

## Institutional credit and rural development in Bangladesh

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### ABSTRACT

In this Sub-continent, including Bangladesh, micro credit is recognized as an important weapon for the eradication of poverty. The present research is just an attempt to understand the role of micro credit in the rural development of Bangladesh. The main objective of the present research is to know about the influence of programs of micro credit provided by government and non-government organizations. The present research tries to understand deeply how far these programs were effective in the rural development. The research work was conducted in the two villages of Tangail, namely Chalagao and Dhanpara. For the purpose of this research the participant observation method was applied. To understand the steps for the development and the eradication of poverty it is required to carry out the research work. When a researcher is involved in a research to understand the influence of micro credit in Bangladesh, the researcher should not see only the economic aspects of a village, i.e. the economic situation or the changes in it, but he or she should also collect information about rural family system, nature of kinship, social organizations etc..along with the information related to micro credit. The main objective of this research is to discuss and analyze, on the basis of information collected from the field, how far the micro credit played effective role in the development of agrarian rural society of Bangladesh. To what extent micro credit plays a role in the rural economy is still a debatable question. But it is true that micro credit may be considered as a step toward rural development and poverty reduction only if the loan giving government organizations can remove the mismanagement in the process of giving loan and if the non-government organizations give up their commercial mentality.

### INTRODUCTION

The present research work is just an attempt to understand the institutional approach to rural development of Bangladesh. Bangladesh is predominantly rural, and agricultural in its main economy. Therefore, the socio-economic development of the country depends on the rural development to a great extent (Ahmed, 2007). For the last 50 years, different government and non-government institutions had taken various initiatives at different point of times for achieving rural development (Chowdhury, 1991). Among the programs taken for the rural development, institutional credit at the grassroots was very important. It can be said that credit program through bank and cooperative societies was the most widely used method for the rural

development. It is known that Grameen Bank, BRDB, Bangladesh Agricultural Bank and similar other organizations gave huge amount of credit for the purpose of increasing the production and the economic activities of various professional groups for the rural development (Hossain 1998). Moreover, such credit was given so that opportunity for new jobs could be created. The main purpose of the present research is to understand the influence of the micro-credit programs implemented by the government and non-government institutions. Besides, the research work tries to know deeply how far such programs were effective in case of rural development.

The main objective of the present research is to find out how effective is the role of micro credit for the development of the agro-based rural society

of Bangladesh, based on the analysis and searching examination of fact provided by field level study. Besides the research also analyses whether from the point of view of institutional approach as regards rural development, the micro credit can at all be considered as a weapon for development. For the last 50 years many initiatives and attempts have been taken at different times by various government and non-government institution for the development of this agro-based society.

The present research concentrates on the question of women empowerment, how far the micro credit contributed to the issue of real empowerment by the women in the family, society, and the economic activity. The research also focuses on the changes brought about by the micro-credit in the relation outside the family and within the kinship. How far the micro-credit could touch the professional life of the people has also been evaluated.

## METHODOLOGY

The present research work has employed several methods including participant observation, household survey, informal interviews, use of key informant, use of field notes/ diary, case study, use of maps, use of books and documents and collecting information through internet.

### Participant-Observation

In the present research this strategy has been used, because in-depth field study can be possible only by direct observation. Through this method it is possible to understand the influence of the micro-credit in rural society more effectively.

### Household survey

The household survey was conducted in two villages namely Dhanpara and Chalagao in Tangail district. The members of those households who took loan from government or non-government organizations were selected and separated from the rest. Then those who took loan were interviewed in an informal way. Each and everyone were interviewed separately. In this way information were collected from 133 persons of

the two villages under research. 100 persons from Dhanpara and 33 persons from Chalagao were thus interviewed on the basis of the interview schedule. The information thus obtained through open questions and answers were analyzed afterwards and used for the purpose of the research.

### Use of case study, maps, books and documents etc:

Using case study, photographs, maps and documents -such methods have also been used in the present research work. In the present research work on micro-credit two case studies have been added. Besides, five maps (Bangladesh, Tangail district, Kalihati Thana, Dhanpara and Chalagao) are attached to it so that geographical situation can be better understood. In any research work use of secondary sources or the use of books is important too. While preparing this paper many books, journals, information from internet and various research papers have been used.

## OUTCOME OF THE STUDY

From the information obtained through interview schedule, it is found that among those who answered belong to the age group 15-20 years 4%, 21-30 years 41%, 31-40 years 37%, 41-50 years 14% and above 50 years 4%. Thus it is seen that young people (age 21-40 years) are the highest number of borrowers. Amongst them 63 persons are women. Amongst them 47% are housewife, 19% are involved in weaving, poultry and other business, 25% peasants and the rest 9% daily labourer.

Table 1  
Sex of the respondents.

Gender	Respodent Number	%
Female	63	47%
Male	70	53%
Total	133	100%

Amongst those who answered 63 persons were female and the rest 70 persons are male. Form table 1 it is seen that 8% of those who answered are illiterate, 47% literate, 26% having the primary education, 15% having educational level upto secondary standard and 4% upto higher secondary

standard. The study indicated that over all educational level is very low. It is understood that lack of education is one of the causes of poverty in the rural Bangladesh. Where half of the borrowers are illiterate or just literate, it is quite natural that most of them do not have any clear idea about the credit activity.

From the study it is found that 22% of those who answered (The borrower) earn yearly Taka 4,000-12,000, 17% earn taka 12,000-16,000 per year, 15% earn taka 16,000 to 20,000 per year, 12% earn taka 20,000-24,000 per year and 34% earn more than taka 24,000 per year. Thus lower income groups are larger in number. This shows how critical is the economic condition of the borrowers.

Table 2  
The institutional sources of micro credit of the villagers.

Source of Loan	Number of the respondents	%
Grameen Bank	27	20%
BRAC	19	14%
Youth Development	3	2%
ASA	8	6%
Prosika	7	5%
Fish and Animal Resources Department	3	2%
BRDB	3	2%
Krishi Bank	34	26%
Buro, Bangladesh	14	11%
Sonali Bank	15	11%
Total	133	100%

Those who answered said that they had taken loan from 10 organizations. Of the 10 organizations five are government organizations and other five are non-government organizations. The government organizations are department of Youth Development, Department of Livestock. BRDB, Agricultural Bank and Sonali Bank. The non-government organizations are Grameen Bank, BRAC, ASA, Proshika and Buro Bangladesh. Amongst those who answered 27 took loan from Grameen Bank, 19 from BRAC, 8 from ASA, 7 from Prosika, 35 from Buro, 34 from Agricultural Bank, 15 from Sonali Bank, 3 from BRDB, 3 from

the Department of Livestock and 3 from the Department of Youth Development. So it is found that from amongst the government organization it is Agricultural Bank and from amongst the non-government organizations it is Grameen gave loans to the highest number of people.

Table 3  
How people came to know about the micro credit and their sources.

Media	Number of respondents	%
Those who had earlier taken loan	10	8%
Mainly from field officer	75	56%
Members of the locality	6	5%
Members of the society/groups	34	26%
Field workers of the society/groups	2	2%
From husband	2	2%
From cousin	2	2%
Government officers employed by the Livestock Department	2	2%
Total	133 Persons	100%

After analyzing the information it is found that people came to know about micro credit and their sources mainly from field officer. About 56% people knew from field officer, 26% knew from the other members of the society/groups, 8% of them knew from those who had earlier taken loan, 5% knew from members of the locality, 2% from the field workers of the society/groups, 2% from husband, 2% from cousin and 2% from the government officers employed by the Livestock Department. It is thus understood that the field officer of different NGOs are very active to encourage the people to take loan.

To get loan borrower should compulsorily be a member of the group / society or bank as a pre condition to get credit. Besides the borrower is to deposit document of the land, entry fee, savings, photograph, certificate from the member and chairman of the union council. Only in case loan from banks it is necessary to deposit land documents. Entry fee is from taka 50 to 100. The amount of saving to be deposited varies from taka

5 to 150. It is also known that there is even unofficial bribe, which is to be paid for getting loan. It has been found that amount of bribe varies from taka 200 to taka 2500. Taka 200, taka 500, taka 1000 and taka 2500 were paid as bribe by each of 3 persons, 6 persons, 3 persons and 2 persons respectively. From the information obtained from the participants it was found one person didn't have to pay any bribe. There is no doubt about the practice of bribery in the process of loan. It is truer in case of government loan. In case of NGOs there is strict monitoring system and supervision over the field officers. It has been found that because of the regular activities of the NGO workers people could take loan from the NGO so easily. There is no official complication in getting such loan.

From the figure 1 it is appeared that government loan-giving agencies give loan for a longer period and its rate of interest and installments are relatively within the tolerable range. So people are more interested to take loan from the government institutions. It is farther noticed that borrowers repay the government loan by installments over a long period of time. On the other hand the scenario of loans from NGOs is different. Since there is strict system of monitoring system and there is monthly or weekly repayment system, so the borrowers repay within a short time. But the rate of interest in this case is very high. In addition if the loan is not paid back in time then actions are taken against those who fail to pay installment. Borrowers are under pressure to pay back the loan. Pressure comes from the other members of the society/group too. It is also the system that the NGO worker who has taken initiative to give loan to a certain society/group has to repay the loan amount if any member of the society/group fails to pay it. Because of such strict rules NGO workers also always keep pressure on the members of the society/group to repay.

From the information obtained it is known that 92% of those who were interviewed did not get any sort of training. ASA gave training 2 of them about poultry. Youth Development Department gave training only 2 of them about fish cultivation and rearing of cattle and poultry. 6 of them got training from BRDB about rearing of cattle and poultry about rearing of goats, about cultivation of

potato and vegetable and how to sow seeds of vegetables and green crops. They also got training from BRDB about the strategy of repaying loan by instalments. These two departments of the government give training. But very few NGOs have training program after the loan is disbursed. Some of the NGOs have sort of training program but they hardly give training regarding how to properly spend or utilize the loan money in an honest and effective way. As a consequence of giving loan without training, it is found that the needy borrowers cannot utilize the loan money properly. Very often they spend the money to meet the personal needs or daily expensed or to pay back another loan. So they fail to repay the loan in time. Therefore it is suggested that before giving loan the borrowers should be given training on how to utilize the loan money and what rules to be followed to repay in time. Then people would be more aware about repayment of the loan.

63 persons (out of the 133 above mentioned) said that they took loan in the name of potato cultivation and agriculture but actually 21 of them used the money for that purpose, 23 persons took loan for small business and paddy business but only 8 of them used the money for that purpose, 8 persons took loan for the repair and construction of house but 6 of them used the money for that purpose. Though 4 persons took loan for mortgage purpose, only 2 persons used the money for it. Only 2 persons took loan with a plan to organize their daughter's marriage. Actually 4 persons spent the money for the marriage purpose. 23 persons took loan for buying cattle, but 19 persons used the loan money for cattle. 2 persons took loan for buying land; here the case is different from others. Both of them utilized the money for the purpose of buying land. 6 persons took loan for buying rickshaw and van. But here it is found that 19 borrowers used the loan money for the same purpose. Two persons took loan for repaying the earlier loan. Here 5 persons used the loan money for repaying the earlier loan. Besides many spend the loan money for different kind of family needs and for the education of the children. Again though there was no plan to buy tractors while taking loan, 31 persons spent the loan money for that purpose. In most cases people take loan without any plan for the expenditure and they spend or invest the money not in the sectors for

which the loan was given. In many cases borrowers spend the money for daily necessities of the family for medical treatment, for the purpose of daughter's marriage, children's education or repayment of earlier loan. These are non-profitable and unproductive sectors. So they fail pay the regular installments. As a result they become more indebted. Result of the research is that such credit didn't improve the economic condition of the people. There is much information where it is found that some people take loan only to repay the

earlier loan. This is a matter of great concern. If some one takes loan from any organization only to pay back the earlier loan, than such person can never improve his or her economic condition in the entire life. Only s/he will be more and more indebted. Concern NGOs should look into the matter. It should ensure that the loan taken for certain purpose is used for the same purpose only.

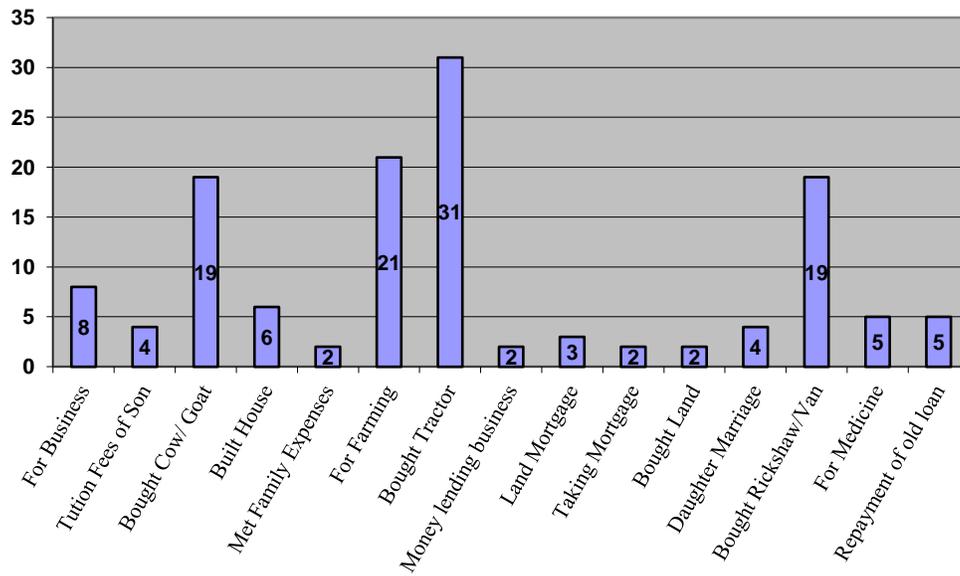


Figure 1  
Purpose of borrowing loan.

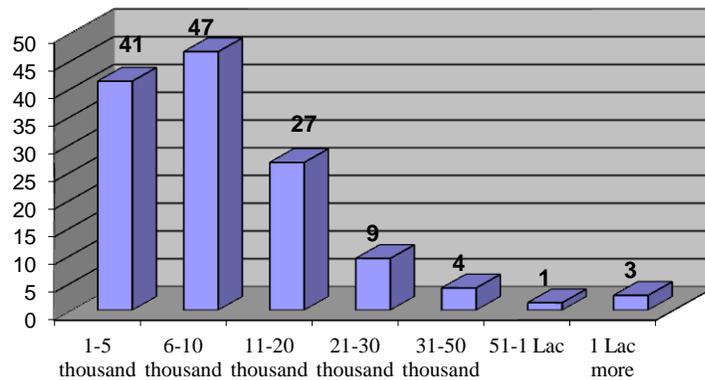


Figure 2  
Amount of loan borrowed by the person.

From the above table it is seen that number of those who took loan amounting 1-5 thousand taka a large in number. Two thirds of the persons interviewed took loan amounting to 1-10 thousand taka each. It is assumed that NGOs donot give loan of big amount. It may be questioned what

role such small amount of money can play in eradicating poverty. There is a tendency noticeable among the borrowers that they think of reducing poverty with this small amount of loan, which is to be repaid quickly.

Table 4  
Possible to repay the credit timely or not.

Those who have repay the credit in time	%	Those who haven't repay the credit in time	%
108 persons	81.2%	23 persons	17.3%
Non applicable for 2 persons, credit is continuing	1.5%		

Table 5  
Reasons for the failure to repay regularly.

Reasons	Number of the respondents	%
Decided to repay the entire amount at one time	2	8.7%
Business failure	2	8.7%
Because of the crop failure	5	21.7%
Death of their husbands	2	8.7%
spent money for the medical treatment of their near relatives	2	8.7%
Crop was lost due to flood	4	17.4%
Could not mention any specific reason	4	17.4%
For various reasons could not work	2	8.7%
Total	23 persons	100%

Most of those were interviewed and who answered the question could regularly repay the loan. 17.3 % of them failed to repay on regular basis. From this information it is understood that village people are interested to repay the loan. But because various reasons and because of the lack of knowledge how to spend the loan money in a proper way, they fail to repay.

By analyzing the information obtained it is found that in most cases loan giving institutions or the banks send notice to the house of the borrowers if they fail to repay. 4 of them told that they were threatened that there would be court cases against them. 7 of them told that loan giving organizations didnot take any action against them. 3 persons who failed to repay told that field officers came to their residence and rebuked them. Two persons said that

field officer took away their cows because of the failure to repay. Only in on special case, court case was instituted against the vice president of the group/society. The loan giving organizations should have carefully disbursed the loan rather than taking such harsh action afterward. The borrowers should have been given training about how to utilize the loan and there should have been strong monitoring system. Otherwise people may develop adverse opinion regarding loan. 3 persons told that there would be difficult in getting further loan, even if the loan is not repayed. 4 persons told that if a borrower fails to repay only once, then new loan cannot be got. 3 persons were of the opinion that if some one of the society/group fails to repay in time, then other members of the society/group faces problem to give proposal for a new loan. 15 persons gave a different opinion.

According to them it is possible to repay the earlier loan by taking a new loan. However most of the borrowers didn't give definite opinion on this issue. But those who failed to properly repay had to face problems in getting new loan.

Analyzing this information it can be concluded that because of the lack of awareness and poverty are the main reasons for the failure to repay the loan. According to the information given by 87 persons the loan did not cause any change of occupation for them. By investing the loan money, 2 persons bought tractors for cultivation, 2 persons increased the amount of crops in their land. 2 persons mortgaged the land, 19 persons did good business and 8 persons bought new land. 11 persons said that since they had taken new loan, so it was not possible on their part to understand whether it would any way effect the change of occupation. In most cases credit did not cause any change of occupation, because most of the borrowers either used the money in their own occupation or just spent it for the daily necessities.

From the information available it appears that 74.4% the borrowers were benefited, whereas 14.3% were financially suffered loses. 11.3% took new loan. So it is not yet possible to assess the result. It is true that some of them gained financially. But there is doubt whether they would be able to successfully invest the gains so achieved. Because the credit did not make any substantial change in the life standard of the people.

Table 6

The changes observed in the social status after getting micro-credit.

Sector of the changes	Number of the respondents	%
No change is visible	70	52.6%
Social status has been raised	42	31.6%
Social status has been reduced	21	15.8%
Total:	133	100%

### Reasons why status has been raised

- Villagers behave well and respectfully with them, as they could improve economically by using the loan.
- Business is going on well so people give them loan if wanted.
- In the time of danger or misfortune villagers come forward for help.
- Villagers know them well.
- Social status has been raised.
- If economic improvement can be achieved then people appreciate it.
- People consider it to be a good thing to take loan.
- Villagers know them as member of the society.
- In past villagers refused to give loan, now villagers have confidence in them and so give them loan.

### Reasons for the downgrade of the status

- Many villagers don't consider it as a good thing to take loan.
- If loan cannot be paid back in time, then people make adverse comments and criticize them.
- If loan cannot be paid back in time, then field officers goes to the house of the borrower and take away the cow, villagers see it and the borrowers become small in the eyes of the people.
- If loan cannot be paid back then neighbors too refuses to give loan.

The table 7 briefly shows the areas of the rural life of the people, which are influenced by the micro credit. 43 respondents (or most of the people) said that the micro credit could be beneficial if it is properly used. 12 borrowers said that, loan can remove family's want. 26 respondents said that it could increase income. 11 respondents said that it could be help while in crisis, danger or misfortune. 2 persons gave the opinion that credit is beneficial for those who have less want. According to the opinion of 7 respondents, people can do business by taking small-scale loan and the opinion of the 5 persons is that with such credit one can start small business.

Table 7  
Changes other than economic changes that occurred in the social life due to credit

Influence of credit in the specific parts of the rural life	Number of the respondents	%
People can invest money for bussiness	7	5.3%
People can increase their income	26	19.5%
People can decrease their family economical lack	12	9.0%
People can invest loan money in varies types of work	2	1.5%
People can use the money for treatment	2	1.5%
People can spend the money for agriculture	4	3.0%
People can use the money for danger period	11	8.3%
Those who can spend the loan properly, loan is helpful for them	43	32.3%
With small amount of loan, it is not possible to increase income	2	1.5%
Only big amount of loan can make any positive change	2	1.5%
Income can be raise by buying cattle and goat	2	1.5%
Borrower who don't use the loan properly, loan is dangerous for them	7	5.3%
Those who have less financial crisis, loan is helpful for them	2	1.5%
Loan can be spend in small bussiness	5	3.8%
Loan money can be invest in paddy bussiness	2	1.5%
Credit makes people aware	2	1.5%
Credit can be invest in money lending bussiness	2	1.5%
Total:	133	100%

The opinion of the most of the respondents is that the task of the NGOs and banks is to give loan to the poor. Most of the people do not have any idea about areas of activities of NGO. 6% of the borrowers took loan without having any idea or knowledge about NGO. If this is the case that means if people don't have any idea about the role and the activity of NGOs, then there are reasons to doubt about the effectivly of NGOs in future.

#### **Supervision over the investment of the loan money by the borrowers**

The nature of the supervision by the loan giving organizations over the investments made by the borrowers could be clearly understood from the interviews taken. A responsible officer of Buro told that the borrowers are explained why they should take loan. They are also explained so that they do not make loss. For each of the BRAC projects there is one local responsible officer in charge of the project. His task is to look after the project every month and supervise. In case of ASA credit supervisors go the areas of the society/group and see whether the loan money is properly

invested. The type of supervision by Proshika is different. Two types of employees work at the field level on behalf of Proshika. One set of employees form organizations and look after the training of the organization and the activities of the society/group. This is done with the aim to increase the organizational power and the activity of the society/group. Another type of employees is involved in the credit activity. They look after the economic side of the organization. They are called economic development worker. They attend the regular weekly meeting of the members of the society/ group and monitor the activities of the borrowers.

From these statements it is understood that different organizations follows different method regarding supervision. But it appears that in this regard all the organizations give main emphasis on those aspects, which is more advantageous for their profit. Their main interest is to get bank the loan money with interest.

#### **Institutional credit: situation of women and development**

Interviews of 100 persons from the village Dhanpara and 33 persons from the village Chalagao were taken on the basis of the answers of informal interview method. Out of the 133 persons 63 were women. From the study and the analysis regarding the degree of the concept, knowledge and the awareness of the women regarding micro credit and the role of micro credit in the social relations. It is found that the rural women were once involved only in the domestic work. Now they being related to various activities conducted by the various development agencies, get the opportunity to know about and understand different subjects. Opportunities have been created for the rural women to know about the credit and their awareness has been increased, as they are more and more involved in the credit activity conducted by the banks and different types of government and non-government development agencies. As they are involved in the process of such credit activity their participation in the meeting and the groups/societies has increased. There are now more scopes for the communication among the women themselves. As a result they have acquired knowledge about the various sources of available loans and they have developed ideas about the effect of such loan. This helps them to solve many problems of daily life and the use of credit for the reduction of poverty has been effective to a certain extent. From various information it is found that the main sources of credit or the medium through which credit is available are banks and the various government and non-government agencies. The medium through which rural women came to know about the sources of such credit were field officers of different banks and development agencies, Members of different societies/groups, Group leader of the society/group, Chairman and members of the union council of the area, Relatives and those who had already got loan

As the rural women are getting more and more involved with the credit activity conducted by the various development agencies, communication among themselves has also increased. The net result of this is that they have the opportunity to know about many other subjects besides the credit. This has helped them to acquire knowledge and increase awareness. As the women become members of the groups through the credit process,

this helps them to get united. Participating in the credit process they learnt about the strategy of credit management. They got training on various subjects and thus they learnt about production strategy of poultry, animal farms, fish cultivation and production of vegetables and seasonal green crops. This has given them the opportunity to come out of the credit barrier and take part in the income generating activities, which have also influenced the process of women empowerment.

Even after so many positive developments, control over the resources and ownership of the assets, earned by the utilisation of the credit have not been established by the women. Besides there is another opinion which says that landless poor class are deprived of this process of development activity. In most cases this class cannot avail the opportunity to get loan. Because they cannot fulfill the conditions for getting loan. In the two villages under this present research, 49.20% got loan after depositing the document of ownership over land. Since women have no property in their name, they cannot get government loan.

Out of 63 persons of the two villages who were interviewed, 52.38% said that the credit did not bring any change in their life. 31.75% of them said that their social status has been enhanced, where as 15.87% said just the opposite who claimed that their social prestige has been downgraded as many people of the villages do not think it proper to join the groups and to take loan therefore.

In case of failing to repay the instalment in time, the borrower becomes small in the eye of other people. When the person to repay the loan, the field officer comes and takes away the cow. When the person fail to repay the loan in time, then even the neighbours refuse to give him/her loan. 52.3% of those interviewed consider that there is no connection between the credit and the social status. According to them credit does not play any role either in enhancing or down grading the social status or prestige. Because they think that the loan if not properly utilised, cannot do any good or cause improvement.

In reality, because of the rules of the loan-giving organization, there is often delay in getting the loan. Also desired amount cannot be got. If the

loan is not obtained in time and if the amount is less than what is needed, then such loan is of no use. Then it is spent for other purposes of the family and it becomes difficult for the poor people to repay. 65.07% of the interviewed persons said that the credit did not have any effect in the change of occupation. In the two villages, 65.07% of the people who took loan did not change their occupation.

So as regards the control of resource and ownership of assets, earned by utilizing the loan, the credit has no influence whatsoever. Because women do not have any scope to have control or authority over the resources thus earned. Though loan comes in the name of women members of the society, still male members of the family control over the loan money. Even any property earned by utilizing the said loan is not considered to be women's property. That means women do not own any property.

Based on various information it can be said that the participation of the women in the micro credit process has brought about changes in the life of poor women, created opportunity for them for self employment and increased economic solvency. As against traditional credit program, both formal and informal, the credit activities done by the NGOs have added a new dimension. Now credit can reach the rural poor people. Various development organizations are conducting credit activity with the goal of socio-economic development by creating employment and by raising the productivity capacity of the poor population. These organizations claim to have played an important role in the struggle for the elimination of

social and economic oppression by mobilizing and organizing the poor people. But it is still difficult to say correctly how far the micro credit played a role regarding women empowerment, since women have not yet been able to establish control over the use of the loan money and to take decision independently. It is not possible to come to a definite conclusion about the issue of women empowerment.

## CONCLUSION

To what extent micro credit plays a role in the rural economy is still a debatable question. But it is true that micro credit may be considered as a step toward rural development and poverty reduction, only if the loaning governmental organizations remove the mismanagement in the process of giving loans and if the non-governmental organizations give up their commercial mentality. This research on the two rural villages of Tangail district reveals this truth.

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