

**SHOULD GOVERNMENT OF THE PEOPLE'S REPUBLIC OF
BANGLADESH DIRECTLY OPERATE MICRO CREDIT?**

By

Md. Saiful Alam Hamidi

A THESIS

*Submitted to
School of Public Policy and Management, KDI in partial fulfillment of the
requirements for, the degree of*

MASTER OF PUBLIC POLICY

Department of Growth and Development Studies

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LEE, Ju-Ho

ABSTRACT

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Economic development and poverty alleviation are important goals of every developing nation of the world. Since the 1950s and 1960s several development strategies, such as 'growth with industrialization, 'growth with sectoral balance' and 'growth with equity' have been implemented in attempts to achieve economic development in these countries. Of late, liberalization and export orientation have become the catch cries of development policy. These approaches have had mixed results; in all cases, capital, labor and technology have been regarded as the main inputs to development.

With some variations, most developing countries registered upward growth during the last three decades, and certain Asian countries have achieved the most impressive results of all. But despite this record, not all Asian countries achieved similar growth, nor, as is evident, were the successes in economic growth matched by similar successes in poverty alleviation. In some countries, economic development was accompanied by gross inequality. Examination of the causes of incongruities between planning and development and between development and poverty alleviation has

revealed that quite often, 'governance' is a more important factor than capital, labor and technology in inducing growth and ensuring equity in a society. It has been argued that good governance ensures good vision and pragmatic direction for the economy, creates enabling environment for investment opportunities, guarantees rational allocation of resources and their proper use, and maintains political commitment to and a sense of urgency about economic development and poverty alleviation.

Governance has been defined as ' the manner in which power is exercised in the management of a country's economic and social resources for development (World Bank, 1992)'.

The research paper presents a framework describing the relationship between role of government, poverty alleviation as well as rural development through micro credit operation.

The micro credit programs operated by GO and NGOs in Bangladesh are the main issue covered in this paper and the paper concluded that more than anything else, urgent measures should be taken to determine the role of bureaucracy as well as government of Bangladesh in operation of micro credit for eradicating poverty.

Dedicated to my late father

Mr. Badsha Meah who gave me love and affection and,
Also gave me lessons how to struggle throughout.

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ACRONYMS AND GLOSSARY

ASA- Association for Social Advancement

BIDS-Bangladesh Institute of Development Studies

BRAC- Bangladesh Rural Advancement Committee

DSS-Department of Social Services

GRAMMEN BANK-Rural Bank (Statutory Body)

PROSHIKA-Proshikhon, Sikkha, Kaj (Means Training, Education, Work)

SAARC-South Asian Association for Regional Cooperation

SDC- Swiss Agency for Development and Cooperation

Thana-Sub District

VBI-Village Based Institute

Taka- Bangladesh Unit of Currency (1 US \$= Taka 50)

CHAPTER I

INTRODUCTION

Background

Bangladesh is a south Asian country. It is a deltaic plain, criss-crossed by a number of mighty rivers Padma, Ganges, Bramaputra, Meghna, Jamuna etc. Indian territory bound three sides of the country. The rest one that is in the south the vast Bay of Bengal is in exists. The total land area of the country is 145570 Sq. Kilometer and the total population of the country is about 125 million. The density of population is 857 per Sq. Kilometer. Economic growth rate over the two decades on an average is about 3.00 percent. At present the Population growth rate is 1.80 percent, which, was about 2.80 percent in early 1980s. The literacy rate is 58%. Per capita income is about US\$ 300.

The profile of human deprivation for 1996 revealed that 47.5 per cent of the people of Bangladesh were income poor while 76.9 per cent were capability poor. This report posited that 52.85 per cent of people were without access to health services, 63.35 per cent were without sanitation and 26 per cent of children were not attending primary school. Regarding the trend in human development in Bangladesh this report revealed life expectancy at birth was 58 years in 1996 and infant mortality rate per thousand live births was 78, in 1996.

The economy of Bangladesh with a large and rapidly growing population and low per capita income reveals condition of abject poverty for majority of the people. Narrowly poverty is generally measured by the percentage of population having income below the minimum expenditure required for meeting the basic needs. Broadly speaking, poverty refers to form of economic, social and psychological deprivation occurring among people lacking sufficient ownership, control or access to resources for minimum required level of living. Poverty is not only a lack of income or employment but also a complex syndrome, which is manifested in many different ways. In the words of Amartya Sen (1995), “the point is not the irrelevance of economic variables such as personal incomes, but their severe inadequacy in capturing many of the causal influences on the quality of life and the survival chances of people”. Addressing poverty thus means taking holistic approach.

In spite of two and a half decades of economic development, Bangladesh is still regarded largely as a rural economy. Agriculture contributes about one-third of its gross domestic product and about eighty per cent of its people still live in the rural areas. Further, most of the rural people are poor and disadvantaged. Their sufferings stem not only from low income but also from illiteracy, ill health, ignorance and various kinds of deprivations. They are particularly vulnerable to calamities, both natural and man-made. Development planners recognize that the uplift of the poor and backward masses is a precondition for the overall development of the country. **Successive five-year plans of the country, therefore, emphasized rural development** with a focus on the rural poor, in one way or another. But the implementation of this objective, the success was rather limited due to some constraints, at the top of which was the lack of participation by the stakeholders- the

poor themselves, who hardly had any influence and control over development initiatives.

What Is Micro Credit?

The small credit for poor used in income generating activities is known as micro credit. In most of the developing countries where the credit is available to poor, usually is provided without any collateral. Along with income and employment generation the credit considers social issues like family planning, literacy programs, awareness building, children education, primary healthcare, hygiene and so on. The credit ensures the participation of have not group in development process. The credit can play important role to achieve desired goal of targeted group specially in achieving the rural people's expectation through rural community or local government. The credit can contribute in alleviating poverty of poor in developing countries if it is operated properly.

A more successful experiment in poverty alleviation through micro credit operation that attracted attention of all in the 1980s was the Grameen Bank. Its main hypothesis was that the poor were bankable. If credit could be advanced to them through an innovative process, they would not only repay the credit fully as per schedule, but also simultaneously generate a dynamic process of production savings and investment could eventually lead them to graduate to self-reliance. More important, 95 per cent of the clientele of the Grameen Bank turned out are women.

The Fifth Five Year Plan of Bangladesh (1997-20002) recognized that the poor are assets rather than liabilities and, if ensured access to vital inputs like credit, they can contribute substantially to the growth process. As such, there is a necessity for implementing the philosophy of micro credit concept. The importance of micro lending has now been recognized world wide leading to World Micro Credit summit in February 1997. The declaration of the summit called for the creation of institutional capacity to reach the very poor in developing countries by strengthening existing micro credit, savings and business development institutions through networking and exchange experience. The summit estimated that 21.6 billion dollars would be required to meet the needs of the poor all over the world up to the year 2005. Micro credit is a major means of financing private sectors investment in the rural areas in Bangladesh. Government Departments, Grameen Bank (Autonomous Organization) and several Non government organizations (NGO) such as BRAC, PROSHIKA, ASA are involved in this process. The recovery rate for these institutions mentioned above is commendable. However, the impact of these institutions on the economy, as a whole, is still limited.

The Rationale of Micro Credit

The landscape of poverty, powerlessness and gender subordination in rural Bangladesh forms the contextual basis for Grammeen Bank and indeed the micro credit model in Bangladesh. The famine of 1974 provided the urgency for Professor Muhammad Yunus to look for alternatives. He discovered that while the credit market was the scene of the most brutal exploitation of the poor (with high interest rates

leading to persistent indebtedness leading to force sale of assets and destitution) it was also the arena where interventions were easiest for allowing the poor to break out their cycle of poverty. The conventional banking structure however does not provide access to the poor because the poor can provide no collateral and because the overheads required for servicing loans become too high for the small size of loans that poor people require. The rich and powerful in turn monopolizes governmental loan programs for rural areas. Amongst the poor, women are even more discriminated against, because patriarchal norms ensure their exclusion from de facto ownership of assets and because the work that women generally engage in (home based) is not classified as economically productive. Hence the need for targeted collateral free credit for the poor and specifically for women; hence the need for micro credit.

Impact of Micro Credit

Analysis of the results of a survey of 1798 households in Bangladesh (Source: Pitt and Khandker, 1996) reveals that participation in a micro credit programs had a significant positive effect on production, household net worth, per capita expenditure. Micro credit also affected socio economic variables including children's schooling, children's nutrition, fertility and contraceptive use. Micro credit had a significant positive impact on children's schooling, nutrition and contraceptive use and negative impact on fertility.

Purpose and Scope of the Study

Many countries have established micro credit programs with explicit objective of reducing poverty by providing small amounts of credit to the poor to generate self-employment in income earning activities. Bangladesh is a leader among low- income countries offering micro credit. Using a group- based approach to lending; the country's small- scale micro credit programs provide more credit than do traditional financial institution in rural areas (World Bank 1996).

The proper definition of poverty and the identification of the poor as a target group, the planning and implementation of appropriate poverty programs and constant monitoring and evaluation of policies and programs with continuous feedback and policy adjustments have provided the key to poverty alleviation efforts in some countries whilst, in others, similar initiatives either lacked proper perceptions or received inadequate resource backing. In some cases the initiatives did not enjoy either the required commitment or the level of seriousness they deserved.

The varied experiences with poverty alleviation in Asia do not tend to suggest that the alleviation of poverty not only requires focused planning approaches to succeed; sensitive and committed governance is also required. Good governance is synonymous with sound development management; World Bank report states that good governance is central to creating and sustaining an environment, which fosters strong and equitable development (World Bank, 1992a,p.1).

Economic development trends in Asia suggest that countries, which maintain good policies with governance, have achieved better results than those, which, despite a generous resource base and infrastructure, have performed relatively badly.

The research is confined to the micro credit only. So the credit operated by national commercial banks, schedule banks, special type of banks like agricultural bank (Krishi Bank), industrial bank and others are out of purview of this research paper.

The research attempts to explore the crucial issues of small credit in Bangladesh and tries to find out the answer whether government should directly operate micro credit.

Methodology

The study derives its qualitative analysis on the basis of review of current literature on concept of poverty, micro credit, development and role of government. Moreover, the working experience of researcher in the Ministry of Social Welfare as well as in Grameen Bank; the two leading organizations in public and private sectors respectively dealing with micro credit is quite helpful to evaluate the credit programs.

The working experience along with discussion with different donor agency that provides funding in micro credit programs is also helpful to assess the scenario of efficiency and effectiveness of government and non-government organization, regarding the credit operation.

The research does not try to use the data regarding micro credit programs run by government departments and non- government organizations because the perception of two types of organizations and mode of operation of credit are completely different from each other. Government has been providing the credit at free of interest. On the other hand non- government organizations have been operating the credit programs with interest, which, varies among different NGOs.

CHAPTER II

ALLEVIATION OF RURAL POVERTY THROUGH MICRO CREDIT

Main Constraints to Rural Development

In the light of experience gained in the past, the main constraints to rural development seem to be the following:

- a. Although “village” was the basic geography unit and constituted the bottom-most entity for identification of development needs in rural areas, there was hardly any “effective development organization” in it. Frequently, it was held that an average village in Bangladesh was too small to be regarded as a formal organizational unit. On the other hand, without such an organization, the villagers, particularly the rural poor, found it difficult to effectively participate in the development process.
- b. There are a number of government agencies for service delivery at various tiers of local government (district, upazlia and union) but, in the absence of effective “clientele” organizations, the delivery structure had remained somewhat inaccessible and inefficient. In particular, this system did not reach the poor and disadvantaged in all cases.
- c. The various efforts to organize the people at the grass root level through local government bodies also did not succeed, as in the absence of democratically elected government; these bodies were used to serve political interest of the power that was in the central government. As a result, local government bodies in

Bangladesh proved to be more of an extended arm of the Ministry of Local Government and Rural Development and Co-operative and, as such, they could not grow on their own. In particular, they remained heavily dependent on the government for their resources and initiative.

- d. The government personnel who were sent to the rural areas to work for the poor, largely proved to be inadequately motivated for participatory local level development (for various reasons such as inadequate training, incentive structure, logistics, etc)
- e. No effective mechanism could be developed for co-operation and co-ordination at various tiers of administration (district, upazila and union). The need for effective co-ordination increased overtime in response to the expansion of development activities in the rural areas.
- f. The understanding of the decision makers of the need for and effectiveness of “participatory local level plans” was rather poor. Most development planners (including bureaucrats and technocrats) thought that such participation was unnecessary mainly because of ignorance and illiteracy of the poor. The usual emphasis was on the need for educating the poor before they could effectively participate, for the intervening period; therefore, the preference was for a top down decision- making process.

- g. Although there was a broad consensus that Bangladesh being a labor abundant country should convert its surplus labor into productive capital, in practice, the decision makers could not clearly prescribe the process through which this goal could be achieved.

- h. The banking system expanded in the rural areas quite rapidly in the 1970s and 1980s, yet heavy dependence of the rural poor on the informal sector (e.g. money lenders who charge high interest rates) continued strangulating their creative potential to contribute more to the national growth.

The inability to clearly formulate effective strategies to overcome the constraints made the provisions of “safety net”(e.g. food for the works programs, vulnerable group development program, rural maintenance program, etc.) a necessity rather than taking effective measures for income generating activities as the main vehicle for the poverty alleviation. In the 1980s, however, the poverty alleviation efforts through income generating activities of some government agencies and NGOs multiplied but in most cases, their coverage and cost effectiveness remained low.

SAARC SUMMIT

The Dhaka Declaration for Poverty Eradication under the seventh SAARC Summit Meeting of the Heads of State/Government of SARRC countries held in April, 1993, stipulated that each SAARC country would prepare a pro-poor plan and an action programmed for implementing it for eradicating hard-core poverty by the year 2002.

In the light of Dhaka Declaration (1993); a task force for Preparation of a National Pro-poor Plan and Action Programmed was set up by the Government of Bangladesh.

The Task Force started its work with the following directions embodied in the Dhaka Declaration:

- a. Each SAARC Country should produce a national poverty eradication plan to eradicate poverty in the country, preferably by the year 2002.
- b. The main agenda of action under the national poverty eradication are:
 - i. The strategy of social mobilization involving the organization of the poor and their empowerment through appropriate national support mechanism;
 - ii. A policy of decentralized agricultural development and sharply focused household level food security for meeting the basic nutritional needs;
 - iii. A policy of decentralized small scale labor intensive industrialization with the choice of efficient and cost-effective technology; and
 - iv. A policy of human development directed towards the enhancement of social role and status of the poor woman, protection of children, provision of universal primary education and primary health care and shelter for the poor.
- c. The above endeavors are to be supported by adequate financial resources.
- d. Finally, the national pro-poor plan has to be harmonized with the open economy and structural adjustment strategies.**

The Task Force held a series of meetings and critically examined a number of poverty alleviation activities and found that there are at present 36 projects under different

Ministries/Agencies specifically for poverty alleviation and human development, which can reach the poor, particularly the hard-core poor.

The pro-poor development effort was re-enforced subsequently by the recommendations of the Eighth SAARC Summit Meeting at New Delhi in May 1996. The Delhi Declaration provided opportunity to link the efforts for poverty eradication through responded positively to the challenge of organizing the poor through a process of social mobilization as the poor were accepted to be efficient and creative. In this process it accepted private organizations as desirable partners in such efforts that bring creativity of the poor in the mainstream of development planning.

Social Summit

Poverty alleviation was also the main issue of the Social Summit held in Copenhagen in March 1995. As a follow-up to the Summit, the Government of Bangladesh established a 37 member national committee to provide leadership in the formulation and implementation of the National Program of Action aiming at fulfilling government's commitment towards the Declaration of the Summit within the framework of the country's Fifth Five Year Plan (1997-2002). The committee chaired by the Secretary, Planning Division, has drawn representatives from all sectors of society including representatives from relevant ministries, departments, directorates, NGOs, research organizations, women organizations and Federation of Bangladesh Chambers of Commerce and Industry. This committee has been charged with the responsibilities to formulate a co-coordinated National Program of Action in line the Copenhagen Declaration and to monitor the implementation thereof.

Micro-Credit Summit

In the world Micro-credit Summit held in Washington during February 1997 micro lending was endorsed as the right answer to the problem of rural poverty. The micro-credit campaign has succeeded in focusing world attention to the fact that the scale of poverty in the developing world is so deep and widespread that nothing short of a “missionary approach” can alleviate it. While this has also created worldwide awareness about importance of institutional lending to the poor for creating self-employment opportunities, the financial resources required funding the micro-credit programs on a large-scale need to be raised through joint efforts at both the national and international levels. Bangladesh has conceived the idea of micro-credit as an efficacious instrument of poverty alleviation and has successfully implemented the scheme through Grameen Bank, BRAC, PROSHIKA and a number of other NGOs and government organizations recognizing that the poor are not liabilities but assets; they can save and contribute creatively even with their low income when organized. Grameen bank concept developed in Bangladesh has been replicated in as many as 52 countries including the United States. The commitment announced in the micro-credit summit for international co-operation in this field can make significant contribution to further strengthening and sustaining the ongoing programs of Bangladesh by the augmenting the required credit fund.

Pro-Poor Plan for Alleviation of Rural Poverty

The factors that facilitate poverty alleviation are by this time widely known. At the same time the efficacy of various institutional frameworks, their limitations and the extent of complementarities are also becoming common knowledge. The aim of a pro-poor plan is to improve the economic conditions of the poor and human resources development. Given the magnitude of the problem the pro-poor plan envisages that the pace of poverty eradication will accelerate and there will be significant reduction in poverty during the Plan period. The objectives of the pro-poor plan will be to:

- a. Develop democratically elected local government bodies with appropriate representation of women;
- b. Develop human resources with adequate provisions to expand and strengthen education, health, population planning and family welfare facilities, measures and services;
- c. Link the rural poor with basic social service/institutions in the fields of education, health, population planning, family welfare, drinking water supply, sanitation, etc.
- d. Increase gainful income generating activities and employment opportunities on a sustained basis for the rural poor; strengthen small and informal sector production;
- e. Promote social mobilization defined in terms of building organizations of the poor at grass-root level to enable them identify their problems themselves, make their own development decisions, particularly in areas which concern them most, and articulate these with the relevant

- government agencies for necessary economic, technical, administrative, financial and other supports in form of project;
- f. Improve technology and skill as significant elements of human resources development for productive activities of the rural poor;
 - g. Upgrade technical skills to enable workers to adapt to rapidly changing international conditions;
 - h. Provide the rural poor with better access to resources, especially to micro-credit which is critically important and has high poverty reduction potentials;
 - i. Raise savings/capital formation by the poor to a greater volume so as to stimulate and enhance growth from the bottom;
 - j. Give particular attention to the development of hard-core rural poor and poverty-depressed rural areas;
 - k. Promote participation and development of the poor and disadvantaged women and female-headed households along with males;
 - l. Empower the poor through affirmative activities and participation in the local government institutions;
 - m. Maximize impact of the pro-poor plan through an efficient delivery system minimizing administrative and organizational expenditure; and
 - n. Review policies and regulations that affect the poor and reform the same, if necessary, based on the review.

CHAPTER III

NGOs VERSUS GO: MICRO CREDIT IN BANGLADESH

The Credit Delivery Model

Credit programs target credit to the rural poor—those who are functionally landless (owning less than half an acre of land) or having assets amounting to less than the value of an acre of medium quality land or engaging in wage labor for one's livelihood. Since collateral are not required credit programs generally relying on the group mechanism to ensure the effective repayments. The group mechanism transfers risk of non-repayment from the program to the group itself. The problem of asymmetrical information (Programs having limited information on borrowers) is resolved through 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, sanction (in the form of suspension of new loans) is imposed on the collective 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 et al 1991; Aghion 1994; Matin 1995).

Generally groups of five (men and women separately) are formed by individuals themselves, selecting for those belonging to similar social and economic backgrounds (to eliminate unequal bargaining strength), from the same village and from those they have confidence in. Only one member is allowed per household. Generally a month of

meetings involved in learning to sign one's name and learning about organization and "decision" regarding social conduct, takes place before the group receives formal recognition. This time allows for group members to develop close relations with each other and be certain about members who realize that they have "earned" membership only after a long process of screening.

Loans are distributed to members only with the approval of the group and the final approval of the bank. The disbursement schedule is staggered; two members receive loans followed by another two members in a month and the last member (usually the group chairperson) in another month. Six to eight groups are integrated together in a center. The center meets once in a week (generally in the same premises in the village deemed as the "center") in the presence of an organization worker. Credit transaction as well as discussion on organization or social issues takes place at these meetings. Repayment is made at these weekly meetings and attendance is compulsory. Savings mobilization from group members in the form of weekly savings and a percentage of borrowed funds is also compulsory.

Ideal Case for NGO

Grameen Bank

Grameen Bank began as an experimental project in rural Chittagong in 1976. The project was initiated by Muhammad Yunus, a university professor at Chittagong University in eastern Bangladesh to provide affordable credit to the poor as a means of combating poverty in rural Bangladesh. Yunus had observed that the poorest of the poor had no access to commercial credit and were therefore being systematically

exploited by moneylenders in the traditional money markets, which further exacerbated their poverty. The project began by providing small collateral free loans to the rural poor for income generating activities chosen by the borrowers themselves. The borrowers were required to form groups of five persons, which served as a screening and monitoring mechanism replacing the need for collateral and ensuring that transactions costs would be low.

Yunus recognized that rural women were particularly vulnerable because of their restricted access to and control over resources and the project which had begun lending to both men and women, moved gradually towards lending primarily women as women demonstrated that they invested more carefully and repaid more faithfully.

Following the experience of high repayment rates, the project expanded over the next years into neighboring districts and in 1983 became established as a specialized financial institution under a separate government statute in 1983 with a mandate to lend to the poor. The bank is governed by a 13-member board of whom 9 are Grameen bank borrowers and three are government appointed senior civil servants governs the bank. Members themselves hold ninety two percent of Grameen Bank shares while the government of Bangladesh holds the rest.

Funding for Grameen Bank has been primarily in the form of loans with more than three quarters coming from the Bangladesh Central Bank and local commercial banks and the rest from international donors. Funding for the Grameen Bank had been at preferential rates in the past but since last few years, Grameen has been borrowing from local money markets at commercial rates of interest.

Grameen Bank charges interest rates close to those charged by commercial banks, which compare favorably with the usurious rates charged in the informal credit markets in rural areas. This has enabled the Bank to attain operational self-sufficiency and a World Bank study published in 1995 shows that the Bank is moving towards full self-sustainability.

The bank today lends to over two million borrowers, 94% of whom are women, and with repayment rates as high as 98 percent, GB has shown that not only are the poor, particularly poor women, bankable but that lending to the poor can be far less risky than lending to the rich. The Grameen Bank has now become a model for group based lending to the poorest throughout the world.

Effectiveness

The effectiveness of the Grameen system is attributed to a number of interrelated features. Grameen Bank targets a well-defined homogeneous clientele. This is the large and fast growing population of landless rural poor, where landless is defined as someone from a household that owns less than 0.5 acres of cultivable land or assets with a value equivalent to less than 1.0 acre of medium quality land. Grameen Bank borrowers are expected to select from among their peer group to form a group of five women. This self-selection screens out the non-poor and those persons that would not be able to make loan repayments. The Grameen system operates in a social milieu

where women are willing and able to pressure one another to repay loans. Women who doubt that they will be able to make timely payments and otherwise comply with the rules and requirements of Grameen Bank are reluctant to join. The small size of loans, and the identification of the Bank with the poorest, discourages women from wealthier families from joining. As members of GB are expected to deviate from traditional norms, attending weekly meetings in public places and interacting with male staff, the system ensures that those who have nothing to lose are those who join. Before the bank recognizes the group, the members go through a seven-day long training during which they learn the rules and regulations of the program learn to sign their names and learn the sixteen decisions. The groups of five are organized into centers with each center consisting of six to eight groups. Each group elects group chairman and group secretaries who are responsible for ensuring attendance at center meetings and maintaining discipline during the meetings.

Members are eligible for a range of different loans. In the first year, members receive the general loan that has a repayment period of one year and ranges from US\$75 to US\$100. The loans are disbursed to the needy members of the group who must repay on schedule before the next two receive the loan with the Group Chairman of the group receiving the last loan. The borrowers who are awaiting loans will try to ensure that repayments are made on time. A borrower will make a loan proposal to the bank. The loan can be used for any income generating activity chosen by the borrower herself but approved by the group members and the center chief. The loans are repaid in fifty equal installments and interest payment is 10 percent of each principal installment. The small installments make it easier for borrowers to pay. When a loan is repaid in full, the borrower will be entitled to another, often larger loan. This works

as an incentive for borrowers to repay. If a borrower willfully defaults, her group members will pressure her to pay, as they are liable for unpaid installments. Borrowers know each other and are in a position to ensure repayment. If a borrower is unable to repay, then the other borrowers will either provide the support by paying an installment for her. This system of joint liability and collective responsibility mechanisms contribute to high repayment rates.

All borrowers are expected to save. Savings behavior begins during the training period when borrowers save two taka per day into a joint account. A compulsory deduction of 5% of the loan is made at the time of disbursement of the first loan for the group fund. The group fund also includes a personal savings deposit of taka two per day by each member. When the amount of savings deposited in a Group Fund reaches 600 taka, the group of five is obliged to purchase Grameen bank shares in the amount of 500 taka at the rate of 100 taka each. Savings provide security against default is an economic buffer for the most vulnerable clients and becomes a source of additional loans, for investment or consumption, the terms and the group members themselves determine conditions of which. Managing the group fund helps to create unity within the group and gives the members experience in the collective management of assets. In addition, borrowers are encouraged to make voluntary deposits into individual accounts with Grameen bank, which provides interest at the rate of 8.5 percent per annum. Centers meet weekly and attendance by all members of the center is mandatory and is yet another mechanism whereby individuals who lack the sincerity and discipline to repay their loans on schedule are excluded. All banking transactions take place during these meetings including collection of loan repayments

and savings. These transactions are conducted at the group meetings to ensure transparency.

Access to bigger and different types of loans depends on timely repayment of the early loans and acts as an incentive to repay. In addition to the general loan, borrowers may apply for seasonal loans, housing loans, technology loans, crop processing loans and other seasonal activities. Members are eligible for a range of different loans with varying rates of interest and varying repayment periods. The housing loan for example is a long-term loan that requires weekly repayments over ten years at a rate of 8 percent per annum.

The rules, rituals and procedures of the Grameen Bank appear to have multiple functions. They provide an efficient way to conduct financial transactions, provide a screening mechanism, inspire a sense of loyalty and responsibility to Grameen Bank and promote self-confidence among the female borrowers. The working style of Grameen Bank takes into account the characteristics, constraints and social norms of its clients. Financial transactions are conducted in the village rather than at the branch office, making it accessible to women, who rarely leave the village and whom the atmosphere of a commercial bank would most likely intimidate. The rules and procedure are simple and readily understood by the clients and do not require that the members be literate. The simplicity of the systems facilitates the self-screening of potential participants, to a large extent they know what they will be getting into. Living in small, relatively traditional communities, the GB members and prospective members have access to the information needed to evaluate the credit worthiness of their neighbors.

Other Cases for NGOs

At present more than twenty thousand registered NGO are working in Bangladesh. Many NGOs are internationally renowned for their excellent performances in micro credit operation, namely Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), *Prosikkhan Sihhka Kaj (PROSHIKA)* and so on.

These NGOs work in a similar way of Grameen Bank. Group formation, loan without collateral and compulsory savings are the common characteristics of these NGOs. Along with micro credit these NGOs deals with awareness creation, family planning, primary health care, hygiene, empowerment, children's education, capacity building, commitment to self- reliance etc. But the focus of activities among different NGOs have special emphasis on some activities as for example BRAC emphasizes more on non formal education for different age peoples and health care. PROSHIKA focuses more on empowerment of the poor.

In the rural areas there are several government departments like health, fisheries agriculture, education, forestry, family planning, livestock & animal husbandry, health engineering and so on. These departments are producing services but could not ensure the delivery of services to the disadvantaged group. So the NGOs are playing the important role of making linkages among government departments and the vulnerable group members of rural areas who belong to NGOs.

Case against GO

The ministry of Social Welfare, Women & children Affairs, Youth Local government and Rural Development, Land, Relief & Rehabilitation, Labor and others are trying to alleviate poverty through operating micro credit programs utilizing their government departments. Out of total 498 thanas (sub district) including urban, the ministry of Social Welfare, Women & Children Affairs, Youth have the coverage in 461 thanas, 300 thanas and 470 thanas respectively. The rest of the ministries have also substantial coverage. Ministry of Social Welfare, Women & Children Affairs and Youth are discharging the responsibilities of registration of Non - government organization **and at the same time these ministries are directly operating micro credit programs through their departments at free of interest against loan.**

The NGOs to receive foreign aid, it is required to have additional registration from NGO bureau under the prime minister office.

Role of NGO and GO

In countries where government institutions have been proven to be somewhat unsuitable for poverty programs, the case for non-government organizations (NGOs) has been put forward as an alternative institution of social development. It has been suggested that:

‘... .In various occasions NGO activists from different parts of the world have also claimed that not only are they more efficient in initiating development from below but they also represent an effective alternative to government sponsored development programs’ (Holloway, 1989, p.1, quoted in Siddiqui, 1991, p.3).

This notion is also widely shared among different donor agencies, including the World Bank:

Experience since the 1970s shows, however, that reaching the poor with targeted programs can be difficult. No governmental organizations have made important contributions here (World Bank, 1990a, p.4).

But not all NGOs do credible jobs (Tendler, 1982); nor do they all do the same type of job. Some are development oriented while others undertake mainly relief-oriented activities. Some see conscientisation and the political empowerment of the poor as the main vehicles of poverty alleviation. Others limit their activities to efficient service delivery and asset distribution within the existing political and economic structures of the society. Further, with the increasing involvement of NGOs in government projects funded by aid agencies, their autonomous ideological position is also seen to be increasingly eroding. Referring to NGO-government partnerships in

recent years and the regulatory framework within which the NGOs are made to operate in some developing countries, Siddiqui observes:

In such a situation, and knowing how things happened in the past in terms of sociological theories of goal displacement or co-optation, there is a strong possibility that most of these NGOs will shift to accommodate or come to terms with, the dynamics of the changing environment (Siddiqui, 1992, p.330).

Notwithstanding these shortcomings, NGOs do enjoy some methodological and institutional advantages over government agencies in reaching the poor. In countries where government agencies are made up of elites, and where these elites overwhelmingly represent the interests of the middle and the upper rich and the powerful, the NGOs can offer themselves as a viable alternative in upholding the cause of, and delivering the social services directly to, the poor. For example, in Bangladesh, several NGOs, although on a limited scale, have made successful interventions to provide the poor with the basic necessities of life such as health, education and credit (Khan, Western and Hossain, 1992)

However, even in cases such as these, the importance of government in creating the overall environment of growth, which is indispensable to sustained development and poverty alleviation, need not be overemphasized. Through suitable macro-economic policy incentives, infrastructure development, and flexible trade policies, governments are capable of creating the right macro-economic environment for the economy to grow and expand. Again it is only within the framework of such an open arrangement that even the NGOs can target and implement their interventions better. Though in non-responsive and elitist governance structure the relationship between

NGOs and government is seen as one of conflict, such a relationship can also be described as one of “creative tensions” (Streeten, 1994, p.22).

Therefore, the role of government as a catalyst in establishing an enabling policy environment to ensure consistent growth opportunities cannot but be stressed again and again. It is only within the framework of an enabling policy regime that all sectors of the economy can be stimulated and become active participants in the productive processes of the society. It is also in these circumstances that the NGOs also can attain greater creativity and effectiveness. Therefore, it needs to be stressed that, while NGOs may have the capacity to access the poor better, governments are still required to initiate suitable changes to enable sustained expansion of the economy of a country. However, in many cases, and in the context of changing world economic behavior, government’s capacity to adjust and adapt to the vastly changing world remains somewhat limited. This is mainly due to the traditional orientation and rigidity inherent in most structures of a developing public service. Therefore, the traditional role of the state and the public service also need to undergo reform. Most public service structures in the developing countries remain as colonial legacies, making them highly elitist, top-down and controlling.

According to **the “Platonic” school**, government is an idealistic, competent and well-informed institution, which reigns above interests and conflicts and promotes the common good (Streeten, 1994, p. 29). But Streeten informs us further that, according to the “Public Choice” school of economists (1994, p.29):

...Governments can do no right. Citizens use political influence and pressures to get access to benefits; politicians use government resources to increase their hold on power; public officials trade access to government benefits for personal reward; and states use their power to get access to the property of citizens (1994, p.29).

According to this school, any intervention by the “predatory state” in the “magic of the market place” is bound to make matters worse. Unlike the Platonic theorists who believe that government is the solution, **the Public Choice theorists** believe that government is, in fact, the cause of the problem. Neither is probably right, although all the evidence suggests that, despite the power of the market, it is interventions of the right type that have produced growth and equity in societies and which in many cases have helped the market become more competitive. All the so-called “Asian tigers” are good examples of this. In these countries, governments have played an extremely important role in encouraging the private sector to operate freely, but every now and then suitable interventions have been made to keep the economy moving, create employment opportunities and thus alleviate poverty. While accepting the private sector as the main engine of growth, on many occasions these governments have also intervened to break up private monopolies. However, the main cause of the success of these governments in initiating and implementing suitable policies has also depended, on the one hand, on the technical competence of their civil servants and, on the other, establishment of a system of management accountability and transparency which encouraged their civil service to become more performance oriented. For example, the Malaysians have always taken the aspect of management accountability very seriously. The Malaysian government established a comprehensive and multi-tiered monitoring and evaluation system in the 1960s and has since been using the

system to review the progress of projects and, by implication, the performance of its public servants (Khan, 1991).

In recent years, increased globalization and the liberalization of the national economies indicate that there is now a need for a very different type of government in most developing countries. In this new environment, public servants will need to be highly technical, well informed and efficient. Civil service structures in developing countries, which are basically colonial legacy, tend to be extremely hierarchical, avoid a consultative process and often are removed from the realities of life. The 1950s and 1960s models of public service, which are still being followed in some developing country including Bangladesh, remain predominantly top-down in form and less accountable to the people, attributes that are contrary to present day requirements. In the 1990s, public servants need to be more flexible and interactive, should operate as facilitator rather than producers and should be more performance oriented rather than being 'time server'.

These required changes in the form, style and manner of operation of the public sector, for obvious reason, call for immediate reform. Basically reforms in public service warrant two fundamental changes:

- (i) Changes in the quality and attitudes of public servants, and
- (ii) Reforms in the public service rules, procedure and systems.

According to the Fifth Five Year Plan, accountability to the people, transparency, efficiency and incorruptibility in conducting the business of government and, above all non-discriminatory application of the laws are some of the major feature of good government. The present democratic government, in its constitutional obligations, is committed to the nation to ensure good governance. For this, the government may chalk out an action program and can make an all out effort to implement it.

During this decade the number of Non- government organizations (NGOs) have increased throughout the country. The process was helped by easy availability of donor funds for NGOs. The donors supported the NGOs to supplement the government's delivery system to reach the poor and to play a more creative role to making conscientious them. This argument created an indirect pressure on the GO to make its delivery system to be more efficient. The resultant competition between GO and NGOs to reach the poor brought the questions of cost-effectiveness, transparency and accountability of using public fund under sharper focus.

Evaluation of Micro credit Operation

All ministries are operating micro credit programs in rural areas separately. There is no coordination among the different ministries and their departments. So there are duplication, overlapping in activities of different ministries and government agencies in many areas. All ministries employ their own staff under projects to run micro credit programs.

All concerned ministries recognized in the previous and current fifth five years plan that the micro credit should be run by government departments as well as NGOs. Government and international organizations praised about the performances of NGOs regarding the micro credit operation and some NGOs personnel have already received national and international rewards for their contribution in poverty alleviation programs. The founder and managing director of Grammen Bank Dr. Muhhamad Yunus and F.H. Abed are internationally renowned for their contribution in bringing the poor peoples in development process. The most impressive thing of Grammeen Bank is that fifty-two countries from different corners of the world introduced Grammeen Bank model for development of the poor and disadvantaged population.

Government department are providing micro credit to the poor without any collateral and free of interest. Though government departments usually charge ten percent as a service charge that is deposited to the beneficiaries group account and it is used for meeting the expenses of printing forms, buying laser books for maintaining accounts and records and so on.

Since there is lack of coordination among different ministries and government departments and yet there is no straightforward rules and regulations set by the government regarding the fixation of interest by the Non-government organizations; there is a little difference in the existing interests among the government agencies but the difference of prevailing interests among the GO and NGOS is quite alarming. The interests of NGOs vary from 25% to 40% whereas the government agencies can charge maximum 16% interest but they have been providing at free of interest for several years.

Since ministries and concerned government departments are engaged in micro credit operations, monitoring and related works; the concerned ministries and department can not concentrate its others core activities which may play important role in guiding private sectors. Moreover subsidized credit operated by the government departments is creating distortions in the credit market that may have negative impact on credit programs run by the NGOs. When poor peoples come to know that their neighbors are receiving loans without collateral and at free of interest it may create negative attitude towards the NGOs credit programs, which charge high interest against loan.

The interesting and crucial issue is though government departments are providing interest free loan but theirs performances is not as good as prominent NGOs who charges interest about 25%. The government departments like department of Social Services, Directorate of Women Affairs have lack of resources. They can lend maximum Tk. 5000/ per person whereas; Grammen Bank and some other can provide loan up to Tk. 50000/ per person. Through out the two decades the leading organization Grammen Bank has distributed Tk. 16.6 billion to 2064011 borrowers, On the other hand leading government organization department of social services has distributed Tk.627.78 million to 937925 poor. In case of government programs the loan fund is not enough and at the same time its operational and administrative cost per person is higher than those of NGOs. Due to scale of economy the operational cost is higher in case of government programs.

The ministry of Social Welfare and Swiss Agency for Development & cooperation jointly appointed two private consulting firms in 1998 to conduct a survey and

evaluate the micro credit program operated by Department of Social services (government department) in 276 villages. The analysis of the result revealed that 198 Village bases Institute (VBI) could not achieve the minimum target set by themselves before and failed to graduate (self-reliant) during the stipulated time. On the contrary, the members of Grameen Bank are 92% shareholder of the bank though they started from zero in 1983.

Though the VBI ran by DSS with interest free loan more than twenty years they could not converted into self-reliant. In discussion with those VBI members: the members expressed their willingness to borrow money even at the cost of repayment the principle amount with market interest rate or little more than that.

The researcher had also worked in central Planning commission of Bangladesh, which is responsible for preparation of economic plan, guide to formulate appropriate policy by line ministries, approve the development projects of all line ministries and also coordinate the development works of all line ministries and so on. In fact the Planning Commission has not sufficient strength in terms of personnel and others facilities to coordinate the works of line ministries and government departments. So duplication, overlapping of programs by different ministries are regular phenomena, which, results uneconomic, inefficiency and ineffectiveness in government.

All together it can be said government programs is not efficient and effective. So many clients from government programs migrate to NGO programs.

In case of government programs monitoring is not as good as NGOs programs. Though many renowned NGOs had established database-computerized system a

couple of years before for keeping the records, which is essential for evaluation but government, departments are lagging behind. Many rules regulation of bureaucratic system take long time to purchase equipment, machineries and technology, moreover no people took initiative in time to introduce new technology.

In Bangladesh at present there are more than twenty thousands of NGOs. It is very difficult for the concerned ministries and departments to monitor the activities of NGOs. To make the activities of NGOs more transparent, accountable: the government may develop the effective mechanism under the Finance division or Implementation Monitoring Evaluation Division rather than directly operating the micro credits that may bring fruitful result.

Government department with high subsidy (interest free loan) is competing with NGOs in micro credit operation, which is distorting micro credit market without achieving the goals. Nonetheless, government should play regulatory role efficiently and effectively rather than involving in operation of micro credit.

The honorable ministers of government of the people's republic of Bangladesh prefer to distribute the micro credit to poor. Most often they go to villages for distribution of micro credit. The ministers could invest his valuable time in policymaking for guiding the bureaucrat in proper direction rather than distributing the credit. The distribution might bring the good results in getting vote in following parliamentary election but it has no benefit for nation.

Now a days government has set up a public administration reform committee to chalk out the appropriate size of the public servant in different ministries, divisions, departments, corporation and agencies. The committee will scrutinize the size of the public servants as well as the activities of the ministries, divisions, department and agencies etc. Finally it will design and recommend the effective means and ways of the government functions. This is the high time to earmark the activities of the government properly and to determine whether the micro credit should operate by GO and NGO both or only by NGOs.

CHAPTER IV

CONCLUSION AND RECOMMENDATIONS

Though there are a number of government agencies for service delivery of various tiers of local government but in the absence of effective “clienteles” organizations, the delivery structure had remained somewhat inaccessible and inefficient, particularly this system did not reach the poor and disadvantaged. No effective mechanism has yet developed for cooperation and coordination at various tiers of administration of government.

The conventional banking structure does not provide access to the poor because the poor can provide no collateral. Moreover the overheads required for servicing loans become too high for the small size of loans that poor people require. The poor are bankable if the credit could be advanced to them through an innovative process they would not only repay the credit fully as per schedule, but also simultaneously generate a dynamic process of production savings and investment. The primary process by which financial services are envisaged as reducing poverty is by the provision of income generating loans. According to Dr. Muhammad Yunus of Grameen Bank a virtuous circle can be established: “ low income, credit, investment, more income, more credit, more investment, more income”(Quoted in international Development support services 1994:6).

SAARC summit, Social summit and Micro Credit summit provided opportunities to link the efforts for poverty alleviation through responded positively to the challenge

of organizing the poor through a process of social mobilization. In this process it accepted private organizations as desirable partners in such efforts that bring creativity of the poor. According to these summits, the government of Bangladesh set up a task force for preparation of national pro-poor plan and Action program.

In the world micro credit summit held in Washington during February 1997 micro lending was endorsed as the right answer to the problem of rural poverty. The micro credit campaign created worldwide awareness about importance of institutional lending to the poor for creating self-employment opportunities. The financial resources required funding the micro credit programs on a large scale has to be raised through joint efforts at both the national and international levels.

Independent studies by the World Bank and others indicate that participation in micro credit has significant positive effect on production as well as income. In addition studies reveal that after a wife joins in micro credit programs, her husband is likely to show her more tenderness and respect. Divorce rates drop among the micro credit borrowers, as do birth rates. The factors that facilitate poverty alleviation are by this time widely known. At the same time the efficacy of various institutional frame works, their limitation and the extent of complementarities are also becoming common knowledge. The aim of pro-poor plan is to improve the economic condition of the poor and human resources development. Not all rural poor are able to benefit from micro credit programs; utilizing loans in productive activities requires entrepreneurial skill that most people lack. So government should come forward in providing facilities for education and training, which will ensure skill development.

Despite the government's active lending policies, formal institutions as a whole including commercial banks provide no more than 20 percent of rural credit. Experiences in different countries suggest that government should be a facilitator rather than a provider of rural finance. The government should establish a prudent regulatory and supervision scheme that ensures the functioning of a financial intermediary that allows individuals to participate in decision-making process. An appropriate legal and regulatory framework should be designed so that micro credit programs can gain access to market resources. Politically motivated loan write offs and interest remission should not be allowed.

Micro credit in Bangladesh through non-governmental and governmental agencies has succeeded in reaching a quarter of all poor rural households. This has had significant impacts in increasing economic well being as well as initiating major social changes in rural Bangladesh. Micro credit programs are of great interest to policy makers because of their potential for reducing poverty, particularly among women. Programs based on Grameen Bank model of group based lending have flourished in Bangladesh and elsewhere and micro credit institutions have emerged in dozens of other countries as well.

Now the question is whether both government and non-government organizations should operate micro credit or only non-government organizations should operate.

NGOs do enjoy some methodological and institutional advantage over government agencies in reaching the poor. The government personnel who were sent to rural areas to work for the poor largely proved to be inadequately motivated for performing their duty which is acknowledged in current Fifth five-year Plan of Bangladesh. All the line

ministries recognized in previous and current five year plans that to reach the poor NGOs are performing well. Moreover due to lack of proper coordination there are duplication, overlapping in government run micro credit programs, which need much more administrative cost and leads to uneconomic, inefficiency and ineffectiveness.

In the government organizations there are Officer's Association and worker's Association. Utilizing these associations the government organizations demand better facilities as well as remuneration but do not care about responsibilities. There is also corruption in government organizations. But to take action against corruption it takes long time due to governmental legal procedures. Most of the time those persons related with corruption are escaped because of lengthy procedure of departmental proceedings for punishment. On the other hand there is no trade union in non-government organizations. Rules, regulations are more flexible. So reward and punishment can easily be ensured which is difficult to ensure in governmental organizations.

Donors are interested to channel the aid for micro credit programs through NGOs. Famous NGOs including Grameen Bank disburse much more fund than government organizations do. In terms of economy of scale of micro credit famous NGOs have advantage over government organizations.

Empirical evidence dictates that proper supervision and objective oriented monitoring is the magic, which achieved targeted recovery in poverty alleviation credit programs. In case of monitoring NGOs are more efficient than government organization concerning micro credit supervision.

A few line ministries are engaged with registration of NGOs as well as operation of credit and many other activities. These ministries core works are being hampered due to involvement in credit activities. In case of government programs honorable ministers prefer to distribute the credit to poor. Most often credit distribution cannot be made in time because of business of ministers. Sometimes clients have to wait for a few months to receive money from Minister's hand. The main issue in poverty alleviation strategy is how an enabling environment is created in which the poor can participate for their uplift and in which the poor are able to release their creativity to the fullest extent.

So it is better not to directly distribute a small amount of credit at free of interest that creates distortion in financial market. Moreover it may create problems for the NGOs in smooth functioning credit along with other social services like awareness creation among poor, literacy, family planning, hygiene, sanitation and so on.

Currently Bangladesh is dependent on foreign aid for around fifty percent of its development outlay. Exports pay for less than half of its imports. This dependence on foreign aid has had several undesirable consequences. The main problem is that it results in a compromise of the interest of the country with those of the suppliers of development resources. **A review of public expenditure and its management has to be considered seriously without delay.**

Since there are several NGOs in Bangladesh who are facing tough competition in micro credit market and many of those have been performing really well for more

than two decades. A few of those NGOs including Grameen Bank are leading the other developing countries as well. **Government of Bangladesh through its departments should not directly involved in micro credit operation rather it should work as a facilitator and ensure the effectiveness of micro credit programs operated by NGOs.**

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