

Small is beautiful and bountiful: Bangladesh, from “basket case” to “development model”?

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Abstract: Bangladesh was termed as a basket case. However, its development experience during the last three decades is a mixed one. On socio-economic performances, its achievements are outstanding, and better than its neighboring countries. Its annual growth rate is lower than India, yet, it has been surprisingly good at improving the lives of the rural poor. But, its political culture seemingly appears to be a dysfunctional democracy. The obvious question is, despite a comparatively lower annual growth rate, and dysfunctional democracy, how the so called “development basket case” has managed a disproportionate poverty reduction for its amount of growth? Interpreting the findings of a number of studies, this paper relates such a development with the social organization of the economy with a strong rural connection on two major dimensions: a. increased agricultural production; and b. small scale business activities. The combined effects of both these rural economic activities are the increased income of rural household, increased enrolment in educational institutions of the rural poor, female students in particular empowering women. It is beyond the scope of this paper to go into detail of all dimensions. It rather discusses (based on the preliminary findings of a study) what role small scale economic activities played in the process. The positive role of small loans is recognized however, as the findings suggest, such loans are not a panacea for macroeconomic growth. Small loans, microcredit, made contributions to the welfare of the poorest of the poor, the rural women, through providing possible means by which they gained control of their economic life. This achievement, in turn, exerted pressure for social change that included child education, women’s participation in the economy and politics. There are also cases of borrowers left worse off. The varied effect, apparently, is due to structures of network relations. Theoretical discussion, therefore, includes a reassessment of how NET (Network Embedded Trust) works including the concept of social capital. It is suggested that the concept should be oriented to broader power structures, which remained neglected in existing studies.

Keywords: Adaptability; Agricultural sustainability; Bangladesh; Microcredit

Introduction

Development is social change, which is a major concern of sociological studies. In development debate, the images of changes are sometime slow, sometime rapid and dramatic. The case in hand, Bangladesh, experienced slow growth. It has been due mainly to reliance on policies that resulted in the misallocation of resources, waste, policy errors (industrial policy, education policy). The policy of urban-based industrialization made the mega cities unlivable (Rahman 2014) and traditional rural handicrafts like weaving, pottery, metalworking etc., decimated. Rural people are emigrating to the urban-based textile industries, as well as to foreign countries. Those still living in rural areas, the poor peasants, find new ways of earning (Rahman 2014). This paper develops the argument for the rural agro-based economy because it can provide employment and hence additional income in rural areas where poverty and outmigration are common. Rural agro-economy is simple, small-scale labour-intensive, based on traditional technology and interaction between human beings and their social and natural environment. When needs around they cooperate and find a solution without disrupting the interacting relationship. They adjust to the changed environment and find new ways to survive.

Bangladesh is undergoing changes. It is urbanising fast. The old interaction between man and nature is disrupted, which has brought a different suite of problems. The pervasive effects of urbanisation can be observed in building boom, traffic congestion, air pollution, bad sanitation, energy crisis, shortage of pure water etc. Dhaka, the capital of Bangladesh and the major commercial and industrial hub, became not only dirty, but a dying city, the most unlivable city in the world. Dhaka is one of the ten largest cities in the world, but has the infrastructure of a one-buffalo town.

Given the problems of promoting industrialisation and urbanisation, the emphasis of this paper is on rural economy. Its focus is on agriculture and small scale entrepreneurial activities where microcredit plays a very significant role. The share of agricultural output and small scale business in terms of GDP has declined in most countries. The picture is different in Bangladesh. There, agricultural products now have enormous economic significance. Not only employment in agricultural activities and small business provided the livelihoods for the majority of the rural families, the rural economy added more to the GDP of Bangladesh. The Economist (February 2013) claimed the path was through the field. Most studies also confirm the claim.

Bangladesh was termed as the "bottomless basket" in the 1970s. Right after its inception as an independent state in 1971 many doubted the new nation's potential. Its economic growth throughout the 1970s and 1980 has been very poor, due to its devastated infrastructure, poor natural resources, and wretched politics. Last three decades, since 1991, however, show considerably positive development. Bangladesh has made some of the biggest gains in the basic conditions of lives of the common people "ever seen anywhere" (The Economist February 2013). The major indicators of achievements are income per person, life expectancy, education and health, especially for girls. Enrolment of girls in primary schools is more than 90% (doubled in less than 10 years). Women can expect living longer than men, and remarkably, life expectancy has been as much among the poor as the rich.

In 1975 the total fertility rate was 6.3. In 1993 it was 3.4, and in 2010 it was 2.1. Rural women now have better health and more autonomy, thanks to successful family planning programs. There are a number of other factors, which have contributed to the process of improving the quality of life and reducing poverty; the spread of primary education, more girls are getting education, women becoming earning members in the family etc. Garment industries over the last two decades have put money into women's hands. Women are more likely to spend the money on education, health care for their children and they save more than men. Access to micro credit opened new avenues for women for earning, including new forms of cultivation, a new method of agricultural production. All these have their share in restraining the fall in rural household incomes.

The GDP growth of post-independent Bangladesh during the first two decades (1971-1991) was 2% a year. During the following two decades (1991-2011) the rate increased to 5% a year. The achievements in education, health, women empowerment are not a simple result of increased income or GDP per capita. The annual growth rate in Bangladesh is lower than India (about 8% yearly during the same period) but the gains of Bangladesh are greater than India. During the last four decades, 1971-2011, rice harvest more than trebled, though the area under cultivation increased by less than 10%. This year the country once supposedly doomed to dependence on food aid became a small exporter of rice.

Yield alone is not the whole story. Experiments with new varieties of vegetable, fruit show the innovative nature of the rural peasants. Floating vegetable cultivation is one example of innovation in agricultural development. In the rainy season, most lower areas become flooded, due to rain and water coming down from the Himalaya. A number of the world's largest rivers are flowing through Bangladesh. Due to siltation and continued erosion, these mighty rivers become overflowed and most low lying areas go under water contributing to shrinkage of arable land. The peasants cannot cultivate enough vegetable according to their needs and for exchange. There are some fallow ditches all over the country. The peasants make use of those ditches for floating cultivation. After cultivation of vegetable, the peasants are using decomposed floating bed as organic fertilizers, producing seedlings of different crops on floating bed and they are minimizing cropping season in the rainy season when the main land goes under water. This new method has contributed to increased food intake of poor people, ensured them nutrition security, as well as provided the poor a new source of income. What is required is to set an optimum size long bamboo on floating water hyacinth. One or two persons stand upon the bamboo and set sequentially according to expected size, using pressure of legs they make the bed compact, making the bed thick. After preparing the bed the bamboos are removed from under the bed. The hyacinths require 20-25 days to decompose. After decomposing the peasants sow and when seedlings appear they transplant those. Small balls are prepared by decomposed hyacinths, excess water is extracted from the ball by hand pressure before transplanting.

Poor but impressive

Wealth and health

		Bangladesh	India	Pakistan
Income per person, \$PPP*	1990	540	874	1,200
	2011	1,909	3,663	2,786
Life expectancy at birth, years	1990	59	58	61
	2010	69	65	65
Infant (aged <1) deaths per 1,000 live births	1990	97	81	95
	2011	37	47	59
Child (aged <5) deaths per 1,000 live births	1990	139	114	122
	2011	46	61	72
Maternal deaths per 100,000 live births	1990	800	600	490
	2010	194 [†]	200	260
Infant immunisation rate, %	1990	64	59	48
	2008	94	66	80
Female (aged 15-24) literacy rate, %	1991	38	49	na
	2009	77	74	61
Underweight children, % of total	1990	62	60	39
	2007	36 [†]	44	31

Sources: World Bank; UNICEF; WHO; national statistics

* Purchasing-power parity [†]2011

Table 1. Bangladesh Development index compared with India and Pakistan

There are hundreds of fallow ditches in Bangladesh. In those ditches and rivers the floating cultivation now is widely practiced. After cultivation of vegetables the peasants are using decomposed floating bed as organic fertilizers. They are also producing seedlings of different crops on floating beds minimizing cropping season when the main land goes under water. And it is one among other activities which NGOs are doing that make Bangladesh's way of fighting rural poverty a success. Most NGOs gave the rural poor access to small loans so that they can start with small-scale business activities.

Microcredit

It started with an initiative to help destitutes (affected by the 1971 war with Pakistan). The idea of microcredit, first introduced by BRAC (Bangladesh Rehabilitation Assistance Committee,), later, the Grameen Bank (Rural Bank) made them work by targeting them on women. The growth of both these institutions has been explosive. Grameen has 8.4m borrowers and outstanding loans of over \$1 billion. BRAC has 5m borrowers and loans of \$725m. The poor account for roughly a fifth of the total loan portfolio of the country, an unusually high proportion (The Economist February 2013). Microcredits have spread around the world. The benefits have been both exaggerated and attacked. Their impact in Bangladesh has been mostly positive. Studies show people with similar incomes and household assets, the borrowers of microcredit experienced a decline in poverty than those who did not borrow. Among the first group the poverty rate fell ten percentage points, from 78% in 1998 to 68% in 2004. Among the second, poverty still fell, but only half as much, from 75% to 70%.

Microcredit and women entrepreneurship

The success of microcredit in improving the welfare of poorer women, especially that of the Grameen Bank, in Bangladesh, drew attention of the world. It led to a renewed interest in aid policies and served as an inspiration for many researchers. Most research confirmed the positive performances of the Bank (Mosley and Dahal 1987; Hossain 1988). A heavy investment in inculcating its vision and its organizational culture explains its success (Holcombe 1995). Its vision can briefly be described as a set of values, a belief that poor people, who are regarded as problem, can be resources.

The vision of microcredit is not shared by all. Skeptics doubt both the concept and the precepts. Some incidents contributed to increased skepticism. In Bangladesh, a few borrowers who were unable to pay back loans in due time were forced to sell whatever they had. The most recent crisis to hit microcredit was in some states in India. In Andhra Pradesh, over-indebtedness claimed 100,000 lives of destitute farmers. Suicide due to indebtedness? They had not all receive microcredit financing? Some had other kinds of debt? Following this and some other untoward incidents the government of India took the initiative of revising the entire framework around microcredit. Was that part of a broader initiative to address indebtedness in agriculture? Many economists claimed that microcredit has taken more of the aid budget but it was not the best way to help poor and it cannot make any macro difference (Buckely, 1997; Rogaly 1996). They further asserted that microcredit in fact sustained poverty. Bangladesh (the country of its inception) and Bolivia, are widely known as the two countries with the most successful microcredit programs. Yet they have remained two of the poorest countries in the world (Pollin, Robert 2007). The 2007 UNDP Report on Bangladesh traced the origin of microcredit in the profit-making venture of some big NGOs to the doorsteps of international financial institutions. The government of Bangladesh termed it a debt-trap. Micro credit came under critical scrutiny.

There is a new concern about its worth in terms of outreach (depth, breadth and scope of microcredit) and sustainability (implying permanence). This paper addresses these issues and makes further contribution to an ongoing discussion on what microcredit can do for the poor.

In the section to come, microcredit is seen through the lens of its effectiveness in terms of outreach and sustainability. It includes, first, a brief discussion on credit relations in rural Bangladesh. Section three, focusing Grameen Bank and its exclusive goal of making the rural women economically independent. Section four describes how its performance, in turn, exerted pressure for social changes including women's levels of education, empowerment and participation etc. These positive impacts however were not welcomed by all in the society. Vested interest groups look upon economically independent poorer people as a threat. Religious based political parties resist any effort to make women economically self-sufficient. The major challenge to microcredit is how and to what extent it can withstand the resistance from these interest groups. This is the subject matter of section five. The concepts and practices of microcredit can be used as mechanisms for the effective involvement and participation of unused human capital. In development theory and research human capital, the social dimension of economic activities and growth is recognized. This recognition has inspired recent approaches to development, the

microcredit model is one. Researchers and policy makers increasingly rely on social capital without relating it to the broader structures of power relations.

Microcredit: Virtuous or vicious circle?

The ongoing debate on what microcredit can do for the poor calls for reinvestigating the performances of microcredit organizations. There are a good number of research works that evaluated the performances of microcredit. To justify further study, I have taken two key concepts as the basis of investigation; outreach and sustainability. Many studies, in Latin America in particular, were based on these concepts (Yaron, 1994). Outreach refers to target groups, geographical areas, social values of the output of microcredit organizations in terms of worth to borrowers, including depth, breadth and scope (Schreiner; 1998; Gonzales Vega, 1998). Sustainability refers to the permanence of social goals including services offered (for example welfare of borrower), methods used for providing services, and possibility of maximizing expected social values. Sustainability of microfinance programs depends on the tendency of improving welfare of most borrowers. (Rhyne, 1998).

Depth, breadth, and scope are three major aspects of outreach. Depth implies the value that a society attaches to the gains from microcredit programs. An ideal type example would be the likelihood of a society valuing the net gain from a small loan for a poor woman more than the same gain for a relatively well-off person. Deeper outreach increases social values. The more access to credit poor people get, the breadth of outreach affects the number of poor people served. The scope of outreach refers to the types of contracts, between the lender and the borrowers, savings as conditions for loans, for example. Deposits by whom? The borrower? strengthen the incentives for sustainability (Navajas, S; Schreiner, M; Meyer, L.R; Gonzales-Vega, C & Rodriguez-Meza, J: 2000. World Development Vol.28,No.2,pp.333-346).

We can say little about the performances of microcredit without understanding what credit means for the poor. The need for credit has always been felt among the poor in rural Bangladesh. But, they have limited access to credit and they also have a negative attitude towards credit. Government credit programs have been small and ineffective compared to their needs (Lovell 1992; Holcomb 1995; White 1991). Commercial banks do not reach the poor simply because, the poor are not considered to be borrowers of commercial interest. Assessing the performances of microcredit requires investigating whether and how microcredit complemented the requirements of credit among rural poor people. Credit and credit relations deserve a discussion in their own right.

Credit and credit relations in rural Bangladesh

It is a general attitude (People) in Bangladesh(, generally, think) that credit is not good. This is due to social values, that reflect previous experiences, and credit relations. Credit may force people to live in debt, which is not desired, and looked down on by others in the society. In the past, the group of people who lived on interests were called "shudkhor", or social parasites. They were small traders and money lenders, who used to lend money at high rates of interests. Bigger amounts of loan from commercial banks required connections, political affiliations etc. Credit added more to the wealth of the wealthy. Poor villagers and peasants, could get loans from the relatively rich land owners. Borrowing and lending fostered vertical relationships among the villagers characterized by dependency of the poor peasants upon the relatively rich. The dependency is sustained in present Bangladesh.

The great majority of rural people depend on agricultural activities. Most of them are deficit households, owing both to natural conditions (the uncertainty of harvests because of climate) and social relations (patron-client relations based upon ownership of land and the right to cultivate land). Deficit households have to borrow, for their sustenance for the time being, sometime cash and sometime staples like rice, lentils etc, from their neighbors, a few surplus households nearby. Extra needs may arise due to dearth, sudden illness of a family member, wedding ceremony of their children etc. Kin relationship is the first choice when one thinks of asking for help in such situations. One can demand a favor from kin members who are relatively rich. This is due to a relationship of reciprocal obligations (Jansen 1990; Rahman 2010).

The norm of reciprocity, both of kinship and of neighborhood, does not allow them demand any interest on loan and exert any pressure on the borrower for repayment. People are socially obliged to support a kin or a fellow villager in need. Like family, the kinship system defines rights, duties and status of kin members (relatives as they are called in Bangladesh). Kinship, a network of relations among families, is a reciprocal and horizontal relation even though a family may be better-off than the other. A wealthy family cannot deny the bonds of kinship. If some kin members are poor and have lower status, they support them by lending. Lower status of a kin may be threatening to one with higher income and status.

A rich family may also show its consideration by extending a favor to the members of the village society, called *samaj*, whenever they ask for it. In the absence of these sources, they the villagers turn to small traders and money lenders (Jansen 1990).

A favor, or a credit, is regulated by the norm of reciprocity, which operates in more than one dimension. Social obligation is one aspect. A rich man takes other factors into his consideration when he extends loan to the poor or do them a favor. Any favor, including giving credit is one important way to maintain his dominance and to secure the loyalty of the person who receives a favor. The loyalty may be used for pursuing political interests and for exercising power. The norm of reciprocity also specifies that returning a favor should be roughly in proportion to the favor. If the favor in return falls far short, the attribution of ingratitude inhibits further exchange. The poor borrower shows his gratitude by expressing his loyalty, and extending his support in political matters, to the rich lender, as a strategy for their survival. This is also at the root of uneven distribution of power. The nature of flow of favor or credit determines the position of the person who gives credit and who receives it. Credit thus expresses relationships between households "as part of survival strategies of the poor and investment strategies of the rich" (Jansen 1990). This encourages and perpetuates poor peasants' dependence (social and economic) on wealthier villagers (White 1991). The richer household directs much of his efforts towards an imposition of its own conditions in the give and take of the relationship and in circumscribing and controlling the scope of action of the weaker party. A poorer household may be forced into debt if it has no other option than to sell the small piece of land it owns (Jansen 1990:10).

Agriculture is the major way of living for the vast majority of the rural poor. Prices of rice, lentil, oil seed etc fluctuate due to seasonal deficits that grip the countryside every year, some parts more severely than others. It is due to economic activities in rural Bangladesh that revolve around agricultural circles. There are two major periods of seasonal deficits; one from September to October and the other from March to May (Jansen 1990; Hossain 1996). December-January is the harvest season and prices of crops usually are low. A dearth may arise during lean season. Flood or drought may cause bad harvests followed by a further deficit in supply of staples and price hike in the lean season. Shortage in supply is one reason, the other is hoarding (Boyce 1983; Ravalion 1990). Traders hoard crops with the expectation of selling those later at a higher price during the lean season. Very few rural house holdings produce crops that can meet their demand for the whole year. The lean season does not cause problems for a land owning rich family because of a surplus, or at least they have a stock necessary until the next harvest. Most poor households have to establish credit relationship with the few surplus households in order to cover the gap between the harvest season and lean season, between their income and expenditure (Jansen 1990:94).

Ownership of land and the right to cultivate land is based upon an arrangement of share-cropping system. The arrangement allows the land owner take 50% of the harvest. A land owner, let us say, owns 20 acres of land, which he leases out to 10 peasant households. If the yield per acre is 500 kilo grams of rice, as land owner his share is 5,000 kilogram of rice. A peasant, cultivating 2 acres of land, with his 50% gets only 500 kilograms of rice. He sells a part of his share to cover the expenses of maintaining cows, purchase of fertilizers etc. The rest he keeps for the sustenance of his family members. With the lean season approaching in September, the peasant, in acute need, borrows BDT 1000 ((equivalent to U.S.D 15, present exchange rate) from the land owner or a money lender. This amount is used for purchasing 25 kilo gram of rice. He promises to repay the amount in the coming harvest season. The price of rice may be as low as BDT 25 a kilo gram. He will have to sell 40 kilogram rice to repay 1000 Taka. He may also buy 2 kilogram rice, at BDT 40 per kilogram, from a grocery store in the locality on credit. He will require 3.5 kilogram of rice to sell in order to make the payment.

For a higher amount of loan precious goods and land are mortgaged out. A moneylender usually lends money against gold as mortgage. Traditional moneylenders were small traders, called *Marwaries*, and professional moneylenders called *kabuliwallas* (a group of people from Afghanistan spread all over India, lived mainly on interests from the borrowers). Both these groups are not in lending business now as a result of partitioning India in 1947, when *Marwaries* went to India, and the *Kabuliwallas* left Bangladesh after 1971. There was a third group, the jewellers. They had a double role in credit business; a source of credit and buyers of mortgaged gold. Moneylenders used to sell gold ornaments, kept as mortgage, to jewellers when borrowers failed to pay back loans. Following an informant, the family of Dr. Yunus had jewellery business. He knew the practices of lending and its negative consequences for the borrowers very well. That could have influenced Dr. Yunus.¹

¹ Conversation with informants, January 2011, at Chittagong University, where Dr. Yunus was professor.

In present rural Bangladesh, for a bigger amount of loan, land is kept as security. The usual contract is giving the right to cultivate and the full harvest to the lender until the loan is fully repaid. This type of indebtedness acts as a levy on the borrower, it may take many years to repay, leading to further debt.

All these point to the fact that the demand for credit has always been acute amongst rural peasants. Commercial banks do not reach them since the peasants cannot meet the demand of collateral. There are government banks, Agricultural Bank, national cooperative Bank financing agricultural activities. Borrowing from government banks requires connections, which most poor peasants lack. Government credit programs in fact promoted patronage. In 1984-85 agricultural credit of U.S.D 300 million was advanced through government banks. The political parties in power used this credit to buy public support by advancing loans to rural peasants. There was no compulsion to repay the loans. Local party men even announced some forgiveness of loans. There were also graft charges against Government credit programs. A recent investigation reports that the government's attempt to facilitate credit to farmers failed. Despite clear government directive to open farmer's bank accounts across the country with a nominal deposit of BDT 10 (U.S.D 0.35) farmers of some villages, in southern Bangladesh, were denied the opportunity. Bank officials were forcing farmers to open accounts with a minimum deposit of BDT 1,000 (U.S.D 35) with additional BDT 100 to 300 taken as bribe. Only in Chalna branch of Sonali Bank, a government bank, 862 farmers had to pay additional money (The daily Star, October 10, 2011).

The adverse effects of informal credit relationships on borrowers and the weaknesses of formal credit programs (both government and commercial banks) placed demands on NGOs. The major pressure came from their clients to provide credit services to them. Donors also wanted to create small business enterprises paving the path towards capitalism. Credit was looked upon as a remedy for cash-flow constraints. Credit became "virtually a sine qua non of NGO programs" of big NOGs like Grameen Bank, Action Aid and BRAC in particular (White 1991). The deprived position of women drew extra attention. Women were thought to be more responsive to development initiatives and responsible borrowers. What did microcredit did for the poor women? The question is addressed in the following section. My focus is on Grameen Bank, the most celebrated microcredit institution and a model for efficacy in rural credit program. It is Grameen Bank that came under attack from skeptics.

Grameen Bank: The vision and values

Due to the cyclone in 1970 and the war with Pakistan in 1971, poverty became pervasive in Bangladesh. The government of post-independent Bangladesh had limited resources. Non government helps were needed to provide services to the poor villagers, women in particular, to give them job, education, health services, child care etc. The first two big NGOs were Gano Shastho Kendro, which took providing health services to the rural poor as its major task, and BRAC, which started its work helping resettle refugees coming back from India. After a year of relief activities BRAC launched a program of integrated community development, targeting only the poorest in rural areas. The major principles that guided BRAC were self-reliance, people-centeredness, sustainability, and women as entrepreneurs. The essential components of an overall rural development program included savings and credit activities, including a self-supporting banking institution (Lovell 1992:1). BRAC now operates as one of the world's largest nongovernmental financial intermediation programs with the rural poor.

Grameen Bank was established in 1976. The first seven years were years of experimentation with an action research project aimed at stimulating income generating activities among poor people (Holcomb 1995; Yunus 1998). It directed the credit flow to poorer women, provided them with some basic skill to make profit out of small capital. It demonstrated that poor women were good credit risk and created its image as "The Banker to the Poor". Very soon it brought thousands of villages under its operation. In 1991 Grameen Bank operated 808 branches in 19,984 villages, serving more than 884,000 members. By may 1994, it had 1042 branches, 1,915,00 members in 34,243 villages. Assuming that the benefits of savings and credit reach the whole family of 5 to 6, the beneficiary population would be more than five million (Holcomb 1995). After about 30 years the Bank now has more than 8 million borrowers, and more than 30 million individuals are beneficiaries (assuming the smaller size of family, of 4, in present rural Bangladesh). Grameen Bank thus provides the empirical evidence of the theoretical framework for outreach, and the aspects of depth, breadth and scope. In the following I elaborate this.

For Grameen, both loans and deposits (savings) matter equally. Levels of savings and expansion of economic activities by borrowers clearly reflect the stability (sustainability) of membership. Those further explain Grameen's another significant outcome i.e a high rate of loan recovery. The skeptics also agree on this performance. It achieved as high as 98 per cent recovery. For bigger commercial banks it is as low as 35 per cent, the highest being 65% (Hossain 1988). Studies report increased household income of the borrowers (Jansen 2010). In 1980s, the members of Grameen Bank had 43 per cent higher income than that of non-members (Hossain 1988). Another success is that

it has managed to derive profit out of lending small sums to millions of poor borrowers. The critics say, Grameen Bank makes profit by lending money to the poor at a high interest rate.

The critiques have a point, microcredit organizations charge higher rate of interests than government and commercial banks. The Grameen Bank's management attributes a relatively higher rate of interest to higher costs involved in administering small loans. I have observed that the Grameen Bank maintains direct contacts with the borrowers and give them training. This requires a huge staff and involves high operating costs, which are partly covered by interests and partly by earnings from low cost funds from the Bangladesh Bank and donor organizations. The rates of interest in government banks and commercial banks are lower, but those demand collateral. The application process is also complex. And, loans from those banks require bribery. Thus, transaction costs are higher in those banks. The bank staffs also show bias against giving small loans because there is little to expect from poor people.

The borrowers of Grameen Bank I talked to did not complain about the rates of interest. They told, their earnings allowed them to make weekly repayment of loan including interest and deposits. Critics cite the evidence of multiple borrowing that a single borrower takes loan from one NGO for making payment of another. I found, and it is a known fact, that borrowers require payment of a small amount every week to the bank and there is no one-off payment. It means that borrowers must invest in something that would generate income. In my survey, 19 borrowers, out of 22, are doing this. They have expanded their small income generating activities to more entrepreneurial activities. Spending the borrowed money on personal consumption would lead to increase in non-performing properties. I found only one respondents used the borrowed money for her personal consumption (Case #4). It means, it is not a general trend, only a few members may misuse the loan.

The tale of Grameen Bank is now the most familiar one: the phenomenal repayment rate; the documented ability to reach more than 8 million rural poor households; small loans that can make a difference to a family's wellbeing through increasing income of whom more than 90 per cent are women. How to explain its success story?

My findings underscore the importance of joint efforts, of the bank and the borrowers, and of the bank and the state, in combating poverty. A vast number of poorer women managed to come out of poverty. It was not microcredit alone that enabled poor borrowers becoming economically independent. Microcredit was one path which helped millions of poor to escape poverty. More avenues and actors were there, and would be required, to facilitate the exit as well as for the expansion of the scope of its operation and its sustainability. Borrowers were mobilized and organized to form informal networks that fostered cooperation among the members, created trust and responsibility. Networks, *samities*, facilitated deepening of the formal market, "borrowers' interactions at group meetings facilitated the ability to establish and strengthen networks outside their kinship groups and living quarters" (Lisa Lawrance 1998:2). Grameen's relationship with the state also was of crucial importance. Although, Grameen's recent relation with the government is conflicting, its most successful microcredit programs have been when it complemented with the state doing its job in terms of stimulating small entrepreneurial activities among women. After seven years of experimentation, in 1983 Grameen became a government registered bank. In 1990, it moved from government direct control. The ordinance of 1990 allowed the Bank to elect its Board of Directors, nine out of twelve members from the borrowers. Three members are nominated by the government.

The findings of this study further accord the assumption, of the new economic paradigm that emphasizes the idea of social business, that the only way out of poverty for the poor-particularly for the women, who strain under the yoke of unpaid domestic labour- to work and earn their own. Some academic would claim this complements the supposition of the neoliberal economics, others would claim its association with the new institutionalism. I think, the Grameen model is a combination of both these perspectives. Microcredit and building social business imply, in Dr.Yunus's words, a new kind of capitalism that is meant to serve humanities most pressing needs (Interview with Dr.Yunus, Lofoten, September 2009). The microcredit sector further offers an instructive context for exploring the different programmatic implications of liberal (Putnam) and Marxian (Bourdieu) theories of social capital. Paradoxically, both perspectives find expression within the dominant "Grameen model" now endorsed by most of the mainstream development agencies.

For the Grameen model, of crucial importance is the recognition that any individual is a potential person and each individual has much more hidden inside, that must be given chance to be explored. What requires is creating an environment that would enable her or him to make use of her or his potential through their interactions (Interview with Professor Yunus, Lofoten, September 2009). Access to credit is necessary but not a sufficient condition. Borrowers must invest loans in income generating enterprising activities. They should be provided with knowledge where to invest and skill how to earn. Spending the borrowed money for personal purposes would compel the

borrower to search for other sources of credit to repay the previous loan. This was a major weakness of government agricultural credit program, which has been in the hands of a number of government and semi-government cooperative banks. As mentioned earlier the government attempt at combating poverty through credit was dashed and promoted patronage. The political interests used credit to buy public support only.

The recognition of individuals as potential persons is the core of Grameen's vision, which distinguishes it from government- and other non-government organizations. Its vision further includes a set of values and its organizational culture: Looking at poor people not as problems or liability, but as resources. They must be supported, empowered and enabled. For the effective realization of these values it introduced an organizational culture that rests heavily on devolving responsibility and authority both to its field staff and to borrowers. The Bank's top management gave both these groups responsibility and authority for the basic work of lending and collecting savings and repayments. Senior management of the bank can rely on decentralized decision making on basic work. It is possible since its values are widely understood and shared both by its staff and borrowers. The management thus fostered staff participation, and empowerment in the long run, within a framework of shared values. In interviews, Dr. Yunus repeatedly claimed that both these groups, because of shared values and their joint efforts, have demonstrated effectiveness in investing credit for productive purposes, creating new demand for, and value of, their products.² This claim is endorsed by earlier studies on microcredit (see for example Holcomb 1995; White 1991).

Right from the start Grameen relied on savings collected as a condition for membership and for access to loan. It gave the borrowers training, provided them with skill and know-how in order to add value to what the borrowers produced. Initially, loans were given to individuals. This appeared to be problematic owing to lacking know-how at individual level and self discipline. This experience led to a new idea of giving loans to groups. Loans were given to groups of ten or more. The purpose was to foster collective responsibility. Those also appeared as ineffective. Members lacked a sense of collective responsibility. They seldom took part in group meeting. A new experiment was undertaken. Borrowers were organized in groups of five members and several small groups in the same village. They were brought under the administration of a centre. I observed that respondents maintain direct contact with the field staff. They can talk to the staff whenever they need any advice or new loans (Holcomb 1995). Direct contact can be problematic in some situation. Though not intended, I had to accept the presence of a field manager when I was interviewing two members in Galachipa. Their presence, I guess, influenced them, had impacts on what they told me, and thus on the quality of my data.

The new way of organizing borrowers, in combination with stimulating business activities through training the members as small entrepreneurs, gave positive results. The practice got stability. Borrowers invest loans in poultry farms, fishing ponds, vegetable production etc. Returns are distributed amongst the members of the groups, and the groups are responsible for paying back loans. The interest rate is 16%-18%, loan default is less than 5%. I asked: What happens if one fails to pay one installment, and repeated failure to repay. The field manager answered, one can get new loan for making payment of the old debt. Grameen takes many factors into consideration. Denial of further loan may force the borrowers to look for other sources of credit, leading increased indebtedness, and other sources of income including prostitution.

The Grameen Bank, by allowing poor and disadvantaged people access to small loans and providing them with skills, helped them to take control of their own lives, make something of themselves, and improve the lot of their families (Holcomb, 1995; Jansen, 2010; Lovel, 1992; White, 1991). The following cases add more evidence.

Case#1. Rowshanara (Hemayetpur village, Manikganj district, in Dhaka division) has been a member of *samity*, a group of five women, for nearly 27 years. Her first loan was 2000 taka (equivalent to 50 U.S dollar in the 1984). She started knitting *patis*, a kind of mat made of cane, in cooperation with other four in the *samity*. The *samity* sold *patis* in the market nearby. Later, they received orders from other families in the village and neighboring villages. All the members paid a small amount to the bank, as partial repayment of the loan, and deposited a small sum as savings. Rowsahara' accumulated savings helped her borrowing bigger amount which she used for expansion of her business. Now she owns a tailor shop. She employed her nephew as the tailor. Her two daughters are working in a garment factory in Dhaka.

Case#2. Shefali Rani (from a village near Chittagong University, Chittagong Division) took first loan 1000 taka (equivalent to 25 U.S. dollar) 22 years ago. She invested in Bettel leaves plantation. Earning from this small

² Interview in Dhaka, January 2008, and in Lofoten September 2009.

investment was used for her daily needs. Her initial saving, during the first 3 years, was 10 taka every week. Later, the following years, she saved 30-40 taka weekly. Increased savings allowed her bigger loan from the bank. Now her loan is 200,000 Taka (nearly 3000 U.S.dollar, present exchange rate). She owns a stationary shop, which is run by herself and her son. She pays 3000 taka every month as repayment of loan including interest (18.5%) and monthly savings deposit of 600 taka. She has two daughters; one took a bachelor degree from the local women's college, now working as a teacher at the Primary School in the village. The eldest daughter lives in Malaysia with her husband.

Case#3. Arati Sarkar (Galachipa, Patuakhali district, Barisal division) has been a Grameen member for last 16 years. Her first loan was 3000 taka (60 U.S dollar in 1995). This was her start capital for buying and selling mats. Increased income and savings allowed her to expand business. Now she owns a furniture shop, making and selling furniture made of cane. Her present loan is 75,000 tk (1100 U.S.dollar present exchange rate). She makes payments in installments of 1000 monthly, 970 taka loan repayment and 30 taka savings deposit.

The cases cited above involved, almost exclusively, are good examples of what microcredit can do for the poor, for women in particular. In my survey, all the borrowers are women and they have a high rate of repayment. Many economists and researchers have pointed out that women are easy prey for microcredit organizations. They are particularly vulnerable to the brutal loan-collection system of microcredit institutions. Economists are also skeptic to collective liability. Susan F. Feiner, Director of Women and Gender Studies at the University of Southern Maine, points out that the 'communal nature' of the microcredit creates the problem of collective liability, where one women's failure to repay her loans will result in collective punishment for the whole group. Some other found microcredit institutions using methods of collecting money that include assault and threats from the local money-collectors in the community and thus degrading women. They claim the methods add more layers of oppression to the world's most destitute population. In my survey I found three defaulters. They diverted borrowed money to nonproductive purposes. They told, pressure came from the *samity*, the group, and from the bank. But they were never been assaulted or threatened by any bank staff. There were other sources around them. They took more loans from them but, instead of repaying the first loan, they rather used new loans for purchasing T.V, cell phone etc. Interests increased, which forced them to borrow from a third source. They became over-indebted. In one case, the borrower thought of her political connections, which she used in forgiving the debt, at least for the time being.

Case#4. Ruma Begum, also from Galachipa, Patuakhali district, was member of Grameen for about 8 years. Two years ago she failed to repay her loan of 10,000 taka, with accumulated interest 16,000 taka. She started with selling *Bhusha mal*, daily necessities of village households. She bought commodities on credit from the wholesale market in Galachipa. Instead of repaying the loan and making payment for goods she bought for resale she used the money for purchasing a television. She, as a local member of a major political party, was a member of the local municipality. She thought she could make use of her party influence waiving the debt. She is in debt, but there is no pressure from the bank for making an immediate payment.

Loans are given to groups and groups have joint liability for physical collateral. But the claim that one borrower's failure to repay loans results in collective punishment for the whole group does not hold, at least there is no evidence of such a claim in my survey. Furthermore, women receive credit collateralized by group guarantee, not by tangible assets. It means the lender cannot claim the borrower's property if the borrower fails to repay loan. On the other hand, at least theoretically, the women who participate in group lending will identify collectively to resist their common oppression. In the above case, the group stood by Ruma' side and pleaded for forgiveness, however, the more effective guarantee was the borrower's identity as a party member.

The cases are evidence of changed status of women. What impacts such changes at individual status did have for the community? In addressing this question I allow myself to present the findings of an impressive study by Dr.Eirik Jansen. Jansen observed changes that have taken place in a village near Dhaka. During 1976-1980 Jansen participated in a large poverty study carried out by the Bangladesh Institute of Development Studies in the village of Bhaimara. During his recent revisit to the village he found "it was not the tractors, scooters, taxis and motorbikes that characterized the changes in the village", but he saw "no more houses with straw on the roofs". All the houses have corrugated iron sheets on the roofs, the walls are built with bricks and on solid elevated concrete foundations. Almost all the 100 families in the village are provided with electricity, 40 of them have their own television. Other visible improvements were access to education, clean water, sanitation system etc. The primary school is refurbished. Many families have their own water pumps in the courtyard and toilets. In Bhaimara there are 52 women active members of Grameen Bank and 40 of BRAC. Microcredit and different types of training gave women the opportunity for earning and thus becoming more independent and confident(Jansen, 2010). Bhaimara,

Hemayetpur, Galachipa are not three chapters of one success story. The impact of microcredit is now felt throughout Bangladesh. Microcredit programs of Grameen Bank cover thousand of villages.

Can microcredit make macro differences

In Bangladesh, during 1980-1988 there was an annual average growth of GDP of 3.7% (World Bank 1990a). Economic growth barely kept with population, which increased at an average 2.8% over the same period. In 1985-86, 51% of rural population and 65% of urban population were below poverty line. As late as 1990, Bangladesh was among the five poorest countries in the world (The World Development Report 1990). According to the 1991 Human Development Report GNP per capital was 170 US dollars, infant mortality was 116/1000 live birth, adult literacy was 68%, life expectancy was 52 years. 84% of the population lived in rural areas, their predominant economic activity was agriculture; 60% landless depended primarily on the sale of their labor for survival. A restrictive gender division of labor limited, the ideal of female dependence on male provision limited women's room for maneuver.

Both observation and research findings show that rural households in Bangladesh have undergone major socio-economic and demographic changes. In Bangladesh, during 1970s, more than 80% of rural people lived below the poverty level. Today, it is a third of the population. A recent survey of 62 villages (Funded by Research and Evaluation Division of BRAC found the average size of rural household 4.93 in 2008 which contrasts 5.32 in 2004, 5.67 in 2000 and 6.15 in 1988. This decline is partly due to migration, partly to a fall in the ratio of children in the total population etc. As I look at it, the most significant factor is the possibility of women to make decision by their own, when to get married, when to have children and how many. This is empowerment and thanks to microcredit. Furthermore, the proportion of people aged 65+ had been on a rise- implying longer life expectancy. Presently, for the first time history the life expectancy for women is higher than men.

A positive development is often attributed to good governance. Bangladesh is not an example of good governance. Bangladesh has a mixed record of Governance. In the most recent governance data (World Bank Institute) for 2005, Bangladesh scores poorly on all six indicators; political stability, regulatory quality, control of corruption, government effectiveness, and accountability. And its performance has worsened on all six indicators between 1998 and 2005. Despite poor governance, Bangladesh enjoyed relatively strong economic outcomes. Expansion of garment industry, increased productivity in agriculture sector contributed significantly to such changes. NGOs engaged in microcredit have their shares, both for a vibrant private sector and for the state's partnership with NGOs in delivering social services and in managing natural disasters. More importantly, microcredit has been appreciated for its contribution in breaking the cycle of poverty (Catherine H. Lovel:1992), for the growth of self-confidence among women in rural Bangladesh, for taking financial services to the doorsteps of the poorest of the poor, which were beyond the practices of the traditional larger credit institutions. Grameen as a microcredit institution has advanced from being development partner-supported entity towards almost self-sufficient institution.

Bangladesh now has the reputation of being the pioneer and the home of largest and most efficient microcredit institutions in the world. Microcredit came to be the most favored aid policy in last three decades (Navajas, Schreiner, Meyer, Gonzales-Vega and Rodriguez Meza 2000). Microcredit, especially after Yunus was awarded Nobel prize was "branded as something that was good for the people" (Carine Roenen, 2008). The obvious question now is: Why microcredit came under critical scrutiny?

Discussion

Microcredit has been the darling of the aid community and it has claimed more and more of the aid budget. Meanwhile, many raise a question whether it is the best way to help the poorest (Buckley,1997;Rogaly,1996). They claim that the fervor for microcredit may have siphon funds from other projects that might help the poor more.

As mentioned in introduction some untoward incidents in India the government of India revising the entire framework. The documentary by the Danish journalists questioned the efficacy of micro credit while accusing Professor Yunus brought many people to join the bandwagon to challenge the very purpose of microcredit, including the Government of Bangladesh.

The success of microcredit, the Grameen Bank in particular, and its popularity caused a tremendous increase in number of NGOs and profit making companies that entered into this business. The market became over-saturated and borrowers over-extended. There was competition among lenders. All these and a weak global economy have strained borrowers that put microcredit under microscope.

Relations between the state and microcredit organizations, in fact with NGOs in general, are contradictory. While the government proclaims its support for the NGOs, in practice those find it very difficult to get government approval for their programs. The approval procedure itself is laborious, the application forms are formulated intentionally vague, however, one can overcome all those by bribing.

There is also love and hate relationship between the Gramenn Bank and other NGOs. This is partly due to the Grameen's practice of moving into new arena where other organizations are working and becoming a competitor. In this regard, the NGOs run by religious organizations are the strongest opponents to the Grameen. NOGs working with *madrakah* and mosques provide free accommodation, food, cloth and some stipends to those attending *madrakah*. The Islamic banks on the other hand give loans without interest.

Finally, and most importantly, the power structure of elite networks controlling internal and external resources. Microcredit programs, to a certain extent, have dismantled the dependency of the rural poor and those have taken the larger share of development aid. In the following I elaborate the process.

I mentioned earlier that the major feature of the socioeconomic structure of the rural Bangladesh can be labeled as dependency, characterizing the nature of the relationship that exists between poor and the rich. Structures of relations in urban societies are different in many ways. Yet, those uphold many aspects of the relationships described above. Urban power elites have rural connections. They frequently visit their village home.

In an earlier study, I developed a framework illustrating the decisive role of elite power networks in the economy and politics in Bangladesh (Rahman 2010). The power to make decisions is seated in political, military and bureaucratic institutions. Economic institutions and business interests are linked with decision makers in those institutions. Political leaders, top bureaucrats and rich business families have always tended to come together to form power triangles through creation of mutual cooperation and reciprocal dependence. Both mutual cooperation and symmetrical dependency perpetuate horizontal relationship among them. The distribution of power is not always even. The uneven distribution of power depends on the nature of flow of resources and one's position in a coalition. In a situation in which resources flow from the political-and bureaucratic elite to the business elite power lies with the former two groups. Next, one's position in the network structure is crucial for his power. Major political parties have their student front, labour front, youth front in urban areas, and peasant fronts in rural areas. Top political leaders maintain ties with the leaders of all these fronts. Both these two forms of power distribution take the form of vertical patron-client relationship. A patron has dominant position and holds central power. In urban areas, businessmen, student leaders, and trade union leaders are dependent on their political patrons. In rural areas, as mentioned earlier, the peasants are dependent on their rich land owning patrons. The rural patrons again are clients of the urban elite. Thus, there are hierarchies or different layers in the internal structure of those networks. At the top level of the hierarchy are core party members. They participate together most often and intimately and they have *centralised power*. The next level consists of intermediaries and groups of local strongmen, (*mastans*) and sycophants (*chamchas*). Both these groups participate with core members, on some occasions but never as a group by themselves. They are clients of the party leaders and they have *nominal power*. There are groups of those people who lack resources and communication channels to form coalitions. They may contact the core members through intermediaries, those with *nominal power*. Party workers at grass root levels, the rural peasants are examples.

These networks of power relations are the most effective means by which the elite of various kinds, or the patrons, maintained, and maintaining, their control over internal resources and the inflow of external resources, a major source is the aid money. The elite power networks also decide which development projects would be included in development programs, product suppliers, import agents, consultants, contractors in the process of policy making- and implementation of projects.

During the first two decades since the inception of Bangladesh as an independent state aid money was directed towards bigger projects (Hye 1996; Jansen 1988; White 1991; World Bank 1984). The First Five Year Plan (1973-78) and the Second Five Year Plan(1980-85) placed primary emphasis on national economy with the aim of acceleration in economic growth (Holcombe 1995; Hye 1996). Despite such efforts and huge inflow of external aid assistance, Bangladesh remained amongst the five poorest countries in the world throughout the 1980s(The World Development report 1990). Instead of meeting needs of the poor development funds have been diverted to, and served the interests of, the well-off groups, political leaders, top bureaucrats and rich businessmen. (Jansen 1990; White 1991; Hulme and Turner 1990; Sobhan 1993). In addition to extracting internal resources, the political elite in alliance with the bureaucratic-military elite took the lion's share in the resources that came to Bangladesh from abroad. Though the importance of aid was felt throughout Bangladesh, the immediate benefit of aid went to those

through whose hands it came; various interest groups who were contactors, consultants, contractors, bureaucrats and policy makers ((Jansen 1992; Sobhan 1991).

The Food for Work Programme (FWP) during 1975-1981) was designed to build roads and assist the landless labourers in rural Bangladesh. A CARE study showed an average of 19 percent over-reporting of the amount of work done on projects and an average of 9 percent underpayment of workers. A World Food Program study revealed a 22 percent over-reporting of work done, and a study done by the BIDS showed that workers were paid an average of 26 percent less than their entitlement. Overall, these studies reported a misappropriation rate of 30 to 40 percent. Government emergency food relief programmes had an even more abysmal record. The donors had to increase expensive monitoring of Food for Work Projects.

Aid money was used for modernisation of the armed forces, purchase of military equipments, procurement of fighter planes, naval frigates etc. During the period 1982-1990 aid became a lucrative business for the military elite. The other groups benefited most were the contractors and the indentors. Furthermore, development projects included construction of new roads and modernisation of old roads in the capital city, new bridges along the highways connecting the big cities satisfying the demand of newly rich who now owned new cars. The import policy allowed import of cars involving nominal import duty. Furthermore, despite financial constraints, budget included expensive constructions of new residences for the Vice President and the Prime Minister, and major refurbishing of the President's house (Kochanek 1993). Aid money was used for such constructions.

The donors preferred to channel their funds through NGOs. Thus state patronage opened for lobbying by NGOs to include projects and arrange funds for their projects. The indentors and the NGOs used their efforts in lobbying. Networks were the most effective measures for successful lobbying (Jansen 1992, Kochanek 1993, Sobhan 1992). In this regard bigger indenting houses who had direct connections with top political leaders showed greater success. Firms worked as agents for cars, heavy machineries, fertilizers, food grains etc.

The negative outcomes of macro policies elicited variety of responses from those concerned with development policies. There was also a realization that economic growth does not necessarily mean an easing of living conditions for the poorest people. The need of something new was felt, a new paradigm of development or a new approach that would be people-centered, putting poor people first, meeting their basic needs, empowering them and thus making development more inclusive. Improving the livelihood of the poor became one major goal of development aid.

For the government in Bangladesh, it was not before 1985, it included the tasks of identifying the needs of the rural poor. One major strategy of its Third Five Year Plan (1985-1990) was facilitating provision of a range of financial services to rural poor through commercial banks. The most distinguishing feature of this strategy was to approach the rural employment from a close proximity at the micro-level (Hye 1996). The strategy included the policy of giving the poor access to small loans, paving the path of partnership between the state and the NGOs.

Concluding remarks

In addressing the question what role microcredit can play in alleviating rural poverty I have focused on Grameen Bank's performances. The outreach and sustainability are accounted for. Grameen Bank, from a credit agency, became a "socio-economic formation" (Fuglesang and Chandler 1986), by engendering the conscientisation of the poor and through the creation of an organizational capacity permitting previously powerless groups to push for social change (Hulme and Turner 1990). In achieving the goals Grameen's relationship with the state also was of crucial importance. It complemented with the state doing its job in terms of stimulating small entrepreneurial activities among women.

The findings of this study further accord the assumption, of the new economic paradigm that emphasizes the idea of social business, that the only way out of poverty for the poor-particularly for the women, who strain under the yoke of unpaid domestic labour- to work and earn their own. Some academic would claim this complements the supposition of the neoliberal economics, others would claim its association with the new institutionalism. I think, the Grameen model is a combination of both these perspectives. Microcredit and building social business imply, in Dr.Yunus's words, a new kind of capitalism that is meant to serve humanities most pressing needs (Interview with Dr.Yunus, Lofoten, September 2008). The microcredit sector further offers an instructive context for exploring the different programmatic implications of liberal (Putnam) and Marxian (Bourdieu) theories of social capital. Paradoxically, both perspectives find expression within the dominant "Grameen model" now endorsed by most of the mainstream development agencies.

There are cross-sectional linkages among different forms of social capital.³ What I mean by causal conjuncture is such linkages i.e. various forms of interaction between individuals and networks and between networks and macro-institutions. Causal conjuncture may take different forms in different social contexts and under shifting conditions. Contextual factors are important to understand why people put trust in networks or in institutions. I mentioned earlier, a critical phenomenon in many developing societies is that the elites have the capacity to employ the state to pursue particularistic interest. Organizations may come into conflict with the state elite. Whenever their efforts undermine the elite interests, does not matter what noble motive or performances of those organizations are, state forces may be used against them. The conflicting relations between the government of Bangladesh the Grameen Bank is the clear evidence.

The microcredit sector offers an instructive context for exploring the different programmatic implications of liberal and Marxian theories of social capital. Paradoxically, both perspectives find expression within the dominant “Grameen model” now endorsed by most of the mainstream development agencies. Based on the pioneering innovations of microcredit in Bangladesh, the model evokes sociological theory of structures of network relations through which women receive collateralized by “group guarantee” rather than by tangible assets. The structure of network relations implies that women who participate in group lending will identify collectively their rights, obligations and trust in small groups, usually of five members. It is the attributes of network relations, both forms and contents, that provides the network members with security. A brief account of how networks work is in its place here.

How NET works

An interaction pattern that commonly has the form of A (Borrower, case #1) somehow inducing B (borrower, case #2) to motivate C (Case #3) to do something. A wants or would value, the example is how micro credit works. Groups of women, in neighboring areas, induce each other to repay their loans so that others in the group might also have access to loans. The bank does not have to chase after the borrowers (C) for repayment, because they have in a sense, delegated the incentive for doing so to other members (B). The loans again are too small for the bank to use legal devices to enforce repayment. Micro credit organizations turn clusters into network as resources, one form of social capital, which make individuals capable of getting access to economic capital. For A to call on social capital is to have access to a particular B who can motivate the relevant C to act on B’s behalf. In a market economy the relevant C is usually an institution, but B is more like to be a role holder in an institution. Social capital is a vague, not to say murky, concept that takes on many meanings. Many scholars include trust in the bag of many unrelated things that they say constitute social capital (Putnam 1995, 2000; Brehm and Rahm 1997). The case in hand suggest social capital takes the form of individuals having access to it (Cook 2005), trust can play a role, not necessarily a requirement. It may happen since a particular facilitator, B, trusts A, to some extent to reciprocate favors. B is induced to try to motivate a relevant C to act on behalf of A. But the facilitator can do this even without trust because A and B can simply enter an exchange in which A pays for B’s effort to motivate the provider C. As a crass but evidently very common example in Bangladesh politics, X gives money to Y,s political campaign, and B gets a government agency C to do what A wants. In this case, the forms of social capital has negative impacts on the society or people. Despite such varied implications, what is common in both the cases is that people want access to social capital – because it is the only form of access people might have to accomplish their purposes. Hence, although trust might be important in calling on social capital, it is not constituted by trust. In the case of micro credit, neither trust nor ordinary market incentives govern the relations among the borrowers.

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