VI. FINANCING FOR MICRO-ENTERPRISES, SMALL, MEDIUM-SIZED AND COTTAGE INDUSTRIES: BANGLADESH PERSPECTIVE*

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Introduction

After a less than successful experimentation with top-down (trickle-down) development policies over the last few decades to alleviate poverty in most developing countries, financing micro-enterprises is now considered a "new paradigm" for bringing about development and alleviating absolute poverty. Although the importance of developing small, medium-sized and cottage industrial enterprises has been discussed for a long time, the innovative poverty-focused group-based financing of micro-enterprises is a relatively new concept. Pioneered by Professor Muhammad Yunus of Grameen Bank in Bangladesh, microfinance institutions providing credit to the poor have burgeoned in both developing and industrial countries. Mustak Parker has maintained in his research paper that a total of USD 7 billion has been disbursed to over 13 million people (Parker 1998). The Microcredit Summit held in Washington, D.C., in 1997 envisaged that 100 million poor would have access to microfinance by 2005.[1]

Pioneered by the Grameen Bank in Bangladesh, microfinance institutions have developed as specialized financial institutions that cater to the needs of the poor.[2] In order to understand the nature of microfinance institutions in Bangladesh, as specialized

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[1] Inspired in part by concerns raised at the 1995 Fourth World Conference on Women, held in Beijing, more than 2,900 people representing 1,500 institutions from 137 countries gathered at the Microcredit Summit in Washington, D.C., in February 1997. Delegates set the ambitious goal of reaching 100 million of the world's poorest families, especially the women with credit for self-employment and other financial and business services by the year 2005. While not a panacea, microcredit provides a powerful tool for progress in nearly all of the 12 critical areas of concern outlined at Beijing. (For details about the 12 critical areas of concern, please see "Empowering Women with Microcredit", 2000 Microcredit Summit Campaign Report).

[2] Jonathan Morduch (1999) suggests in his article that though different approaches to microfinance have evolved in Bangladesh, the dominant among these is the Grameen Bank Model.

financial institutions, we will briefly highlight their origin, operations and activities in this chapter. Accordingly, the chapter has been organized into five sections:

1. The origin and operational framework of microfinance institutions, especially Grameen Bank;
2. The impact of the microfinance institutions loan programmes including Grameen Bank;
3. Financing small, medium-sized and cottage industries – a closer look;
4. Problems and prospects of microfinance institutions in Bangladesh;
5. Suggested measures and concluding remarks.

A. THE ORIGIN AND OPERATIONAL FRAMEWORK OF MICROFINANCE INSTITUTIONS, ESPECIALLY GRAMEEN BANK

Bangladesh is the largest least developed country with the eighth largest (third in the Muslim world) population of 130.2 million in an area of 147,570 square kilometres frequently ravaged by floods and cyclones (Bangladesh Bank 2000). It has one of the highest population densities (882 persons per square kilometre) with a low per capita GDP ($369), very Limited natural resources, and great poverty. The various dimensions of this poverty are manifested in terms of declining trends in real wages in agriculture, inequality in income distribution (in favour of urban areas), wage differentials between the formal and informal sectors, dramatic increases in the cost of living, less than adequate calorie intake by the vast majority of the population, unemployment and internal migration. Despite these indicators, Bangladesh has a proven stock of natural gas and efficient and skilled human resources.

It is the Grameen Bank which has come forward to take responsibility for bringing the poor out of abject poverty. Grameen Bank of Bangladesh was the brainchild of Dr. Muhammad Yunus, a Vanderbilt-educated economics professor at Chittagong University and a social scientist. What started out as a personal anti-poverty experiment and a social revolution in 1976 became a fully fledged bank in 1983. Since then it has continued to expand.

Apart from the operation of Grameen Bank, some other microcredit institutions, such as the Association for Social Advancement (ASA), the Bangladesh Rural Advancement Committee (BRAC) and the Palli Karma Sahayak Foundation (PKSF), have also been implementing several microcredit programmes with a vision to make adequate financial services available to the poor. We will try to discuss their operations here in brief.

1. Grameen Bank

The Government of Bangladesh undertook a project on rural finance in the middle of the 1970s and appointed Nathan Associates, a United States consulting firm, to assess the loan requirements of rural Bangladesh. Subsequently, the most cost-effective was chosen among different alternative hypotheses of a rural loan delivery system under the Rural Finance Experimental Project of Bangladesh Bank. Among those alternatives, one that was pioneered by Dr. Muhammad Yunus proved to be the most viable and suitable for Bangladesh. This Grameen Bank project was finally converted into a unique bank under the Grameen Bank Ordinance 1983.

Thus, the Grameen Bank was formally set up in 1983 to organize particularly the landless and poor women through a group-based credit system. This was done with the hope that if some capital could be made available to the landless poor on reasonable terms and conditions they could engage in productive self-employment activities, thereby helping to increase their income level. The Grameen Bank provides small loans without collateral for the following broad categories of activities:

- Service
- Trading
- Peddling
- Livestock and fisheries
- Collective enterprises
- Agriculture and forestry
- Shopkeeping
- Processing and manufacturing

Grameen Bank has already covered 40,384 villages out of a total of 68,000 villages in the country. It currently serves 2.38 million borrowers, 95 per cent of whom are women. It has 1,170 branches. Unlike conventional banks, it works on the principle that people should not go to the bank, but rather the bank should go to the people. Grameen's staff, each week, go to all 40,384 villages to meet all the borrowers to do the banking at their doorsteps. Grameen's loans are paid back in weekly instalments. The poor, particularly the poor women in a Muslim majority country like Bangladesh, find it very convenient to do business with the Bank at their doorstep rather than waiting in line in a distant office located in crowded commercial place.

Conventional banks are based on the principle that the more you have, the more you can get, if you don't have anything, you don't get anything. Grameen has literally turned this principle around. The Grameen principle is that the less you have, the higher the priority you get in receiving loans from the bank. If you have nothing, you get the highest priority.

Loan procedures

When Grameen Bank enters a new district, it brings with it an economic and social development programme which has evolved over the last 18 years while continuously interacting with the landless poor. But the programme is not imposed on people. It is merely a well tried starting point for a new participatory process which is open to further modification, according to local conditions, priorities and needs. The programme involves people in a long-term learning process. Through participatory efforts and joint experiences, people gradually acquire knowledge particularly in organizational and managerial skills. In this way the programme realizes the ideas of endogenous and self-reliant development. When Grameen Bank opens a new branch, the branch manager has to prepare a socio-economic study of the locality. The study covers the geography, demography, economy and the infrastructural facilities in the area. After approval of the report by the Head Office, the general manager organizes a general public information meeting where he explains Grameen Bank's purpose, procedures and programme. Particularly he explains the procedures for forming groups and centres and encourages the landless to form five-member groups of like-minded people in similar economic conditions to become eligible for credit facilities.

The next step in disbursing loans is the compulsory participation of the group members in a group training programme which is a minimum of seven days continuous instruction. The training is conducted by the bank workers teaching the rules and regulations of the bank, including understanding the purpose of various bank procedures, knowing in detail the responsibilities of the group chairperson and the centre chief, and explaining the importance of fund-saving schemes for joint activities or children's welfare. The training also explains the different aspects of social development programmes and educates them to write at least their own signatures, which is a condition for obtaining loans. At the end of seven days' training, the branch manager, after his evaluation, gives provisional recognition to the group. The group is again examined thoroughly by the programme officer. If all group members are found suitable and well-trained in the procedures of the bank, the programme officer accords formal recognition to the group. After this recognition the group becomes a formal entity entitled to undertake transactions with Grameen Bank.

One of the remarkable features of Grameen Bank is that the groups themselves are involved directly in the decision-making processes of the loan operation. The group members are actively integrated in the decision-making process individually, as a part of a group and as a part of the centre. The first decision to be taken by the group is to decide the amount of loans and to select the loanees. Two conditions apply to these decisions: the first loan the group can sanction without higher approval should not exceed the range of Tk. 500 to Tk. 1,500 and only two members may at first receive loans. If the first two loanees can observe the bank discipline and meet their payments, the next two members become eligible for loans. Generally the chairman gets the loan last. Thus, group pressures ensure credit discipline. It is in everybody's interest that bad loans do not jeopardize the future prospects of other members. After the Loan is agreed upon by the group, the Loan can be proposed for approval. Once a Loan is approved, the branch manager issues the Loan money a1ong with a Loan passbook. At the centre meeting which takes place early in the morning on a regular day each week, the bank worker records the instalment in the loan passbook of each member. The weekly instalment begin as soon as the loan is disbursed. The innovation of the weekly instalment emerged quite early in the development of the bank's loan delivery and recovery system.

From the bank's perspective, regular centre meeting attendance and the payment of weekly instalments do not in themselves constitute adequate supervision. Immediately following a loan disbursement, it is a regulation that within seven days the loanee must utilize the loan for the specific purpose of generating income. Grameen Bank's extraordinarily high repayment from 98 to 100 per cent is largely due to the tight supervision and the participatory process at work in the groups of five and in the centres. In the event of default, there is no collateral the bank can resort to. The only recourse is social collateral, that is through group solidarity and accountability relationships the members have established among themselves. However, in the event of a member being unable to meet a loan instalment, the group usually contributes the funds to pay their instalment while making it a private matter to collect from the member. A member usually makes a great effort to avoid the public indignity of being a defaulter.

Savings schemes

One of the conditions of the loan is that the group members save five taka every week plus 5 per cent of the loan amount, which is kept aside at the time of loan disbursement. The rate of interest is 20 per cent. The borrowers pay Tk. 24 for each one thousand taka in 46 equal weekly instalments.

In September 2001, the Grameen Bank completed its eighteenth year of operation. Its progress can be appreciated from the following table:

Table 1. Progress of Grameen Bank up to September 2001

Particulars	*Amount*
1. Number of villages covered	40 384
2. Number of branches	1 170
3. Number of members (in millions)	2.38
Landless (women)	2.26
Landless (men)	0.12
4. Number of centres	68 507
Landless (women)	61 810
Landless (men)	3 697
5. Number of groups	500 223
Landless (women)	474 864
Landless (men)	25 359
6. Loans disbursed (in million taka)	150 612.10
Landless (women)	141 311.50
Landless (men)	9 300.60
7. Loans repaid (in million taka)	137 797.60
8. Percentage of loans realized	90.10
9. Area-wise disbursement (in million taka)	150 612.10
Housing loans	7 559.70
Other loans repaid	143 051.40
10. Housing loans repaid (in million taka)	5 447.10
Other loans repaid	132 350.50
11. Savings in group fund (in million taka)	11 858.90
12. Overdue amount (percentage)	9.90

Source: Annual Report of Grameen Bank.

We will give a brief account of other prominent microfinance institutions in Bangladesh, such as BRAC and ASA that function with the same objectives and credit line but with small differences in their priorities and activities.

2. Bangladesh Rural Advancement Committee

BRAC has been in existence since 1972. However, it started its rural development programme in 1986. The main aim of the programme was to assist the landless people to organize themselves into village organizations for their socio-economic development. The rural credit programme of BRAC came into operation in 1990. Both programmes cover four major activities: (a) institution-building; (b) sector programmes: (c) credit operations; and (d) support services.

All these activities aim at empowering the poor and promoting social awareness and education among the members of the voluntary organizations. The sector programmes have six components, such as (a) irrigation; (b) vegetable cultivation; (c) poultry; (d) livestock; (e) fisheries; and (f) sericulture. The main objectives of these components are to:

- Increase agricultural production through irrigation and crop diversification
- Promote the introduction of new technology
- Increase vegetable production and improve nutritional status
- Increase poultry, livestock and fish production to meet the nutrient needs of the rural poor
- Develop human skills
- Improve the socio-economic status of the rural poor
- Increase income and employment generation opportunities for the landless poor
- Reduce rural poverty

The rural development programme and the rural credit programme covered 61,879 villages/slums with 430 branches at the end of August 2001. By then BRAC had mobilized 4.21 million members of which 82 per cent were women. While the percentage of borrowers was 64 per cent of all members, women borrowers were 58 per cent of the total women members. The total outstanding loans of BRAC stood at Tk. 8.0 billion in August 2001, an increase of 624 per cent over the amount disbursed in 1993. Of the total outstanding loans, women members received 75 per cent. By the end of August 2001 BRAC had mobilized Tk. 504 million as savings and deposits from the members. Women contributed 82 per cent of these savings. Rural trading, food processing and livestock poultry accounted for more than 71 per cent of the total loans disbursed up to August 2001. The overdue amount of loans stood at Tk. 703.2 million during the period under review. Presently, BRAC's two programmes cover only about 30 per cent of the target population. Its low coverage is said to be the result of both demand and supply constraints. On the demand side, one constraint seems to be the absence of growth-oriented activities in the portfolio of the borrowers and on the supply side, the constraint is its high cost of delivering credit to the poor.

3. The Association for Social Advancement

ASA was established in 1978 as an NGO aimed at empowering the landless through awareness raising and leadership development, involving the poor in various fields of development through a participatory process, helping the poor in identifying income-generating activities at the grass-roots level, providing poor professional groups with short-term finance, and marketing their products.

About 1.4 million poor rural households spread over 26,328 villages were covered by 954 branches up to August 2001 under ASA's poverty alleviation programme. Of these, 1.2 million members were organized as borrowers, of whom 90 per cent were female. A total of Tk. 4.5 billion was disbursed up to August 2001 among the group members. The recovery rate is more than 99 per cent. The sources of fund for use as a revolving credit are from the Danish International Development Agency (DANIDA), a consortium of donors, PKSF, and ASA's own funds. Of the total loan disbursed up to August 2001, ASA's own fund comprised about 30 per cent. It has also recently started borrowing from the commercial banks.

B. THE IMPACT OF THE LOAN PROGRAMMES OF MICROFINANCE INSTITUTIONS, ESPECIALLY GRAMEEN BANK

Grameen Bank provides loans in cash to the landless poor, particularly women, to promote self-employment and make them income earners. As the repayment rate is about 90 per cent, it is indicative of the fact that the loanees are utilizing the loan for productive purposes. Thus, the bank has generated self-employment opportunities for women members who were either unemployed or underemployed earlier, increasing the labour force participation rate in the area of its operation. It is difficult to estimate the exact income effect of the programme as the income of Grameen Bank members or female members can not always be separately estimated from their household income. However, the total cumulative amount of savings in the group fund of all the members rose to Tk. 11.9 billion by the end of September 2001. This indicates a strong positive income effect of their loans. A survey conducted by Mahboob Hossain (1995) indicated that the proportion of the population living in moderate poverty was 84 per cent for target-group non-participants in a project village and 80 per cent for the target-group in a control village. But the same figure for Grameen Bank members was 61 per cent in the target village. The percentage of Grameen Bank members living in extreme poverty was 48, while it was about 78 per cent for its control group counterparts (Hossain 1995). These figures suggest that Grameen Bank has been able to alleviate poverty for its members.

Another important addition to the impact research of different microfinance programmes has been the development of 10 criteria by Grameen Bank. The 10 criteria are: (i) respectable housing, (ii) pure drinking water, (iii) children's education, (iv) 300 taka weekly instalment, (v) possession of a sanitary latrine, (vi) clothing, (vii) scope of supplementary income, (viii) loan defaults, (ix) self- sufficiency of food and (x) capability of the members to meet health hazards.

A field survey was conducted by Professor M.A. Hamid on the basis of the above 10 criteria (Hamid 2000). He found that Criterion 1 (on respectable housing) is applicable to most members of Grameen Bank (85.5 per cent), Criterion 2 (on pure drinking water) is satisfied by almost one out of every four persons. This is definitely a good sign of human development in rural Bangladesh. Criterion 3 (on children's education) is not applicable to all members. The survey shows that for only 3 per cent of Grameen Bank members, this criterion is not applicable. That means that they do not have any schoolgoing children in their families. Of those to whom it is applicable, 83.5 per cent of members satisfy this criterion. Criterion 4 (on 300 taka weekly instalment), a pure economic criterion, 35 per cent of members satisfy this criterion. Criterion 5 (on the possession of a sanitary latrine) is satisfied by about half of the members of the programmes under review. Criterion 6 (on clothing) is found to have been satisfied by more than 90 per cent of the members. Criterion 7 (on the scope of supplementary income) is satisfied by 61.5 per cent of members. This means that more than half of the poor people have some scope for supplementary sources of income. Criterion 8 (on loan defaults) is not applicable to all members. In Grameen Bank 1 per cent of members had not taken loans for less than 3 years. Leaving these members aside, it was found that 41.9 per cent of members satisfy this criterion. Criterion 9 (on self-sufficiency in food) appears to have been satisfied by around 95 per cent of the respondents of the Grameen Bank programmes. This implies that in their own opinion, most of the members do not face any serious food crisis. Criterion 10 (on the capability of the members to meet health hazards) is satisfied by 91 per cent of the members of Grameen Bank.

Ali Akkas (1998) in a study observed that by late 1995, the Grameen Bank and NGOs covered 25 per cent of the target group households with Tk. 16.6 billion in loans outstanding. Coverage varies substantially from area to area and between social groups. Areas with poor roads, a low level of economic activity and weak infrastructure have benefited little from microcredit. NGOs and Grameen Bank have performed at much higher levels than government credit schemes and their achievements compare very favourably with all other anti-poverty strategies in the county.

Ainon Nahar Mizan (1994) in a study found that a respondent's mean score on the household decision-making skill increases with the years of loan up to a certain level (three through six years) and then begins to fluctuate. The correlation between years of loan from Grameen Bank and the household decision-making skill is positive and moderately high. According to her research, Grameen Bank participation has a significant effect on women's decision-making, both in the bivariate and multivariate context. This finding indicates the significant success of Grameen Bank programmes in affecting women's status relative to men in Bangladesh. Another important dimension of women's decision-making involved their political participation, such as in voting. A test reveals that even though women's participation in politics in Bangladesh is increasing substantially, their participation is still negligible compared with that of men. However, in the recent past Jatio Sangshad Election (8th National Parliament election held on 1 October 2001 in Bangladesh), the participation of women was substantially higher as compared with anytime earlies. Women's voting participation apparently increases with their employment, income and education, for those variables raise women's consciousness about their rights and privileges in the society.

Hasnat Abdul Hye (1996) has observed that Grameen Bank has financed its activities with funds obtained at concessional rates from external and domestic sources. Reliance on external funds, either as grant or on a concessionary rate has raized questions: Would the Grameen Bank be viable without these subsidized funds? Pointing out that Grameen Bank receives both financial and economic subsidies, a study by the World Bank/Bangladesh Institute of Development Studies considers it a source of concern for its long-run viability (Khandoker and others 1995). However, in a impact study Shahidur R. Khandoker (1999) found that participation in a microcredit programme had a positive effect on per capita expenditure, although the effect was not always statistically significant for borrowing by men. Microcredit also affected socio-economic variables, including children's schooling, children's nutrition, fertility and contraception use etc. Microcredit programmes have helped reduce rural poverty in Bangladesh. But have they done so cost effectively? This is a burning question.

C. FINANCING SMALL, MEDIUM-SIZED AND COTTAGE INDUSTRIES: A CLOSER LOOK

Small and medium-sized enterprises (SMEs) have a special role to play in the achievement of equitable and broad-based economic growth in a country like Bangladesh. This is due to SMEs generally being more labour-intensive, having linkages to traditional industries, and contributing to the development of entrepreneurial skills and the spread of new technologies.

There is no standard definition of SMEs, and alternative taxonomies based on investment, ownership, value added or employment levels can be justified. We see the classification used in several reports was based on employment levels, defining SMEs as those enterprises employing up to 50 workers, excluding household enterprises (World Bank/USAID 1992). The Ministry of Industry (Government of Bangladesh 1999) made a broad-based classification of industrial enterprises, classifying them into five sectors. The sectors are: (i) large industry (100 employees or more and/or capital of more than Tk. 30 crores); (ii) medium industry (50 to 99 employees and/or fixed capital of from Tk. 10 crores to Tk. 30 crores; (iii) small industry (less than 50 employees and/or fixed capital of less then Tk. 10 crores; (iv) cottage industry (household basis where the family members are workers); and (v) reserve industry (the industries earmarked by the government for its own investment).

The key role of SMEs in employment generation is well recognized. They are also important in the training of labour and in the diffusion of technologies. Greater emphasis on developing this sector could also yield significant dividends in terms of improving the spatial distribution of enterprises, shifting the current trend towards concentration in Dhaka and a handful of major industrial centres.

Institutional finance for SMEs assumes significant importance in developing countries such as Bangladesh in view of low capital formation, ill-organized capital markets, and gaps between demand for and supply of institutional finance in this sector. Small-scale and cottage industries derive finance from institutional, semi-institutional and non-institutional sources. Small-scale enterprises remain vulnerable with regard to their requirements for working capital. These enterprises do not have continuous business hours and as such their requirements for raw materials and inventories vary depending on their order book and payments received by them.

A study (Khandoker 1998) regarding financing to small-scale and cottage Industries in Bangladesh reveals that in many cases credit is obtained from suppliers in the form of raw materials or from the buyers of the firm's output. The study demonstrated that about 70 per cent of the start-up cost in respect of small grocery stores was financed from the owner's savings and sales of other assets. Friends and relatives provided loans to the extent of 20 per cent on average and the supplier's credit financed about 10 per cent of the start-up cost.

Outstanding advances to the large and medium-scale industrial sector by the banks in Bangladesh stood at Tk. 53.4 billion or 25.39 per cent of total bank advances at the end of December 1990, rising to Tk. 93.1 billion or 26.71 per cent of total bank advances at the end of December 1995 and further to Tk. 159.1 billion or 25.18 per cent by the end of December 2000 (see table 2). Outstanding advances to small-scale and cottage industries, on the other hand, stood at Tk. 2.4 billion or 1.13 per cent of total bank advances at the end of December 1990, rising to Tk. 5.3 billion or 1.51 per cent of total bank advances at the end of December 1995 and further increasing to Tk. 8.3 billion or 1.31 per cent of total bank advances by the end of December 2000. It, thus, confirms the idea that formal lending institutions largely met the financial requirements of large and medium-scale industries at the expense of the small-scale and cottage industry sector during the last decade in Bangladesh. There were no tangible changes in the share of small-scale and cottage industries to total industrial credit during the last decade.

Medium-sized, small and cottage enterprises have played a prominent role in economy of Bangladesh which has widespread unemployment, a narrow capital base, inequality of income, poverty, and an absence of modern technology. The main government agencies set up to promote industrial growth and exports, for example, the Board of Investment and export processing zones, have come under criticism for their apparent ineffectiveness in boosting investment or encouraging the diversification of the economic base. On the other, the social and economic infrastructure remains severely inadequate. In addition, financial institutions always favoured financing large-scale manufacturing and the business sector because of the convenience of administration and creditworthiness of the borrowers of this sector. The borrowers of small-scale and cottage enterprises, on the other hand, faced many difficulties borrowing from institutional sources with their complicated and lengthy procedures. Above all, the commercial banks, burdened with a huge overhang of non-performing loans concentrated in the larger-enterprises sector, have sought to make up for earlier losses by raising lending charges and sharply tightening collateral requirements. Moreover, deficiencies in the regulatory system have added to business uncertainty and risk, and imposed additional costs on small and cottage enterprises because of delay and expensive approval procedures. Undoubtedly, a large part of the problem stems from the failure of enforcement agencies. However, if we have to improve the overall condition of the medium-sized, small and cottage industries, we must undertake special financial support closely supervised by trained personnel of the lending institution.

D. PROBLEMS AND PROSPECTS OF MICROFINANCE INSTITUTIONS IN BANGLADESH

Poverty in Bangladesh is a chronic and acute problem. Whether the situation has really improved or not is a debatable issue. The experience so far gathered from the activities of the microfinance institutions indicates several acute problems and shortcomings in the programmes.

Today there is a widespread perception that most of the laws under which the microfinance institutions are operating seem to have fallen short in dealing with their institutional and operational aspects. Microfinance institutions, which are basically NGOs providing financial services, do not fall under the government regulations that are applied to banks and other non-bank financial intermediaries. Actually, they are in need of appropriate regulatory frameworks. The absence of a single registering, monitoring and supervising organization appropriate for the microfinance institutions in Bangladesh has made it difficult to decide if they have been targeting the right people and for the right purpose.

If a microcredit institution is to maintain its capacity holdings, it must generate sufficient revenue to meet its operating costs, including the cost of administering loans, mobilizing and training groups, mobilizing funds for on-lending, and covering bad debts. Although a number of microfinance institutions are showing their financial efficiency, in most cases this is misleading since the borrowing cost of on-lending funds is highly subsidized by donors (Khandoker 1998). Performance evaluation of microcredit given by microfinance institutions is increasingly important. It is very difficult to evaluate the performance of the large number of NGOs operating in Bangladesh. In Bangladesh, the major sources of microfinance institutions revolving loan funds are the donors, the commercial banks, PKSF, members' savings etc. It has been observed that donor funds as a percentage of the total is declining over time. On the other hand, NGOs have limited access to formal financial institutions. There are complaints that the microfinance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans. According to a study conducted by Bangladesh Bank (1997), it was found that the effective rate of interest charged by Grameen Bank is 22.45 per cent while the formal sector interest rate ranges from 10 per cent – 12 per cent for the small and cottage sector. Hashemi (1997) and Khandoker (1995) point out that Grameen Bank would operate at a loss without grants. As per the regular statutory rules, weekly instalments are started by the borrowers to repay the principal and interest from the subsequent week after obtaining the credit. This procedure puts serious economic and mental pressures on the borrowers. In many cases, it is found that due to the pressure of repayment, overlapping problems in microcredit have emerged. A study by the Bangladesh Institute of Development Studies revealed that 11 per cent of the participanthouseholds have two or more members from the same household in the same NGO. Among households with one male and one female membership about 80 per cent were involved in multiple NGOs (Khaled 1998).

A major shortcoming of the microfinance institutions in Bangladesh is that they do not always reach the hardcore poor – the poorest of the poor. Since the absolute poor run a higher risk for loan default, they often fall outside the coverage of the microfinance institutions. At the same time, the poor people with more than 0.50 acre of land do not fall under the programme. So, a huge number of disadvantaged people are left out from the programme. Moreover, the microfinance institutions follow the same rules/ obligations of microcredit for all regions of the country. This has created different problems, such as economic depression and underuse of potential. Not all participants are skilled enough to initiate self-employment schemes, but are in need of opportunities in wage employment.

The microfinance institutions do not have a proper coordination mechanism that would enable them to ensure effective coverage in all areas of the country. While some provide a broad range of services, most of them provide limited credit and savings options. Thus, proper representation also requires that the poor have the opportunity to receive as many services as they need. The microfinance institutions are also beset with fund constraints and there are no linkages between the financial institutions at the grass-roots level. On the other hand, owing to the absence of a national policy on microcredit and a nationwide default culture, loan repayment at the microfinance institutions is affected by the spillover effect of those big borrowers.

The bulk of the loans advanced by microfinance institutions in Bangladesh is targeted towards women. In reality, however, the male members of the household initiate taking loans and control the funds received by the female members. Furthermore, Aminur Rahman (1999) pointed out that loans taken are often used for purposes other than those the loan is sanctioned for. Rezaul Karim and Osada (1998) observed that there was a steady increase in the dropout rate from the Grameen Bank (15 per cent in 1994) and that 88 per cent of the total dropouts did not graduate to the status of non-poor. Ahmed (1998) finds that a larger association with Grameen Bank reduces the household income.

E. SUGGESTED MEASURES AND CONCLUDING REMARKS

Despite many shortcoming and criticisms raised by a group of researchers about the function, impact and sustainability of the microfinance programmes in Bangladesh, microfinance institutions, especially Grameen Bank, have made a successful breakthrough in reaching the target group mainly because of the easy availability of funds and close supervision. It is pertinent to further gear up the activities of the microfinance institutions for the sake of poverty alleviation and also to deal with socio-economic-financial issues of the rural areas. Although microcredit is not the panacea for poverty alleviation and rural upliftment in a developing country like

Bangladesh, the supportive services of microfinance institutions for primary requisites (such as health, education, and infrastructure) and financial services (such as savings schemes, consumption, investment and insurance services) are essential for the smooth operation of microcredit.

In order to improve the performance of the microfinance institutions and microcredit for targeting the poor, the following measures have been suggested:

(a) Bangladesh Bank and the commercial banks should establish separate functional relations with the microfinance institutions to provide the required guidelines, supervision and financial assistance;

(b) Close cooperation among the microfinance institutions, banks and organs of the government for social welfare activities is essential for the effective coordination of their activities. Integration can improve the efficiency of segmented rural financial markets by exploiting the comparative advantage of each sector;

(c) A regulatory body is essential to monitor the activities of microfinance institutions in Bangladesh, besides internal regulation by themselves, through governance and transparency in the disclosure of all types of their accounts and documents;

(d) Accounting systems, management information systems services, the calculation method of the recovery rate of the microfinance institutions should be streamlined and transparent;

(e) An initiative should also be considered to establish a link among the medium-sized, small and cottage industries and the corporate sector through the development of subcontracting. Banks and non-bank financial institutions could create funds for the development of subcontracting enterprises.

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