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# RURAL POOR AND THE FORMAL CREDIT PROGRAMS IN BANGLADESH: An Empirical Analysis

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## Abstract

Since de-colonization from Britain to mid-1970s, the rural credit programs in the territory of Bangladesh had followed one after another and never worked well. Moreover, those programs had seldom served the poor, especially women. This article is an attempt to understand the historical nature of the problems and weaknesses of the rural finance. By the late-1970s, a new development approach was introduced by the Grameen Bank (literally: village bank) to correct the top-down bias of previous decades. This paper also presents a brief historical overview of why and how that alternative development model emerged and of its assumptions and expectations regarding institutional arrangements for minimizing state and private involvement in the development process. Some skeptics were refused to view micro-credit as being all that different from older and this is a small contribution to remove the foginess around this mechanism. The author also indicates prospects and the recent emerging challenges of micro-finance for the poor.

**Keywords:** Bangladesh, Rural poor and finance, Historical perspectives, Micro-credit, and the Grameen Bank model.

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## I. INTRODUCTION

Dependence of the rural population of the territory of Bangladesh on informal credit market has been historically associated with financing mainly the consumption needs. Official intervention in the provision of credit was merely a means to fight poverty, ignorance, exploitation and natural disasters<sup>1)</sup>. There had been no organized efforts to contribute to comprehensive rural development or national economic growth through rural credit. Subsidized loans were first introduced during

British colonial period to help poor farmers survive droughts, floods and cyclones, and escape from local loan sharks. The credit cooperatives first tried in the opening years of last century, were designed to organize and educate their members as well as to give them access to financial services. But except some private local initiatives, the formal credit cooperatives never worked well. By 1947 there were 26,664 rural credit cooperatives in Bangladesh and they provided almost all-formal financial services in rural areas (Ali 1990). This trend continued for two decades and a half with varying success

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or failure. Some attempts during 1950s and 1960s to revive cooperatives failed to get the true principles of cooperatives – self reliance and self-management – accepted at national level, because the authorities were using the cooperatives as a way of pumping politically motivated subsidized credit into the rural area.<sup>2)</sup>

This paper attempts at analyzing the formal credit programs through a comprehensive review of major efforts of Bangladesh towards development of a new type of rural credit market for the poor. It culminates on analysis of the Grameen Bank (hereinafter GB), which offers an innovative banking system for the poor and more attractive option for poverty alleviation.

In the late 1970s, the GB emerged with micro-credit activities at grassroots level in Bangladesh. Since then the GB-Model has been at the center of national and international attention and is considered to be a mechanism for economic development through overcoming poverty and deprivation by access of the poor to credit and material inputs. The GB practice leads to a process replacing old orthodoxy with new ideas, and today's development paradigms in LDCs are based on micro-credit, people's participation, self-help management and peer-group monitoring, etc. Taking those into consideration, this paper also attempts at a closer look on the GB Model as an alternative rural financing approach and its innovations.

## II. RURAL CREDIT PROGRAMS: Since De-Colonization to Mid-1970s

The birth of early cooperative institutions in the territory of Bangladesh is associated with the recommendations of the Famine Commission Report of 1901. Between 1901~1940, as many as three legislation were introduced by government to strengthen and expand the cooperative network. The general consensus, relating to the assessment of the cooperative movement till 1947, is that the movement expanded rapidly on weak foundations. Among the reasons identified were low level of literacy, highly formal nature of the movement and personal motives of the individual members of the cooperatives (Ali 1990). Moreover, the movements received various setbacks, first from the depression of the thirties and second from the partition of India, etc. After 1947, the independent Pakistan government tried various new approaches to rural credit. The need for a sustainable

full-fledged credit delivery system with micro level units had been recognized soon afterwards.

### Since De-colonization to End-1950s

With an apparent realization of the fact that the poor people faced high interest rates due to monopolistic practices of 'local loan sharks', the government of Pakistan introduced a system of providing subsidized credit to small farmers through specialized financial institutions. The government in 1948 introduced a 3-tier cooperative based credit delivery system at the Union level.<sup>3)</sup> Rural credit programs initiated by the government during the period up to 1950s are presented in Table 1. The number of UCMPS created under the program reached about 4000. The program was designed to provide credit to the various rural livelihood cooperative groups, but its purpose was foiled as the cooperative societies were dominated by vested interest group members, who were usually the large landowners taking the lion's share of the loan funds and often defaulting in repayments.

Under a 1950 bill Pakistan officially abolished the Zamindari land tenure system, which had been a major symbol of oppression and injustice. Later, the ADFC (1952~) and ABP (1956~) were established with a handful of branches in East Pakistan (now Bangladesh). The functions and loan conditions of the two organizations overlapped, but the main difference was that the ABP had a statutory duty to give preference to small farmers and share-croppers, a stipulation which demonstrates that the ADFC was intended to be an instrument of social reform and rural development (Rutherford 1995). At the same time, the government had initiated another large-scale rural development program called V-AID placing major emphasis on energizing rural communities. The V-AID divided the country into development areas, each with about 150 villages and 100,000 populations. The main component of the program was on self-help<sup>4)</sup> but because of the class conflict in villages it became an indirect source of help to large landowners and other better-off rural peoples. The V-AID officers were given Jeep and also money-bag to show themselves off and the result was rivalry and generation of an inter-departmental jealousy among field functionaries. Moreover, they were won over by mostly the local power classes (Khan 1980).

The ADFC and ABP were pioneers in new field of

Table-1: Formal Rural Credit Programs since De-colonization to End-1950s

Programs	Major Objectives	System Introduced & Operation Mechanisms	Nature of Achievements And Remarks
Union Cooperatives Multi-Purpose Societies (UCMPS) 1948	- Extending various services to farmers, fishermen, weavers and other rural livelihood groups	-3 tier Cooperative * based credit delivery system at Union level for multi-purpose activities	-Poor loan recovery performance -The vested interest group members dominated cooperative societies and they were the largest defaulters. -By 1958 tried to reach village level through KSS (farmer's cooperatives) -Program abandoned in 1961
Agricultural Development Finance Corporation (ADFC) 1952	-Rural development. -Increasing productivity and real income. - Creating a spirit of help & cooperation among villagers and providing community services	-Loan to rural people for various purposes including horticulture, forestry, fishery, animal husbandry, poultry and dairy, etc. -Organization of rural Communities for agricultural development through credit	-Poor loan recovery performance -The poor had very limited access to credit because of legal constraints and paucity of trained personnel dealing with rural credit -A pioneer venture in a new field of activities
Village Agricultural & Industrial Development (V-AID) 1954	-Improving rural people's socioeconomic livelihood through provision of extension and the community services. -Increasing productivity & real income of villagers -Creating a spirit of help & cooperation among rural people	-Divided the country into development areas with a population of approx. 100,000 and about 150 villages. A development officer was in charge of the area assisted by three supervisors including one woman. -Created various committees at all administrative units -Gave important roles to village council of elders (smallest unit) and the V-AID development area organization (second smallest unit)	-The program could not reach the target since the administrative ability was poor -Diversion of the development fund by field functionaries and influential villagers caused a fund shortage and spread of corrupt practices - The program could not create local organizations for important roles in economy; rural infrastructure was not directly linked to the villagers' income-generation - It was abandoned in 1961
Agricultural Bank of Pakistan (ABP) 1956	-Same as ADFC but gave attention on social reforms and rural development, and preference to support small farmers and sharecroppers	-Almost same as ADFC but had a statutory duty to provide institutional support to small farmers and sharecroppers	-Poor loan recovery and failure to reach the target. Benefits gained mainly by the wealthier farmers. -Like ADFC, it failed to make any impact on rural credit market. And both were merged into Agricultural Development Bank of Bangladesh (ADBP) in 1961
Pakistan Academy for Rural Development (PARAD) 5/1959 -	-Creating new multi-purpose societies instead of the tiny village-level cooperatives of earlier years. -Mobilization of rural people through the elected leaders. -Local resources mobilization through experiment	-Introduced pilot projects for experiment. Decided to set up small groups of 30 to 40 farmers all of whom know each other. -They were to hold weekly meetings at which attendance and deposit of savings would be compulsory -Target oriented project under one institutional framework with full-time Director (who also acted as Project Director of V-AID & specially assigned staff	- Implementation of pilot projects in Comilla District, ultimately leading to development of Comilla Model. -It worked clearly in the sub-continental tradition but adapted the old-style European cooperative thinking - Renamed as BARD after independence of Bangladesh in 1971

Source: Modified from Hossain and Takeya (1998c).

Notes: \*National Level– East Pakistan Provincial Cooperative Bank (EPPCB), Sub-division Level: 62 Central Cooperative Bank (CCB) & at Union level: UCMPS.

activities but these programs could hardly provide limited access of the poor to credit and had a poor reputation in terms of loan recovery rate. A commission in 1959 concluded that both had failed to make any impact at all on the rural credit situation. The two organizations were merged into ADBP in 1961. Meanwhile, the primary cooperatives also continued to decline in number during this period. For instance, in 1947 there were 26,664 agricultural credit societies in the than East Pakistan alone. By 1956-57 over 24,000 of those societies were under liquidation. The integrated V-AID program was also less successful because it had

poor administrative ability and could not play important roles in rural economy. The rural elite classes diverted fund and the corrupt practices of the functionaries caused severe fund shortage, and ultimately, the program was abandoned in 1961.

Repayment problem and weak structural features characterized the credit programs of 1950s. Even drastic efforts by the government resulted in a recovery rate of 26% in 1958-1959, which however, was higher than the previous year's figure of only 7%. Most credit was given to farmers who provided security to the lenders by mortgaging their land. So, from the beginning there was

an in-built mechanism for the exclusion of the non-landed and the poor from the credit system. A new institution the PARD was established in 1959 to create new multipurpose societies and to replace the previously formed tiny village level cooperatives. Its first director, Dr. Akter Hamid Khan was also acted as the Project Director of the V-AID in 1954.

#### Major Programs During 1960s ~ Early-1970s

In the early 1960s the government tried to pump money into the credit cooperative system and encouraged formation of much bigger multipurpose societies at the Union level. The key idea of credit cooperatives of the 1960s was that of allowing its members to generate their own pool of funds and manage it to their mutual advantage. The Government of Pakistan had engaged state-owned banks to serve the poor farmers but failed to reach the targets. Although huge amounts were disbursed during 1960s, little attention was given to East Pakistan. There was a sharp fall in per capita credit disbursement in the province and during 1961~1968 the average per capita disbursement in the West Pakistan was 432% higher compared to East Pakistan (Ali 1990). During financial years 1959-70, the EPPCB issued loans amount Tk.649.5 million, which were given to farmers who provided security by mortgaging their land. It is also interesting to note that a major decision to commit large sums of money came on the eve of the presidential election in 1964 (Ahmad 1983).

There had been some other remarkable developments in rural financing during 1960s (Table 2). Replacing the V-AID in the 1950s, the government introduced the Comilla Model (CM) in 1960s under PARD. The experiment became the basis for launching the rural works program by 1961 in East Pakistan and by 1963 in West Pakistan (Khan 1980, p.25). The CM tried to exclude involvement of large farmers in the program. It aimed at small farmers' self-financing and self-management, and expected that the cooperatives would safeguard them from local loan sharks and enable the villagers to introduce modern agricultural technologies for a Green Revolution. At the same time, the Comilla approach included social development and role of women in development. For example, the KSS (i.e., Agri. Co-operative) members were obliged to attend meetings and save a certain amount every week. It also

introduced 10 commandments for the borrowers. So the CM was not a minimalist approach, but an integrated one. The program used a target approach rather than a community development approach of V-AID. It earned praise throughout other developing countries, many of which took initiative to replicate the model at national level.

The CM had some weak points, as the savings rate per head and the loan recovery performance were not up to the mark. Since cooperatives naturally accumulate their own capital, they need to make sure that the members are disciplined in their thrift deposits and repayment of loans. Unfortunately, the members of Comilla Cooperatives failed to maintain these norms. Although, under the leadership of Dr. Akter Hamid Khan, the Model succeeded to a certain extent in the small farmers' self-management, it could not establish a harmony among the three main village classes – the large proprietors, the peasant proprietors and the landless laborers. The cooperatives had also failed to distribute the highly subsidized resources efficiently. By and large, in Comilla experiment the rich farmers got disproportionately large share of credit even though they defaulted more than other farmers did (Bose 1974).

Following independence of 1971, Bangladesh government transformed the shadow features of the Comilla Approach into the IRDP framework – the two-tier cooperative structure and the integration of multiple services like agricultural credit, irrigation, training and input for HYVs. In spite of the rapid expansion,<sup>5)</sup> the program could achieve little in terms of its objectives (Chowdhury 1989). Small farmers often remained outside of most cooperatives, while the large farmers controlled them and abused their power (Hye 1996). Little gain was accrued to the small peasants and the landless poor were totally deprived of any benefit. Much of the resources went to construction of buildings and houses and purchase of vehicles for use by the government officials. In other words, bureaucracy had eaten up a greater share of resources than what they could in Comilla of the 1960s (Khan 1979).

Most previous programs were unable to meet the dual challenge of institutional and financial sustainability, and had seldom served grassroots poor, particularly women, due to the lack of collateral, suitable guarantor, distance from the rural areas, cumbersome banking

Table-2: Formal Rural Credit Programs in 1960s and Early 1970s

Programs	Major Objectives	System Introduced & Operation Mechanisms	Nature of Achievements and Remarks
Comilla Model under Pakistan Academy for Rural Development (PARD)  7/1961 -12/1971	<ul style="list-style-type: none"> <li>-Institution building</li> <li>-Organizing the peasant proprietors for production as well as protection.</li> <li>-Increasing farmers' income through setting up small groups of villagers</li> <li>-Small farmers' self-management and self-financing to safeguard them from moneylenders</li> <li>-Facilitating the absorption of government supplied inputs &amp; introducing modern agricultural technologies for a Green Revolution.</li> <li>-Mobilizing rural people through their elected leaders, such as cooperative managers, model managers, youth leaders etc.</li> <li>-Infrastructure development like road &amp; flood control, etc.</li> <li>-Promoting individual farming based on the private ownership and operation of land &amp; other means of production</li> <li>-Promoting both private &amp; public sectors in rural development.</li> <li>-Increasing agricultural production by allowing farmers to invest in technology and improved inputs</li> </ul>	<ul style="list-style-type: none"> <li>-A Two-tier Co-operative System, i. e., KSS at village level and Thana Central Cooperative Association (TCCA) at the thana level.</li> <li>-Thana Training &amp; Development Centre (TTDC)</li> <li>-Thana Irrigation Plan (TIP)</li> <li>-Rural Works Programs (RWP)</li> <li>-Social development programs besides agricultural technologies &amp; weekly meeting for KSS leaders</li> <li>-Introduction of 10 commandments for the borrowers</li> </ul>	<ul style="list-style-type: none"> <li>-The model attracted attention of other LDCs and government decided to replicate it throughout Bangladesh.</li> <li>-Cooperative system went through transformation in sixties but there was no intention of putting an end to private possession of land. It was still impossible to prevent the big farmers from dominating cooperatives</li> <li>-The rich &amp; the powerful members of the managing committee allocated much of the facilities or credit to themselves, and lions share of the overdue loans belonged to them</li> <li>-Harmony had not been established between the various classes of the villagers. The landless and functionally landless and women still remained deprived.</li> <li>-Cooperatives turned out to be a futile exercise in a situation of inequality, and they failed to distribute the subsidized resources efficiently.</li> <li>-PARD was renamed as Bangladesh Rural Development Board (BRDB) in 1972</li> </ul>
Integrated Rural Development Program (IRDP) 1971 ~	<ul style="list-style-type: none"> <li>-Countrywide replication of the Comilla type two-tier cooperative structure and integrating multiple services in Bangladesh</li> <li>-Savings mobilization under the organizational framework for rural development</li> </ul>	<ul style="list-style-type: none"> <li>-Introduced main features of Comilla cooperatives into IRDP framework</li> <li>- Two-tier cooperative structure and integration of multiple services like credit, irrigation, training and inputs for HYV</li> </ul>	<ul style="list-style-type: none"> <li>-The program earned a poor reputation. Although the subsidies were high and general orientation is the same, IRDP could not succeed in achieving the same degree of concentration of inputs as in Comilla</li> <li>-The officials spent lion shares of resources for buildings, houses and vehicles for use. Bureaucracy had eaten up a greater share of resources than they could in Comilla</li> <li>-Renamed as Bangladesh Rural Development Board (BRDB) in 1981</li> </ul>
Bangladesh Rural Advancement Committee (BRAC) 1972 ~	<ul style="list-style-type: none"> <li>-Relief &amp; charity for poor</li> <li>-Social awareness building</li> <li>-Integrated rural development programs through target group</li> <li>-Motivating the poor for self-help through groups and development of savings habit</li> </ul>	<ul style="list-style-type: none"> <li>-Training and extension services for human development especially, the occupational skills.</li> <li>-Later introduced collateral-free loans to the poor at commercial interest rates</li> </ul>	<ul style="list-style-type: none"> <li>-By 1977 BRAC changed its approach from community development to comprehensive rural development through programs for the landless and functionally landless as target groups</li> </ul>

Source: Same as table-1

procedures, lack of appropriate training to programs functionaries, the level of 'agricultural credit rather rural credit' and so on. Until the Grameen Bank developed an innovative rural credit model in late-1970s (now worldwide known as "Micro-credit Model"), the benefits of the most formal rural finance services had gone to the better-off sections of the society. Most non-governmental organizations (NGOs) also started coming with micro-credit programs. For instance, the BRAC began as a relief organization in 1972 and became largest NGO in Bangladesh by 1980s. Over the years it has learned many lessons while experimenting with different models of rural development (UNESCAP 1996), but

micro-credit remains as a main element of the BRAC's activities.

#### Evolution of Rural Credit Programs During Mid-1970s ~ Early 1980s

The government of Bangladesh initiated a new program of the name the 'Swanirvar (self-reliance) Movement' in 1975 (not mentioned in the Tables). As of Janson (1982), the program had high ideals and was also inspired by the V-AID. The movement challenged the community based NGOs,<sup>6</sup> favored government intervention for rural development and advocated for agricultural production, promotion of socioeconomic development and

projects for women, etc. In late-1970s, the government (headed by a military ruler, later elected president) started the Swanirvar Credit Program in collaboration with formal banks.<sup>7</sup> Maloney and Ahmed (1988) pointed out that the program could reach the poor and especially, the rural women. The recovery rate however, remained low for many reasons the staff lacked a clear vision about the program and they did not supervise the borrowers

and above all, under the government directives the program functionaries had no choice but to just continue disbursement of loans without much attention on recovery (to influence rural voters).

The ASAARD, a new type of poverty-focused credit program under joint sponsorship of FAO/UNDP and ministry of local government of Bangladesh was launched in 1976 with the objective of improving productivity,

Table-3: Formal Rural Credit Programs in Mid-1970s to Early-1980s

Programs	Major Objectives	System Introduced & Operation Mechanisms	Nature of Achievements and Remarks
Asian Survey of Agrarian Reform & Rural Development (ASARRD) 3/1976-78	-Improving socio-economic conditions of small farmers & landless laborers through integrated programs of increasing productivity and income, enhanced employment opportunity, saving mobilization, etc.	-Integrated program through group formation on the basis of diverged activities by a group -Integration of economic activities with essential non-economic ones like education, nutrition etc. - Special guidance & supervision of the clients through staff -Supervision by outside agencies like BARD, Rural Academy of Bogra & Bangladesh Agri. Univ.	-Very satisfactory loan repayment, which is claimed to be 94% & dramatically improvement in income. -Recovery performance varied depending upon the purposes in which loans are sanctioned and used, non-farm activities showed better repayment rate. -The utilization of credit was improved because of close supervision by field staff, but borrower groups were too dependent on them. -Beneficiaries included largely the male population. -Training programs were not suitable for illiterate members -Saving mobilizations were irregular, and the savings were underutilized or used in unproductive purposes.
<i>The Action Research Project (ARP): 1976-77</i> & <i>The Grameen Bank Project (GBP): 1978-83</i>	<i>-Creating an access to credit and self-employment opportunities for the poor, especially for the deprived women-Saving mobilization for the poor</i> <i>- Initiating a participatory development process thorough empowerment of the poor &amp; consciousness raising, etc.</i>	<i>-Group based lending;</i> <i>-Introduction of a collateral-free credit system that ensures recovery through peer monitoring</i> <i>-Organization of the poor, women folk into active labor force with employment options</i> <i>- Credit wholesaling for the LL&amp;FLL and promotion of livelihood trades and small enterprise activities in rural areas.</i>	<i>-Elimination of exploitation of the poor by money-lenders &amp; extending credit facilities to the doorsteps of the poor</i> <i>-Created a credit delivery system that meets the diverse socioeconomic development needs of the poor;</i> <i>-Organized homogenous groups of the poor federated into larger organizations (centers);</i> <i>-Delivery of closely supervised loans with simultaneous social awareness training;</i> <i>-Beneficiaries included mainly the poor women;</i> <i>-Perfect loan recovery performance (98%), enhanced rural livelihood patterns and income generation activities;</i> <i>-Developed a culture that promotes self-help efforts and enterprising behavior of the rural poor.</i>
“Tk.100 Crore” (one billion) Credit Program Feb./1977	-Changing the traditional security oriented lending policy of the banks, particularly tied to land -Introducing production oriented loans for agriculture -Serving mainly the small farmers defined as owning up to 3 acres of land	-Short-term crop production loans with no collateral both for groups or individual farmers but farmers were required to present evidence of land-ownership & sharecroppers were required to have landowners as guarantors. - Loan amount per borrower was limited to a relatively small ceiling assuming that these amounts would be insufficient to attract large farmers	- Announcement & disbursement of the program was oriented toward quick disposal of large funds immediately before the presidential election 1977 with no intention of recovery. - NCBs disbursed loans without having sufficient contact with or knowledge of the borrowers. Bank officials also felt that the delivery system was not suitable for reaching the target groups. -The program had some favorable impact on production as fertilizer & other inputs were provided timely but the program operation cost was very high. - Less than 15% of the total credit went to small farmers & sharecroppers and the non target group borrowers accounted for more than 85% of the total number of program beneficiaries. Bigger farmers were the main defaulters & 56 - 70% of the fund could not be recovered
Rural Finance Experimental Program (RFEP) Sept./1978 ~ 1980	-To test different ways & means to deliver credit & mobilize savings from rural farms & the non-farm producers not reached by formal financial institutions. -To identify replicable rural financial systems to meet the needs of the rural producers, etc. -To test the viability of rural financial institutions	-Demonstrated different credit & savings policies & procedures through experimental models or delivery systems with various interest rates (between 12-36%) by 9 public lending institutions -Insisted conceptually, on the need for running rural credit programs by financially viable institutions	-For the first time public credit system for the poor and non-collateralized loan programs experimented with more than one-delivery mechanisms. -Credit reaches a substantial portion of the target group, loans had been used productively and as a result, incomes were increased. Loans with interest were substantially recovered in time. All of the projects showed financial viability & also savings mobilization by the poor. So, experiment shows that the interest rate is not the major deciding factor on the demand for loan. -First public credit programs for the poor to finance directly the non-farm activities.

Source: Same as table-1

Notes: BKB- Bangladesh Krishi (Agricultural) Bank; NCBs- Nationalized Commercial Banks; BSBL- Bangladesh Samabaya (Cooperative) Bank Limited; BAU- Bangladesh Agriculture University.

income and quality of life of the low income rural people (Table-3). Its modus operandi included formation of target beneficiary groups, disbursement of collateral-free credit to group members who were to attend weekly meetings for approval of production plans and use of credit, weekly repayments, updating accounts of financial transactions and dissemination of knowledge on group action (Huq 1989). The project was a big departure from all the previous government programs. It was a program for the poor only and it took credit services at their doorsteps instead of requiring the socio-economically handicapped poor to reach the banks' desks with much difficulty. The experience of the project however, revealed that without proper motivation of the beneficiaries themselves and without a committed involvement of the project staff, the delivery of services to the poor pose a real challenge.

It was at this period when Prof. M. Yunus piloted the rural financing 'Action Research Project (ARP)'<sup>8)</sup> with a difference, where the project workers went to their poor clients in remote areas to give them loans for various farms and non-farm activities through small-size group formation. Due to perfect repayment records, the ARP transformed into the Grameen Bank Project (GBP) in Jan./1978. The public banks mainly funded the ARP and GBP, and the project had been developing new ways to deliver rural credit without collateral and guarantor.

The 'Tk.100 Crore' special rural program was announced and money mainly was disbursed through nationalized banks immediately before the presidential referendum of 1977 by the military dictator. The program, by far, shows the highest over-due experienced in any rural credit program in Bangladesh in 1970s, and while no mortgage was officially required in the program, the various studies showed only landowners and rural elite got the loans. By this time, the RFEP sponsored

by Bangladesh Bank was an attempt to test different ways and means to deliver credit and mobilize savings for small farmers and other rural producers not reached by the formal banks. All 9 lending institutions under the RFEP indicted the financial viability however, depends very much on larger loan size. It introduced higher interest rates and experimented with various levels of rates (12 ~36 percent), and all 9 institutions' loans were substantially recovered in time with interest (Ahmad 1983). The project results, however, indicated that high interest rate is not the major deciding factor in rural finance, as it does not much affect borrowers' demand and repayment. Table-4 shows the overall performance of the selected programs in terms of repayment and to reach the target group in late-1970s.

NGOs in Bangladesh have been playing an important role in community development. Most of them started their work with relief and rehabilitation programs, and later they became involved in development activities. They transformed their rural development policy in 1975-76, when their community development approach incorporated support to livelihood activities of the rural poor based on a philosophy that the social development is a prerequisite of productive activities. After initial success of the GBP experiment, most NGOs also started coming up with micro-credit programs to contribute to development and integrate programs of development with those of livelihood support activities. Moreover, impressed by the performances of the GBP and then NGOs in their micro-credit programs since the late-1970s, the government of Bangladesh and donor agencies became especially interested in directly approaching the poor. Various public banks and agencies were forced to make strong inroads into the rural financial market to invest in agricultural sectors. As a result, in the country as a whole, the number of rural branches of the Nationalized

Table-4: Performance of Major Credit Programs in mid-1970s

Name of Program	% of Target Groups Reached	Over-dues
IRD	37	57
BKB	n. a	44
Tk.100 Crore Program	15 – 35	54 – 70
<b>GBP</b>	<b>100</b>	<b>0</b>
ASARRD	80 – 90	12 – 15
RFEP	85	20

Source: Compiled from Ahmad (1983).



Commercial Banks and the Bangladesh Krishi (Agricultural) Bank had greatly increased from 854 in 1975-76 to 3,225 in 1983-84 (Hossain 1988). The total amount of agricultural loans at these institutions was increased from Tk1.5 billion in 1977-78 to Tk11.3 billion in 1984-85 (WB 1994). Over half of the population who were landless and functionally landless<sup>9)</sup> (LL & FLL) however, remained beyond the coverage of the programs.

### III. MAJOR FEATURES, LESSONS LEARNED AND RISE OF MICRO-CREDIT

The most formal rural credit programs of the government were not designed exclusively for the poor, who lacked proper orientation and could hardly find access to credit services requiring knowledge and skill of accomplishing the formalities. The credit institutions often did not have the pool of trained personnel to work with the poor. Further, the credit delivery mechanism, the repayment system and the accounting system were not responsive to capacities and capabilities of the poor, to their communication skills, and above all, to their special needs and demands. The government programs frequently failed to identify the deserving borrowers and the staff had poor incentive to work hard for delivery of credit services to the poor in remote areas. The traditional cooperatives were not natural groups where people could trust each other, did not function as self-help societies, were assigned development tasks planned outside and lacked motivations for saving mobilization by the members (Maloney and Ahmed 1988). Most importantly, none of the rural credit programs in Bangladesh were unable to meet the dual challenge of institutional and financial sustainability, and had seldom served grassroots poor, particularly women.

The British government in India as well as the government of Pakistan had faced a problem that was a concern in Bangladesh until late-1970s, how to make sure that the credit designed for rural poor or small farmers actually reaches them. This was the *problem of reaching the targets*. The marginal farmers and the non-landed people remained excluded from the credit programs and the activities of the formal credit institutions historically covered basically the urban areas. New types of credit programs designed and implemented especially after independence in Bangladesh could bring some change in the tradition and credit facilities started to be made

available for the rural poor. But the term of 'Agricultural Credit' cleverly bypasses the big issue the landless poor and above all women. The rural elite class, who had vested interests, dominated the cooperative societies and those influential members, who were also the largest defaulters, generally preempted the credit facilities. This was the *problem of elbowing out the target people* and the new credit programs of the 1970s provided a solution to this by defining beneficiary categories that automatically exclude non-target people from credit access. Again, rural credit programs operated through cooperatives could not effectively serve the poor largely because of the bureaucratic malfunctions (e.g., *no bribe no loan*— usually 10% of the loan).

The third problem relates to non-recovery of loans was the *repayment problem*, which historically has its root in offering loans by the government to the rural people in their distressed situations implying that at one point, the debts 'will be written-off' on sympathy grounds and/or under political consideration.<sup>10)</sup> No systematic investigation was carried out to determine the specific factors responsible for high default on repayment of agricultural loans until end of 1960s. But some random sampled surveys revealed that the factors like, crop failure and instability in production in the absence of assured irrigation facilities, inadequate supervision leading to misuse and over or under financing, willful default by bigger and influential borrowers, procedural complexities in obtaining new loan on time, etc., has encouraged farmers to roll-over previous loans by non-repayment. Again, the field/extension workers usually did not go to the grassroots poor and they redirect the focus of their work from client to their superiors.

Allocation of resources was essentially a political function and it is also interesting to note that the major decisions to commit large sums of money came on the eve of the elections by military-ruled governments to keep the rural voters happy. In present days, even elected governments also have dominated this culture, and the convenient ways to do so is to adopt policies like allocation of larger disbursement, declare loan write-off and remissions and play down recovery aspect. Albeit, some new type rural credit programs had demonstrated quite satisfactory performance for very short period. The government order also forced the major public financial institutions to make strong inroad to rural financial

market through programs like the 'Special Agricultural Credit Program (SACP)'. The recovery rate during the period between late-1960s and mid-1970s has record of reaching as high as up to 83%. So far, none of the programs did succeed in reaching the vast number of rural poor, the landless above all women.

All remarkable programs since 1950s to mid-1970s had defects and limitations, no one could have denied that but there were enough scopes to improve the mechanism. Specially, the program like V-AID was abolished without even any formal evaluation (Khan 1980). Little was known among formal-sector financial intermediaries, how to avoid a requirement for physical collateral until mid-1970s, when the GBP begun using peer-group monitoring as a substitute for collateral and guarantor. Most NGOs took a negative attitude toward financing the poor, where as the GBP, influenced by the target approach of the Comilla Model, started coming up with micro-credit programs for self-employment along with other inputs for social development. Most NGOs also changed their strategies and started coming up with micro-credit (loan size usually <US\$100) to contribute to development and integrate programs of development with those of livelihood support activities. Donors' support to NGOs as well as to the government in micro-credit programs like IRDP (later BRDB) and experimentation with new approaches and ideas in rural areas promoted new avenues for rural development in Bangladesh. A shift in loan use to productive and profitable off-farm activities,

to supervise loans and introducing innovative repayment schedules like weakly repayments were thus simply inevitable to solve the problem.<sup>11)</sup>

NGOs in their micro-credit programs combined several organizational policies and introduced a financing system in which the borrowers and the staff of the lending institution act within the framework of an efficient integral unit. Small-scale income generating projects for the poor became the primary mechanism for initiating development from below. As policy makers and donors are always looking for novel projects to sponsor and finance, expansion of NGO initiated micro-credit programs and remarkable loan recovery performances have made it difficult to ignore the new approach. Enthusiastic and large-scale support for this innovation from multi-lateral and bilateral donors has ensured a worldwide rapid growth of the Micro-Credit Programs. For instance, more than 2,900 people representing 1,500 institutions from 137 countries gathered at the Micro-credit Summit in Washington, D.C. on February 2-4, 1997. Together they launched a nine-year campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005. Table 5 shows the outreaches of the reported programs joined in second follow-up campaign of the micro-credit summit.

NGOs as grassroots organizations have direct access to the doorsteps of the target population and can easily form peoples' organization with greater social awareness.

Table-5: Region-wise Programs Reported in the Micro-credit Summit Follow-up Campaign in 1999

Continent	Programs reporting (June, 1999)	Reported clients (June, 1999)	Reported Poorest Client (June 1999)*	Projected clients for 2005	Projected "poorest" clients for 2005 *
Africa	377	2,889,576	2,044,359	22,508,960	14,232,620
L. America & Caribbean	141	1,947,082	774,927	7,372,327	3,774,045
Asia	329	16,874,645	9,518,596	45,409,279	20,582,581
Middle East	14	41,208	16,774	483,658	115,800
<b>Developing World</b>	<b>861</b>	<b>21,752,511</b>	<b>12,354,656</b>	<b>75,774,224</b>	<b>38,705,046</b>
North America	30	42,992	24,844	268,251	122,252
Europe & NIEs	34	390,395	182,475	1,087,525	389,897
<b>Global Totals **</b>	<b>925</b>	<b>22,185,898</b>	<b>12,561,975</b>	<b>77,130,000</b>	<b>39,217,195</b>

Notes: \* Self-reported data of the programs.

\*\* It should be stressed that these numbers do not represent the total number of micro-credit programs or clients in the campaign or worldwide. As of 1 August 1999, total 1,557 micro-credit institutions worldwide had joined the Micro-credit Summit Council of Practitioners. But there are thousands of institutions worldwide have not yet joined the campaign.

Source: Adopted from GD (1999). For subsequent progress and regional summits please visit:

[http:// www.microcreditsummit.org](http://www.microcreditsummit.org)

The experience suggests that NGOs play effective role in identifying the poor and the poorest at the grass-roots level and they also perform the functions of development agents better than the government offices, since the network of NGOs and their community development workers live and work in the villages. This particular advantage of NGOs is often not welcome by the government departments. Despite the limitations and rising questions, NGOs in Bangladesh are undertaking increasingly impressive responsibility in conducting development work in the country (White 1999). A large number of NGOs have standing collaboration arrangement with the government, as many bilateral donors increasingly prefer involvement of NGOs focusing their concerns on the government's progress in poverty reduction and rural development.

In Bangladesh NGOs now seem to be far more numerous than in most other LDCs.<sup>12)</sup> Smaller NGOs are more conventional and run on project-to-project basis, often with one-shot, individual funding support by a single donor. The large NGOs that operate partially with own fund (generated through 'membership contributions and group-saving or fund-raising activities within local communities or income-generating projects') usually have short-term projects, although some activities do continue for a longer period of time. Most of NGOs in the country found to operate locally (covering a few villages/towns in one district), regionally (covering clusters of villages/towns in a number of districts) and at national level (covering almost all districts). Some undertake massive multi-million dollar development programs having more than million members and thousands of staff (Table-6). Micro-credit through NGOs and the GB already reached

one fourth of total poor households in the country (Wright *et al.* 1997).

A remarkable feature of major NGOs in Bangladesh is their donor-funding mode, and the donor community's preference for involving NGOs in planning and implementation of development programs is somewhat the government can hardly afford to disregard. In fact, the donors had already created a dual system of aid delivery in Bangladesh. Donors like the World Bank (IDA loans) and Asian Development Bank rarely finance the NGOs directly, but they actively encourage involvement of NGOs in implementation of projects funded by them. Specially, the World Bank has sided with the micro-financiers and as a result, a \$105 million World Bank loan in 1999 has approved for rural finance to the PKSF, the rural employment development agency of Bangladesh (GD 1999).

The GBP's rapid expansion and remarkable loan recovery performance were instrumental (Table 7) in allowing it by the government to emerge as a semi-autonomous rural finance institution with the name of the Grameen Bank (GB) under a special government ordinance in October 1983. Since then the GB has been successfully administering a unique program that leads small sums to the poor for income generation.

The GB and NGOs compare to the government agencies were regarded as the appropriate agents for fostering development from below. They are considered less bureaucratic, thought to be less or free of corruption of the field functionaries, less linked with local elite, innovative in thinking, maintain close relationship with localized problems and learning by doing approach, and also were viewed of fostering local participation by the

Table-6: The BRAC and Proshika - Top Two NGOs at a Glance

Particulars	BRAC (as of 12/1997)	Proshika (as of 6/1998)
Villages Covered	37,740	11,530 + 832 Urban Slums
Districts Covered	All of 64	50
Staff Position (Full time + Part time)	51,442 (20,433+ 31,009)	3,783 (Part time not available)
Budget (Million)	US\$104 in 1997	Tk. 4, 228 (1 <sup>st</sup> July/97- 30 <sup>th</sup> June/98)
Village Organizations (VO)/Groups	63,846	81,626 (71,940 Rural + 9,687 Urban)
VO Membership (Million)	2.23	1.57
Loans Disbursed (Million)	US\$150 during 1997 US\$470 up to 1997	Tk.6,774 (Up to 6/1998)
Current Members' Saving (Million)	US\$38 (Tk.1,770)	
No. of Non-formal Schools	34,334 (Adult not included)	7,267 (+21,096 Adult Literacy Centres)
No. of Student Enrolled	1,103,378 (Adult not included)	230,073 (+ 415,032 ,, Graduated)

Source: Hossain, M. A. (1999).

Table-7: Project Periods of the GB as on 31<sup>st</sup> December  
(Based on GB Historical Data Series)

Particulars	ARP			GBP (Grameen Bank Project)				
	1976	1977	1978	1979	1980	1981	1982	1983
	(In US\$)			(In Million US\$)				
Yearly Loan Disbursed	498	4,818	17,171	0.18	1.10	2.00	2.60	2.29
Cumu. Loan Disbursed	-	5,316	22,487	0.20	1.30	3.30	5.90	8.19
<b>Repayment Rate (%)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>99.87</b>
Group Fund Savings #	0	0	0	0.01	0.09	0.19	0.25	0.51
Members	10	70	290	2,200	14,830	24,128	30,416	58,320
Groups	1	7	29	377	2,935	4,818	6,243	11,667
Centres	1	2	3	36	326	482	624	2,443
Village Covered	1	2	4	17	363	433	745	1,249
Employees	1	1	6	43	147	218	422	824
Branches	1	1	2	7	25	25	54	86

Notes: Cumu. Cumulative, # Balance of Members Savings, ARP Action Research Project.

Source: Compiled from Hossain (1999)

poor women, etc. As policy makers and donors are always looking for novel projects to sponsor and finance, expansion of the GB type micro-credit programs' performances have made it difficult to ignore this new approach. It has been replicating hundreds of programs worldwide as a development model since late-1980s (see, Latifee 1995, Hossain 1999, GD 1999 and 2001).

The GBP's credit program was so successful that it induced almost all development NGOs to start collateral-free micro-credit programs, which became the single most common element of their activities. The GB has learnt much from other programs of the past. For instance, the KSS members were obliged to attend meetings and save every week. The cooperatives could not include the poor women as their members and their problems and experience lead to finding ways for a successful service delivery mechanism for the rural women. Moreover, the 10 Commandments of PARD and the 17 Promises of BRAC are the ancestors of the 16 decisions of the GB (Rutherford 1995). The ASAARD provided the some kernels for the GB model. Certainly, the credit delivery mechanism of the GB however, is based not on simple adaptation or on introduction of methods but on a process of learning by doing involving field functionaries and the target beneficiary people. The GBP or GB differs from NGOs in its approach to poverty alleviation. It believes that most immediate need of the poor is credit to create self-employment opportunities and then providing inputs like credit training,<sup>13)</sup> physical exercises, informal education, etc. So, the GB is not merely operating a credit program for the poor, its ultimate aim is the alleviation of rural poverty.

#### IV. PROGRESS OF THE GB AND BASIC ELEMENTS OF THE GB-MODEL

##### Growth and Progress of the GB

After seven years of experimentation at grassroots level, the GB emerged as a specialized (semi-autonomous) rural finance institution under a special government ordinance in October 1983 (Hossain and Takeya 1997). The fundamental features of GB are

- An organizational structure that ensures that client belongs to the bottom half of the socioeconomic hierarchy.
- A credit delivery system through group formation and weekly repayment, which is designed to be simple and adaptable to cater to the needs of the clients.
- A built-in savings mobilization component that enhances self-reliance and provides cover against business risks and natural calamities, and
- A self-employment mechanism that provides poor women an opportunity to assert themselves in the households and in the society, etc.

The GB has, nevertheless, developed a "centralized-cum-decentralized" management structure with a cadre of dedicated professionals, who are capable of operating effectively on its own (see, Hossain and Takeya 1998b). Each unit (including the rural Centre) operates autonomously, but is a part of the whole. Credit decision-making is however, highly decentralized; the lowest managers or lending officers are given clear guidelines and procedures; there are effective controls and individual lending limits, and the management information systems are sufficiently robust to permit measurement of performances. The GB management is harmonizing in combina-

tion of both traditional scientific management and many neglected managerial features in development theories. For instance, one of the unusual characteristics of the GB culture is that its clients are effectively brought inside the organization structure (Hossain and Takeya 1998a).

The GB programs are also highly diversified in response to emerging development needs of the clientele as well as rural economy (Hossain 1999). It had already recognized women as an object of its development. The women members constituted 40% of the total membership in 1983, while the comparative figure for IRDP (now BRDB: Bangladesh Rural Dev. Board) was only 8%. With remarkable growth and progress, the percentage of women members of the GB has increased to around 95% (see, GD 2001). The GB not only experienced a rapid growth in physical facilities and coverage but also registered a significant increase in its volume of business and services. Table 8 shows overall progress and growth of the GB. Various studies already indicated the positive impacts on poor borrowers as well as on rural economy (see, Rafiquddin 1982, Hossain 1988, Amin *et. al.* 1994, Khandker *et. al.* 1995, Todd 1996, Hashemi *et. al.* 1996, Hashemi 1997, Alamgir 1998, Hossain *et. al.*, 2000, Hossain and Takeya 2001, etc.).

As the time went by, testing and research become more systemized and extensive in the GB. It has specialized for experimentation with bigger enterprise loans and modern technologies where relatively experi-

enced groups and centers are involved in a cycle of more savings, more credit and more investment. After some initial success in several ventures including the fishery and agriculture sectors, the top management showed interest in expanding its work by becoming involved in other activities; e.g. traditional hand-weaving, solar and wind power, mobile telephone for rural business. Already, there are total sixteen organizations in the GB family aimed at linking the poor with major sectors in the country (Hossain 1999). Some projects (e.g. Health Insurance for the poor) are still under experimentation. All these new organizations and the experimental activities in reality are structurally separated, but they are the supporting entities of the GB (Hossain and Takeya 1997). However, a detail explanation on growth and diversification of the GB is out of the scope of this version.

In view of the GB's success to reach the bottom (socially and economically) strata of the population, its high repayments of loans, financial viability, empowerment of the poor women, improved health status, access to education, improved housing, and so on, there has been widespread interest in replicating the experience of the GB. The Grameen Trust (GT), a family organization of the GB, has recognized the need for a greater role in forging new and innovative partnerships and advocating funding and technical support for poverty research and replicating the GB-Model programs. The

Table-8: the Grameen Bank at a Glance since 1984 to May/2001  
(Monetary Amounts: In Million Taka)

Particulars	1984	1986	1988	1990	1992	1994	1996	1999	5/2001
Branches in Operation	152	295	501	781	1,015	1,045	1,079	1,149	1,170
Borrower Members (,000)	121	234.3	490.4	869.5	1424.4	2015.1	2059.5	2357.1	2390.8
Women Borrowers (in %)	-	74.2	85.8	91.0	93.7	93.9	94.1	94.8	94.9
General Loan Disbursed (Yearly)	n. a	543	1264	2245	5189	13,912	11,878	15,698	-
Gen. Loan Disbursed (CT)	499	1,470	3,560	7,591	15,434	39,968	65,510	116,598	145,716
House Loan Disbursed ( ,, )	4	27	338	799	1,660	4,671	5,553	7,437	7,551
No. of Houses Built ( ,, )	-	2,042	44,560	91,160	157,330	295,702	329,040	511,583	543,109
Group Fund Savings ( ,, )	38	115	297	650	1,308	3,147	5,256	9,676	11,632
Loan from Group Fund ( ,, )	-	40	-	-	-	1,534	2,913	5,802	n. a
Member's Total Savings ( ,, )*	-	189	672	1,687	3,479	8,969	18,322	n. a	n. a
Repayment Rate (%)	99.3	98.8	98.6	98.8	98.2	99.3	96.2	91.0	-
Exchange Rate (1US\$=Taka)	26.0	29.9	31.2	32.9	38.2	40.0	40.9	48.5	57.0
Annual Net Profit or Loss	4.9	0.4	1.2	3.1	-5.7	21.7	19.1	76.9	-
SDI @	0.68	1.70	1.31	1.16	0.43	0.21	0.19	-	-
Property & Assets	376.6	900.0	1,911.3	4,100.4	6,883.7	16,574.1	19,572.8	20,473.9	n. a

Sources: Compiled from Hossain & Takeya (1998a) and the GB Annual Report 1999 and the GD (2001).

Notes: n. a- not available. CT-Cumulative Total

\*: Includes Group fund, Emergency fund, Special saving fund, etc.

@: SDI (Subsidy Dependence Index) is an indicator of self-sustainability development by the World Bank (Yaron 1992) that measures the increase in lending rates required to compensate for the elimination of the subsidies received by financial institution (FI). A SDI of zero means that FI achieved full self-sustainability.

following sub-section thus provides a short looks on the basic model of the GB.

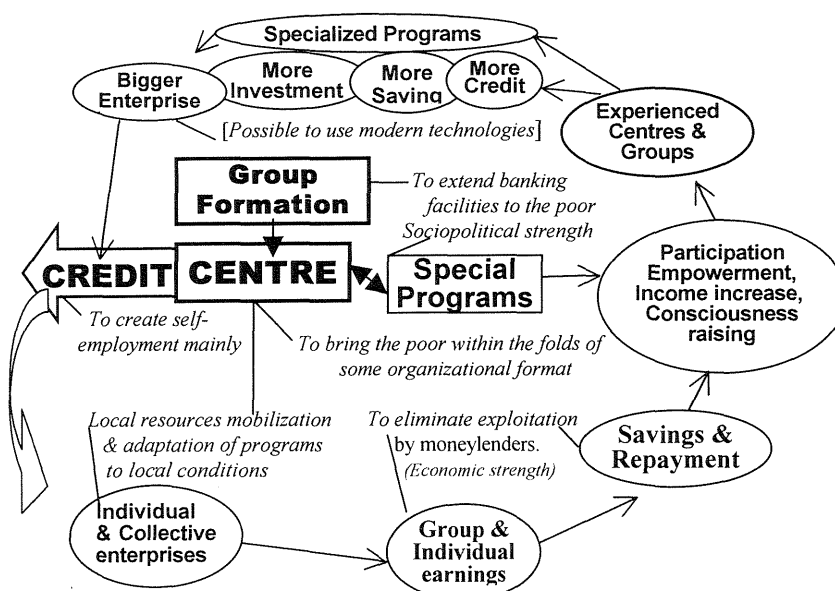
Basic Elements of the GB Model

The credit for the poor seemed a contradiction and little was known among formal-sector financial intermediaries about how to avoid a requirement for physical collateral until mid 1970s, when the GBP begun using Group Mechanism (Peer Group Pressure)<sup>14)</sup> as a substitute for collateral and guarantor to ensure effective repayments. The GB works on the principle that the banking services should be brought to the doorsteps of the poor, and charge market interest rates. Moreover, it aims at providing credit not to the farmers but to the LL & FLL representing more than half of the total population. The loan must be utilized within a week and repaid with interest in 52 weekly installments. Loans are mainly given to individuals for non-farm activities without any collateral and guarantor, removing all the major obstacles in rural finance.

In the GB operation system five interested persons from different household are asked to form a group (male or female groups separately), and 6~8 such groups make up a center where virtually everything (banking operations and other developmental activities) of consequence takes place, which integrally linked up with a branch, the lowest administrative unit of the GB. On an appointed day each week every one comes to the "Centre" and all

banking businesses are conducted openly in the meeting in front of all. The GB introduced a well-established delivery mechanism through learning by doing and offers various saving options, which protect the poor from local loan sharks. It has also promoted a social development agenda called 16 *decisions*<sup>15)</sup> to imbue members with overall development. Its guiding vision has to do with poverty alleviation, social equity, and, even, women's empowerment is seen essentially as a means to this. By focusing on credit and social programs, the GB model seems to say that poverty alleviation is measured mainly in terms of income changes and consciousness-raising (see Figure 1), which indicates that the micro-credit under the GB-model is not simply banking but a development tool. While it has grown and changed since first experiment with small-scale credit in 1976, its basic vision remains the same and still revolves around its strategic objectives. More importantly, the GB has proved that credit constituted by far the most powerful instrument to break that vicious cycle of poverty. It also tries to destroy the myth that there is something wrong with the poor and to help the institutions overcome their traditional reservations towards the poor.

The GB leadership is essentially creating and maintaining an organizational culture that differs from that of the surrounding society. Certainly there is a set of reasons behind the success of GB (see Gibbon and Kasim 1990). The most robust reason however, the



Source: Modified from M. A. Hossain and H. Takeya (1998a).

Figure 1. Grassroots Institutional Setting and the Visualized Objectives of the Grameen Bank

organizational policies, which are designed to steer organizational behavior of its large number of functionaries and borrowers along a credit-responsive way, and innovations of various elements through learning by doing (Hossain and Takeya 1998a). As a non-conventional financial institution aimed at alleviating mass poverty, the GB demands high motivation and commitment to work from its staff, as well as particular efficiency in handling routine work. It was also argued that if a small, though significant, section of the GB's large workforce, comprising more than 11 thousands, stops working hard as stipulated, or starts indulging corrupt practices, the acclaimed success of it would soon disappear (Jain 1996). Most recent study (Hossain 2001) argued that the field-training approach at the grassroots level is the most robust reason for the remarkable success and capacity-building of the GB, which explores propositions on the management motivation of the functionaries and borrowers for which the senior management draw on a wide range of tools to function.

Poverty is a multi-dimensional and differential process, and that all routes matter in the fight against poverty is perhaps the most crucial lesson to be drawn from the experience of the preceding decades. The relative institutional efficiency of 'Micro-finance Programs' as a delivery system may not be absolutist when we take account of some new challenges, such as, mis-targeting (not necessarily rich or large landowners but moderate poor) and unable to bring the poorest of the poor into fold of the programs.<sup>16)</sup> Moreover, in rural credit programs of Bangladesh, there is a general pattern that poor have been organized through group formation but loan disburses or utilizes individually. Even, the GB took initiatives from the beginning for collective enterprises development but the share of collective enterprise to total general loan has decreased from 1.4 percent to near zero between 1986-98 (Hossain 1999). This, in turn, depends on borrowers' entrepreneurial ability, the market niche, clear guidelines cum supervision and skill-training by the respective program organizers, and the ability to meet the increased demand for its services through marketing linkages as well as supportive policies of the country.

No doubt micro-credit is one important instrument so far as poverty is concerned, which may play a central role for all other basic needs. However, only one

instrument (i.e. credit only) may not reach all different facets of poverty. The limitations of micro-credit as a poverty alleviation tool amply illustrates that to overcome new generation problems other approaches are deemed necessary. Besides credit plus (i.e. social development programs), a credit plus-plus approach (i.e. extension services, training, insurance and public supportive systems, profits motivated financial system and development of non-profit sector, etc.) is the precondition for securing the full value of any micro-credit programs. Most importantly, strengthening of credit schemes to provide financial facilities to the rural poor, however, requires appropriate institutional development and a conducive environment that ensures capacity-building in financial management, cost-reducing innovations, and accounting practices in order to transform them into micro-finance institutions (Hossain *et al.* 2000).

## V. CONCLUSIONS

This article has attempted to understand the historical nature of the problems and weaknesses of the rural finance programs in Bangladesh with special reference to the poor. Since de-colonization to mid-1970s, the rural credit was highly subsidized to farmers through public development financial institutions. Those programs, however, failed to help the real poor and hardly had any impact on rural areas. Although, there had enough scopes to improve the mechanism but most of the programs were abolished without even any formal evaluation.

The British government in India as well as the government of Pakistan had faced a problem that was a concern in Bangladesh until late-1970s, how to make sure that the credit designed for rural poor or small farmers actually reaches them. Agricultural credit has been viewed as the primary tool for increasing farmers' productivity, and specialized rural credit institutions were promoted to provide input financing and raise agricultural production. In 1970s, problems became apparent in the supply-led credit provided by state owned agricultural credit institutions with quickly expanding loan portfolios. The major constraints are mis-targeting, low repayment rate, lack of understanding of programs functionaries on grassroots and poor, and weak structural features. Specially, subsidized rates led to credit rationing in favor

of rural elite classes, banking incomes did not cover service costs, and financial products were imposed on rural clients regardless of customer requirements.

By the late-1970s, new development approach was introduced by the GB to correct the top-down bias of previous decades. The author has addressed a brief historical overview of why and how that alternative development model emerged and of its assumptions and expectations regarding institutional arrangements for minimizing state and private involvement in the development process. The GB works on the principle that the banking services should be brought to the doorsteps of the poor, charge market interest rates, and require neither material collateral nor guarantor, removing all major obstacles faced by various previous programs. Moreover, it aims at providing credit not to the farmers but to the LL&FLL representing more than half of the total population. The GB model is so successful that it induced almost all development NGOs to start collateral-free micro-credit programs in Bangladesh, which became the single most common element of their activities. The GB has learnt much from other programs of the past. The model has been replicating in various countries and there are thousands of similar practitioner institutions worldwide now. Besides impressive growth and progress, the author have mentioned some recent challenges of micro-credit programs and indicated that credit alone may not be the only answer to rural poverty. Other supportive programs along with credit are preconditions to address the specific needs of the hardcore rural poor.

#### NOTES

- 1) The great Famine of 1878, which killed as many as five million in British India as a whole, was followed by a legislation which brought together the existing patchwork of legal measures dealing with credit, debt, and poverty. Moreover, the Agricultural Loan Act of 1885 set up "Taccavi (distressed) loans" in Bengal – loans for peasants struck by natural disasters.
- 2) Initially many administrators thought of Taccavi loans as a form of relief, and repayment was not always enforced. The system lasted until the mid-1970s. Another aspect of rural credit was its political motives. In the context of different peasant movements in Bengal area the British lawmakers came to see that improving peasant conditions would be one of the best ways of persuading peasants to remain loyal to the government.
- 3) Union is the smallest elected administrative unit in the countryside. A union generally covers a number of villages having population of 20~40 thousands and is run by elected Parishad (committee). UCMPS and all other acronyms for the formal credit programs that appear in the text are presented in Tables 1~3.
- 4) The V-AID organized a large number of Chand Tara (i.e. moon and star) Clubs and Youth Clubs, and encouraged the villagers to work on a cooperative basis (Hussain 1996).
- 5) Being supported by donors, the program was introduced in 33 of 434 thanas (now Upazila or Sub-districts) in 1971/72 and expanded to 151 and 200 thanas in 1973/74 and 1976/77 respectively (see, Khan 1979).
- 6) NGOs in East Pakistan were mainly international and sponsored by Christian missionaries and were very limited in number. Bangladesh had become a test area for NGOs after its independence in 1971 (Rahman 1996).
- 7) The formal banks (both nationalized and private) had no incentive to provide credit to the poor in the rural areas.
- 8) During 1973~75, Prof. Yunus established his own rural study programs for students at his enrolled university campus as well as nearest two villages in southeastern Bangladesh. He entered into farmers committee and established 'Nabajug Tehbhaga Khamar (new era 3-share cultivation scheme)' for which he was honored the president award in 1978. In doing those, he studied the rural problems and in 1976 personally initiated the non-farm lending idea for the landless poor by providing approximately US\$30 to 42 villagers without collateral or guarantor of any kinds. From this experience came the idea of ARP for generating self-employment and he approached the idea to local public banks but rejected. After much persuasion, a local branch of one public bank was authorized to provide credit to the poor at an interest rate of 13% a year when professor gave guarantee for full recovery.
- 9) Functionally landless in Bangladesh defined as who owns no more than 0.5 acre (0.202 ha.) of arable land, which is not adequate for subsistence. At present in rural Bangladesh more than 60% of the rural peoples are LL & FLL.
- 10) British lawmakers first came to see that improving peasants' conditions would be one of the best ways to pursue them to remain loyal to the government. The present day politicians in Bangladesh also seem to believe in the approach and the government frequently exercises loan write-offs.
- 11) For overall understanding of the micro-finance mechanism, please refer to Ledgerwood (1999).
- 12) In 1995 the number of NGOs registered with the NGO Affairs Bureau of the Government was 845, of which 124 were foreign. But the actual number of NGOs operating in the country as registered under the Voluntary Social Affairs Act was about 13,000 in the same period. The nearly 850 significant NGOs during 1998 were operating in Bangladesh employs about 120,000 persons, of which about 500 are foreign (Rahman 1998).
- 13) The GB management usually considered granting loans to the LL & FLL people and women after credit operation training without any skill training, as the GB argued that poor know best which activities could generate additional income and how to make good use of credit. Although, we think the various skill trainings both for borrowers and field level functionaries are deemed necessary for business plan and quality products.



- 14) In the peer monitoring system, the lenders create an environment of interdependence in which each borrower has an incentive to monitor the performance of other members regarding utilization and repayment of the loans. For instance, see M. Islam, A. N. Wahid and Z. Khan, *The Grameen Bank: Peer Monitoring in a Dual Credit Market*, in A. N. Wahid (ed.), *The Grameen Bank— Poverty Relief in Bangladesh*, (Boulder, Westview Press 1993): pp.23~32.
- 15) The loan programs of the GB are centered around the “16 Decisions”, which require borrowers to pledge that they will send their children to school, grow vegetables round the year, plant trees, keep the families small and the environment clean, use sanitary latrine and safe drinking water, do physical exercise, repair houses and work towards not living in dilapidated houses, avoid dowry in marriage, work collectively and for mutual help. And above all, maintain the four main principles ‘Discipline, Unity, Courage and Hard Work’.
- 16) These issues had addressed some details in Wood and Sharif (1997) and IDS Bulletin, Vol. 29, No.4, 1998.

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