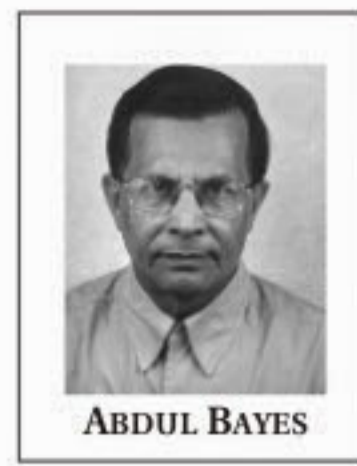


BENEATH THE SURFACE

Misunderstanding microfinance



ABDUL BAYES

BENGALI novels tell about the miseries of the poor related to credit. It is also well-established in economic literature that the poor need credit to smoothen consumption and make modest investments. Historically, and especially in this part of the world, non-institutional sources of credit dominated the dualistic and segmented rural credit market. The cost of credit from these sources was astoundingly high (10-12% a month), adducible mostly to moral hazards and adverse selection.

Governments came into the scene to solve the problem by establishing agricultural credit banks. The interest rate was low but the loan not collateral-free. As such, only landowners could access credit from that source, leaving the credit-hungry poor in the hands of the "credit-kulaks." Further, although the interest rate for agricultural loan was fixed at, say 8-10%, the transport and transaction costs -- including bribes -- pushed it up to 15-25%. However, NGOs stepped into this field following the foot prints of the Grameen Bank, and thousands of them are providing collateral-free loans to the poor.

Just look at the following figures. In 1988, the share of rural households seeking loans from institutional sources was only 13% (banks -- 9% and NGOs -- about 4%). The share of households seeking non-institutional sources was about 32% (money lenders -- about 15%, friends and relatives -- about 17%).

In 2008, the pendulum swung sharply when 39% went for institutional source (banks -- about 5%, NGOs -- 34%). The non-institutional sources dropped to only 10% (money lenders -- 5% and friends and relatives -- 5%).

The figures point to a few important developments. First, in the absence of banks, NGOs helped households with credit (say at 30% interest rate) by marginalising the role of money lenders, who charged 120%. Second, the average size of loans by NGOs was \$184,

banks \$735 and money lenders \$184, showing that both banks and money-lenders cater to the needs of the rich. Third, in 1988, only about 16% of households seeking loans from banks owned up to 0.40 ha of land, which went down to 8% in 2008. On the other hand, only 10% of that land owning group accessed credit from NGOs in 1988 and about 70% in 2008!

The moot question is: why did the poor go more for high interest bearing sources than the lower ones? It is simply

micro-credit has caused horrendous hardships to the recipient. It may be 10,000 out of 100,000. But allow me to introduce you to Mrs. Khorshed Alam of Chamta village under Manikgonj municipality. She borrowed Tk.20,000 from Grameen Bank at about 25% interest rate. To satisfy the critics, I shall add another 5% to make it about 35%. She bought a cow with that borrowed money. Already, she has sold two cows for Tk.60,000. She now has three more worth Tk.70,000. It is not how much she

of the functionally landless households comes from their access to NGOs. The same study shows that, following credit availability, about one-third of recipient households perceived a net deterioration in economic condition; about 42% perceived improvement and about 27% saw no change.

Many critics contend that it is not micro-credit but investment and high rate of economic growth is what we need now to lift the poor out of poverty in a big way. The premise is mistaken on two counts. First, micro-credit will (if at all) help with a small jump but not with a big leap. The economic justification of small loans is small absorptive capacity of the poor households (this is not static, and the capacity expands as windows of opportunity open up).

Second, even if you inject 8-9% rate of economic growth, the poor may not benefit unless they can participate in such growth process. The bottom line is the elasticity poverty of reduction with respect to growth. The recent attempt by the Bangladesh bank to provide loans to share croppers at 10% rate of interest (and on average Tk.10-20 thousand) has emphatically shown how micro-finance could come to the rescue of the economically disadvantaged ones. This is micro-credit from the public purse. The benefits of such loans cannot be understood sitting in air-conditioned rooms at Sher-e-Bangla Nagar. During my recent visits to some villages I observed how such a meager amount of money could reduce the burden of the poor.

Micro-finance is still important for the poor. Micro-credit is not to be seen as a panacea for poverty reduction; it is one of the instruments of addressing the poor. Like economic growth, it is necessary but not sufficient. The irregularities and non-transparent way of running micro-credit programmes -- as alleged by the critics -- should be the villain of piece. But peace of the poor should not be forbidden by making micro-credit programme a villain.

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WAHID ADNA/DRINKNEWS

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because cheaper sources were "dear" in terms of availability. What will be the impact of a low-priced commodity if it is not available in the market? Any campaign against micro-finance should take these figures into account. More importantly, the micro-credit agencies are mostly for women, and they perform many social responsibilities besides giving credit.

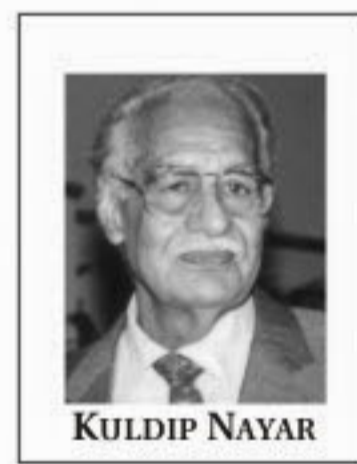
Most of the criticism against micro-credit is derived from case studies. I shall not question that, in a few cases,

owes but how much she owns. Anyway, we should not say that all GB credit recipients became solvent this way.

From a survey of households in 62 villages, an econometric study shows that a household with NGO membership has 12% more income than a household without it. In fact, the share should be higher than this since NGO loans are used to accumulate agricultural and non-agricultural assets, accounting for about 14% of household income. Thus, about one-fourth of household income

BETWEEN THE LINES

Manmohan versus Sonia



KULDEEP NAYYAR

PRIME MINISTER Manmohan Singh and Congress President Sonia Gandhi burst into Indian political consciousness more or less at the same time, some 15 years ago. He had performed the miracle of moving India's economy from a growth rate of 3.5% to nearly 8%. And she had carried out the impossible task of turning the faction-ridden Congress into a cohesive and disciplined party.

Both, important in their own ways, moved closer to each other when Narshimha Rao lost his prime minister-ship. He was the one who had kept Sonia Gandhi distant from the Congress. Manmohan Singh saw to it that he would not annoy Sonia Gandhi even though he was the finance minister in Rao's government. She appreciated his devotion to work, without playing any politics. This stood him in good stead.

When the BJP came to power in 1998, Sonia Gandhi preferred Manmohan Singh to Pranab Mukherjee and appointed him the opposition leader. She had recalled that her husband Rajiv Gandhi did not trust Mukherjee because he had toyed with the idea of becoming prime minister himself after the assassination of Mrs. Indira Gandhi. Manmohan Singh's reputation of being loyal was the decisive point in his favour.

There came a time in 1999 when she could become the prime minister and even lay a claim on the formation of the government. President K.R. Narayanan invited her to prove that she had the number. She couldn't do so because Samajwadi Party chief Mulayam Singh Yadav went back on his promise to extend her support unconditionally. Subsequently, he wanted a share of berths in the cabinet. She couldn't do that after having announced that she would have a purely Congress government, although supported by parties from the outside.

However, when Sonia Gandhi could have become the prime minister in her own right in 2004, she declined to accept the position. She had then the future of her son Rahul Gandhi, who had joined politics, in view. Her calcula-

tion was that it would be easier for her to bring him in the government from outside than to nominate him as her successor.

Sonia Gandhi was also worried over the campaign of vilification which the BJP had initiated against her. Sushma Swaraj, now the leader of the opposition in the Lok Sabha, publicly said that she would have her head shaved off if Sonia Gandhi, an Italian in origin, became the prime minister. Sonia Gandhi probably thought that every key issue in India could come to be debated against her Italian background, something not in the interest of the country.

Sonia Gandhi opted for the dependable Manmohan Singh, whom she had

that Manmohan Singh is less dependable or that the key files do not go to 10, Janpath, Sonia's residence, as it happened from the day the Congress headed the government. It is the lessening image of the government which is creating problems. Of late, too many scams and scandals have tumbled out of the Congress cupboard.

Sonia Gandhi first distanced the party from the government because of the stench over the Commonwealth Games and the 2G spectrum. But when the opposition went on pillorying the government and even stalled Parliament sessions, Sonia Gandhi told the party to rescue the government. But once again the Congress has stepped



AFP

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seen not dabbling in politics. He had gained popularity on the basis of his economic credentials. And she was confident that if need be he would step down anytime at her bidding. This turned out to be true because Manmohan Singh said publicly that he was willing to quit the office whenever the Congress wanted him to do so. At a recent press conference he said that he was ready to make way for Rahul Gandhi.

With this understanding, things worked wonderfully well in the last term of Manmohan Singh in the United Progress Alliance (UPA-1). But it looks as if the same arrangement has developed some functional snags. It is not

back to let the government face the music. She has begun to give the impression that the party is traversing its own path, different from that of the government.

The appointment of the Chief Vigilance Commissioner is the recent case to underline the distance between the prime minister and Sonia Gandhi. She has not defended the appointment, nor has she allowed the Congress to do so. Many other differences have come to light. When the prime minister argues that the development cannot be mortgaged to environment or other considerations, she says that fertile land should not be acquired even in public interest. When the cabinet discusses Kashmir and

the operation of the Armed Forces Special Act in the state, she convenes the meeting of the Kashmir Committee of the Congress to mull over the situation according to her own light. The two meetings at the same time is more than a coincidence.

On Pakistan, the two seem to differ. West Bengal governor M.K. Narayanan, whose opposite viewpoint with Manmohan Singh over Pakistan has been revealed by Wikileaks, is very close to Sonia Gandhi. He is a family loyalist. An expert of sorts as he is, he has influenced her on Pakistan.

What Manmohan Singh has to watch is that after every situation he comes out a regressive, rigid person while Sonia Gandhi retains the image of confidence and forward looking. He is losing his stock in the public while she is retaining what she has. Her secret is probably to remain silent and not react to even the burning topics.

The nation is amused to find two points of authority in the government: the prime minister has the cabinet and the Congress president the National Advisory Council. And everybody knows who is more powerful and more assertive. True, it is difficult to know where one's authority begins and the other's ends. Yet Manmohan Singh is conscious of the limit to which he can go.

Manmohan Singh may claim that there is no disconnect within the Congress. Yet what do people make out when Sonia Gandhi publicly rebuts the prime minister on the mode of development, and when the Congress secretary-general snaps his fingers to let the nation know that Home Minister P. Chidambaram is wrong in taking punitive action against the Maoists?

When the line of authority is blurred, the demarcation between the prime minister and the Congress president does not make sense. It only adds to the concerns which engulf the country, already beleaguered by many problems. Manmohan Singh's main drawback is that he is not a political person. He is too dependent on bureaucrats and too absorbed in official work. At the same time, he has to honour the coalition dharma, the line of which Sonia Gandhi lays down. His job is, indeed, unenviable.

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March 26 : Forty years on

We recall our leaders, our martyrs, our friends abroad

WE celebrate today the dawn of an arduous struggle we launched four decades ago even as the might of the Pakistan occupation army sought to quell the spirit of nationalism in us by the genocide it had unleashed on the preceding night. United by a common resolve to be free and sustained by the thought that ours was a struggle that would surely end in triumph, we went to war to reclaim what had always been ours. This morning, we remember with pride the powerful, eloquent leadership provided by the Father of the Nation, Bangabandhu Sheikh Mujibur Rahman, at a time when the forces of darkness seemed to close in on us. His dream, together with the fashioning of battlefield strategy by his competent colleagues in the Mujibnagar government -- Syed Nazrul Islam, Tajuddin Ahmed, M. Mansoor Ali and A.H.M. Quamruzzaman -- was to carry our movement through to victory by the end of the year. We also recall the initial revolt by Bengalis in the Pakistan army and those in the erstwhile East Pakistan Rifles, who formed the early nucleus of our armed resistance. We recall too our three million compatriots through whose supreme sacrifices over a long period of nine months we came by the right to live as free citizens of a free land.

Our recollections of this day in 1971 will not be complete without remembering the huge contributions made to our cause by representatives of the global media then present in Dhaka. They not only highlighted the political negotiations that went on between 1 and 25 March but also, more importantly, our suffering as also our resilience of spirit following the army crackdown. Their reports and commentaries informed the world of the dimensions of the tragedy wrought by the state of Pakistan in Bangladesh and of the resistance our valiant Mukti Bahini, indeed our entire population, were putting up despite the superior firepower of the enemy. To them and to others --- men like Andre Malraux --- in the international community goes our gratitude.

On the fortieth anniversary of the declaration of Bangladesh's independence, it is only proper that we re-emphasise the necessity of a trial of the war criminals of 1971 to go ahead, quickly and judiciously. In the interest of justice, guided by the supreme need to have the collaborators of the Pakistan occupation army answer for their crimes committed forty years ago, let the trial commence under due legal process. A celebration of freedom without bringing the killers of our martyrs to account cannot quite be fulfilling.

Stop pre-polls violence

Onus is on political parties

PRE-POLLS violence has become a regular phenomenon in our country. Starting from union to upazilla level elections we witness pre-poll violence of some form or the other, sometimes even leading to large scale injuries, destruction of property and deaths of political activists and non activists alike.

With the Union Parishad polls closing in on us, intermittent pre-election violence is being reported from across the country. Only recently, at least 75 people were injured in pre-poll clashes between the supporters of rival candidates for chairmen in three upazillas in Patuakhali.

Union Parishad elections are important for ensuring a strong foundation of local governance and development institutions at the grassroots. To guarantee this, we need to do away with all kinds of provocation and intimidation among the followers of the candidates.

This sordid practice has created a dent in people's belief in peaceful elections, particularly at local levels, where the contests are of intense nature. Violence occurs even on Election Day, thereby posing a threat to the polls outcome. But, in essence, people have got used to exercising their right to franchise in ever increasing fervour. This trend has to be maintained.

Apart from the Election Commission and the government agencies, such as the police, Rab or even the armed forces, doing their bit, it is the senior leaders of the political parties and the contestants who should be active in keeping their supporters in check. Although local elections are supposed to be held on a non-party basis, party colours get nailed on them and so some confrontational element willy-nilly gets into the process. This must not happen.

The Election Commission has already held, with reasonable success, the Upazilla polls and elections to municipalities. It now devolves on all concerned to do everything possi-

THIS DAY IN HISTORY

March 26

1971
Bangabandhu declares independence. A message to this effect is read out by the Chittagong Awami League leader M.A. Hannan over Chittagong radio. At around 1 a.m., Bangabandhu is arrested by the Pakistan army and taken to Adamjee College, from where he will be flown to West Pakistan after a few days. In the evening General Yahya Khan makes a broadcast in which he blames the Awami League for the crisis and bans the party. On the same day Z.A. Bhutto returns to Karachi from Dhaka and tells newsmen, "Thank God, Pakistan has been saved". Meanwhile the killings go on in Bangladesh under a curfew.

1974
Gaura Devi leads a group of 27 women of Laata village, Henwalghati, Garhwal Himalayas, to form circles around trees to stop them being felled and giving rise to the Chipko Movement in India.

1979
Anwar al-Sadat, Menachem Begin and Jimmy Carter sign the Israel-Egypt Peace Treaty in Washington, D.C..

2010
46 die as a South Korean warship sinks, allegedly after an attack by North Korea.