target members of these three organizations being mutually inclusive, the apex bodies together can ensure utilization of their expertise already attained in some fields, e.g. on-lending, capacity building and policy advocacy. They can judiciously share the huge cost of monitoring.

Role of Central Bank /MRA in MFI Regulation:

While for external regulation, limited number of NGOs should be subjected to this regulation presumably by the central bank, as this will emerge as an additional responsibility of the central bank. The central bank should not unnecessarily be burdened with this job. To screen out the large number of NGOs to this end, there should be some cut off points with regard to net savings volume and current loan outstanding respectively on the basis of which these NGOs should be subjected to external regulation. As for instance, NGOs with net savings exceeding Tk.10 million and loan outstanding of more than Tk. 25 million may be subjected to such regulation. As reckoned, only 3% NGOs comprising 30 (from a total of 1000) falls in this category. Albeit, there is no distinction between members and non-members as clarified earlier, only selected NGOs should be permitted to take deposits from the public (non-members) and be subjected to external regulation to operate through licensing from the central bank. The NGOs in Uganda taking large deposits are also subjected to external regulation. However, qualifying for a license at this level should be tied to good governance and satisfactory performance track record. The microfinance NGOs (not for profit) and private companies limited by guarantee (not for profit) involved in microfinance should be categorized as Non-banking MFIs and may be called Informal MFIs. At present there is no provision in our central bank to provide registration and license to non-banking MFIs. The central bank as a custodian of financial institutions has a big responsibility to bring the activities of selected NGOs within the country's monetary and fiscal policies to create an enabling environment for effective microfinance operations. Because, the overall management of NGOs are mostly person oriented regardless of their size, which is yet to take a solid institutional shape. It has both merits and demerits. However, so long such NGOs are involved in non-financial development activities, there is probably no risk posed to the beneficiaries as well as themselves. But as soon as they enter into financial activities and that also with millions of poor, the issue cannot be left unattended. If the microfinance NGOs are threatened by any deepening management crisis, political upheaval, social disturbance or national cataclysms, which is beyond their power to absorb the shocks, the programs may eventually collapse. Consequently, if the monopolistic leaders cave in, the total industry will be knocked down completely. There is likelihood in this respect that cannot be fully ruled out as recent experiences in the country point to such evidences. The aftermath will be that the poor clients will be crushed with all their green hopes fading away. Therefore to secure the organization as well as the savers, the fragile institutional base must be legally fortified to protect both the parties i.e. the institution and the clients. Many of the MFI experts call for enactment of a new law or central bank ordinance to accommodate the changing circumstances. These institutions like the general NGOs may receive grants and donations from national and international sources and should have authority to borrow from local money market, obtain soft loans from national and international organizations and maintain adequate reserve with the central bank to ensure safeguards of the savers.

Private ownership in the microfinance industry should be encouraged at the same time to minimize investment risk and broaden the base of investment. Private limited companies (for profit) that are also non- banking profit MFIs may be set up to carry out microfinance with licensing from the central bank and may be called Formal MFIs. In this context, example in Ethiopia may be a case in point where private investment is being allowed. Such formal MFIs should have minimum capital structure, appropriate governance, well-defined savers' protection mechanism (in terms of maintenance of necessary documents, reserves against savings with the central bank, adequate liquidity ratio against savings) and loan provisioning requirements. The MFIs should have authority to receive grants/donations/soft loans from national and international sources. They should be allowed to borrow from the money market, accept deposits from the public without cheque facilities, issue and sell promissory notes, bonds and debentures within and outside the country. These formal MFIs should be allowed to participate in the local call money market and make wholesale on-lending to MF-NGOs and informal MFIs.

Specific Roles and Responsibilities Recommended for Central Bank:

Central bank can play an important role in promoting linked micro-credit program in Bangladesh because as guardian of the monitory authority the linked micro-credit program needs a strong policy support to work within the framework of different linkage partners under the program. If at any time bank as a partner can crate any obstacles in performing the operational modalities of the program resulting a negative impact on it, the central bank can utilizes monitory measure to make it in a proper direction. The central bank can encourage such program for better recovery of investments through public banks under linked micro-credit programs. The central bank should recognize the effort of the program and institutionalize it as a regular program through different agencies specially deals with micro-finance.

Raising and Managing Micro Finance Development Fund: Bangladesh Bank can create a Micro Finance Development Fund (MFDF) with a substantial contribution from the donor's and government to finance BKB, RAKUB, private commercial banks and other institutions to provide funds to micro finance institutions and infrastructure support for capacity building and arrangement for database and information flow.

Functioning of Task Force: Bangladesh Bank can set up an Micro-finance task force to look into (i) Legal status of MFIs, (ii) Capacity building at all levels, (iii) Regulations and supervision of MFIs, (iv) Developing rating norms for MFIs-NGOs and CBOs, (v) Protection of savings of members, (vi) Setting minimum performance standards, (vii) developing financial and accounting system, (viii) allowing local NGOs to provide banking and other services.

Establishing Micro Credit Research Cell- Bangladesh Bank can set up a Micro Credit Research Cell and can invite national and international experts, researchers, commercial bankers to suggest appropriate measures for up-scaling, mainstreaming and flow of micro credit. The cell will undertake special studies to address the current problems and suggest policy options.

Bangladesh Bank can give a total freedom to the banks to decide terms and conditions of loans to the NGOs including repayment period, unit size, unit cost, etc. with the intension to make micro credit available quickly and without hassle.

Role of MRA: It is imperative for the NGOs to be registered and licensed under MRA. This will encourage them to become a member under a broader regulatory framework. With a view to arresting the mushrooming growth of unscrupulous NGOs, it is better to have this mechanism in place of formal regulation and supervision of micro finance institutions like MRA. But it is not possible for MRA to regulate and supervise MF-NGOs with the existing limited strengths. Some mechanism has to be evolved well ahead.

Financial Inclusion of Non-bankable and Vision for Inclusive Finance:

The vision for inclusive finance must be supported by a sound policy, legal status and regulatory framework should have a continuum of financial institutions that, together, offer appropriate financial products and services. This would be characterized by:

(a) access of all households and enterprises to the range of financial services viz. savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and foreign remittances at a reasonable cost.

(b) Building sound institutions guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation is required;

(c) financial and institutional sustainability as a means of providing access to financial services over time;

(d) multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (include any combinations of sound private, non-profit and public providers).

To accomplish the vision of inclusive finance following actions need to be taken into account to accomplish the vision:

Right to Fair Treatment: This requires financial policies and practices that do not tolerate discrimination by gender, ethnicity, or other characteristics that should be seen as irrelevant to financial services availability. It requires protection of customers' rights and enforcement of that protection, recognizing that financial market abuses of customers have been common.

Degree of Financial Literacy: the ability of customers to do business with financial institutions depends on their degree of financial literacy specially in communities in which people are not used to handling debt, education about the dangers as well as opportunities of borrowing are essential, not to mention counseling for the over-indebted and appropriate personal bankruptcy legislation. Promoting financial literacy increases access as well as the ability of customers to get the financial services they need on appropriate terms.

Existence of Multiple Types Financial Service Providers: Some civic or government intervention has typically been required to open access to appropriate financial services for poor and low-income people on sustainable terms, in particular by setting in place the systems of incentives for a broad range of financial services providers to step in. Policymakers have accommodated a variety of legal models for financial institutions and allow different sizes, forms and methods for institutions that seek to provide financial services to poor people. Multiple types of financial service providers (private, non-profit, and public) may very well coexist in competitive economies. Public/private partnerships are also possible.

Sustainability of Financial Service: Financial services should be provided on a sustainable basis. In this regard, governments can decide to give subsidies or special tax benefits, but they should take into account the lessons of many countries over many years, and they should be sure to aspire to sound practice. Whether in the form of providing incentives or removing disincentives, these measures can be adopted as conscious policy. Incentives should find transparent expression in annual government budgets, where they may be judged against alternative uses of public funds.

Innovation in Financial Service: New forms of service provision arising through technological and financial innovations are taking place. It welcomes especially when they hold out the promise of breaking down the impediments to access to financial services of underserved populations. Regulation and supervision of financial institutions should make room for financial service providers to innovate to enhance access, as long as this does not impede the fundamental imperatives of financial institution soundness and financial sector stability.

Receiving Mechanism at the Grassroots Level other than SHGs and Cooperatives: The receiving mechanism at the grassroots levels other than SHGs and co-operatives are local initiatives of individuals, programs through local governments, micro-enterprises, programs of different Community Based Organizations (CBOs), Civil Society Organizations (CSOs), informal co-operatives, Targeting Ultra Poor (TUP) program of BRAC, VGD program backed by different donors like WFP, EEC. These programs along with the SHGs and co-operative approaches constitute a strong mechanism at the grassroots levels for the micro-credit beneficiaries. So there should a policy framework to give weightage to all approaches in the operations of micro-credit irrespective of their heterogeneity in credit lines, outreach, inner visions and roadmaps to reach the ultimate goals of poverty alleviation in Bangladesh.

4.5. Future Challenges

Following are the future challenges that the micro-credit banking sector faces in Bangladesh as a new and growing industry:

Sources of Fund and the Issue of Sustainability – It is clearly understood that donor funds for micro-credit will diminish in near future, which means that the current operating spreads of MFIs will shrink and they will have to seek more commercial sources of funding. Hence, MFIs will need to balance greater efficiency in fund management specially financing in social sector programs in rural areas. It is obvious that in future MFIs will have to prepare more efficient financial strategies for survival.

Operating Efficiency – As the industry reaches the peak of its maturity it would face more competition. Therefore, MFIs will need to further refine the services/products that they offer and will have to identify market needs and design appropriate products accordingly to compete.

Monitoring Microfinance Sector Development – Development of the microfinance sector requires both sustainable MFIs and a flow of information for comprehensive understanding. At least two agents are required for sound microfinance sector development: sustainable microfinance institutions, and appropriate regulatory framework for monitoring and supervision. In Bangladesh, efforts are underway to develop sustainable MFIs and a regulatory framework. Big MFIs have their own institutional arrangements for training, management information system, monitoring and research but small MFIs are unable to have institutional arrangements for monitoring and research. PKSF, however, provides technical support to its partner MFIs on a limited scale to build up their capacity. Much help is actually needed in this area.

Regulation and Supervision – It has been mentioned earlier that Micro-Credit Regulatory Authority (MRA) in Bangladesh Bank is overseeing the sector judiciously. However, many questions related to the regulation and supervision remain unsolved which will be solved by the future regulator. It is frequently asked that whether the same type of regulation and supervision would fit all types of NGO-MFIs and what would be the most cost effective technique to supervise some 1000 plus organizations? NGO-MFIs mainly operate in the rural areas, which sometimes are very difficult to reach in time; communication is generally poor in the rural sector. Considering all these problems and their nontraditional method of operation what kinds of supervision technique would be suitable for them? These are some of the emerging issues that the MRA should address in its future course of actions.

Developing Comprehensive Rural Financial Market – Rural financial markets comprise formal, informal and semi-formal institutions. Public sector banks (PSBs) dominate formal financial market. These PSBs, are not able to reach all types of clients in the rural financial market, they are not also commercially viable. In such a situation, rural financial market can be more effective by making MFIs as the formal institutions. It will enable MFIs to expand their portfolio and exploit economies of scale. As such, MFIs would be able to improve their viability and offer financial services at relatively low interest rate especially for the poor people in the rural financial market.

Micro-credit in Bangladesh has reached over one-third of all rural households in Bangladesh. Currently there are more than 1000 NGO-MFIs operating all over the country. In Bangladesh, mainly four big institutions including Grameen Bank dominate the market. Government programs and commercial banks' participation in microfinance are now considered valuable, they are also playing useful promotional and development roles in this sector. The important observation is that the microfinance operation is now more self-reliant than before; it has funded half of its operation from local sources that comprise members' savings and service charges on loan. However, the interest rate is still a debatable issue among the policy markers. The issue of regulating microfinance and supervising NGO-MFIs is being discussed more seriously among the policy makers, including the government and its development partners. In this context, PKSF is playing an important role in the development of a self-regulation process and in supervising its partner organizations, which would help build up a culture among the community. The newly enacted MRA in Bangladesh Bank is trying to develop some uniform policy guidelines for this sector. Currently, the authority is playing a vital role in updating the list of NGO-MFIs, collecting their information and analyzing them to get important policy inputs. Further, if the future challenges could be addressed successfully through the functional operations of MRA, then the banking with the poor would indeed have a bright future in the coming days.

CHAPTER-V

ORIGIN, DONOR'S VIEWS AND FUTURE TRENDS OF BANKING WITH THE POOR THROUGH LINKED MICRO-CREDIT PROGRAMS IN BANGLADESH

5.1 **Origin**: In the past, program based credit subsidies and neglect of savings mobilization campaign have undermined rural banking with the poor through different approaches. This has rendered financial institutions unviable and development unsustainable. In recent years, many countries have adopted strategies in which bank mobilize savings and practice banking according to the rules of the market but due to excessive transaction costs for both banks and customers, they merely reach down to the grassroots level. The rural poor, therefore, have to rely on non-formal financial institutions, which are viable, self-sustained and adjusted to local conditions. Yet their resources are insufficient for the local micro-enterprises, they are too weak to reverse the trend of the rural urban capital flow; and they alone can not financially support to dynamic development process (Seible, 1992,P.3).

During the early 1980's a novel approach entered into the debate: linking informal and formal financial institutions. In 1986, APRACA (Asia and Pacific Regional Agricultural Credit Association) took the steps from debate to action. Being an association of central Banks and major financial institutions with a rural mandate in Asia and the Pacific, it took the lead role on the international level, while its members initiated actions on the national level. In the new approach, the self-help group (SHGs) acts as intermediaries between micro entrepreneurs and banks. This reduces transaction costs substantially, for the benefit of both micro entrepreneurs (gaining access to banks) and banks which have been able to extend their services to low income groups. The strength of the APRACA initiative lies in the fact that the bottom up movement of local self-help groups (SHGs) is met by the top-down approach of an association of leading banks.

Subsequently, member countries began to survey self-help groups, elaborate linkage models and prepare projects. A program was designed which incorporate the major factors of sustainability, such as reliance on institutional capacity, co-operation between governmental and private voluntary bodies, pre-existing grassroots organizations (SHGs), domestic resource mobilization, market forces, scheme flexibility and socio-cultural adjustments. It gave a push to self-supporting market process between banks and self-help groups (SHGs) (Seible, Ibid, P.3).

Indonesia was the first country to implement a pilot project and the project was initiated by three institutions namely, Bank Indonesia which is the Central Bank, Bank Rakayet Indonesia, which is the largest bank with rural mandate, and Bina Swadaya which is a leading NGO involved in the promotion of self-help groups. There are now more than 30 banks and bank branches, 20 NGOs and 500 SHGs participated in the project distributed over nine provinces of Indonesia. The Philippines and Thailand were the next countries to implement this project for poverty alleviation. The project in Thailand is carried out by the Bank for Agriculture and Agricultural Co-operatives which linkages closely with the Department of Community Development. Self-help groups were promoted under its auspices. The project in the Philippines is carried out by the Land Bank in co-operation with the People's Council of Rural Savings and Finance which is a network of some 35 NGOs that promote several thousands of SHGs and co-operative society. Numerous other countries are now at various stages of preparation for linkage projects, among them India, Nepal, Sri Lanka and Vietnam are on the front. Gesellschaft fur Technic he Zusammanabeit (GTZ) GmbH granted technical assistance to APRACA and supported bilateral projects in Indonesia, the Philippines and Thailand. Meanwhile APRACA and the African Regional Agricultural Credit Association have taken steps to introduce the linkage programs to Africa where self-help groups and informal financial institutions proliferate. Nigeria, the People's Republic of Congo and Zimbabwe are the first APRACA member countries that have shown an active interest in pilot testing the approach.

APRACA (Asia and Pacific Regional Agricultural Credit Association), an association of Central Banks, Rural Development Banks, and Rural Commercial Banks, is one of the four Regional Agricultural Credit Association (RACA) originally promoted by United Nations Food and Agriculture Organization (FAO). Established in 1977 with an emphasis on agricultural credit, it subsequently broadened its scope towards rural finance. At a workshop held in May 1986 in Nanking, China, the member countries adopted a novel program of access of formal financial institutions for the poorer sections of the population. The innovative focus of this program is on "cost effective financial inter-mediation system built around self-help groups as grassroots intermediaries between banks and rural-micro-entrepreneurs, which cuts down on transaction cost for both banks and their rural customers (Seibel, Ibid, P.7).

Subsequently, several APRACA members carried out surveys in their respective countries. They found that there are many organizational and institutional resources with great potential for micro enterprise finance and rural development. But the problem that stands in the way of full utilization of these resources is financial market segmentation. There are formal financial markets for the upper 5 to 20 percent of the population. These markets, fall under the control of state credit and related financial laws and are supervised by the Central Bank. They comprise Central, Commercial, Development, Savings and Secondary Banks as well as Non-banking institutions. In addition, there is a small but growing semi-formal financial market, which comprises Governmental and Private Voluntary Organizations, so called Self-help Promoting Institution (SHPI), with their own savings and credit programs, they don't fall under the state's credit law but operate with the approval of the state and its organs. Informal financial markets comprise financial self-help groups, other self-help groups with secondary financial functions and individual financial agents such as money lenders, deposit collectors and trade, crop or land related financial arrangements. From a policy viewpoint, financial self-help groups are of particular importance. They formed ethnic groups in most of the Asian countries. Their main financial functions usually are accumulation and depositing of savings, granting of loans and to some extent, rendering of insurance services. They may be found in urban and rural areas, among traders, farmers and fishermen, craftsmen and small industrialists. Though parts of the informal financial sector are lacking legal status, most associations do possess organizational structure. For more effective financial coverage of the poorer sections of the population, three different approaches have been discussed in the APRACA discussion on rural finance (Seible, Ibid.P. 8): (i) upgrading financial-help groups of micro-entrepreneurs; (ii) linking existing self-help groups and banks; and (iii) adoption of banks to their environment. The APRACA decided on the linkage programs as a focal approach, which may eventually comprise both upgrading and institutional adoption measures. While the member countries are likely to recommend particular models of linkages, which reflect the socio-cultural and economic situation, the main emphasis is on the initiation of process of interaction and dialogue. These are resulted in appropriate national and local activities to promote financial services for micro-enterprises. In many countries, discussions have been held, and research has been carried out on self-help groups and their importance for the development of rural finance. Two types of lead agencies evolved there on the international level i.e. (i) APRACA as an association of central banks and national financial institutions with a rural mandate; (ii) on the national level central banks, and some major rural financial institutions as national policy makers. Since 1986, there has been a continuous process of communication shifting back and forth between the international level and the respective national levels of the member countries. This dialogue provides the basis for a learning process which allows every country to benefit from the experience of the others. In addition to a variety of conference meetings and workshops, two elements of communication and mutual learning deserve particular attention. One is an international training program and another one a new journal, Asia Pacific Rural Finance. APRACA members discussed essentials of a sound policy for financial market development and several guiding principles emerged such as working through existing formal and informal institutions, promoting savings mobilization, promoting credit delivery at market rates, linking savings and credit, substituting group liabilities for conventional collateral, ensuring institutional viability and covering the risk from the margin.

Despite substantial contributions made by the extension of rural banking network by special programs, rural finance has remained inadequate in providing for the growing needs of small enterprises and farmers, particularly among the poorer section of the population. Bureaucratic red-tapes, lack of collateral and legal requirements have effectively barred the poorer sections of the rural population from banking services. In addition, there is one obstacle which may surpass all others in economic importance i.e. excessively high transaction costs for both banks and other customers. Private money lenders have moved to fill the void, charging interest rates which cover these transaction costs. At these rates, however, most micro-entrepreneurs find it difficult to use credit for the financing of their business, except in some fast turn-over trading activities. APRACA and its member institutions therefore decided to carryout programmes to improve system of rural finance available to the poorer sections of the rural population. In a series of pilot projects, a novel approach to the development of rural finance was tested, linking existing financial self-help groups as grassroots intermediaries to banks for both savings mobilization and credit delivery thus minimizing transaction costs for both banks and final borrowers. The project purpose was to made available financial services to self-help groups of micro-entrepreneurs and small farmers. Regarding the objectives vis-a vis advantage of banking with the poor through linkage approach to development, the National Bank for Agriculture and Rural Development (NABARD), India in its policy guidelines stated that "A recognition by the formal credit structure of the self-management capabilities of the poor through the SHGs and a linkup between the two is expected to reset in specific advantages to both the systems. Under the linkage project the main advantage to the banks would be externalization of a part of the work items of the credit cycle: assessment of the credit needs, appraisal, disbursal, supervision, and repayment and consequent reduction in the transaction costs. Improvement in recovers and also in the margins would lead to a wider coverage of the target group. A larger mobilization of small savings would be equally advantageous. For the groups, the advantages lie in the access to large quantum of resources as compared to their corpus generated through thrift, access to better technology and skill up-gradation through different schemes of banking sector and a general improvement in nature and scale of operations that would accelerate economic development." To implement these objectives, the program is designed to participatively initiate linkage process rather than prescribe specific models. Any specific schemes are to be the outcome of participative process among the respective participants. There are two principal linkage dimensions (i) an institutional linkage dimensions encompassing link between SHGs and Banks either directly or indirectly via private voluntary or governmental intermediaries (ii) direct access model includes: direction of flows of funds and services, transition to direct linkage, transition to direct access, direct linkage consultation, direct access consultation, indirect credit delivery and direct credit delivery (Kropp et.al., 1989). Given the fact that in terms of development potentials, there exist many institutions with savings and credit as well as other development activities comprising SHGs, Private Voluntary Organizations (PVOs), GOs, NGOs , and financial market.

There exist many institutions with savings and credit as well as other development activities comprising self-help groups in which small entrepreneurs have organized them-selves; private voluntary organizations which have been supporting a small number of self-help groups but usually with a significant impact; governmental organizations which have been supporting a number of self-help groups; banks with a decentralized network and an orientation to small enterprises; further given the fact that in terms of development problem financial market in developing countries are grossly underdeveloped; most small enterprises are too small to be directly and cost effectively reached by banks; access of many self-help groups to banks has not been actively promoted; and non-governmental and governmental organizations have not sufficiently acted as intermediaries between self-help groups and banks, it is imperative to launch an institutional linkage program that links self-help groups with banks; enables self-help groups to act as intermediaries between individual small enterprises and banks.

Financial Linkage is a linkage dimension encompassing a link between savings and credit. By linking SHGs to banks and simultaneously linking credit and savings, a linkage of financial cycles is generated which lead to recycling of augmenting savings .

The main prerequisite for the selection of a self-help group for a comprehensive linkage with a bank should be that it exists for quite some time during which regular savings activities have been practiced. The surveys on self-help groups which several APRACA member institutions carried out have shown that quite a number of SHGs are already linked with banks through their group deposits. Any linkage strategy relates mainly in the beginning to existing SHGs. In addition, it seems to be useful to start with those groups that have already generated a loan fund and issued loans from their internally generated resources. These groups probably perform better with regard to on lending of external funds to members and in managing prompt repayment since they build on tried and tested practices.

Additional eligibility criteria to be determined locally may include the following features of self-help groups (Kropp et al. Ibid, P. 53): grassroots organization; formal or informal organization from a legal stand point; cohesiveness and homogeneity; responsible leadership and good management; permanency; orientation towards income generating activities; regular meetings; adherence to rules and regulations; keeping some minimal records, such as membership register, saving register, loan register, income and expenditure accounts.

In the context of the sub-continent, micro-credit programs have a long history which date back to the early 1900s (India's Co-operative Credit Societies, 1904). After World War

II there was a surge in these efforts that accompanied the growth of modern foreign assistance (Von, Pischke et al. 1983). During the four decades following the war governments and donors spawned hundreds of small farmer credit projects. Most institutions who extended loans to farmers under these programmes lost money and many of them withered away, disappeared, or were sustained only by re-capitalization (Adams and Pischke, 1992). These institutions proved unable to meet the dual challenge of institutional and financial sustainability on the one hand, and outreach to large numbers of poor people on the other. In this situation, non-governmental organizations (NGOs) providing help to the victims of famine, earthquake, flood or hurricane (mostly in developing countries) extended their activities in rural developmental work .

It is argued that the original approach of micro-credit finance developed from NGOs. During the 1980s, the provision of financial services dealing with very small deposits and loan – microfinance – and particularly the provision of micro-credit, have been increasingly acclaimed as effective means of poverty reduction. NGOs aiming to bring about reductions in poverty have become increasingly involved in providing financial services. Of these NGOs, most have experience of savings and credit, often linked to programs of income generation.

Initially, NGOs were providing financial assistance at a small level as part of their poverty alleviation program. It is widely agreed that the best way to alleviate poverty is to promote the long-term development of the poor which in turn reduces their vulnerability to external catastrophe and disasters. As a result, to the extent that the pressures to respond to the immediate problems of emergencies permit most NGOs to devote as many resources as they can to promoting long term development (Riddell, 1990). A major concern of NGOs involved in credit provision has always been how to reach poor people, and in the late 1980s and 1990s the rhetoric that NGOs are able to 'reach the poorest' has remained powerful (Johnson and Rogaly, 1997).

The NGOs started micro-credit-financing schemes to reach the rural poor who were excluded from the formal credit system to improve their living conditions. Grameen Bank (GB) was established as an NGO in 1976 with the explicit aim of extending credit to poor villagers, not covered by any government schemes or commercial banks. In 1983, the GB became a full-fledged bank, though it still has an NGO-style organization with clients formed into small groups and with some social aspects in addition to its banking activities (Another famous bank, Banco Solidario S.A.of Bolivia started as NGO and subsequently chartered as a commercial Bank in 1992).

What makes GB different from other MCF organizations is its charter as a specialized bank and the explicit pursuit of its altruistic mission through a profit-maximizing strategy of commercial viability.

However, the NGOs approach is aimed principally at welfare-enhancing objectives. Projects and programs taken by the NGO directed at poverty alleviation embrace two types of intervention: direct and indirect. The first covers those projects and programs whose objectives are included (but not necessarily restricted) to raising income levels or enhancing the economic status of beneficiaries. The second type covers projects and programs whose immediate aim is to motivate and organize the poor, increase the self-reliance of the beneficiaries in the wider community in order to improve their material well-being by raising incomes or enhancing wealth. NGO projects in this category have common features. They are intended to benefit those most in need i.e. the land-less and land-poor; they are aiming to raise the income of the target group by securing their access to key resources; their income generation projects thus fostered are intended to become self-sustaining and they recognize that poverty has social as well as economic dimension and so aim to promote solidarity amongst the poor.

5.2 Donor's Views

International financial institutions gave loans to the governments of respective countries who in turn pass on the sample to GOs and NGOs micro-credit programs through an arrangement with the donors. The system is that, as for example, UNDP as a donor provides grants to government and local UNDP office to start up programs. Contractors are selected through an international bidding process to help a local NGO to set up the micro credit. The other UN agencies and international financial institutions like the World Bank and IFAD are usually required to work through government places, limitations on the donor's capacity to support effective micro-credit programs and other area steers them towards supporting programs in which government play a role[8] . The role of some international development

[8] According to a survey conducted by the CGAP working Group on Improving Donor Financing Instruments and Arrangement for Micro-finance, multilateral agencies are six times more likely to change micro-finance funding to projects implemented by government organizations than bilateral donors.

agencies and financial institutions in promoting linked micro-credit programs are given below:

5.2.1 Consultative Group to Assist the Poorest (CGAP):

The Consultative Group to Assist the Poorest (CGAP) processes a core fund through which assistance flows from a global headquarters to individual grassroots institutions as grants. When considering the administrative cost per dollar that matches the poorest. It is clear that this process is very cost inefficient. The uses of CGAP core funds can be broken down in some categories[9] such as consultancies, conferences, research studies, training, promoting best practice institution building, administration and other expenses like Actual Loan to the Poorest and Actual Loan to the Poor and Actual Loan to the Non-poor. The stated categories are constructed to provide as much detail as possible, CGAP does not use these categories. In statistics compiled for first three years of investment, CGAP reported on its funding commitments using some categories such as (a) Support to Micro-credit Institutions (MFIs) i.e. (i) Funding through networks (19.2%); (ii) Direct Retail Funding(41.7%) and (iii) Technical Assistance Support and Business Planning Support (3.2%); (b) Capacity Building (32.2%) and (c) Policy and Conferences (3.7%). Implicit in this point is the fact that, despite which categories are used, information must be transparent regarding the proportion of money going to the poorest in the first cycle, in other words, international community should be aware of how much money coming from donor agencies is going straight to the poorest as loans, how much of each donor dollars on non-loan categories actually leverages loans to the poorest in dollar terms in the subsequent cycles and how much in fact goes to other activities. There are bilateral agencies like CGAP and other donor gives loans and grants directly to both government and NGOs to be used either exclusively for micro-credit programs or as part of a package of programs. USAID as donor provides finding to micro-credit programs through US NGOs (practitioners) and consulting firms often to work as partners with third world NGOs. The bulk of the money is used by the US NGOs and consulting firms for administration, overhead, training and institution building. Other bilateral donors operate in a similar way. Some rely on Northern NGOs, even more than USAID relies on US based NGOs. As a result of these practices, in addition to other dimensions of the current mechanisms the amount of donor funds translating into "actual loans to the poorest", is likely to be quite low, perhaps less than 25 percent. Other

[9] Status of CGAP Investment -Phase I. CGAP, November, 1998

donor agencies would include CGAP, NGOs in the donor countries that mobilize funding for micro-credit program from sources other than official agencies, foundations and individuals. These types of donors represent a relatively small portion of the funds flowing into the micro-credit sector. A recent CGAP study shows that foreign investment in micro-finance is about 1.1 billion US dollars of which about 80 percent as debt, 15 percent equity and around 5 percent in guarantees. These foreign investments have come mostly from the private sector funding arms of bilateral and multilateral agencies and partly from private capital through Social Investment Funds.

5.2.2 The World Bank Group:

At the World Bank Group, IBRD/IDA has lent close to 20 million US dollars a year for micro-finance and its private sector arms- the IFC has substantially increased its lending-reaching 90 million US dollars in FY 03 alone. The emergence of Social Investment Funds is worth mentioning where debt fund and equity funds are prevailed. Out of the 1.1 billion in total foreign investment in micro-finance, around $250 million US dollars is being channeled through Social Investment Funds.

Donor support for the micro-finance sector in Bangladesh continues to be expensive both in number of donors engaged and variety of projects supported. The Bank's major role has been to support Palli Karma Shahayak Foundation (PKSF) through different projects. The Microfinance Project-I was operated between 1996 and 1999 with the total loan of US$ 105 million. The main component of the project was to support the poverty alleviation objective through (a) expanding the vertical and horizontal outreach of ongoing successful micro-credit programs and (b) enhance institutional/financial sustainability of PKSF as well as P0's credit program. The Microfinance Phase II was framed within the period 2001-2005 with the total loan of US$ 151 million. The main component of the project was to support for poverty alleviation through micro-credit by (a) expanding outreach to greater number of poor; (b) diversification to reach urban poor, hard core poor and micro entrepreneurs; (c) building PKSF institutional capacity and establishing legal, regulatory and supervisory framework. The Financial Service for the Poorest (FSP) was framed within the period of 2003-05 with the total loan of US$ 5 million. The brief description of the project was confined to the development of an appropriate credit delivery model for reaching the poorest of the poor who can be assisted with micro-credit as well as other safety net facilities. There are two other related proposals for the Bank (IDA) support which specifically targeted the poorest and poverty reduction: a Rural Finance Foundation and a similar apex body to PKSF in the social sector: the Social Development Foundation (SDF). The latter is a US$21 million project now at the pilot stage which will seek to develop effective local institutions to engage the rural poor in community driven initiatives like small scale infrastructure and social assistance activities toward which the SDF will provide matching grants of 80-85 percent of the costs. One time seed capital will be made available to individual members of the most vulnerable poor households. Recipients of this micro grants will be selected explicitly on the criteria that they fall below the level of participation in standard micro-credit schemes coming from households with a monthly income of less than Tk.1000.

5.2.3 Asian Development Bank (ADB):

Asian Development Bank (ADB) was involved to support micro-finance programs as well as pursued sector development since long. ADB had shifted its intervention from outreach and disbursement over sustainability to more on institutional strengthening, financial viability, supervision and regulation. ADB's ongoing Rural Livelihood Project (RLP) implemented by BRDB had the strong outreach focus with less emphasis on institutional development. The project achieved a considerable outreach impact with a half million co-operative membership. But the project suffered from weak institutional governance, little transparency, efficient microfinance management skills, and lack of effective supervision. ADB is now recognizing the project priority and initiating a development of an institutional strengthening plan to transform the project co- operatives into autonomous, self-sufficient credit co-operatives. It has also been continuing support for the development of regulation and supervision for micro-finance institution. ADB provided technical assistance for establishment of a framework for sustainable microfinance to develop omnibus microfinance legislation and support Bangladesh Bank to build its supervisory capacities. ADB's study on Commercialization of Microfinance in 2002, that outlined a framework for microfinance institutions in Bangladesh for adopting market oriented operational principles and donor support in building effective microfinance policy environment including minimizing the roles of the government, developing legal and regulatory framework in building MFI institutional capacity.

5.2.4 International Fund for Agricultural Development (IFAD):

In respect of micro-credit various routes have been tried for the development of IFAD fund through BRDB, through wholesale banks lending to local NGOs and hence to their members, disbursement by Project Management Units to NGOs hence to members, to a bank (Agrani bank) for direct lending to farmers and to a bank (Sonali Bank), hence to legal NGO (which on lends to associate NGOs who in turn lend to final beneficiaries. The problem throughout has been to identify a body which has the systems and professional competence to lend to NGOs and then to oversee the development and repayment of these funds. Mallonie (2003)[10] summarizes lessons learnt as there have been significant problems relating to the wholesaling of credit by banks to NGOs and neither banks nor technical project agencies are equipped to monitor and supervise the operation of NGOs at the field level. IFAD's latest approach with MFTSP was to develop its entire Fund, both the credit and technical assistance components through PKSF. The latter will select and monitor local NGOs to disburse the credit component and identify which organizations are most appropriate to deliver the training component to those beneficiaries taking the loans. The logic behind the approach was not only to ensure high repayment rates on loans but also to ensure greater efficiencies in service provision through appropriate involvement of NGOs and private sector in the supply of inputs and services. IFAD is now starting to plan a further project with PKSF which will extend the scope of micro-finance services to marginal and small farmers.

5.2.5 The European Union (EU):

The European Union (EU) is another multi-lateral agency which has been active in micro-finance sector and EU funded projects with microfinance components are (i) Challenging the Frontiers of Poverty Reduction implemented by BRAC which deals mainly with ultra poor concentration on capacity building and asset transfer with a total cost of $ 30.9 million (€28.7m); (ii) Micro-credit Rehabilitation Project (MRP) to assist the partner organizations in refinancing micro credit to 1998 flood victims and establishing an emergency fund over a five years period with a total cost of $ 15 million (€14 m); and (iii) food security for VGD women with capacity development of NGOs in 7 North Western districts to work with extreme poor in food aid and training with a total cost of $ 37.5

[10] Mallonie, Edward (2003).“ Review of IFAD Experience with Rural Credit in Bangladesh”, a paper presented in the International Seminar on “ Attacking Poverty with Micro-credit,” Dhaka, Bangladesh

million (€ 35.0 m). All these multi-sectoral projects involved only small amount of micro-finance but both the Challenging the Frontiers of Poverty Reduction (CFPR) and FSVGD are explicitly intended to develop the ultra extreme poor beneficiaries to the point at which they can become regular members of micro credit groups.

5.2.6 United Nations Development Program (UNDP):

United Nations Development Program (UNDP) was active in a modest way in the micro-finance sector and it formulated a policy in 1999 for micro capital grants for both credit and non-credit purposes which is part of its global programming manual. Country offices are required to follow this policy as well as CGAP's Small and Micro Enterprise Finance Guiding Principles for Selecting and Supporting Intermediaries. In accordance with this policy, UNDP has been providing grants for credit and other activities on the condition that they don't exceed $ I 50,000 per recipient organization each of which must fulfill certain conditions. In February-March, 2003, a UNDP mission carried out a review of micro finance in Bangladesh and it was found that with the growing maturity and outreach of the sector, donors are withdrawing from providing grants to capitalize micro finance institutions. The role of PKSF was a wholesaler, will become increasingly important in capitalizing microfinance institutions and instituting industry standards for the sector and significantly, that a large number of micro finance institutions that do not adhere to these industry norms will withdraw from the sector. It further concluded that donors' will increasingly focus on the strengthening of the external capacity of the lenders in the field that will be able to apply sound microfinance principles and to adhere to prudential norms that apply to the formal financial system. UNDP management in Bangladesh concluded that the environment was not conducive for the kind of support that UNDP can offer on microfinance in Bangladesh and UNDP should therefore, cease current activities and withdrawn from all credit component supplied by micro capital grants. There were 14 such projects- two with an NGO and 12 with GOB departments primarily funding CBOs and all these have none been closed. In some cases, the credit component was converted to non-credit inputs i.e. skill training, purchase of common assets etc. Currently, UNDP is supporting live microfinance projects without a credit component targeted at destitute, vulnerable groups who often reside in remote areas where access to micro-finance institutions is non-existence. There is an urban project in three cities and eight municipalities, one in Chittagong Hill Tracts, a fisheries project in Cox's Bazar, a horticulture project and a sustainable environment management project.

5.2.7 The Department for International Development (DFID):

The Department for International Development (DFID) has made substantial contribution to the development of micro finance sector in Bangladesh. For many years, fund were deployed to promote the development of multi-sectoral NGOs like BRAC and Proshika with micro finance being one of a number of programs. Challenging the Frontiers of Poverty Reduction (CFPR) which is targeted specifically at the ultra poor is a further development of BRAC's successful IGVGD Project. A direct result of the increased emphasis which DFID is giving to achieving the Millennium Development Goals (MDGs), the project recognizes that the ultra poor do not have the skills, resources or confidence to benefit from standard microfinance products and require major prior inputs for broader human and social development. DFID funded projects with micro-finance component are CARE, RDRS and CFPR (BRAC). NGOs worked as linkage partners in Char Livelihood Project, where other donors and government departments collaborate with the project.

5.2.8 Swiss Development Corporation (SDC):

Swiss Development Corporation (SDC) has been one of the most active and innovative of the bilateral agencies involved in micro finance for a number of years. Its current portfolio of projects comprises (i) Financial Service Development Program to empower the tribal communities through self-help institutions to deal with financial issues, capacity development and institutional building support to deliver appropriate financial services to the SHIs. The participating actors were Ashrai, NOVIB etc and the total cost was $ 3.7 million; (ii) Credit and Development Forum (CDF) and its members MFI with total cost of $ 1.3 million; (iii) Micro finance for the extreme poor -to identify models of sustainable interventions to reach extreme poor and lead to their graduation out of poverty and carry out action research through partner MFIs to test the appropriateness of flexible and innovative products in the rural areas among the poor with a total cost of $0.14 million; (iv) Support to BURO Tangail, a localized NGO in order to experiment and innovate new financial service products, provide flexible financial services to small and very small clients and aim to capitalize BURO through loans from donors and commercial banks with a total cost of $ 2.4 million. The participating actors in the project were DFID, SIDA and BT; (v)

Microfinance Matching Credit Fund to develop linkage program by promoting commercial funding of microfinance in Bangladesh as a component of broader financial sector reform with total cost of $ 1.1 million. The participating partners in these linkages are Pubali and Prime Bank Ltd.

With and around these projects, SDC has supported some approaches, especially to encourage the commercial banks to become more actively engaged in the micro finance sector. In an initiative with Sonali Bank, SDC encouraged the Bank to provide a loan to the Shakti Foundation. In the first year, SDC provided a guarantee of 80 percent of the loan, in the second year 70 percent and in the third year 59 percent. Sonali Bank has continued to lend to Shakti with present loan of taka 40 million with a condition that Shakti banks one third of its member's savings deposits with Sonali Bank. In another initiative with Pubali Bank Ltd., SDC deposited Tk 25 million with the bank at 3 percent interest. In return, the bank put in Tk 50 million, thus creating a fund of Tk 75 million which is lent out to NGO-MFI @ 10-12 % per annum. As further reassurance to Pubali Bank, SDC also pays to the potential NGO-MFI borrowers and provide capacity building services in areas where the borrowers are considered to be weak.

The support for Ashrai, an NGO, which has recently become a partner of PKSF, comprises $2.5 million for loan capital and $1.2 million for capacity building. Ashrai operates through a total of some 3300 groups comprising 20-25 members to reach operational self-sufficiency and agreed target for outreach and portfolio at risk by the end of the project period. An agreed reporting format has been agreed with NOVIB, another co-funder of Ashrai.

5.2.9 Canadian International Development Agency (CIDA)

Canadian International Development Agency (CIDA) is another bilateral agency which has been active in micro-finance sector. The projects funded by CIDA are (i) Proshika Phase VI expansion in health, education and micro-finance with the total cost of $6.5 million where participating partners were EU, DFID, NOVIB; (ii) Challenging the Frontiers of Poverty Reduction (CFPR) which deals with BRAC's ultra poor program mainly concentrating on capacity building as well as asset transfer with the total cost of $8.3 million where the partners were DFID, EU, AusAID, NOVIB and Aga Khan Foundation (AKF) and (iii) Final phase of PDBF with the total cost of $8 million.

5.2.10 Swedish International Development Agency (SIDA)

Swedish International Development Agency (SIDA) used to be a major player in micro finance sector specially for Grameen bank, BRAC, Poverty Alleviation Program (PEP) of BRDB and BURO Tangail. SIDA's current interest with an annual budget of some $20 million is directed primarily at health, education and good governance. DANIDA is currently operating a programmatic approach to development via the Agricultural Sector Program Support. This intervention comprises of 13 components covering work with two ministries (M/O Fisheries and Livestock; and M/O Agriculture) and three departments (Fisheries, Livestock and Agricultural Extension). Both the Fisheries and Extension Components and the Small Holders Livestock Development Component II have micro credit funds disbursed by partner NGOs. There is problem on the long term ownership of DANIDA's micro credit funds in the agricultural sector. Currently, the fisheries program has $ 1.7 million managed by 12 NGOs of different sizes from KARITAS to very small local NGOs. Loans are made available to landless and marginal farmers @ 12% interest rate. The NGOs argued that this is insufficient to cover their costs and argued for 15% flat rate. But the real problem lies in the long term ownership of these credit funds. Experience has shown that that government owned and controlled bodies are not most appropriate vehicle to own and deploy credit funds for the poor.

5.2.11 Australian Aid (AusAID)

Australian Aid (AusAID) is a relatively new donor in the micro finance sector. However it has been a long term development partner contributing to related initiatives like WFP-BRAC-IGVGDP to prepare ultra poor women for mainstream microfinance, and through an NGO funding program provided some assistance to Safe Save. The current projects comprises Vulnerable Group Development Program with partners of Departments of Women Affairs', WFP and BRAC, Food for Asset Component of Integrated Food Security Program with LGED, RDRS, ASOD and ESDO; and Northwest Micro Finance Expansion Project with BRAC within the total cost of $2.7 million.

5.2.12 United States Agency for International Development (USAID):

United States Agency for International Development (USAID) did provide a grant of $ 14 million to PKSF for contribution to PKSF's capital funds to be used for lending to NGO-MFIs. USAID is no longer directly active in micro finance except one project titled: Management of Aquatic Ecosystems through Community Husbandry (MACH) which included funds ($100,000) micro loans to fishermen through CBOs. These funds were placed with CARITAS as the "wholesale" manager to manage disbursement to and subsequent on-lending by the CBOs. To date, CARITAS has organized about 100 such groups of 20 members each to manage open water systems. Another project directed to the development of pond fisheries and implemented by World Fish Centre in association with partner NGOs. NGO provides improved management and fisheries technology for better yields. The project provides extension services and NGO-MFIs provide loans which have resulted in increased production and enhanced income for the participating families.

USAID is active in micro enterprise development under the Job Opportunity Business Support (JOBS) Project in which technical assistance such as promoting market linkages, workforce training and product development are provided to micro, small and medium enterprises. Clusters of micro enterprises in various sub sectors are formed and linked to large enterprises for accessing domestic and international markets.

USAID's Loan Portfolio Guarantee (LPG) program implemented through three private commercial banks, Prime Bank, National Bank, Dhaka Bank provides guarantee of US$ 1.0 million to each of the three banks. The program encourages banks to provide loan to small enterprise and guarantee up to 50% of banks outstanding portfolio under the program in the event of defaults. USAID is, however, continuing active support for the microfinance sector globally. The Micro Finance Knowledge Generation Program has recently been launched to conduct research, establish best practice and create new tools to further the field of microfinance. Indirectly USAID's other activities in the financial sector may be relevant to the more mature MFIs. Specially, the agency is promoting the introduction of a Secured Transaction Law which is designed to widen the forms of collateral that can be offered to secure a loan from a bank or NBFIs. This proposed law could open up the legal opportunity for any mature NGO-MFIs with a strong financial record and performance to scrutinize parts of its loan portfolio and borrow from a commercial bank. The ADB has taken up this policy initiative in collaboration with the JOBS in order to get it adopted by GOB.

Discussion on donor's activities provides useful insights into changes that have taken place in the microfinance sector. Donor funds for the mainstream activities of the NGO-MFIs have almost dried up completely and support is now being directed towards special clients i.e. the hardcore poor, different geographical areas not previously well served, and innovative NGO-MFIs. Capacity building is increasingly recognized as an important area including various steps to encourage the commercial banks to become more actively involve as source of wholesale finance to retail NGO-MFIs.

From the analysis, it is clear that the basic modality would be to agree on a vision for a future with key stakeholders like government, PKSF and microfinance practitioners. The element of such joint vision are; (i) microfinance must be seen and treated as an integral part of the total financial sector whose delivery should reside in the private sector within a policy, legal regulatory environment set by the government; (ii) microfinance should provide a broad range of financial services - a diversity of demand led products in credit, savings, insurance etc. which should constantly benefit from further development and innovation; and (iii) Further donor support for the microfinance sector should be more focused in areas where donors can play strategic and catalytic role, and in areas where resources are not available from Bangladeshi sources.

5.3. Future Trends

The international aid programs failed, many believe, to achieve their objectives- a fact that was recognized as early as the end of 1950's and most of these failures were attributed to the perception that the people supposed to be benefited from the development project, were not included in the process of designing, formulating and implementing these project. With these premise development activist and practitioners advocated for ending the prevailing 'top-down' approach and adopting participation and participatory methods of interaction as an essential ingredient of development. The idea received World Bank's recognition in 1973 when the Bank President Robert Mac Namara told his audience that no program would help small farmers if it was designed by those who had no knowledge of their problems and operated by those who had little interests in their future. Thus, the term participation and participatory development paradigm called 'bottom- up' approach which currently dominates the policies of bilateral and multilateral donor agencies. Since, the idea of this approach is to reduce governments influence in utilizing development aids and the private sector is not an ideal candidate to substitute them, the new policy regime emphasized the involvement of civil organizations popularly known as NGOs who are the important actors in the linked micro-credit programs. NGOs believe that poverty is created through the social process of depriving the poor from their rightful access to social resources i.e. credit that has been treated as human right to the micro-credit lenders. They believe that it (credit) can inspire social and economic revolutions through organizing the poor under the pro-people linked micro-credit programs.

Most formal sector organizations are currently experimenting with group lending in poverty alleviation programmes which are driven by a sense of social obligation. The experience of semi formal organizations i.e. NGOs suggest that the highly supervised lending model have been a costly affairs and more effective solutions would be to link formal banks with NGOs to exploit their respective comparative advantage. There are three useful models of such linkages, i.e. (i) the NGO establishes itself as a bank and best examples of this linkage are Grameen Bank of Bangladesh, Bancosol in Bolivia, SEWA in India, KREP in Kenya etc.; (ii) the NGO acts as an intermediary in which Bank lends to an NGO for on-lending to its members and NGO is responsible for the loan, bearing all credit risks and recover it. The best example of this model are Agrani bank lending to ASA and PKSF lending to POs (NGOs) in Bangladesh; (iii) the NGO act as a facilitator or broker where the bank bear the credit risk by lending directly to the borrowers and shares a part of their spread with the NGO as commission. The notable examples of such model are Swanirvar Bangladesh (SB), MSFSCIP, etc. A study (FSRP, 1994) assessed three cases of bank's investment with group lending where banks lend directly to group without NGO support, the recovery rate was too low to be viable at current interest rates. In the case related to model (iii), the subsidy to sustain NGO expenses was estimated at 45% and effective interest rate would have to be 55% for the program to be sustainable. It was only in model (ii), with a 'wholesale' loan from bank to well run NGO which was found to be commercially viable to both the bank and NGO, model (iii) is constrained by interest ceiling for agricultural lending and currently, the bank's margin is insufficient to allow a high commission to NGOs to cover their costs for identifying borrowers, recoveries, and organizing the groups.

NGO are likely to be reliable than most of the banks' traditional customers and under the current regulatory framework, it is unreasonable to expect banks to make unsecured loans to small NGOs. These NGOs either have inadequate collateral, expecting collateral free bank loans just as they lend to their borrowers.

At present the most important role for grant assistance is training and capacity building of credit NGOs and this can be channeled through a combination of support NGOs such as PACT, a network NGO, umbrella organizations of NGOs such as ADAB and CDF, and through PKSF. There is a pressing need for an appropriate regulatory and supervising framework to exercise some degree of prudential oversights over deposit taking NGOs, where they are borrowers of commercial credit or not. However, the degree of oversight should be carefully considered so as not to saddle NGOs unduly with extra transaction costs or affect their essential nature.

Of various segments of the informal credit market, the potential interests from the linkage purposes are trade credit, private lending agencies and pawnshops. There are significant possibilities of using trade channels to deliver credit to the farmer's door step at lower cost and risk than to direct delivery by formal banks. The scope is relatively greater in backward regions, suggesting a more proactive policy stance in these areas. It's a reasonable hypothesis that greater access to formal credit by the beparis as well as increase flows of other marketing agents will ultimately lead to higher flows of dadon and better terms to the farmers. The problem facing the beparis in Bangladesh is that of lacking godown facilities and they are unable to pledge stocks as against hypothecating them.

The Grameen Rin Shohojugi (GRS) scheme of BKB and RAKUB in Bangladesh is an innovative initiative using loan agents to deliver credit to rural areas. But one problem in this process is that the present margin allowed to the GRSs is insufficient and to fully exploit the advantages of informal lenders, restrictions on on-lending rates and purposes, should be removed with the objective of promoting competition among informal lenders to ensure that the market rate settles at a level that reflect costs and a normal level of profits, lending to lowering of informal rates. Pawnshops are another potentially important source of credit which is highly successful in a number of countries like Thailand, Malaysia, and Indonesia.

But in Bangladesh, their legal provision is not clear and in response to the demand for their services, they should allow to operate openly for reducing their transaction costs.

The Government of Bangladesh has long recognized the importance of finance for development and banking with the poor through linkage approach has earned reputation both in the areas of outreach and recovery of loans from the clients. Pro-active steps by the GOs through linkage schemes can significantly improve the flow of financial service to the actual target group people. The institutional and capacity buildings of smaller NGOs are important issues on long-term basis. In the short-run, linkage between established NGOs with the existing micro-credit institutions (Banks) can be encouraged. However, it is to be recognized that the development of NGO programmes must proceed in a manner and at a pace that the existing institutional, human capital capacity can sustain. Therefore, whether to build on past success or to expand its scope to include small and marginal farmers, the pressure to speed up the pace of expansion of successful programmes should be strongly assisted. The banking system should actively explore ways of using smaller NGOs as brokers/actors/facilitators in exchange for a fee to increase outreach as well as reduce costs within the context of banking with the poor.

CHAPTER-VI

ORGANIZATION AND MANAGEMENT OF LINKED MICRO-CREDIT PROGRAMS

This chapter discusses threadbare the organizational and managerial effectiveness of some of the selected linked micro-credit programs specially devoted to the banking with the poor in Bangladesh.

6.1. Small Farmers Development Program (SFDP):

Background:

Small Farmers Development Program (SFDP) was evolved on the failure of the strategy like "growth first, distribution later" in mid seventies under the joint sponsorship of FAO, UNDP and the Government of the People's Republic of Bangladesh. It emerged as an action research project on Small Farmers and Landless Laborers Development from March 1976. It was intended to operate for three years on an experimental basis to find some institutional escape from the subsistence level equilibrium syndrome. Since march 1976, SFDP has been functioning for 27 years and although there is no official confirmation of future program schedule, it appears that the present phase continued until June 2004.In broad terms, the SFDP in Bangladesh can be divided into three distinct period :

(i) Experimental Period (1976-80): The trial period begun when a pilot program was established covering a total of 8 villages in the three areas of Bogra, Comilla and Mymensingh. Because of positive results achieved during the experimental phase, a Project Proposal (PP) was submitted to the government in order to make further expansion of the project activities. However, due to some complications relating to the approval of the PP and signing Aid Memoir/Project document with the development partners (UNDP and UNCDF), expansion program was not possible during the Second Five Year Plan (1980-85).

(ii) Transition Period (1981-1991): During the Third Five Year Plan (1985-90), it was decided to expand the project activities in the districts of Patuakhali and Barguna and BARD, Comilla was assigned the responsibility of execution. The expansion of the program began from July 1988 after the approval of the PP and the signing of the Aid Memoir/Project document by UNCDF. Eventually, the project tenure was extended up to June 19991 by way of phases following the recommendations of an Evaluation Team comprising the representatives of GOB, UNDP and UNCDF.

(iii) Expansion Period (1991+): Depending on the findings of the evaluation of the first phase of the project, it remained operative for a period of another five years with effect from July 1991. During the second phase, seven upazilas of Barisal and Bhola Districts were included, thus bringing a total of 21 upazilas of seven districts under the coverage of SFDP. Then the third phase of the project begun for a period of another three years (1996-1999) and subsequently, it has been extended up to June 2004 as a Demonstration Phase and the project location was also extended to 1192 villages under 30 upazilas in 8 districts of Bangladesh and enrolled 9456 groups with 52191 members.

Objectives of SFDP

The immediate objective of the project is to ensure collateral free credit support of the nationalized banks/commercial banks and support services of other relevant organizations to the members / beneficiaries of the experimental projects in undertaking production, employment and income generating activities for poverty alleviation/ socio-economic development; and the long-term objectives of the project is to take steps for gradual expansion of the successful model of poverty alleviation through the efforts of the experimental projects in new areas as a demonstration program.

Components of SFDP

(a) *Formation of Informal Groups*: The groups have been formed with minimum 5 to maximum 10 members but the appropriate size is 7-8 members. The groups are separately organized for male and female members. The project selects beneficiaries on the basis of land holding and economic condition under small farmers and landless groups.

(b) *Collateral Free Credit through Banks*: After their selection the group members are kept under observation for three months and during the period they are made oriented about the project activities. The group members are finally recommended to the local banks

(Janata / Krishi) for providing the first loan of Tk 5000 without collateral provided their activities are found satisfactory.

(c) *Motivation for Own Savings through Small Deposits*: The group members started different IGAs with credit money and repaid the loan money within a year and maximum within 18 months time. The project authority takes continuous motivational activities in savings of some income for attaining self-sufficiency of the group members. The savings habit of the group members thus becomes an inbuilt mechanism of the project.

(d) *Human Resources Development:* Human resources development through training is one of the most important parts of the projects. The group members were trained on different group dynamics and different IGAs based on suitability of the local group members need and demand. Before organization of the training course, the training needs of the beneficiaries were thoroughly identified.

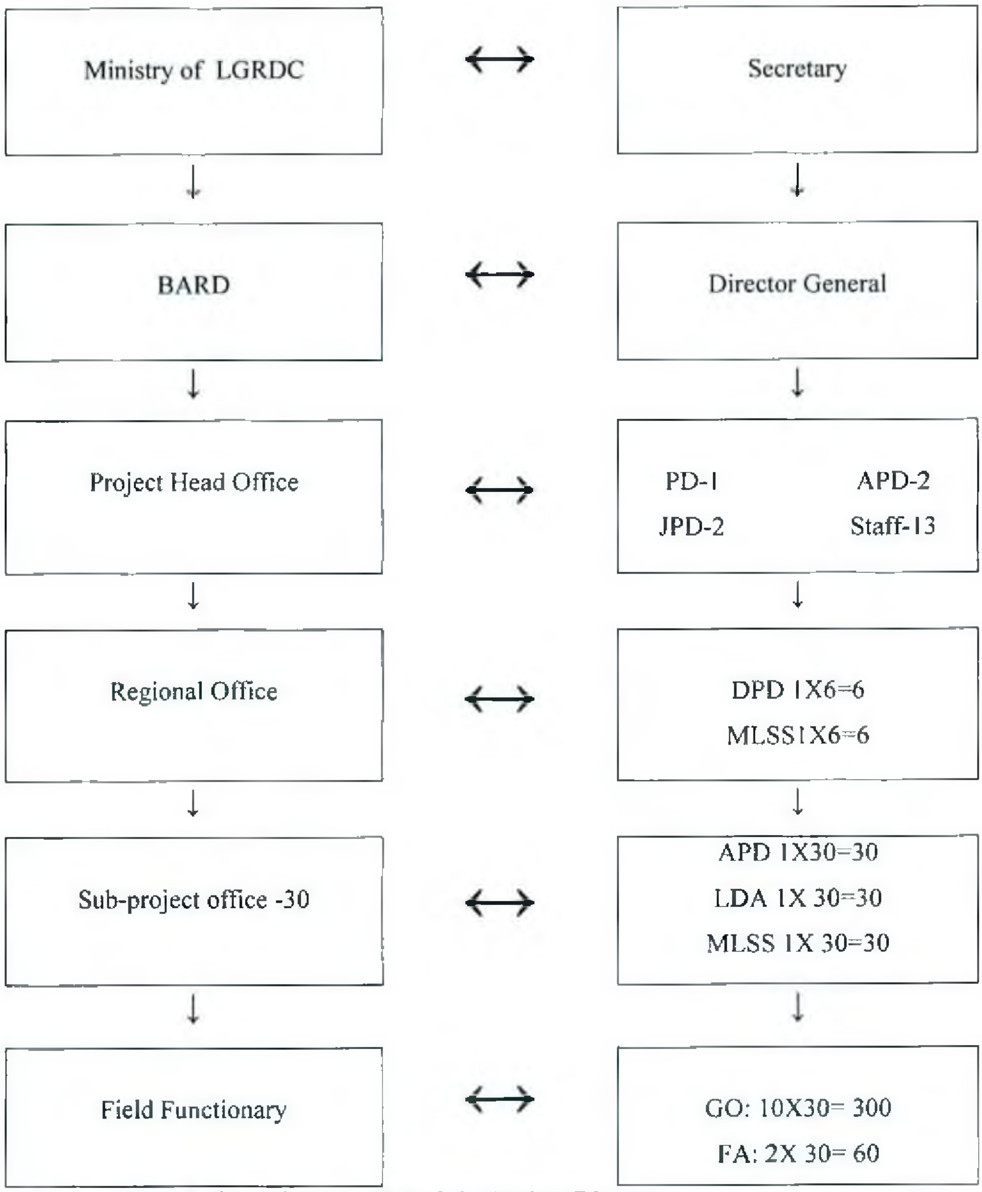
(e) *Motivation for Social Development Activities:* Along with the credit activities, the group members were motivated in undertaking social development activities like sending of their children in school, participation on national immunization program, taking low cost nutritional food in the daily food items, etc.

(f) Institutional Mechanism and Linkage System:

Institutional Mechanism: Bangladesh Academy for Rural development (BARD), Comilla has been successfully implementing the project since 1988. The day to day administrative, financial and planning of field level activities, implementation, monitoring and evaluation i.e. overall management has been ensured through the "Head Office" located at BARD, Comilla. The 'Head Office' is constituted by one Project Director, two Joint Project Directors, two Assistant Project Directors and 13 other supportive staff of different levels under the control and guidance of the Director General of BARD.

CHART-1

ORGANIZATION AND MANAGEMENT STRUCTURE OF SFDP



Note: PD = Project Director; JPD = Joint Project Director

DPD= Deputy Project Director; APD= Assistant Project Director

FA= Field Assistant; GO= Group Organizer

Source: SFDP Head Office, Comilla

In implementing the field level activities of 30 project upazilas, 30 sub-project offices have been set-up. The day to day functions of each "sub-project office" is performed by one Assistant Project Director and two other supportive staff. In implementing the project activities at village levels one 'group organizer' is responsible for every 200-300 beneficiaries and one 'Field Assistant' have been employed for supervision and monitoring of five group organizers activities. In each sub-project office there are 10 Group Organizers and 2 Field Assistants. An institutional structure is given in Chart-1.

Linkage System: The principal actors in the linkage program of SFDP are the banks, the group members, the groups, the market partners of the groups and the other supporting actors like the officials of Nation Building Departments (NBDs) at upazillas.

According to the project documents "The ultimate actors in this linkage are the Banks on one hand and the self-help groups on the other hand which pursues a direct linkage between the banks and the groups. Although the groups are formed and guided by SFDP, the sponsors, it is not involved in financial transaction.

The Participating Banks: It is one of the main characteristics of SFDP that the target population is linked to the existing bank branches. The PBs in the program are: Janata Bank with 35 branches and Bangladesh Krishi Bank with 24 branches.

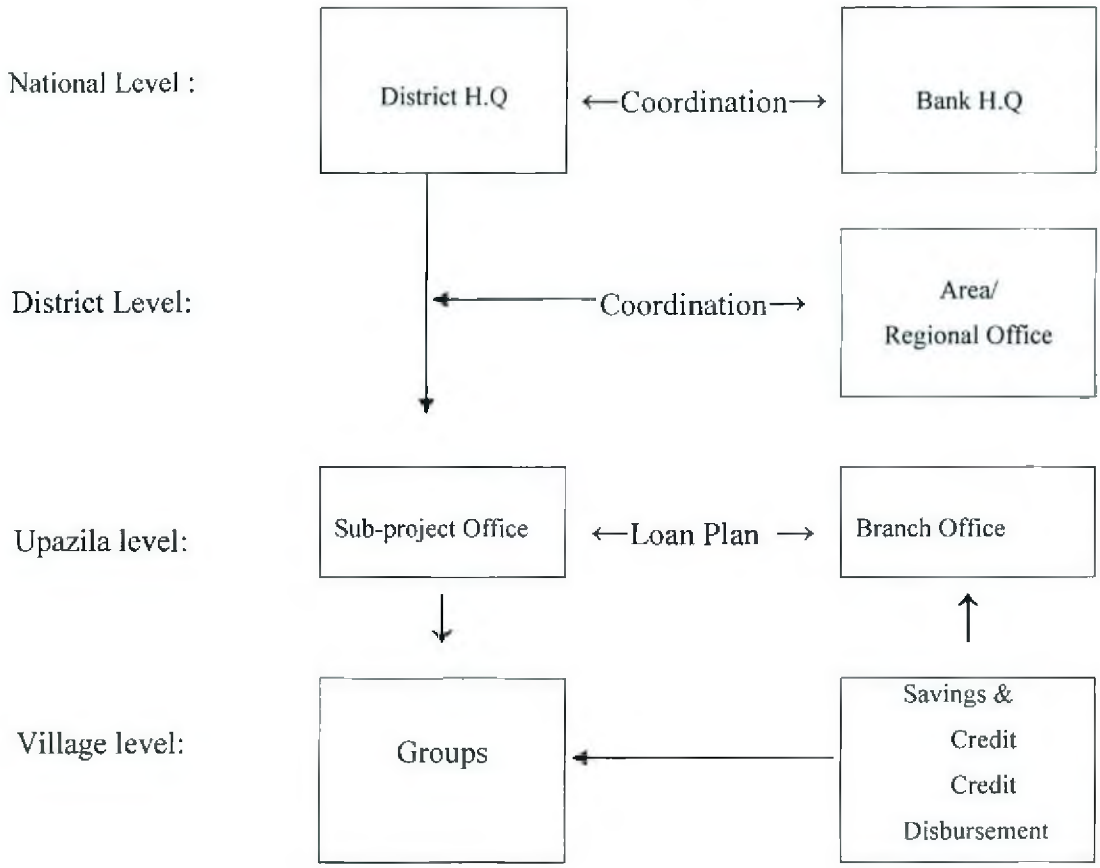
SFDP take upon itself the tasks of motivating, organizing and training the poor but the actual lending is made by the banks directly to the beneficiaries. It (SFDP) also monitors end use of loan money by the borrowers and collects weekly installments on behalf of the banks with the help of field assistants and Group Organizers.

Bank SFDP Linkages:

- The program is under implementation jointly by program bank functionaries at different levels;
- The program has two tires i.e. head office at BARD and Sub-project Office in each of the program upazilas;
- The bank has three tires i.e. Head office at Dhaka, Area/Regional Office at districts and Branch Office at upazila level program functionaries;
- All banking services relating to savings and credit operations are being provided by the designated local Janata Bank and BKB, a sketch of which is shown below:

CHART-2

Bank Project Linkage



Self-help Groups (SHGs): This is the most important actor in the SFDP- Bank linkage micro-credit program. The SHGs are comprised of 5 to 10 of the poor male and female owning less than 0.49 acres to not more than 1.50 acres including homestead. Each of the groups has its own committees and plans of actions to deal with the matters of group interests. Till now, there are as many as 8369 SHGs with 43413 members under the linkage scheme.

SFDP as Self Help Promotional Institutions (SHPIs): SFDP as a government program involved in organizing, training and motivating SHGs members in undertaking different productive activities at the village level and recommended them to the banks for loans. After the loan have been granted and disbursed, follow up supervision, monitoring and repayment fall within SFDP's responsibilities. Apart from economic program, SFDP is also working for social mobilization of the rural poor. Its approach has been the targeted development through proper utilization of micro-credit in rural areas.

Linkage Relationship: The method adopted in the SFDP credit is a combination of efforts i.e. banks holding monetary resources and the SFDP as a government unit helps direct these resources to the SHG members. The approach is that Janata Bank and BKB by their individual approach could not reach the poor and SFDP which has been designated for the development of the rural poor lacking financial resources to address the problems of poverty. Thus, the joint effort of the program and the bank is likely to achieve the objective of the linkage approach. Presently, SFDP credit program reached 52191 loanees and disbursed Tk 8811.87 lakh and the recovery rate was 88.98 percent up to October 2005.

The source of credit fund of SFDP is savings of the clients, donor's fund, and banks fund. Under the program, savings are usually done in three ways i.e. amount of weekly savings per member has been fixed at least Tk 05; five percent of credit are deposited to the group savings account for funding the IGAs; and in any other way the group member desires, specially from the profit of IGAs. The regular savers who attain the minimum amount of Tk 3000/- savings per capita gets the benefits of additional loan amounting to 50 percent of his/her savings. There is no penalty system for withdrawal of savings. Moreover, it is allowed to each member at any time for reasonable grounds. Savings money is normally kept in Savings Account and Fixed Deposit Receipt (FDR) account. For this they get interest as per the interest rate prescribed in the bank documents. For SFDP loanees, savings and credit services are effectively linked to each other. An applicant must have deposited savings equivalent to 5 percent of total credit proposal in the savings account and this is an ongoing activity. Objective evaluation by outsiders has confirmed that SFDP linkage of savings and credit has had important employment and income generating effects for the target population directly for the members. Moreover, participation of SFDP members in savings and credit activities is a good experience for managing family households or group finance.

Credit is not a new financial instrument for SFDP clients. Many have had loans from money lenders @ 2 per cent per week or 20 per cent per month. Interest rates in the informal market of Least Developed Countries (LDCs) range between 100 percent and 300 percent. SFDP borrowers pay 12 percent per annum in different installments. But as loan repayment begins after disbursement, the loan balance and consequently the interest is falling due to decline week by week or month by month through out the installment paid. This makes interest less burdensome than under conventional loan terms where the full principal amount remains outstanding until the final due date. In relation to inflation ranging from 10 and 14 percent, SFDP's 12 percent interest rate has been positive in real terms. The SFDP has also introduced service charge @ 5 percent of the total loan disbursed to the group members and this money goes to the project alone. The range of loan varies from Tk 5000 to Tk 10,000 and if a members savings exceed Tk. 5000, his upper ceiling is fixed at Tk. 10,000 plus 50 percent of his savings. No penalty system is practiced for loan default but compound interest rate is charged. In the program, as many as, forty-eight portfolios are initially identified and finally included in the financing scheme. It is observed that nearly half of the total loan has been issued to the livestock sector for creating self-employment among the poor. The other important portfolios are Rice Husking, Fishing, Fishnet Making, Vegetables Production, Betel Leaf, Nursery, Rickshaw Pulling, Boat Making, Handicrafts, and Restaurant Business etc.

Although the 5 per cent which borrowers contribute as saving remains as their own money, it is an item of negative cash flow or cost. Thus the borrower pays 12 per cent interest and 5 per cent service charge, totaling about 17 per cent on 95 taka, available to him/her out of a 100-taka loan. The real cost of loans available for investments is approximately 17 per cent. The rate of return on the investment must therefore exceed 17 per cent. This cost-of-loan concept should not be perceived as the interest rate which is 12 per cent per annum, on the declining balance. The five per cent service charge remains the property of the project beneficiaries, and should be used as future course of action of the project. Nevertheless, two points are relevant in this connection. First, this cost may look high by Western standards, but experience in general as well as interviews with SFDP clients confirm that rates of return on short-term loans invested in small enterprises like livestock, petty business, etc. are typically 50 per cent higher. Secondly, compared to the market rates ranging between 100 per cent and 300 per cent per annum, these costs are reasonable. SFDP has learnt from the failure of formal co-operatives and the exploitative nature of informal financial markets.

The achievement of this linkage scheme reveals that through SFDP, the loanees have been able to raise their income in all the sub projects and the average increase in income was found 40 percent. The project beneficiaries have generated own capital through thrift deposit amounting of Tk 498.31 lakh with the per capita savings of Tk. 1141.50. On the contrary, nearly 10,000 members generated savings @ of Tk 5000 per capita. The beneficiaries were provided with collateral free loan of Tk 8811.87 lakh and the average amount of loan use has been increased by cent percent from 1st loan to 4th loan. In SFDP area, nationalized banks with an agreed interest rate provided micro-credit to the poor with the objective of bridging the gap between the rural poor and the bank credit support system. At the same time, it establishes linkage of the rural poor with the banks. The SFDP is not an income earning one and it is mainly for giving service to the beneficiaries. In spite of that, a service charge @ 5 per cent has been introduced and an amount of Tk 3 crore is realized till now which is the indication of sustainability of the program from financial viewpoint.

Summary

Small Farmer's Development Program was launched with the objective of experimenting collateral free micro-credit at the grass root level. The main components of the project were formation of informal groups, collateral free credit through banks, motivation for own savings through small deposits, human resource development and motivation for social development activities. The study reveals that the principal actors in the linkage scheme are the banks, the group members, the groups, the market partners of the groups etc. But the project pursues a direct linkage between the banks and the groups. The organization and management of the project follows a top down approach from national to village levels although there is autonomy in each tier of the management. Conversely, bottom up planning process is also practiced in the implementation of the project. It further reveals that the micro-credit approach is a combination of joint efforts particularly by banks for holding monetary resources and the project for direct responsibilities to the beneficiaries. The achievements of the project show that the loanees were able to raise their income in all activities and the average increase was nearly 40 percent. The beneficiaries have also deposited Tk. 1141.50 per capita on regular basis and the recovery percentage was nearly 90. It was the first micro-credit project under the initiative of the Government.

6.2 Swanirvar Bangladesh (SB): A Direct Linked Micro-credit Model

Background: Swanirvar Bangladesh (SB) initially begun as a govt. sponsored campaign for the increasing food production following the devastating floods and famines in 1974. It has discovered that self-sustained development in any sectors is not an isolated process and without giving due weightage to total development in all sectors, only disparities vis-à-vis class tension will be increasing. Thus Swanirvar Bangladesh (SB) addressed to the task of dealing with integrated socio-economic development with emphasis on disadvantaged groups of the society. From 1980's SB started working as an NGO and was formally registered with the Ministry of Social Welfare and Women Affairs (Regd. No. DDHA-0113). It also obtained authorization of receiving foreign donation under the Foreign Donation (Voluntary Activities) Regulation Ordinance /Rules, 1979 as amended in 1982.

Objectives of SB: The main objectives of SB are (i) to enhance socio-economic development of the rural poor through alleviation of rural poverty by giving credit for income generating projects; and (ii) to further mass literacy, environment protection, crime prevention and women's empowerment.

Institutional Mechanism and Linkage System:

Institutional Mechanism: The SB have made the villages as its lowest units and comprise a into five-tier set up in the village, union, upazilla, district and national levels under the guidance of Swanirvar Committee (SC). The national committee is the apex body with SC at the village level. The SCs include representatives from different professional groups, e.g. agriculturists, rural poor, and youths. Thus, an attempt has been made to create an organizational structure where a large cross section of villagers is represented as participants. Accordingly, a Swanivar Village (SV) model was created where a SC was the executive body with a Gram Shava (GS) consisting of all adult members in the village. This is guided by an elected Head, Gram Sharothi, with a Gram Sampadok and Gram Tohobil concepts.

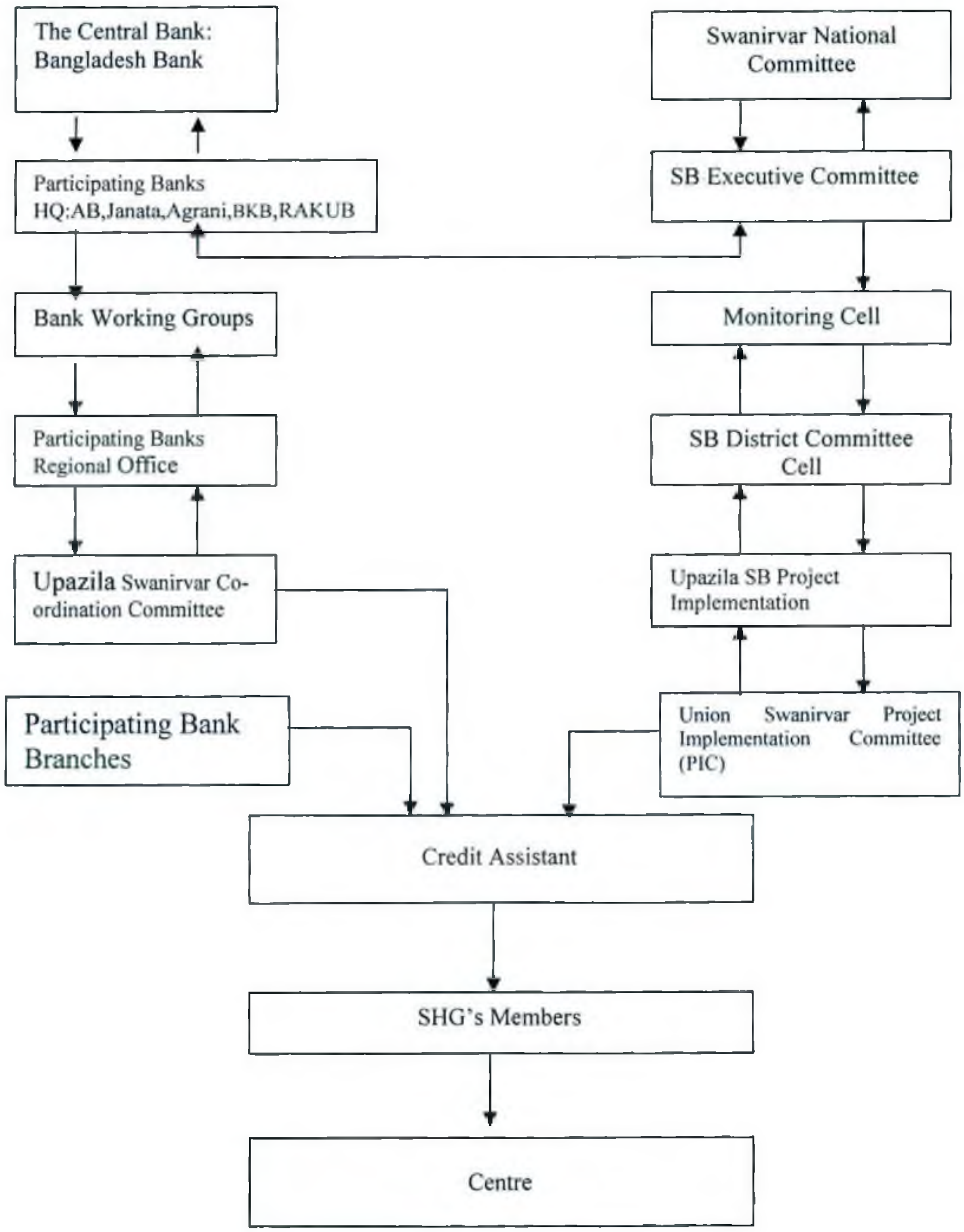
Linkage System: The principal actors in the linkage scheme of SB are the Banks and the SHGs with the members. The system shows a direct linkage between the banks and SHGs although the SHGs are organized and guided by SB, an NGO, SB is not involved in loan transactions.

There are as many as 698 bank branches working in the SB linkage programme. The bank wise participation of NCBs and DFIs are Sonali 155, Janata 102, Agrani 125, Rupali 47, BKB 182, RAKUB 64, Pubali 22 and Uttara 1.

SB takes upon itself the tasks of motivating, organizing and training the poor but the actual lending is made by the bank directly to the borrowers. SB monitors end use of the loan money by the borrowers and collects weekly installment on behalf of the banks. SB performs these functions with the help of nearly 4621 Credit and Union Shahojogies who are paid out of the contribution from the borrowers.

CHART-3

LINKAGE DIMENSION: INSTITUTIONAL AND FINANCIAL



Source: Swanirvar Bangladesh, Dhaka.

Swanirvar Bangladesh as SHPI: SB as an NGO involved in organizing, training and motivating the SHGs members and undertaking different productive economic activities at the village level and recommends them to the banks for loans. After the loans have been granted and disbursed, follow-up supervision, monitoring and repayment fall within the SBs responsibility. Apart from economic program, SB's is also working for eradication of literacy, family planning and creation of moral values among the group members. Its approach has been the overall rural development through proper utilization of credit in rural areas.

Linkage Relationship: The methodology adopted in the self-help credit is a combination of efforts by banks holding monetary resources and SB helps directing these resources to the SHG members. The approach is that commercial banks and DFIs by themselves, can not reach the poor and SB which have the experience, ability and dedication for serving the poor lacking resources to address the problems of poverty. Therefore, a joint effort by both is likely to achieve the objectives and the linkage approach of SB with banks has been working on this principle. Presently, Swanirvar credit program covered 742028 loanees, organized 124063 SHGs, reached 10414 villages and 698 bank branches involved in the program. Prospective loanees are motivated and organized in groups of five by Swanirvar Reen Shohojogis and on their recommendations, the designated bank branches advance loans to individual borrowers without collateral but not exceeding Tk 5000 per person. Till December 2002, the designated bank branches provided a total loan of Tk 281.01 crore to 7,42,028 loanees and the recovery rate was 86.24%. On the contrary, the total outstanding loan was Tk 65.60 crore, total net savings was Tk 18.80 crore and total revolving loan fund was Tk 272.56 crore at the end of the period.

Security and Collateral: A loanee under Swanirvar credit is required to fill up an application for loan and a hypothecation form but requires no physical collateral. This primarily depends on the group dynamics and self supervision at the Kendra Sava meeting for ensuring good repayment performance. These groups are organized among like minded, close neighbors and intimately known to one another. The best guarantee against repayment has been the social pressure from the members of the "Total Village Development Committee", groups of landless upon the loanees and credit assistant who are all local people. However, in a number of places loan repayment has faced problems because of negligence from banks and credit assistants. In extreme cases, there are provisions to take recourse to law, but legal actions are generally not effective and the remedy lies in making the delivery, supervision and monitoring mechanism strong and effective. Group guarantee has acted as the best collateral.

Interest Rates: The rural poor are less concerned about the rate of interest than timely availability of credit on time. Interest rate of Swanirvar Bangladesh was 13 percent with provision for increase 3% plus 6% penalty i.e. total 22% on the defaulted amount. In general, 11% interest and 6% service charge are realized from a loanee for availing credit services.

Sustainability Issue: Swanirvar provides small loans to the rural poor to obtain their funds from banks and PKSF with agreed interest rates. Perpetual dependence on others for credit financing can not be feasible. The study advocates wholesale lending to Swanirvar for further on lending to the poor. This is practical when the Swanirvar can borrow at low rate and lend at high rate using the spread for covering adequately all operational costs. Finally, income is not welfare of the poor. Thus, service to poor should be the integral part of development initiatives, which holds the key to sustainability of SB.

Policy Implications

Swanirvar Bangladesh (SB) was initially started as a government sponsored program and later on, it was converted into an NGO since 1980 with the objective of enhancing socio-economic development of rural poor through micro-credit operation, mass literacy, environment protection and women's empowerment. The principal actors in this linkage scheme are the banks and the SHGs with the members which show a direct linkage between the banks and SHGs. It revels that as many as 4(four) NCBs and 2 (two) DFIs were participated in the credit program without any collateral support. The study concluded that wholesale lending to SB for further on lending to the poor should be strengthened and human resources development should be the integral part of the scheme which holds the key to sustainability.

6.3 Shristy Samaj Kalyan Mohiola Sangstha

Genesis: Shristy Samaj Kalyan Mohila Sangstha (hereinafter it will called as SHRISTY) is a female headed local level private development agency founded by three self-motivated, energetic and educated local women on partnership basis in the year 1997. The organization was registered simultaneously by Ministry of Social Welfare (1997), Ministry of Women's affairs (1997), Department of Youth Affairs (1998) and NGO Affairs Bureau (2001).

Objectives: The broad objective of SHRISTY is to alleviate poverty by improving the standard of living of the disadvantaged poor, specially the destitute women and children.

Mission: The main mission of SHRISTY is to help disadvantage people and destitute women and children to uplift them selves through the twelve critical areas of concern recognized at the 4th World Conference (Beijing 5 +) of Women in 1995, which are : Women and Poverty; Education and Training of Women; Women and Health; Violence Against Women, Women and Economy, Women and Armed Conflict, Women's Political Participation and Empowerment, Institutional Mechanism for the Advancement of Women, Women and Media, Women and Environment and the Girl Child.

Institutional Mechanism: Three enthusiastic women are the founder directors of the organization. Presently, one of them is the Executive Director and the other two are the Director Program and Director Finance. The Executive Director is the ex-officio Chief of the Organization and is accountable to the Executive Committee (EC) for the activities. The organization consists of 35 members in the General Council (GC) and 9 members in the Executive Committee (EC).The management responsibility of the Directors, as per by laws of the organization, change in every two years. This is the way of transparency in the governance policy SHRISY has adopted.

Linkage system: The principal actors in the linkage system of SHRISTY are the Banks, Donors and the SHGs with the members. The system shows an indirect linkage between the Banks and the SHGs. The participating bank lends the NGO at an agreed rate and the NGO lend to the SHGs which may be called as wholesale lending by a bank to a NGO for on lending to the beneficiaries.

The Participating Bank: The participating Bank in Shristy is BASIC Bank Ltd, which acts only as a conduit and credit operation is mainly conducted by the NGO after promoting the target groups through their own network of officers and staff.

The Participating NGO: Shristy Samaj Kalyan Mohila Sangstha, is devoted to the alleviation of poverty. It started initially in one village of Comilla district with having only 10 groups of women. By now it has increased its coverage in 35 villages of Sadar Upazilla and 20 villages of two other upazillas of Comilla districts.

Self-Help Groups (SHGs): This is the most important actor in SHRISTY-Bank linkage scheme. There are 351 SHGs and 1850 members are linked to the Banking system through this NGO. The members of SHGs range within 10 to 20 and they are small, homogenous and well organized with good performance records.

Financial Linkage: The main sources of fund of SHRISTY are community donation, investment of executive committee, group savings of the micro-finance members, income from IGAs, bank credit and grant from donors like World Fish (USAID), School of Medicine (USA) and the Royal Netherlands Embassy, Bangladesh.

Condition of Access to Credit: The Shristy envisages group based lending without any collateral security. The activities which are undertaken to reach the SHGs members are : awareness raising and group formation, weekly saving deposits, training of SHG members, credit to target groups, supervision and monitoring of SHGs etc. In the credit scheme, the groups become eligible for loans on completion of skill training, regular participation in weekly meeting, minimum savings deposit, fund management, record keeping, group interaction and selection of IGAs. Till now, total savings generated by the members stood at Tk 25.51 lakh and total investment to 1755 beneficiaries stood at Tk. 30.20 lakh of which 99 percent were female beneficiaries. The rate of recovery was 99.02 percent. The Revolving Loan Fund (RLF) and its sources were member's savings Tk 200.26 lakh, service charge Tk 27.88 lakh, own fund Tk 2.50 lakh, bank loan Tk 17.50 lakh, international donor Tk 50 lakh and Proshika Tk 2 lakh. The major investment portfolios were Agriculture, Fisheries, Food Processing, Petty Business, Cottage Industries, Transport, Housing, Livestock and others. In addition to micro-credit, the other activities are: Food Processing and Marketing, Non-formal education program, Mother and Child Care, Tree Plantation, Peoples Theatre, Cages Aqaculture, Water and Sanitation; and Empowerment of Rural Women etc.

Sustainability: Presently, SHRISRTY is operating in 3 upazilas with more than 1755 members. It is a linked micro-credit NGO that is capable of implementing its poverty alleviation program independently for which income from different credit schemes must be more than the cost of operations within a reasonable time frame. SHRISTY must charge reasonable service charge to earn adequate income and it has to consider the cost of fund in determining its own interest rate. The crucial issue is the mobilization of resources i.e. grants, loan, savings to finance the credit program so that the ratio of "borrowers to members" remains high and demand for loan is adequately met.

Summary

SHRISTY was operated as an NGO since 1997 with the objective of improving poverty situation of the target beneficiaries specially the destitute women and children. It was consisted of nine member's executive committee. The principal actors in this scheme are the banks, the donors and the SHGs which show an indirect linkage between the banks and the SHGs. It was found that the main sources of fund were community donation, investment of the executive committee, group savings, income from IGAS, bank loan and the donors. The major investment portfolios were agriculture, fisheries, food processing, small business and livestock rearing. The study concluded that Shristy should equip its financial services for sustainability, so that it can run on it's own footing.

6.4 DRISTY:

DRISTY, a Voluntary Social Welfare Organization was established to help poor and disadvantaged women in some selected areas of Comilla district. It was registered in 1994 as a Voluntary Social Welfare Organization. It is a non-political, non-profitable and non-governmental organization which has one General Council (GC-23 members) and Executive Committee (EC-7 members). The governance policy is maintained for the transparency of its operation. The Executive Director (ED) is the Ex-officio Chairman of the Executive Committee (EC) and Chief of Staff Team. The ED is responsible to the EC.

DRISTY gives priority to women and their participation in the development process. The basic approach is to promote the disadvantaged women who have organized to form their groups through which they can work together to improve their lives. Group members are involved to attend new skills and literacy knowledge so that they can participate in income generating activities. DRISTY focuses on landless women who are victims of different social, economical, political, environmental and cultural injustices. Over the last two years, it becomes more and more involved with the disadvantaged oppressed women.

Objectives: The broad objective of DRISTY is to enable the disadvantaged man, women and children to lift through economic co-operation, education, protection and awareness by the establishment of sustainable grass roots organization.

Strategy of DRISTY: The strategy can be highlighted as (a) to create relations with the local government structures and explore every possible measures for the benefit of the target group; (b) self-reliance credit for its members for the purpose of economic development; (c) maintain contact with existing network and forum to update the development thought; (d) demand driven skill development program with special emphasis to women's empowerment; and (e) develop linkage with other NGOs to response for greater movement in order to establish the women and children's right.

Legal Status: DRISTY is registered under the Department of Social welfare (22 November, 1994), Department of Youth Affairs (7 June, 1998), NGO Affairs Bureau (21 August, 2000), and Women Affairs Department (12 November, 1995).

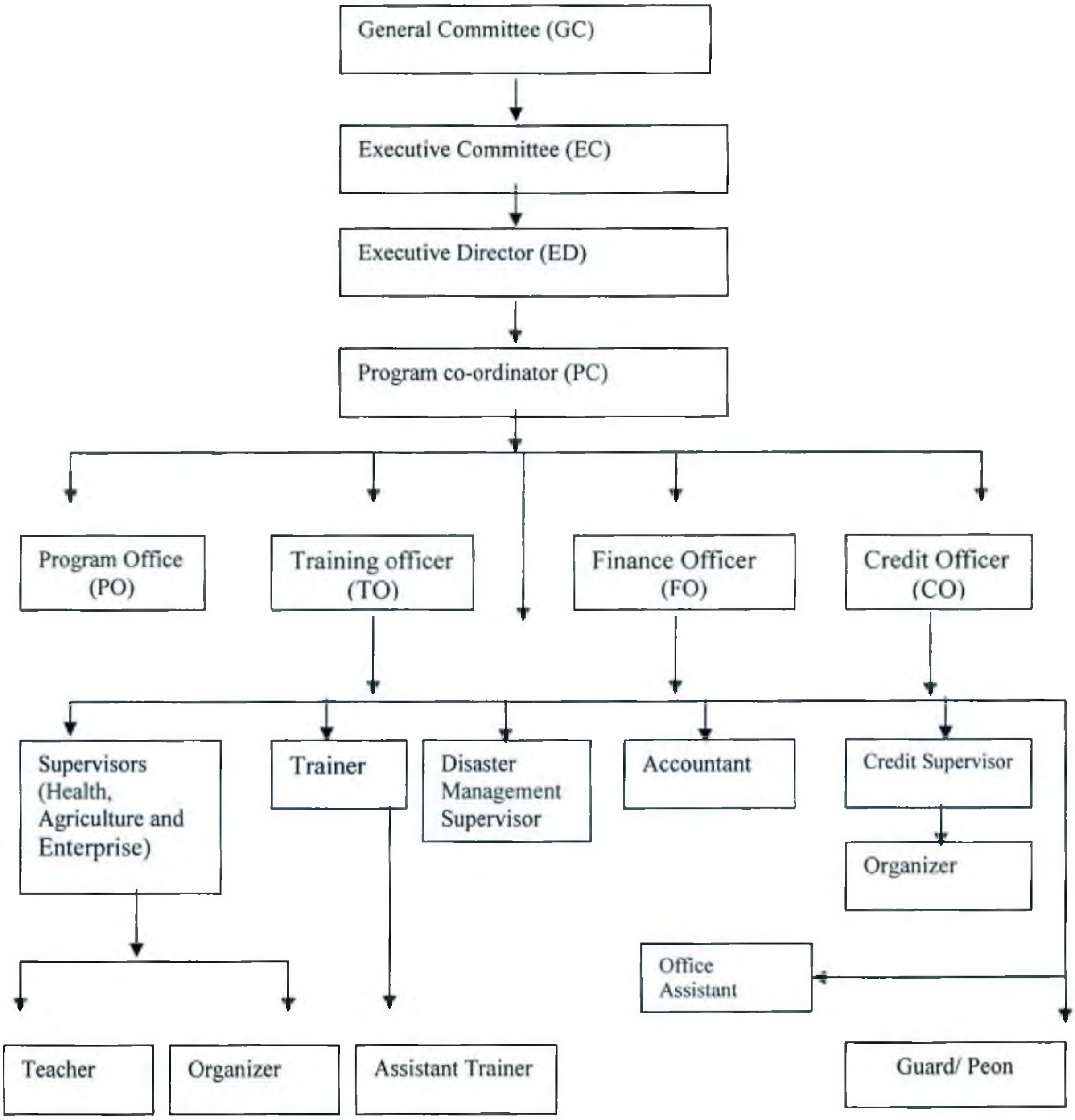
Institutional Mechanism and the Linkage System: The DRISY expands from the upzila and made the village its units and has envisaged into a four-tier set-up in the Village, Union, Upazilla and District under the guidance of Executive Committee (EC). The EC is the apex body of DRISTY which is headed by an Executive Director (ED) who is responsible to the EC for his routine work. One Program Co-ordinator and four Officers support the ED. At the village level, the SHGs and the members are supervised by the organizers and credit supervisors.

The Linkage System: The principal actors in the linkage system of DRISTY are the Group Members (Household), the Groups, the Market Partners of the Group and Supporting Actors like ADB, NGO Forum for Drinking Water Supply, CDF , BFRG, WLDM, PRIP-TRUST etc. But the ultimate actors in the linkage scheme are the BASIC Bank, on the other hand, and the DRISTY, an NGO, SHGs and their members. On the other hand, the Participating Bank (PB) is not directly involved in group activities which pursue an indirect linkage between the banks and SHGs. The PB lends the DRISTY, an NGO at an agreed rate (10% per annum at declining balance) and DRISTY lends to the SHGs at 16% per annum which may be called it wholesale lending by a bank to an NGO for on lending to the beneficiaries.

The Participating bank (PB): It is one of the important characteristics of DRISTY that the target population is linked to the bank in an indirect way. The PB in this scheme is BASIC Bank Ltd, which is a specialized Bank in the field of small and medium scale enterprise development.

CHART-4

MANAGEMENT STRUCTURE OF DRISTY



Source: DRISTY Head Office, Comilla.

The Target Group (SHGs): DRISTY works through the group. Adult eligible members of the poor and disadvantaged families are the beneficiaries of the group. Some criteria are followed for the enrollment of group members which are (a) members from landless families; (b) land ceiling up to 0.75 acres; (c) maximum monthly income up to Tk 1600/ month; (d) only member for one household; (e) enrollment age of 18-45 years; (f) must be ever married women/men; (g) mentally and physically sound; and (h) 20-25 members of same localities in a group. Till now, there are as many as 119 groups and 2459 members under the linkage scheme. The geographical coverage is 2 districts, 4 upazila, 18 Unions and 65 Villages under DRISTY.

Financial Linkage: The main sources of fund of DRISTY are savings of the members, bank loan and donors funds. The most important donors of DRISTY are CARE-Bangladesh, Proshika (CNDN), Royal Netherlands Embassy, Dhaka, Misereor-Germany, Save the Children USA, Action Aid Bangladesh, PRIP Trust, SAP Bangladesh etc. These donors establish financial linkages with DRISTY through different projects in the areas of Adult Education, Agriculture, Water-sanitation, Environment, Women Development, Legal Aid Support and Non-formal Education and Social Forestry. Till now, Tk 96.64 lakh was invested as loan in different schemes of 1944 borrowers and the rate of recovery is 99.87 percent. The total outstanding loan is Tk 39.28 lakh against 1488 outstanding borrowers.

Conditions of Access to Credit: DRISTY envisages group based lending without any collateral security. The credit support is given to the individual group members as short-term -loan. The credit fund is disbursed after having the clearance from other members of the concerned group. According to the credit policy, to be entitled for credit support, one must complete financial training/education, attend regular weekly savings, minimum 12 weeks membership age, capable of running IGA activities and attend regularly in the group meeting.

Group Savings: DRISTY has been trying her level best to generate capital of the group members through the weekly savings activities. Collection of savings is the process of internal and local resource mobilization. It is a compulsory and mandatory savings for all the group members. Emphasis is given to motivate and habituate them in the regular savings activities. Each group member deposits Tk 5 to 10 per person per week. As per the decision of the group, the savings are being deposited in a separate bank account and representatives of the group members jointly operate the accounts. The savings fund is also being used as a source of loan by recycling the savings. Till now, Tk 18.22 lakh is deposited by 119 groups as savings. The interest rate on saving is 6 percent per annum.

Interest Rates: The borrowing rate of DRISTY from participating Bank (PB) is 12 per cent per annum and lending rate of DRISTY to the beneficiaries is 16 percent per annum at the flat rate.

Impact: As a result of intervention of DRISTY, the beneficiaries savings and credit utilization behavior has tremendously changed. On the contrary, average weekly income of the beneficiaries household has increased by 30 per cent after membership. There was a moderate increase in husband and other family member's income, due to an improvement in economic activities of the people in general for which total household income has partially increased. However, a substantial part of the incremental income of beneficiary households came from various IGAs like Small Trade, Paddy Husking, Agriculture, Transport, Handicrafts, and Poultry Rearing etc. With the increase in income of member households, the monthly expenditure on food, clothing, schooling, housing, medicine etc. has increased. They have also experienced a sharp increase in savings. As economic condition of the beneficiaries improved, one would expect that the intake of food items by household members have increased after the intervention of DRISTY. It appears that the consumption of all food items increased after membership. The beneficiaries invested a part of their income in productive assets as well as in human capital .The result of which, the schooling rate of children specially the girl students increased after membership of group activities. As all the beneficiaries are women, it has ensured their employment, income and social status in the family. Their relationship with husbands has improved and their participation in decision making has increased than before.

Sustainability: Presently, DRISTY is in operation only in 54 villages under five Upazilas of two districts in Bangladesh. This is a NGO which establishes linkage with 16 organizations through implementing different projects. Now, to remain a capable organization, institutionally DRISTY should have systems and polices geared to achieve the objective of the organization. Its human resources must be trained and motivated by proper incentive system and ethics so that they yield their best performance. Now to provide financial services in a sustained way, the income from the credit scheme must be more than the cost of operations including financial cost of fund and cost of managing the NGO (DRISTY). The other related issues are interest rate charged by DRISTY on its loan, cost of fund mobilization, keeping down the cost by efficient operations as well as recovery rate. DRISTY must charge realistic service charge to earn adequate income. Similarly, it has to consider the cost of fund in determining its own interest rate. A crucial issue is the mobilization of resources i.e. grant, loan, savings to finance the credit program so that the ratio of borrowers to members remain high and demand for loan is adequately met. Lastly, borrower sustainability is the central issue and they must be able to increase income in a sustained way by participating in DRISTY. In fact, the net worth should gradually improve due to participation in the credit program to finally come out of poverty cycle of women.

Conclusion: DRISTY has made substantial positive impact on employment and income of the rural women under it. But there is enough scope for improvement and it should follow a clientele friendly procedure in attaining its targeted goal for the cause of women empowerment in the project areas.

Summary

DRISTY was established as a voluntary organization in 1994 with the objective of developing the disadvantaged poor (both man, woman and children) through economic co-operation, education, protection and awareness building. It worked at the upazilla level through village unit and was envisaged into four tier system i.e. village, union, upazilla and district. The principal actors in the linkage system were the group members (Household), the market partners of the group and other actors like ADB, CDF, NGO Forum, PRIP TRUST. But the ultimate actors are the bank, SHGs and the members. It pursued an indirect linkage between the bank and the SHGs. The study concluded that borrowers as well as organizational sustainability would be the crying need of the organization in future.

6.5 Poverty Alleviation and Gender Equality (PAGE)

Background: Poverty Alleviation and Gender Equality (PAGE) was established in 1974 inheriting the Comilla Proshika Center for Development with the aim of helping the rural poor in their socio-economic development.

Objective: The overall objective of this linkage scheme is to promote participatory, self reliant and environmentally sustainable development of the poor through organizational efforts. In specific term, the objectives of the program are:

(a) to create and support village level separate male female groups of target population;

(b) to plan and implement development projects;

(c) to assist income and employment generation activities initiated by the groups;

Institutional Arrangement: The Projects field head office is located at Ashoktala, Comilla, which is headed by a Chief Coordinator. The Chief Coordinator is appointed by a governing council consisting of seven members. The council also appointed a Coordinator, a Program Manager and a Finance Manager. At present, it implements development programmes in 9 Upazilla namely Devidwar, Chandina, Burichang, Brahmanpara, Chouddagram of Comilla district, Kachua of Chandpur district, Ramgati of Laxmipur district & Gazipur Sadar of Gazipur district. At Upazilla level, Area Manager is responsible for the overall implementation of the activities. He directly reports to the Chief Coordinator. The Area Manager is assisted by a Center Manager, Program Organizers and Field Organizers. To reach the desired goal, PAGE's main priorities are its people and their participation in the development process through viable grassroots organizations of the rural poor.

The Linkage System: The Actors in the linkage system are:

- Self-help Groups (SHGs) and their members.
- The Participating Bank (PB): Janata Bank
- The Participating Donors:

  For RLF : PKSF, Proshika, ASA, NGO Forum

  For Programs: Proshika, World Fish Centre, CARE, ATDP, BRAC Education Program, AVRDC, Non-formal Education.
- The Project's Area Office as SHPI :

But the ultimate actors in this linkage scheme are the PAGE, an NGO, on the one hand and the Self-help Groups (SHGs) and their members on the other hand. The Participating Bank (PB) is not directly involved in the group activities, which pursues an indirect linkage between the banks and the SHGs. The PB lends the NGO at an agreed rate and the NGO lend to the SHGs for on lending to the beneficiaries which establishes an indirect linkage between the bank and the beneficiaries.

The Participating Bank (PB): The Participating bank in PAGE is Janata Bank which acts only as a conduit and credit operation is mainly conducted by NGO after promoting the target groups through their own network of offices and staffs.

Self-Help Groups (SHGs): The target group beneficiaries of the project consist of the poor households owning and operating less than 0.5 acres of land whose monthly income is not more than Tk. 1500. They depend on selling their manual labour at least 100 day in a year as the main source of their income.

Financial Linkage: Prior to creation of this NGO in 1994, it was a part of Comilla Proshika Center for Development. So, from the very beginning it has inherited a large number of village groups and members. When it re-organized village groups (regular weekly meeting, savings, loan realization 100 percent), it was found that out of 13,002 group members, only 3,186 were covered by credit program i.e. majority of the members, 9816 were left out of the credit program. So there was tremendous pressure on the organization to provide loans to the groups. As PAGE is quite a new organization, it is very difficult to reach donor's fund and thus it approached to Janata Bank for Revolving Loan Fund (RLF). The objective was to link the program with the resources of the country through Janata Bank.

It has been observed that linkage between NGO/ SHGs and financial institutions has been proved to be an effective method of poverty alleviation both in rural and urban areas. So banks can meet the credit needs of the poor by adopting well conceived delivery system using NGO/SHGs as financial intermediaries. Through intermediation, banks can reduce their operational cost of the program. Janata Bank has policy guidelines for linkage programmes on two aspects i.e. (a) direct-lending to NGOs and (b) linkage with SHGs formed by concerned NGOs.

Loaning Procedure: The prime objective of the loaning system is to involve the target beneficiaries in various income generating activities (IGAs) for their self-reliance considering the project experience on credit operation and RCD circular no. 215 of JB, all activities to be financed is selected. At the same time, the loan amount for unit loan of the activities is fixed.

For meeting the collateral requirements of the bank, a guarantee fund equivalent to 25 percent of the sanctioned loan has to be deposited and the project agreed to take such steps as (i) to maintain all projects accounts to Janata Bank; (ii) to operate RLF through JB; (iii) to deposit 25 percent worth of the sanctioned loan in the savings account before loan is withdrawal. The interest rate on loan varies from time to time depending on the bank rate of the central bank and presently JB charges 12% per annum though it was 9% earlier from the project and the project charges 15% interest from the loanees. The project is responsible for proper disbursement, realization and repayment of the loan money. The bank officials visited fields now and then to assess the performance of PAGE.

Six (6) Upazilla of Comilla district i.e. Debidwar, Burichnage, Brahmanpa Chouddagram, Barura and Chandina are included under JB credit program. Later on, PKSF and ASA came forward to finance the expanded program. The loan received from JB was Tk. 2.5 million only for 12 months from the date of disbursement. The loan sanctioning procedure of JB is not so much cumbersome. The project has to submit prescribed application to Samabaya Branch, Comilla with certain loan documents i.e. Thana wise loan demand; group wise-beneficiary wise production plan, registration certificate, article of memoranda, declaration of non-loan and liability of other banks etc.

PAGE has to ensure disbursement of loan to the loanees as per production plan submitted to the JB branch. The weekly loan installments deposited to the bank has been withdrawn from the bank and disbursed the same to the loanees by following the same procedure. Loans are realized through weekly instalments from the loanees and deposited the same to the project loan account.

Performance of PAGE: Page has performed three major roles in rural areas i.e. organizational development, savings and credit; and social development.

Organizational development:

(a) *Development Centre*: The main focus point of PAGE activities are the Development Centre. The field workers provide services to the poor i.e. making village organizations, organizing weekly meetings, realization of savings as well as loans money and other development activities from this centre. The number of development centre till now is 24 in 424 villages under 75 unions. In one centre there are five field workers and at least forty village organizations are attached to a centre.

(b) *Village organizations*: PAGE believes that the fate of the rural poor could not be developed without their full participation in development activities and village level organization is the pre-condition for people's participation. Thus, it develops village organizations with such objectives as (i) to develop women's organization on a disciplined basis; (ii) to improve their operational efficiency for local level development and (iii) integrate women in the national development streams. PAGE field workers develop a village organization with 20 members and it has gradually increased to 30. The field workers regularly attend the weekly meetings of the VOs and collects savings and loan installments. A village organization consists of 5 to 7 members including a Chairman, a Secretary and a Treasurer.

It is observed that in 1994 the PAGE started with 376 VOs and 9411 members. But some of the members did not comply with the rules and regulations of saving/credit of the VOs. As a result, 44 societies and 678 members had to be dropped in 1997 . Presently, VOs raised to 808 with 19740 members.

(c) *Saving and Credit:* PAGE gave special emphasis on savings of the poor for their self-reliance. The members have to deposit @ Tk. 5 per week which is recorded in their savings pass book. The project gave interest at bank rate on the savings amount of the beneficiaries. This savings amount has been used as RLF for financing the IGAs. But the savings amount which has been added to the RLF is not sufficient to cover the emerging credit needs of the loanees. Till now, Tk 2.68 crore is found to be accumulating since its inception.

Credit Operations: Credit is an important component in PAGE activities and this input is collateral free as well as repayable on weekly installments. The field workers assess the quantum of credit through a threadbare discussion with the members in the weekly VOs meeting at villages. PAGE charges interest @ 15 percent per annum from the loanees Till now, Tk 7.04 crore is disbursed as loan and Tk 6.50 crore is realized.

Source of Revolving Loan Funds (RLF): There are various sources of RLF which are

a. *Central Council*: Under tripartite agreement among Comilla Proshika, PAGE and Central Council, 5 development centers (Chandina, Devidwar, Burichong in Comilla district, Kachua in Chandpur district and Rangamati in Laxmipur district, received donation of Tk 104,00,797 from Comilla Proshika that was the initial capital of the RLF which was invested in the fields as loans and entire loan amount was not possible to realize because of various reasons.

b. *Group Savings*: Disbursement and realization thereof from the group savings fund stood at Tk 124.09 lakh and 9.29 lakh respectively.

c. *Credit Fund from Bank (JB)*: Rural credit polices and programs of JB have been designed to cover all segments of the rural people whether skilled or unskilled such as farmers, landless laborers, women unemployed youths, weavers and other groups under poverty alleviation programs. Accordingly, JB has devised policy guidelines for linkage programs whose salient features are (i) preference to be given to the well organized NGOs/SHGs; (ii) clearance from NGO Affairs Bureau; (iii) collateral security (fixed assets, land building etc.); (iv) creation of guarantee fund as substitute of collateral security; (v) in case of inability to provide collateral security or guarantee fund, the concerned NGO will link their groups to bank branches for credit financing. In line with the credit policies, PAGE as poverty alleviation program approached to JB in prescribed form for short term loans and accordingly Tk 25.0 lakh was sanctioned. This loan amount was disbursed in two installments among the beneficiaries of Devedwar, Burichang, Brahminpara, Chouddagaram and Barura Upazilla. Because of successful loan operations, JB sactioned another Tk 20 lakh as a second installment totaling Tk 45 lakh credit financing.

d. *Credit from PKSF*: For providing the efficiency in management and operation of micro credit at grassroots level, PKSF has decided to consider PAGE as their partner organization (PO) and accordingly Tk 1.0 lakh was sanctioned as first installment and it is hoped that PKSF will continue support in this program.

e. *ASA Credit Fund*: ASA has incorporated PAGE as its associate organization because of its efficiency in managing and supervising development programs. PAGE has established a development centre in Madhiya under Chandia Upazilla with the financial support from ASA and received Tk 12 lakh as credit grant.

f. *Social Development Program*: In line with the credit activities for the rural poor, PAGE has undertaken some social and environmental activities. These are supply of drinking water and sanitary program in five upazilla of Comilla district. Under this program, 22,700 households have been given sanitary latrines. As an associate member of NGO forum, PAGE has established two Grameen Sanitary Centres in Ramgati and Burichang Upazilla to make low cost sanitary latrines. It has also sunk twenty tubewells in Ramgati and Debidwar Upazilla in order to meet the demand of pure drinking water of the beneficiaries. In order to maintain ecological balance and increasing income of the poor, PAGE has established two central nurseries in the capacity of producing 50,000 plants. Besides, 50 group members were given loans to develop 50 nurseries which provided 1 lakh seedlings for sale to the local people.

Impact and Sustainability: A direct effect of PAGE is that the women members can work independently for generating additional income which can be considered as having a significant impact in creating further employment. Entrepreneurial change is an important impact for which the demand for loan increased over the years and they had higher confidence in utilizing their loan money for more profit. There are differences of professions between husband and wives in the study area. The main profession of husband are agriculture, labor, petty trade, rickshaw pulling etc, and with the loans from PAGE, the members diversified their opportunity of additional income. This increases sources of income for each family that eventually improves security and reduces vulnerability.

The issue of sustainability has several dimensions and they are complementary to each other. PAGE as an organization for the poor must be able to provide quality services in savings, credit and training management at competitive price. It has undertaken programs which is inconformity with the policies geared to achieve the objectives of empowering the rural poor. To give financial services in a sustained way, the income of the credit program must be greater than the cost of operation such as financial cost of fund, cost of managing the program and provision of bad-debt. The related issues are interest rates charged by page on loan, cost of loan mobilization, keeping down the program cost by efficient operations and recovery. The borrower's sustainability is the crucial issue and they must be able to increase income in a sustained way. Thus, ones net worth should gradually improve because of participation in the credit activities to come out of poverty trap. Changes in investment portfolio, management of increased loan, increase in cash saving with PAGE, diversification of income, rate of return from investment etc are the indicators of borrower's viability in PAGE credit programs. It has been found that PAGE becomes successful in mobilizing savings, which is now forty percent of the outstanding loans. Field Organizers give loans for profitable portfolio as much as possible to reduce risk. The quality of PAGE portfolio appears good without any arrears. Centre Managers and Area Managers regularly monitor this. It has been successful in increasing its outreach, which is by itself a sign of long-term sustainability. On the whole, PAGE as an organization for the poor women has been successful in becoming a viable organization through its pragmatic approach.

Policy Implications

The PAGE was established in 1974 with a view to creating self employment opportunities for the target beneficiaries of the project villages. The actors in the linkage scheme were SHG members, banks and the donors, but it pursued an indirect linkage between the banks and the SHGs. The study revealed that PAGE performed in three major areas i.e. organizational development, credit and saving operations and social development. The impact of the project revealed that the women worked independently because of their increase in income. The entrepreneurial change had made the beneficiaries productive and self reliant than before but management should take initiative to make PAGE as a sustainable MFI.

CHAPTER-VII

ECONOMIC EFFICIENCY AND EFFECTIVENESS OF LINKED MICRO-CREDIT PROGRAMS

Economic efficiency of any micro-credit program is of great importance because of its long-term sustainability and viability for the program participants specially from the borrowers perspectives. In the present study, effectiveness as well as efficiency of the sampled (five) linked micro-credit programs have been estimated to judge their return on investment as well as labor productivity so that the initiators whether government or private organizations etc. can realize to reallocate their investable resources among alternative activities. Moreover, the income that would be generated in course of time could be cost effective so far labor employed per unit is concerned. In this sense, the calculation of economic efficiency is a vital one for any micro-credit program including the present study.

In the following sections, attempts have been made to analyze the return from investment in activities financed, return on investment in activities in general as well as by gender. Moreover, impact of the linked micro-credit programs on level of living of the households has also been analyzed.

7.1 Return from Investment in Activities Financed

Methodology of Estimation: An attempt to estimate the return from investment for major activities for which the loan has been sanctioned has been made in this chapter. Problems associated with the method of estimating the rate of return on investment for the micro-credit IGAs are pertinent to the nature and character of the rural economy. The two basic problems are:

i) Difficulty in identification of the involvement of labor with the activity as it is usual to find a person in rural area engaged in more than one activity.
ii) Identification of the actual amount of investment made out of loan in the activity as a part of the loan may be used for other purposes although officially it is not allowed by the linked micro credit programs.

Data on these two variables along with others have been considered based on the questionnaire survey and one month's monitoring of the activities with regard to the involvement of labor, the whole loan amount has been considered as the investment for the activity. The activities financed by the linked programs are run mostly with family labor. Since labor market hardly exists for most of these activities, imputation of the cost of family labor is a serious problem. Even if the wage rates are available, it may not reflect the opportunity cost, as the family labor utilized in these activities might not get similar employment or earn at the same rate in alternative occupations. To overcome the problem, the average wage rate for unskilled agricultural labors prevailing in study areas has been used as the proxy to the opportunity cost of labor. The agricultural wage rate was observed at Tk. 75 per day on the average, considering 8 hour working day, gives an hourly wage rate of Tk. 9.37. Three sets of measures of the return from investment have been estimated as noted below:

a) Net Return to family (I)

$I=y-(1+r)\,k$

b) Net return per unit of labor employed (RL)

$RL=I/L$

c) Rates of return on capital (Rk)

$Rk= (y-w.L-k)/k$

Where,

y	=	Annual gross family income from the activity
L	=	Family labor hours worked on the activity per annum
k	=	The amount of credit taken for the activity (amount of working capital for trading activities may be higher than the loan amount due to reinvestment of some profit over the one year period)
r	=	Annual rate of interest on the loan
w	=	The wage rate for agricultural labor per day.

The demand for loan would depend on whether the earning of the loanee from the activity pursued with the loan is higher compared to his earnings from employment of labor before receiving loan. The net return to family would be the most appropriate measure of the return of labor employed in the activity had there been no opportunity cost (which is the situation with most of the beneficiaries). The rate of return from credit must be higher than the cost of investment in order to make the choice for that investment. Since the activities are run by family labor, the rate of return on capital may not be the proper decision making criteria. Moreover, as the amount of investment is small, return on capital would be very much sensitive to the assumption of the wage rate and labor hour employed in the activity. Notwithstanding these limitations, the estimated measures fairly provide the basis for the choice of activities as well as investment profitability.

7.2 Return on Investment by Activities

The linked micro credit program group members use loan amount for a wide variety of activities. Some of these activities are household based while others are on commercial footing. But all these activities require transaction in the rural economy. Self-employment and or family employment and income generation are the basic objectives of pursuing these activities. The amount of investment determines their scale of operation.

Sample survey among the micro credit loanees reveals that majority of the respondents (both male and female) had preferred a few selected activities. Estimates of the return from investment on these activities only have been made following the methodology as outlined in the previous section. Data base and the results of estimates are presented in Table-13. The net average return to family labor from the investment in the reported activities comes to Tk. 14574.0 per annum. In per capita terms, this comes to Tk. 2478.57 per annum. Loanees engaged in agriculture, cottage industries, rice husking, livestock activities etc. have to put in more effort to earn this income compared to their counterparts engaged in trading, home-gardening and other activities. The net return on family labor is estimated at Tk. 12.84 per hour for home gardening and Tk. 4.58 for small trade. It may be noted that although return on per hour labor in small trade is low compared to some other activities as evident from the Table-13, the majority of the loanees however are engaged in small trading.

Table-13

Return from Investment in Productive Activities

Activities	No. of Cases	Gross Income (Tk. per annum)	Working Capital Employed (Tk.)	Working hours (Per Annum)	Loan (Tk.)	Net Income (Tk. Per Annum)	Return on Labour (Tk./hour)	Rate of Return on Capital Employed(Tk)
Agriculture	81	14746	1702	2850	2412	8823	1.09	105.86
Small Trade	268	23583	6115	3600	1713	16490	4.58	138.48
Rice Husking	40	19573	4914	3450	1244	13873	4.02	122.79
Cattle Rearing/ Fathering	47	20842	6337	1850	4474	13491	7.29	155.91
Cottage	2	16475	4900	3000	1500	10791	3.60	83.16
Goat/Sheep Rearing	11	18854	6533	1095	1418	11276	10.30	146.69
Home gardening	4	27500	3775	1800	1400	23121	12.84	509.27
Transportation & Service	14	20350	5176	2555	2700	14346	6.00	159.26
All Activities (Average)		21145	5509	2569	2107	14574	6.41	176.80

Notes: (a) Agricultural wage rate Tk 8. 50 per hour ;
(b) Annual rate of interest on loan is 16 percent;
(c) 467 loanees out of 750 were included in the calculation of economic issues;
Source: Field Survey

Rate of return on capital employed in all the activities under study is significantly higher than the cost of the loan. Our estimates suggest a large variation in the return from investment among activities as may be seen from the Table-13. Such difference in rate of a return is basically due to nature of the activity. Again, although home gardening gives the highest rate of return on capital (509.27), many of the loanees could not go for this activity because they did not have the required land. However, due to lack of detailed case study it is difficult to conclude that the choice of activities was guided by the rate of return on capital.

The most striking positive aspect is that for all these activities, the working capital employed is higher than the loan amount. This is obviously because of the reinvestment of a portion of profit over the year showing a good sign of entrepreneurship attitude. From the employment perspective it may be noted that activities having higher rate of return on capital provide less employment opportunities as may be observed from data on family working hours.

7.3 Return on Investment in Different Activities by Gender

Return on Investment for income generating activities by sex has been estimated based on average data for activities in which male and female loanees have invested. This has been done to provide a notional indication of the productivity of labor as well as rate of return on capital. The results of our estimate are shown in Table-14.

As observed from the Table, the net return to labor is Tk. 6.5 for male loanee as compared to Tk. 5.06 for female loanee. It may be mentioned that in rural Bangladesh, the average wage rate for female labors is almost half of the male labors. On this count, credit has helped female loanees to ensure a better return to labor demonstrating a higher opportunity cost. Rate of return on credit is 275.63% for male loanees, while it is 206.61% for female loanees. Although the average rate of return on credit utilized by female loanees in various activities is less than the male loanees, the female loanees could ensure employment through these activities which otherwise they would not have managed. Moreover, female loanees as income earner have proved that they are not less productive than male loanees. The net return to family from the investment for the female loanees comes to Tk. 13500 per annum or about Tk. 2296 in per capita terms. The return is about 16% lower compared to that of the male loanees.

Table- 14

Return on Investment from Income Generating Activities By Gender

Indicators	Male Loanee	Female Loanee
Gross Family Income (Tk. per annum)	19906	17656
Size of Loan (Tk.)	3702	3583
Family Labour (Hours worked annum)	2400	2668
Net Return to Family (Tk. per annum)	15612	13500
Net Return to Labor (Tk. per hour)	6.5	5.06
Rate of Return on Credit (in percent)	275.63	206.61

Notes: (a) Gross income refers to family income from all sources.
(b) Agricultural wage rate Tk. 7.50 per hour.
(c) Annual rate of interest on loan 16 percent.
(d) Size of loan has been considered instead of working capital.

Source: Field Survey

7.4 Impact of Linked Micro-credit on Income

The success of the linked micro credit program depends on its impact on raising the income of its members and ultimately on improving the levels of living. In order to assess the extent to which the income of the loanee households has increased, an attempt was made to estimate aggregate household income for a particular year after receiving credit and for a year before receiving credit. As income is difficult to measure accurately, we had to rely on the statements made by the loanee respondents. Since there is a tendency to underreport one's income, the level of income found from survey may be biased downwards to some extent but it should not affect the findings on the rate of increase, unless the loanees have undermine the income more for the benchmark period i.e. before receiving credit. To be on the reasonable ground, expenditure data for the loanee households were also collected for the purpose of cross-checking the reported level of income.

In addition, income of the loanee members has also been compared with the income of the non-loanee members of the control group. Such method provides opportunity to assess the impact on income under 'with' and 'without' situation.

The level of income for the micro-credit loanees in 2002 over the benchmark level (reference year) has been presented in Table-15. In order to compare income with the benchmark, we have calculated the income at constant prices of the base period by deflating it with the consumer price index. For the loanees, the average income in real terms increased from Tk. 14,600 in 1998 to Tk. 25,758 by end 2002 i.e. an increase of over 76 percent over five year period. Thus, comparing with the national situation one must regard the increase in income of the loanees as satisfactory.

Table-15

Income of Micro-credit Loanee Household on Before-After Comparison

Period	Linked Micro-creditt Program (Tk. per annum)		Percent differences Members over Non-member
	Members	Non-members	
Before receiving credit (reference period-1998)	14600	16400	-10.98%
After receiving credit (study period 2002)	25758	18500	39.23%

Source: Field Survey

Table also compares the income of the loanee members with that of the non-loanees in the same villages. The average income of loanee members compared to non-members from linked micro credit villages has also increased from negative 10.98% to 39.23% i.e., an absolute increase of 50.21% over the same period. The income data however represents overall household income from all sources. The significant increase in income of the loanee members is mainly due to income generating activities which are financed with loans from linked micro credit programs.

A major factor behind the growth of income of the loanee members is the generation of self-employment of the un-and-underemployed members. The linked programs provide credit as financial resource to its poor members and as the repayment record indicates they are utilizing the resources in productive uses. Income could also be increased through accumulation of capital although the loan is repaid in small monthly installment. So it is easy for the loanee to pay the installment from the income leaving his capital intact. As observed earlier, the amount of working capital is much higher than the amount of loan indicating that at the time of taking a repeat loan the borrower had a larger volume of capital than the amount he had at the time of applying for the first loan. It was not however duly studied whether the loanees divert some of the loan for other purposes or not. But it might be possible that some of the loans are diverted to long term investments with the hope of having higher of income at their disposal.

7.5. Impact on Levels of Living

It is obvious that increase in income will have impact on the wider aspects of living, particularly in areas of meeting basic human needs. Table-16 reports the findings of the survey on some of the indicators for the loanee households and compares them with those for the control members.

It is observed from the comparison of loanee members with non-members and with regard to expenditure on children's education there is a significant difference. Loanee members spend Tk. 523 per annum while non-members from the same villages spend only Tk. 332 for their children education. Expenditure on children's education was Tk. 451 for loanees before receiving credit, while the same has increased to Tk. 523 over a five year period i.e., an increase of about 16% indicating a positive impact of credit on education budget.

As regards other indicators the findings suggest that the loanee households are better off compared to the non-members of the villages. Average expenditure on health of the loanee households has increased almost 27% over the five years period. The impact on housing is equally impressive. Over 35% increase in expenditure on housing is observed for loanee households compared to before loan situation. In comparison to non-members from villages, the loanees can afford about 24% higher expenditure on housing.

Table-16

Indicators on Levels of Living of Micro-credit Borrowers

Indicators	Micro credit Program Borrowers and Non Members		
	Loanee Members		Non-Members (2002)
	Before Receiving credit (1998)	After Receiving Credit (2002)	
Expenditure on children education (Tk. per annum)	451	523	332
Average expenditure on health (Tk. per annum)	586	721	412
Average expenditure on housing (Tk. per annum)	650	879	668
Others (in Tk. per annum)	8876	11135	10772
Average expenditure on clothing (Tk. per annum)	1526	1931	1261
Total household expenditure (Tk. per annum)	12071	15189	13445

Sources: Field Survey

There is a remarkable change in average expenditure on clothing for loanees. Before receiving credit, the amount was Tk. 1526 which has increased to Tk. 1931 indicating an increase of over 26% for the five year period. The total annual household expenditure for the loanees has increased compared to before loan situation. The increase is around 26% for the period 1998-2003. It may be mentioned that annual household income of the loanees for the same period increased over 76%. The income expenditure balance therefore suggests that the loanee households have the propensity to save significantly. It was extremely difficult to get accurate information on household savings as they are both in the form of cash and kind. Moreover, there is under reporting bias. Irrespective of this limitation, the fact remains that linked micro credit has enhanced better living for its loanee members having positive impact on the quality of life.

7.6 Policy Implications

The economic efficiency and effectiveness of sample linked micro-credit beneficiaries as compared to non-beneficiaries reveals that the program beneficiaries are more efficient in terms of return on investment in activities financed and return on investment by activities. The linked credit program has shown much more positive impact in terms of per-capita income and level of living while compared with linked micro-credit beneficiaries with non-members. The policy implication should be such that every micro-credit program for their sustainability should be economically effective and organizationally efficient which depends also on the strength of the beneficiaries i.e. selection of appropriate IGAs and managerial capabilities of borrowers and organization as a whole. So the linked micro-credit program should allocate their resources in such a way that would help all stakeholders equally for their effective functioning in self-employment and poverty alleviation.

CHAPTER-VIII

IMPACT OF LINKED MICRO-CREDIT PROGRAMS ON POVERTY ALLEVIATION

The objective of the impact analysis in this chapter is to make an assessment of the impact of micro-credit on poverty alleviation of target beneficiaries who receive credit services through the selected linked program under the study. The socio-economic impact has been assessed by comparing between the pre-loan and post-loan position of the beneficiaries. For the present study, the methodology has been designed for overall assessment of the static impact of the linked micro-credit programs on the beneficiaries during the period under consideration.

8.1 Operation of the Credit Programs

The linked-credit programs under study have stated their credit operations varying from 70's to 90's through a set of principles and guidelines contained in their credit manuals. Some salient features of such credit operations are stated below:

8.1.1 Formation of Group:

All development activities of the linked micro-credit programs are run on group based approach. A rural poor owning less than 1.5 acre of land are eligible to become a beneficiary of the credit program. A group is formed with members numbering from 5-10 persons taking one member from each eligible household. Separate group of male and female are generally formed. After formation, Group members are to make compulsory group savings @ Tk 5 to 10 per week. After formation of the group, it is developed through the process of education and field training. A group becomes eligible for credit when it becomes 3 to 6 months depending on the internal policy of the studied micro-credit programs.

8.1.2 Micro-credit to Group

The studied micro-credit programs provide credit support to the group as a whole. The group members then use the credit amount among themselves as per the individual credit plan of the group. The individual group members invest the loan money in different income generating activities as per their investment plan. Amount of credit to a group member depends on the credit plan of the individual micro-credit program which ranges from Tk 5000 to Tk 20,000. For collective loan, high amount is allocated depending on the nature of IGAs selected under investment portfolio. The loan period generally ranges for 12 months and loans are repaid generally by weekly installment.

8.1.3 Loan approval and Disbursement Procedure

The micro-credit under the study has developed rules and procedures in approving as well as disbursing loans to the clients. The stages are firstly, groups take decisions in a meeting to avail credit services from the credit programs and accordingly, quantum of loan, purpose, period of repayment schedule, list of loanees etc. are prepared and adopts a resolution in this respect.

Secondly, group submits loan application in prescribed form along with copy of resolution and joint liability agreement where field organizer helps the group members in preparing the loan application; thirdly, the designated officer scrutinizes the loan form and recommends for sanctioning loan against group; fourthly, upon satisfying all documents, the loan office then disburses loan in the name of group; fifthly, the payment procedure is clearly spelt out in the credit manual and accordingly loans are repaid weekly, bi-monthly or monthly basis.

8.1.4. Group Savings Fund.

As per work manual, each group member is to make savings on weekly basis which are deposited to adjacent bank branches of micro-credit programs operational areas.

8.2 Socio-economic Conditions of Five Linked Micro-credit Program Loanees

As of June 2003, the five linked micro-credit program covers 2558 groups with a total of 804802 members. In the present study, 750 respondents have been interviewed for in-depth analysis of their socio-economic condition, the result of which is given as under.

Age-Sex Distribution: The table-17 shows the age age-sex distribution of loanees under the studied linked micro-credit programs.

Table- 17

Age-Sex Distribution of Loanees According to Linked Micro-credit Programs

Linked Credit Programs	Age-sex Distribution								Total	
	15-24		25-44		45-60		60+			
	M	F	M	F	M	F	M	F	M	F
SFDP	2	15	5	10O	7	15	1	5	15	135
Swanirvar	3	20	9	103	4	6	2	3	18	132
Shristy	5	8	15	99	8	10	2	3	30	120
Shristy	19	2	80	14	12	10	9	4	120	30
Dristy	12	2	92	18	18	03	4	1	126	24
Total	41	47	201	334	49	44	18	16	309	441
	(5.46)	(6.26)	(26.80)	(44.53)	(5.53)	(5.86)	(2.40)	(2.30)	(41.20)	(58.80)

*Figures in the parentheses show percentages.

** M=Male, F= Female

Source: Field Survey

Of the total number of (750) credit beneficiary under study, 441 are female and 309 are male representing 58.80 percent and 41.20 percent respectively. Age specific distribution of beneficiaries by gender has been presented in Table-17. From the table it is evident that the dominant age group is from 25 to 44 years. More than sixty five percent of female beneficiaries are within this age group. According to 1990-Labor Force Survey, 44.53 percent of the civilian labor forces in Bangladesh are male and the rest 39.26 percent are female. The significant portions of them are within the age group 25 to 44 years and the average participation rate of all ages is 80 percent for male and 67.4 percent for female. The willingness of group members to participate in productive activities is much higher than national average. This may be due to the subsistence pressure for which they are forced to look for income earning opportunities by utilizing credit. The experience of linked micro-credit programs suggests that if adequate credit fund is made available, a large portion of its members can be brought into the arena of productive activities which would increase their household income.

Educational Background: Educational background of the studied linked micro-credit programs loanee members by gender has been presented in Table-18:

Table-18

Educational Background of the Loanee Members

Linked Micro-credit Programs	Educational Background									
	Illiterate		Attended Primary School		Attended Secondary School		Passed SSC		Passed HSC	
	M	F	M	F	M	F	M	F	M	F
SFDP	3	40	6	36	3	31	2	24	1	-
Swanirvar	4	60	7	44	4	24	2	2	1	2
Shristy	10	49	8	40	5	19	4	10	3	15
PAGE	20	11	42	11	30	5	20	3	8	-
Dristy	22	19	54	2	22	1	19	1	9	3
Total	59 (7.88)	179 (23.86)	117 (15.8)	131 (17.46)	64 (8.54)	80 (10.66)	47 (6.26)	40 (5.33)	22 (2.93)	11 (1.46)

* Figures in the parentheses show percentages.

** M=Male, F= Female

Source: Field Survey

The table shows that 37.72 percent of loanee members are illiterate and the female illiteracy rate (23.86%) is still higher as compared to their male counterparts i.e. 7.88 percent who can only put their signature and no schooling. Higher percentage of primary school attendance (33.96%) among the sample loanee members of studied linked micro-credit programs is commendable of which 17.46 percent are female and 15.8 percent are male members. On the whole, it may me mentioned here that as the data are based on sample survey with limited number of respondents, the overall scenario for the members as a whole may depict a different picture. Thus in the 750 study samples, the percent of women is 58.77 which shows higher educated performance as compared to male (41.23%)in different categories of illiterate to graduate level.

Occupational Distribution:

Occupational distribution of loanees under sampled linked micro-credit programs are presented in Table –19.

Table –19

Distribution of Loanee Respondents by Main Occupation

Linked Micro-credit Programs	Occupational Background													
	Farming		Wage Labor		Petty Trade		Cottage Industry		Transport Service		Domestic Self Employment		Others (Services etc.)	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F
SFDP	3	63	2	22	4	26	-	-	-	-	-	24	6	-
Swanirvar	2	7	2	14	8	25	4	6	2	5	-	75	-	-
Shristy	5	4	6	5	15	59	2	30	2	10	-	2	-	10
PAGE	35	-	5	2	35	15	15	5	10	3	10	4	10	1
Dristy	5	-	20	-	50	10	15	7	15	-	15	3	6	4
Total	50	74	35	43	112	135	36	48	29	18	25	108	22	15
%	(6.66)	(9.86)	(4.66)	(5.73)	(14.93)	(18)	(4.8)	(6.4)	(3.86)	(2.4)	(3.33)	(14.4)	(2.93)	(2)

* Figures in the parentheses show percentages

** M=Male, F= Female

Source: Field Survey

Occupational statistics of loanee respondents reveals that petty trade, domestic self-employed works and farming are the three major occupations in which 33%, 18% and 17% of the loanees are employed. Apart from the traditional occupation like wage labor, other main occupations like cottage industry, transport service etc. are getting prominence. Presently only 5% of loanee respondents are employed in service. Majority of the respondents reported that they did not have any productive employment at the time of loan application. Thus linked micro-credit has created employment opportunities most in petty trade and self-employed non-farm activities. There is none that reported having no occupation. Occupation distribution by sex are almost similar with only exception in PAGE and Distry micro-credit loanees where the males are involved in all occupations compared to female loanees.

8.3 Progress of Linked Micro-credit Programs

Progress of linked micro-credit program is dependent on the progress of different activities at an acceptable position. In the study, activities of five linked micro-credit programs are analyzed to test their strength overtime. It is evident from the table-20 that the disbursement of credit varies among the different micro-credit programs in the study areas. This spectacular increase in cumulative disbursement, recovery and amount saved in group funds suggest the enormous demand for micro-credit services among the group members. It may be mentioned that the amount of outstanding loan by the end of 2003 was Tk 13737.79 which was about 35percent of cumulative disbursement. Savings in group fund significantly increased but per head savings did not increase which needs attention by the management.

Table-20

Progress of Activities of Linked micro-credit Programs Under Study

Linked Micro-credit Programs	Activities					
	Village covered (No)	No of Members Received credit	Amount of Credit Disbursed in (Cumulative in lakh Tk.)	Rate of Recovery (%)	Outstanding Loans (in Lakh Tk)	Amount Saved in Group Fund (in lakh Tk)
SFDP	1192	52191	8208.07	89.42	6245	596.52
Swanirvar	10.414	733.000	26314	86.24	1869.12	1859.82
Sristy	55	1755	2000.19	99.02	95.97	99.83
PAGE	424	16056	2668.82	95.97	5415.89	267.90
Dristi	54	1800	162.03	99.83	162.03	17.68

Source: Field Survey

Amount of loan overdue as percent of total issued by activity has presented in Table-21. It may be noted that although maximum overdue cases are in small trade, but in terms of amount it accounts for only 4.48% of total loan issued. On the other hand, activities like sericulture, pisciculture, nursery, home gardening, bread and biscuit though have higher rate of return, have loans overdue which is quite significant in terms of percent of total loans issued to each of these activities. By gender, the female loanees show better record to overdue loan by major activities. The main causes of loan overdue are the borrower's willingness i.e. willful defaults though they disclosed that the income from the investment is not sufficient to repay the loan timely. In some cases specially in pisciculture, early flooding caused damaged for the production and loss of fishes. In case of sericulture, marketing was a problem for the group. However, the other activities like home gardening, nursery etc. natural diseases sometime affects productivity at the farm level.

Table-21

Extent of overdue loans by Activity

Indicators	Male	Female	All respondents
Percentage of Overdue Cases			
Paddy	4.72	2.51	7.23
Horticulture	0.04	0.00	0.04
Poultry Rearing	0.30	0.15	0.35
Goat/ Shop Rearing	0.86	2.30	3.35
Cattle Fattening	16.54	12.85	28.38
Pisciculture	1.32	0.14	1.46
Sericulture	0.99	1.17	2.16
Nursery	0.23	0.07	0.30
Food Processing	1.07	3.20	4.26
Rickshaw/Van	0.91	0.32	1.23
Miscellaneous service	0.01	0.00	0.01
Small trade	24.96	19.38	44.34
Ferry	0.15	0.00	0.15
Multi-purpose	1.09	0.15	0.24
Sanitation	0.62	0.03	0.65
Amount of Loan Overdue as a % of Total Loan issued			
Paddy	15.18	13.47	14.54
Horticulture	13.67	0.00	12.00
Poultry Rearing	12.97	10.87	11.82
Goat/ Sheep Rearing	18.31	12.94	14.06
Cow Rearing	14.99	13.77	14.41

Indicators	Male	Female	All respondents
Pisciculture	31.83	15.94	29.12
Sericulture	33.79	33.49	33.63
Nursery	36.68	8.29	20.59
Food Processing	9.11	5.00	5.64
Rickshaw/Van	5.89	6.02	5.92
Miscellaneous service	1.29	5.58	1.85
Small trade	5.45	3.65	4.48
Ferry	39.07	0.00	19.54
Multi-purpose	2.71	1.29	1.74
Sanitation	12.43	35.67	12.79

Source: Field Survey

Size and Period of Loan:

Loan to individual group members varies depending on purpose of loans although amount of credit to a group ranges from Tk 3,000 to Tk 60,000 for sharing by group members. Data in table-22 shows that 17.95 % of the respondents took loan upto Tk 1,000; 36.95 % upto Tk 2,000 and 23.80% upto Tk 3,000. The remaining 21.29 % took loan over Tk 3,000. The size of loan amount by gender follows almost similar pattern in both male and female. All the loan comes under survey were for only one year. Since the size of loan as reported in the table is relatively small, the loan period did not exceed over 12 months. It may be mentioned that for higher amount of loan, the period may be extended up-to 24 months. Cautious lending by the linked micro-credit programs in terms of size of loan may be for avoiding risk or for the general policy to cover more members through providing small credits.

Table-22

Distribution of Respondents by Size and Period of Loan (2003)

Size of Loan (Tk)	Male Loanee	Female Loanee	All Loanees	Period (12 Months)
Upto Tk 1,000	15.87	19.31	17.95	100
Upto Tk 2,000	35.45	37.39	36.95	100
Upto Tk 3000	22.75	24.48	23.80	100
Upto Tk 3,000	25.93	18.28	21.29	100

Source: Field Survey

Use of Loans:

Micro-credit under linked micro-credit programs is used by the loanees in mainly three sectors, namely, off-farm, livestock and agriculture as shown in table-23. Disbursement pattern suggests that off-farm activities are the dominating sector accounting for 84.09 percent of total disbursement. The share of other two sectors is not very high, livestock being 10.10 percent and agriculture only 5.81 percent.

Table-23

Distribution of Micro-credit in Major Sectors by Micro-credit Programs

Sector	Amount (Lakh Tk.)	Percentage
Off-farm	1668	84.09
Livestock	200	10.10
Agriculture	115	5.81

Source: Field Survey

Sub-sectoral distribution of credit in 2003 is shown in table-24. Out of total credit disbursement, small trade representing off-farm activities accounts for the highest share (66.69%). Other significant activities are multi-purpose activities, cow rearing, and food processing. A variety of other activities featuring rural economy as may be seen from the table have also been selected for utilization of loan amount.

Table-24

Sub-sectoral Distribution of Micro-credit by the Micro-credit Programs

Sector		Amount (Tk in Lakh.)	Percentage
i.	*Off-farm*		
	Bread and Biscuit Factory	0.60	0.03
	Food Processing	84.92	4.28
	Manufacturing	7.34	0.37
	Rikshaw/Van	18.05	0.91
	Miscellaneous Service	0.79	0.04
	Small Trade	1323.13	66.69
	Krishi Biponi	1.59	0.08
	Ferry	0.60	0.03
	Multi Purpose	187.49	9.45
	Sanitation	7.74	0.39
	Grain Store	4.36	0.25
	Seed Money	13.49	0.68

Sector	Amount (Tk in Lakh.)	Percentage
ii *Livestock*		
Poultry rearing	2.18	0.11
Sheep/Goat Rearing	13.29	0.67
Cattle Fattening	177.77	8.3
Pisciculture	4.56	0.23
Shallow Tube-well	10.12	0.51
Sericulture	8.13	0.41
Nursery and Home Gardening	1.79	0.09
iii. *Agriculture*		
Horticulture	1.98	0.10
Paddy	113.68	5.73
Total	1984	100

Source: Field Survey

Sub-Sectoral Distribution by Gender

The share of different sub-sectors of total loans disbursed during 2003 by gender is shown in table 25.

Table -25

Sub-Sectoral Distribution of Loanees by Gender

Main Sub sector	Percentage (%) of Total Loanees	
	Male	Female
Paddy	3.12	2.62
Horticulture	0.01	0.00
Poultry Rearing	0.04	0.06
Goat/ Shop Rearing	0.11	0.57
Cattle Fattening	5.08	3.92
Pisciculture	0.17	0.06
Shallow Tube Well	0.36	0.16
Sericulture	0.19	0.21
Nursery and Home Gardening	0.05	0.04
Bread and Biscuit Factory	0.01	0.02
Oil Processing	0.00	0.00
Food Processing	0.54	3.74
Manufacturing	0.11	0.26
Rikshaw/Van	0.66	0.25
Miscellaneous service	0.04	0.00
Small trade	30.56	36.13
Krishi Biponi	0.11	0.00
Ferry	0.00	0.03
Multi-purpose	2.94	6.51
Sanitation	0.38	0.01
Grain Store	0.21	0.04
Seed Money	0.45	0.23

Source: Field Survey (2003)

Majority of male and female loanees used their loans for small trade, the percentage being 30.56 and 36.13 respectively. From the table-25, it appears that food processing and multi purpose loans are preferred more by female loanees compared to male loanees. On the other hand, paddy and cattle fattening activities are preferred by more male loanees than female loanees. Participation in other activities by gender does not provide any significant change or quality for any major observation.

8.4 Analysis on Poverty

To assess the impact of micro-credit program on poverty a set of common indicators like per-capita income and expenditure, calorie intake, consumption pattern etc. are commonly used by different studies (Latif:2002)[11]. But to collect accurate information on these indicators is very difficult. It involves huge resources and time. Moreover it leads to erroneous results. In order to avoid these difficulties, this study considered a set of proxy indicators along with income which may be collected more accurately. These indicators are: household per-capita annual income, food security, housing condition, source of energy for cooking, electricity connection for cooking, source of drinking water, living condition and social status.

In the following part of the chapter, an attempt has been made to analyze the relationship between micro-credit and poverty indicators and also to analyze the contributing factors of income as indicator of poverty.

8.4.1 Relationship between Involvement in Micro-credit Programs and Poverty Indicators

To assess whether there was any significant impact of linked micro-credit program on poverty alleviation, relationship between the participation in micro-credit program and the above mentioned indicators was studied. In this regard, t-test and Chi-square test were performed. Detailed statistics on above mentioned indicator and their analysis are presented below:

Changes in Household Income: Participation in the income earning opportunities provided by sample linked micro-credit programs creates additional income for the rural people. Many studies (Hashemi et al., 1996; Pitt and Khandher, 1998; Colman, 1999; Dunn and

11 Latif, M. A. (2002) "Income, Consumption and Poverty Impact of Infrastructure Development" *Bangladesh Development Studies*, Vol. XXVIII No.3 (September)

Arbucle, 2001; Wydicl, 1999) have shown that micro-credit borrowers have increased their income by engaging them into the productive employment.

Table-26

Per-capita Income and Land Ownership of the Households in Pre and Post Loan Period

Poverty Indicator	Pre-loan	Post loan	t-value
Per capita annual income (Tk)	7,163	9,258	11.28**
Land Ownership (Acre)	0.24	0.30	11.64**

** Indicates significant at 1% level.

Per capita household annual income increased from Tk 7,163 in pre-loan period to Tk 9258 in post loan period as shown in table-26. This implies that due to intervention of linked micro-credit programs per capita household annual income increased about 23 percent over five years. In order to test whether the linked micro-credit program has made any significant change in income of target beneficiaries, t-test was performed and the result was statistically significant at 1 percent level. This means that the linked micro-credit program enabled the beneficiaries to increase their income significantly. The micro credit recipients enlisted themselves in groups to avail the opportunity of getting loans against gainful income generating activities (IGAs). Accordingly, loans are sanctioned to individuals against promising IGAs, in which they are habituated since long. Through the loan money, the beneficiaries are involved in production activities like goat rearing, milch-cow rearing, beef fattening, poultry rearing, petty business, nurseries, fishing, fishnet making, food processing etc. They sold these products in local markets as well as established linkages with other markets through higher organization of their own. In this way they raised their income by utilizing their family/ labor which has no cost. This is the process of their raising income by investing credit money in different IGAs under their disposal. Not only that, out of their income, they also saved a certain amount of money regularly on weekly basis.

Changes in Land Ownership: Land ownership is one of the most important factors of income earnings in the rural areas. Small piece of land is the last resort of their survival. When the rural people get new income earning opportunity they also try to buy or rented some land for traditional agricultural practices. Even in present days, the remittance earners spend their initial earning in purchasing land both for farming as well as for homestead purposes. They felt secured to own that natural resource for future prosperity as well as improved social status. The same trend was found in the study areas where due to intervention of linked micro-credit programs the sample beneficiaries were able to raise their land holding size from 0.24 acre in pre-loan period to 0.30 acre in post loan period i.e. an increase of 0.06 acre. In order to test whether linked micro-credit program has made significant change in land ownership of target beneficiaries, t-test was performed and the result was statistically significant at 1% level. That means that the linked micro-credit program enabled the beneficiaries to increase their landownership significantly. They were more secured to face any natural shocks and strengthen their food security by increasing cropping intensity within the land. Through the cultivation practices, the beneficiaries were familiar with modern cultivation techniques as well as new technologies which helped them to enrich their human capital.

Table-27

Relationship between Involvement in Linked Micro-credit Program and Poverty Indicators

Poverty indicators	Pre-loan	Post-loan	Total	Chi-square value
Food Security (No. of food deficit months)				
No deficit month	636(84.8)	676(90.13)	1312	
One month deficit	60(8.0)	29(3.86)	89	
Two months deficit	23(3.07)	35(4.67)	58	
Three months deficit	11(1.47)	5(.67)	16	25.71**
Four and above months deficit	20(2.66)	5(.67)	25	
Total	750 (100.00)	750 (100.00)	1500	
Roof Condition				
Cemented	18 (2.60)	27(3.60)	45	
Tin	397 (52.93)	539(71.86)	936	
Tiles	6(0.80)	11(1.47)	17	
Plastic sheet	11(1.47)	11(1.47)	22	75.52**
Straw	318(42.40)	162(21.60)	480	
Total	750 (100.00)	750 (100.00)	1500	

Poverty indicators	Pre-loan	Post-loan	Total	Chi-square value
Floor Condition				
Cement	60(8.00)	120(16.00)	180	
Earth	690(92.00)	630(84.00)	1320	22**
Total	750 (100.00)	750 (100.00)	1500	
Primary Sources of Energy for Cooking				
Gas	43(5.73)	48(6.40)	91	
Kerosene	36(4.8)	36(4.8)	72	
Purchased wood	87(11.6)	102(13.60)	189	5.28*
Collected wood	425(56.67)	438(58.40))	863	
Cow dung	159(22.53)	126(16.80)	285	
Total:	750 (100.00)	750 (100.00)	1500	
Electricity Connection				
Connected	279 (37.20)	348(46.40)	627	
Not Connected	471(62.80)	402(53.60)	873	13.15**
Total	750 (100.00)	750 (100.00)	1500	
Source of Drinking Water				
Safe	656(87.47)	730(97.33)	1386	
Unsafe	94(12.53)	20(2.67))	114	51.96**
Total	750 (100.00)	750 (100.00)	1500	
Self Assessment of Living Conditions				
Good	58(7.73)	127(16.93)	185	
Moderate	161(21.47)	354(47.20)	515	183**
Not Good	531(70.80)	269(35.87)	800	
Total	750 (100.00)	750 (100.00)	1500	
Self Assessment on Social Status as a Member of the Community				
Good	135(18.00)	172(22.94)	307	
Moderate	261(34.80)	343(45.73)	604	40.4**
Not Good	354(47.20)	235(31.33)	589	
Total	750 (100.00)	750 (100.00)	1500	

Notes: ** indicates significant at 1% level;
* indicates significant at 5% percent level;
Figures in parentheses indicate percentages.

Changes in Food Security: To assess the changes in food security, due to credit intervention, the respondents were asked about the number of food deficit months in pre-loan and post-loan period. The information was collected through recall method. The above table implies that about 15 percent households had food deficit during the pre-loan period which reduced to 10 percent in post-loan period. Moreover, number of food deficit months among the food deficit households also reduced. Performing the Chi-square test, it has been fond that there is a significant association between the number of food deficit months and credit intervention. This implies that linked micro-credit program has a significant impact on food security as well as poverty alleviation.

Changes in Housing Condition: Housing in a better situation is an important indicator for changing economic condition of the rural people. As income increases, rural people invest some of their surplus in repairing and renovating houses for healthy, comfortable and secured shelter. The results of analysis reveals that 42.40 percent households have made their houses with straw in pre-loan period and this figure reduces to 21.60 percent in post loan period. Again, 2.60 percent households in pre-loan period have built their houses with cement, which increased to 3.60 percents in post loan period. Further 52.93 percent of households constructed their houses with tin in pre-loan period, which increased to 71.86 percent in post loan period. By administering Chi-square test, it has also been found that there is a significant (1percent level) relationship between changes of housing condition as a result of micro-credit intervention among the sample beneficiaries in the study areas.

Changes in Sources of Energy for Cooking: Sources of energy specially used in cooking is an important ingredient for measuring the change of economic condition. In our rural society, poor households generally met their energy need from the leaves and straws of plants collected from the forest and trees from the roadside. With changes of economic condition, sources have also changed, which are tested with field level data. The table-27 reveals that 5.73 percent households used gas in pre-loan period which changed to 6.40 percent in post loan period. Again, 11.6 percent households purchased firewood for meeting their requirements in pre-loan period, which increased to 13.60 percent in post loan period. About 23 percent households responded cow dung as a source of energy in pre-loan period, which reduced to 16.80 percent in post-loan period. Performing the Chi-square ($\chi2$)test, it has been found that there is a significant association (5% level) between sources of energy for cooking and micro-credit interventions, which indicates that linked micro-credit programs has a significant relationship with respect to positive impact in changing sources of energy for cooking purposes vis-à-vis poverty alleviation.

Changes in Floor Condition: Floor of a house is important for a residence, which changes with increase of household income. In the present study, data were collected from the respondent through interview schedule. It has been found that (table-27) 8 percent of respondents households made their floors with cement in pre-loan period which increased to 16 percent in post loan period. On the contrary, floor made of earth reduced from 92 percent in pre-loan period to 84 percent in post loan period. The result of Chi-square test showed significant at 1 percent level which implies that there is a positive relationship between floor condition and micro credit intervention. Thus it can be said that linked micro-credit programs has a significant impact on changing floor condition of the house as well as poverty alleviation.

Changes in Electricity Connection: The use of electricity by the dwellers is an important indicator of changes in economic condition. In the study area , data were collected by interview schedule regarding use of electricity by micro-credit borrowers. It is observed that 37 percent respondents used electricity at pre-loan period, which increased to 46 percent in post-loan period under the study. On the contrary, about 63 percent respondents had no electricity connection in pre-loan period which had decreased to 54 percent in the post loan period. The result of Chi-square test ($\chi 2$) showed significant relationship between electricity connection and credit intervention. This implies that linked micro-credit program has a significant impact on electricity use by the respondent households vis-à-vis on poverty alleviation.

Changes in Sources of Drinking Water: Safe drinking water is a pre-condition for maintaining good health, which is linked to the human poverty. In the study areas, 87 percent respondents used safe sources drinking water in pre-loan period, which increased to 97 percent in post-loan period. On the contrary, 13 percent respondents used unsafe sources of drinking water in pre-loan period, which reduced to 2.67 percent in post loan period. By Chi-square ($\chi 2$), a significant association between the sources of drinking water and credit intervention it has been found. This implies that linked –micro credit program has a significant impact on availing safe drinking water for improving human poverty situation.

Changes in Living Condition: Living condition is an important indicator for judging the poverty situation of a household. Data on this indicator were collected from the respondents through self-assessment. The result of the assessment reveals that 7.75 percent of the respondents expressed their good living condition in pre-loan period which increased more than double i.e. 16.93 percent in post loan period. In case of moderate living condition, 21.47 percent respondents were in the category in pre-loan period, which increased to 47.20 percent in post- loan period in the study areas. Performing the Chi-square test ($\chi 2$) test, it is found that there is a significant (5% level) association between living condition of the respondents and credit intervention. This implies that linked micro-credit program has a significant impact in changing living condition from not good to good condition.

Changes in Social Status: Social status is an important component of well-being of the people in the society. In the study, data on this indicator were collected on the self-assessment basis as to whether micro-credit interventions have improved their social status in the community. The results of analysis reveal that 18 percent of the respondents expressed good social status in pre-loan period, which increased to 23 percent in the post-loan period. Again 35 percent respondents expressed their moderate social status in pre-loan period, which increased to 46 percent in post-loan period, indicating 11 percent point increase in post loan period. Chi-square ($\chi 2$) value indicates a significant (1% level) relationship between social status of the respondent as a member of the community and micro-credit interventions. This implies that linked micro-credit programs have a significant impact on social status of the beneficiaries as a member of the community as well as alleviation of their poverty.

8.5 Contributing Factors of Increase in Income

Identification of significant factors and their relative contribution to poverty alleviation is an important aspect of any impact assessment study on poverty. As poverty alleviation is a multi dimensional approach and multiple factors are contributing, therefore identification of the most significant factors towards poverty alleviation through multivariate statistical analysis is crucial (Biswas, 2004)[12]. In this section, income is considered as poverty indicator. The following part will explore and analyze the significant contributing factors of income, where involvement with linked micro-credit program is considered as one of the independent variables to test whether linked micro-credit program has significant contribution to household income.

8.5.1. Description of Multiple Regression Model

In order to assess the contribution of linked micro-credit program to poverty alleviation, per-capita income was considered as a dependent variable. The multiple regression model used for this analysis is as follows:

$$y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+e$$

Where,

y = Per capita household annual income in Taka;

β_0 = Intercept term;

X_1 = Educational levels (No schooling=0, schooling up-to class 1 to 5=1, schooling up-to class 6 to 10=3, schooling more than class 10=4);

X_2 =Land ownership per household in acre;

X_3 = Household size in number;

X_4 = Involvement with credit program (Before involvement =0, After involvement=1);

e_i = Random error, which is normally and independently distributed with mean zero and constant variance.

The multiple regression model has been estimated by using the Ordinary Least Square (OLS) method.

The OLS estimates of the parameters of the multiple regression model with their level of significance, adjusted co-efficient of determination (R^2) and F-value with their significance level are presented below in the table 28:

---

[12] Biswas, T.K. (2004). Women's Empowerment and Demographic Change, Comilla: Bangladesh Academy for Rural Development (BARD).

Table-28

Multiple Regression Co-efficient of Contributing Factors of Income in Study Villages

Independent variables	Co-efficient	t-value	Adjuster R^2	F-value
Constant	17274.61	62.257**		
Level of education	259.56	5.516**		
Land ownership (acres)	1143.67	2.065*	0.65	693.01**
Household size	-1927.842	-49.043**		
Involvement in credit (Before involvement=0,after involvement =1)	404.972	16.910**		

Note: ** indicates significant at 1 % level of confidence.

* indicates significant at 5 % level of confidence

The fitness of the model is evident from the high value of F and also adjusted R^2. The adjusted value of R^2 implies that the explanatory variables considered in the model explained about 65 percent of the total variation in income of sample linked micro-credit households. The estimated model reveals that years of schooling, household size, participation in linked micro-credit program and land ownership are the significant contributing factors of household income. Detailed analyses of these factors are presented below:

Level of Education and Income: Education is one of the most important factors for income earning of the rural people that develops human capital through which an individual utilizes his skills in technical, operational and organizational level in their productive endeavor on the way to raise their net income. In the study, education was determined in terms of the highest grade or class passed by a loanee from primary to highest level. Moreover, education of the respondents that received from outside the formal school was determined on the basis equivalent level of formal schooling system. From the table, it is evident that the value of education co-efficient was 259.56 and that of t-value was 5.516 which indicated significant at 1% level. Thus the level of income is influenced by the level of education of the recipients of linked micro-credit programs. The co-efficient implies that the higher the level of education the higher is the per-capita household annual income.

Land Ownership and Income: Land ownership refers to the actual amount of land in acre legally owned by a farm household. From operational view point it refers to the effective farm size of household which was used to indicate the cultivated area either owned or cultivated on share basis by the household, the area estimated in terms of extent of full benefit to the recipients. The total area of land taken on cash lease was also taken into account for computing effective land holding size of a respondent family. In the present study, land ownership was considered as an independent variable with the consideration that land ownership changes with the changes of income of a respondent household which was tested with the help of multiple regression analysis. From the table, it is evident that the value of land ownership co-efficient was 1143.67 and that of t-value was 2.065 which is significant at 5% level, which indicates a positive relation between income of a household and land ownership patterns.

Household size and Income: There were two types of households, single and joint. In the study area the concept of joint system of household was found because of the nature of the rural social structure of the economy. In the present day, size of the household is taken as an independent variable to test whether it has any contribution to the total income of the household. From the table, it is evident that the coefficient was -1927.842 and that of t-value was -49.043 which indicated significant at 1% level. This means that the larger the household size the lower is the per-capita household annual income. One of the reasons might be that the larger household had surplus labor those who are not properly engaged in income generating activities. Moreover, they have number of dependent population particularly in the children and elder group.

Involvement in Credit and Income: Credit is an important ingredient for raising income of a household specially who is living below the poverty lone. In rural Bangladesh, a lot of change has been made because of the intervention of micro-credit for operating income generating activities (IGAs). In the linked micro-credit program under the study, the beneficiaries utilized micro-credit for increasing production and income through self-employment. This was tested with the help of multiple regression analysis as shown in the table-28. It is evident that the coefficient was 404.972 and t-value was 16.910 which showed statistically significant at 1% level. It is evident from the regression coefficient that involvement in linked micro-credit program had a significant contribution to the household income compared to before involvement in the same. This implies that linked micro-credit program had a positive and significant contribution to raise income at the participating households.

8.6 Impact of Linked Micro-credit Programs on Poverty: In order to assess the impact of linked micro-credit program on poverty alleviation, per-capita monthly income of sample households was considered and compared it with two poverty line i.e. lower poverty line and upper poverty line. Initially poverty line income was recorded from Households Income and Expenditure Survey (BBS, 2003[13]) for the year 2000 and adjusted lower and upper poverty line income with the survey year (2003). Poverty level income was calculated by adjusting geographical location of BBS survey areas with the present study areas and inflation rates. For the year 2003, Tk 720 was estimated as adjusted upper poverty line income and Tk 614 as lower poverty line income per person per month.

Table-29

Percentage of Households Living Below and Above the Poverty Line during Pre and Post Loan Period

(Monthly Per-capita)

Income Range	No of Households		Percentage of Household	
	Pre-loan period	Post-loan period	Pre-loan period	Post-loan period
Considering Upper Poverty Line				
Below Tk 720	575	395	77	53
Above Tk 720	175	355	23	47
Total	750	750	100	100
Considering Lower Poverty Line				
Below Tk 614	494	258	66	34
Above Tk 614	256	492	34	66
Total	750	750	100	100

Source: Field Survey

8.6.1. Considering Upper Poverty Line

To analyze the impact, two different periods i.e. pre and post loan periods were considered to measure the changes in upper poverty line. During the pre loan period 77 percent

13 Bangladesh Bureau of Statistics (2001), Preliminary report of Household Income and Expenditure Survey 2000, Dhaka: BBS

households were below the upper poverty line and 23 percent were above the upper poverty line. But in the post loan period it was 53 percent and 47 percent respectively. Due to micro-credit intervention percentage of below poverty line household was decreased to 53 from 77, while the above upper poverty level household increased to 47 from 23. Increase of household number from below the upper poverty line to above the upper poverty line has taken place due to participation in the linked micro credit programs.

8.6.2. Considering Lower Poverty Line

While considering the lower poverty line, it is evident that percentages of below the poverty line households decreased from 66 to 34 during the pre and post loan period. On the other hand, during the pre and post loan period, households above the lower poverty line level increased from 34 percent to 66 percent. Increase of household number from below the lower poverty line to the above lower poverty line has taken place due to participation in the linked micro credit programs. It is evident from the above analysis that linked micro-credit programs have made a substantial impact on poverty alleviation of program beneficiaries.

8.7 Social Impact and Sustainability

The analysis and observations made in this section are intended to explore whether or to what extent, the linked micro-credit program beneficiaries have experienced any social empowerment as well as social changes affecting quality of life in pre-loan and post-loan period. In order to assess the social impact of credit, an attempt was made to get an insight the lives of credit beneficiaries relying on participatory observations as well as normative survey. Hence, the presentation reflects the beneficiaries perceptions of their lives as well as those changes relate to credit in pre-loan and past loan periods. Since, social change is the cumulative result of various socio-economic programs, it is therefore difficult, if not impossible, to assess social results arising from credit. Nevertheless, the role of micro-credit has been considered while focusing upon social issues such as family structure, material position, dowry, divorce, nutritional situation etc.

Family Structures:

A typical micro-credit program group member household represents a wider structure of all the target respondents. Of five linked micro-credit programs, 69.8 percent belong to joint family while only 30.2 percent are leading single family life. Average household size of the respondents is 5.88 members which is slightly higher than the national average. The majority of the beneficiaries indicated that they prefer to have fewer children and the present average number of children per couple is 4 as compared to others of the locality having 4-7 children.

The study reveals that now the group members are able to send all their children to school. This is mostly because of an increase in income which the majority seems to have experienced due to income generating activities by utilizing credit. It may be mentioned that there seems to be a slight change in the way they treat their girl children, as it was previously a common practice to give more attention to the sons in a family than the daughters. This mainly happened because it was not perceived to be possible to invest in the girls since they would leave their home after marriage, whereas the boys were seen as an investment in the future as they would undertake the family responsibility.

However, the groups, members generally seem to appreciate their girl children as they are now sent to school as well as allowed to take their meals together with their father and brothers which is a change from previous practice, when they had to wait until their father, and then their brothers had eaten. As observed during field visits, they (girls) are now not perceived to be a burden to quite the same extent as before. It can be argued that this change in treatment is directly due to qualitative impact of micro-credit programs, as they now have the economic surplus to treat all their children equally.

Marital Position

Giving marriage of the children at an early age specially the girl children is a common practice in rural Bangladesh. There are women amongst micro-credit beneficiaries who were married off already in the age of 7-16; even a woman beneficiary was promised marriage when she was only 3 months old. Changes have taken place. They are now aware that as per Bangladeshi law, girls should not be married before the age of 21. The change in awareness between pre and post loans periods amongst the group members seems to be the result of the awareness raising training the group members have received from the micro-credit programs and it is hard to correlate with the extent of impact due to credit program. Nevertheless, it can be argued that due to general rise in income which the group members are experiencing, it is not as pressing as before to the loanee families to give marriage of their daughters at an early stage.

Dowry:

It is our observation that there seems to be a general awareness of devastating consequences of dowry amongst the group members. Most of them whether male or female argue that after the awareness raising training from five linked micro-credit programs no larger group member intend to give or demand dowry when their children are going to be married. However, there are reasons for this renunciation of dowry. Some group members in male group are now settlers whom the local people do not want to pay dowry in case of marriage, as they are not fully accepted within the community. Another reason for renouncing dowry is poverty, we specially observed in rural areas. Also amongst the beneficiaries outside the linked micro-credit programs, the general view was not to demand dowry. As compared to this, sometimes, they are compelled to pay dowry when they are unable to arrange, that is, if they can not marry of their daughter to anyone without dowry. One of the women even claimed that on one would marry her daughter without dowry which left her with no other choice than to pay. When asked directly, it appeared that some of the group members had already taken dowry in case of their son's marriage and also paid dowry in case of their daughters marriage, which is not consistent with their expressed opinions concerning dowry. This means that in case of dowry no revolutionary changes seem to have taken place. As such, they might be aware of the consequences, but in practice they are unable to avoid dowry. It seems that the group members like the non-members, are compelled to pay dowry if they want their daughters to be married.

Most of the group members state that they will not demand dowry in case of their son's marriage. It is perceived that one of the reasons for this is that it is easier to decide not to receive dowry than to decide not to pay dowry if demanded. Hence the general picture seems to be a compelling one. We find it likely that the change in awareness is due to continuous training related to social issues important before lending fund to group members.

Divorces:

In theory both men and women can demand a divorce, although, in practice only men divorce their wives. This is caused by fact that it is very difficult for a woman to divorce her husband in the context of the rural areas of Bangladesh.

However, the group members receiving micro-credits observed that the incidence of divorce is decreasing in post loan period as compared to pre-loan period. Many of the female phased out groups in the pre loan period argued that the divorce are less than earlier because they learned about unintended effects of dowry from the literacy program run by the micro-credit programs. They also mentioned that people have become afraid of the economic consequences of divorce. The visible effect of this was that in some groups we found only three of the women are divorcees. The reason for their divorce is being that they could not conceive any children. Another reason why divorce are less amongst the groups is that if a divorce occurs for a group member, the rest of the group will take action in order to solve whatever conflict between the spouse and in this way some divorces are avoided. In some cases even the local leader's steps in as counselor. The female groups now fell that they have some value to their husbands because of their income, which he recognizes and that is why he is not interested in divorcing her. Hence it can be argued that the provisions of micro-credit have a direct impact upon the divorce rate among the five studied linked micro-credit programs group member's households.

It should be mentioned that the most visible impact of micro-credit on the status of divorce appears to be in the riverbank, most poverty stricken areas. Previously divorces were quite common in these areas because the male persons more often than not were forced to leave these areas in order to find work on the mainland. Unfortunately, they quite often also found a new life and therefore, abandoned their first wife who was left in the remote areas. This has changed since the provision of credit from the linked micro-credit programs. One reason is that the husbands stay in the remote areas when they participate in the income generating activities, because they no longer are forced to go to the main land. Another reason is that the female groups also earn money for the family which their husbands recognize and value and therefore he stays together with her.

Nutritional Status:

Nutrition is a basic human need. It is essential for survival as well as critical factor for an individual growth. A well-nourished population develops into workable force for the whole nation.

In the present study, nutritional status of the beneficiaries was analyzed between pre and post loan periods to find out the real impact in shaping their health as well as family welfare. It is appears that there seems to have some general changes in the dietary situation after formation of the groups by the linked micro-credit programs. Previously, i.e. before receiving credit, it was common only to eat twice a day, and the meals were mainly consisting of chapati, rice and sometimes vegetables. Meat was only served on very rare occasions, may be only twice a year. Fish, though served more often than meat, was also only eaten once in a while and depended on the season, i.e. during the rainy season more fish were available due to the rising rivers.

The group members under study are now on an average has been able to eat three times a day. The meals still mainly consists of bread, rice and vegetables, although they now eat vegetables every day which they did not before. Fish has become regular food for most of them, although a few of the group members are able to eat once in a month.

The increase in the consumption of food along with improvement in the nutritional value (e.g. they now eat more vegetables) within the group members households is the direct impact of the linked micro-credit programs. The rise in income seems to be contributed in the improvement of the group member's nutritional situation. This is supported by the fact that the people outside the linked micro-credit programs are living as the credit groups did before receiving credit and these people only eat twice a day, and they mainly have rice or chapati. The amount of food available is very much dependent on their daily income and specially on the availability of work. If they have not been able to find work for days, starvation is not uncommon for the beneficiaries outside the micro-credit programs just as it was for many of the group-members under micro-credit programs in pre-loan period.

Women Empowerment:

In Bangladesh, women in general and poor women in particular are relatively powerless with little or no control over resources and little decision making power. The limited resources which are at their disposal, such as a little land, a nearby forest, their labors and skills, even their own bodies are not within their control. Decisions made by others, being mainly male persons, also affect their lives in all respect every day. Women under the influence of patriarchal ideology, which promotes values of submission, sacrifice, obedience and silent suffering, often are unable to make attempts to assert themselves or demand some share of the resources.

In the study, it was found that through training and credit provided by micro-credit programs, the practical needs of women beneficiaries have been met i.e. their nutritional and health status seems to improve through access to better food, safe water, latrines, etc. Also better children care, education and improved technology seem to be ensured through micro-credit. Thus it seems to be successful in meeting such practical needs, i.e. improving the overall conditions of the women. However, improvements in physical status and access to basic resources and credit do not automatically leads to fundamental changes in women's position neither within the household nor within the overall society.

A basic feature of linked micro-credit programs under study is the assertion that economic structures are the basis of powerlessness as well as inequality. This assertion implies that improvement in the economic situation will result in overall redistribution of power. Still, equal status between men and women is not necessarily the result of economic strengthening of women. Strengthening women's economic status, through positive in many respects, does not always reduce their other burdens or other types of oppression. Hence, although micro-credit strategy of linked micro-credit programs improves the women's economic position and conditions, it is not clear that whether this change necessarily empowers in other dimensions of their lives.

It should be noticed that the micro-credit programs under study attempt to strengthen women economically through credit have met only limited objections from their male counterparts. It is obvious that the male rural poor are almost as powerless as female rural poor in terms of access to and control over resources. Thus it is reasonable to assume that the men tend to support the strengthening of the women in economic position through credit, since it brings much needed resources into the families and to some extent communities. However, it is likely that resistance will come if and when the women will seek to challenge the patriarchal family relations that is quest the power, rights and privileges of men within the family as if the women strives to compete with the men for power in the public sphere. However, such a resistance is currently not a problem for the female beneficiaries of the linked micro-credit programs since such a strengthening of women is not addressed through the programs

It would be somewhat of an exaggeration to state that the female micro-credit beneficiaries have come so far as to challenge the existing power structures just as it is debatable whether they even have come so far as to develop a critical understanding of the prevailing ideology of gender. Still it should be acknowledged that the link programs have come some of the way, although far from all the way, through the awareness-raising training. The women are more conscious about their position within the household, although only few attempts are made to challenge the male dominance and the existing power relation. We find that in order to achieve actual empowerment of the women, the program will have to address the underlying structural factors of Bangladeshi society, which perpetuated the oppression, and exploitation of the rural poor women. Whether the program will commit for such strategy is not yet certain but needs policy debate.

One approach could be that of a comprehensive analysis of the actual consequences of the rural poor women's subordination, in order to establish, how to challenge it most appropriately. If the wish to work for women's empowerment is sincere the program will have to work-together with the women-towards an abolition of the sexual division of labor, the alleviation of the burden of domestic labor and child care, the removal of institutionalized types of discriminations, the establishment of political equality etc. That is challenge of the existing power structures.

In future, micro-credit program should emphasize the work, which strives to raise the women's consciousness, their self-image and their beliefs about their rights and capabilities. It should be of importance to create awareness amongst the female beneficiaries of how gender discrimination, like other socio-economic and political factors, is one of the forces acting on them. It will be of importance for the women to challenge the sense of inferiority, which has been imprinted on them since they recognize the true value of their labor and contribution to the family, society and economy.

A final remark will be that radical changes will not be sustainable if limited to a few individual women that are to the program beneficiaries only, because the traditional power structures will seek to isolate and expel them. Society is forced to change only when a large number of women are mobilized to press for change. Thus an important feature of micro-credit work towards the enhancement of women's empowerment should be that of influencing the women to seek to mobilize other women- as well as men- outside the micro-credit groups, so that the effect will spread to the overall society.

The Process of Women Empowerment and the Role of Credit

Along with equal social, political and legal status of women in society, the economic emancipation of women is essential for them to contribute their full potential for their empowerment. In this context, empowerment is understood as a process of transcending from a lower level of development to a higher level of self-realization. It is to raise above a limited perspective to a wider field of vision the process of empowerment enables the women to overcome social and economic isolation and low capacity. For the economic empowering and uplifting of link micro-credit target women, credit plays an important role along with education and skill development activities in built within micro-credit programmes. This is because the ultimate objective of financing women group members is to develop their capacity to the level that gives fitness to win in the struggle for existence.

The impact of micro-credit program as presented in the following sections highlights basically the qualitative changes that have taken place in the women's position at household level as well as at community level. It may be mentioned that credit alone can not lead to enhance status of poor women in the society. A holistic approach incorporating awareness creation and group organization, struggle for the fair implementation of various legislation in their support (women) in marketing, availability of raw materials, skill training, legal aid, health and child care, maternity and social security are some of the key elements that need to go hand in hand with the availability of credit. The conceptual design of micro-credit development programs including credit however provides the framework within which one should look at the process of women empowerment.

Division of Labor

A striking feature is that the work, which is carried out in the rural areas, is quite segregated; the result being that it is quite easy to make an explicit distinction between male and female tasks.

A typical day for the women contains carrying out tasks such as washing, cooking, cleaning and taking care of their children as well as of their husbands, cattle, poultry, etc. That is if their respective family is so fortunate to have such in its possession. The women are furthermore in charge of the vegetable cultivation as well as of all the rice-processing activities such as paddy boiling, drying, etc. These are tasks, which altogether are carried out at the household level. In this respect, there is no visible difference between the group who are currently receiving credit and the ones who are phased out. No remarkable changes seem to be taking place in the work carried out by the women after receiving credit and they are as such still carrying out the homestead related tasks.

The above outlined observation has further more been confirmed during conversations with women who had no contact with micro-credit program or any other credit scheme. Also they carried out the typical female tasks within their household, although most of them had no cattle, poultry or other to look after, thus not being so fortune as the majority of those who had received credit from linked program. Thus, no direct change seems to have occurred in what kind of tasks the women carry out and as such the work is still sharply segregated into male and female work.

Activities which linked program supports with credit, especially the projects which the women initiate have a typical female character and it can be identified that the projects which the women choose are easy to manage from the household such as poultry rearing, rice husking, cattle-fattening and although sericulture is innovative and different from anything the women have previously done, it is still carried out within the homestead.

Although linked micro-credits in some areas have provided women beneficiaries credit for carpentry, a non-traditional female job but only in rare cases and only to women who are either divorced or widows. Hence, a conclusion may be drawn that micro-credit through its credit program in large supports the rigid gender based division of labor which is prevailing in the Bangladeshi society. Thus, although a change in welfare occurs, the underlying structural factor which to some extent perpetuates the oppression of women, is not addressed directly through the credit program.

Work Carried out Outside the Household

A notable difference between the women who receive credit and the women who do not is that the majority of the latter feel compelled to sell their labor, working outside their household. If someone calls on them they will spend the entire day working as day laborers, sometimes they are paid in cash but not always. Instead they are likely to receive approximately one kg. of rice, sometimes also half a meal is included in their pay. If the latter is the case, i.e. they are paid in kind, not in cash, then they can not contribute economically to the maintenance of their family's livelihood. It should be mentioned that as a comparison to this the women who are receiving credit are only in rare cases feeling compelled to work outside the household, as they now are able to earn an income staying within their household. Those who had not received credit for very long, those the women still felt compelled to sell their labor. This is likely to change when their credit projects begins to pay off.

The above outline implies that a change seems to take place when someone in a family joins a micro-credit group and receives credit, the wife of that particular family no longer feels compelled to work outside their homestead. Instead the women are now employed within their own household, which altogether seems to be of great importance to them. This is because a lot of status is related to the issue of women working outside the household. Traditionally Bangladeshi women are restricted to carry out work which is possible to perform within the household of the family. If it is necessary for women to work outside her homestead, she more often then not will have to endure the negative status, which commonly is attached to this situation. Hence, since the women who have received credit no longer are compelled to work outside of their households, their status is now raising also within the overall community.

Workload

A critique of the provision of credit to women is that the women clearly get overburdened when they are to take care of their household activities as well as their income generating activities. However, the women whom we have met, all expressed that although the volume of work had increased, so had their income, which is why they all expressed their satisfaction with credit activities.

An argument opposing the statement expressing that the women become overburdened due to credit would be that most of the women who are not receiving credit feel compelled to carry out both their own household work, as well as work for other. Hence, it is possible to argue that quite a burden also is placed on their shoulders, since they have to do double-day work.

A change, which seems to occur within the household due to credit, is that decisions concerning the family are carried out involving both husband and wife. A male group stated that they now take decisions together with their wives, which would not have happened before they received credit. Also the women argue that after the formation of the group and receiving credit they become conscious regarding their right and now take part in decisions made within this entity.

Thus, changes are slowly occurring within the household, although it can be argued whether it is due to the credit provided or due to changes occurring in the overall society, since also the women who have not received credit states that their husbands consult with them before taking any final decisions.

However, ultimately it is the husband who takes the final decision, thus in this sense no revolutionary change has occurred. This is also reflected in the way the credit is utilized by the women, since they always consult with their husbands before investing. Some of the women argued that without the consent of their husbands they would not take any decision, just as they would not have received credit in the first place if their husbands had not agreed. Altogether, we have found that the husband is having quire an influence upon how the credit is utilized by the women, not leaving them much space for control over the credit which they are provided by linked micro-credit program.

Self-esteem

An important change, which has occurred within the household, and which all the women we met expressed is, that they now feel more respected by their husbands as they now add an income to the household. Before the women received credit it was more or less only the men who brought resources to the household, but since the women are engaged in the income generating activities and they have an income which makes their husband to give value to women beneficiaries. Hence, a valuable change in the women's self-esteem has taken place due to the credit. As one female group expressed that now their husbands thank them. This is why they feel their status within the household has improved.

What is also significant is that a similar change in attitude has also appeared within the male groups as they have expressed that they now are valuing their female counterparts more than before they received credit, and in one group they even expressed that they were planning to involve the women in their future activities, which would not have happen before they formed the group and received credit. Still, whether it is due to the credit alone or due to the awareness-raising training which also has been provided by linked micro-credit which is difficult, if not impossible to ascertain.

Violence

It has to be recognized that the women are obtaining recognition from their families when they have an income. However, the practical picture still seems to be that the wife is bound to obey her husband if she has no significant earnings and that he dominates her in most respects.

This leads to a final issue related to the rural poor women's position within the household. Still a lot of violence and assaults towards women are carried out by their husbands, have been rather than the exception. The attitude has been and still is that the woman is the personal property of their husbands, which is why they do as they please. Hence, when a husband heats up on his wife he feels entitled and accordingly a outsiders should or would interfere.

Still, slowly changes are occurring in attitudes that are at least within the households. For instance, if the husband in a given micro-credit group-member household assaults his wife, then on several occasions the other group members have taken action and interfered. As a result, the violence is decreasing within the micro-credit group-member's households which it can be argued is a direct benefit to the women's position within the household.

Change in Women's Position within the Community

Breaking the Traditions

Since the women who are provided with credit from linked micro-credit are striving to achieve economic independence it would be natural to assume that different reactionary groups within the Bangladesh society, with their conservative perceptions of what a women can do or can not do would seek to obstruct such attempts as it is seen happening in other parts of the country.

Still it seems that such groups are not currently obstructing the micro-credit works with the rural poor women. However, it has not always been this way. As such, when the program initiated the credit work with the women there were some clashes with the conservative groups of Bangladeshi society.

One such group, which previously was against linked micro-credit to women manned by the religious fundamentalists, who did not approve of the formation and motivation of women's groups. This is why they protested and tried to hinder the formation of women's groups and in some cases even obstructed the implementation of the women's income-generating projects. This clash was mainly due to the prevailing religious attitudes toward women. However, since (after the formation of groups) then women in the female groups have united and the majority of them have claimed that they no longer have any problems from the religious fundamentalist. In one of the female groups, the women were once facing problems with these fundamentalists due to the fact that they were in contact with a male Union Organizer. However, the women united together and they protested, stressing their need for the services of this male Union Organizer for their own development. The women succeeded and the fundamentalists withdrew, thus the women's position changed somewhat within their respective community after realizing that unity makes them strong.

The women have also faced problem from another side that is from the elder generation who for a long time felt and argued that it was not right for the women to be involved in such income-generating activities. Instead they proclaimed certain kind of activities which were proper female activities stating that it was the duty of the women to perform such work. However, women succeed to convince the elder generation by arguing that through such income-generating activities they would earn money, which eventually would be of benefit for the entire family. Thus again a small change took place in the overall vision on women's position at community level at least, for the female group members.

Overcoming Dependency for Marketing

A striking feature which is related to the rural women's position within the Bangladesh society and which we find is contributing to the reinforcement of the rural poor women's dependency on the male persons is the issue of buying and selling at the market. The task of going to the market is socially defined as being a male task, which is an omnipresent feature in the Bangladeshi society. Due to this, some marketing-problems are generated to the women's home based projects irrespective of whether they are currently receiving credit or phased-out.

It was found in most of the groups that the task of selling and buying was handed over entirely to the husband. Still, it should be mentioned that in some cases the women sold their products themselves directly from their own house. However, the fact that it is mainly the husband who takes care of the marketing also means that he is the one who, at least initially, is having the control over the profit driving from the wife's credit supported products. The question is whether he later transfers the earnings from these products over to his wife, who actually was the one who was provided with credit from the program. It is a matter of concern that the husband in this way seems to be entirely in the control of the profit of the micro-credit.

Only in very rare cases the women will have to go to the market herself. We talked to one women who herself had gone to the market to purchase as well as to sell rice. She was forced to do it because her husband had died and her children still were too young to go to the market. She expressed that she felt shyness whenever she had to go and she preferred to sell her products in the village. However, when she went to the market, she would sold her things outside the market and never entered inside the market. Thus, still the social norm is biased against women.

Enhancing Social Status

Still the women feel that their social position has improved within the society since receiving credit. The women in a group currently receiving credit argued that after the formation of the group they felt more conscious about their position in the community. Another visible effect is that it is now easier for the women to go outside their home. What is especially important is that the phased-out female groups express that they now-a-days perceive themselves to be "more brave human," and that they feel more powerful. Previously they described themselves as being shy as well as afraid and they hesitated to contact or communicate with any male person or group outside their household. As compared to this, they today feel that have overcome all these problems after joining groups and receiving credit.

It is evident from the above discussion that there is an increase in self-esteem, which again is due to the income from their credit projects. We find that this rise in self-esteem and awareness of their own value is the most important impact of credit amongst the women.

Another visible impact is that their social status has increased. People from the community are beginning to approach the women for advice. Altogether they are now, as compared to before receiving credit, feeling a sense of social security as a female phased-out group in Natore expressed "earlier the public was criticizing, but now they do not criticize anymore". Instead the males who previously criticized them have seen their income benefit and the improvements the women have achieved and now they want to follow their example and form a group.

Decision-Making Pattern at Community Level

Another impact is that after receiving credit the women sometimes participate in decisions made at the village level. The women who have received credit, and thus experienced in income generating activities are given priority when social decisions are to be made which never would have happened before. For instance, if a quarrel occurs between two women in a community, the women who have received credit often are asked to act as mediators to solve the conflict. In this way, they are given priority which is definitely an impact of credit. This observation is confirmed when talking to the women who have not received credit and expressed that they are never asked to participate in any decisions at community level, which is due to their low status as because they are poor.

However, we find it important to note that although the women are asked for advice and are given priority it is not to the same extent as the male groups are treated. The women seems to be given priority if an issue arises of a social character, such as described quarrel, whereas the men after receiving credit participate in the local *salish* and therefore are involved in community decisions of quite another character. It seems to us that the women who have received credit do not seem to be encouraged as much the men who have received credit to involve in community decisions. This could be interpreted as an indication that although their value has increased but they are still not regarded as equal to the men. They are still not thought of being capable to take important decisions at community level-these are still left for the men.

Observations

It seems to us that the women's role as income earners of their families have increased as well as their contributions have expanded. Their enhanced participation in the house hold economy has resulted in improvements in the women's well being in terms of income, greater choices over their lives and decision-making power within the family, but the gender roles and differentials have not changed significantly. This is mainly due to structural social factors that contribute to the inequities and which have not been addressed adequately by the credit scheme.

The women's participation in different aspects of daily life still is strongly affected by cultural (and religious) norms such as seclusion and segregation role for women and is still constraining women's mobility and participation.

However, progress has been achieved through the program organized group activities. Also an opening in the rural poor women's access to traditional small-scale activities is taking place due to credit, which to some extent has succeeded not only in creating assets and enhancing income but also has improved other aspects such as consciousness. Despite limitations in the labor market, the women's increased participation in economic activities has a positive impact in terms of an enhanced female status- and self-esteem.

CHAPTER-X

SUMMARY, POLICY IMPLICATIONS AND RECOMMENDATIONS

9.1. Summary:

9.1.1 Introduction and Methodology

Bangladesh is basically an agricultural country where a vast majority of the population directly depends on agriculture as their source of livelihood. Ironically the agriculture does not provide a bright profile and widespread poverty persists, especially in rural areas. In order to improve the situation, the government adopted different strategies and policy measures in different development plans all of which emphasized development and strong linking of institutions catering to the needs of rural people, specially the disadvantaged groups of the society.

One of the main thrust of the Government of People's Republic of Bangladesh is to attain self-sufficiency in grains production to save hard earned foreign currency spent to import food grains. In the situation, the role of the banking institution has been found to be very instrumental in whatever achievement could be made to increase production and to develop the rural economy as a whole. But it is found that having sixty percent of the total branches in rural areas, rural banking system is commanding only eighteen to nineteen percent of total deposit which shows a very unsatisfactory performance and rural banking approach has been found wrong. Some development experts feel that since viable rural banking operation is not possible by formal banking structure, so they should leave the rural financial sector in the hands of semi formal sector (NGOs) have made commendable success in poverty alleviation through the promotion of micro-credit.

The linkage approach is as an effective method for channeling micro-credit to the poor customers. It is also strongly suggested that the formal Banking systems can meet the credit needs by adopting well-conceived delivery system using NGOs and SHGs as financial intermediaries. Although, in recent years this approach has contributed enough towards enhancing development efforts in Bangladesh. There was however dearth of research work on different components of this approach and it was thought that another study on the effectiveness of this would have much relevance to formulation of policy. Many studies have recognized the importance of an in-depth research in this important but less researched area of rural development.

The broad objective of the study was to analyze the impact of some linked micro-credit programs on poverty alleviation. In specific terms, the objectives of the study were to: (i) trace the origin and evolution of Banking with the poor through linked programs; (ii) study the organizational and managerial effectiveness of linked micro credit programs; (iii) analyze the economic efficiency and effectiveness of such programs; (iv) assess the impact of linked micro-credit programs on poverty alleviation of the beneficiaries; and (v) recommend policy implications arising out of the major findings.

The data for the study were collected both from primary and secondary sources. The data collected from the secondary sources were required to fulfill the objective of knowing the origin and evolution of banking with the poor through linkage approach and the organizational as well as managerial effectiveness of linked micro credit program. The data were collected by consulting various documents published by the concerned departments of the Government of Bangladesh. Primary data were collected through a carefully designed sample surrey.

There were as many as eighteen linked micro credit programmes operating throughout Bangladesh. However, due to time and fund constraints, five linked programs and 750 beneficiaries were purposively selected for the study. The collection of data was done by adopting questionnaire and observation methods. On successful completion of the field work, data were processed and analyzed according to the objectives of the study. Simple tabular technique was used to classify the data into meaningful category. All possible measures were made to collect accurate information. The researcher adopted various techniques of cross-checking the accuracy of data.

Notwithstanding, all efforts made, some limitations of the study still exist. Firstly, institutional rigidities made it difficult for the researcher to get official permission to consult various files and documents, although the problem was solved later on. Secondly, the study was confined to specific linked micro credit programs and the result obtained may not be applicable to other areas of the country. In spite of these constraints, the data used in the study can hopefully be expected to have reached a fairly acceptable degree of accuracy and provide needful results.

9.1.2 Findings :

Analysis of the origin and evolution of the linked micro-credit programs shows that in early 80's the Asia and Pacific Regional Agricultural Credit Association (APRACA) took the initiative to popularize this approach among its member countries in their poverty alleviation programs. Subsequently, the member countries of APRACA begun to survey self-help groups, elaborated linkage schemes and prepared projects suited to their own conditions. Bangladesh as a member country of this Association tried to adopt this system under the leadership of the Central Bank in early 90s although some institutions have been practicing this in their credit programs on a limited scale from the 80's. Till now, there are, as many as, eighteen linked micro credit programmes in which Banks, GOs, NGOs and informal credit sectors are participating in their own capacity. The review of performance of these programs reveals that the linkage schemes show better results both in institutional as well as financial coverage as compared to those of the normal programs of the banking institutions. The unique characteristics of these schemes are that these are area specific and the scope of activities has been well defined among the linkage actors.

Study Area and Socio-economic Characteristics of the Study Sample: The study areas are confined to the program areas of five linked micro credit programs in Bangladesh. In the study, 750 respondents (micro-credit member) have been interviewed for an in-depth analysis of their socio-economic condition. The study reveals that out of the total beneficiaries, 58.80 percent are female and 41.20 percent are male. It is evident that the dominant age group is from 25 to 44 years and more than 65 percent of female beneficiaries are within this age group. Among the respondents, 31.72 percent are illiterate and female illiteracy rate (23.86%) is still higher than the male (7.88%). Higher percentage of primary school attendance (33.46%) is commendable of which 19.46% are male and 14 percent are female. Above all, the percentage of women is 62.27% which shows higher educational level as compared to male (37.73%) from illiterate to graduate. Occupational statistics reveals that petty trade, self-employed schemes and farming are the major occupations comprising 33, 18, and 17% of the loanees. Only 5% of loanees are employed in service. The disbursement of credit varies among different micro credit programs. Loan to individual group members ranges from Tk. 3,000 to Tk. 60,000. Out of total credit disbursement, small trade representing off-farm activities accounts for the highest share (66.69%).

Socio-economic Impact: The linked micro credit programs have contributed not only to the improvement of the quality of life but also definitely have positive effect particularly on social life. The relative status of the loanees at the household as well as community level has been enhanced due mainly to income earnings from different IGAs. This is more so for women loanees who now enjoy greater role in decision making on issues such as family structure, marital position, dowry, divorce, nutrition etc. A very important factor behind the increase in income is the employment opportunities generated through IGA. Employment opportunities particularly for women, has contributed significantly to the increase in average household income. Because of the traditional nature of activities within the programs, the average productivity of labor is still low but the average earning is much higher than the average agricultural wage labor.

Women Empowerment: The linked micro credit programs have encouraged the participation of women group members and nearly 60% of the total studied samples are women. By providing training, advice as well as micro credit, the linked programs lead to the improvement of living condition, production base of the traditional rural sector. It has proved that women can be economically empowered by themselves if they are provided with micro credit in due time.

People's Organization: The demand for credit to initiate productive activities in order to overcome the poverty situation is very high and priority is attached to it by households, groups, etc. The loanees can apply for loan only through group with the support of joint liability agreement. The members are aware and cautious about maintaining group discipline. Credit is playing the catalytic role in strengthening People's organizations. For sustainability, there is need for horizontal expansion of the credit program but from the perspective of market demand. There is also the need for vertical expansions which is constrained by low productivity of labor in the activities pursued by the loanees. Primary group members left their individual choices upon group decision regarding utilization of loan as long as they earn incomes and repay the loans. But it is known that credit alone is not enough rather the key element is a strategy for sustained growth in productivity increase. Thus, it is necessary to promote those activities which have the best potentials considering the supply and demand conditions in the locality as well as relevant circumstances outside the localities. For this, the micro credit loanees need skill training, marketing support, technical advice and other extension services along with credit.

9.2 Policy Implications and Recommendations for Future Research:

9.2.1 Policy Implications

The general environment of rural banking with the poor is settled with low disbursement and high default of loans. The rationality for initiating Banking with the poor through linkage schemes in the context of Bangladesh rural financial market lies in increasing the outreach specially to the rural poor and ensuring the viability by reducing their transaction costs and default risks. But it is also expected that such schemes would also encourage rural poor for availing financial services for which their effective cost would be lower but on the other hand, outreach as well as repayment performance of the linkage schemes are praise worthy. This has been mainly possible by adopting group lending technology in the linkage schemes. Because, it helps to reach a number of customers in a single transaction and reduces default risks of the lenders as the group is jointly liable for the entire loan. Here, lies the principal strength of the linkage schemes in the context of Bangladesh given the extremely low recovery rates in rural lending.

In case of rural bank-NGOs-rural customer linkage, in which NGOs get funds from banks and NGOs perform both financial and non-financial intermediation for the rural poor, the transaction coats has been externalized by the banks. The NGOs in their turn shift the burden of the transaction coats to the group members by charging them higher lending rates. This externalization of transaction costs on the part of rural banks has other aspect also. In such case, the banks do not have effective monitoring regarding borrower's viability. Whether the rural banks would go for directly dealing with the groups only for reducing their transaction cost or they would externalize such cost by giving funds to NGOs for on lending to rural poor -all depends on the willingness, motivation and policy focus of the bank management regarding rural lending. Not only institutional linkage, financial linkage is also equally important for achieving the linkage objectives. Almost all the linkage schemes now being operated are far-off in establishing financial linkage. Savings mobilization is the foundation for financial viability of the lenders and real self-help from the point of view of rural poor. Loans out of donor funds or refinance from central bank are always 'cold money' to the borrowers for which they do not feel obligatory to refund but if credit is his colleagues or neighbor or group member's money (warm money), then the borrowers will feel it as their duty to repay or refund. For establishing financial linkage, the financial instruments both for saving and credit which are to be used by the financial intermediaries must satisfy the financial needs of the rural poor people. Otherwise, only maintaining a link between two or more institutions will neither ensure the viability of the institutions nor the borrowers. In regard to financial needs of the rural poor, it is to be kept in mind that these needs will vary from group to group as well as place to place, depending on their nature of activities undertaken, objectives of undertaking such activities, develop capacities and cash-flow pattern of their families etc. But as the activities selected for finance, rate of interest, repayment schedule etc, of the schemes are very much rigid, reflective of earlier directed credit programs and therefore are not helpful in meeting the financial needs of the rural poor.

On the basis of the above discussions, the main policy issues which deserve special consideration in the context of Banking with the poor are furnished below:

On Indirect Linkage: Some of the rural activities like poultry raising, duck raising, fish farming etc, need special handling like feeding, vaccination, housing, breeding etc, at household level and some of the NGOs like BRAC, PROSHIKA, ASA etc. have wide institutional coverage as well as experiences in these areas. On the contrary, the formal financial institutions like BKB, RAKUB and NCBs have no such network in organizational activities in remote villages. Considering the situation, it is recommended that the rural banks mandated for the poor can establish indirect linkages with NGOs in these particular areas because of their technicalities with agreed terms and conditions acceptable to the linkage partners as has been practiced in the studied linked micro credit programs. From the view point of safety of funds, it is recommended that the banks could provide funds against some admissible percentage (say 30%) of guarantee Fund (GF) to be provided by the NGOs. The GF may be kept in FDR A/C with any bank branches and the rural banks may hold lien on the FDR and make loans to the extent of 100%. The rural banks would not be directly involved in financial transaction with the groups.

On Direct Linkage: in case of direct linkages as practiced by most of the linked micro credit programs, the arrangement should be such that the rural banks could provide loans to the groups directly upon the recommendations of the NGOs. The quantum of loans given to the groups should be in proportion to the savings mobilized by the groups. The proportion of savings to loans could vary from 1:1 to 1:4 depending on the assessment of the groups by the banks.

The NGOs as linkage partners could undertake social preparation activities like group formation, skill training, etc. of the group members to make them credit worthy. If the particular linkage scheme is a donor based one, the cost of the NGOs may be meet from the technical assistance of the donors and if that is not, the banks can allow commission to the NGOs out of the recovered amount to meet the administrative and other costs associated with their organizational activities. The activities included in those schemes should be simple production oriented so that the rural banks could finance those activities smoothly in collaboration with NGOs. In some schemes, the banks can work both as a financier and a self-help promotional institution.

On Fund Management : The NGOs should have access to the funds arranged by the Govt. organizations through credit lines from international agencies like IFAD, ADB, FAO, DANIDA etc, on easy terms and conditions with less cumbersome process and sympathetic attitude. Otherwise, this will delay implementation of the donor based project in rural areas. It is, therefore, recommended for the development of suitable modalities to enable the NGOs to establish effective financial linkage with banks for implementing rural credit programs in Bangladesh.

On Interest Rate: At present most of the NGOs and the donor backed linkage projects where bank is an important actor and charging interest rate around 16%. From the view point of viability of the MFI and interest burden on the borrowers, the rate would be such which will give benefit to both the parties in credit transaction. Considering the banks cost of fund, transaction costs, and risk/profit premium the interest rate should be charged at a point which is acceptable to all linkage partners.. This will create encouragement among the linkage actors in poverty alleviation efforts through institutional mechanism.

On Government Policy: The government should give official recognition as well as support to NGOs and SHGs engaged in extending credit to the poor. The commercial banks and BKB/RAKUB are also encouraged to meet their requirements for loanable funds to the linkage schemes. Presently, not more than one fourth of the total rural credit has been allocated in poverty alleviation through linkages and this may be raised to at least one third of the total rural credit considering the need of economy.

The policy should be such that the donor agencies can give strong support to the linkage schemes in institutional strengthening of the NGOs and their linkages with banks. These linkages of banks, NGOs and other institutions like PKSF represent a constructive form of financial development in Bangladesh. They extend the reach of the formal financial sector to new sections of the clients, mobilize new sources of savings and tap new markets for credit which helps to enrich the prospects of self reliant development for the poor as a group and the economy as a whole.

Role of the Central Bank: Banking with the poor through the establishment of linkages between banks and self-help groups is an approach promoted and monitored by the APRACA, Bangkok, in various Asian countries. In this context, the past end present role of the Central Bank (Bangladesh Bank) as the lead agency in providing policy support to the linkage schemes has been encouraging, However, BB's role could possibly be widened in such type of activities and for this, there would be the eagerness and capability of the leading institutions to carry out such projects at operative level. Presently, BB is supporting and promoting an approach of wholesale lending by NCBs and BKB to NGOs. Several such linkages were facilitated by Bangladesh Bank in the 90's. Technical support in conceptualizing and facilitating such linkages could be provided in the framework of a wider link program with BB as executing agency.

From Experimentation to Implementation: Within the framework of Banking with the Poor, most of the linked micro credit schemes are in experimental stage and they are yet to be institutionalized in the main stream of rural lending of the financial institutions. In such a situation, extra support and care often managed by local and foreign experts may be one of the important reasons for their excellent performance. Therefore, logically a question arises, whether these would be sustainable after the withdrawal of support. Thus regarding sustainability, willingness and motivation of all concerned i.e. lenders or borrowers, for the matter of continuing the activities are very important. From the view point of borrowers, they will most likely be interested to avail such financial services which they had always been denied. From the point of view of lenders, an important precondition for continuing their services is that the linkage schemes must mean business to them. Despite some weaknesses in the schemes, there is every reason to believe that these schemes are meaningful for the purpose of the lenders (banks). The general rural banking with the poor environment characterized by political interventions, default culture and unfavorable incentive structures for the bankers is the other important factors influencing the motivation of the banks to go ahead with such linkage programs. Therefore, banks would most likely not hesitate to continue the schemes, even after the experimental period, provided prevailing general rural banking conditions improves.

Legal Regulatory Framework: Effective legal and regulatory framework for secured transaction to promote increased access to credit by the poor is crying need of the day. This will also significantly expand access of NGOs to capital markets. Most forms of collateral that the poor and business have to offer, i.e. movable property, accounts receivable, credit history or good previous repayment performance, can not be used to access credit. At the same time, lenders are handicapped in extending credit due to absent of efficient institutions and laws that fail to protect them against potential default and in some cases prevent them from even making loans. Removal of these obstacles should be among the top priorities in reforming the present system. The newly formed MRA could play an important role specially in legal aspects, integration of the formal, semi-formal and informal sectors to improve the efficiency of the rural banking system.

Integration: Pro-active steps by both the government and the NGO community can significantly improve the flow of fund for rural poor banking to the mutual advantage of all stakeholders. The institutional as well as capacity building of linkage actors specially the smaller NGOs are important for medium to long run actions. In the short run, linkages between established NGOs with existing banks could be encouraged. However, it is important to recognize that the development of NGO program as component of linkage actor must proceed in a manner and at a pace that the existing institutional vis-à-vis human capital capacity can sustain. Therefore, whether to build on past success or to expand its scope to include small/marginal farmers- the pressure to speed up the pace of expansion of successful programs should be gradually moved. Accordingly, some important steps towards integrating the NGOs and the banks for the cause of effective linkages in poverty alleviation programs are (i) encouraging successful linkage partners specially NGOs to establish themselves as banking institutions; (ii) explore possibilities to mobilize self-help savings facilities; (iii) banks should actively explore ways of using smaller NGOs as brokers or facilitators, in exchange for a fee, to increase outreach and reduce cost; (iv) allow linkage actors (NGOs) to charge a "service fee" in recognition of the additional costs associated in dealing with small producers and group lending; (v) strongly encourage experimental approaches on perfecting the group lending methodology for small farmers and reach out to them; and (vi) chancel group assistance increasingly to training and capacity building of credit NGOs through support and network.

Informal Sector: Presently, there is no possibility of introducing any new institutions in rural areas and there is a pressure from the donors for rationalization of the losing bank branches most of which are located in rural areas. Thus, the involvement of banks, NGOs and informal sectors may be an alternative means for reaching banking to the poor. The village moneylender is an important actor in the informal money market. Despite the common impression that moneylenders are not good people, the government should at least investigate the possibility of developing a competitive private money lending system through licensing of the private moneylenders at villages. If the govt. can give licenses to the private commercial banks, what's wrong with the private moneylenders as the present govt. policy is to develop a competitive rural poor lending system which can meet both credit needs as well as reduce loan defaults. If the informal moneylenders are allowed to operate as legitimate professionals, they can provide quality service to the rural poor in terms of providing short-term credit on short notice. In the past, BKB experimented in the name of Grameen Rin Sahajugi (GRS) where the bank finances against collateral security to the party @ 01% above bank rate for on lending to the beneficiaries @ 12% per annum. The results suggested that the terms and conditions of the experimental GRS scheme should be revised to make them incentive compatible for the GRS and to encourage greater participation.

People's Organization: Sustainability of people's organizations over time would proceed through institutional innovations that may take place at the field as well as the management level, but some basic criteria to be fulfilled remain the same. Some of them are: motivation of group members and their integrity, institutional and management capability, access to credit and market potential of the pursued activities. It may be mentioned that the participatory process of group formation, group decision-making and selection of income generating activities is a testimony to the maturity of people's organization. To sustain the process, there is a need for close supervision and guidance.

- Supervision of groups by the field staff is not adequate and frequent. The organizers should make regular visit at least once in a week to the credit group and spend sufficient time with the group members. They should pay door-to-door visit in rotation so that each and every information of the individual household including its loan asset, loan utilization positions, repayment status, etc. are at the finger-tips of the concerned organizer and supervising staff including the Upazilla Manager.

- Group-meetings are not held regularly as per policy of group development. Adequate attention may be given for holding group meetings regularly on weekly basis.

- Group records especially individual loan ledger at group level is not maintained properly. If necessary, a paid volunteer may be engaged to assist the group in maintaining the group-record book. While visiting Upazilla staff, groups should give attention to this aspect.

- In some cases some groups in the name of Federation or Credit Union may play an intermediary role in credit operation. In some cases it is reported that the leaders are taking the advantage of exploiting the general group members in the name of intermediation. To avoid social conflict it may be a good strategy to keep federation apart from credit operation of primary groups. In case of phase-out group only, service of federation may be utilized for recovery purpose at the agreed rate of incentive.

9.2.2 Recommendations for Future Research :

There are several research topics we wish to suggest for further investigation. It is anticipated that the information and findings that will come out from the suggested research may provide an important basis to the policy makers in formulating policies concerning the future role and strategy of banking with the poor to alleviate poverty. A few suggestions for further research based on the experiences of the present study are furnished below:

i) A separate comparative study on institutional restructuring, multidimensional credit lines, supervision and follow-up mechanism, cost efficiency and management of MFIs may be under taken and compare the results of such study with those of the present study.

ii) A separate study may be undertaken on the impact micro-credit on land transfer, leasing arrangement, sharecropping, and release of mortgage out land which have direct impact of agriculture productivity.

iii) A detailed study may be made on the impact of banking with the poor on resource use efficiency, diversification of IGAs, entrepreneurship development etc. throughout the country.

iv) The definition and measurement of variables used in the study may be further improved by undertaking studies of similar nature in future.

BIBLIOGRAPHY

(A) Journals:

Adams, D.W. and R.C. Vogel (1986). "Rural Financial Markets in low Income Countries: Recent Controversies and Lessons", *World Development*, Vol. 14, No.4.

Ahmed, Zia U. (1989). "Effective Costs of Rural Loans in Bangladesh", *World Development*, Vol. 17, No.3.

Alam, Khorshed (1989). "A Study on Onlending in Informal Financial Markets in Bangladesh", BIDS Working Paper No. 16.

Banik, Arindam (1993). "Structure of the Credit Market and its Link with other Markets-An Analysis of Village Surrey Data in Bangladesh." *Indian Economic Review*, Vol. XXVIII, No.1.

Baseley, Timothy (1994). "How do Market Failures Justify Interventions in Rural Credit Markets", *The World Bank Research Observer,* Vol. 9, No.1, pp.27-47.

Bell, Clive (1990)."Interactions Between Institutional and Informal Credit Agencies in Rural India", *The World Bank Economic Review*, Vol. 4, No.3, pp. 297-327.

Bose, Pinaki (1998). "Formal-informal Sector Interaction in Rural Credit Markets", *Journal of Development Economics,* Vol.56, pp-265-280.

Braverman, A and Gaush, J. L (1986)."Rural Credit Markets and Institutions in Developing Countries: Lessons from Policy Analysis from Practice and Modern Theory", *World Development*, Vol. 14, No.10&11.

Brownbridge, Martin and Mick Moore (2000). "Financial Regulation in Developing Countries", *The Journal of Development Studies*, Vol.37, No.1. pp.1-24.

Chandrasenkaran, T. (1999). "Impact of Bank Lending on the Economic Status of the Weaker Sections of Tamil Nadu: A Study of Scheduled Castes in Tiruvannamalai Sambuvarayar District", *Finance India*, Vol. XV, No.1(March 2001),pp189-194.

Christen, R. P. and R. Rosenberg (2000). "Regulating Micro-finance: The Options", *Small Enterprise Development,* Vol.11, No.4.

Choudhuri, AHM Nurul Islam and T. A. Chowdhury (1994). "Restructuring Rural Banking in Bangladesh", *Bank Parikrama*, March-June.

Choudhuri, AHM Nurul Islam et al. (1996). "Interlinkage Between Banks, NGOs and Informal Credit Sectors for Rural Development in Bangladesh", *Bank Parikrama*, Vol. XXI. Nos. 1&2, March & June.

Chaves, Roadrigo, A, and C. Gonazalez. Vega (1996). "The Design of Successful Rural Financial Intermediaries: Evidence form Indonesia", *World Development,* Vol. 24 (January), pp. 65-78.

Clark, Jeffrey A. (1984)."Estimation of Economics of Scale in Banking: Using a Generalized Functional Form", *Journal of Money Credit and Banking*, pp.53-68.

Crack, Neil D. (2000). "Micro-finance Regulation in Bangladesh-A Long Path to Progress", *Small Enterprise Development,* Vol.11, No.4.

Dale, W. and A.P.R. Alfredo (1981). "Group Lending to the Poor in the Dominican Republic: A Structured Innovations", *Canadian Journal of Agricultural Economics*, Vol. 29; No.2.

Dale, W. and Jerry R. Ladman (1979). "Lending to Rural poor through Informal Groups: A Promising Informal Market Innovation", *Savings and Development*, Vol.11, No.2.

Kropp, Erhard, et al. (1989). Linking Self-help Groups and Banks in Developing Countries, Bangkok: APRACA.

Eversole, Robyn (2000). "Beyond Micro-credit-The Trickle up Program", *Small Enterprise Development*, Vol.11, No.1, pp 45-58.

Foster, Andrew D. (1995). "Prices, Credit Markets and Child Growth in Low-income Rural Areas", *The Economic Journal,* Vol. 10, No. 5 (May), pp.551-70.

Foster, James, Joel Greer, and Erik Thorbecke (1984). "A Class of Decomposable Poverty Measures", *Econometrica* , Vol. 52 (May), pp. 761-66.

Ghate, Pranab (2000). "Linking Formal Finance with Micro and Informal Finance", *The Bangladesh Development Studies,* Vol. XXIV, No.2&3, pp.201-215.

Ghate, P.B (1992). "Interaction Between the Formal and Informal Financial Sectors: The Asian Experiences", *World Development*, Vol. 20, No.6.

---------(1986)."Informal Credit Markets in Asian Developing Countries", *Asian Development Review*, Vol. 6, No.1.

Hoff, K. and J.E. Stiglitz (1990). "Imperfect Information and Rural Credit Markets-Puzzles and Policy Perspective", *The World Bank Economic Review*, September.

Hossain, Mahabub, and M. Asaduzzaman. (1983). "An Evaluation of the Special Public Works Program in Bangladesh", *Bangladesh Development Studies*, Vol. 11, No. 1 & 2, pp. 191-226.

Holl, K. and J.E. Stiglitz (1993). "Moneylenders and Bankers: Price-Increasing Subsidies in a Monopolistically Competitive Market", *Journal of Development Economics*, Vol. 52 (April), pp. 42-62.

Hossain, Mahabub and Binayak Sen (1992). "Rural Poverty in Bangladesh: Trends and Determinants", *Asian Development Review*, Vol. 10, No.1, pp. 1-34.

Hashemi, Syed M. et al. (1996). "Rural Credit Programs and Women's Empowerment in Bangladesh", *World Development*, Vol. 24 (April), pp. 635-53.

Hulme, D, (2000)."Is Micro-debt Good for Poor People? A Note on the Dark Side of Micro Finance", *Small Enterprise Development*, Vol. II, No.1.

Jain, Sanjay (1999)."Symbiosis vs Crowding Out: The Interaction of Formal and Informal Credit Markets in Developing Countries", *Journal of Development Economics*, Vol.59.

Jacklen, Henry (1999). "Building Banking from Below in Bangladesh", *Small Enterprise Development*, Vol.10, No. 3.

Khalily, M.A. Baqui et al. (2000). "Efficiency and Sustainability of Formal and Quasi-formal Micro–finance Programs- An analysis of Grameen Bank and ASA?", *The Bangladesh Development Studies,* Vol. XXVI, No.2&3.

Latif, M. A. (2002)."Income, Consumption and Poverty Impact of Infrastructure Development", *Bangladesh Development Studies*, Vol. XXVIII, No.3 (September).

Lundberg. S and R Pollak (1993). "Separate Spheres Bargaining and the Marriage Market", *Journal of Political Economy*, Vol. 101. No.6, pp. 988-1010.

Morrissey, J., (2000). "Indicators of Citizen's Participation: Lessons from Learning Team in Rural EZ/EC Communities', *Community Development Journal*, Vol.35, No.1(January).

Quinones, Jr. Benjamin R (1992). "Financial Market Linkage", *Asia Pacific Rural Finance*, January-March.

Roy, Mihir Kumar, et. al (1994). "Restructuring Rural Banking in Bangladesh", *Bank Parikrama*, BIBM, Dhaka.

Roy, Mihir Kumar and M. Ahmed (1995). "Impact of Interest Factor on Portfolio Management in Bank", *Journal of Finance and Banking,* Vol.3, No.1.

Schirmeister, Raimund and Michel Nadler (1996),"Promoting Linkages Between Formal and Informal Finance in African Country : A Case Study", *Finance and Banking,* Vol.1,No.2.

Stiglitz, Joseph E. (1990). "Peer Monitoring and Credit Markets", *The World Bank Economic Review*, Vol. 4, No. 3, pp.351-66.

Stiglitz, Joseph E. and Andrew Weiss (1981). "Credit Rationing in Markets with Imperfect Information", *American Economic Review*, Vol. 71, No.3, pp. 393-410.

Stigler, G.J (1995). "Imperfections in the Capital Market", *Journal of Political Review*, Vol. 10, No.2.

Sabri, A.A. and Mafruza Khan (1991). "Proshika's Experience of Collaboration with Government of Bangladesh in Livestock and Social Forestry", *Bangladesh Journal of Extension Education*, Vol.6.

Saha, J.C.(1993)."Linking Program of BKB", *Krishi Bank Parikrama*, Vol. 3, No.2.

Stiglitz J. (1990). "Peer Monitoring and Credit Markets", *The World Bank Economic Review*, Vol. 4, No. 3, pp.351-366.

(B) Books, Seminar Papers and Reports:

Adams, D. W. (1984). "Are the Arguments for Cheap Agricultural Credit Sound ?", in Adams et al. (ed.) Undermining Rural Development with Cheap Credit, Boulder: Westview Press.

Asian Development Bank (2000). Establishment of Framework for Sustainable Microfinance, Second Progress Report, Dhaka: ADB.

------------------------------(2000). Finance for the Poor: Microfinance Development Strategy, Manila: ADB

Ilem, Irfan (1990)."Imperfect Information. Screening and the Costs of Informal Lending: A Study of Rural Credit Market in Pakistan", *The World Bank Economic Review.*

Bangladesh Bank, Annual Report 2003-4 to 2005-6, Dhaka: Bangladesh Bank

Bangladesh Bureau of Statistics (2001). Preliminary Report of Household Income and Expenditure Survey 2000, Dhaka: BBS.

BIDS (2001). Survey Report on PKSF's Monitoring and Evaluation Systems (MES), Dhaka: BIDS.

Biswas, T.K. (2004). Women's Empowerment and Demographic Change, Comilla: Bangladesh Academy for Rural Development (BARD).

Besley, T. and A.R. Levenson (1996). The Role of Informal Finance in Households Capital Accumulation: Evidence from Taiwan", *Economic Journal*, Vol.106, pp. 39-59.

Bedard, Guy (1991). Development Banking with the Poor, for the Poor and by the Poor, GTZ, April.

Bhattacharya, Debapriya, Naushad Faiz and Sajjad Zohir (2000). "Policy for Employment Generation in the Informal Sector of Bangladesh", Dhaka: Centre for Policy Dialogue (CPD)

Bhattacharya, D and S. Ahmed (1995). GO-NGO Collaboration in Human Development Initiatives in Bangladesh, Dhaka: BIDS.

Boltvinik Julio (1994). "Poverty Measurement and Alternative Indicators for Development", in Poverty Monitoring: An International Concern, eds. Hoeven,Rolph Van der Hoevan and Richard Anker, London :St Martin's Press.

CGAP (1998). Status of CGAP Investment Phase-1, Consultative Group to Assist the Poorest, November.

CGAP (1999). Improving Donor Financing Instruments and Arrangements for Micro-finance, Consultative Group to Assist the Poorest (CGAP).

Christen, R.E. Rhyne, and R. Vogel (1994)."Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs", Arlington, Va : International Management Communication Corporation.

Christen, R.P., E. Rhyne, R.C.Nogel and C. Kean (1995). "Maximizing the Outreach of Micro-finance Enterprise: An Analysis of Successful Micro finance Program, USAID Program and Operation Assessment, Report No. 10, Washington D.C.: USAID.

Chowdhury, T. A. and M. K. Roy (1994). A Study on the Anatomy of Rural Bank Branches (Mimio), Dhaka: BIBM, December.

Datt, Gaurav and Martin Ravallion (1995). "Growth and Poverty in Rural India", World Bank, Office of the Vice President, Development Economics, Washington, D.C.: The World Bank.

Dessing, Maryke (1990). Support for Microenterprises: Lessons for Sub-Saharan Africa, World Bank Technical Paper No.122, Washington, D.C.: The World Bank.

Dupuis, J.L. (1994). "The Linkage Scheme of the Kurigram Project," paper presented at a "Seminar on Linkage of SHGs with FIs" at Bangladesh Bank on 21-22 September, Dhaka.

Fuglesang, Andreas, and Dale Chandler (1988). "Participation as Process: What We Can Learn from Grameen Bank, Bangladesh.: Oslo: Norwegian Agency for Development Cooperation.

GoB (2006). Bangladesh Economic Review-2006, Dhaka: Ministry of Finance

Gonzalez-Vega, C., R.L. Meyer, S. Navajas, M. Schreiner, J. Rodriguez-Meza and F. G. Monge (1996). "Micro-finance Market Niches and Client Profiles in Boliva, Economics and Sociology", Occasional Paper No. 2346, Columbus: The Ohio State University.

Harper, Malcom (2002). "Promotion of Self Help Groups under the SHG-Bank Linkage Program in India", paper presented at the Seminar on SHG-bank Linkage Program at New Delhi on 25-26, November (Accessed on 04.08.2003 at www.nabard.com.).

Hossain, Mahabub and M. Mokaddem Akash (1993). "Public Rural Works for Relief and Development: A Review of the Bangladesh Experience", IFPRI Working Paper No.7, Washington, D.C.: International Food Policy Research Institute.

Hossain, Mahabub and S. Rashid (1991). Labor Force, Employment, and Access to Income Earning Opportunities in Bangladesh, Dhaka: Bangladesh Institute of Development Studies.

Hossain, Mahabub and Piaz C.C. (1997). Reaching the Poor with Effective Micro-credit Evaluation of a Grameen Bank Replication in the Philippines, Manila: International Rice Research Institute.

Hashemi S. (1997). "Those Left Behind: A Note on Targeting The Hardcore Poor" in Wood G. and I. Sharif (eds.) Who Needs Credit: Poverty and Finance in Bangladesh, Dhaka/London: UPL/Zed Bock .

Huppi, Monika, and Gershon Feder (1990). "The Role of Groups and Credit Cooperatives in Rural Lending", *The World Bank Research Observer*, Vol. 5 (July), pp.187-204.

Hulme, David (2000). "Can the Grameen Bank Be Replicated? Recent Experiments in Malaysia, Malawi, and Sri Lanka", *Development Policy Review,* Vol. 8, pp. 287-300.

Hulme, David and Paul Mosley (1996). Finance Against Poverty, New York: Routledge Publishing.

Healms, B, and P, Mosley (1996). Financial Sustainability, Targeting in the Poorest and Income Impact: Are there Trade offs for Micro-finance Institutions, CGAP Focus No.5, Washington D.C. : The World Bank.

IMF (1994). Financial Sector Reform Program in Bangladesh, Washington D.C.: International Monetary Fund.

Karmaker, K.G.(1999). Rural Credit and Self-help Group: Micro-finance Needs and Concept in India, New Delhi: Sage Publications.

Kehnert, W.S. and J.W.V. Pischke (1982). "Agricultural Credit Policy in Developing Countries", World Bank Reprint Series: No.280, Washington D.C.: The World Bank.

Khandakar and Chowdhury (1996). Targeted Credit Programs and Rural Poverty in Bangladesh, World Bank Discussion Paper No.336, Washington D.C.: The World Bank.

Khandakar, et al. (1995). "Grameen Bank Performance and Sustainability", World Bank Discussion Paper No. 306, Washington, D.C. : The World Bank.

Khandakar, et al. (1995). "Sustainability of a Government Targeted Credit Program: Evidence from Bangladesh, World Bank Discussion Paper No.36, Washington. D.C.: The World Bank.

Kropp, Enhard et al. (1989). Linking Self-help Groups in Developing Countries, APRACA.

Lee, L.F. (1976). "Estimation of Limited Dependent Variable Model by Two-Stage Methods", Ph.D. Dissertation. University of Rochester, Department of Economics, Rochester, N.Y.

Lipton, M (1976). Why the Poor Stay Poor: A Study of Urban Bias in World Development, London: Temple Smith.

Lipton, M (1988). The Poor and the Poorest: Some Interim Findings, World Bank Discussion Papers 25, Washington. D.C.: The World Bank.

Lipton, M. and M. Ravallion (1995). "Poverty and Policy", in J. Behrman and T.N. Sritivasan, Hand Book of Development Economic Vol. 111B, pp.2553-2657, Amsterdam : Elsevier.

Lipton, M. and J. Van Der Gagg (1993). " Poverty : A Research and Policy Framework" in Lipton M and J. Van Der Gagg (eds.) Including The Poor, The World Bank, Washington, D.C. : The World Bank.

Lipton, M (1996). "Successes in anti-Poverty Issues in Development," Discussion Paper No. 8, Geneva: International Labor Office.

Lovell, Catherine H. (1992). Breaking the Cycle of Poverty: The BRAC Strategy, West Hartford, Conn.: Kumarian Press.

Maurer, K and T.A. Choudhury (1995). "Report on the Review Mission on MSFSCIP", GTZ, May.

Malhotra, R and S.D. Chauhan (2000). Banking with the Poor, Innovations by Oriental bank of Commerce, in Basu K. and K. Jindal (eds.), Micro-finance, Emerging Challenges, New Delhi :Tata Mc Graw Hill.

Mallorie, Edward (2003)."Review of IFAD Experience with Rural Credit in Bangladesh", paper presented in the International Seminar on "Attacking Poverty with Micro-credit," Dhaka, Bangladesh.

Mckernan S. (1995). The Impact of Micro-credit Programs on Self-employment Profits: Do non-credit Program aspects Matter?, Brown University (draft).

Mills, John Stuart (1848), Principles of Political Economy. London: Macmillan Press.

Murshid. K.A.S. and Atiq Rahman (1990). "Rural Informal Financial Markets in Bangladesh: An Overview", BIDS Research Report No. 126, December, Dhaka: BIDS.

Mustafa S, I. Ara, D Banu, A. Kabir, M. Moshin, A. Yousuf and S. Jahan (1996). "Beacon of Hope: An Impact Assessment Study of BRAC's RDP", Research and Evaluation Division, Dhaka: BRAC.

Nauda, Y.C. (1994). "Significance of Establishing Linkages of SHGs with the Bank", a paper presented at a Seminar on "Linkage of SHGs with FIs" at Bangladesh Bank, September 17-18, Dhaka

Patter, Richard H., and Jay K. Rosengard (1991). Progress with Profits: The Development of Rural Banking in Indonesia. San Francisco: Institute of Contemporary Studies Press.

Pitt, Mark M., and Shahidur R. Khandker (1996). Household and Intra-household Impact of the Grameen Bank and Similar Targeted Credit Programs in Bangladesh, World Bank Discussion Paper 320. Washington, D.C.: The World Bank.

Pitt, Mark M., Shahidur R. Khandker, Omar H. Chowdhury, and Daniel Millimet (1998). "Credit Programs for the Poor and Nutritional Status of Children in Rural Bangladesh", PSTC Working Paper 98-01, Brown University, Population Studies and Training Center, Providence, R.I.

PKSF (2003). Maps of Micro-credit Coverage in Upazillas of Bangladesh, Dhaka: Palli Karma Shohayak Foundation (PKSF).

PKSF (2005). Follow-up Study on PKSF's Monitoring and Evaluation System, Dhaka: HB Consultants/ PKSF.

Rahman, H. Zillur and Mahabub Hossain, eds.(1995). Rethinking Poverty: Bangladesh as a Case Study, New Delhi: Sage Publications.

Rhyme. E (1992). The Yin and Yang of Micro-fmance, Reaching the Poor and Sustainability, The Micro Banking Bulletin, No.2, Boulder Colorodo: Economics Institute.

Rogaly B, (1996). "Microfmance Evangelism, Destitute Women and the Hard Selling of a New Anti-poverty Formula", *Development in Practice*, Vol. 6, No. 2, pp.100-112.

Rosenberg, R. (1996). Microcredit Interest Rates, Consultative Group to Assist the Poorest, Occasional Paper No.1, Washington D.C.: The World Bank.

Roy, Mihir Kumar, Md Nuruzzaman and J. Alam (2000). Linkage between GOs and NGOs in Rural Credit: A Study of Some Credit Programs in Bangladesh, Comilla: Bangladesh Academy for Rural Development (BARD).

Rutherford S (1996). The Poor and Their Money: An Essay about Financial Services for Poor People", Institute of Development Policy and Management (IDPM), University of Manchester.

Sen, Binayak (1989). "Money Lenders and Informal Financial Markets: Insights from Haor Areas of Rural Bangladesh.", BIDS Research Report, No. 100, May.

Seible, Hans Dieter (1992). "Self-Help Groups as Financial Intermediaries: A Training Manual for SHGs, Banks and GOs", Saarbrucken: Fort Landerdale.

-------------------(1987). Financial Innovations for Small Enterprises in Southeast Asia: Linking Banks of SHGs, India: Delhi.

Varghese, A (1996). The Dynamics of Formal and Informal Lending: Theory and Evidence from India St. Louis University, mimeo.

Von, Pischke J.D. Admas. D.W., Donald, G. (eds,), (1983). Rural Financial Markets in Developing Countries, Baltimore, Md.: Johns Hopkins University Press.

Waterfiled, C. and Ramsing, N. (1998). Handbook for Management Information System for Microfinance Institutions, New York: Pact Publication.

World Bank (1994). "Policy Discussion Paper on Rural Finance in Bangladesh", Dhaka: The World Bank Office.

World Bank (1996). Bangladesh Rural Finance, Dhaka: The World Bank Office.

Yaron, Jacob (1992a). "Assessing Development Finance Institutions", World Bank Discussion Paper 174, Washington D.C.: The World Bank.

Yaron, Jacob (1992b). "Successful Rural Finance Institutions", World Bank Discussion Paper, 150, Washington, D.C.: The World Bank.

Yaron, Jacob (1994). "What Makes Rural Financial Institutions Successful?", *The World Bank Research Observer,* January.

Yaron, Jacob, McDonald P. Benjamin, and Gerda L. Piperk. (1997). "Rural Finance Issues, Design and Best Practices", Environmentally Sustainable Development Studies Monograph No. 14, Washington, D.C.: The World Bank.

Yunus, Muhammad (1983). "Group Based Savings and Credit for the Rural Poor in Bangladesh", Paper Presented at the Inter-Country Workshop on Group-Based Savings and Credit for the Rural Poor sponsored by the ILO, UN Inter-agency Panel on People's Participation, Bogra, Colombia, November 6-13, 1983.

---------------. (1995). "Towards Creating a Poverty-Free World", paper presented at the Annual Meeting of the US Committee for World Food Day, January 25, Washington D.C.

.....................(1999)."How Donor Fund Could Better Reach and Support Grass Roots Microcredit Programmes", Working Towards the Micro-credit Summit Goals and Core Themes, Abodjan.

(C) Online Documents:

Caprio, Gerard, Ross Eric Levine, and James R. Barth (2007). Bank Regulation and Supervision Database, Available at: http://go.worldbank.org/SNUSW978P0, Accessed on 30.06.2008.

Cater, Roberto and Ganhayag Chulun (2001). "Equity Investments in MFIs and Transformation: The Case of XAC, Mongolia." Prepared for the UNCDF/SUM/ UNDP Global Microfinance Meeting on Young and Promising MFIs, 30 May–1 June, Available at: www.uncdf.org/english/microfinance/documents_and_reports/ thematic_papers/XAC-Equity.pdf, Accessed on 30.06.2008.

Charitonenko, Stephanie and S. M. Rahman (2002). Commercialization of Micro-Finance: Bangladesh, Manila: Asian Development Bank (www.adb.org/publication/micro-ban)

Cheston, Susy, Larry Reed, Suzy Salib, Rodger Voorhies and James Copestake (2000). Measuring Transformation: Assessing and Improving the Impact of Microcredit , Available at : http://www.microcreditsummit.org/papers/impactpaper2.pdf, Accessed on 30.06.2008.

Christen, Robert Peck and Richard Rosenberg (2000). The Rush to Regulate: Legal Frameworks for Microfinance, Consultative Group to Assist the Poorest, Available at: http://www.cgap.org/p/site/c/template.rc/1.9.2699, Accessed on 30.06.2008.

Fernando, Nimal A. (2003). "Transformation of NGOs into Regulated Financial Institutions—Expectations Fulfilled?" Presentation at ADBI Conference, December, Available at: www.adb.org/Documents/Events/2004/, Accessed on 30.06.2008.

Fernando Nimal A. (2006). Understanding and Dealing with High Interest Rates on Microcredit A Note to Policy Makers in the Asia and Pacific Region, Available at :http://www.adb.org/Documents/Books/interest-rates- microcredit /Microcredit-Understanding-Dealing.pdf, Accessed on 30.05.2008.

Fernando Nimal A., (2007). Low-Income Households' Access to Financial Services; International Experience, Measures for Improvement, and the Future, Asian Development Bank, October 2007 , Available: http://www.adb.org/Documents /Books/Low-Income-Households/low-income-household. PDF, Accessed on 13.06.2008.

Grameen Info (2002). Homepage of the Grameen Info, Available at: http://www.grameen-info.org/, Accessed on 30.05.2008.

Helms, Brigit and Xavier Reille (2004). Interest Rate Ceilings and Microfinance: The Story So Far, Consultative Group to Assist the Poorest, Available at: http://www.cgap.org/p/site/c/template.rc/1.9.2703, Accessed on 30.06.2008.

Lauer, Kate (2008). Transforming NGO MFIs: Critical Ownership Issues to Consider, Consultative Group to Assist the Poorest, Available at: http://www.cgap.org/p/site/c/template.rc/1.9.4213, Accessed on 30.06.2008.

Micro-credit Summit +5 (2002). Web page of World Micro-credit Summit, Available at: http://www.microcreditsummit.org/, Accessed on 30.05.2008.

NABARD (Undated). Evaluation of Capacity Building Service of the Poor, The Credit Rating Information Services India Limited, Available at: www.nabard.in, Accessed on 17.05.2008.

Rosenberg, Richard (2002). Micro-credit Interest Rates, Consultative Group to Assist the Poorest, Available at :http://www.cgap.org/gm/document 1.9.2696/OccasionalPaper_01.pdf, Accessed on 30.06.2008.

Roth, J., et.al. (2007). The Landscape of Microinsurance in the World's 100 Poorest Countries, Microinsurance Center, Available at: www.microinsurance.org, Accessed on 30.05.2008.

Thorat, Usha (2007). Financial Inclusion–The Indian Experience. Speech made at the HMT-DFID Financial Inclusion Conference 2007, 19 June 2007, Whitehall Place, London, UK. Available at: www.rbi.org.in/ scripts/speeches, Accessed on 30.05.2008.

United Nations Capital Development Fund (2005). Statement of the Advisors Group to the United Nations International Year of Microcredit, Available at: www.yearofmicrocredit.org/docs /Advisors_Group_UN _IYOM_8Nov2005.pdf, Accessed on 30.05.2008.

United Nations (2006). Building Inclusive Financial Sectors for Development, New York, Available at :http://www.uncdf.org/english/microfinance/ pubs/bluebook/pub/Building_Inclusive_Financial_Sectors_The_Blue_Book.pdf, Accessed on 30.06.2008.

Virtual Library (2000). Homepage of the Virtual Library on Micro credit. Available at: http:// www.soc.titech.ac.jp/icm/icm.html, Accessed on 30.05.2008.