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**Universitat Autònoma de Barcelona**  
**Facultat de Filosofia i Lletres**  
**Programa de Doctorat de Geografia**

**Tesi Doctoral (*PhD Dissertation*):**

*Comparative Spatial Advantage between Microfinance Institute and Banking in Reaching Rural Enterprise Financial Services in Bangladesh.*

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**Title: Comparative Spatial Advantage between Microfinance Institute and Banking in Reaching Rural Enterprise Financial Services in Bangladesh.**

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## **Comparative Spatial Advantage between Microfinance Institute and Banking in Reaching Rural Enterprise financial services in Bangladesh**

### **ABSTRACT**

The objective of this thesis is to explore the little known reality of Rural Financial Intermediation, its' location arrangement and barrier in reaching Rural Enterprise, rural economic activities and agrarian farm of rural areas and producing indication of multidimensional financial inclusion agenda. We also would like to analyse rural credit and savings culture and determine institutional good practice both for Bank and Microfinance Institute (MFI) at rural level. We need to compare between Bank and Microfinance Institute, whether it has the advantageous spatial arrangement in rural context along with its institutional good practice and the pattern of financial inclusion determinants, creating access to finance, in reaching Rural Enterprise.

In remote areas of Bangladesh, it is difficult for people and their enterprises to get loans and other financial services because banks are geographically away from them and located in well-endowed areas following the administrative centres. Moreover, the basic products (mainly credit facilities) of financial intermediaries are not easily reachable to them because of the required formalities, imperfect product design and sceptical attitude of the bankers to expose the facilities as per need. Banks' preference to physical collateral, mainly landed properties and assurance of source of proper fund flow to ensure loan repayment disappoint further entrepreneurship. Though, agricultural banks have presence in rural remote areas yet they are exposed through government directives along with few non-competitive ideas, and are the last resort of village. These are insolvent by inheritance and avoid challenges of rural enterprises. Few banks have their outlets in rural areas and have been working as deposit hunting agents. Available literature reveals that every year more than 60% of rural deposits are being channelized to urban appetite showing a clear discrimination through policy limitation of spatial banking regulation. On the other hand bank default culture is well patronized in social system. The non-performing loan (NPL) at national level is rising at an alarming rate ultimately.

However, the rise of NGO-MFIs (Non-Government Organization- Microfinance Institute) during 1970s, created a new wave in shaping the financial services in rural areas by overcoming primarily physical distance as they favoured rural locations being around rural markets. Secondly, they developed newer lending model to favour rural poor and their micro and small enterprises by easing cultural and organizational barriers, who on the other hand had never been able to reach the conventional banking system both



physically and culturally. But the limitation exists within system. It has become tough to continue supporting the growing demand of rural enterprises as they grow over time and these enterprises use multiple sources to meet their demand. Even the few rural big enterprises have to hire fund from conventional banks, enduring much hindrances and going across geographical boundaries, because the MFI-credit policy fails to meet the high commercial demand. MFIs are also barred by regulations to collect public fund, though few are conditionally permitted. They also cannot perform regular banking business, which are required by the rural enterprises to maintain their daily transactions.

Our research is based on questionnaire survey on the demand side of four rural fields in Bangladesh. Based on gathered data the statistical analysis including extensive literature survey expresses discriminative financial structure that avoids rural entities. Our finding ensures that there is a significant association between distance and borrowing and in case of MFIs it is highly supported by tolerable costing and flexible documentation compared to conventional banks.

This thesis is structured in seven chapters. The **First chapter** of the thesis deals to make a ground give a conceptual framework identify the background problems that leads to research questions, explain research objectives, tells about research hypothesis and finally explain the justification of this research work. The **Second chapter** tells about rural economy and rural credit in Bangladesh. Literature Review in **Chapter three** presents the existing thoughts and findings regarding the issues around the objective of the thesis. Issues are sensitive because we use an approach of multidisciplinary complexity. **Chapter four** reveals the "Research Methodology". It explains the field selection procedures, description of fields, location of rural market where the rural enterprises are, indicator, relevant issue and data gathering, questionnaire and the survey, data analysis, time schedule and finally problem in field regarding proper data collection have been explained. **Chapter five** describes few in depth issues and concepts related to money and rural financing environment. Rural Informal money market and historical development, MFIs, its evolution, women empowerment, changing geography of rural financial landscape distance, etc. **Chapter six** is the core one named Data Analysis & Interpretation. The overall characteristics of data have been explained and discussed herein. The quantitative issues are the base for the scientific qualitative evaluation matters. **Chapter seven** stands as suggestion and recommendation like a conclusion. And finally are the references and annexes.

**Keywords:** Microfinance; MFI and Bank Location; Rural Finance; Applied Geography; Bangladesh.

**Avantatge espacial comparatiu entre l'Institut de Microfinances i la Banca en l'accés als serveis financers d'empreses rurals a Bangla Desh.**

**RESUM**

L'objectiu d'aquesta tesi és explorar la realitat poc coneguda de la Intermediació Financera Rural, la seva situació i els acords per poder-hi accedir l'Empresa Rural, les activitats econòmiques rurals i l'explotació agrària, en el context de l'agenda d'inclusió financera multidimensional. També voldríem analitzar la cultura rural d'estalvi i crèdit i determinar bones pràctiques institucionals a nivell rural tant per a la banca com l'Institut de Microfinances (IMF). Compararem els bancs i l'IMF, per veure la disposició espacial avantatjosa d'aquest en el context rural, juntament amb la seva bona pràctica institucional i el model d'inclusió financera, al facilitar l'accés al finançament, de l'empresa rural.

A les zones remotes de Bangla Desh, és difícil per a les persones i les seves empreses obtenir préstecs i altres serveis financers perquè els bancs estan geogràficament lluny d'elles i situats en els centres administratius, en zones ben dotades. D'altra banda, els productes bàsics (principalment el crèdit) dels intermediaris financers no són fàcilment accessibles a les empreses rurals a causa dels tràmits necessaris, el disseny imperfecta de productes i l'actitud escèptica dels banquers per facilitar el crèdit segons la necessitat. Hi ha una preferència dels bancs a la garantia física, que afecta sobretot propietats i la seguretat de la font de flux dels fons adequats per garantir el pagament del préstec. Que encara decep més l'esperit empresarial. No obstant això, els bancs agrícoles tenen presència en zones rurals remotes però, estan subjectes a les restrictives directrius del govern, juntament amb algunes idees no competitives, i són l'últim recurs del poble. Els agricultors són insolvents per herència i evitant els reptes de convertir-se en empreses rurals. Pocs bancs tenen les seves oficines a les zones rurals i han estat treballant més com a agents a la caça dels dipòsits. La literatura disponible revela que cada any més de 60% dels dipòsits rurals estan sent canalitzats a les àrees urbanes, que mostra una clara discriminació a través de la limitació política de regulació bancària espacial pel món rural. D'altra banda la cultura restrictiva dels bancs està ben assentada en el sistema social. La morositat (NPL) a nivell nacional està augmentant actualment a un ritme alarmant.

No obstant això, en primer lloc, l'augment de l'ONG-IMF (Institut de Microfinances - Organització no governamental) durant la dècada de 1970, va crear un nou model en la configuració dels serveis financers a les zones rurals mitjançant la superació de la

distància física sobretot a mesura que van afavorir les localitats rurals que són al voltant dels mercats rurals. En segon lloc, es va desenvolupar recentment un model de préstecs a favor de les zones rurals pobres i les seves petites i micro empreses, alleujant les barreres culturals i d'organització, que d'altra banda mai havia estat capaç de superar el sistema bancari convencional, tant física com culturalment. Però s'ha generat una limitació en el sistema. Es fa difícil de seguir donant suport a la creixent demanda de les empreses rurals a mesura que creixen amb el temps i aquestes empreses utilitzen múltiples fonts per satisfer la seva demanda. Fins i tot les poques grans empreses rurals han de contractar alguns fons dels bancs convencionals, suportant molts obstacles i tenint de superar les fronteres geogràfiques, perquè la política de crèdit del MFI no cobreix l'alta demanda comercial. El IMF també té prohibit pels reglaments poder recollir fons públics, encara s'en permetin alguns de forma condicional. Tampoc no poden fer el negoci de servei regular, que es un requeriment per que les empreses rurals puguin mantenir les seves operacions diàries.

La nostra investigació es basa en l'enquesta sobre el costat de la demanda de quatre àrees rurals de Bangla Desh. En base a l'anàlisi estadística de les dades recollides, que inclou una àmplia revisió de la literatura, comprovem que hi ha una estructura financera discrimina las entitats rurals, que simplement eviten. La nostra troballa assegura que hi ha una associació significativa entre la distància i l'endeutament i en el cas del IMF, molt recolzat amb la documentació, observem que hi ha costos tolerables i flexibilitat en comparació amb els serveis bancaris convencionals.

Aquesta tesi s'estructura en set capítols. El primer capítol ofereix un marc conceptual per identificar els problemes de fons que condueix a les preguntes de recerca, explicant els objectius d'investigació, i presenta la hipòtesi d'investigació i, finalment, fa una justificació d'aquest treball de recerca. El segon capítol, s'informa sobre l'economia rural i el crèdit rural a Bangla Desh. Es fa una revisió de la literatura en el capítol 3, presentant els coneixements i les noves aportacions existents en relació als temes relacionats amb l'objectiu de la tesi. Aquests temes són de difícil comprensió i cal fer ús d'un enfocament multidisciplinari complexa. El quart capítol tracta la "Metodologia de la Recerca". S'explica el procediment de selecció de les àrees de treball de camp, la descripció d'aquestes, la ubicació del mercat rural, on es localitzen les empreses rurals com indicador. Una qüestió rellevant es la recollida de dades, el qüestionari i l'enquesta, l'anàlisi de les dades, la programació temporal i, finalment, explicar la problemàtica en el treball de camp respecte a la recopilació de les dades adequades. El capítol cinc descriu en profunditat alguns dels temes i conceptes relacionats amb els diners i l'entorn del finançament rural. El mercat rural informal de diners i el

desenvolupament històric, el IMF, la seva evolució, capacitació emprenedora de les dones, el canvi de la geografia de la distància del finançament rural, etc. El capítol 6 és el nucli de la tesi amb l'anàlisi i interpretació de les dades del treball de camp. Les característiques generals de les dades s'han explicat i discutit en la tesi. Les qüestions quantitatives són la base per a poder avaluar les qüestions científiques de l'anàlisi qualitativa. En el capítol 7 es presenten suggeriments i recomanacions en forma de conclusió. I, finalment, s'inclouen les referències bibliogràfiques i els annexos.

**Paraules clau:** microfinances; localització de bancs i MFI; finances rurals; geografia aplicada; Bangla Desh.

**Ventaja espacial comparativa entre el Instituto de Microfinanzas y la banca en el acceso a los servicios financieros por parte de la empresa rural en Bangladesh.**

**RESUMEN**

El objetivo de esta tesis es explorar la realidad poco conocida de la Intermediación Financiera Rural, su situación y los acuerdos para que pueda acceder a la misma la Empresa Rural, las actividades económicas rurales y la explotación agraria, en el contexto de la agenda de inclusión financiera multidimensional. También quisiéramos analizar la cultura rural de ahorro y crédito y determinar buenas prácticas institucionales a nivel rural tanto para la banca como el Instituto de Microfinanzas (IMF). Compararemos los bancos con el IMF, para ver la disposición espacial ventajosa de éste en el contexto rural, junto con su buena práctica institucional y el modelo de inclusión financiera, al facilitar el acceso a la financiación, de la empresa rural.

En las zonas remotas de Bangladesh, es difícil para las personas y las empresas obtener préstamos y otros servicios financieros porque los bancos están geográficamente lejos de ellas y situados en los centros administrativos, en zonas bien dotadas de oferta financiera. Por otra parte, los productos básicos (principalmente el crédito) de los intermediarios financieros no son accesibles fácilmente por las empresas rurales debido a los trámites necesarios, el diseño imperfecta de productos y la actitud escéptica de los banqueros para facilitar el crédito según las necesidades rurales. Hay una preferencia de los bancos por la garantía física, que afecta sobre todo las propiedades y la seguridad de la fuente de flujo de los fondos adecuados para garantizar el pago del préstamo. Lo cual aún desanima más el espíritu empresarial. Sin embargo, los bancos agrícolas tienen presencia en zonas rurales remotas aunque, están sujetos a las directrices restrictivas del gobierno, junto con algunas ideas no

competitivas, y son el último recurso de los pueblos rurales. Los agricultores son insolventes por herencia y evitan la presión para convertirse en empresas rurales. Pocos bancos tienen sus oficinas en las zonas rurales y han estado trabajando más como agentes a la caza de los depósitos. La literatura disponible revela que cada año más de 60% de los depósitos rurales están siendo canalizados hacia las áreas urbanas. Hay una clara discriminación a través de la limitación política de regulación bancaria espacial para el mundo rural. Por otra parte la cultura restrictiva de los bancos está muy aceptada en el sistema social. La morosidad (NPL) a nivel nacional está aumentando actualmente a un ritmo alarmante.

No obstante, en primer lugar, el desarrollo de la ONG-IMF (Instituto de Microfinanzas - Organización no gubernamental) durante la década de 1970, creó un nuevo modelo en la configuración de los servicios financieros en las zonas rurales mediante la superación de la distancia física sobre todo a medida que se favorecieron las localidades rurales que están alrededor de los mercados rurales. En segundo lugar, se desarrolló recientemente un modelo de préstamos a favor de las zonas rurales pobres y las pequeñas y las micro empresas, aliviando las barreras culturales y de organización, que por otra parte nunca había sido capaz de superar el sistema bancario convencional, tanto física como culturalmente. Pero se ha generado una limitación en el sistema. Se hace difícil de seguir apoyando la creciente demanda de las empresas rurales a medida que van creciendo y estas empresas utilizan múltiples fuentes para satisfacer su demanda. Incluso las pocas grandes empresas rurales deben contratar algunos fondos de los bancos convencionales, soportando muchos obstáculos y teniendo que superar las fronteras geográficas, cuando la política de crédito del IMF no cubre la alta demanda comercial. El IMF también tiene prohibido por los reglamentos poder recoger fondos públicos, aunque se le permitan algunos de forma condicional. Tampoco pueden hacer el negocio de servicio regular, que es un requerimiento para que las empresas rurales puedan mantener sus operaciones diarias.

Nuestra investigación se basa en la encuesta sobre el lado de la demanda de cuatro áreas rurales de Bangladesh. En base al análisis estadístico de los datos recogidos, que incluye una amplia revisión de la literatura, comprobamos que hay una estructura financiera que discrimina las entidades rurales, que simplemente evitan. Nuestro hallazgo asegura que hay una asociación significativa entre la distancia y el endeudamiento y en el caso del IMF, muy apoyado con la documentación recogida, observamos que hay costes tolerables y flexibilidad en comparación con los servicios bancarios convencionales.

Esta tesis se estructura en siete capítulos. El primer capítulo ofrece un marco conceptual para identificar los problemas de fondo que conducen a las preguntas de investigación, explicando los objetivos de la misma, y presentando la hipótesis de investigación y, finalmente, se hace una justificación de este trabajo de investigación. El segundo capítulo, se informa sobre la economía rural y el crédito rural en Bangladesh. Se hace una revisión de la literatura en el capítulo tercero, presentando los conocimientos y las nuevas aportaciones existentes en relación a los temas relacionados con el objetivo de la tesis. Estos temas son de difícil comprensión y hay que hacer uso de un complejo enfoque multidisciplinar. El cuarto capítulo trata la "Metodología de la Investigación". Se explica el procedimiento de selección de las áreas de trabajo de campo, la descripción de éstas, la ubicación del mercado rural, y donde se localizan las empresas rurales, como indicador. Una cuestión relevante es la recogida de datos, el cuestionario y la encuesta, el análisis de los datos, la programación temporal y, finalmente, la explicación de la problemática en el trabajo de campo respecto a la recopilación de los datos adecuados. El capítulo cinco describe en profundidad algunos de los temas y conceptos relacionados con el dinero y el entorno de la financiación rural. El mercado rural informal de dinero y el desarrollo histórico, el IMF, su evolución, la capacitación emprendedora de las mujeres, el cambio de la geografía de la distancia de la financiación rural, etc. El capítulo sexto es el núcleo de la tesis con el análisis e interpretación de los datos del trabajo de campo. Las características generales de los datos se han explicado y discutido en la tesis. Las cuestiones cuantitativas son la base para poder evaluar las cuestiones científicas del análisis cualitativo. En el capítulo séptimo se presentan sugerencias y recomendaciones en forma de conclusión. Y, por último, se incluyen las referencias bibliográficas y los anexos.

**Palabras clave:** microfinanzas; localización de bancos y MFI; finanzas rurales; geografía aplicada; Bangladesh.



## **1. Introduction.**

### **1.1. General Introduction to Study:**

Reaching Rural Enterprise (RE) by financial intermediaries or the anti “thesis, Access to finance by Rural Enterprise is a global issue and also a geographic problem. The basic problem exists within a compound set of factors originates from spatial inequality and distributive system in the society across the geography. The spatial distributive pattern of financial intermediary is particularly responsible for giving access to finance because these formal sources are hard to reach for RE both by policy structure and geographic access. Generally in many low and middle-income countries the formal financial sources are restricted to a small number of firms and households (Peachey and Roe, 2006; Beck, et al., 2007). Globally, more than 2.5 billion adults have no formal accounts; most of them are in developing economies. (Demirguc-Kunt and Klapper, 2012), and thus 56% of adults in the world do not have access to formal financial services. The situation is even worse in the developing world with 64 % of adults unbanked. (Ardic et al., 2011), whereas the financial exclusion in developed countries are very low i.e. only 4 % in Germany (AFI-2010). Thus small firms and poor households in many developing countries are excluded from using financial services mostly due to physical barrier and banks are usually absent from the rural areas (Beck, et al., 2007 ; Demont, 2010). The reality of the developing countries is that- still a large share of the population is living in rural areas but the banking network is concentrated in urban areas. Most particularly poor and rural people fails to save in monetary form because of the banking system and the geographic distance to reach (World Bank, 2007). On the other hand barriers of access to finance are more or less common in developing nations. These barriers are identified as physical distance, affordability and eligibility which subsequently exclude a large section of population from banking service. There are also product barrier to add exclusion. The absence of a perfect product and inability to target the relevant population for addressing financially constrained people and their business and reluctance to serve the credit and savings need of these people are important factor to keep people financially excluded (Mohamed,2003; Presbitero and Rabelotti, 2011). So the very presence of a financial intermediary having sufficiently wide network of bank branches is not enough to meet the need (Beck, Demirgüç-Kunt, and Peria 2008; Mohamed, 2003). Barriers are related to the overall environmental setup and policy hemisphere of the financial intermediaries that is highly related to social texture as well. Access to external credit also does not indicate that how does a firm satisfy various selection criteria of a particular financial institution. It is rather a product of the socially arranged opportunity structures within



which the firm is embedded (Beck, Demirgüç-Kunt and Maksimovic 2008; Uzzi, 1999). After the independence of 1971, banks gradually opened new branches in small towns, urban centers and rural bazars (markets) all over the country with a view to keep the whole country under financial service net but without changing the lending technology and other policy, therefore, failed to target the poor mainly because of collateral requirement for large loans. Having large branch networks in rural areas and delivering credit extensively, the specialized banks and nationalized commercial banks could not reach the poor due to policy constraints. Basically, the specialized banks were established to provide subsidized credit to the root level beyond the limit of urban capture (Alamgir, 2009; Charitonenko and Rahman, 2002). Commercial and foreign banks are not always able to reach micro-enterprises and the very poor (Clarke et al., 2005; Beck and Demirgüç-Kunt, 2008; Beck and Peria, 2010). The role of private bank is always negligible (Zeller et al., 2001).

In such a situation the rise of MFIs and the application of Grameen Bank <sup>1</sup> model have broken all the barriers for reaching the poor to lend them (Alamgir, 2009). In the last three decades MFI has changed the scenario of the rural financial landscapes of the developing nations. It has changed the perception towards helping the poor by targeting specifically the bottom layer of the society. Microfinance has played the dominating role as a powerful tool in changing the lifestyles and economies of the millions of low-income household and enterprise of the world by giving credit and savings services, who did not have any access to formal Financial Institutions (Armendariz de Aghion and Morduch, 2005; Presbitero and Rabellotti, 2011; Montgomery and Weiss 2005). Even the microfinance revolution started from the observation that lack of access to credit is the only constraint that holds poor entrepreneurs back (Armendariz de Aghion and Morduch, 2005; Beck., Büyükkarabacak, Rioja and Valev 2008). The programme pioneered by Professor Mohammad Yunus in Bangladesh has gradually gained a policy success and gained ground to the root of the rural economy as well as in the rural financial skeleton. MFI has reached its peak. The inception of these microfinance programmes were fueled by donors with a mission for poverty eradication along with other social objectives. A basic problem of donor funded MFIs were to target clients at poor level who basically do not have any ever growing business possession and any economic activities that can grow and flourish like a pure independent strong one. These programmes had the

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<sup>1</sup> Grameen Bank, a specialized Microfinance Institute, the pioneer of micro credit in Bangladesh which introduced group-based credit delivery to the poor was founded by Nobel Laureate Professor Muhammad Yunus. It started operation basically for women, who do not have any capability to produce physical collateral against loans; under micro-credit procedures, the liability is shouldered by all members of the group.

uncertainty- whether it could be continued as a success one. Most of the targeted borrowers were women and credit was disbursed through a Group Based lending technology. In most cases the needy economic activities of the borrowers were not above a subsistence level of economy. A long period of their life cycle was devoted to go through an experiments of development financing. At the second stage – after passing a successful path the issue came with new dimension. Another problem is to meet the growing capital need of the microfinance graduate client who enhances itself from a microcredit client to a bigger hungry one to utilize more fund at its take-off period. The failure of financing this growth strangulates them to step for being larger. (World Bank, 2007). Certainly finance is not the charity (Zeller et al., 2001) and MFIs had to rely on subsidy or donation at least at the beginning (Zaman, 2004). But Microfinance savings service is limited by regulatory bindings to collect publicly though few exceptions exist. Most of the MFIs are not allowed to receive savings from public instead of their members and it hampers the refinancing of the ongoing programmes. Surprisingly the commercial banks having this opportunity to mobilize savings, in Bangladesh they have outreach to about 25 % of the total number of potential savings account holders keeping the remainder of the market still untapped (IFC and KFW, 2009). Moreover serving RE needs physical proximity wherein credit service demands more extra qualifications in service receiver. Savings, payment, remittance etc. may not be considered so rigidly because these do not imply risks on the service providers.

In Bangladesh SMEs are to some extent excluded both by formal and semi-formal financial institute. Moreover, a new dimension of problem within the financing arena has been identified. In Bangladesh, formal SMEs (Small & Medium Enterprises) having a relatively solid bottom line are mainly being handled by commercial banks, while microfinance serves the extremely poor and the smallest enterprises (Mahmud and Tulla, 2015). Between these two groups there lies a third entity who are not too small to be catered by MFIs and not too big to attract bank finance, therefore they are being excluded both by banks and MFIs. These are called “missing middle” enterprises. Due to their heterogeneous characteristics, size, opaqueness and informal structure, they seem to always be excluded from financing. Although there is no acceptable uniform definition for microenterprises (few definitions are formulated by size of capital, assets, labour etc.), these are by nature larger than the income-generating activities typically financed by microcredit programmes (Alamgir, 2009). Lending to slightly higher cousin of Micro-enterprise is not easy within existing financing practice. Differentiating small enterprises from the micro enterprises is not easy in all sectors at least by visible signs as they hold. And still today the Micro-

enterprise growth is mostly constrained by access to finance rather than other not – credit factors. Inadequate capital or credit is found to be 20 % effective to growth constraint for micro-enterprises.

Gradually the changing characteristics of RE in Bangladesh has been playing a vital role in this regards. Though rural economy is predominantly agrarian yet in recent years the growing Rural Non-Farm (RNF) sector is adding extra source of income for rural households. A significant portion of this sector is rural micro-enterprise. Only less than 10% of these enterprises have access to formal financial institutions (bank and MFI) and 01 % can borrow from the commercial bank for their start-up capital and more than 85 % of rural micro-enterprise get their start-up capital from their own savings and friends and relatives. (Khandker et al., 2013). Such things are almost hereditary rooted in the financial history of Banks.

The situation by that time has demanded paradigm shift in three dimensions- the change of lending technology, shifting group based credit delivery to individuals with bigger credit limit and targeting growing business operations and choosing more men instead of women. Gradually this has turned the situation to commercialization of Microfinance at least with few limited aspects for gaining sustainability. As a response to this demand and change in supply side of the conventional microfinance market, in recent times, many microfinance providers in Bangladesh have targeted at the small enterprises (Rabbani and Sulaiman, 2006). Bangladesh Rural Advancement Committee (BRAC) a Non Government Organization (NGO) in Bangladesh have established a commercial bank in 2001 having a view to finance SMEs though their success is controversial in the financial sector.

Financial landscape all over the world is ever changing. Gradually rural financial settings are being intervened by multi influential organizations. Microfinance is being increasingly considered as an important tool for development policy that aims to reduce poverty, vulnerability and inequality. The view is that the poor would reduce their inequality and vulnerability by gaining access to credit and will increase their productivity and asset (Hulme and Mosley, 1996; Kai and Hamori, 2009). And relatively performance of microfinance is strong in Bangladesh though only few MFIs are handling the lion's share of the market (IFC and KFW, 2009). Moreover at any given level of financial development, smaller firms face more barriers in accessing external finance. Researches, claim that these small firms benefit the most from financial development– both in terms of entrance and their growth constraints relaxed (Beck, et al., 2005; Klapper et al., 2006). The existence of several financial intermediaries has been viewed as an active way of deepening the financial sector because it seeks to

scale up financial inclusion through expanding access to financial services and contribute by creating wealth and asset and reduce poverty. It is also widely accepted that the financial system has a role to play in economic development by giving access to savings mobilization, providing liquidity and by imposing different types of financial discipline having few significance national differences (Thompson, 1977; Zysman, 1983). In Bangladesh Micro-enterprise growth is mostly constrained by the lack of access to affordable finance rather than the non-credit constraints such as infrastructural constraints. More than 70 % of enterprises get their start-up capital from their own savings and it exceeds 85 % of rural micro-enterprise if the informal credit from friends and relatives is calculated (Khandker et al., 2013). Another existing problem is - much talked Microfinance and its relation to development keeping a large active economic activity out of its hemisphere for the last few decades. Microfinance programmes are mostly gender bias favouring women in a society dominated by male. Even the controversy arises when researchers found things from an oblique inquisitiveness. Bangladeshi women are primarily the carriers of NGO loans though in most cases they are not their end users because men used 95 % of the loans borrowed in the name of their wives but Professor Yunus (founder of Grameen Bank) has conceded as much. NGO Officers and researchers connected with microcredit are well aware of this, that the men control the use of the money, though in their public scripts they censor this vital information (Karim, 2008). It is also argued that lending to women benefits their households, but not necessarily the borrowing though the reasons of paradox are not well understood (Garikipati, 2010). There are various evaluations both positive and negative. Few negative evaluations found that women borrower are typically controlled by their husbands, and dependent on them for repayment. Sometimes in extreme situations it brings domestic conflict leading violence (Goetz and Gupta, 1996; Leach and Sitaram, 2002; Rahman, 1999).

This issue of course has impact on the total conceptual framework and rural financial landscape data. Firstly, technology based solutions and new delivery channels for financial services are gradually gaining ground in the developing nations. Like many other countries, Bangladesh has national policy for Microfinance and it has exposure to policy makers (AFI, 2010). Secondly, the recent step to regulate licensed Microfinance Institution (MFI) by establishing a regulatory body named Microcredit Regulatory Authority (MRA) in 2006 and giving recognition by the regulatory authority as a formal financial institution has substantial impact on financial inclusion data.

However, in the changing scenario of global development politics the development economists, sociologists and planners are reshaping their conceptual framework to bring more service to the last end of the remote community. In this world of market economy, access to finance is being seen and regarded as a public good like safe water, basic health service, primary education etc. (Peachey and Roe, 2004). And the credit is being viewed as a human right with the idea that the poor are credit worthy (Auwal, 1996). However, access to finance has always been considered as a critical factor in enabling people and their micro-enterprise to transform their production and employment activities to get out clutches of the poverty (Banerjee and Newman 1993; Banerjee, 2001; Khandker et al., 2013). So countries with better developed financial systems, people can have the ability to exploit more growth opportunity (Bencivenga and Smith, 1991; Greenwood and Jovanovic, 1990).

So, as research objectives and considering the above situation, we therefore, need to explore the little known reality of the location arrangement of financial intermediaries i.e. Bank and MFI and barrier in reaching RE and find indication of multidimensional financial inclusion agenda. In this regard we have to analyze rural credit and savings culture and determine Institutional ecology both for Bank and MFI at rural level. We also need to find the product barrier, financing determinant and overall characteristics of the financial inclusiveness to find the factor of exclusion in rural perspective. The basic work is that we have to compare between Bank and MFI, whether it has the advantageous spatial arrangement along with its institutional ecology and the pattern of financial inclusion determinants (creating access to finance) in reaching RE. Simply it leads to explore the financial inclusion probability in rural areas at enterprise level through two windows i.e. mainly Geographical and Institutional Ecology both for Bank and MFI at a comparative scale.

## **1.2. Conceptual Framework of the Research Theme:**

Simply, this topic indicates an organizational environmental layout of the financial intermediaries. It expresses that how do the financial institutions act to make a financially favourable inclusive environment for RE and how do Bank and MFI expose themselves along with their products and services more conveniently to RE. In other words or in more financial voice it is widely being termed as “ Access to Financial Services” and for our case we focus the respective service for RE. It should also be considered that the concept of financial inclusion in the academic arena of Bangladesh has infiltrated through the practice of developed economies. Western financial models

are well developed and established on the basis of social, cultural, economic and technological growth. Social security or finally the financial security is confirmed in the form of either subsidized finance or pension schemes or payment for unemployed etc., wherein every citizen is involved with the system and they do not need to fight for it separately. Meanwhile, in Bangladesh, the level of financial inclusion both in practice and concept is far from the aforesaid statement. Poor social security and lac of proper initiative or overall resource scarcity including many other governance weakness play a crucial role in the matter.

However there is no international consensus on a financial inclusion definition. Financial inclusion by itself is a multi-faceted concept with a number of nuanced components, all or some of which may be relevant to the specific country agenda. Access to finance therefore is concerned primarily with the ability to use available financial services and products from formal institutions. Understanding levels of access may therefore require insight and analysis of potential barriers (AFI, 2009). Therefore it indicates offering a set of product and services to rural enterprise through a favorable environment so that the recipient can have the offer easily accessible.

Our concern is that - how much the supply side offer is closer and convenient to the demand side, primarily through geographic penetration ( including demographic) in rural level by extending the service outlets. And the services can be identified as various types of banking service i.e savings, credit, insurance etc. (our cases are limited to savings and credit service only) through three types of dimension that faces barriers such as physical access, affordability and eligibility (AFI, 2010; Beck and Demirgüç-Kunt, 2008; Beck and de la Torre, 2007; Beck et al., 2008). However barriers to banking are the results of banks' rational business decisions based on their business model, their market position, the macroeconomic, contractual and regulatory framework and socio economic texture where the institute exists, operates and compete (Berger and Udell, 2006; Beck and de la Torre, 2007). This is same to other financial intermediaries also, such as MFI. Thus physical access refers to the points of service delivery. Greater physical access means services are delivered in multiple and more convenient ways. So the Geographic and demographic branch penetration of formal financial institutions for a country or region which can there be a crude measure to explain the gravity of the first hand visible values, as example for Spain there were 96 bank branches per 100,000 people, and 79 bank branches per 1000 sq km, whereas, these values were 48 and 5 respectively for Bangladesh (Beck, et al., 2007). Unfortunately the figure has changed dramatically after the global financial crisis of 2008. The merger and acquisition in Spanish banking sector has squeezed the

geography of Spanish Banking. At the end of 2015 Spain had 116.83 ATM and 67.55 commercial bank branch per 100,000 adult populations. For the same time Spain had deposit in commercial bank at 82.17% of GDP and the value is 104.76% for outstanding loan at commercial bank (IMF Online data, 2016). These indicators show the weight of penetration in geographic and demographic level. The more value in geographic penetration means people can have the services at closest physical contact point easing the distance barrier to minimum and more value in demographic penetration means the highest outlet for minimum people at their reach. Therefore, we may talk about *geographic limitations* e.g. the absence of bank branches or delivery points in remote and sparsely populated rural areas or about *socio-economic limitations*, when financial services appear inaccessible to specific income, social or ethnic groups either because of high costs, rationing, financial illiteracy, or discrimination or about limitations of opportunity (AFI, 2010; Beck and de la Torre, 2007).

There is also price and non-price barriers from the supply side as it hinders the demand side to meet each other though few issues are dependent on the willingness of the demand side which is identified as self-exclusion. Affordability refers to the costs in terms of minimum balances and fees to obtain financial services, as claimed. To open a checking account in a commercial bank some country may claim a deposit of amount higher than the national GDP( gross domestic product) per capita e.g. in Cameroon it requires 700 dollars. Thus eligibility refers to required documents for opening an account or for applying to get credit e.g. National Identity Card and collateral for loan which determines and indicates who can access to which type of services (Beck, Demirgüç-Kunt and Peria, 2008). These can be measured by counting the required documents to open a deposit account or to apply for the credit and asses how do the procedures make barrier in reaching them. In Bangladesh there are also minimum charges which may vary from institution to institution though central bank has few instructions but for commercial loan financial institutions want collateral and for MFIs there are no such barrier. Another barrier therefore may be discussed as Product and service design barriers. The products and services offered by the financial intermediaries may not be well-adapted to the needs of people. This flexibility or rigidity needs in-depth qualitative analysis. As example a Financial Institute may offer a deposit scheme for the public all over the country with a minimum installment of BDT<sup>2</sup>. 500.00 monthly which will be matured after five years with handsome interest provided that the installment should be paid regularly failing which the deposit holder will be

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<sup>2</sup> BDT refers to Bangladesh Currency as Bangladeshi Taka. 1 US Dollar = 78.15 BDT, in May, 2016.

penalized for an amount not less than 5% of the installment for every failing month. This type of forced and optional savings is lucrative but the range of amount and condition may be barrier for rural and low-income or seasonal income holder.

In general Credit services of microfinance sector are not common across the institutes. It is classified into six broad **groups**.<sup>3</sup> It is widely recognized firstly that MFIs are giving credit to poor and micro-enterprises though their move towards business entity/ entrepreneurs are comparatively new. Even the recent paradigm shift of MFIs from group based credit to individual credit and choosing men instead of women is gaining ground. Secondly the change in rural economic activities such as growing Rural Nonfarm RNF activities is important to focus the overall economic activities with new importance. And most of the RNFs are situated at rural market in clustered form. Because of the easy availability of data from primary source we have focused these market and its adjacent areas where most of rural enterprises are of RNF group. Few other agrarian initiatives from surroundings have also been emphasized. Though this research is not focusing the poverty reduction or house hold level financing directly yet the rural enterprises are not separate from household. The initiatives of the very poor and their activities to get finance commercially are not easy. Poor people are helpless and when they are utterly destitute, they need their entire income, or more, just to survive keeping no margin of deposit for future investment Sachs (2005). Most of the rural enterprises do not have separate entity. The income, expenditure and investment are amalgamated with the house hold issues.

On the other hand, historically a great deal of earlier initiatives of MFIs were devoted to eradication of poverty and creating income generating activities, etc. focusing women and disadvantaged by disbursing small and scant amount of loan. In such cases an underlying prejudice in society is that the MFIs are born philanthropic with specific objectives to help the poor being patronized by the western donations and other supports keeping the activities totally out of the national financial system. But our point is extremely diverted from that business having a focus on commercial lending which can at least be compared to that of commercial banking. Through the passage of time the paradigm shifting of MFIs both at objectives and area of hemisphere has invited a look into the affairs. So how the MFIs are giving donation or disbursing subsidized loan to how many poor women or how do the write-off policy work or grant capital is not important to our research theme. We therefore want to focus the revolutionary change of MFI activities behind the public eyes through practicing

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<sup>3</sup> i) general microcredit for small-scale self-employment based activities, ii) microenterprise loans, iii) loans for ultra-poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management (<https://www.bb.org.bd/fnansys/mfi.php>). Not necessarily all MFIs are providing all these services.



disbursing small loans to remote areas and developing the “State-of Art” of banking outside the landscape of commercial banks and how they have gradually infiltrated into the financial system at the remote geographies. Of course the rural enterprises are the concern that gets commercial loan from these MFIs being geographically and culturally favourable. In such cases the definition of commercial loan in respect to MFIs and their borrowers matter in two specific ways. The single lending amount of BDT. 30,000.00 and above ( during the fieldwork) is considered commercial loan, now it is enhanced to BDT. 50,000.00. We would consider the previous one. Secondly from the demand side when a single borrower takes loan from several sources for the business purpose and if the total amount exceeds BDT. 30,000.00 we would consider his borrowing as “Commercial Borrowing”. Therefore both the commercial lending and commercial borrowing would be assessed for our research. Another concept in the society is – that MFIs are patronizing women and empowering them both in family and society by making them economic active. Practically thousands of women are getting such loans and doing well. They are getting the media coverage globally and attracting the donors attention creating an image of the MFIs and their contribution. But in such cases almost all the disbursed loans are extremely focused and micro loans those are automatically excluded from our research area. So, things must not be wondering when a great deal of issues will be depicted without touching the involvement of women and their borrowing.

Considering the above issues, of course we are not analyzing or interpreting the whole financial inclusion and exclusion. We are telling about rural enterprises in rural context or we are not advocating in the favour of any particular system or policy. We have the limit and gravity shaped in scopes. We do emphasize on few subjects and their surroundings like Bank, MFI, Rural Enterprise etc. Though it would of course always not be possible to make sharp difference of the meanings what we mean and what we see in a local settings not because we are reluctant but because of the overlapping concepts and ambiguity of the issues and as things are getting change through time and space we look forward as much as we can.

### **1. 3. Problem and relevant issue discussion:**

#### **1.3.1. Geography of Financial Intermediaries in General:**

Geographical distance between Financial Intermediaries and rural enterprises due to spatial arrangement of formal financial Institutions avoid prospective entities in reaching their door. Rural remote area faces this geographical hindrance more acutely

because the access is slippery as it is less a geographical location than a highly-contextual frontier with various aspects (Lee, 2006).

The problem of reaching Rural Enterprise by Financial Institution or vice-versa can be explained through multi-dimensional lenses to detect geographic barriers and limitation of institutional good practices. Worldwide lack of enough money is the most common cause of not having a formal account. Globally 65% adult face this problem as happened due to lack of money, distance from bank, irregular and uncertainty of income and few expenses related to it. But bank branch penetration level stands as a big indicator of financial inclusion (Demirguc-kunt and Klapper, 1912). Barriers across the developing nations are commonly identified as Physical access, Affordability and Eligibility. However, the first barrier is purely geographic wherein the geography itself creates barrier or relax the barrier. The second and third issue i.e. affordability and eligibility are embedded characteristics of the people or group of people or the enterprises as a separate entity within a geographic area. Lack of necessary document to open account and apply for loan with collateral guarantee, fees and costs to open account and apply for loan are major barriers considered as eligibility and affordability. When financial institutions usually require one or more **identification documents**<sup>4</sup> in many low-income countries, people those are not employed in the formal sector fail to produce the requisite documents (Beck, T.; Demirgüç-Kunt, and Peria, 2008). Informal firms have the same problem to establish their identity as a feasible potential one to rely on. Whatsoever the matter stands for, World Bank identifies Lack of access to finance is the biggest operational challenge. Around the world vast majority of firms are microenterprise and about 80% of microenterprises and SMEs are informal. Most of these are in developing economies including Bangladesh having no exception facing lack of access to finance is considered as the biggest operational constraint (Farazi, 2013; World Bank, 2014).

The established notion is- that the financial markets do not work in a space-neutral way (Klagge and Martin, 2005). The importance of territories and, in territorial economics space becomes a territory which is no longer neutral in the economic process, since it becomes an economic actor. Thus, it develops not only generic resources, but also and above all, specific resources such as competitiveness, attractiveness, knowledge, networks, etc., resulting from agglomeration effects (Djine, 2012, P. 196). So the characteristics of the geography have strong effect on the location. In low and moderate income countries people are excluded from the formal

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<sup>4</sup> Other than conventional concept regarding these documents it can also be explained that it's use as a National and human constraint in the space matter in financial service within a given space or territory.

financial system and denied access to mainstream retail financial services either directly or indirectly. Financial exclusion has an active role in the geography of poverty and logically people those are poor and financially excluded seems to be among disadvantaged social groups facing multiple forms of social deprivation (Leyshon and Thrift, 1994). So Barriers to financial outreach in remote and rural areas generally include poor infrastructure, bad geography, the weak legal framework and low population density (Gulli and Berger, 1999). Financial exclusion refers to the process that hinders poor and disadvantaged social groups from gaining access to the financial system, it has important implications for uneven development because it amplifies geographical differences in levels of income and economic development. If gaining access to credit from the financial system is determined by income and wealth then, the geography of income and wealth shapes the geography of access to the financial system. Geographical variations in access to the financial system deepen and accentuate prevailing levels of uneven development (Leyshon and Thrift, 1994). For access to credit services, there are two important specific problems. Primarily the poor have no collateral and cannot borrow against their future income because they may not have steady income to pay properly. Secondly small transactions are costly for the financial institutions. In this situation the microfinance institutions those are already serving the poor have tried to overcome these problems in innovative ways. Cultural prejudices and poor economy matter. Poor clients may encounter prejudice, for example being refused admission to banking offices. So a nearby bank office may not bring any positive impression to them (Beck, et al., 2009). The said cultural barriers as status factor are common problem in Bangladesh. Private banks have very much gorgeous office with eye catching ornamental decorations, costly fittings having their employees well-dressed eventually separating them from the ordinary people. People from the outside do not feel easy to knock the door or propose any need to them. Only the elite or established people dare to do so. Moreover the financial and credit culture is different. Banks do not approach from their own to the clients for their product. The customers come to them with their want. The new trend of private banks has changed these motives and the employees approach to prospective customers to sell their product, who normally have cordial entrance into these establishments. But these are being limited within the urban area and among the valued prospective clients keeping the main differences intact like before. In most cases these are about deposit campaign rather than searching credit clients. The BRAC Bank has taken few steps to approach to prospective clients from their own to lend. Even access to external credit is not simply a matter to satisfy various selection criteria of a particular financial intermediary but also a product of the socially arranged opportunity structures within which it (firm) is

embedded' (Uzzi,1999). Even the reluctance in lending to rural small firms generates from the fear of being defaulted against less valued collateral as asset. Finally there may be an absence of financial institutions in rural areas (Pandula, 2011). Though financial institutions do enter rural areas, they tend to limit exposure to agricultural finance and to favor clients with established credit histories and significant collateral (Wenner, et al., 2007). It is argued that a large proportion of populations in many developing countries do not use financial services because of geography or physical access as one major constraint (World Bank, 2007). Thus - geographic distance to the nearest branch, or the density of branches relative to the population, can provide a first crude indication of geographic access or lack of physical barriers to access (Beck et al., 2007). And more geographically centralized is a country's financial system, the more difficult it will be for firms—and especially small firms—in peripheral regions to access funds (Klagge and Martin, 2005). Small firms and firms in countries with poor institutions use less external finance, especially bank finance (Beck, Demirgüç-Kunt and Maksimovic, 2008).

Even, other than location arrangement it is established that remote REs have no access or limited access to formal financial institution because typically they do not have reliable credit histories and asset for collateral (Alam and Ullah, 2006 ; Berger and Udell, 1995; 2006; de la Torre et al., 2010; Zeller et al. 2001).

### **1.3.2. Bank Branch in Bangladesh:**

Two decades back, the financial sector of Bangladesh was relatively at an early stage of development in terms of the diversity and the range of products offered by financial institutions (Charitonenko and Rahman, 2002). The establishment of private commercial banks has brought in substantial change in the geography of banking layout which started a decade after the liberation(1971), though government acquired the existing banks of its previous state. Situation has changed over time. The state owned banks, private banks and specialized banks have separate philosophy in choosing their locations of branches. Number of operating branches of all scheduled banks reached at 9,397 at the end of December 2015 of which 4,063 ( 43.24%) are in urban areas and 5,334 (56.76%) are in rural areas (Bangladesh Banks, 2015). This network is serving an area of 147,570 sq. km with its population of around 160 million. Bangladesh has 70.47 commercial bank branches per 1,000 square kilometers and 8.21 branches per 100,000 adult people. For ATM penetration these values are 79.31 and 9.24 respectively (Online IMF Financial Survey data). It is a concern that this

financial outlet layout is clearly a geographic disparity as nearly 66.5% of population live in rural areas. Yet, it is a gradual development in financial sector compared to the recent past decades. This development occurred due to a regulatory binding to open rural branches upon some conditions, which has failed in objectives due to fast growing urban capture (Beck, and Demirgüç-Kunt, 2008). However, a branch in rural area does not automatically mean the remote area is served. The specialized banks and nationalized commercial banks having large branch networks in rural areas, most of their lending is not targeted to the poor because of conventional banking (larger loans requiring collateral) (Charitonenko and Rahman, 2002). Expansion of bank branch to a broader geographic area does not automatically confirm the development of attitude towards backward client. So keeping the lending policy, marketing strategy and contractual agreement like before the branch expansion have mainly become limited in exposure.

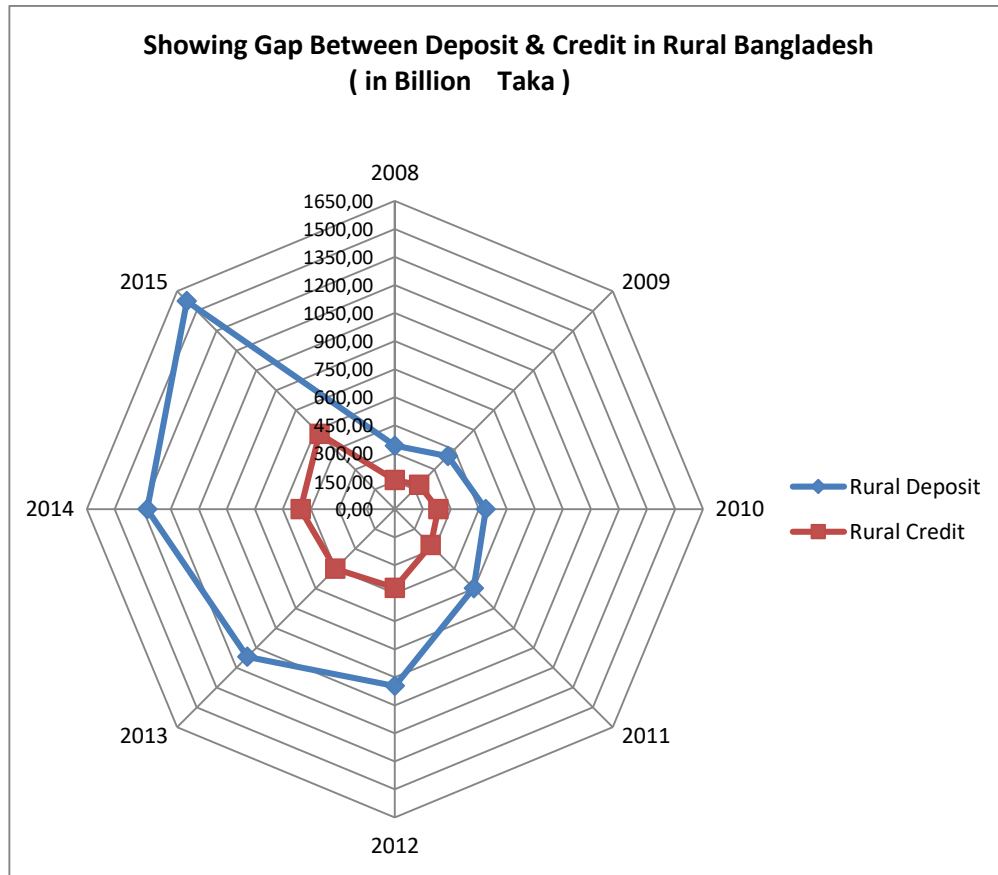
Following the independence of 1971 from Pakistan, Bangladesh had to make strategies for financial reconstruction. **Thana**<sup>5</sup> headquarters being comparatively a better well endowed areas in rural settings were considered as growth points for all sorts of economic, commercial, and financial activities. Not necessarily this was the choice but had to choose as no other better options were laid. Rural bank branches were established therein (Mallick and Nabin, 2011). The nationalized commercial Banks and specialized banks (recently marked as Development Finance Institute) for rural agriculture development were the only means of banking service, functioning all over the country, till 1983, until establishment of private bank. Two specialized banks were established providing subsidized credit to the root level beyond the limit of urban capture and disbursed a huge amount of loan (Alamgir,2009; Charitonenko and Rahman, 2002) without maintaining any professionalism. Banks without bankers was a playground of others. Management loopholes, weakness, politicization, bureaucratic chairs as bankers all these gradually failed to bring any fruitful result to the citizens (Beck and Rahman 2006; La Porta et al., 2002). Even the agricultural loans were channelized to the rural elite as the geography of power is active through the bureaucratic and political chains. Newly established private banks have changed the scenario overnight in commercial dealing yet they were mostly confined to cities. The major geographical expansion into rural areas occurred faster due to regulatory bindings to open branches in rural areas. Commercial private banks avoided most rural

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<sup>5</sup> Thana is literally police station, later on the jurisdiction has been upgraded to Upazilas with broader administrative responsibilities; in a few cases, more than one thanas were combined to form a larger Upazila

areas (Alamgir, 2009; Beck and Demirgüç-Kunt, 2008; Khandker et al., 1995; Zeller et al., 2001).

**Diagram No 1. Gap between Deposit & Credit in Rural Bangladesh**



**Source:** Adapted from <Bangladesh Bank (2008 to 2015). *Scheduled Banks Statistics, October-December, from 2008 to 2015, Bangladesh Bank, Dhaka*>.

The service of commercial banks in rural areas could not arrest to all range of expansion instead. Basically they channelled the rural savings to urban credit only (Ferrari, 2008). It is observed that the huge gap between rural deposit and rural credit in formal banking sector indicates a clear fund diversion from rural to urban points. Rural deposit consists nearly 17-18% of total bank deposit whereas, the rural credit is only below 10% of total bank credit. *And every year more than 60% of rural deposits are being channelized to urban appetite, showing a clear discrimination and deprivation through policy limitation of spatial banking regulation. It is a very important issue that can be brought on the highlight though this is not within the scope of this research but relevant enough as a cause to make relation between the underfinanced and their right over their regional deposit.* It is found, that in the last eight years the gradual increase

of rural deposit from Taka<sup>6</sup> 339.86 billion to 1575.09 billion consequently facilitated a rural surplus deposit from Taka 184.20 billion in 2008 to 1004.03 billion in 2015 as diverted fund (BB, 2008 to 2015). The diagram No 1 shows a picture of probable fund diversion from rural to urban areas.

However, in recent years the insolvency in state owned banks including specialized and private banks have become a common cancer of the economy. This is open secret and people have become habituated to everyday daily news of rising non-performing loan (NPL) at an alarming rate across banking institutions. The non-economic causes behind rising NPLs are identified as governance constraints, inefficient fund management due to unskilful project appraisal, directed lending by the State Owned Commercial Banks (SCBs) and Development Financial Institutions (DFIs) including legal procedures. Moreover some risky projects have been financed under lower value collateralization and with high interest rates hiding the actual market conditionBB (2017).

Thus the insolvency in financial sectors is being continued and the bottom line are kept away to ask for because daily newspapers are expressing news about resource accumulation (loan) into few hands.

**Table 1: The non-performing loans by type of Banks.**

NPL Ratios (%) by Type of Banks from 2008-2016									
Bank types	2008	2009	2010	2011	2012	2013	2014	2015	June, 2016
SCBs	5.4	1.4	15.7	1.3	23.9	19.8	2.2	1.5	25.7
DFIs	5.5	5.9	24.2	4.6	26.8	26.8	2.8	3.2	26.1
PCBs	0.4	0.9	3.2	0.9	4.6	4.5	0.9	0.9	5.4
FCBs	0.9	0.3	3.0		3.5	5.5	0.3	0.8	8.3

**Source: BB (2017).**

A common issue for Small firms is to face high costs attributed to monitoring, screening and information asymmetries from the lenders/investors which increase with distance from the financial center (Klagge & Martin, 2005; Pollard, 2003). So the absence of a financial institution in a rural area pushes them to this mechanism for getting finance from the next nearby point. The consequence of this phenomenon is clearly credit rationing (Stiglitz and Weiss, 1981). This problem is exacerbated when borrowers are poor and cannot present adequate collateral. Thus, bank lending is not

<sup>6</sup> Taka/BDT refers to Bangladesh Currency as "Bangladeshi Taka". 1 US Dollar = 78.15 BDT, in May, 2016.

very frequent for rural and remote people. Problems are also many folded and multidimensional. The attitudes and the overall policy of the sector and management decision are highly interrelated to expand services to rural areas. The two government owned development bank i.e. Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB) play few significant role in rural market. But these are insolvent due to implicit government policy of using the banks as insurers of last resort and as vote banks. Evidences show that after natural disasters and before elections, interest and sometimes principal on agricultural loans under Taka. 5,000 are often waived. Banks in Bangladesh find it difficult to serve Micro, Small, and Medium-size enterprise (MSME) profitably due to contractual arrangement, legal and regulatory framework and also expensive to serve this market segment. On the other hand during lending, banks make no distinction between large corporations and smaller enterprises in terms of the products and services they offer, demands in the market and procedures they apply. Finally banks do not segment MSMEs and they have weak organizational structures and monitoring tools conducive to achieving high efficiency. Bank intermediation in rural areas remains comparatively limited with the effect of transferring 50% of fund to urban areas deposited in rural area (Ferrari, 2008). Commercial and foreign banks are not always able to reach micro-enterprises and the very poor (Beck and Demirgüç-Kunt, 2008; Beck and Peria, 2010; Clarke et al., 2005). Private banks play a negligible role in rural areas of Bangladesh (Zeller et al., 2001). The incentives and business possibility is less attractive in rural areas against enough earning for private banks in urban areas. So the increase of branches in rural areas happens due to regulatory bindings of the central banks with an operational incentive to work as a fund transferring agent from rural to urban base. Generally lending in rural areas involve MSME and Marginal, Small, and Medium-size farmer (MSMF)—which banks cannot serve profitably under the current legal and regulatory framework having the current lending technologies in practice and such lending is not easy at all. Lending to farmers is more challenging with uncertainty of return because it involves weather risks, lack of distribution channels, seasonality, low unit size of transactions and high operating costs (Ferrari, 2008; Zeller et al., 2001). And even if the MFIs expand their services they tend to be limited to cater to their objective based landless borrowers and do basically lack the appropriate lending methodologies to serve larger, more complex clients (Ferrari, 2008).

Another common problem for rural bank in global context is subsidy. Large, subsidized national development banks have gone bankrupt while the subsidies have been withdrawn with its immediate effect to shrink services for marginal clients.



Governments in many developing nations face a quandary over the fate of state owned development banks- those focused the agriculture and rural development. The main objectives of establishing these banks were to provide subsidized credit to farmer with a philosophy to help the remote backward agro-economies. Thus the service was deliberated through extensive branch networks rooted into the remote villages . Poor performance and bureaucracy as a banking service has evidently failed keeping the vast majority of the rural economy underserved by financial institutions (Rhyne and Christen, 1999). Moreover, banks have followed administrative (Khandker et al., 1995) and local government hierarchies in choosing remote rural branch location in case of state owned Banks. Once they have been converted into commercial financial institutions they are supposed to be guided by market principles rather than following administrative culture of the society. But the government can not act as a business entity keeping all most all the nation in a remote village. So a clear cut dualism both in branch placement and banking operation is evident in the financial and specifically in the Banking sector of the nation. Secondly, The government's policy of encouraging banks to expand in rural areas has had mixed results. There are also problem regarding Elite Capture. An important criticism is that elite capture has rendered the bulk of state-led credit programs ineffective. This, in turn, has created an option to replace banks with microfinance operations (Burgess and Pande, 2003). The importance of banks and cooperatives in rural areas has declined, while the importance of MFIs has increased regarding lending (Ferrari, 2008 ). This led to financial dualism wherein formal subsidized low-interest funds are concentrated in the hands of the few powerful of the society who are also politically involved (Braverman and Guasch, 1986; Hoff and Stiglitz, 1998).

The location pattern of Private banks has followed market principle rather than considering administrative hierarchies from their very inception. The branch location factors are identified mostly as level of income, branch functions, competition, land value, growth potential, and the number of financial institutions (Nelson,1960; Park and Lee1993; Weon et al., 2010). Building availability, suitability, construction costs, taxes, development incentives, availability of utility services and transportation, market areas of competitors as well as factors related to quality of life are assessed during branch placement. Commercial banks mainly target urban areas. There is also a security problem for financial institutions in rural remote areas that is always being considered during establishing a branch. It is important that bearing cash to and from bank either by bank or its customers naturally involves security issues those have strong effect on distance between these two. The risk tends to be more intensified when the cash

amount is comparatively higher. This has simply controlled the geography of bank. Globally on average, only 24% of all bank branches are in rural areas (Ardic et al., 2011). This global statistics of rural branch apparently may be a little bit contradictory to that of Bangladesh as stated earlier. This is because of the definition problem regarding **urban and rural bank**<sup>7</sup> realized by various sectors which does always not comply with administrative and natural geographical context.

### 1.3.3. NGO-MFI in Bangladesh:

On the other hand the characteristics of NGO-MFI (Non-Government Organization- Microfinance Institute) regarding their objectives and location pattern differ a lot from this banking sector. In the last three decades Microfinance has played the dominating role as a powerful tool in changing the lifestyles and economies of the millions of low-income household and enterprise of the world by giving credit and savings services, who did not have any access to formal Financial Institutions (Armendariz and Morduch, 2005; Presbitero and Rabellotti, 2014). Microcredit programs of NGOs (known as NGO-Microfinance Institutions or NGO-MFIs) and Grameen Bank (of a separate legal status) play dominating role in this financial market, specially the rural credit market. Though still hundreds of institutions are actively operating their microcredit programs, only few are remarkable. Up to June, 2015 all over the Bangladesh 697 MFIs have been licensed having a network of 15,609 branches excluding more 2568 branches of Grameen bank. Only 10 large Microcredit Institutions (MFIs) and Grameen Bank cover 87% of total savings and 81% of total outstanding loan of the sector. These programs support Various income generating activities involving directly around 30 million poor people all over the country who are being directly benefited from microcredit programs ([MFI Info](#), 2016; [http: MRA](http://MRA), 2015).

However the origin of the current microcredit model can be traced back to action-research in the late 1970s. The early 1990s was the period of rapid expansion of the Grameen-style microcredit approach. A common conjecture, though it is the reality-about MFI is that they work with the poor and primarily with the poor women to eradicate poverty. So a concept of doing business as a MFI and financing other business was basically absent in the founding ground of MFIs. Today's wave of financing RE is a result of experience through all the last three decades and as a response of rising new wave of demand in the market that lead to financial market development by shifting its primary goals and philosophy of social development to rural

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<sup>7</sup> A bank branch within the municipality area is considered as urban branch and outside this jurisdiction a bank branch is called rural branch.

business by developing rural financial market. The earlier problem of gender bias has strong impact on the distribution of loan portfolio with 90 % of MFI clients are women and the average loan size is about BDT 4,000 (\$57). (IFC). This has absolutely pushed the biggest active male out of the financial opportunity offered and disbursed in Bangladesh through Development Organizations. Bangladesh is a society predominantly dominated by male with Islamic belief and culture though in fact the liberal muslim culture of this nation did not raise any barrier.

But a basic problem of MFI's client development exists in its policy limitation as MFIs are constrained by the lack of savings mobilization publicly and their reliance on donor resources and other sources (World Bank, 2007). Moreover a large share of microcredit clients use their loans for consumption rather than investment purposes for income generating activity due to absence of adequate savings instruments (Beck and Demirgüç-Kunt, 2008). Micro-credit is the most common microfinance product, a small loan to invest in an income generating activity and when it is used in other purpose instead of investment, the financial capital is obviously decreased leaving no additional means to generate further capital to repay the loan (Vanroose, 2007). This weakness of product design and limitation in diversification is a barrier for borrowers to develop. On the other hand capital is expensive and lending money is not costless as the enforcement of repayments, accountancy and management including the storing of money and information impose expenditure. A large part of these costs are independent of the amount and type. The overall procedures and maintenance is always the same no matter how small a loan amount is. This makes microcredit relatively expensive than conventional bank loan leaving MFIs with a smaller profit margin (Casini, 2008). Certainly finance is not the charity and therefore institution building and innovation can be significantly fostered by public investment. Somewhere, environments may be so hostile in developing financial sector and public investments in MFIs will certainly generate a negative social return (Zeller et al., 2001) and MFIs had to rely on subsidy or donation at least at the beginning (Zaman, 2004).

#### **1.3.4. Rural Enterprise and Problems:**

Financial Markets in Low Income Countries are characterized by fragmentations and imperfect market conditions (Ghate, 1992) like Bangladesh. The formal and informal financial systems co-exist and operate side by side with one another creating a complex situation wherein, dividing line is not so clear-cut. Each segment of the

financial market provides credit services that differ from each other. The differences are multidimensional ranging from its product design to target groups.

However, rural financial environment in Bangladesh is less impersonal, less documented and culturally through history based on soft information. It is evident that most REs do not have access to credit either in Bank or MFIs. Due to heterogeneous characteristics, smallness, opaque nature and informal structure, the RE lending requires relationship based lending that demands more geographical proximity with lending institution. In Bangladesh like other developing countries formal SME (Small & Medium Enterprises) having a relatively solid bottom line is being mainly handled by commercial banks. Meanwhile microfinance is covering extremely poor and small groups. So an Air Pocket exists between the two groups and the “Missing Middle” enterprises within the bracket of the “Air Pocket” had been underserved or underfinanced. These are in fact Micro and small enterprises. This is a critical market segment in the field that simultaneously support for both growth and poverty alleviation by creating employment. In recent years the paradigm shifting in financing small enterprises is seen as a response to demand and supply side changes in the traditional microfinance market. Gradually market has also become crowded (Mehnaz and Sulaiman, 2005).

Lending to slightly higher cousin of Micro-enterprise is not easy within existing financing practice. Neither is it too small to attract microfinance nor so formally documented to ask for a commercial loan. The vast majority of SMEs are small. These SMEs stand in between the target clientele of MFIs and banks. Loan sizes demanded by small businesses are generally too large and beyond the capability of MFIs being the demand ranging from **BDT**<sup>8</sup> 20,000 to BDT 500,000 (\$287–\$7,170)—(IFC and KFW, 2009). However, as the year passes this amount vary and increases due to inflation and growing demand. The lack of growth capital during take-off period of “most successful Microfinance clients” strangulates its next acceleration and diverts again to a continuous doldrums of poverty cycle due to inability of MFI-scaling up to non-poor customers as they grow richer (World Bank, 2007). This demand is almost similar to that of small business demand. Micro and small enterprises have been shown in several studies to be largely underserved which is conceptually a segment identified as “missing middle”. Although there is generally a good supply of credit, another two groups remain underserved in Bangladesh: the poorest of the poor and “graduating” microfinance clients (IFC and KFW, 2009). Yet, this is a critical market segment to

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<sup>8</sup> Taka/BDT refers to Bangladesh Currency as “Bangladeshi Taka”. 1 US Dollar = Taka 69.69 ( Reporting time rate)

support for both growth and poverty alleviation through employment generation. These SME ventures in Bangladesh are depended on personal savings, family or other informal credit sources. The successful story of Microfinance around the world circulated within decades not because of its management or portfolio but because of the “Lending Technology” that made things viable to reach to the poor and remote geographies wherein the conventional financial institutions failed to dare to infiltrate. Group based lending technology to shoulder the risk of failure of borrower to the whole group as a peer pressure made the repayment percentage higher. Unfortunately the successful and promising entrepreneurs can not rely on this binding and can not make him a same of the fellow for the time unlimited. Their demand and growth make contrast with that of the lending procedure. The procedure of policy success for poverty reduction and giving subsistence for the lower strata of the economic activity is not a lucrative initiative for creating business with continuous promise specially for Missing Middle group. Realizing this market failure attempts have recently been made to cater to it by scaling up. Few MFIs started paradigm shift to individual loan from group liability to cater to the individual growing need (Beck and Demirgüç-Kunt, 2008) and began to expand their loan ceiling for inclusiveness at least for few enterprises though at the bottom end. Paradigm shift has been introduced by ASA (Association for Social Advancement), BRAC(Bangladesh Rural Advance Committee) , and PROSHIKA (Mehnaz and Sulaiman, 2005). But the result of such initiative is mixed. After all these initiatives, the demand remains largely unmet. SMEs—the “missing middle”—face additional hurdles to accessing finance. Presently these expansion towards bigger business activities in rural areas is becoming an objective of the MFIs.

The rural Bangladesh is predominantly an agrarian society and when we talk about rural economy we mostly mean rural primary economic activity. But in recent times the growth of “Rural Non-Farm (RNF) activities” has attracted the attention of Financial Intermediation because of its round the year everyday active programme compared to agriculture and it diverts the risk of MFIs to invest on agriculture which certainly face weathering risk and uncertainty of productivity. Moreover, agriculture is a seasonal and slow going prospect that has many other uncontrolled factors behind its productivity. Apart from it, a significant portion of these RNF is rural micro-enterprise. These are mostly tiny and family operated existence. Most of the enterprises are situated in the rural market areas and are involved with trading and other service related activities like grocery shop, medicine shop, cloth and garment selling, rice mill, restaurants and so on. The basic characteristics of these enterprises are remarkably a take-off from traditional farming i.e. agriculture, though their link with agriculture has not

been stopped, rather, agriculture stands as a source of further income. It is argued that credit is a constraint for micro-enterprise profitability. In rural Bangladesh generally the lack of access to loans from formal financial institutions, pushes them to informal source and subsequently this access barrier to affordable finance rather than the non-credit constraints (e.g., lack of demand or access to infrastructure i.e. transportation and electricity) matters significantly in restricting microenterprise growth. Almost 85 % of startup capital of rural microenterprises in Bangladesh is coming from informal source (Khandker et al., 2013).

Even most of them have never or did not apply for a loan in few years back while the credit institutions were less decentralized. 40% of these enterprises cited the high costs, direct and indirect. Direct costs include interest rates and other transaction costs (such as for documentation, including financial statements, titles, and the like). Indirect costs include long processing times (which translate into missed business opportunities) and intensive application processes requiring many meetings between borrowers and banks (again translating into missed opportunities). Once all the required documents have been submitted, it takes an average of 40 days to get a loan from a bank and 28 days from an MFI. Bank procedures for lending to MSMEs are too complex for them, making such lending is unnecessarily time consuming and costly for both the banks and the businesses. On average it takes a bank 29 steps, 9 staff, and 50 documents to issue a loan to such an enterprise—leading to a total approval time of 30–80 days once all the documents have been submitted. For banks to make a profit serving such enterprises, under current cost structures, each loan officer would have to make at least 8–10 loans a month. For a 300,000 taka loan the borrower must pay, on average an additional 6.6 % for legal fees, collateral registration, and documentation (such as preparation of financial statements, business plan, etc.). So bank finance is too costly and complex keeping the last resort open to go to MFIs. Finally, while MFIs operate in rural areas, they focus on the landless and do not have appropriate lending methodologies to serve larger, more complex clients (Ferrari, 2008 ). However due to credit determinants of MFI these Missing Middle /SME is once again remained credit constrained. One of its main exogenous determinants has been recognized to be the eligibility rule for programs that is the ownership of less than 0.5 acres<sup>9</sup> of cultivable land (Pellegrina, 2011). The biggest anomaly is among medium-size farmers—especially those possess 5.0–7.5 acres of land, who have the worst access to credit. Only 12 % of these farmers have access to formal credit being the lowest share among farmers group and 40 % are excluded from any credit being the largest share among

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<sup>9</sup> 1 Square Kilometer = 247.105 Acres

the groups. Among farmers for access to formal credit, MFIs focus on the landless while banks focus on medium-size and large farmers. However, 20 % of marginal and small farmers borrow from both banks and MFIs. A big problem conceptualized by the theorist is that the financial services are not right of the citizens. Because financing conceptually and also as in practice is a costly service. Its mechanism is highly involved with market principle surrounded by business demand and earning profit. Secondly, geography does matter. The economic geography separates the rural characteristics from that of urban one by its economic activities wherein, Institutional financial activity generally flourish as a tertiary activity that is usually not supposed to grow and flourish in rural areas on in a full swing. But in recent times the access to financial services may be viewed as a public good like safe water, basic health service and primary education is gradually growing (Peachey and Roe, 2004). This is a development in the western conceptual framework.

In general financial institutions are likely to be located in rich neighborhoods — banks simply may not be near the poor (World Bank, 2007), whereas, the rural location is adorned with lower population density, low level of infrastructure, weak market and low level of income (Zeller et al, 2001). So government intervention and regulatory bindings play vital role in development of rural financial institution.

So all these problems within the set of a geographic context, are very much interrelated within the financial texture of the deeply rooted social phenomenon. While we explain, we look through various perspectives and shed light accordingly. These are categorically social, economic, Institution's good practice and so on and broadly geographic. The overall characteristics of geography consequently shape the economic as well as financial structure of the area. In this circumstances neither the bank network could be extended overnight to the last remote end nor could the MFIs be developed into a full-fledged Financial Institution overnight with a view to cater to the RE. This paper is therefore, not to advocate on which type of institution is better or worse for a particular target clientele in a particular operating environment rather than to finding few answers by research. Considering the above "argument and logical" consequences the discussion leads to following research questions:

- a. What is the existing spatial arrangement of Bank and MFI in rural areas?
- b. What are the existing Geographical location factors for rural financial institution, i.e Bank and MFI? (Mostly qualitative highlights gathered from Institutional decisions and policy papers )

- c. What is the existing credit culture and savings mobilization in practice for Bank and MFI in rural areas that caters to or avoids RE?
- d. Who out of these two (Bank and MFI) offers credit and savings services more conveniently to rural enterprise ?
- e. And even if, up-scaling or down scaling is considered for a level playing ground – out of these two ( Bank and MFI) who may be at its advantageous location with its “all organizational facility” to provide with access to financial services for RE is the central question.
- f. Why there exists an imbalance between demand and supply of money in rural areas?
- g. Why do few banks take the money from rural areas for investing in urban areas of Bangladesh?

#### **1.4. Research Objectives:**

##### **1.4.1. General Objective:**

To explore the little known reality of the Rural Financial Intermediation, its' location arrangement and barrier in reaching RE and agrarian farm of rural areas and produce indication of multidimensional financial inclusion agenda. We also would like to analyze rural credit and savings culture and determine institutional good practice both for Bank and MFI at rural level. We need to compare between Bank and MFI, whether it has the advantageous spatial arrangement in rural context along with its institutional good practice and the pattern of financial inclusion determinants (creating access to finance) in reaching RE. Simply it leads to explore the financial inclusion probability in rural areas at enterprise level through two windows i.e. mainly Geographical and Institutional Good practice both for Bank and MFI at a comparative scale.

##### **1.4.2. Specific Objectives:**

- a. To identify the location of MFI, Bank Branch and RE of remote rural areas with a view to proximity to RE.
- b. To search a clue of geographical location factor of rural remote bank branch and MFI. (Mostly qualitative highlights gathered from Institutional decisions and policy papers )
- c. To find out that which one of these two institutes (MFI and Bank Branch) stands at advantageous position regarding spatial arrangement.



d. To analyze whether this arrangement helps Rural Enterprise “ access to finance ” in context of existing credit culture and savings services and to couple the anatomy of institutional good practice and geographical arrangement of Bank, MFI and RE through their evolutionary process of expansion.

e. And draw an outline of steps for these financial intermediaries to reach the door of RE either by up-scaling or by down-scaling.

f. To find why there exists an imbalance between demand and supply of money in rural areas.

g. To find why do few banks take the money from rural areas for investing in urban areas of Bangladesh.

### **1.5. Hypothesis: Three Hypotheses have been selected for the research theme.**

**Hypothesis 1: The Geographic accessibility to Financial Institution for a Rural Enterprise is related to the distance between them.**

*It directly indicates that the more a Financial Institution is geographically nearer the more it is accessible for Rural Enterprise.* The Physical Proximity of Financial Intermediary ( Bank or MFI ) increases access for Rural Enterprise. The surface of the area and population density of this area where a Financial Intermediary is located, gives a measure of the accessibility to Rural Enterprise.

**Hypothesis 2: The social and economic accessibility for a Rural Enterprise is related to tolerable costing and flexible documentation of each programme or product.**

*The more tolerable costing and flexible documentation of a programme /product gives more accessibility to Rural Enterprise.* For every financial product available for Rural Enterprise, if the costing i.e. account opening minimum amount etc. remain within tolerable limit of the customer and if the documentation i.e. the requirement of various papers like National Identity Cards, Photographs etc. are flexible enough then the access to these products become more easier.

**Hypothesis 3: The Microfinance Institutes are both physically nearer and accessible to rural enterprises by tolerable costing and flexible documentation, in contrast to all conventional banks.**

This hypothesis is a bias of strong pre assumption and purely based on the hypothesis one and two which is a compound product of these. The aforesaid one and two propositions have been put in a same one and it is purposive creating the

indication that the MFIs are at favorable end proving the other two proposition positive compared to that of conventional banks.

### **1.5.1. Description for Hypothesis 1:**

Primarily the concept of proximity in between rural enterprise and financial institute is highly involved with geographic distance that indicates how far it is away from the concerned point or from one another. It can also be explained through geographic and demographic penetration of financial institution at a given area. For financial institution, branches are traditionally distributed. Bank outlet and geographic distance to the nearest branch or density of branches relative to the population are important to measure for explaining our objectives which can provide a first crude indication of geographic access or lack of physical access barriers (as explained by Beck, Demirgüç-Kunt and Peria, 2007). Simply it means the Geo-demographic penetration of financial outlets expressing the Operational Distance (OD) of financial institution in a given geographic territory. To measure this physical proximity of financial outlets relative to its population is highly influential for primary financial inclusion though the gravity depends on country specific geographic, economic, financial, cultural, institutional and regulatory (framework) characteristics. Without considering further in depth explanation this is very much important for developing countries like Bangladesh where it is important to measure the first hand accessibility rather than quality financial inclusion. But yet to guess a level of success we need to measure few depth of the service.

#### Geographic and demographic Branch penetration Indicators.

1. Geographic branch penetration ( number of bank/MFI per 1000 square km.)
2. Demographic branch penetration ( number of bank /MFI per 100,000 adult people)

Indicator 1 and 2 above measure the outreach of the financial sector in terms of access to physical outlets of the financial institution.

#### However the following procedure measure the use and Depth of Financial service indicators

3. Loan account per capita both for bank and MFI ( number of loan per 1000 adult people)
4. Deposit account per capita both for bank and MFI ( number of deposit per 1000 adult people).

Measuring financial inclusion is comparatively a new trend in the development economics to find financially excluded people across the geographies. Things are country specific and also characterized by socio economic as well as cultural texture but this methodology is widely being used by academicians, economists and policy makers worldwide. (as can be referred to Beck, T.; Demirgüç-kunt, A. and Peria 2007; Beck, T.; Demirgüç-kunt, A. and Honohan, 2008 & Honohan 2008).

Secondly, for enterprise instead of people these indicators are not the only procedure applicable for measuring access to finance. In that case measuring operational Distance (OD) for rural enterprise / SME s are important, though the indicator for measuring access to finance for rural enterprise/ SMEs are not widely used or well recognized in developing countries. The recent development in this regard may be of use and still AFI's initiatives are ongoing though they have already released a guideline as "SME FINANCIAL INCLUSION INDICATORS BASE SET" under their Guideline Note No. 16, September, However considering the previous environment we have followed procedure used by Mahagaonkar and Chaudhuri, (2009).

### **1.5.2. Description for Hypothesis 2:**

This issue will be measured by judging the degree of affordability and eligibility of a programme (credit and Savings). Affordability refers to cost that is primarily effective and measurable. Eligibility refers to qualification at demand side to fulfill the requirement of a product to have the service. Primarily this qualification indicates various documents which have to be possessed by demand side and asked by supply side. So, this measurement will find the flexibility or rigidity of a Programme / product offered by Financial Institutions in rural area and whether these are effective. The very presence of a Financial Institution is not sufficient to serve the Rural Enterprise, it is rather important that how much this Institute gives access for them through various dimensions. As our two basic indicators are credit and savings so how do the documentation flexibility of these two products makes themselves satisfied to give access to rural enterprises is a matter to be judged.

#### ***For Credit Services:***

Affordability:

- Minimum amount required for a loan application.
- Various minimum amount /fees/charges ( if any)

Eligibility:

- Number of document required

- Collateral requirement and type
- Duration of application processing

***For Savings:***

Affordability:

- Minimum balance for opening an account
- Minimum monthly deposit ( if any)

Eligibility:

- Number of documents to open an account.

And we have to judge/evaluate- that in regard to affordability and eligibility the programs are either flexible or comparatively less flexible or tough to follow the requirement.

This information may be taken from the existing official document/ literature though data has been collected from a separate common queries asked to the Managers of MFIs in the fields. Moreover question no. 28 (Is there any minimum charge for loan application? -fees/stamps etc.) and 32 (Minimum Balance required to open a deposit/savings account) of attached Field Questionnaire<sup>10</sup> have a partial solution. Unfortunately my observation in the field is peculiar. Borrowers are mostly illiterate about this information. They never think of it. They say –“ we do not know/ or may be but we do not count”. Few people just get puzzled being in a dilemma and search answer in the sky or in the eyes of the others while interviewing. The observation is very clear. It is assumed/guessed that when the fee or cost barrier is tolerable, it is not effective to their financial literacy because the borrowers have the opportunity to apply for a loan. When they need money and the scarcity of money is acute (badly needed or essential), they do not bother to the exact amount as it is tolerable. On the other hand question no. 40 and 41 have clear indication of the solution . For question no 40, (Do you think that it is difficult to get a loan from bank sources?), Out of Very Difficult , Difficult, Normal and Easy- most people answered that – getting bank loan is difficult. For this difficulty most of them showed cause by answering Question no. 41 (Which are the reasons of this difficulty in your opinion?) and stated Collateral as a cause, whereas, MFIs mostly do not need physical collateral which reflects in Question no 37. {The main cause of Choosing specific Institution to borrow/deposit.-the answer

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<sup>10</sup> Appears in the ANNEXES

is because this is nearer to their Office/home/ business point and Flexible application procedure. (flexible means less documents ).

We would be able to answer questions through various form through a mixed research methodology (Qualitative and Quantitative). However I guess that borrowers are mainly controlled by an existing conjecture being informed earlier from the society that banks are un accessible due to document barrier – which is in fact true also, so they do not try in vein to avoid attempts for failure only.

We have also the opportunity to communicate with Respondent of the Questionnaire through cell phone (in 100% cases people have cell phones) in case of any confusion or any missing of information. In fact during giving data input it has been done in few cases.

### **1.5.3. Description for Hypothesis 3:**

This third hypothesis is a composite of hypothesis one and two getting the other propositions in the favour of MFIs, compared to that of conventional banking system, that MFIs are physically nearer, financially within tolerable costing and documentation status is flexible so it automatically owes the other descriptions as stated in item 1.5.1 and 1.5.2 above.

### **1.6. Justification:**

Most of the RE finance literature regarding “access to finance” is either on policy dialogue or on the economic, institutional and legal obstacles. Geography is either neglected or poorly honoured. The microcredit literature has generally paid a limited attention to geographic issues of distance and location (Presbitero and Rabellotti, 2011). In most cases the geographical location analysis of financial institutions are based on market principles. Moreover, most available arguments do not mention RE separately rather than mixing with SME (small and medium enterprise) in a broad sense. Recent change in the western academic arena, more particularly UK and USA and also Germany has a look into the Financial Geography and Spatial structure of financial institutions. Spanish case of prioritizing financial inclusion by expanding services to all and specially the networking of savings banks have had the ever biggest nose dive after global recession of 2008. This particular withdrawal due to merger and acquisition or closure of financial outlets in Spain has subsequently attracted the global attention. In almost all these cases they focused on the economic and banking centers and networks or on the capitalization. So rural financial issues still mostly lies behind the scene and if something can be said prospectively that may be drawn on the

developing economies as they have the large number of population struggling with their economic activities in rural informal sectors.

The prospect of Bank or MFI in rural areas as a development catalyst for RE have been argued in global policy arena in many forms. The gradual change in financial demand at various levels and social as well as economic strata has strong implication on the structural layout of the financial landscape. Competition, security, sustainability, service quality and focus based expansion among same type or all types of institutions create a complex market of financial culture. The types of institutions have specific demand based focus and market. Yet a vast majority of this market is functionally underserved. At the same time a huge potential in rural entrepreneurial prospect lies unexplored due to lack of access to finance or there has been no scope in the financial planning of the nation that could bring hope to the people to take risk. Banks and MFIs have their respective operational limitation to capture the rural enterprise as a whole. Obstacles are mostly within institutional culture, organizational limitations, and regulatory bindings and sometimes related to business principles while financing means investment particularly in the capitalist view. And while the mechanism operates within a specific economic space it is broadly geographic. And who out of Banks or MFIs will advance either by up-scaling or by down-scaling from his position to tap this mostly ignored sector is also a geographic question. The evidence for comparing the advantageous position between Bank and MFI are not so evident. The institutions culture and offered facility along with its location is vital in remote areas of developing countries wherein both weak physical infrastructure and low technology adoption are hindrances.

However recent changes in financial arena all over the world, specially in developing nations and particularly in Bangladesh is a major concern. The Central Bank's agenda to expand the financial inclusiveness up to the remote area and bringing all the MFIs under regulatory supervision has invited new form of thinking to compare formal banking channels with that of MFIs. The gradual paradigm shifting of MFIs, partly a deviation from their philanthropic objectives, and their expansion into the rural financial market as a demand based catalyst having their dual objectives of doing business and poverty reduction simultaneously have attracted the attention of all concerned. The subtle infiltration of MFIs into the market has exposed a silent challenge to the existing financial institutions to expand their market into the remote rural areas without competition. The MFIs on the other hand has unconsciously or unwillingly divided the financial market into two specific limits. Gradually the financial intermediaries are exposing themselves as per geographic characteristics within a

territory under their respective economic space being it rural or urban. As we walk within the rural context, it is widely devoted to rural enterprise and rural financial intermediaries as per our objectives.

So, this research:

- Would be a unique contribution to literature exploring the inequality of financial distributive system in rural context.
- It would create a response for understanding the organizational capability and define service territory of Bank and MFI in rural configuration.
- Though not devoted to the theme, yet it would also differentiate between the kind of banking in rural context and identify constraints in rural areas.
- The implication of this research would automatically invite further research to include geography with development policy and procedure of financing RE .
- Another implication is a new thinking in policy arena. Probability of cooperation between MFIs and Banks for reaching RE at first geographically may be considered to cater the uneven development.

### 1.7. Organization of the Thesis:

With a view to give the idea of the thesis the first chapter deals to make a ground, give a conceptual framework, identify the background problems that leads to research questions, explain research objectives, tells about research hypothesis and finally explain the justification of this research work. The rest of the Thesis is organized as follows:

The **Second chapter** tells about rural economy and rural credit in Bangladesh. It explains the geographical approach to rural Bangladesh (local administration, market etc.), geography of financial intermediary in general, geography of bank branch, branch location pattern, geography of NGO-MFI, Characteristics of rural enterprise in Bangladesh, source of poverty and the inequality across Bangladesh, rural economic activity being it divided in two parts i.e. farm sector and non-firm sector and finally a discussion about the position of rural enterprise in the Dissertation. Literature Review in **Chapter Three** presents the existing thoughts and findings regarding the issues around the Title. Issues are case sensitive as the title itself has an essence of multidisciplinary complexity. Yet, to be distinctive and target oriented things like bank issues, NGO-MFI issues, poverty and rural people, geography, relationship lending and lending technology, changing technology and financial inclusion measurement have been discussed. **Chapter Four** reveals the “Research Methodology” and it gains

importance because the procedure of the whole research has been explained in this chapter. It explains the field selection procedures, description of fields, location of rural market where the rural enterprises are, indicator, relevant issue and data gathering, questionnaire and the survey, data analysis, time schedule and finally problem in field regarding proper data collection have been explained. **Chapter five** describes few in depth issues and concepts related to money and rural financing environment under the heading “Rural Financial Landscape and Institutions in Bangladesh”. Issues in this chapter are diversified and few are with small hints. Money, its exchange, Rural Informal money market and historical development, MFIs, its evolution, commercialization, objectives, sustainability, credit and savings, determinants of MFI programme participants, capability constraints, institutional design, Women empowerment, changing geography of rural financial landscape distance, etc. are described in this chapter. **Chapter six** is the core one named Data Analysis & Interpretation. The overall characteristics of data have been explained herein. The data analysis and the result have been discussed. Though the quantitative issues are the base the result scientifically yet qualitative evaluation matters. Chapter **Seven** stands as Suggestion and Recommendation like a conclusion. It is very small in size and concise because earlier chapters support as the basic background for all of these. And the last one, Chapter **Eight** is the Literature reference.





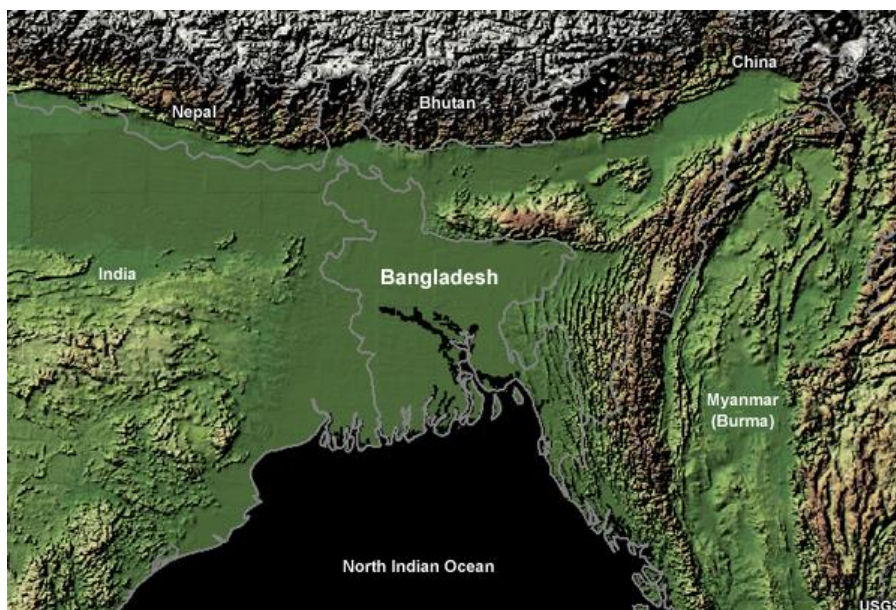
## 2. Rural Economy and Rural Credit in Bangladesh:

### 2.1. Rural Bangladesh: A Synopsis:

Bangladesh is predominantly an agricultural economy dependent country having the main productivity based on rural areas. It is a South Asian riverine, liberal Muslim country with a population of nearly 162 million (projected) and a surface area of 147,570 sq. km. With a high population density of 1,252 inhabitants per sq. km., nearly 65.7% of the population lives in rural areas, engaged in agro-economic activities (UNDP, 2017). As one of the poorest and most densely populated countries in the world; most of its land is fertile being it the delta of three major rivers. Physically the country is on the lower basin of the mountain Himalaya that made it a divine and hell both for natural agricultural productivity and regular flood respectively through decades. The rural picture of the country is not much more different from that of the other developing nations of South Asian countries. A man and a piece of land and his cows to tilt it, is the most common picture. Gradually it is getting changed. Peasants are not independent, never were they in history and they do not dream to be so in future. But the changing feature of economic activities and gradual globalization in economic productivity as well as cultural and political themes brings them an opportunity. The economic growth and rural development in the last four decades has attracted the attention of global Development Economists and policy Makers.

#### 2.1.1. Geographical Approach to Rural Bangladesh:

**Map 1: Biggest Delta on the foot of the Himalaya**

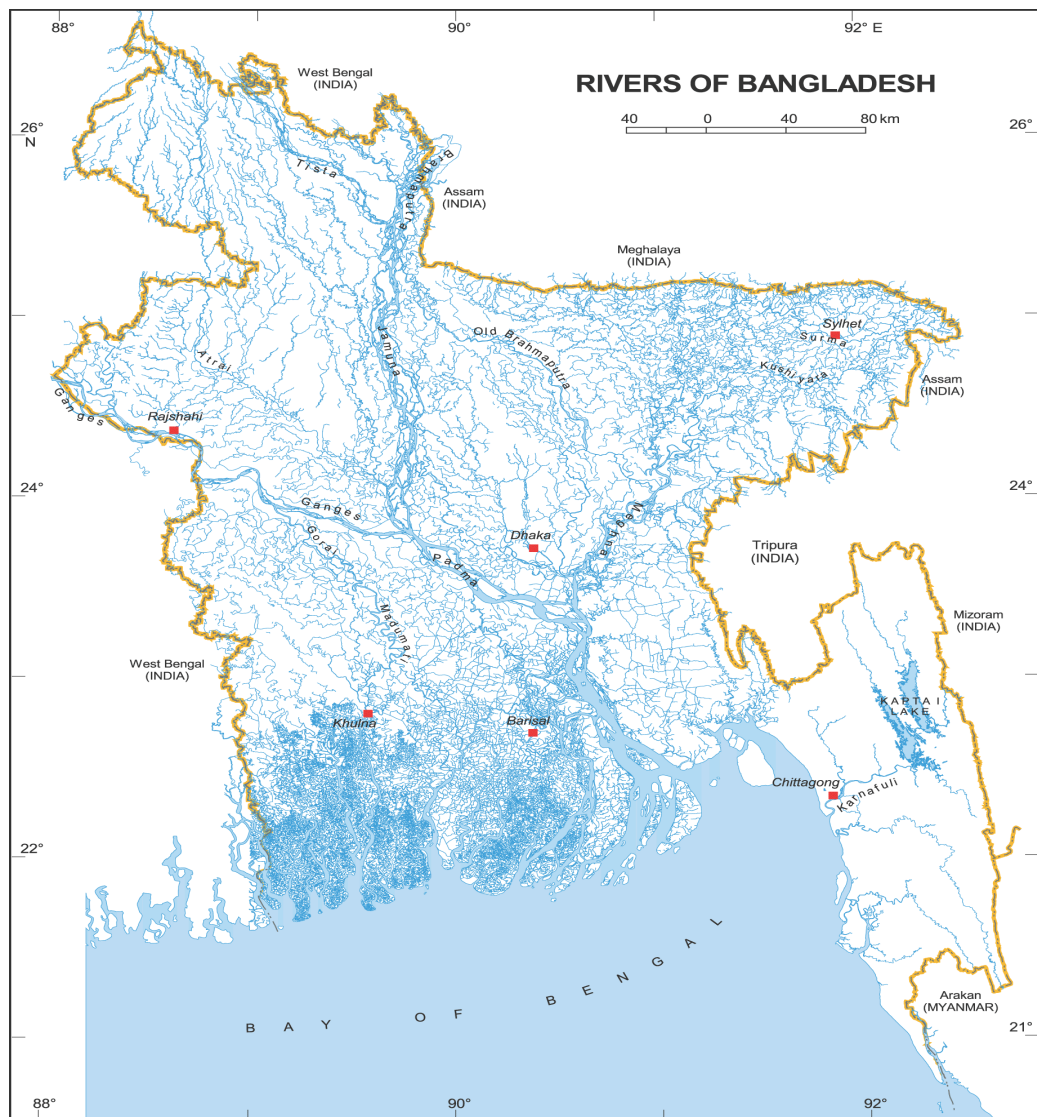


**Bay of Bengal**

**Source:** [http://www.goesr.gov/users/comet/tropical/textbook\\_2nd\\_edition/navmenu.php\\_tab\\_9\\_page\\_8.2.0.htm](http://www.goesr.gov/users/comet/tropical/textbook_2nd_edition/navmenu.php_tab_9_page_8.2.0.htm) (Directly used without any alteration)

The Physical feature of Bangladesh (Map 1) is thought to be a place of uncertain events that shines with very many issues to cope with. It is almost a plain land with exception to the eastern part being a little bit raised with mountains as a tail of the source originated in India.

**Map 2: Rivers in Bangladesh: How is it?**

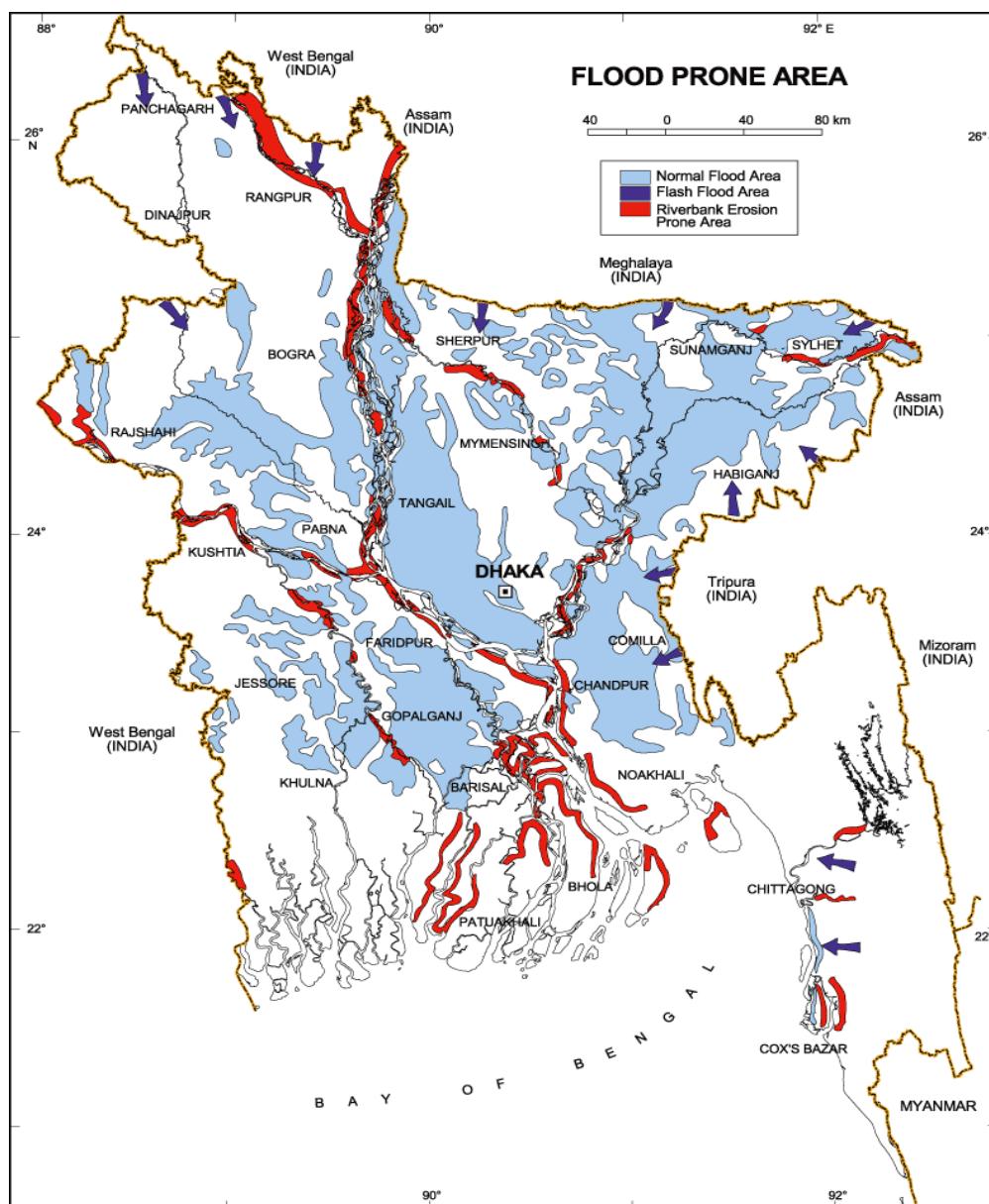


**Source:** <http://thewatchers.adorraeli.com/2011/07/27/bangladesh-floods-displace-thousands/> (Directly used without any alteration)

The riverine country having nearly 700 rivers (Map 2) including tributaries flow throughout the country to the south into the Bay of Bengal. Out of these only the Sangu

River has its origin within the country and the rests are originated across the border. It has to survive through Natural calamities like floods and cyclone. The three big rivers namely Padma, Meghna and Jamuna are the main actors of all changes that bring fertility with green smiles and floods (Map 3) and erosions with immeasurable sorrows. Dominating Tropical Monsoon Climate is the source of all hazards and production. January is the coolest month, when the average temperature for most of the country is 20 °C (68 °F) and it lowers nearly upto 10 °C. April is the warmest being it 42°C in few places for few days, though in the last few years the overall environmental situation is unpredictable.

**Map 3: Floods in Bangladesh.**



**Source:** <http://thewatchers.adorraeli.com/2011/07/27/bangladesh-floods-displace-thousands/> (Directly used without any alteration)

Almost, 2000 mm of rainfall a year with 80% of it falling during the monsoon (June-September) season. Environmental shock is the ever biggest challenges to agricultural production and economic growth. Due to heavy rainfall especially in the rainy season, flood is a common phenomenon (Map 3). Moreover, during rainy season most of the water comes from all over the Delta across India.

**But other than Physical Geography, the Human Geography matters a lot** in shaping the economic as well as financial structure and more categorically in formulating the spatial structure of financial intermediaries across the country.

It is a democratic republic country with two spheres of government at national and local level with absolute complexity that creates various conflicts of interest between administrative and legislative structure. This former British colony, inherited a local government system absolutely influenced by the colonial power (Samaratunge et al., 2008). The structure of local government is also very complex. So far it can be stated that the structure of Local Government of the country had never been empowered as an independent one to perform effectively. Due to strong intervention of formal and informal actors the public institutions have never been the people oriented units. Over the years the successive governments in Bangladesh, have simply twisted the inherited local bodies to suit their political needs (Asaduzzaman, 2009). Administratively Bangladesh is at present divided into 8 divisions, 64 districts, 491 Upazilas and 4,554 unions at the lowest point of hierarchy (Bangladesh National Portal, 2017): <http://www.bangladesh.gov.bd/>. Thus the whole nation of 87,320 villages is being administered. However, the districts are divided into several police jurisdictions named **Thana**<sup>1</sup> in order to organize a regular police administration in rural areas (Ahsan, 2010). At present the number of thana reaches at 599. Fortunately the thanas at rural areas have not merely kept themselves as police stations. It has gradually become development centers and considered as growing point for all sort of economic activities at remote parts. Previously the thanas were upgraded to Upazilas though few upazilas consist of more than one thana.

On the other hand the structure of the Government consists of three basic organs as follows (Diagram 2):

- Legislative Body

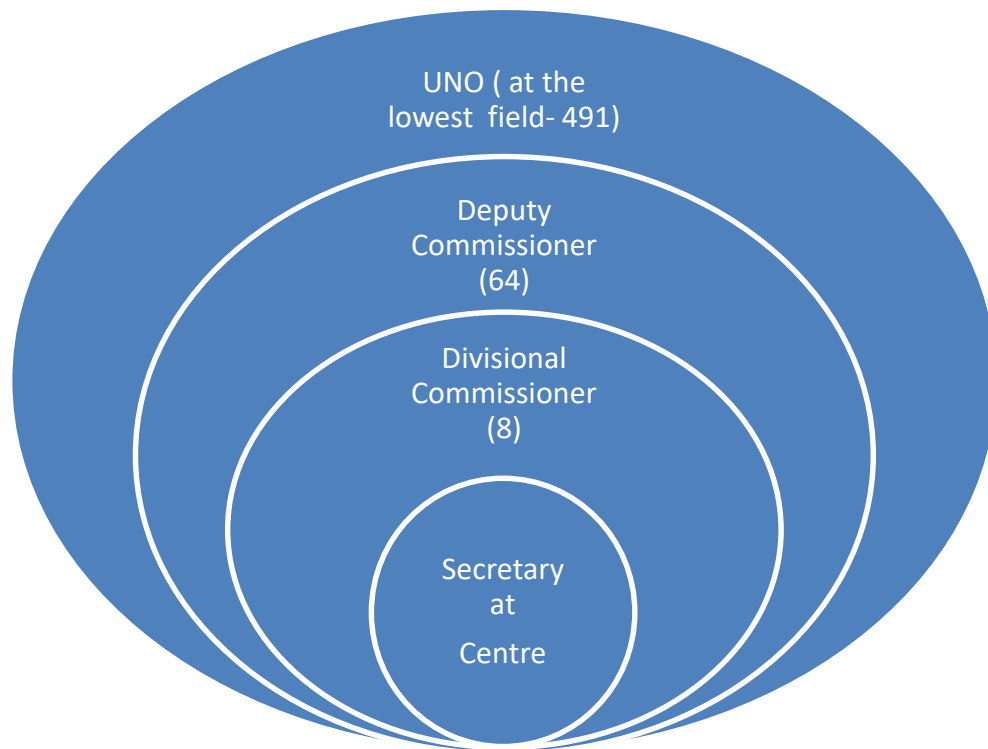
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<sup>1</sup> Thana is literally police station, later on the jurisdiction has been upgraded to Upazilas with broader administrative responsibilities; in a few cases, more than one thanas were combined to form a larger Upazila.

- Judicial Body
- Executive Body

Under the administrative hierarchy of the Executive body, the Secretary of every Ministry/ Department positioned at the centre and the lowest position of the chain designated as Upazila Nirbahi Officer (UNO) posted at the periphery as an agent of the bureaucratic chain.

Diagram 2: The administrative hierarchy as the Executive body stands as follows:

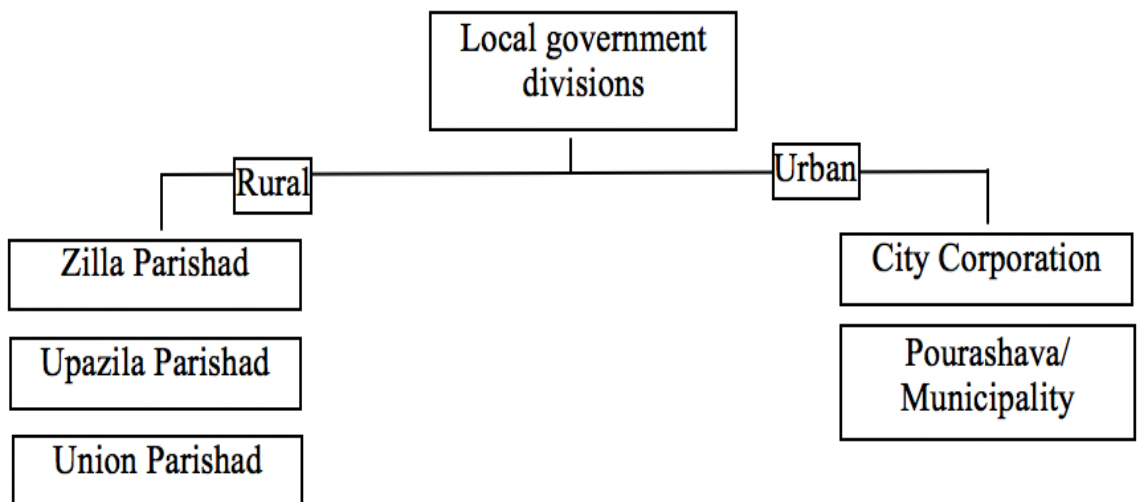


**Source:** Own elaboration.

On the other hand two types of local government exist. For urban areas the municipalities (pourasabhas) and city corporations work but for rural areas the hierarchical tiers of local government are Zila Parishad at District level, Upzila Parishad at Upazila level and the Union Parishad at union level (Paul and Goel, 2010). Presently elected local governments institutions include 11 city corporations, 324 pourashavas (municipalities), 487 Upazila Parishads (UzP) and 4542 Union Parishad (UP). Moreover 64 Zila Parishads at district levels do not have any elected positions rather, these are being overseen by the central bureaucrats. In Chittagong Hill Tracts areas the three districts as Bandarban, Khagrachari and Rangamati, there exists District Councils legally empowered to exercise the Customary Laws and rules as well as the Regional Councils (side by side the Local Government Institutions (LGI) exists)

but now, these are administered by nominated persons instead of elected members (Rahman and Ahmed, 2015). The administrative hierarchies observe almost a same parallel structure in the Local government structure ending to union level. The administrative positions are basically civil servants and the Local Government positions are elected (*irregularities in conducting Election is common except for the lowest one*). Exception is that the “Union Parishad Chairman”<sup>2</sup> is the root level elected position who is also representing few issues of the government administration because the last root level civil servant is posted at Upazila level, that is on the immediate upper layer of the hierarchy of Union. The Union Parishad chairman has his office along with 09 elected members. The village is basically administered through this office. The Union Parishad chairman look after few development (infrastructure, food for work etc.), administrative, public relation, revenue, budget and judicial functions (arbitration, dispute resolution) etc.

Diagram 3: Presently Local Government Structure stands as follows:



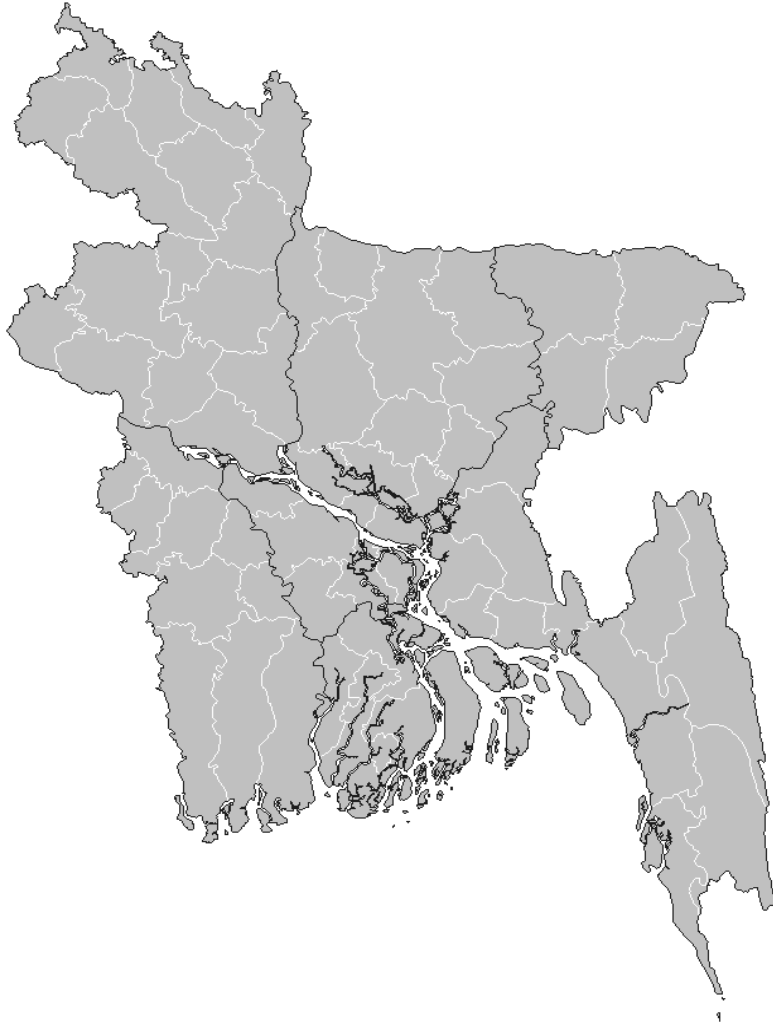
**Source:** Own elaboration.

The Administrative Structure (Diagram 3 and Map 4) is steady and have various control over the local government structure because of the traditional bureaucratic practice. The weak and so called democratic environments, so to speak a democratic game of ensuring control over the mass people by the few has made the local government positions fragile and dependent on the administrative politics. Since the administrative positions are educated civil servants and permanent posts in comparison to that of the temporary existence for a limited duration as tenure of the

<sup>2</sup> Union Parishad Chairman is the elected position at the lower level of the hierarchy of Local Government bodies in the rural areas as the Head of that territory/ area .

Local Government positions, in most cases the second one possesses weak human capital; therefore, the bureaucrats easily have influence on the local government posts.

**Map 4: Administrative Map (8 Divisions and 64 Districts)**



**Source:** Own elaboration.

**2.2. Rural Economy:**

The rural Bangladesh mostly suffers from poor infrastructure, deprived development with its informal and primary level of economic activities having very little modern facilities and services extended by the Governments. The subsistence economic structure of the rural economic geography is fragile enough to retain its growth. So the crisis and disparity is a development concern. Its agriculture dependent economy is vulnerable and weather dependent passing through shocks from natural calamities and ensuring uncertainty in growth and productivity. The rural economy is dependent on the natural productivity basically Agriculture. In the economic view the



productive economic terms under the Agricultural Sector are agriculture and forestry, crop and horticulture, animal farming, forest and related services and fishing. The share of agriculture in the GDP from fiscal year 2012 to 2015 are recorded as 17.4%, 16.8%, 16.5% and 16% (provisional) (BB, 2016). Most of these activities are rural. Around 46% of the labour force are involved in the Agricultural sector (BBS, 2016). It is further claimed that currently, Service Sector dominates the economy Contributing 49.30% to GDP though the industry and the agriculture sectors contribute about 32% and 18.70% percent respectively (BBS, 2015).

### **2.2.1. Poverty, Inequality and Microfinance:**

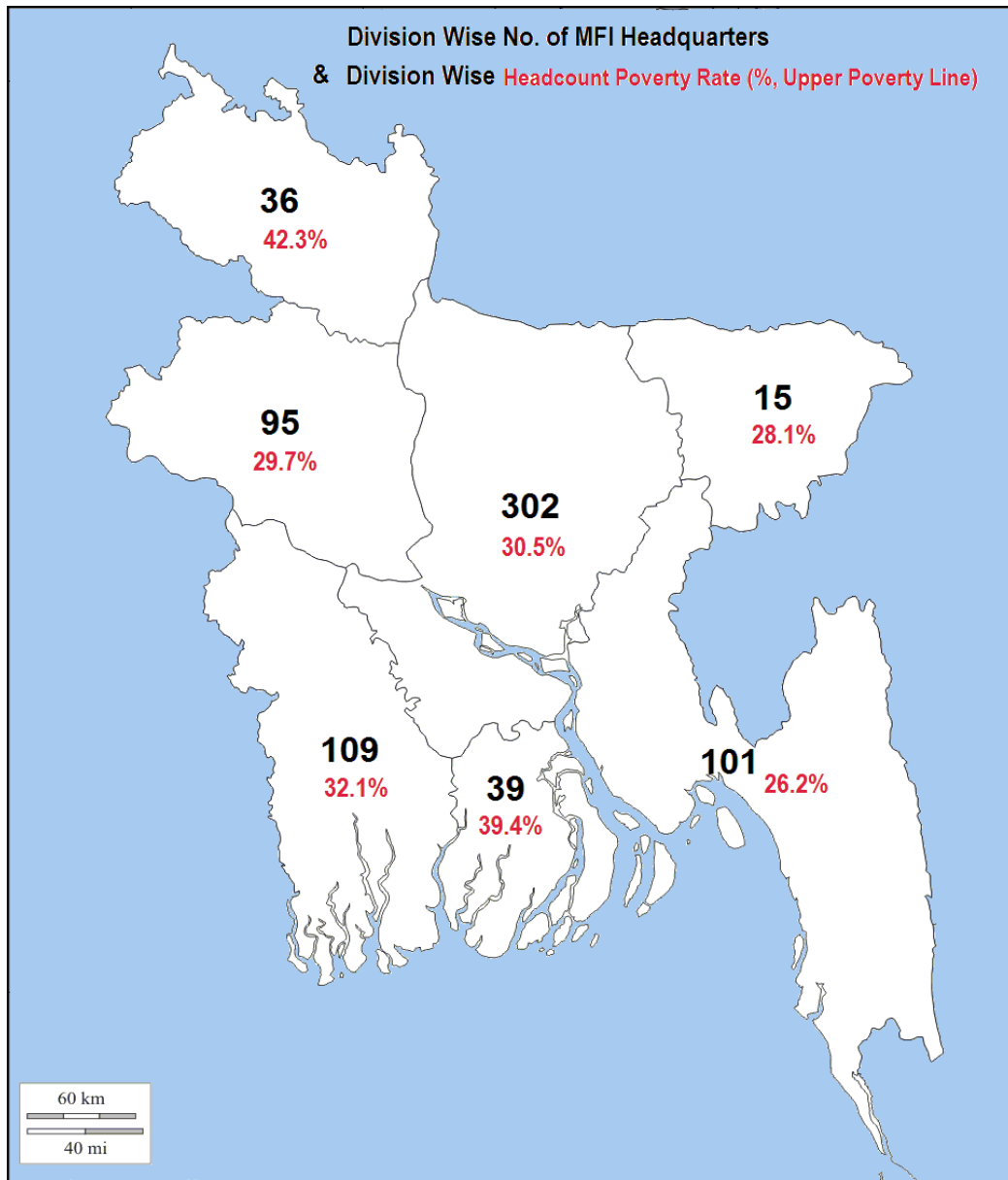
The oddest picture of Bangladesh is that it is branded as a poor nation with high level of poverty incidence both at urban and rural areas. Poverty, natural disaster, high level of corruption and weak governance almost in every sector, political unrest, weak institutions with extreme lack of accountability, lack of justice in society etc. are commonly known features. And above all poverty is the signboard. The Incidence of poverty are mostly seen in rural Bangladesh. Though a large number and percent of people are poor yet the definition of poverty has been the subject of debate. It is in general is being characterized by inability of individuals, households, or entire communities to maintain a minimum standard of living due to getting no control over sufficient resources, which is ultimately a socially accepted concept (Ferdousi, 2014). Sen, (2000) tried to sketch poverty in a manner that specifically indicates poverty as a set of incapability and expressed that it is not merely insufficient income, but rather the absence of a wide range of capabilities, i.e. security and ability to participate in economic and political systems. However, poverty is a complex phenomenon in development economics. It is really very difficult and critical enough to define in real term because of the complexity around economic world. The ability of a person in regard to buying capacity is a feature, dependent on the country specific economic system. The bargaining is that, the ability of a person in a welfare state or in a secured human right situation is totally different from a citizen of a developing economy. So it can be less individualistic rather than more state dependent. But World Bank has identified it by measuring the capacity of a person in economic term. Recently it is newly restructured that while the daily income of a person is below US\$1.90, he is poor. On the other hand Bangladesh has been following a different method to quantify the poor mass. Bangladesh Bureau of Statistics (BBS) prepares the indices for sketching the poverty line to identify the poor families based on Cost of Basic Needs (CBN). In this manner primarily food poverty line is measured based on 11 food items which provides the minimal nutritional requirement equivalent to 2122 K. Calories per

person per day. This estimation was developed both for urban and rural areas in each administrative division by considering regional price data, which was recommended by Ravallion and Sen (1996). Moreover, non-food item poverty line has also been sketched and thus the level of a family below or over the poverty line is measured (Ministry of Finance, 2014). This is a complex mechanism also. On the other hand various Non-Government Organizations (NGOs) have their own methodology to measure hard core poor, ultra-poor, poverty etc. and identify the depth of poverty according to their own programme objectives. Definitions and outlines established by NGOs are important during disbursing loan and other supports though in almost all cases NGO definitions are mostly based on the land holdings of a person, cultivable land under his possession etc. though various NGOs follow their own methods.

Historically Bangladesh is passing through a poverty trap though a remarkable progress in the last two decades has been recorded in developing her condition from extreme poverty. In 1990 the poverty rate was 56.6 % which has decreased to 31.5 % in 2010 and the estimated poverty rate by 2014 has lowered to 24.3%. The level of poverty substantially differs in between urban and rural areas. Spatial inequality and level of poverty both at extreme and hardcore level also differs. Kotikula et al., (2010) expressed that spatial distribution of poverty observed in the earlier decades has changed through the process of time and poverty reduction drivers differ in several ways. Wodon (1999) and Ravallion and Wodon (1999) also found that geographic location of households has significant impact on its level of poverty being most importantly favoured to be in region around the capital city. Another important advantage is that Bangladesh does not have any administrative restriction of migration within regions keeping an option open for income equalization. Disparity among administrative divisions is very small keeping largest mean per capita household income in Sylhet. Rajshahi has the smallest mean per capita household income while the ratio between largest to the smallest is recorded 1.4. The intra regional inequality is comparatively higher than that of inter regional feature (Zaman and Akita, 2012). The poverty and inequality across administrative regions matter though poverty difference in between rural and urban households has significant impact on regional picture. During 1991-1992 about 58.8% population in rural areas were poor in terms of upper poverty line which has fallen to 35.2% in 2010 showing a 2.8% annual decline. The poverty gap in rural areas has also substantially reduced in terms of upper and lower poverty line. It was 9.8% and 5.3% in 2005 and declined respectively to 7.4% and 3.7% in 2010. For rural poverty headcount index for upper poverty line was highest in Barisal division in 2010. Moreover between 2005 and 2010 the reduction of poverty

was lowest in the same division. However the level of inequality status in Bangladesh is much more lower compared to other countries revealing lower in world average. In a measurement that is expressed by **Gini index**, Bangladesh stands on the 20<sup>th</sup> position (ascending order) wherein India and Srilanka were on the 27<sup>th</sup> and 44<sup>th</sup> position respectively (Ministry of Finance, 2014).

**Map 5: Poverty Rate & MFI Headquarters**



**Source:** Own elaboration.

As per survey of multi-party involvement, based on data of 2010, the poverty condition sketched through upper poverty line. Poverty incidence was highest in Rangpur division in 2010 followed by Barisal, Khulna, Dhaka, Rajshahi, Sylhet and

Chittagong divisions being the upper poverty line value in percent 42.3%, 39.4%, 32.1%, 30.5%, 29.7%, 28.1% and 26.2% respectively (WB.; WFP and BBS, 2010), see Map 5. In the following Image No. the Division wise Poverty incidence and number of MFI Headquarters in the same division has been marked in numeric form. However, Barisal has the smallest rural inequality along with its smallest mean rural per capita income that indicates a positive relationship between rural inequality and rural mean per capita income and the overall inequality is higher in urban areas than rural areas (Zaman and Akita, 2012). The basic cause of rural income inequality was identified as foreign remittance and to some extent the self-employment in non-farm activities. But due to rapid expansion of microcredit consumption inequality did not rise much (Osmani and Sen 2011).

Due to dominance of agriculture in the rural economy, the agricultural land and its distribution among farmers has substantial impact on the overall poverty level. The average cultivated landholding is too small to get sustainable livelihood of farmers, categorically for the marginal and small ones. Moreover, the land transferred to non-agricultural sector is mainly derived from the land poor (up to 2.49 acres) who are almost 88 per cent of total farm holdings, therefore a large number of farm households are gradually becoming vulnerable to food crisis (Quasem, 2011). About 10% of farmers own almost 50% of the land whereas, about 62% of farming households farm only 0.4 ha or less (Rich et al., 2015). It is argued that in rural Bangladesh, high poverty rates and food insecurity are associated with small landholdings (Ahmed et al., 2013). The relationship between poverty and land ownership is sketched between time span 2000 to 2005 and 2005 to 2010 has been shown in the table No 2.

Table 2: Poverty & Landholdings

Land Holdings	Poverty Rate (%)			Population Distribution (%)		
	2000	2005	2010	2000	2005	2010
<b>Landless &lt; 0.05 acre</b>	63.5	56.8	45.6	48.0	45.8	50.9
<b>Functionally landless 0.05–0.5 acres</b>	59.7	48.8	34.6	13.0	15.9	15.9
<b>Marginal 0.5–1.5 acres</b>	47.2	35.1	25	17.5	18.8	18.0
<b>Small 1.5–2.5 acres</b>	35.4	23.7	16.8	9.2	8.8	6.8
<b>Medium/large 2.5 acres or more</b>	20.7	12.8	9.7	12.4	10.7	8.4

Source: World Bank, 2013.

In the light of the above context, a question is firstly - how and in which extent does the poverty dependent on the rural economy? Secondly how does it interrelated to access to finance? And whether Microfinance has any substantial impact on poverty elevation specially in the rural areas. Things are of course complex as the evidences of relation between poverty reduction and Microfinance are very much ambiguous in recent debates. It is expressed that countries with low level of income inequality have low level of financial exclusion (Kempson, 2006). There is also a large disparity in between urban and rural infrastructural layout. 80% of urban households have access to electricity, which is 30% in rural areas (Zaman and Akita, 2012). So is the inequality for water supply, road infrastructure, education , medical services and so on, that have effect on the whole economic structure.

The bargaining is that whether the Microcredit reduces the poverty. It is widely believed that access to finance creates probability of development through excavating unexplored resources. Evidences expressed that while poor households are credit constrained, they are prevented from smooth consumption through various seasons (Behrman et al.,1997; Chaudhuri and Paxson, 2001; Harrower and Hoddinott, 2004; Khandker et al., 2010; Rosenzweig and Wolpin 1993). Pitt and Khandker (2002) argued that Microcredit can help the poor people in smooth seasonal consumption by financing into their productive activities. This is viewed as to ensure income flow to be comparatively less hindered due to seasonal variation in the field of production economy. The rural economy of Bangladesh is much more weather dependent being it primarily agricultural production. The seasonality characteristics of this agrarian life pushes a vast majority of rural people in income seasonality and poverty. This happens due to low income having no savings or merely the tiny savings, low productivity, and lack of diversification in local economies. The seasonal poverty is well studied in the northwestern districts namely in Rangpur division by Khandker et al., 2010. Geographically the majority of the poorest people of the country are in the northwestern part, particularly near the Jamuna river basin and is dwelling in rural areas or in urban slums (IFC and KFW (2009). This area is characterized by pronounced seasonality of agricultural productivity and higher incidence of extreme poverty compared to other areas of the country (Khandker, 2009), though seasonal poverty is due to uncertainty of income that effects smooth consumption for the time being but the poverty occurs on account of unfavourable climatic condition for agriculture including a low level of capital ( physical and human) Khandker et al., (2010). Often it is criticized that Microfinance coverage in this poverty ridden area is comparatively less. In a recent survey it is claimed that Microfinance coverage is as

much as 40 percent which was 20 percent in few years ago (InM, 2009). It is found and believed that Microfinance is not the only means of reducing poverty. During income seasonality, agricultural income diversification along with microcredit, education, social safety, irrigation etc. jointly reduce poverty (Khandker, 2009). Income diversification is required because only the agricultural dependency creates virtual inactivity in between two cropping seasons and the rural economy is not big enough to consume extra labour force. Natural calamities like flood, cyclone, drought etc. create uncertainty in agricultural productivity which ultimately brings poverty to small and landless farmers. But when the unfortunate events appear repeatedly through years it finally brings continuous scarcity of source of livelihood; people become inundated to debt, hopeless, nature dependent, inactive and captive in a worst socio economic valley. They turn themselves to a reality that is tough to get out of, by one or two components like microfinance. Finally, poverty “exists like a culture” that has significant implication over every step of life ranging from religious belief to a tiny smile for the life. Finally people become poor because they learn to think that they are poor. Their feelings, wills and hopes increasingly become poor. Only they can say strongly – that they are poor. So is the poor.

Microfinance is considered as a strategy of poverty reduction by targeting the poor, who are excluded by conventional financial institutions because of the lack of sufficient physical collateral, though it is claimed that the poor people is being exploited against their lack of financial capital. The interest rate of MFIs are severely high than that of the commercial banks. But some are arguing that it is less than informal money lenders (Faruqee and Khalily 2011). This is against the mission of poverty reduction. Simply it creates a Debt cycle. The much interest rates by the MFIs in a slow and weak rural economy exploits the poor borrowers to generate more income to repay their loan and to keep themselves alive with the economic activities they continues to borrow. General argument is that they are in fact trapped in a poverty cycle. In a survey of 2010/2011 it is shown that nearly 61 percent of Grameen Bank members were also members in other programmes (Khandker and Samad, 2013), though for the same time around 32% households in the rural area of Bangladesh are members of multiple programmes. It is argued that Microcredit brings betterment only if the borrowers continue the operation over a long period of time instead of short term dealings (Islam 2011). It is claimed that between survey years 1991/92 and 2010/11, yearly real per capita income increased by 5.2 percent for Microfinance program participants, compared to 6.2 percent for non-participants (Khandker and Samad, 2013).

Argument was in favour of poverty reduction over time. Another reality is, a large number of non-participants in the village are comparatively from wealthy economy who have generally better capital structure and need not to borrow. Evidences on reaching to extreme poor are clear. Khandker et al., (2010), claimed that Microfinance has not reached to seasonality based ultra-poor, even the microfinance procedure is not in favour of these poverty group because of weekly installment repayment bindings. The established conjecture is that MFIs have deliberately avoided the extreme poor because they are considered risky clients, small transaction is costly and there are also self-exclusion, as they perceive themselves to be unable to generate a continuous income flow to repay the loan (Amin et al.,2003; Hashemi, 2001; Mallick, 2011; Matin, 2005) though poverty elevation performance of microfinance programmes can not be realized without studying the placement strategy of MFIs as the poverty incidence across the geography differs even within a small region (Mallick, 2011). The seasonality of income and its uncertainty is in contrast to Microfinance procedure. At the same time Microfinance is believed to support Rural Non-Farm Activity (RNF), instead of agriculture, though new MFIs are turning to this sector with specific attention. Whatsoever it is, considering the overall poverty diagram and extreme poverty in the northwestern part of the country, in 2006, Palli Karma Shahayak Foundation (PKSF), the apex body as a funding organization for MFIs introduced programmes with newer lending outreach vision named “Program Initiatives for **Monga**<sup>3</sup> Eradication (PRIME)” and implemented through their Partner Organizations (POs). The objectives was to deal exclusively with the hard-core poor, who are highly exposed to vulnerability and seasonal poverty. Unlike regular Microfinance programmes, targeting these ultra-poor group, PRIME offers a flexible repayment schedule and consumption smoothing, as well as production, loans. It is also claimed that the PRIME has only enhanced the ultra-poor’s participation in microfinance (Khandker et al., 2010).

During the high trend of bargaining of poverty reduction and Microfinance, Karnani (2009), cautiously reminds us against the risk of viewing the poor as Resilient and creative entrepreneurs and value conscious consumer. It is well known that borrowing microcredit is not always for the income generating activities. Consumption and other emergency cases like medical treatment, buying essential life goods, education of children are highly involved with it. Vanroose (2007), warned that the financial capital obviously decreases when the microcredit is used for consumption purpose; in such cases no additional means are generated for the loan repayment. For

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<sup>3</sup> Monga means seasonal food deprivation and mostly is being used in the northwestern part of the country.

the poor things are so acute. “When people are ... utterly destitute, they need their entire income, or more, just to survive. There is no margin of income above survival that can be invested for the future. This is the main reason why the poorest of the poor are most prone to becoming trapped with low or negative economic growth rates. They are too poor to save for the future and thereby accumulate the capital that could pull them out of their current misery” (Sachs 2005 , pp. 56-57). Probably and partially in the same vein, Bateman and Chang (2009), expressed the view that by ignoring the crucial role of scale of economies and by undermining the development of more efficient small and medium enterprises (SMEs), Microfinance on the other hand produces an over-supply of inefficient micro-enterprises.

But Microfinance certainly has a role in providing the safety net and consumption smoothing ability to the poor, specifically in countries those have no state led social security systems, though its role in elevating poverty is in doubt. Researchers on the other hand opined that the non-poor, rather are being benefited by microcredit. Even a World Bank conducted study that involved 1800 households in Bangladesh found very marginal development among microcredit borrowers being it 8% against borrowing amount (Chowdhury, 2009), while the conventional banks incur interest on loan more than 15% per annum and the MFIs are doing it on a large variety of scale ranging from 15% to 33% and the yearly inflation of the economy for the last few years vary within a range of 5 to 6.5 percent per year.

So, in conclusion it cannot be discarded that Microfinance reduces poverty. The matter is for whom and up to how much is the concern. But our evaluation is to some extent different. It has other positive effect in developing the capital and creating few income at the bottom level of the society being it a last institutional resort for the have not classes of the society. The mass celebration and overwhelming stage lectures regarding “poverty eradication by microfinance” is now being criticized across the world.

### **2.2.2. Rural Economic Activity and Rural Enterprise (Micro, Small and Medium Enterprise):**

Historically the economy of Bangladesh is dominated by agriculture and its relevant activities. Most of the rural people and their livelihoods are dependent on agriculture, though the situation has been changing for the last two decades (Pramanik et al., 2014). And in fact most of the activities in rural areas are informal, small and family run initiatives having fragile entity. Patronizing rural economy by financing rural Micro, Small and Medium Enterprise (MSME) is an important issue but the ambiguity in



conceptual framework and a continuous mismatch in defining the target group by the concerned authorities of the state particularly in rural areas has been a big problem in the rural financial environment.

What the rural entrepreneurial and financial structure is and how they are interrelated with each other? Does the rural entrepreneurial prospects and capabilities focused in national agenda? The big concern is, when we commonly argue and advocate in favour of rural enterprise, identify them as rural MSMEs and when we follow a nationally accepted definition of MSME, then where the rural strength in regard to enterprises stand. If the most of the rural enterprises are out of maximum SMEs, then why a bargaining and discussion exists over rural SMEs in academic and policy arena? In most cases the term SME is used instead of MSME.

### **Microenterprise:**

Unfortunately, in Bangladesh till 2005 until the formation of SME policy, there were no separate economic policy for entrepreneurship specially at micro and small level. Therefore, the demand and supply of finance including the number of enterprises were not recorder properly. Even today there is no specific definition for the Microenterprise to identify them very definitively. Due to heterogeneous characteristics, nature and size, this sector has rather been grouped into a common frame. Even it is established that there is no universal definition for microenterprise. But the common concept in the form of a common agreement in the competent authorities including all academic and policy forum is that these are very small scale in operation, of low level of technology, has low access to finance and managerial capacity, mostly being run family initiative. Very particularly these are under the informal economic activities in all over the world. The terms and terminologies to indicate these by microenterprise, small enterprise, informal enterprise and so on often creates confusions to separate them from SMEs. ***So in conclusion it can be marked that Microenterprise is the entity that fall behind the defined SME being it specifically lower in every specified qualitative and quantitative criteria than that of SME.***

Even Bangladesh industrial policy 2010, did not defined microenterprise clearly, though the SMEs and Cottage Industries have been defined. The latest development is, the Central Bank of Bangladesh (Bangladesh Bank) has recently formulated a policy guideline for financing SMEs and in this regard they follow a structure of definitions that is recommended by Better Business Forum and accepted as a uniform one by the Ministry of Industry and Central Bank, Bangladesh. The SME definitions are given below (Tables 3a and 3b):

**Table 3a: Small Enterprises:**

Small Enterprise refers to the farm/business that is not a public limited company and complies the criteria below:			
Serial No.	Sector	Value of Fixed Asset other than Land and Building in BDT	Manpower Employed ( Not above)
1.	Service	50,000-50,00,000	25
2.	Business	50,000-50,00,000	25
3.	Industry	50,000-1,50,00,000	50

**Source: BB, 2015,**

**Table 3b: Medium Enterprise:**

Medium Enterprise refers to the establishment/farm that is not a public limited company but complies the criteria below :			
Serial No.	Sector	Value of Fixed Asset other than Land and Building in BDT	Manpower Employed (Not above)
1.	Service	50,00,000-10,00,00,000	25
2.	Business	50,00,000-10,00,00,000	25
3.	Industry	1,50,00,000-20,00,00,000	50

**Source: BB, 2015,**

It can further be argued that what is the size of Rural Enterprise in Bangladesh, and what is its position compared to that of others?

The third Economic Census, conducted by Bangladesh Bureau of Statistics (BBS) during 31 March to 31 May 2013 across the country measured the nature of structural changes occurring in the economy over the last decade. According to the census there are 7,818,565 **Establishments**<sup>4</sup> in Bangladesh, of which 57.4% are permanent and 6.18% are temporary having further 36.09% as **Economic Households**<sup>5</sup>. However, within these groups the subgroup of cottage industry and micro enterprises are sometimes the same and cannot be differed. So finally the defining situation of the microenterprises is ambiguous.

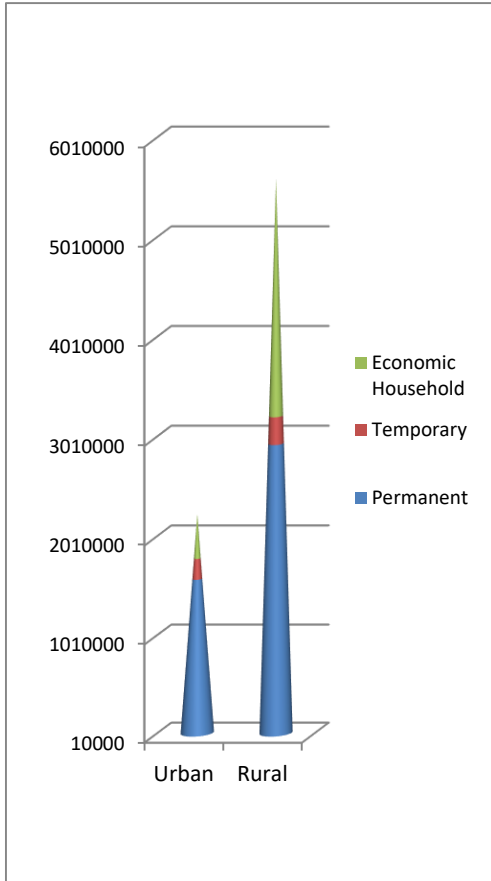
In terms of numbers of Establishments all the permanent, temporary and economic households are higher than those of urban numbers; these are 1,577,632;

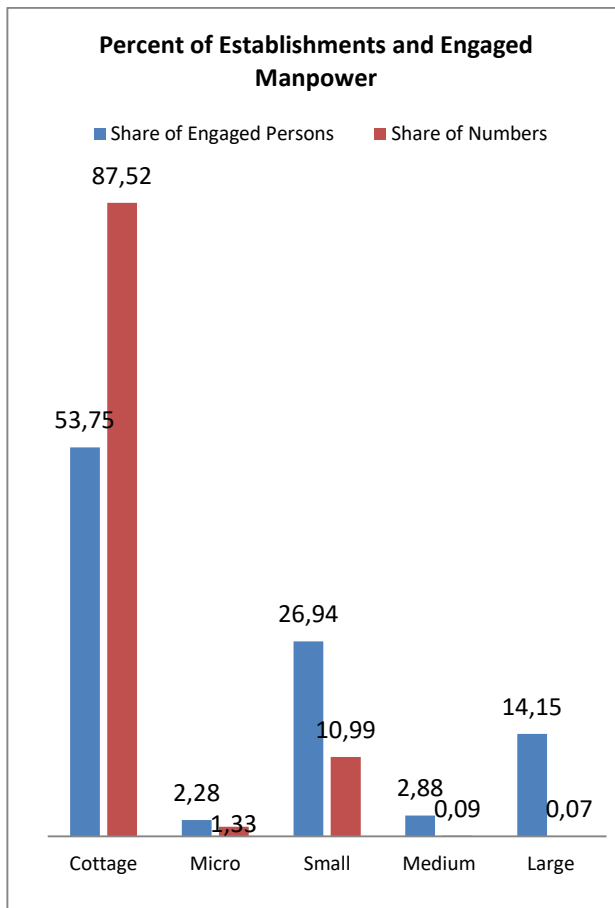
<sup>4</sup> An establishment is an enterprise or part of an enterprise that is situated in a single location and in which only a single (non-ancillary) productive activity is called out or in which the principal productive activity accounts for most of the value added ( BBS, 2013,P-11).

<sup>5</sup> Households those have non-agricultural economic activities such as cottage industry, shop or workshop in or within its premise are classified as Economic Household. However, economic activities operated in the household as well as operated outside the household such as hawking, operating own rickshaw/push cart/van/easy bike, street vendor etc. are included within the purview of the household based economic activities ( BBS, 2013, P-11).

205,910 and 446,004 respectively in urban areas and also respectively 2,936,459; 276,993 and 2,375,567 in rural areas. However, out of total, share of numbers of cottage, micro, small, medium and large enterprises are respectively 87.52%, 1.33%, 10.99%, .09%, and .07%.

**Diagrams 3 and 4: Status of Enterprises. Number of Establishments**





Share of persons engaged in these sectors are 53.75%, 2.28, 26.94%, 2.88 and 14.15% respectively. This situation has been compared below through the diagrams No 3 & 4. Share of persons engaged in these sectors are 53.75%, 2.28, 26.94%, 2.88 and 14.15% respectively. This situation has been compared below through the diagrams No 3 & 4.

As per the Economic Census 2013, 71.48% of the total economic units are located in the rural areas and 28.52% are in the urban areas though these were 62.61% and 37.39% respectively as per Economic Census of 2001 & 2003. Even the household based economic activities have expanded tremendously over the last decade. The rural economy is gradually increasing and becoming a dominating one. Out of 24,500,850 number of involved persons in the sector 15,000,731(61.23%) are in rural areas and the rest 9,500,119 persons (38.77) are in urban areas (BBS, 2015).

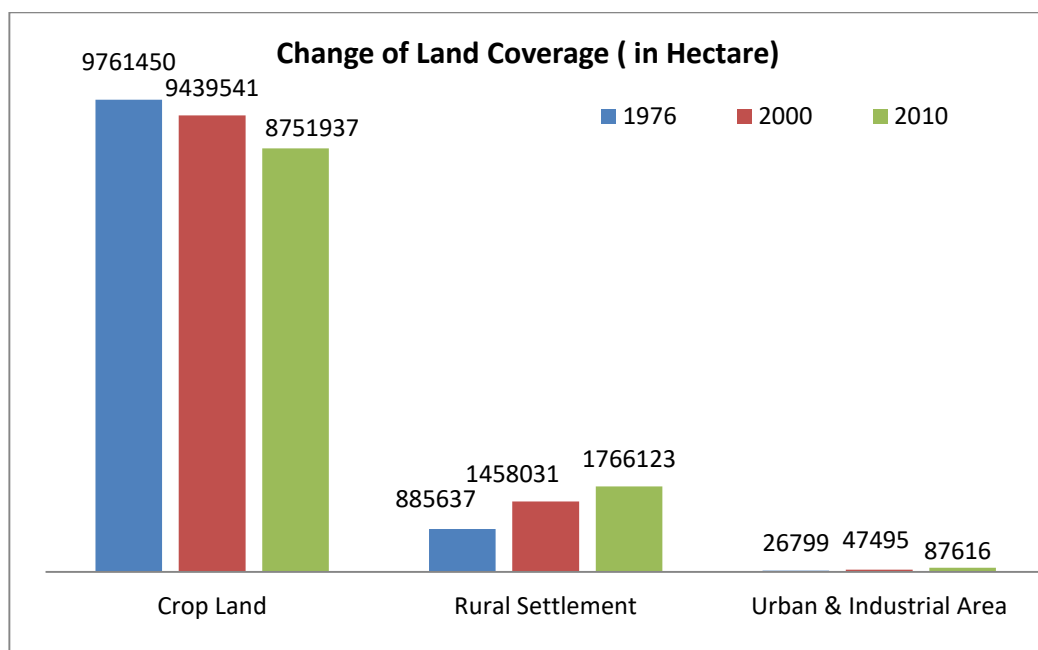
### **2.2.2.a Farm Sector:**

Rural economic activities are basically of Farming and more specifically it is termed as agricultural activities. Bangladesh is extremely suffering from scarcity of landed properties leaving no scope for increasing total cultivable area. Per capita cultivated land is only 12.5 decimals. It is claimed that every year about one per cent

amounting nearly 80 thousand hectares of agricultural land of farm land in the country is being converted to non-agricultural uses putting adverse impact on food security.

It is estimated that from 1996 to 2008 the number of rural families increased from 17.8 million to 25.36 million i.e. an increase by 42.5 per cent who ultimately must have seek residential accommodations mainly derived from the existing Agricultural land putting an absolute decline (Quasem, 2011). Unfortunately the increasing rate of population, urbanization and the trend of global warming as a threat of rising the sea level will bring another permanent challenge by reducing the lands to the most minimum level for the most populated country in the world.

Diagram No.



**Source :** Adapted from SRDI, 2013.

The agricultural land means a variety of activities and land coverage as cropland, forest, mangrove forest, river, lake, **beel and haor**,<sup>6</sup> tea estate and salt pan etc. of which cropland covers the highest land mass. Cropland includes land under cultivated, cultivable waste and current fallow. It is estimated that cropland coverage has substantially decreased from 9,761,450 hectares in 1976 to 8,751,937 hectares in 2010, whereas rural settlement and Urban & Industrial coverage increased from 885,637 to 1,766,123 hectares and 26,799 to 87,616 hectares respectively in the same span of time, which has been shown in the diagram No. 5. Thus the agriculture is

<sup>6</sup> Beel and Haor are separate water bodies having different characteristics. Beel means large surface water bodies that accumulate surface runoff water through internal natural drainage system & Haor is a bowl-shaped depressions between the natural levees of a rivers subject to yearly monsoon flood, mostly found in the eastern part of the country.

shrinking to its worst limit to sustain the rural agrarian families to be content with its production.

Climate Change Vulnerability of Bangladesh than any other country is the highest and is ranked first in 2014 which will likely affect the country by 2025. Rainfall during the monsoon season is expected to increase by 10% to 15% by 2030 which may be 27% within 2075. Nearly 14% area of the country may become extremely flood prone by 2030; and cyclones in the Bay of Bengal will be more frequent due to increasing temperature, and environmental change. These of course will shrink the landed properties and specially the agricultural land. It is estimated that by the end of the century overall, crop production might be reduced by 30%, production of rice and wheat may fall by 8%, and 32% respectively by 2050 (FPMU, 2013, cited in Rich et al., 2015).

Half of the rural households of the country are functionally landless possessing 0.2 hectares of land pushing the farmers household to a pressure since the amount is very tiny to be dependent economically. The average farm holding has been also gradually declining e.g. 1.70 hectares in 1960 shrunk to 0.91 in hectares in 1983-84 and further shrunk to 0.68 in 1996. Finally it is 0.10 in 2011. The situation reveals an inability to retain the quality of living standard being dependent on the farm sector alone (BBS, 2014; Hossain, 2004). Though the vast majority of people in rural Bangladesh having been dependent on agriculture and agricultural activities, yet a trend of getting out of the farming is a positive sign. It is quite tough to compare the farming with that of western farming which posses huge landed properties and state supports in the form of policy back patronization. The subsistent level of farming and the peasant life accompanied with bears many other stories rooted in the history of changing regimes from one to another. The small land is the last resort of a lot to survive.

#### **2.2.2.b. Non-Farm Sector :**

In recent years Rural Non-Farm (henceforth RNF) activities have been increasingly becoming a vital component of livelihood strategies among rural Households (Pramanik et al., 2014). It ultimately diversifies the income source and further leverage the agricultural production risk. The capacity of absorbing the increasing rural labour force in the agricultural sector is limited enough, which is already burdened with a variety of problems. Land resources have no further scope to expand; agricultural production now is dependent on technology intervention and the production has reached its possible climax point (Hossain, 2004). Though RNF

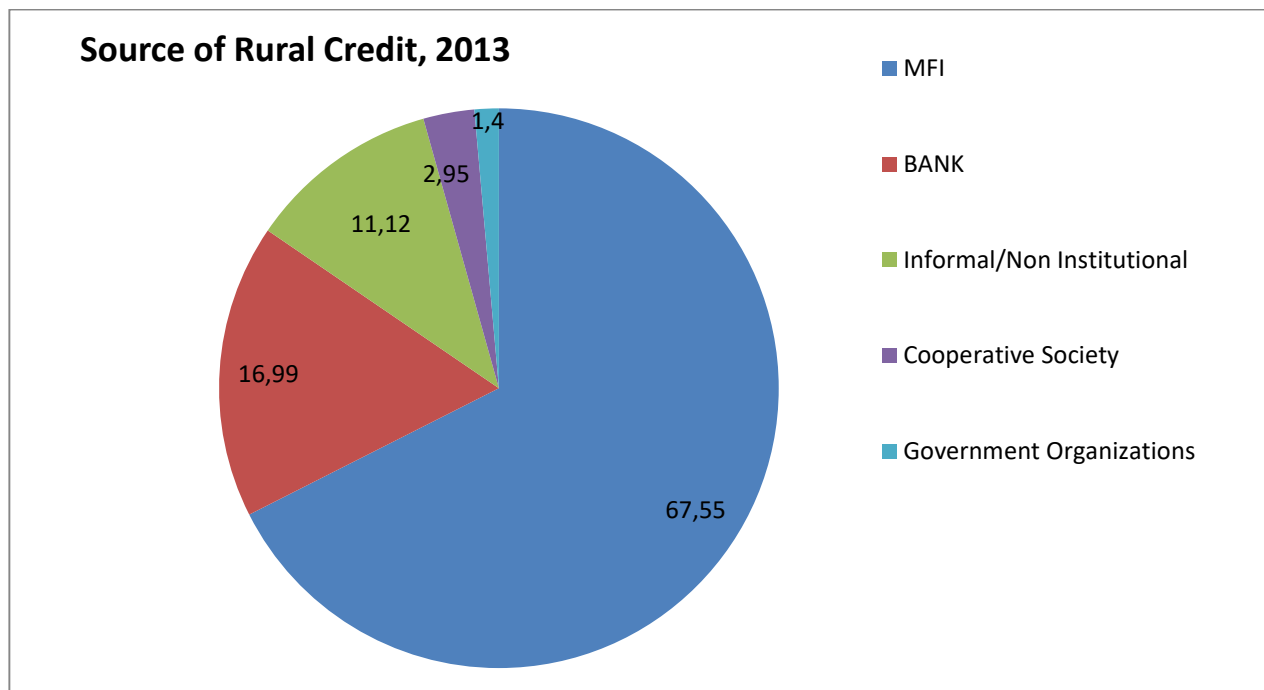
activities also have been suffering from a variety of institutional weakness yet it can be the window of diverting a lot of burden from the agricultural sector. For the last few years the rural labour market is undergoing significant transformation both in structure and growth mainly due to rising employment opportunities outside agriculture. Though the Non-Farm Sector (NFS) including RNF has got priority in the national policy yet the empirical evidences based on the broader definition is still insufficient about its role both in income diversification and income distribution especially in rural Bangladesh (Malek and Usami, 2009).

RNF in Bangladesh consists of a variety of a broad range of heterogeneous economic activities ranging from cottage industries to shops and temporary weekly vending in rural market including all services across rural areas and almost all the income generating activities except farming. These enterprises have very different features from larger corporations and also substantially differ in financing sources. These are basically family enterprises managed by one or two persons of the same family (Ferrari, 2008), though in very few cases partnership grows among friends and relatives due to accumulate financial capital. The business in terms of productivity is weak and under the informal economic activity. It is sometimes not possible to measure the productivity of these farms because all most all of the them do not maintain separate accounting for their business. The family income, expenditure, day to day livelihood all these are amalgamated with the business income and investment. The labour cost specially the owners man-hour payment and productivity is not separate from the whole farm. Rural households draw around 36% of income from the average microenterprise activities. It is also observed that the households those earn additional income from microenterprise activities are better off both in regard to income and consumption than their counterparts who do not possess such income generating activities (Khandker et al., 2013). This is also important that the expansion of rural bank branches is highly associated with the development and increase of out put in the secondary and tertiary economic activities (Burgess and Pande, 2003) though the occupational flight from farm to non-farm economic activity is partly dependent on human capital. Nearly 22% of rural non-farm employment are within trade and business enterprises. The source of fund in establishing rural non-farm enterprises are the basic instruments and mostly are the personal savings or other informal sources. Mobilizing surplus revenue from the increased agricultural production seems to be the building block behind the development of rural non-farm activities (Hossain, 2004b).

### 2.3. Rural Credit:

In fact the whole dissertation is centred to rural credit. There had been little attention regarding the information of rural credit in respective Government bodies. The first Rural Credit Survey was conducted in 1987 by Bangladesh Bureau of Statistics (BBS) and the second comprehensive survey of its kind, conducted by the same BBS in 2014. The survey shows that in Bangladesh 48.7% (12 million) of rural households received rural credit in 2013 and the total number of loans was 13,839,603. Among these borrowing, small agricultural households were 72.4%, followed by Non-agricultural households (17.3%), medium agricultural households (5.6%) landless (owning) households (4.2%) and large agricultural households (0.5%). Only 0.05% of borrowing households were landless (operated).

**Diagram 6: Source of Rural Credit in 2013.**



**Source:** BBS, (2014).

Most of the loans were taken by females; wife of the head of household (58.5%) is main borrowing member. It is also important to consider that in case of NGO-MFI almost all the borrowers (more than 90%) are female which has a substantial impact on the national credit statistics. On the other hand Non-government Organizations (NGOs) hold the highest share in term of number of loans being it 67.5% followed by Banks as 17% though the average loan amount of Banks is more than double of the NGO loan average. However, informal loans cover 11.1%, which consists of non-



institutional/personal sources including **Mahajan**<sup>7</sup>, **Dadon Businessman**<sup>8</sup> and friends/relatives etc. In rural areas 11.8 million loans were disbursed through institutional channels in 2013. Both the institutional and non-institutional sources are shown in the diagram number 6.

Government Organizations control the smallest share of rural credit market. These organizations include Rural Development Board, Department of Youth Development, Department of Women Affairs and Department of Social Services. Collateral security is the controlling factors in rural credit market. Non institutional/informal loans are not strongly preconditioned with securities. More than 84% loans are disbursed without taking any security. On the other hand a lot of households applied for institutional loans first time in 2013 but failed to get any loans. The total first time applicants were 4.1 million (estimated). Among the first time applicants, the highest reasons of loan rejection was incompleteness of required documents (29.4%). followed by unknown reason (21.5%). It is also realized that rural people are not familiar with the formalities and documentations which is a prequalification of asking institutional loan. On the other hand.

### **2.3.1. Geography in Banking:**

The existing distributive pattern of banks and MFIs in Bangladesh is based on a variety of factors including geographic issues, though a lot of other factors are directly or indirectly involved with the characteristics of local geography. In classical location theories, location can be explained in terms of distance because it entails a minimum range of cost to sustain. Where do the financial institutions go? It is a matter of common factors bearing no outstanding questions in its core mechanism. But it brings attention while rural location is involved and the financial institutions are different in nature in regard to their ownership and objectives. In the capitalist form of economic structure, other than business principle, the financial institutions in rural settings are geared by various interventional issues supported by Governments, NGOs and other stakeholders including regulators.

#### **2.3.1.1. Financial System:**

Before explaining the matters through a geographic lens it is vital to have the idea of the financial system of the country which ultimately shapes the geography of

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<sup>7</sup> Mahajan means a moneylender who lends money under certain terms and conditions. They are usually merchants, shopkeepers and wealthy village dwellers etc.

<sup>8</sup> Dadon businessman is a moneylender. Generally, small amount of loans are given without security and documents and repayment is based on the gentle man's agreement. Usually repayment is made by products like crops and in case of fishermen by fish. In this connection, the price of products is considered cheaper than the market price.

banking. Financial system of the country is growing fast among developing nations. It has always been a challenge to bring all the financial intermediaries under a single umbrella because the vast majority of the economy is still informal. Other than banking activities rest of the financial activities have different nature both in its operation and risk factors exposed to the economy.

The financial system is complex and a playground of risk factors, which is divided into three basic parts i.e.

**a. Money Market, where the players are Banks, Non-Bank Financial Institutions (NBFIs), Primary dealers etc.**

**b. The Capital Market, where the players are Investment banks, Stock Exchanges, Credit Rating Companies etc., and**

**c. Foreign Exchange Market, where only the authorized Dealers are active.**

However, on the other hand the financial system consists of three broad sectors of which a large part is regulated by the government authorities and the rest is free from monitoring.

As per degree of regulation the sectors are as follows :

- Formal Sector
- Semi- Formal Sector and
- Informal Sector.

The **formal sector** consists of all regulated financial institutions like Banks, Non-Bank Financial Institutions (NBFIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs). However, the Central Bank (Bangladesh Bank) regulates all scheduled banks, 04 nonscheduled banks and all the Non-Bank Financial Institutions (NBFIs). Insurance Development & Regulatory Authority (Insurance Authority) regulates all the Life Insurance companies and general Insurance companies. Securities & Exchange Commission (Regulatory of capital market Intermediaries) regulates the Stock Exchanges, Stock Dealers & Brokers, Merchants Banks, Asset Management Companies, Credit Rating Agencies etc. and the Microcredit Regulatory Authority (MRA) regulates all the MFIs except Grameen Bank.

The **semi-formal sector** consists of institutions those are regulated otherwise but do not fall within the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other financial regulator. It is basically represented by *Specialized* Financial Institutions like House Building Finance Corporation (HBFC),

Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank etc., Non-Governmental Organizations (NGOs) and other government programs those are being operated with specific objectives. But the **Informal Sector** is totally out of any regulatory supervision ([www.bangladeshbank.gov.bd](http://www.bangladeshbank.gov.bd)).

### **2.3.1.2. Applied Geography in Bank & MFI:**

During the first decade of 21<sup>st</sup> century the vast majority of classical banks have placed their branches in the city centers and on the periphery of the cities. It is argued that the endogenous process of “cumulative circularity” helps sustain the process for self-sustained growth and endowment in production factors. The importance of territories while it is productive in territorial economies are not neutral as it becomes an economic actor. Therefore, a question of MFIs location on its level of performance is important. Location is therefore a source of economic, financial, social and environmental performance as well as a source of structural performance for MFIs (Djine, 2012). In principle, financial institutions are located in rich areas instead of weak and poor ones resulting an absence of branch or delivery points in remote rural areas, which is characterized with bad geography: lower population density, poor infrastructure, low level of income among community along with various socioeconomic limitations and discriminations (Beck, T. and De La Torre, A. 2007; Pandula, 2011; Zeller et al., 2001). The demand of MFIs are not different in regard to these geographic factors (Sriram and Kumar, 2005).

Relevant research on India is also similar to that of Bangladesh at least to some extent due to few factors common in developing nations. In India rural branch expansion was associated with the increase of secondary and tertiary economic activities and its out puts (Burgess and Pande, 2003). In 2004 a survey conducted by Consultative Group to Assist the Poor (CGAP) revealed that the spread of MFI is influenced by the industrialization of a country, its income level, population density, flow of foreign fund etc. But financial institutions in rural areas are not always self sustained. An important view that has been developed in the last few decades that the financial service sectors in developing nations are out and out different from that of the developed economies. Moreover, the citizens of welfare states and the “state-of-art” of the financial system with more secured human rights enjoy a variety of supports which are not comparable to that of developing nations. So therefore, a landscape of financial geography developed through the passage of time, is different in nature. Bangladesh is one of the examples of this and has been playing the pioneering role in creating new vision exposed through developing MFIs. Conventional banks are different from MFIs both in philosophy and operational strategy. The financial market,

financial demand and legal framework have strong influence in shaping the geography of rural financial structure. The location pattern of bank branch are different from that of MFI branches, even the ownership of banks have strong influence in the distribution pattern of bank branches. So the state owned commercial banks, state owned development financial institutions, private commercial banks and foreign banks having their own operational philosophy are different from each other in geographic distribution of their branches.

In terms of the diversity and the range of products offered by financial institutions, the financial sector of Bangladesh is relatively less diversified and less developed. But few development occurred in recent years though the financial security as a whole is not satisfactory at all. Until 1982 all formal financial institutions in Bangladesh were government owned (Zeller et al., 2001). Through the passage of time changes occurred in many folds. The government had its own responsibility to bring all the nation under a financial network. At earlier stages, the extension of banks to rural area just had ensured financial channels up to the possible last end to facilitate states instead of creating any business, though the later one subsequently ensured few financial services automatically. Even, the rural community did not have any hope to have a financial service provider at their reach. It is a new achievement afterwards that the citizens have learned to ask for a bank branch within their reach as a right. However, a branch in rural area does not automatically mean the remote area is served. The specialized banks (presently marked as development financial institution) and state owned commercial banks having large branch networks in rural areas, most of their lending is not targeted to the poor because of conventional banking methodologies. The basic idea of lending is determined with accepting collateral against every loan pushing a large community outside the lending framework (Charitonenko and Rahman 2002). Commercial and foreign banks are not always able to reach micro-enterprises and the very poor (Clarke et al., 2005; Beck and Demirgüç-Kunt, 2008; Beck and Peria, 2010 ). Private banks play a negligible role in rural areas of Bangladesh (Zeller et al., 2001).

Moreover, banks have followed administrative (Khandker et al., 1995) and local government hierarchies in choosing remote rural branch location in case of state owned Banks. Once they have been converted into commercial financial institutions they are being guided by the market principles at least to some extent rather than following instructions from governments This case is similar to that of China (Li, X. and Xiongfei, 2006). The location pattern of Private banks has followed market principle rather than considering administrative hierarchies from their very inception. The branch

location factors are - level of income, branch functions, competition, land value, growth potential, and the number of financial institutions in the surrounding area, (Park and Lee, 1993; Nelson, 1960; Weon et al, 2010) building availability, suitability, construction costs, taxes, development incentives, availability of utility services and transportation, market areas of competitors as well as factors related to quality of life are assessed. Commercial banks mainly target urban areas. Whatsoever the matter is, the growth of bank branch in Bangladesh for the last few decades is remarkable. The growth picture is shown herein **Table 4** below:

**Table 4: The urban and rural growth of Bank Branches according to type of Bank (1998 - 2015)**

year	URBAN BRANCH								RURAL BRANCH				
	NCB *		Specialized		Foreign		Private		NCB		Specialized		Private
	Br *	Growth	Br	Growth	Br	GGrowth	Br	Growth	Br	Growth	Br	Growth	Br
998	1336		146		29		838		2281		1029		312
999	1336	0.00	147	0.68	31	6.90	898	7.16	2280	-0.04	1030	0.10	316
000	1336	0.00	150	2.04	34	9.68	940	4.68	2272	-0.35	1063	3.20	324
001	1335	-0.07	149	-0.67	33	-2.94	985	4.79	2271	-0.04	1067	0.38	342
002	1313	-1.65	150	0.67	31	-6.06	1044	5.99	2170	-4.45	1160	8.72	363
003	1244	-5.26	150	0.00	33	6.45	1099	5.27	2147	-1.06	1164	0.34	383
004	1241	-0.24	151	0.67	37	12.12	1150	4.64	2147	0.00	1177	1.12	400
005	1239	-0.16	151	0.00	41	10.81	1207	4.96	2147	0.00	1189	1.02	428
006	1238	-0.08	154	1.99	48	17.07	1288	6.71	2146	-0.05	1200	0.93	488
007	1238	0.00	156	1.30	53	10.42	1376	6.83	2145	-0.05	1203	0.25	546
008	1240	0.16	157	0.64	56	5.66	1452	5.52	2146	0.05	1205	0.17	630
009	1242	0.16	157	0.00	58	3.57	1594	9.78	2148	0.09	1208	0.25	780
010	1243	0.08	157	0.00	62	6.90	1803	13.11	2161	0.61	1225	1.41	1007
011	1245	0.16	166	5.73	63	1.61	1936	7.38	2192	1.43	1240	1.22	1119
012	1253	0.64	175	5.42	65	3.17	2069	6.87	2225	1.51	1265	2.02	1270
013	1268	1.20	178	1.71	69	6.15	2208	6.72	2252	1.21	1316	4.03	1394
014	1282	1.10	178	0.00	70	1.45	2360	6.88	2271	0.84	1322	0.46	1557
015	1366	6.55	110	-38.20	75	7.14	2512	6.44	2324	2.33	1296	-1.97	1714
		2.60		-18.01		100.11		113.73		2.04		23.63	

Growth Rate	0.15	-1.06	5.89	6.69	0.12	1.39
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\* NCB is Nationalized Commercial Bank

\* Br means

Branch

Source: (Scheduled Bank Statistics, Bangladesh Bank, Quarterly, October-December, (1998 to 2015).

**Table 5: Division-wise Latest Distribution (Urban & Rural) of Scheduled Bank Branch in Bangladesh as on December 31, 2015**

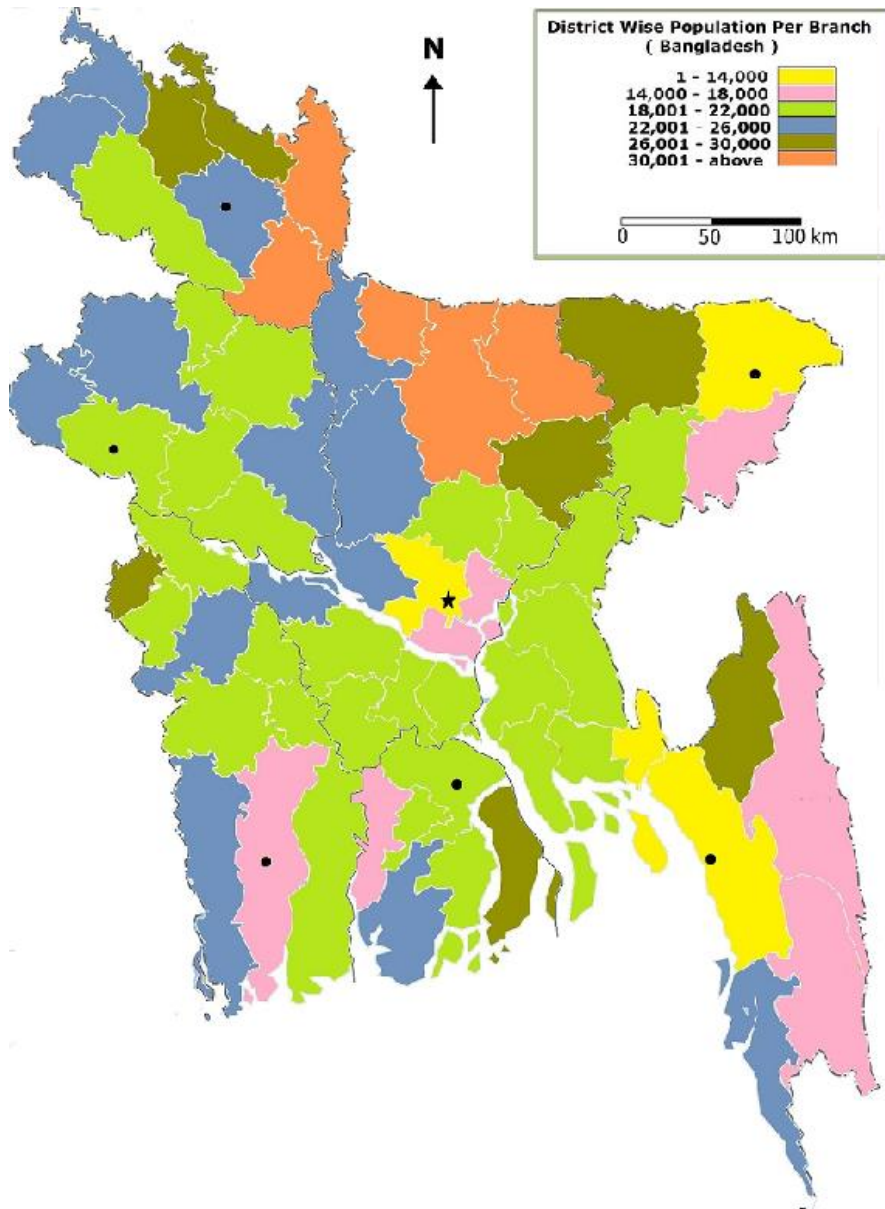
SL. No.	Division	Number of Branch				Total	% of Total
		Urban	%	Rural	%		
1	Dhaka	1717	18.27	1385	14.74	3102	33.01
2	Rajshahi	370	3.94	629	6.69	999	10.63
3	Khulna	357	3.80	547	5.82	904	9.62
4	Chittagong	881	9.38	1262	13.43	2143	22.81
5	Barisal	155	1.65	323	3.44	478	5.09
6	Sylhet	245	2.61	488	5.19	733	7.80
7	Rangpur	210	2.23	431	4.59	641	6.82
8	Mymensingh	128	1.36	269	2.86	397	4.22
	<b>Total</b>	<b>4063</b>	<b>43.24</b>	<b>5334</b>	<b>56.76</b>	<b>9397</b>	<b>100.00</b>

**Source:** Scheduled Bank Statistics, Bangladesh Bank, Quarterly, October-December, 2015).

The above picture shows that bank branches are concentrated in Dhaka and Chittagong divisions both at urban and rural areas. Mymensingh is lowest in ranking because few months ago this division is created by dividing Dhaka division. Other than Mymensingh division Barisal and Rangpur are weak having comparatively less branches both at urban and rural areas.

It is evident that the private banks are growing as a dominating one in the market having better position both at rural and urban areas. Specialized banks have their strong footings in rural areas. These banks are basically considered as agricultural banks, as a result their position in urban areas is very low though national commercial banks have strong presence both in urban and rural areas but their growth at both areas are weak. Foreign banks have no presence in rural areas, they are located only in urban areas having total number of branches very low also. On the other hand this picture is unequal across the regions. The overall distribution shows high concentration in few divisions. The **Table No 5** shows regional distribution of bank branches. The map 6 shows a clear discriminatory branch penetration among population across districts.

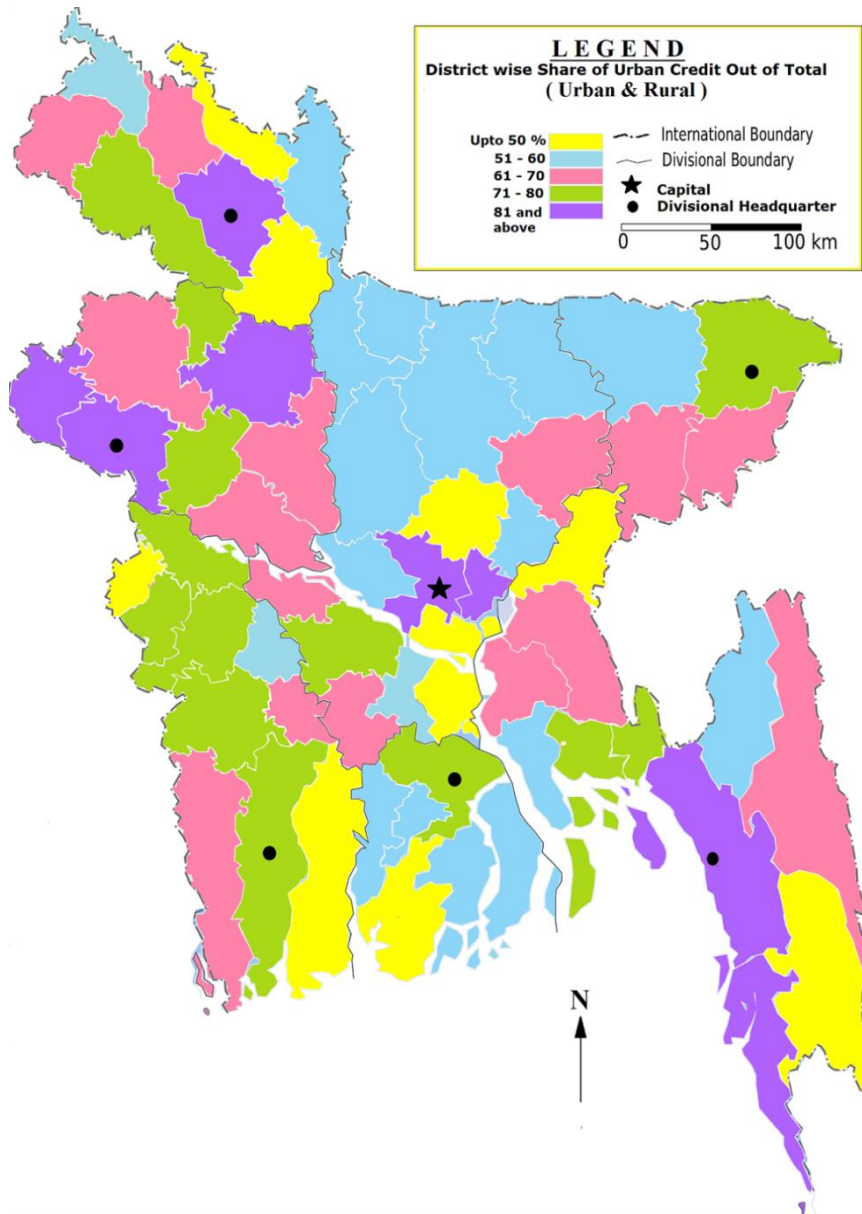
**Map 6: District-wise Population per Branch- Map, December 2013.**



**Source:** Produced by using information from Scheduled Bank Statistics, October-December, 2013, Bangladesh Bank.

However, this distribution does not bring geographic or demographic equilibrium. As administrative district matters so the number of bank branches within a district for its population represents a simple proximity measures. The position of district –wise scheduled bank branch against number of population indicates the gravity of branch penetration as an indicator for financial inclusion. Out of several measures of financial inclusion it is commonly accepted that the number of bank branch per 1,00,000 people is considered as a measure of Demographic branch penetration. But herein below in **Map No 6** our view is “ to some extent different” as we expressed the idea as a measure for number of population against every bank branch in a district.

**Map 7:** District-wise Share of Urban Credit Out of Total Credit- Map, December, 2013



**Source:** Produced by using information from Scheduled Bank Statistics, October-December, 2013, and Bangladesh Bank.

Secondly, the number of branch and its distribution among people does not depict a complete picture of credit disbursement among rural and urban geographies. It is well established that the dwelling places of vast majority of people i.e. 66.5% (rural) of total population suffers from an unequal distribution of all sorts of facilities including bank outlet enjoying less bank credit disbursed to their economic activities. In the **Map 7** is showed District wise share of Urban credit out of total (urban and rural) credit disbursed in the respective District.

Globally on average, only 24 percent of all bank branches are in rural areas (Ardic et al., 2011). This global statistics of rural branch apparently may be a little bit contradictory to that of Bangladesh as stated earlier. This is because of the definition



problem realized by various sectors which does always not comply with administrative and natural geographical context. Conventional financial institutions are also unevenly distributed across the countries and regions (Beck et al., 2007; Edison et al., 2002). Banks are also concentrated into few specific points and are less prone to be in rural and remote areas. Few banks want to be nearer to their parent organizations due to inter-bank regular activities, though infrastructure like road, electricity and telecommunication facilities creates financial service demand in rural areas (Mohan, 2006).

In a large number of developing countries governments are in dilemma over the fate of state owned development banks those are specifically focusing agriculture and rural development. In fact, these banks were established to provide subsidized credit to farmers and this objectives pushed extensive branch networks to reach into remote rural areas than other banks. But Poor performance and the withdrawal of most subsidies has left many of these banks bankrupt or moribund (Rhyne and Christen, 1999) The geography of bank is controlled even by the market it self. After the global financial crises of 2008 though a change occurred in the structure of geography of banking, Spanish bank market was consist of a large number of independent market in the local region like districts, suburbs, towns etc. In every submarket the decision to enter new product was dependent on the independent strategic effect operative in the submarket (De Juan, 2003). But what happened in the geography of rural banking in Bangladesh is quite related to primarily on market.

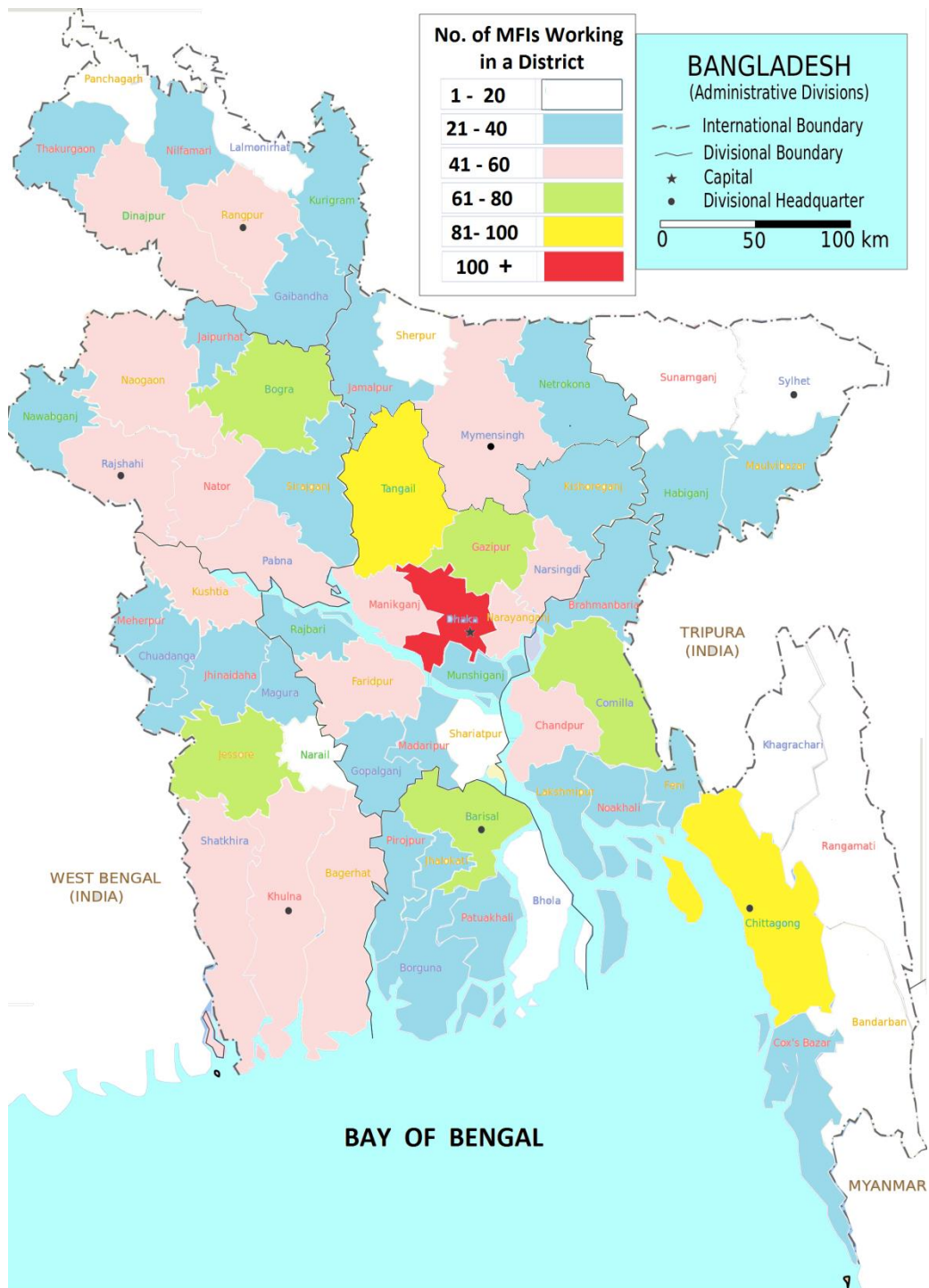
It is well conceptualized that in developing countries several interlinked markets are simultaneously imperfect. Credit and output markets are directly linked, highly imperfect and herein Microfinance programmes are devised and designed as a response to credit market imperfections in developing countries (Mallick and Nabin, 2011). Credit market is highly sensitive and requires assurance to sustain through proper loan repayment. Weak safeguard against borrower's failure in payment born in either of his inability or unwillingness automatically brings in systematic failure of banking system, therefore, credit market relies heavily on the framework of the legal enforcement mechanism. And when it is not always cost effective in rural areas, it discourages banks to be there. Furthermore, as the rural enterprises are informal in nature having less or no collateral to offer against loan, the lender have to be dependent on relationship lending, which is also a costly procedure. Soft information is costly and highly dependent on the continuous relationship between borrower and lender which can be derived through a process that is primarily social and the result is

not absolute. So a bank branch may not be placed in rural areas as a first choice, if other options can be availed.

However, it can further be added that the credit market imperfection is on the other hand a geographic case. Other than organizational limitations, inability, unwillingness to serve the rural poor and so on, the absence of formal financial institutions in the market irrespective of the market strength, it has substantial impact for MFIs to fill the gap, innovate newer methods and sustain. The geographic expansion of MFIs beyond the urban areas is a revolutionary one in financial service sector. The MFI growth occurred due to organizational (not financial) limitations of existing banks and their absence in remote areas (Mahmud and Tulla, 2015). But MFIs are not free from bindings, limitations and goals that have strong influence in shaping the layout plan of the MFI branch network. Where does the NGO-MFI (henceforth MFI) go, why and how does it relate social, economic, organizational as well as geographic issues?

NGOs are basically non-profit organizations presumably have the guidance of altruism, therefore, the location decision of MFI branches in principle are different from that of commercial banks. There are explanations and thoughts that can be identified as important factors in placing the MFI branches (Map 8). MFIs at least at their early stages of inception had received a large amount of fund and patronization from donor countries, therefore, the contract between donor and NGOs either explicit or implicit have the effect in choosing MFI branch location. A basic objective in establishing MFI was to help poverty reduction including other social objectives, though there may be a conflict between reducing poverty and support other social objectives. To secure funding from donors it is always a challenge for NGOs to earn success and reputation. So that while the newly established MFIs want to prove success and take risky projects by expanding to risky vulnerable fields.

**MAP 8: Number of MFIs working in a District.**



On the other hand old established MFIs do not need to gain more reputation instead of retaining the same gained earlier. As a result they might prefer to choose safe projects by avoiding the risky one (Gauri and Fruttero, 2003). So their branch placement is at comparatively safe zone. Programme placement also does not always follow the community need indicator probably because of the limitation in objectives

and other accessories. NGOs in Bangladesh tend to be placed in comparatively better areas among rural settings having better facilities of road, communication, electricity, telecommunication (presently the country is under mobile phone network) and try to avoid flood prone areas and other distress factors (Ziller et al., 2001).

It is shown in the above map that highest number of MFIs is working in Dhaka, Chittagong and Tangail. More than 80 MFIs have their branches in each of the district. It means that more than 80 MFIs have their branches and the number of Branches of each MFI may be more than one in the same district, in such case the only a single entry is counted. Exceptionally 153 MFIs have their operation in Dhaka, the capital city. However, Division wise registered MFIs vary from region to region. All the scheduled banks are headquartered at Dhaka except the one, named Rajshahi Krishi Unnayan Bank (RAKUB), is headquartered at Rajshahi district. But in case of MFIs the registered headquarters are distributed all over the country.

In geographic perspective the location of Headquarter of lending organization is very much important in the lending mechanism being it functionally nearer, which bears value in relationship lending. The functional distance on the other hand erases the underlying obstacles, because it decreases the social, cultural and economic distance between the borrower and lender and therefore, dominates over operational distance. The following **Table 7** shows the distribution of MFIs according to their registered Headquarters and growth.

**Table 7: Branch Growth of Licensed MFIs & Grameen Bank (2009 - 2015)**

SL	Division	June, 2009		June, 2010		June, 2011		June, 2012		June, 2013		June, 2014
		No of Institute	%	No of Institute	%	No of Institute	%	No of Institute	%	No of Institute	%	
1	Dhaka	195	46.6	240	45.78	269	46.38	273	44.17	294	42.61	
2	Rajshahi	78	18.2	97	19.06	105	18.1	86	13.92	95	13.77	
3	Rangpur	-	-	-	-	-	-	34	5.5	36	5.22	
4	Khulna	64	15.53	73	14.34	82	14.14	91	14.72	107	15.51	
5	Chittagong	51	12.14	66	12.79	81	13.97	92	14.89	106	15.36	
6	Barisal	23	5.58	30	5.89	33	5.69	32	5.18	38	5.51	
7	Sylhet	8	1.94	10	1.96	10	1.72	10	1.68	14	2.03	
8	<b>Total</b>	<b>419</b>	<b>100</b>	<b>516</b>	<b>100</b>	<b>580</b>	<b>100</b>	<b>618</b>	<b>100</b>	<b>690</b>	<b>100</b>	
<b>Total Branch Growth of Licensed MFIs &amp; Grameen Bank</b>												
9	Number of MFI Branches under MRA	16851		17252		18066		17977		14674		1
10*	Number of Grameen	2562		2565		2565		2567		2567		

	Bank Branches						
11	Number of Total MFI Branches in Bangladesh	19413	19817	20631	20544	17241	1

**Source :** MRA (2015)

\*\* Grameen Bank is not regulated by Microcredit Regulatory Authority

\* There is no change between 2014 and 2015

It is shown that highest number of MFIs are registered in Dhaka and the lowest number is in Sylhet. Though number of MFIs stands unchanged for the last two years yet the branch growth has got a jerking in 2011 and it decreased from 18,066 to 14,730 in mid-2014 but again reached at 15609 in the following year. It is known that MFIs are now expanding cautiously to gain sustainability and they are growing more market oriented than before. Grameen bank alone has 2568 number of branches across the country though 697 regulated MFIs have only 14,730 branches.

Financial institutions with an aim to operate in rural areas of developing countries have to face high transaction cost, low population density, remoteness and high agricultural focus. In case of Bangladesh being it highly vulnerable to natural disaster like flood, cyclone, and drought its high population density is favoured by lowering the transaction cost (Ferrari, 2008). The branch placement in serving the poor is strategic in nature; while NGOs are more poverty respondent, they place their branches near the poor located with comparatively better favourable infrastructure instead of a more distressed areas in remote rural settings, though they place few branches in distressed areas. NGO managers are another influential factor in choosing branch location. As the branch managers are recruited through central office and as they do not get extra salaries, incentives and rewards for being posted in remote rural areas, they likely to prefer to be at well endowed areas like thana ( mostly upazila) headquarter having fairly better services regarding education, health, market etc. (Sharma and Zeller, 1999). But it is not found that NGOS are targeting poverty (Gauri and Fruttero, 2003), they might not be targeting the ultra poor (Amin et al., 2003). In case of Grameen Bank the first and pioneering MFI in Bangladesh placed their branches to favour the poor and did not avoid other negative factors in placing their branches (Ravallion and Wodon, 1999). Microfinance may be dependent on a poor economy for its survival. The conjecture that perhaps it thrives in a vibrant informal economy where almost all of the borrowers operate in a small segmented local market having less sensitivity to overall macroeconomic condition (Ahlin et al., 2010).

Usually, rural branches of all commercial banks are located at the Upazila headquarters, though exceptions exist. On the other hand, government owned Development Financial Institutes have branches beyond this geographic limit and are located at the union levels and big rural markets though state owned commercial banks have extended few network to rural important places established earlier. MFIs are highly dependent on commercial bank branches. They need to withdraw cash in the early morning from bank to disburse loan and at the closing hour of their business they need to deposit cash to bank after receiving installments from borrowers. To minimize transaction costs of carrying money and also for security purpose it is wise to be nearer to bank branches. However, to place a branch in a particular area MFI primarily choose an area near the upazila headquarter, purchase or rent house. Simultaneously they collect information about the communities and collect information of presence of other NGOs and assess whether that will effect negatively, though the presence of a credit programme in the area have positive impact (Gauri and Fruttero, 2003). Even where the conventional commercial banks perform well, the microcredit activities may develop in the same line because of the demand for financial services initially created by the commercial banks in the market.

Though NGOs are non-profit organizations yet it is well understood that their individual success and reputation would bring them donations and sustainability. MFI choose a location, start operation, know the community, understand business and gain “state-of- art” and finally expand to new frontier. In fact, there is no cooperation among NGOs in selecting of villages or communities, therefore, it is common that several NGOs are performing lending operation in the same village. They avoid the unofficial agreement on information sharing that an NGO will not lend to someone who has already been a client of another NGO. Considering the geographic distance as a determining factor to capture the maximum field BRAC tried to put an implicit cut-off radius of 8 km for a single branch for 40 districts across the country for a program of peasants, though they did not officially make the information available (Mallick and Nabin, 2011). So the cause and consequences of location pattern of MFIs is not so easy as we usually guess. Simply it may be told that considering several issues and factors as per requirement of various stakeholders MFIs have opened their branches in villages or in places with donor influence (Gauri and Fruttero, 2003), but in a location with comparatively better access of transportation and communication infrastructure (Zeller et al., 2001) and not guided by the administrative hierarchies like conventional banks (Khandaker et al., 1995). And gradually the overall situation is changing. In the new world order of 21 century, donors focus area in global geography is shifting

towards multidimensional agendas. New geography like Eastern Europe, state of former Soviet Union, war ravaged middle eastern countries etc. are new frontier of seeking donations. Only the "poverty ridden country" is not the important enough as a signboard to attract donors. Donors are less interested to remain the same as they were in the early stages of inception of MFIs. MFIs are also on a track of paradigm shifting for achieving more sustainability through dual objectivity of poverty reduction and doing business. This is gradually shaping a new geography of financial intermediary in rural context.

### **3. Literature Review:**

We have selected the main issues which will help us to achieve our objectives and understanding our hypothesis. Moreover, the issues those have been thought to be influential for our research are considered.

#### **3.1. Bank Issue:**

There has been substantial focus on financial issues within the hemisphere of geography and specifically on the Financial Geography. Focus on global and in few cases national issues, as example internationalization, national financial system, financial centre are evident (Clarke et al., 2005; Martin, 1999; Porter, 1995;). Few theoretical and empirical work done on financial systems, especially on the evidence of developed nations. These focus on the metropolitan areas of the developed nations (Marshall, 2004; Polese and Shearmur, 2004,) and there are research evidence on the regional inequality of the financial services (Klagge and Martin, 2005; Martin et al., 2005). As example, Klagge and Martin (2005) theoretically discussed in context of regional financial literature and compared capital market structures along with the regional distribution of equity for Germany and UK. It is argued that capital markets do not function space-neutrally. A highly centralized system in the UK may bring spatial biasness in capital flow to SMEs. But the case of Germany is that the impact of geographical organization of capital market is dependent and mitigated by other institutional and regulatory conditions.

However, most studies and researches on financial geography of financial system have been conducted on developed nations. Though few studies on distribution of inequality and income disparity focus on developing nations. In recent years the inception of “financial geography” as a subfield of economic geography has drawn attention of researchers to investigate the matter through multi-dimensional lenses. Due to modernization and technological innovation in financial services, studies on the spread and adaptation process of new policies and devices in Africa, Asia and Latin America are attracting academic communities. Li and Xiongfei (2006), remarked that the relevant issues like regional inequality of financial services, financial practice related to local economy etc. in less developed countries are far behind and least explored. Researchers observed that there has been increased institutional and geographic concentration of financial system across nations stimulated by globalization, technological innovation and intensifying international competition. In such a situation the evolution of financial system has been developed by researchers (Klagge and Martin, 2005; Martin, 1999).



There are also studies on rural financial system emphasizing basically the Microfinance and its infiltration and growth in the market of Asia, Africa and Latin America and in few cases on the geographic issues. Some literature on financing small farms highlighting- how the organizational structure and competitive environment of formal institutes affects small firms in getting credit (Black and Strahan, 2002; Berger and Udell, 1996; 2000; Petersen and Rajan, 1994; 1995). Research on the organizational structure of banks has focused on the benefits of a decentralized banking structure in the context of small business lending. On the other hand, research looking at small business lending suggests that banking deregulation led to a widespread increase in entrepreneurial activity despite the trend of mergers that led small, decentralized banks to fall significantly following the deregulations (Black and Strahan, 2002) These apparently contradictory findings make sense: while decentralized banks are indeed better than centralized banks at alleviating credit constraints for small businesses in competitive markets, they are in fact worse than centralized banks in concentrated banking markets (Canales and Nanda, 2012). Canales and Nanda, (2012) ensures that decentralized banks seem to be more sensitive to soft information when setting loan terms and both the organizational structure and the localized market power of a bank are relevant for SME lending. The complex mechanism of distance and banking power as studied in recent years, has focused mostly on these two types of distances i.e. **operational distance**<sup>1</sup> and **functional distance**<sup>2</sup>.

The geographic decentralization of banking structure expanded the possibility of getting credit and savings services at local doors. This refers to the term “operational distance” in banking literature. On the other hand the trend of Merger and Acquisition (M&A) strategically helped geographic concentration of decision centers and strategic functions by leading the “functional distance“ away from the locality and from operational hand (Kooli, 2012). Alessandrini et al., (2010) in a research compared bank size and distance between their branches and headquarter as possible sources of organizational frictions. They concluded that the distance between bank decisional centers is mainly a negatively innovation effect. The functional distance is significantly and negatively associated with the likelihood of local SMEs introducing innovations. In another research Alessandrini, et al., (2009), assessed the impact of spatial organization (diffusion-concentration Trends) of Italian banking industry for the period

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<sup>1</sup> This is the point of all operation being at local level having its direct connection with the service delivered.

<sup>2</sup> The terminology was first used and introduced by Alessandrini, Corci and Zazzato (2005). This is basically the decision center, mostly being headquarters that separates the operational points from its diverse location and exercises power of lending decision, therefore is empowered to control over operational point.

1996-2003 on firm financing and found that increased functional distance made financing constraints more binding and small firms of less developed provinces are affected. Keeble (1990), remarked that problem faced by firms in the urban and rural areas in the UK are broadly similar exposing rural firms more finance constrained. The cause behind less financing to small farms are no more different in developed nations. O' Farrell (1990), suggested on the basis of research on Nova Scotia, Canada- that banks are reluctant to lend to small rural firms due to their poor asset to repay in case of failure. However, in geography distance is highly emphasized in analyzing the situation that put strong influence on banking structure and its ability to function. Degryse and Ongena (2003) conducted a study on Belgium about the effect of geographic distance on loan condition and summarized that Loan availability decreases with the distance between lender and borrower and it increases with the distance between the borrowing firm and the competing bank. They concluded that lenders located in the vicinity of small firms have low cost effectiveness to monitoring and transportation. Most importantly Petersen and Rajan (2002) have given substantial importance on distance and its effect on lending in the USA and first noticed – how do the financial institutions expands their geographic coverage in terms of distance. They argued that remote applicants are credit rationed and local lenders have easy access to the borrowers information bringing advantage than the distant lenders. It is also found that distance between small firms and their lenders are gradually increasing because borrowers are communicating with bank more impersonally than before. There are also arguments over technological changes and its impact on the said increasing distance. Based on their data of 1993- 1998 and 1998-2003 they argued that distance does not increase evenly across all types of firms and its ages, as it increases comparatively faster for older firms. They concluded that physical distance between firms and their lenders grew at about 3.4 percent per year between 1973 to 1993. However, Wolken and Rohde (2002) also studied the same issue and concluded that when the mean distance grew at 15% per year the medium distance slightly increased from 9 miles to 10 miles from 1993 to 1998, which is faster than the prediction of Petersen and Rajan (2002). Another study by Brevoort and Wolken (2009) has similar findings and remarked that mean distance between 1998 and 2003 decreased. They explained that transaction cost and asymmetry of information may increase with distance and therefore, banks may reject loan application of distant clients.

Degryse et al., (2009) argued that physical distance is a source of inefficiency. However the recent structural and technological advancement (e-banking, e-cash,

online banking, ATM, smart cards etc.) in the banking sector have revolutionary effect on doing business making personal contact less essential with the institute. Khan (2004) tried to understand whether the decisions of bank customers are influenced by the geographic distance. He used 1998-2001 data of US banking and concluded that online banking can be considered an additional banking channel only. The hypothesis "Technology reduces the role of distance" was not supported by Butch (2005) and De Blasio (2008). Butch (2005) claims that if technological development had lowered transaction costs and if transaction cost had increased with distance the importance of distance should have declined. Blasio (2008) studied on Italian banking and his research rejects the assumption that internet reduces the importance of geographic distance and online banking is not substitute for traditional banking channel. This finding is in line with Morgan (2000). Corrocher (2006) also examined the relationship between tradition banking and internet banking and concluded that internet banking exists as a substitute of existing structure. Moreover, banks having large number of branches seem to adopt less new technology compared to banks having few branches. Degryse and Ongena (2005) have also findings on specific distance between lender and borrower. In Belgium the average distance between bank and customer is 3.1 miles which is 2.5 miles in Sweden. Few studies on the USA based on information from Community Reinvestment Data (CRA) have findings on geographic distance and extended lending <sup>3</sup> (out of market). These studies were conducted to focus lending hemisphere change in geographic areas at various distances and studies were based on the said CRA data did not expose sufficient evidence of lending to distant borrower though the out of market lending occurred in case of small amount like credit card loan. These studies include Brevoort (2008); Brevoort and Hannan (2006) and Laderman (2008). Brevoort and Hannan (2006) used a new data set to be used in spatial econometric model for estimating relationship between distance and commercial lending to forecast how the relationship evolve over time in the USA and concluded that distance is important in local market having its influence in credit supply. Alessandrini et al., (2010) studied the banking structure and power in Italy and suggested that bank decisional centers have strong influence on credit supply in local market. Having the same view Alessandrini et al., (2005) analyzed things more clearly and focused the distance and decision as power to delivery of loan services to local areas which is marked as geography of banking power. Both the papers have found that the operational distance has the limitation but the functional distance play vital role

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<sup>3</sup> A banking market, that is away from the region where the Headquarter is located. Basically this is applicable in countries that are divided into states; provinces etc. and banks have their branches across the provinces and so on.

in taking decision. The proximity of the thinking head to an area or market influence positively through sensitivity and feelings about the requirement of the local market. Bonaccorsi and Gobbi (2001) also studied Italian cases by measuring the density of branches (the rate of bank branch to population) and showed that the density of bank branches increase the possibility of getting loan specially for small firms and it is negatively associated with the bad loan volume. Beck, Demirguc-Kunt and Peria (2007) used the technique to measure the density/ outreach of branches and availability of service as crude measure. Both the demographic and geographic branch penetration have been considered and successfully used by them. They also measured the use of banking services by considering loan-income ratio and deposit-income ratio by considering GDP. These measurement techniques are widely being used by various academic and research bodies to measure financial inclusion worldwide in recent times. But Mahagaonkar and Chaudhuri (2009) used separate techniques to measure the operational distance for banking services and they argued that small firms prefer nearer source to borrow and mostly they use internal finance. They also are dependent on regional financial system. Their findings in England show that the quantity and price channels might work only for supply of very local capital though the presence of lending institutions does not matter for rural small firms. Koolie (2012) also found almost similar findings while studying the geographic distance and lending in France. Though the information technology has strong effect on geographic expansion of bank branch, this helps get borrowers close to their operational centers but subsequently the banking consolidations strategically have separated the banking decision center from its operational place bringing adverse effect in financing as a constraint for small firms. In most cases the lending decisions are at the level of upper layers of the banking structure being headquartered giving less emphasize to the soft information that penalizes small and opaque firms at the distant location (Liberti and Mian, 2009).

However, there have been substantial studies on banking power and financial deregulation in European context. Specifically studies on Spanish banking deregulation, expansion and stagnation in geographic growth after the global economic crisis of 2008 has been focused in several documents (Alama and Tortosa-Ausina, 2011; Carbó-Valverde et al., 2005; De-Juan, 2002; Ferndez and Udell 2005; Pastor et al., 2011; Illueca et al., 2009) . The structural environment of banking geography in Spain has its considerable variation in local bank market power. Provincial and regional banking market have differences in terms of concentration, competition, price. etc. (Carbó-Valverde et al., 2005).

De-Juan (2002) studied the entry probability or entry choice into submarket of Spanish banking market and found that decisions were led by submarket characteristics instead of bank specific characteristics. It is of great interest to say that Spanish banking landscape is formed by a large number of independent local market i.e. districts, suburbs, towns etc. and these attract branches of financial institute to operate competitively. Even market is strategically independent and bank have to cope with the product module of separate demands. Pastor et al. (2011), studied the relaxation of bank branch restrictions and found that the removal of geographic restriction helped expanding. Overall branch numbers increased from 30,961 to 44,085 by 2009 from 1986. This numbers reached its peak within 2008 and have the stagnation after global economic crisis at 2008 (though the banking expansion across Spain was not even in history). This geographic expansion and deregulation has been strongly focused in Alama and Tortosa-Ausina, (2011). The banking deregulation of 1989 brought immense opportunity of expanding for Spanish savings banks until it got an abrupt halt in 2008 during economic shock. Subsequently the economic shock have had severe consequences in the “ecological layout” of the lending practice hampering the mode of lending technology keeping a remote geography out of the reach of bank lending. Dymski (2013), studied these incidences in his/her research on Spanish banking, its relationship lending during economic crisis and concluded that the crisis threatened the relationship banking at the periphery by moving the credit flow to central areas. The bank relationship in Spanish financial structure has its own hierarchy. Large banks maintain relation with large firms medium sized firms with medium and so for the small enterprises. Access to financial services and spatial competition in Post-crisis bank restructuring is a burning question in Spain that has significant impact on the spatial structure of banking and its lending. Considering this matters Martin-Oliver (2016) found that the crisis has reduced the spatial accessibility to financial services which is also heterogeneous across regions being it more acute in small municipalities, increasing the risk of spatial financial exclusion. Following the closure of branches during the crisis the demand for banking products automatically decreased. Both the number of bank entities and their branches have decreased drastically. The so-called Cajas have been obliged by regulation to transfer the banking activities to private entities and to be transformed to be foundation.

Studies on geography of banking or the location pattern of banks in Bangladesh have few indications about its strategic policy of financial inclusion that may be explained through other views. Nationalized commercial banks (NCBs), Private banks and specialized banks have separate philosophy and objectives both in choosing their

branch location and operational strategy. Until 1982 almost all the formal financial institutions were government owned (Zeller et al., 2001). After independence in 1971, they opened branches in small towns and bazaars all over the country considering remoteness with an objective to bring financial services to the possible lowest hierarchy of the social strata. This vast network of rural branches subsequently failed to achieve the goal due to resuming the strategic credit mechanism like before. Most of them were not catering to the poor existence because of the collateral requirement for granting any loan. Basically the specialized banks Bangladesh Krishi bank (BKB) and Rajshahi Krishi Unnoyon Bank (RAKUB) were established to provide subsidized credit to the poor beyond the urban capture ( Alamgir, 2009; Charitonenko and Rahman, 2002). Few researches and investigations have focused about the location trend of financial services indicating that banks have followed administrative network and well endowed areas as they are in principle being guided by market principles having deviations. This led to a centrality towards good geography- the place attracts quality and business. (Alamgir, 2009; Beck, Demirguc-Kunt, 2008; Khandker et al, 1995; Zeller et al., 2001).

### **3.2. NGO-MFI Issue:**

The argument over location decision of NGO-MFI and their lending to poor and vulnerable or marginal people is quite different from that of commercial financial institution. Moreover, the application of geographic perspective over the issue is comparatively less evident. Yet few studies on microfinance and their geographic aspect regarding expansion, sustainability and commercialization are gradually gaining ground in the policy arena of the sector. MFIs are unevenly distributed across continents, regions, countries and even in districts (Hardy et al., 2002; Marulanda and Otero, 2005).

Using mix market tools and by collecting information from several rating agencies, in 2004, the Consultative Group to Assist the Poor (CGAP) conducted a survey and observed that the economic activity of a country, level of industrialization, income structure, population density and foreign fund flow have significant impact on the growth and expansion rate of MFIs. Another study by Burrit (2003) in Turkey has similar findings, that the level of economic activities has strong influence in deciding the establishment of MFIs. The author argued that the expanded economic activities invites demand for financial services and where the traditional commercial banks operate well, MFIs activities may have pace to develop. Geographic factors like high population density, adjacent communities, infrastructural facility like road and transportation, utility

service like water supply, electricity etc. are highly influential in location choice for financial institutions including MFIs (Sriram and Kumar, 2005). Goodwin-Groen et al. (2004), in a review of MFI in Uganda argued that MFIs are establishing their position in cities keeping 75% people (rural people) out of the network. As thousands of people immigrate to cities in Uganda and community distance is high but they have been growing an urban based MFIs. Yet there is a clear north-south divide in the MFI location pattern of Uganda and Kenya. In Tanzania this geographic division stands towards east-west (Peprah and Muruka, 2010). Burritt (2003) found same logic in Turkey and added that MFIs flourish well in places where the commercial banks do well and create a response in the market. Few other studies in other countries show almost identical result regarding distance. Pedrosa and Do (2008) analyzed distance separating households from microfinance institutions in Niger and found that to cope with the effects of geographical distance; microfinance institutions adapt their policies through more restrictive loan conditions, higher interest rates and more intensive screening. Presbitero and Rabellotti (2011) studied geographical distance and reached mostly the same conclusion regarding Colombia. Population density and physical infrastructure may have an effect on expanding MFIs in African countries. Peprah and Muruka (2010) and Sriram and Kumar (2005) have found common effect of few factors like population, community, distance and infrastructure on expansion and sustainability of MFIs. The more or less same result has been supported by Hulme and Moore (2006). But in fact the spread of MFIs across countries and regions vary due to multi-dimensional causes.

McIntosh, de Janvry and Sadoulet (2005) in their empirical studies of location decision in Uganda found strong tendency of creating clusters of institutions and presence of competitors increases delinquency. Craig McIntosh et al., (2004), used data from largest MFIs of Uganda to analyze the impact of entry and competition of MFIs on borrowers behavior. It was found that different types of lending institutions have a spatial clustering trend having a recent evidence of moving to rural areas for the few. Few recent studies on Bangladeshi MFIs explained geographic issues like placement decision and their organizational position. In case of Bangladesh the actual motivation in selecting programme locations is always hidden and remains unknown. MFIs expand credit programmes where they are absent, without considering other types of institutions that may be present; the unofficial information-sharing among them for "lending to the same person and selecting a programme in a same community of the village" is never followed (Gauri and Fruttero, 2003; Mallick and Nabin, 2011). On the other hand Donors support, subsidies, interest rates these issues have attracted

attentions in recent years. D'Espallier, Hudon and Szafarz (2013) found that strategies to achieve financial self-sufficiency across regions are different being it compensated by accruing higher interest rate in Africa and Asia while it is unsubsidized. On the trend to rationing women is higher in Latin America but for Eastern Europe and Central Asia the client pool belongs to less poor group. In their most recent another study i.e. D'Espallier, Hudon and Szafarz (2016) found that uncertainty in subsidy leads MFIs mission drifting. The volatility in Aid is being adjusted by increasing interest rate and consider average loan size as a signaling device for commitment to social mission. But where MFIs reach is a big question. Vanroose and D'Espallier, (2009) in a study found that MFIs reach more clients with profitability where the formal banks fails to mitigate though MFIs benefits from stable financial system. Vanroose (2008) also found that MFI sector exists more in the richer countries of the developing world and the outreach is into more people where the international support is higher.

Salim (2001), studied the strategic branch location choice of two largest MFIs in Bangladesh i.e. Grameen Bank and BRAC. The complex mechanism of profitability as (sustainability) and poverty elevation as philanthropic activity exist in the same programme. He applied duality principle to nest a pure profit maximization objective with poverty targeting. Data was gathered from whole Bangladesh of these two MFIS and found inconsistency between profit maximization and poverty elevation objectives. Therefore, such poverty targeting had to give up 51.4% and 35.2% of profit from BRAC and Grameen Bank respectively. This paper is close to Gauri and Fruttero (2003) that studied the branch placement of NGO-MFI in Bangladesh. The researchers developed two specific motivations for NGOS. The first one whether the donors contracts determine the location decision and another one is the altruism as principal determinants. It was evident that the NGO programmes establishment was not related to community need indicators. But the new programmes operated in the fields where they were previously absent even by avoiding the condition of duplication of other NGOs same programme in the area. They also found that the credit programme of a NGO influence others by indicating the location as a market. Khandker et al. (1995), studied the performance and sustainability of Grameen Bank, the largest MFI in Bangladesh. The location decision to open branch in certain areas was examined and found that the proximity to administrative centers or the choosing a well endowed areas were not determining factors. During measuring the location, distance from thana and district headquarter were considered. Even the agricultural production risk and flood prone areas as a factor were not found to be related to branch placement. Ravallion and Wodon (1997) argued that Grameen Bank, the pioneer in Microfinancing in



Bangladesh is inspired by areas where the gains favour the poor for giving them access to credit. Zeller et al., (2001) tried to identify the determinants of branch placement of MFIs – particularly BRAC, ASA and Proshika –and found that better access to transport, communication infrastructure and proximity to a commercial bank are preferred for branch placement of MFIs. Moreover, they claimed that outreach is significantly higher in thanas that have a higher distress (flood, poverty) index, which is completely opposite to that of the placement equation and general trends. Mallick and Nabin (2011) also studied the location strategy of MFIs in Bangladesh and found that NGOs are primarily guided by altruism but that they also seek financial sustainability. In practice NGO coverage decreases with the distance from the main marketplace in rural areas because this distance is associated with poor physical infrastructure and few sustainable opportunities. They also cited an example of applied geography from BRAC. In 2010, BRAC launched a new lending programme covering 40 districts in the country. The implicit cut-off radius was set 8 km from BRAC branch offices (located in nearby upazila headquarters). However, BRAC does not officially make this “cut-off radius” available. The evidence of imposing such distance matrix rule may have some implication as was focused in South Africa. In 2004, Africa charter adopted a target of bringing first-order financial services i.e. credit, savings etc. within a 20 km radius of every South African citizen (AFI,2010). This component of “Applied Geography” in developing financial inclusion is a concern for the developing nations. Conceptually, the geographic distance to a financial service outlet/branch or the density of branches related to population is a crude measure of financial access (Beck et al., 2007).

### **3.3. Poverty and Rural Lending :**

Whether microcredit reduces poverty, is a big debate raised in recent years and the evidences in its favour are not well established. Two strands of empirical literatures exist on the role of microcredit in reducing poverty. The first strand of studies uses non-experimental research methods and reveals that microcredit helps promote social, human, and economic development in a variety of ways. Dunford (2006); Hossain (1988); Shaw (2004); Panjaitan-Drioadisuryo and Cloud (1999);Chemin (2008); Khandker (1998, 2005); McIntosh (2008); Pitt and Khandker (1998); Pitt, Khandker, McKernan, and Latif (1999); Kevane and Wydick (2001); Imai, Arun, and Annim (2010); Boonperm, Haughton, and Khandker (2009) are important examples of this thought. The second strand of studies, finds that microcredit has mixed effects on poverty reduction. While few studies like Coleman (1999, 2006); Karlan and Zinman (2009); McKenzie and Woodruff (2008); de Mel, McKenzie, and Woodruff (2008) claim positive

effects of microfinance on income, growth, consumption smoothing etc. the rest group of research find no such evidence e.g. Augsburg et al. (2011); Attanasio et al. (2012); Banerjee et al. (2010); Karlan and Zinman (2011) etc.

Roodman and Morduch (2013), added fuel to debate which have started the bargaining after decades of MFI growth that was based on the reputation of poverty reduction. They replicate and reanalyze the most influential study of microcredit of its kind i.e. Pitt and Khandker (1998), which was celebrated to prove that microcredit reduces poverty. After analyzing the work Roodman and Morduch (2013) concluded that impact is unearthy worthy from the data as it was shown. The most prominent field of poverty research is Bangladesh though the muted result from India, Philippines and somewhere else have created the second thought by developing a sharp contradiction with the earlier one. Researchers claim that things may have dependency on time, space and methodology of research. Even the pioneer of Microcredit in Bangladesh, Professor Yunus, Muhammad had the most attracting comment regarding the poverty reduction "Micro-credit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. Combined with other innovative programs that unleash people's potential, micro-credit is an essential tool in our search for a poverty-free world" Yunus (2003: 171).

Few studies have claimed that access to capital increases average profitability of male-run microenterprises which stands as a challenge of the central claim of microfinance (it does so for female-run businesses ) McKenzie and Woodruff 2008; de Mel, McKenzie, and Woodruff 2008). On the other hand few randomized studies could not find any support to favour the claim that microcredit increases household consumption within a few years (Banerjee et al., 2013; Karlan and Zinman 2011; Attanasio et al., 2011; Augsburg et al., 2012). Roodman and Morduch (2013). Finally Roodman and Morduch (2013), concluded that after 35 years of microfinance movement the evidence in favour of reducing poverty is scarce. However Pitt, (2014--wps6801), further analyzed the work of Roodman and Morduch and other old evidences and voiced the same. Chowdhury (2009), in a study also argued that microfinance has developed some innovative management and business strategies despite its role in reducing poverty is still in doubt. Even other studies on impact of microfinance in changing the quality of life of the poor people in regard to health, education, food etc. are not found to have any discernible effects (Banerjee, Duflo, Glennerster and Kinnan, 2009; Dean and Zinman, 2009) Chowdhury (2009).

Even evidence of a World Bank sponsored study, involving 1,800 households in Bangladesh, found only very marginal improvements among microcredit borrowers

(Khandker, 2005). In the same line David Roodman and Uzma Qureshi (2006: 38) tried to put logic, "Thus a \$250 one-year loan would raise a borrower's income by \$12.50/year, or about \$0.03/day. For someone living on \$2/day, that is a 1.5 per cent increase. This does not live up to the microfinance hype". However Khandker and Samad (2013, wp 6404) in their research from a data of a long panel survey over a 20-year period confirms that microcredit participants derive a variety of benefits. But it does not say that non-participants have failed to progress over the same period and the success of microcredit in reducing poverty is less certain. They further added that participants who remained with microcredit programs over a long period fared better than who left it earlier and Islam (2011) also found the same result regarding duration.

### **3.4. Geography, Relationship Lending and Lending Technology:**

Research on relationship lending has focused both on distance and the size of banks and explained how distant borrowers are rationed through screening due to asymmetric information Problems. Empirical evidence shows that banking relationships have strong effect on pricing and credit availability by extending benefit to small businesses through relationships. And therefore, strong relationship is empirically associated with lower loan interest rates (Berger and Udell 1995, Harhoff and Körting 1998, Scott and Dunkelberg 1999, Degryse and van Cayseele 2000).

In practice Rural lending and small enterprise financing are mainly dependent on "Relationship", requiring physical proximity - a type of financing based primarily on "soft" information gathered by the loan officer through continuous, personalized, direct contact with the enterprise (including medium enterprise) their owners, firm managers and the local community in which they operate and subsequently mitigate opacity problems. As these informal enterprises do not have sufficient documents and audited accounts to show they rely on relationship lending (Alessandrini et al., 2009; Alessandrini, Fratianni, and Zazarro, 2009; Beck and Demirgüç-Kunt, 2008; Berger et al., 1995; Berger and Udell, 1995; Strahan and Weston, 1998).

Research found that large banks tend to disburse their small business loan more on financial ratios and a prior relationship with the borrowing firm has strong influence in lending banks (Cole, Goldberg, and White 1999). Studies confirmed that while large banks extend small business loans, they tend to place their loans away from relationship-dependent small borrowers and large banks are associated with low interest rates and low collateral requirements for the small businesses that receive loans (Berger and Udell 1996). Comparing to that of small banks large banks more

often lend to larger, older, more financially secured businesses – firms those are most likely to receive transactions loans (Haynes, Ou, and Berney 1999). On the other hand it is argued that MFIs in Bangladesh basically rely on relationship metrics. The lender-borrower relationship, relationship-based lending and the information-collecting procedure are indicators of the types of lending technology (Chakravarty and Shahriar, 2010).

### **3.5. Financial Inclusion Measurement:**

In recent years a growing number of Literature on Financial inclusion measurement entered into the field as the issue of financial inclusion has attracted the attention of global policy makers. Academics are on the consensus of the argument that Financial inclusion across the countries are not similar and vary from economy to economy, therefore the measurement tools and techniques used are different and used differently even in the same economy by different research groups. There are specific two types of literature on the issue (a) Development of Financial Inclusion Measurement Techniques, and (b) Measuring Financial Inclusion through various dimension across the countries. Our concern relates to Development of Financial Inclusion Measurement leaving the rest one away.

World Bank's "Global Findex" designed through survey data from 148 countries, European Bank for Reconstruction and Development's Life in Transition Survey (LITS) covered 35 countries in Europe and Central Asia, FinMark Trust's FinScope initiative covered 14 African countries and Pakistan. These initiatives and their policy regarding the measuring financial inclusion across the countries around the regions are important to note. World Bank's "Global Findex " database firstly tells the stories that how adults in 148 countries around the world manage everyday finances and plan for the future. The indicators are based on a survey data from interviews with more than 150,000 nationally representative and randomly selected adults in 2011.

Secondly, on the service provider side, Consultative Group to Assist the Poor (CGAP), (2008 and 2009) and the IMF (2010) provide an updated and expanded version of Beck., Demirguc-Kunt and Peria (2007) that has Global reputation proved through empirical research based on data from 99 countries taken first time in 2004. The data was unique both from use and conceptual consideration i.e. number of bank branches and ATMs per capita and per square kilometer as well as the number of loan and deposit accounts per capita being the later two as depth of financial outreach and the overall measurement is for Banking sector outreach.

Beck, Demirgüç-Kunt, and Martinez Peria (2007a) developed indicators of financial access, type wise banking services—i.e. deposits, loans, and payments—across three dimensions—like physical access, affordability, and eligibility. Furthermore, it is clarified that geographic distance to the nearest branch, or the density of branches relative to the population, can provide a first crude indication of geographic access or lack of physical barriers to access (Beck, Demirgüç-Kunt, and Martinez Peria 2007b) and thus the higher value of these measures show higher financial inclusion.

AFI (2013), releases their measurement policies. The Core Set of Financial Inclusion Indicators, developed by AFI's (Alliance for Financial Inclusion) Financial Inclusion Data Working Group (FIDWG). Things are well established through application. They followed and developed it based on IMF Financial Access Survey, World Bank, Financial Inclusion Index and the G20-Basic Set of Financial Inclusion Indicators. In their measurement tools they explained in the same line as explained by (Beck, Demirgüç-Kunt, and Martinez Peria, 2007). In all most all the cases measurement issues are geographic and relative to population emphasizing the financial inclusion among people. Comparatively financial inclusion measurement issues regarding Small and Medium Enterprise (SME) appears less in the field. AFI (2015), releases another set of financial inclusion measurement procedure applicable for SMEs. It considers access indicators, usages indicators and quality indicators being it comparatively complex requiring a multilevel data as input. Honohan (2007 and 2008) developed a financial access indicator that captures a fraction of adult population in a given economy having access to formal financial institutes. It exposes the limitation by giving a snapshot financial inclusion picture and might not be applicable for understanding changes over time and across countries. Amidžic, Massara, and Mialou (2014) constructed a new composite index of financial inclusion indicator as a composite indicator of variables. Dimensions are outreach (geographic and demographic penetration), usage (deposit and lending), and quality (disclosure requirement, dispute resolution, and usages cost). Sarma (2008) developed another set of financial inclusion indicator based on several dimensions i.e. accessibility, availability, and usage. He computed the dimensional index for each dimension of financial inclusion and then aggregated each index as the normalized inverse for Euclidean distance. Herein the distance has been computed from a reference ideal point and finally normalized by the number of dimensions included in the aggregate index.

## **4. Area of Study & Research Methodology:**

### **4.1. Introduction:**

Quantitative methods with inductive approach have been followed to get the findings which are based on statistical data and intensive fieldwork. In order to address the research questions primary data has been collected from the demand side and also from supply side, specially few data is from respective regulatory authorities to have the real picture and qualitative essence of the existing scenario that comply with the real statistics. Demographic characteristics, level of education, landed property owned by family, source of income and so on about the respondent and owner of the rural enterprises have been recorded.

Data from different channels has been collected.

- (i) Providers of financial services (in the field)
- (ii) Rural Enterprises in the village
- (iii) Households Information of the Owner of the RE

Key responsible persons of the field e.g. union parishes chairman, member, school teacher and important persons seems to have been well conversant of the society and rural financial market have been discussed to guess the scenario, which has substantially assisted to design the research plan in the field. But in fact people who are more involved with the business, income generating activities like microenterprises are well conversant about the fact and figures of the relevant data. It is assumed that the financial dealing and the involvement with it requires much attention and personal feelings and inquisitiveness which is usually absent in other community leaders.

### **4.2. Field Selection:**

The field selection procedure in Bangladesh is primarily purposive considering the geographically distributed rural areas under administrative zones of the country. Bangladesh is administratively divided into 8 divisions, 64 districts and 491 Upazilas( Map 9). Each Upazila is divided into unions which perform for lower level administrative functions for a number of villages under its jurisdictions. These unions are the lowest local government hierarchical position. Fields has been selected from 4 old administrative divisions instead of choosing from all the 8 divisions. As the existence of old 4 divisions since long bear the historical pattern of development and represents the trends of gradual development at least both at administrative and economic function.

Map 9: Map of Bangladesh.



One district from each of the 4 divisions excluding the divisional headquarters has purposely been selected (excluding Chittagong Hill tracts districts as these are of separate socio political and geographic entity). From each district one Upazila has been purposely selected excluding the district headquarter. Finally one Union from each Upazila has been purposely selected excluding thana headquarter in order to

avoid the urban sample. And finally considering the village market in the union and the village where the “**union parishad**”<sup>1</sup> establishment is situated has been selected for field work. Few of the selection concepts have been followed from Zeller et al., (2001). The main purpose of this selection procedure is to ensure reaching the comparatively more remote part of the country, considering the presence of at least few financial institutions therein though option of going further remote areas could not represent a real field with absence of any sort of financial institutions.

Four rural fields are situated in four divisions Table 6 and Map 10). Administrative Location of fields is as follows:

Table 6: Location of Fields

Fields	Village where the Field are	Village market where the Rural Enterprise clusters	Administrative Hierarchy lower one starts from left			
			Union	Upazila	Zila	Division
Field 1	Beltail	Hatubhangha Bazar	Ajgana	Mirzapur	Tangail	Dhaka
Field 2	Kachhapia	Garzania Bazar	Kachhapia	Ramu	Cox's Bazar	Chittagong
Field 3	Mangalpur	Mangalpur Bazar	Mangalpur	Birol	Dinajpur	Rajshahi
Field 4	Subidpur	Subidpur Bazar	Subidpur	Nalchity	Jhalakati	Barisal

Though the rural market is the target, as almost all the economic activities are concentrated therein yet its hinterland and the minimum extended area it serves is the respective Union where it is situated. But of course naturally it is not defined that from how much distant geographic boundaries shall people come to get the service. Moreover, globally to measure the financial inclusion at local level the geographic and demographic penetration of bank branch is measured at lower hierarchy of administrative point. In our case Union is the lowest point we can consider. Secondly it is not presentable standard to go further lowest point than it because of the small area of land and its small population size.

Produced by using Following Source:

01. Mapsof.Net : <http://mapsof.net/map/bangladesh-administrative-divisions#.UaWoTthPo9U>

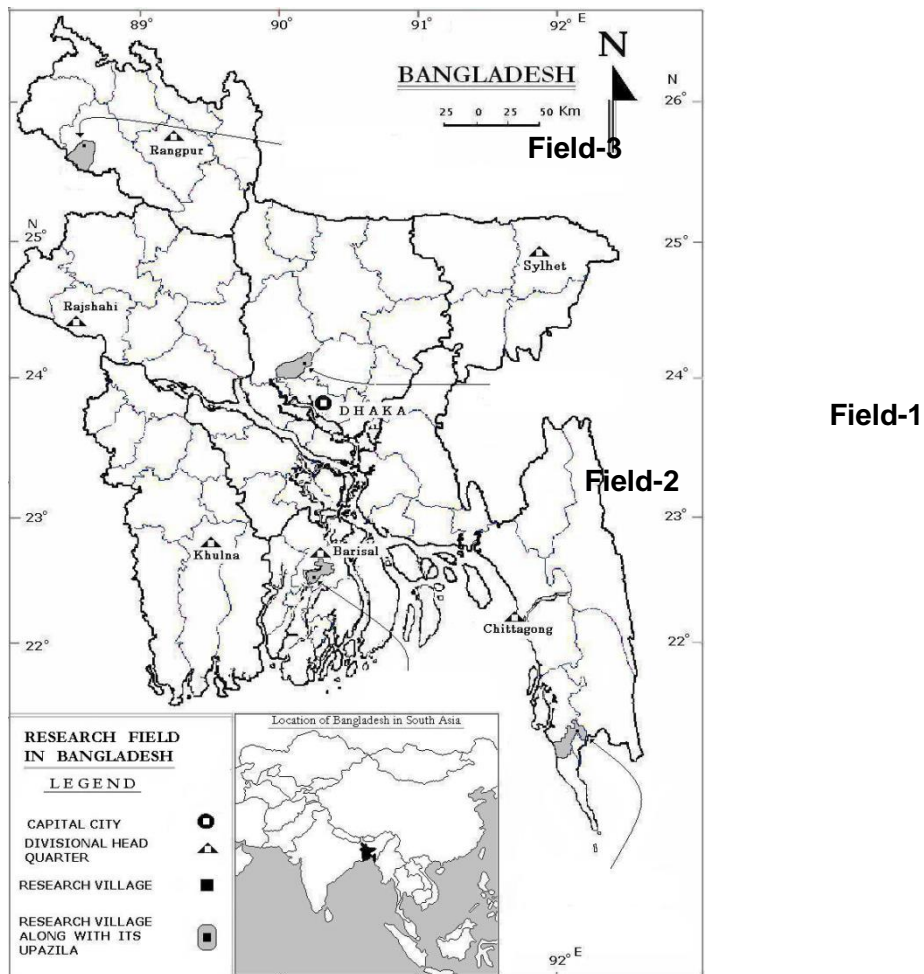
02. Maps of Bangladesh. <http://mapofbangladesh.blogspot.com>

03. South Asia. pdf. <https://geography.byu.edu/Assets/Maps/soasia.pdf>

<sup>1</sup> Democratically elected body at union level, the lowest hierarchy of the Local Government body.



Map 10: Location of Fields:



#### 4.2.1. Field 01: Village: Beltail and the Village Market: Hatubhanga Bazar

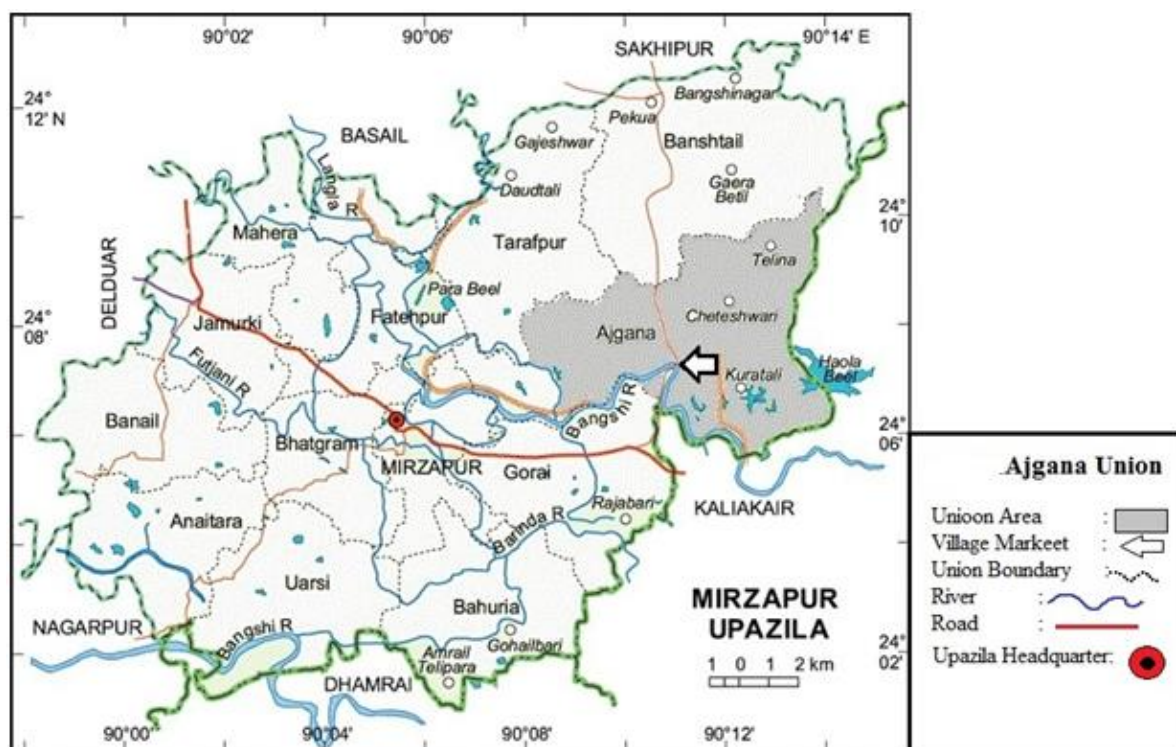
The village market named “Hatubhanga Bazar” at Beltail village under the Union Ajgana is situated by the river Bangshi. Administratively, it is under the upazila Mirzapur, District Tangail. The area is adjacent to an industrial area near Dhaka, the Capital city. The growing and expanding industrialization is gradually engulfing the nearer villages resulting increase of value of lands and subsequently the rural economic activities are being shaped in a manner that is different from a vast majority of rural economic essences as we see across the country. Peoples migration to Capital city and the pull factor of attracting the people into surrounding industrialized areas are important feature of job and livelihoods of the nearby villages. To support the huge demand of construction and growing urbanization both the Capital city and nearby cities few brickfields beside the river have been established. Transportation facilities are better to support all these. Yet a vast majority of peoples and the communities

those have been living here with their all sort of small economic activities have to sustain within and with their village economic activities. People's economic products are being exchanged within the hemisphere they are. There is a bank branch of Krishi bank (a development bank) and few MFI branches in the rural market area and commercial bank branch near the area but outside the administrative geography of the research field. All the shops and service centers of the market is situated on the two sides of the road along the river Bangshai.

**Table 7: Population and relevant components of Beltail:**

Administrative Unit	Area (Acer)	Household	Population			
Union: Ajjana	10775	7463	32949			
Village: Beltail		771	3746	Comparative Population Density in Per square kilometer (Administrative Hierarchy lower one starts from left)		
				Union:	Upazila:	Zila:
				Ajjana	Mirzapur	Tangail
				756	1091	1056

Map 11: Ajjana Union and Location of Hatubhanga Bazar



Source : Produced by using the map from <http://maps-of-bangladesh.blogspot.com/2010/12/political-map-of-mirzapur-upazila.html>

**Map 12: Google Image, Hatubhanga Bazar, the village market**



**Source: Google Map**

#### **4.2.2. Field 02: Village : Kachhapia and the Village Market: Garzania Bazar**

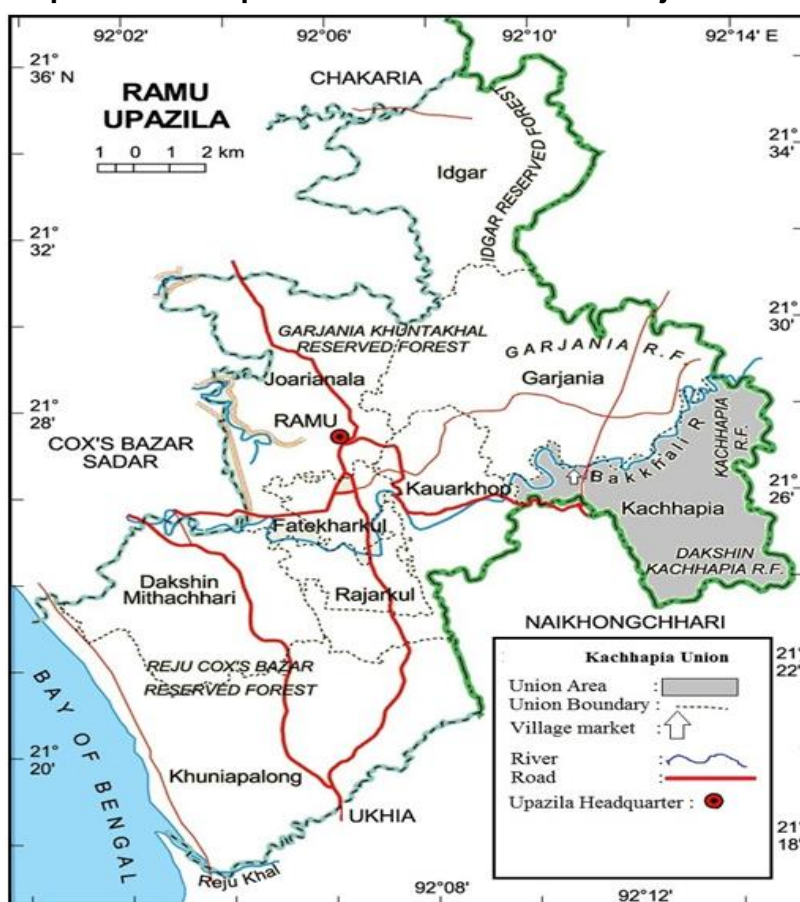
The village market Garzania Bazar is situated near the river named Bangshai. It belongs to Union Kachhapia under the upazila Ramu, district Cox's Bazar. The mountain, river, canal, and channel enriched the total upazila along with this union. Flash flood is a hindrance of the area and specially in rainy season. River erosion is also a big problem. However people are mainly dependent on primary economic activities specially agricultural activities. The garzania bazar is the main economic, financial and interacting point of all people of the area. People have to come here to get interaction among economic activities. The communication channels to the nearby city and upazila go through the market making the location a point of connectivity. This field has also a unique feature and is different from rest of the fields. The area is surrounded by small mountains and culturally the population has a mixed ethnic and religious flavor which is unique also. A part of it is occupied by reserve forest. Life in mountain areas is comparatively hard and due to ups and downs of land through mountains across the regions the road communication channels are limited. Mixed ethnic people in the whole region is an unique feature for the socio economic characteristics of the area. There exists a bank branch of Krishi bank (a development bank). The MFI branches work from the nearby Upazila Headquarter as the place is

only 1.5 km away from the market. The field is therefore different in financial structure nature. MFI representatives/ field workers work there to serve the area which is of course different in nature compared to formal banking sector.

**Table 8: Population and relevant components of Kachhapia:**

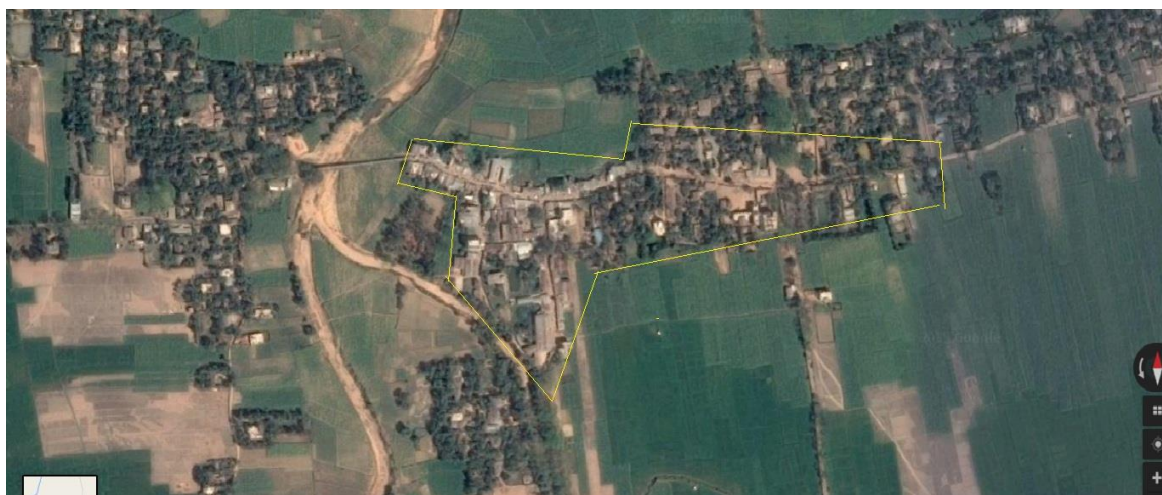
Administrative Unit	Area (Acer)	Household	Population	
Union: Kachhapia	10770	5049	28336	
Village: Kachhapia		2532	14298	Comparative Population Density in Per square kilometer (Administrative Hierarchy lower one starts from left)
				Union: Kachhapia
				Upazila: Ramu
				Zila: Cox's Bazar
				650
				681
				919

**Map 13: Kachhapia Union and Location of Garjania Bazar**



**Source:** Produced by using the map from

<http://mapofbangladesh.blogspot.com/2011/11/ramu-upazila.html>

**Map 14: Google Image of Garzania Bazar, the village market**

**Source: Google map**

#### 4.2.3. Field 03: Village: Mangalpur and the Village Market : Manglapur Bazar

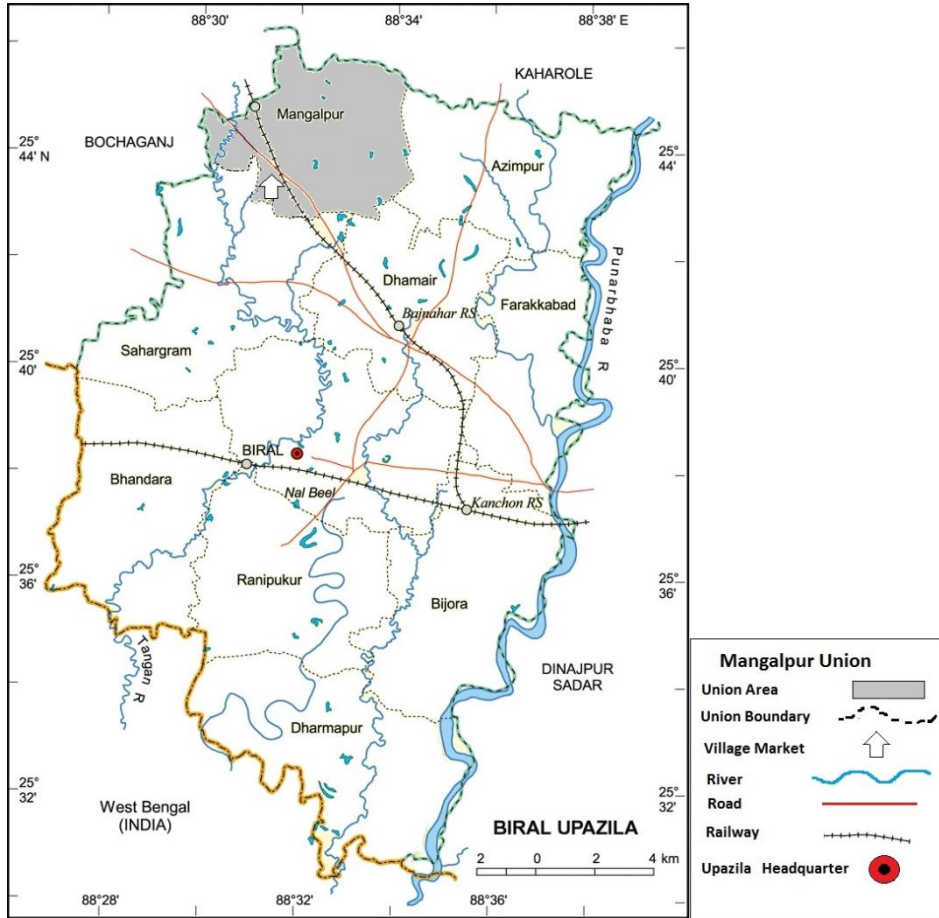
The village market Mangalpur Bazar is close to its rail station. Secondly road to other district through the village has made the place easy reachable. It belongs to Union Mangalpur under the upazila Birol, district Dinajpur. Agricultural products like rice production, rice husking and processing, poultry, fisheries etc. are developed near the market place to avail the opportunity of the communication network.

**Table 9: Population and relevant components of Mangalpur:**

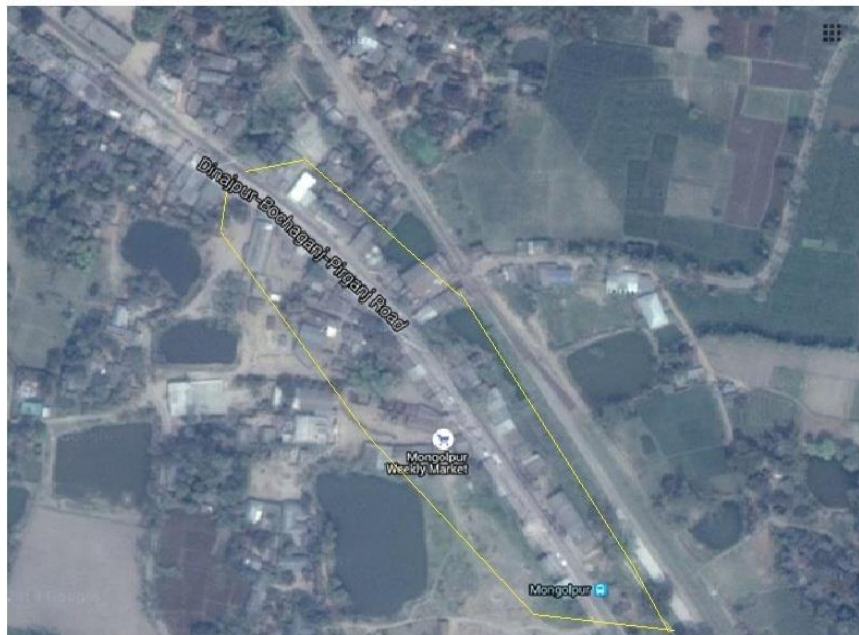
Administrative Unit	Area (Acer)	Household	Population	
Union: Mangalpur	7140	4941	19498	
Village: Mangalpur		47	229	Comparative Population Density in Per square kilometer (Administrative Hierarchy lower one starts from left)
				Union:Mangalpur
				Upazila:Birol
				Zila: Dinajpur
				675
				729
				868

A good number of shops and various types of service points have developed. Demand of cash is comparatively better. Unlike other rural markets this one is not the last resort for local people leaving them other opportunities for moving to nearer urban centers.

**Map 15: Mangalpur Union and Location of Mangalpur Bazar**



**Map 16: Google Image: Mangalpur Bazar, the village market**



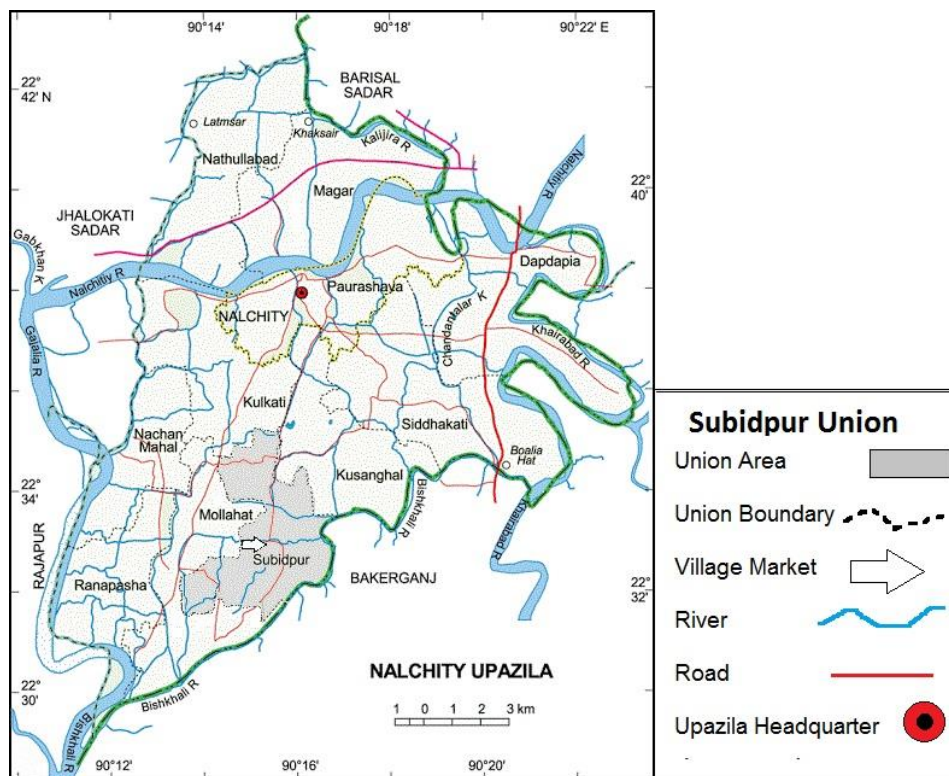
**Source: Google Map**

The Krishi bank (a development bank) has a branch in the area and once upon a time there was a branch of Janata Bank, a state owned commercial bank, which has been closed and shifted/merged to other nearby area because of the overall changes in business situation in the area. It is well established that due to development of easy communication network, overall business in the region has shifted to proper demand based locations. Few MFIs have been working closely with the community having their establishments near the village market.

#### 4.2.4. Field 04: Village: Subidpur and the Village Market : Taltala Bazar Bazar

Taltala Bazar is situated near a tiny canal and the road to Upazila Headquarter goes through it. The village market serves the locality well. The economy is predominantly agricultural. Rice production, poultry and fisheries are among these. Nonfarm economic activities are mainly of trading, shop keeping, selling various essential products and services.

**Map 17: Subidpur Union and Location of Taltala Bazar**



The village market is the centre and can be the mirror of all social economic pictures. The whole zila is captured by a large amount of water bodies like rivers, canals etc. and the soil texture is fragile, therefore road communication requires to build much bridges and culverts to communicate. As a result road infrastructure is comparatively weak and small compared to other areas. The low height from the sea

level puts it under extreme risk of climate change, as is being guessed to be submerged under sea level due to sea level rising. The Krishi bank (a development bank) has a branch here. Few MFIs have their branches, however due to extreme competition and to adjust the previous unjustified mass expansion of NGO-MFIs in the country, they are gradually withdrawing from few unsustainable places, as a result few MFIs have already shifted their offices to Nalchity, the nearby upazila headquarter. But they operate their previous and existing programmes from the office and field officers visit regularly to retain their business.

**Map 18: Google Image, Taltala Bazar, the Village Market**



**Source: Google map**

**Table 10: Population and relevant components :**

Administrative Unit	Area (Acer)	Household	Population	
Union: Subidpur	4348	3349	15107	
Village: Subidpur		699	3285	Comparative Population Density in Per square kilometer (Administrative Hierarchy lower one starts from left)
				Union: Subidpur
				Upazila: Nalchity
				Zila : Jhalakati
				859
				836
				966

#### **4. 3. Research Methodology:**

As the study consists a comparative issue between Bank and MFI so few common indicators available in these two e.g. Loan/ credit and Savings services have been considered as these are the basics (Ardic et al., 2011).



For getting greater acceptability, few procedures those are widely accepted and are being used by “World Bank -Financial Inclusion Survey” globally have been followed. As example Honohan (2008) uses the number of bank loan and deposit accounts, as well as similar statistics for microfinance and cooperative financial institutions to compute a synthetic headline indicator of access to finance and Beck., Demirguc-Kunt and Peria (2007) document differences in price and non-price barriers associated with deposit, credit and payment services. Moreover for getting the Financial Outreach they developed indicators through survey of bank regulatory bodies and other sources from a large number of samples worldwide. Indicators across the countries are more or less similar but for developing economies these are almost same.

We therefore compare the spatial advantage between bank and MFI by assessing their Access Dimension and Uses Dimensions of their product/ service.

#### **4.3.1. Indicators and Relevant Issue Measuring :**

##### Access Dimension as Geographic and Demographic Branch penetration :

- Geographic branch penetration : number of bank branch per 1000 square km.
- Demographic branch penetration : number of bank branch per 100,000 people.

##### Uses Dimensions as Depth of Financial services as under :

- Loan accounts per capita: number of loans per 1,000 people.
- Deposit accounts per capita: number of deposits per 1,000 people.

**Access Dimension:** We emphasize on the Access dimension as a first and primary opportunity for the financial inclusion. “Access” means the ability to use the services and products as offered by formal financial institutions and for our case the savings and credit services of banks and MFIs. Determining levels of access may require identifying and analyzing potential barriers to opening and using a bank account, such as cost or physical proximity of bank service points (branches, ATMs, etc.). Data on access can usually be obtained through information provided by financial institutions. We measure bank and MFI branch penetration both at Geographic and Demographic level using the same procedure.

These are widely used at National level. But for going to more micro and core level we would extend the dimension to local level and measure the Geographic and Demographic Branch penetration also at our selected field regions. Mention may be made that the measurement formulas and techniques are ever changing. Gradually little development has occurred regarding financial inclusion measurement of developing nations financial inclusion. In recent years The Core Set of Financial Inclusion Indicators was developed by AFI's (Alliance for Financial Inclusion) Financial Inclusion Data Working Group (FIDWG), wherein the financial environment of Developing Nations have been considered and the Central Bank (Bangladesh Bank ) of Bangladesh is its Principal member while Micro Credit Regulatory Authority (MRA) of Bangladesh is its Associate member. It is evident that both for the developed nations and those are much more advanced in data collection using measuring techniques must not follow the same way of measuring financial inclusion. They are now concerned with the Quality Financial Inclusion and its depth. So countries go beyond the core set of financial measurement indicator according to their national context and institutional cultures with respective spatial structure. It is important that there is a numeric value difference between the indicators used by AFI and Beck., Demirguc-Kunt and Peria (2007) regarding Demographic branch penetration. AFI measures demographic penetration as Number of access points per 10,000 adults at a national level segmented by type and administrative unit. Whereas Beck., Demirguc-Kunt and Peria (2007) uses Demographic branch penetration as the number of bank branch/ATM per 100,000 people.

So, we would follow the indicators developed and used by Beck., Demirguc-Kunt and Peria (2007) having a Global reputation proved through empirical research based on data from 98 countries :

### **GEOGRAPHIC :**

#### **Measuring Financial Access per administrative unit:**

( Total number of Branches in administrative unit ) x 1000

Total Area of administrative unit in Km<sup>2</sup>

$$Rate\_of\_Bank\_Access_j = \frac{\sum_{b_j} Branches_{b_j}}{\text{Total Area of administrative unit in Sq.Km}_j} \times 1000$$

$$Rate\_of\_MFI\_Access_j = \frac{\sum_{m_j} Branches_{m_j}}{\text{Total Area of administrative unit in Sq.Km}_j} \times 1000$$

Data requirements:

- Number of access points/branches by type (bank and MFI) in administrative unit
- Area of the administrative unit in  $Km^2$

**DEMOGRAPHIC:**

( Total number of Branches in each administrative unit ) x 100,000

Total population in each administrative unit

$$Bank\_Access_j = \frac{\sum_{b_j} Branches_{b_j}}{Total\_Population_j} \times 100000$$

$$MFI\_Access_j = \frac{\sum_{m_j} Branches_{m_j}}{Total\_Population_j} \times 100000$$

Data requirements:

- Number of access points by type (bank and MFI) and by administrative unit
- Number of People by administrative unit

The Geo-demographic branch presence at Administrative/ Local Area  $j$  as the branch density in this specified region : where  $b_j$  is the number of bank branch operating in the said administrative/local area  $j$  and  $m_j$  is the number of MFI branch operating in the said administrative/local area  $j$ . This is used to compare the entrance of type wise financial intermediaries in an area.

**Usage dimension:** “Usage” refers to the depth of Financial Services or the extent of financial services and use of the product. Assessing usage will require details of the regularity, frequency and duration of uses over time. The basic indicators as are being used and set by AFI’s (Alliance for Financial Inclusion) Financial Inclusion Data Working Group (FIDWG), are as **Core Set determining the** Percentage of adults with at least one type of regulated deposit account and Percentage of adults with at least one type of regulated credit account. These are also popular globally and also being used by the World Bank Research Economists.

But In countries like Bangladesh, where data are not easily available and sometimes not reliable enough, the proxy indicators can be used and we have followed these as under:

Usages dimensions as Number of deposit accounts per 1000 people and Number of credit accounts per 1000 people.

These are also explained by Beck., Demirguc-Kunt and Peria (2007) as Depth of Financial service being the item as Loan account per capita and Deposit account per capita and the numeric value differs substantially from that of AFI. While Beck., Demirguc-Kunt and Peria (2007) calculates number of these items among per 1000 people, AFI recommends to measure the same items among per 10,000 Adult Population indicating a great difference in value. Our case permits these measurement techniques to be applicable within our jurisdiction of field boundary and we prefer to use the procedure of Beck., Demirguc-Kunt and Peria (2007).

Therefore we are measuring the Depth of Financial services as under :

- Loan account per capita both for bank and MFI ( number of loan per 1000 people) within field area.
- Deposit account per capita both for bank and MFI ( number of deposit per 1000 people) within field area.

Measuring Loan Account per capita:

( Total number of regulated credit account in the area ) x 1000  
*Total number of population in the area*

$$Bank\_Loan\_A/c\_PerCapita_j = \frac{\sum_{bc_j} Total\_Loan\_A/c_{bc_j}}{Total\_Population_j} \times 1000$$

$$MFI\_Loan\_A/c\_PerCapita_j = \frac{\sum_{mc_j} Total\_Loan\_A/c_{mc_j}}{Total\_Population_j} \times 1000$$

The number of Loan Account in Bank/MFI at Administrative/ Local Area  $j$  : where  $bc_j$  is the number of Loan Account with the bank in the said administrative/local area  $j$  and  $mc_j$  is the number of Loan Account with MFI.

Measuring Deposit account per capita :

$$\frac{(\text{Total number of regulated deposit account in the area}) \times 1000}{\text{Total number of population in the area}}$$

$$\text{Bank\_Deposit\_A/c\_PerCapita}_j = \frac{\sum_{bd_j} \text{Total\_Deposit\_A/c}_{bd_j}}{\text{Total\_Population}_j} \times 1000$$

$$\text{MFI\_Deposit\_A/c\_PerCapita}_j = \frac{\sum_{md_j} \text{Total\_Deposit\_A/c}_{md_j}}{\text{Total\_Population}_j} \times 1000$$

The number of Deposit Account in Bank at Administrative/ Local Area  $j$  : where  $bd_j$  is the number of Deposit Account with the bank in the said administrative/local area  $j$  and  $md_j$  is the number of Deposit Account with MFI.

Secondly, It is important to measure the Commercial Operational Distance (COD) for rural enterprises that gives a financial inclusion picture for the SME or rural enterprises at rural level.

However, there is no single or common internationally accepted indicator, to measure the financial inclusion of SME. There are empirical research done by a number of international organizations, particularly the G20 Global Partnership for Financial Inclusion (GPMI), the Organization for Economic Co-operation and Development (OECD), which has been considered by The Small and Medium Enterprise Finance Working Group (SMEFWG) at AFI to develop a common set of indicators for developing the SME Finance Base Set, with special attention to developing and emerging countries. During developing the SME Finance Base Set, the SMEFWG has considered that some definitions and practices are country specific having their respective socio-economic, financial and regulatory framework. On the other hand, primarily the developed Access Indicator for Enterprise is identical to that of Access Indicator for people. One problem with this method is that banks/ Financial Institutes operations are aimed at providing services to all sections of the society and not exclusively for businesses. Yet during measuring Commercial Operational Distance (COD) for Enterprise, Mahagaonkar and Chaudhuri, (2009) used a different essence in naming and a separate numeric percentile to measure the access which gives a logical ground. Of course all the people do not have Enterprises except few. As the number of enterprises is smaller than people in an area so it should express in that sense.

Commercial operational distance calculates the branch density relative to 1000 businesses entity instead of 10,000 adult while it is used during measuring demographic access of financial institutions. Therefore, we have adopted the procedure used by Mahagaonkar and Chaudhuri, (2009) while conducted a research on Britain and instead of going to further Depth of Financial Services for SME/ Enterprises we concluded only to access because in rural areas it will further make no weight or sense at all because the SMEs/ Rural Enterprises are not bearing separate entity. Rural enterprises and small ventures do not have specific book of accounts separating family entity in regard to financial dealing like income, expenditure, investment etc. Therefore, it is not separate in any sense.

**Measuring (Commercial Operational Distance) COD :**

$$\left( \frac{\text{Total number of Branches in the area}}{\text{Total number of Business Entity in the area}} \right) \times 1000$$

*Total number of Business Entity in the area*

It is measured separately for bank and MFIs

$$Bank\_COD_j = \frac{\sum_{b_j} Branches_{b_j}}{Total\_Business_j} \times 1000$$

$$MFI\_COD_j = \frac{\sum_{m_j} Branches_{m_j}}{Total\_Business_j} \times 1000$$

Commercial Operational Distance both for banks and MFIs in the Administrative/ Local Area  $j$ , where  $b_j$  is the number of bank branches and  $m_j$  is the number of MFI branch in the said administrative/local area  $j$ .

Besides all these procedures and measurement techniques, data has been gathered considering barriers/obstacles in three types of service dimension e.g. physical access, affordability and eligibility- both for savings and credit services in Bank and MFI.

For Savings Services:

Physical access:

- Location to open a deposit account
- Point of depositing amount later on ( if any)

**Affordability:**

- Minimum balance for opening an account
- Minimum monthly deposit ( if any)

**Eligibility:**

- Number of documents to open an account.

**For Credit Services:****Physical access:**

- Location to submit a loan application.
- Point of installment payment ( if any point)

**Affordability:**

- Minimum amount required for a loan application.
- Various minimum amount /fees/charges ( if any)

**Eligibility:**

- Number of document required
- Collateral requirement and type
- Duration of application processing

**Moreover following Primary data has been gathered:**

➤ Specific location of Bank Branch, MFI-branch / office and Union level Bazar (as location of RE) of the research field have been identified considering the presence within specific geographic boundaries and distance from the research field.

➤ Rural enterprises in the field have been defined/identified as those are productive, income generating and mostly clustered in the market areas or those have a direct link with the village market and easily identified by local knowledge.

➤ The distance ( geographical direct distance) between Financial intermediary and RE has been considered.

➤ Real distance ( through path) between RE and nearer Bank and MFI has been considered.

➤ Real journey time between RE and nearer Bank and MFI has been recorded considering local mode of journey.

➤ Distance from Bank/ MFI to Upazila headquarter / thana headquarter have been recorded/ considered.

***And following data have been gathered based on interview and questioner survey on specific quarters:***

➤ Loan seeking history of RE both to formal and informal financier at nearer and distant place has been recorded.

➤ Changing financing source and loan ceiling for RE over time.

➤ Availability of financing source at nearer and at distant has been recorded. ( this is also included in geographical survey)

➤ Deposit mobilization methods has been recorded.

Therefore, an in-depth interview/ questionnaire survey in the field, discussion with local people and various types of stakeholders has definitely facilitated the gathering of information irrespective of concepts whatsoever prevails in the academic arena.

***Both for Bank and MFI the following issues will be recorded***

- Borrower selection procedure and criteria
- Degree of Lending decentralization (i.e –whether agents approach door to door or borrower have to approach etc.)
- Loan ceiling development over time
- Lending technology
- Security / collateral procedure
- Loan appraisal and approval
- Loan giving capacity of respective Branch/ Office
- Savings mobilization offer
- Degree of savings decentralization (i.e –whether people approach door to door or clients have to approach etc.)
- Geographical Limitation/ Boundary / Jurisdiction ( if any)

**Secondary data sources used are as follows:**



➤ Map of District, Upazila and union published by respective department of Bangladesh and various sources including Local Government and Engineering Department of Bangladesh.

➤ Financial data published by Bangladesh Bank (central bank), Microcredit Regulatory Authority, and various Institutes having relations to our subject.

➤ Policy literature of the Government regarding Microfinance, Bank branch location and RE financing issues.

➤ Statistical data and programme profile of the field from the respective Institution.

(Honohan, 2005; Honohan ,2008 ; Beck, Demirguc-Kunt and Peria, 2007; Cull and Scott 2009; AFI, 2009 ; AFI, 2010 and AFI, 2013)

#### **4.3.2. The Questionnaire and the Survey:**

A bilingual questionnaire as **Annexure - 0000** had been developed using English and Bangla (the native Language in field) and used in the four fields for gathering firsthand information from the demand side. This is also a unique feature of the research because only the supply side data or only the data from literature is not sufficient to understand the scenario as problems exist beneath the so called MFI and banking growth. The qualitative essence of the issue and the overall financial behavior in the rural informal economic structure matters. It is important to realize that the growth of MFIs in Bangladesh was not at all dependent on the demand. It was primarily donor dependent and as a mission of development initiatives which later on has turned to be a sustainable one as much as it can. On the other hand state owned banks in rural economy entered with their establishment and bureaucratic attitude keeping the large number of people and their demand out of their elbow. So what is the reality behind every single demand and every single feelings is another issue to be considered. Though it is not possible to meet all the demand yet a scientific procedure to go through the matters may be taken. As many as 43 questions have been designed in a set. The overall structure of the questionnaire is designed to get the possible best information from the field by asking to owner of the enterprises in the rural area. The main structure or dimension of the questionnaire is divided into following focus:

- Personal and family information regarding socio, demographic, academic and economic status.
- Land owned and source of income.

- About enterprise/ economic activity he/she is involved or about his/her profession whatever he/she holds.
- Credit history ( if any) and the source of Credit.
- Savings points (if any).
- Geographic Distance of Credit and savings Institutes, mode of journey and required time to reach there.
- Institutional offer or product advantages that leads the customer to the Specific financial institute.
- Comment on the hardness/flexibility to get loan from bank and etc.

#### **4.4. Data Analysis:**

- Proper statistical methods have been used to address the research questions.
- A qualitative approach in describing the need and barrier to meet the have been depicted wherein institutional ecology stands as important determinant.
- In context of geographical location and institutional ecology what other organizational approach both for bank and MFI stands favourable or less hindered for reaching RE – has ben defined through qualitative arguments.
- Answer of research questions as per objectives has been outlined.

#### **4.5. Time Schedule of field work:**

We could not follow a strict and tighter time schedule for conducting Field Research. Primarily we decided to complete the whole fieldwork within a calendar year. But in practical the Cut-off time has been extended. Instead of conducting a continuous fieldwork we got break up and completed fieldwork in 04 fields in separate four schedules. Therefore we conducted the fieldwork avoiding rainy season and during the time of massive political turmoil which had specific impact on the communication network, moving around in the country and specifically on one of the fields.

#### **4.6. Limitation and Advantage:**

- There exist licensed and non-licensed MFIs in the market. This will create intervention in realizing proper picture. Few Non licensed MFIs are under the process to be licensed.

- The documentation in rural micro enterprises are not standard and it is tough to separate Household statistics from enterprise statistics regarding use of loan, expenditure and turn over.
- Loan amount up to Bangladeshi Taka 30,000/00 (Approximately USD 400) is considered as micro-credit and above this amount is considered as enterprise loan, herein loan from various source may exceed this limit though these are micro-credit separately. But this ceiling has been set at Tk. 50,000.00 later on though we would consider the previous one because our data set is made over it.
- Importance on ATM ( automated teller machine) has not been given because still these are in urban areas and a greater number of ATMs does not automatically mean better access.( Ardic et al., 2011)
- There is no Global consensus for geographic or demographic penetration – that which value is standard for developed or developing countries. But there are average for developed and developing countries. As example - according to a study conducted by CGAP (Consulting Group to Assist the Poor) in 2009, the average indicator for developed countries is 2.4 branches for every 10,000 (differs from World Bank ) adults and of 0.8 branches for developing countries (AFI, 2009). On the other hand there are average for urban and rural penetration. So after conducting a survey it can be concluded that the value is below or over the average. However there are examples that in South Africa “ Effective Access” means being within a distance of 20kms to the nearest service point at which first-order retail finance services can be undertaken. (AFI, 2010)

However there are also advantages. As a researcher I am a Geographer by academic degree and Banker by profession. It is undoubtedly unique for me to conduct a research in a field that deals with both Geography and Financial issues and specially in developing country. It attracts my devotion much. Secondly, I was born and brought up in the country of research field. This great advantage of my mental and cultural proximity to the field would decrease a lot of hindrance and limitations during fieldwork and in getting qualitative insight essence of the complex mechanism by helping me to collect the most accurate information.

**Practical Problems and Consequences not Guessed Earlier :** Pilot visit prior to starting the fieldwork was helpful in selecting the fields as per objectives. During discussion with the local people it was thought that things would be easy to gather information from the local businessman and owners of the Enterprises about their financial, economic, and social and all other relevant issues. They were cooperative

and friendly enough in discussion. In fact the rural inhabitants in Bangladeshi culture is cordial and friendly to guests and strangers. The questionnaire was developed by considering the consequences of field visit. So a lot of queries regarding financial as well as lending and depositing scenario of the rural enterprise have been included in the questionnaire. But in practical, while in the field it is observed that few queries were sensitive to few specific quarters. They avoided or by passed those queries and sometimes hid the truth, even few information seems to be not true. Fortunately those questions were not the principal and must not hamper our objectives. But those answers could only supplement the extension of research hemisphere to write an elaborate thesis. As example during answering a part of the Question No. 18 – “Complete Loan Information”, few people showed reluctance to disclose about informal source of fund. Most of the people start initiatives at their own finance source including loan from kith and kin. In such cases people are reluctant to disclose both the source and amount of money, whereas, in case of institutional loan they eagerly express it. The observation is that a successful entrepreneur smoothly speaks out about his institutional loan because it bears a credit in the money market expressing him more credit worthy and reliable to other lenders. As a consequence the other lenders’ approach to him for getting loan or his approach to other lenders become considerable. In recent years the overlapping of microfinancing including increasing delinquency among borrowers has attracted attentions of lenders. Secondly financial literacy among borrowers especially in rural areas is very low. The very few borrowers are well conversant about the pros and cons of a financial product. Most of the borrowers do not know the “exact interest rate” on borrowing and the nature of interest incurred on them whether it is simple or compound. They only know the number of installments, its amount and date to be paid. In fact, in poverty ridden resource scarcity area when some one needs money he only wants it, he cares less to its other consequences but in general he understands that the interest rate is tolerable. At the same time he expects more interest on depositing money because he is not aware of the money mechanism, market, competition and so on. So the whole market at least at the borrowers’ platform is dependent on the ambiguity of expectations. As a result, our question No. 20 and 21 were quite abortive to apply on the demand side, therefore, instead of having a cross checking and demand side response we had to rely on the supply side information.



## **5. Rural Financial Landscape and Institutions in Bangladesh**

### **5.1. Money, Credit and Social Inclusion:**

This research is highly related to money and its inception and though not limited to various dynamics yet the scope of the thesis focuses only few relevant important discourses that reveal development of rural financial landscape over time. And fortunately as far as the discussion expands beyond the scope of commercial and economic profit making mechanism, it relates other vital social instruments including complexity of social money, especially in informal money lending.

The inception of money and its journey into lending is complex that has developed through the passage of history. Moreover, it is viewed from different angles and lenses by different academic disciplines and finally economic views are more common as it is commonly realized by the public through their daily livelihoods and division of labour that constructs the social texture. It is also thought that individuals began to exchange things one against the other and so on according to their mutual need. It took several thousand years passing through experiments and evolution to establish money as a medium of exchange. For the last 25 centuries money is being supplied by the states as it is a creation of state, though it can be understood that money has evolved naturally in human society. Money is one of the institutions without which it would not be possible to enjoy the division of labour within this complex social system. Money, a medium of exchange is to ease the barter among the involved producers and to enhance the division of labours in the society to decrease the transaction costs also (Zelmanovitz, 2011). It is of course multi-dimensional having importance and implication in various forms. Actual money is identified merely as a token of purchasing power which has come into being through the banking mechanism or through state finance (Polanyi, 2001). Mauss (1990) has shown that how the person, freedom and justice can be understood within a specific monetary arrangement and it gives identities in a social setting. And monetary valuation is not and never technical as it bears the essence of moral, religious and political signaling consequently gives sign of symbolic position of each and every individual in the society.

The complexity of money is exposed through its existence in the society being an integral part of social formation. The analysis of monetary practices through ethnological and historical view tells that the impersonality and anonymity accorded to money is illusory (Bloch and Parry, 1989; Guérin et al., 2009; Guyer, 1995; Zelizer, 2005). Date back to inception of debt; the very concept of it raises debates among various disciplines. While economists look into the matter they explain that debt

contracts allow for an opportunity to avail better allocation of resources and risk management, the political economists explain debts as a relationship of power and exploitation and also a source of inequality but the sociologists and anthropologists look into the debt as a social relationship (Guérin et al., 2009). But what stands for economic and financial geographers? Do they relate between space and financial system development over time within specific socio-economic, political and cultural setup? Economists commonly define savings and indebtedness in terms of time with the purpose of securing materialistic gain; finance is thereby a means of relating to group or just creating the interpersonal bondage of dependence and domination. Lending money is a sign of social inclusion. Money and finance are viewed as social institutions because their access and uses are not independent. It is highly dependent on social norms and a set of existing conventions and formal rules. The practice steaming from it is ultimately a social construct (Commons 1989; Guérin et al., 2009). Monetary relation, and specially going into debt or lending money is finally a sign of social inclusion. Indebtedness and savings supports a sense of belonging and may be characterized by domination, dependence and equality. In such a structure there is social meaning of debt and people often accumulate loan and repay according to their own informal hierarchies having their own nature of calculations (Bouman & Hospes 1994; Guérin, 2006; Bloch & Parry 1989; Shipton, 2007; Zelizer, 1994) Debts are not just financial transactions which can be defined in terms of amount, time or interest. It is rather primarily a relationship between debtor and creditor that is shaped by social relations and social hierarchies categorically relates cast, class, gender, kinship etc. The social meaning of debt is dependent on a pre-existing relationship between the two (debtor and creditor) and finally debt is a socially regulated phenomenon. Money is also characterized by permanent tension between an individual and group. Borrowing and lending is generally a relationship measured by the value of money through time spent therein until the borrower repays properly, viewed as the production of lending, termed as “time value of money” which is a mutual contract between the borrower and lender. Argument over the issue is critical also though through various thoughts it is told that debt is not seen in relation to time but in terms of commercial margin. The tolerance to the cost of money is not same across the societies as it varies across culture, social and religious settings. In some societies to set a fixed rate of interest without sharing and considering the borrowers’ risk is viewed as immoral. Religious values have strong impact also. Islamic prohibitions to **usury**<sup>1</sup> have the control on lending practice. As the individual belongs to various social groups like customary one

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<sup>1</sup> Lending money at an exorbitant rate of interest is usury, which is considered socially immoral and abusing.

i.e. family, ethnicity, gender, religion etc. and constructed one like professional, neighborhood, associative etc. he enjoys a constant evolution. Herein informal financial practices have evolved with society (Guérin et al., 2012). The political economy also indicates the social regulation of finance and explains how these groups i.e. customary and constructed societies shape the financial demand and creates various financial access dimensions (Johnson, 2004; Harriss-White, 1994). Money is not entirely fungible rather it is earmarked in a sense that various sources serve various purposes though the moral factors are instrumental in compartmentalizing its uses (Shipton 2007; Bloch & Parry, 1989; Zelizer 1994). In such complex mechanism of monetary role, credit or debt or practice of lending across formal and informal boundaries has shaped the credit market as a more competitive one in the capitalist economic system. However, the difference in between formal and informal lending obviously has shaped the market by their distinct capacities and exposures. The term “informal” is a label on it, because government cannot account for them statistically as these are out of the legal framework of any authority to be monitored. But it does not mean that it is out of control. It entirely does not lack formalities, this is rather within the social customs, regulations, running at par with social formalities and have even uses formal systems crossing the boundaries of informalities, as example using formal payment system (Guérin et al., 2009). In case of Bangladesh things are no more different from these concepts.

## **5.2. The Rural Informal Money Market:**

The formation of rural as well as urban money market and categorically the rural informal money market is highly complex. In fact both the rural and urban informal money market in Bangladesh is extremely dependent on the change of the political regimes. The question is – who are the players in rural informal money market ? And how do they evolve ? Is the society permits the ancient intermediaries to sustain through histories? And how Microfinance has established ?

The abundance of natural resources specially the agricultural product, fish etc., dominance of primary economic activity and the scarcity of money i.e. the cash short rural economy both in Mughal and British period of **Indian History**<sup>2</sup> were important issues in forming rural economy of Bangladesh. Money circulation as an institutional

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<sup>2</sup> Historically, Bangladesh experienced Mughal and British rule being a part of Indian subcontinent and followed all the Indian political and administrative measures taken by the government till 1947 and then India divided; Bangladesh became East Pakistan as a part of Pakistan. In 1971 East Pakistan emerged as independent Bangladesh through liberation war.



item was extremely limited in rural Bangladesh. So whatsoever, the status of people in rural Bangladesh, they had to rely on their primary production. Situation got changed gradually. Secondly credit to rural people and to their economic activities were historically unstable going through ups and downs, though the regime change and its focus on rural informal credit has subsequently changed the overall financial landscape gradually. The informal credit market was not stable at all.

Through history the informal credit market has always been an important part in financial system of Bangladesh. Though argued, yet it is well established that moneylenders had played a vital role in the rural money market of Bangladesh. Historical evidences and studies regarding the inception of moneylenders in Bangladesh are not affluent at all, and the history is linked to India, specifically to the Bengal part of the sub-continent. It took a long time for establishing monetary transaction and exchange through a transition from gift-exchange, reciprocal lending and trading-cum-lending and finally to specialized lending. The turning gradually happened from lending-in-kind to lending-in-money before the first millennium B.C. Money lending stood as an organized and gradually a regulated profession in India around 1700-2200 years ago (Seibel, 2005). But the origin of money lending and the inception of moneylenders in Bengal history are not so evident. Studies on Indian village communities of the fourth and fifth centuries do not tell anything about the cast centric notion of moneylenders, though it is found that the tradition of money lending among few castes. Village societies were considered self sufficient. It is well established that self-sufficient Indian village was a myth and by the time the Mughals have got establishment. Therefore, any hypothesis regarding origin of professional moneylender within self sufficient Indian village economy may be considered fairly a myth. Authors argued about the inception of moneylender in India and their emergence into rural economy was categorically identified as a result of state intervention in the village economy. Social origin of rural moneylenders are deeply rooted in the revenue collecting system (Sen, 1989). Elements in favour of rural usury credit prevailed in the rural Bengal as early as in the fourteenth century, while the peasants needed seasonal credit to cover the expenses of farming. Pre-colonial India had its 'multi-region economy' with layered credit structure wherein, moneylenders and bankers operated across the regions having no unified credit structure. These were small geographic territories. But the credit system was well developed in Rajasthan in 17<sup>th</sup> century.

Gradually the well developed social strata reveals that the land revenue policy of state has had a major impact in creating importance and rise of new moneylender

classes in society. **Zamindar**<sup>3</sup>, who performed the function of collecting Tax on behalf of the state was a source of credit in the community (Dutt, 1985). In pre-colonial society, agriculturist-cum-moneylenders had existence within village society. Each village had a possession of store for grain between harvest seasons which exposed a sign of local power. This stands as a contrary to only dominance of cast centric moneylenders in pre-colonial society in rural Bengal (Robb, 1983). The importance of moneylenders substantially grew in the British period, though the rudimentary form of credit culture existed in ancient India. The system contained norms, rules and regulations regarding pledge, mortgage, interest rate etc.

Historical evidences show that Indian villages remained a unique and remarkable socio economic institution having its stable and distinct characteristics. The prime economic demands were food and clothing and villagers could meet their regular need within their surroundings by exchanging their products among themselves under **barter**<sup>4</sup> system and it was only in the British era that in general money began to replace this barter system (Bose 1993; Charlesworth, 1982). The British regime had profound economic impact on the socioeconomic structure of India, which had been conquered by others earlier before the British. Till the entrance of the British, the earlier conquerors had only overthrown the politics and powers from their positions making no other significant change in socioeconomic structure. They have entered into the society being a part of Indian socio economic life and gradually had been faded away into the mainstream Indian life leaving no scope to return to their ancestors land. But the British rule conquered India to make it a real colonial economy as a hinterland that had been structured and determined by the need of British economy. Following the battle of **Buxar**<sup>5</sup> the existing Mughal Emperor granted the **Diwani**<sup>6</sup> of Bengal (present Bangladesh was included), Bihar and Orissa to East India Company in 1765 and had been empowered to collect revenue from the occupied land (Habib, 1963; Dahiya, 1994). As a commercial enterprise, East India Company considered higher profit gaining and the British Government made it mandatory that all land taxes should be paid in cash (Patel, 1952). The scarcity of cash in the hand of landlords had pushed

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<sup>3</sup> Zamindars were the landholders of demarcated areas, responsible for collecting revenue for the monarchy in British India and were aristocrat of Indian subcontinent.

<sup>4</sup> Barter is a system of exchanging [goods](#) or [services](#) directly without using a [medium of exchange](#) i.e. [money](#) and had in practice in the history before money had been introduced and circulated widely.

<sup>5</sup> The Battle of Buxar was fought on 22 October, 1764 between the forces under the command of the British [East India Company](#) and the combined army of [Mughal](#) rulers and brought the decisive victory for the British East India Company. It happened at [Buxar](#), a town located on the bank of the [Ganges river](#) about 130 km west of [Patna](#), India.

<sup>6</sup> *Diwani* is the administrative power indicating the specific right to collect revenues and decide civil cases.

them to lend from moneylenders to meet the rigid tax collection policy. The policy had subsequently made a big platform for the evil moneylenders. They had charged excessively higher and sometimes compound interest rates to the borrowers. Naturally most of the peasants had found it fairly impossible to pay the debts. On the other hand the thrifty, cunning, and dishonest moneylenders somehow had managed fingerprints (thumb impression as alternative of signature because almost all of them were illiterate) on blank loan agreement documents earlier before loan disbursement and transferred the landed property to their hands in case of defaults. Or they had been compelled to sell to others. Within a short span of time the East India Company turned the whole Indian peasantry into a tragedy. Land taxes continued to be a major source of fund for the government, while the rulers were pragmatic than their earlier rulers. It is revealed that after 1870 a large number of peasants had been working in their own land as hired labourer. In pre-British period, in case of cash loan the tradition was to limit total compound interest up to 50% of the principal loan amount though it was 100% in case of grain loan (Moreland, 1968). But during the British reign, no such rule was in effect, therefore, the interest accumulated endlessly through the time. The worst effect of loan burden created a basic social problem in the social strata and excessive land transferring occurred as a curse. The **British Raj**<sup>7</sup> tried to control the informal credit market. Prohibiting land transferring through usury, two acts were passed subsequently. It happened almost at the verge of the ending of British rule in India (Chowdhury and Rahman, 1989; Murshid and Rahman, 1990) after creating the ever biggest shock in the wealth transferring from one social class to another. It is evident that the early days of British rule imposed heavy Land taxes that gradually reduced to minimum at the later stages of the British rule because commercial sources gradually grew to replace that position.

The abusive money lending spread under the Delhi sultanate through introduction of revenue collection system. Land revenue, house tax, cattle tax etc. had to pay in cash wherein payment of taxes in cash was extremely difficult for scarcity of cash though land was in abundance. This in fact pushed the villagers, specially the peasants to borrow from the moneylenders who paid the taxes in advance that resulted in commercialization and monetization of rural economy, trade expansion and subsequently created an informal lending market. Other than taxes the peasants borrowed from the moneylenders to meet few social expenses like marriage, religious festival etc. The worst effect of land revenue system had on the rural indebtedness that engulfed the entire rural population.

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<sup>7</sup> The British Raj is a term widely used in India. Raj means "rule", so the "British Raj" means rule by the [British](#) in India.

In 1539 the Mughal emperor Sher Shah came into the scene, assumed and endeavoured to turn the village headman into Civil Servant answerable to central authority of state instead of village council. Later on direct relationship between state and peasants established during the reign of emperor Akbar (1556-1605). The system of **Taccavi**<sup>8</sup> credit had been established first time by the government (Emperor Akbar) to encourage peasants for yielding even at distressed period. The credit was sanctioned usually to repay within one year and was disbursed through a class of revenue collector. Formally it was “interest-free” loan but somewhere distributors charged higher interest as disguised in the form of bribery.

Prior to advent of the British rule in India, rural moneylenders were basically of two types. They were either a Zamindar or a revenue collecting agent of the state. The moneylenders were caste centric having their origin specified in few castes though it is difficult to find sufficient caste centric empirical support. Their origin was already rooted in the social division of labour in the pre colonial society. Among the groups a fair number of castes are found to be dominant in the money lending market across the provinces and regions of

India. **Sahah**<sup>9</sup> and **Subarnabaniks**<sup>10</sup> were deeply involved with money lending in Bengal. Though most of the moneylenders were non-Muslims yet a remarkable number of Muslim moneylenders have operated very professionally despite the Islamic prohibition of **usury**<sup>11</sup>. As example **Pathans** were from Afghanistan and North-west Frontier province of Pakistan; the Arabs from the Hadhram had settled in the state of Hyderabad of India. Usury was prevalent and had miserable effect in the socioeconomic status of the rural Bengal.

The East India Company endeavoured to subjugate various part of the Indian economy to its absolute rule just after conquering the Bengal by the British in 1757. Few laws/acts were enacted to curtail the power of Zamindars, indigenous bankers and

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<sup>8</sup> Agricultural credit introduced by the Mughal Emperor Akbar was called “taccavi”. It has a long history in Indian subcontinent. Taccavi was formally known as “interest free credit” probably because of Islamic prohibition on interest. The state granted “taccavi loans” to the farmers for buying seeds, equipments, animals etc. Later on Indian government disbursed it to farmers under the system at the time of distress like famines, flood etc. Gradually it took different dimensions and low interest rate is applied.

<sup>9</sup> Saha is a [Bengali Hindu](#) surname indicating a business family in Bengal. Historically, they were of grocer, shopkeeper, and dealer of various goods and involved in money lending.

<sup>10</sup> Subarnabanik or Suvarna Baniks are popularly known as a mercantile group in [Bengal](#), dealing in gold and silver. They are regarded as very intelligent and well-to-do class, but treated as a degraded caste. They engaged themselves in money lending in Bengal.

<sup>11</sup> Usury means the lending money at unreasonably high or abusive rates of interest or other immoral conditions.

usurers as a strategy for deindustrialization having severe effect on the economy by ruination of artisans and liquidation of traders. It punched a serious blow on the indigenous banking and money lending. Within a short span of time the rise of a new class like company agent –cum-money lenders is evident. They grew from the rank of Company's servant. The Company agents-cum-moneylenders often were financial broker of the British moneylenders (Sen, 1989). During the British period (may not be strongly demarked by time frame) both the rural and urban informal credit markets were highly dominated by the Banias,<sup>12</sup> Marwaris<sup>13</sup> and the Kabuliwalas<sup>14</sup> having specific socio cultural characteristics and categorically different nature of lending. Banias and Pathans had important role in urban informal lending on the other hand Marwaris and the Shahs had been operating from towns and big hats/bazaars. However, the word Mahajan was widely used to mean a lender under the covert money lending or banking, wherein the Mahajan moneylender resided in village. It is revealed that there has not been much information gathered regarding the nature and composition of informal credit markets.

The Banias had the origin from a particular Hindu caste of Bangla/ Bengal and the other two (Marwari & Kabuliwala) have come from outside the Bengal region. Banias and Marwaris were mostly engaged in credit limited to trade operation, the Kabuliwalas were engaged in usurious lending. However, strong changes occurred through abolition of all rent receiving right by State Acquisition and Tenancy Act, 1950 and by the participation of the Indian subcontinent in 1947 and integration of an area including present Bangladesh have had a considerable impact on the shape and growth of informal lending. Subsequently the large scale migration of Banias, Marwaris and Kabuliwalas dampened this money market creating a vacuum in the credit supply to a vast majority of rural demand. This vacuum of the informal money market was partly filled by the Muslims of the region. Unfortunately this was extremely constrained by the poor economic status of the Muslims and secondly by the religious bindings and social compulsions. The prohibition of usury in view of social and religious values drew

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<sup>12</sup> The Bania (may be as Baniya, Vani and Vania) is an occupational community of [merchants](#), [bankers](#), [money-lenders](#), [dealers in grains](#) etc. In Bengal the term Bania is used in a wider sense than elsewhere in India. Somewhere it indicates specific [castes](#). In Bengal the term is commonly used for all people who are involved in money lending or similar activities.

<sup>13</sup> The name "Marwari" was given to people of Rajasthan by Kolkata, who had migrated for trading and business in Kolkata. Mainly they were from Jodhpur and Jaipur of Rajasthan, India. Many people from various Marwari castes migrated to Kolkata, became successful businessman and turned to be moneylender.

<sup>14</sup> Literally Kabuliwala means the man from Kabul of Afghanistan to Bengal. Most of them had come from two provinces of the south of Afghanistan – Paktia and Paktika and a few from Ghazni. The suffix 'wala' indicates the origin of a person from Kabul. Around 1840 they started migrating to Kolkata, the centre of British-India and started hawking their local product specially dry fruit, asafoetida etc. to middle class Bangali home and later on stated lending money.

a limit of lavishly expansion. In such a situation the development of money lending and its shaping took time in the new regime after 1947. Money lending developed under the guise of advance payment of commodity transaction, leasing land and labour hiring, which was to some extent different from the pure form of money lending. On the other hand Bania was completely wiped out in Pakistan (Bangladesh as East Pakistan from 1947 to 1971) for a considerably long time, therefore, other substitutes emerged to fill the gap. The scarcity of cash and existing demand for credit therefore was partly met by the unorganized type of informal lenders mainly and namely by friends, relatives and well-to do neighbours. Land lords were another important source of fund, though was not to the same range in the wake of land reform of 1950s.

However, it is clear that after 1947 the traditional informal money lending practice in Bangladesh (then East Pakistan) had lost its historical trend and gravity. The unorganized weak groups have been playing significant role in supplying the demand of money to rural need. It is much more important to realize that the change of ruling power have had important effect on money market. By this time and through the passage of time, more specifically it can be argued that the change in economic and commercial hemisphere had shaped the market into a new one. Secondly the independence of Bangladesh from Pakistan in 1971 has again created a newer economic and financial market. It can be discussed that other than informal money supplier there were formal organized financial institutions in Bengal though at limited scale. They obviously had specific task of commercial lending rather than supporting the need of the mass people.

Apart from informal lending, formal financial institution evolved in the British period through establishing "Hindustan Bank" in Kolkata in 1700 and later on in 1784 the first British patronized "Bengal Bank" was established. During the British period the 14 prominent banks operated in Bengal having their offices in Dhaka, Chittagong, Rangpur, Chandpur, Mymensingh, Pabna, Dinajpur, Comilla, and Narayanganj of present Bangladesh. In addition to these offices they had more 17 loan offices throughout Bangladesh between 1850 and 1894 and expanded their lending activities in rural areas to provide short, medium and long term credit facilities. However, after the partition of India in 1947, Pakistan inherited a financial intermediary structure that consists of 631 bank offices, out of which only 159 were in rural areas (in Present Pakistan and Bangladesh). Up to 1971, the development in rural financial structure was comparatively less developed and innovation in those years failed to come on the mainstream as any remarkably sustainable one. After 1971, the independent Bangladesh inherited a weak banking infrastructure having more urban concentric

financial structure along with a development bank named Agricultural Development Bank (now renamed as Bangladesh Krishi Bank) and the co-operatives had two Institutions.

### 5.3. Microfinance Institutes : Pre- Grameen Background :

For centuries concern about moneylender appears in “**Religious Texts and Ancient Literature**”<sup>15</sup> moreover, exploitative moneylenders and usurious interest rates compelled Governments to intervene in rural credit markets in several countries : anti-usury laws, debt settlement boards, credit cooperatives, specialized rural banks both in India and Bangladesh are the important examples. Government interventions of 1960s and 1970s in rural credit market in Bangladesh have largely failed to drive out moneylenders (Berg *et al.*, 2013). The note from the microfinance proponents argues that while the government credit programs mostly were captured by the large landholders (Von-Pischke *et al.*, 1983), MFIs targeted land-poor households those were systematically and usually bypassed by the formal banks. On the other hand they were the biggest clientele for the moneylenders, therefore, the effective competition begun in the informal credit market in rural areas. The intervention has earlier been marked as a systematic rescue of rural poor from the clutches of moneylenders.

Other than MFIs as a late comer into the market, historic intervention occurred in several ways. Sometimes, the intervention happened just to save the mass people or poor people from the clutches of usurious money lending traps. Sometimes to assist them in producing their livelihoods and continuing regular agricultural economic activities in distressed periods. Mughal Emperor Akbar introduced **Taccavi** credit system to inspire peasants to recover losses after natural calamities. Primarily it was interest free credit. This agricultural credit as a state institution was abolished by the colonial ruler and an act of 1793 made it the responsibility of the Zamindars and other landholders. But the Zamindars continued the system for a long decades to preserve their interest, though finally they had to discard this credit system in early twentieth century due to pressure of population growth and consequent competition on land. However, modification and systematic change occurred in procedures, the name Taccavi continued somewhere or somewhere the essence continued with other

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<sup>15</sup> Hindu religion Vedic texts tell about moneylender in ancient India date back to 1500 BC. The Bible tells a scenario wherein, Jesus “overthrew the tables of the moneychangers” and Islamic prohibition of interest taking inspired establishing Islamic Financing policy and Islamic Banking system. And perhaps the most attractive story of money lending ever built “Merchant of Venice” by Shakespeare, wherein Shylock demanded his pound of flesh in exchange for a late repayment.

branded name. During early 1960s Pakistan Government continued the Taccavi loan for West Pakistan and agricultural loan for East Pakistan, wherein the Government acted as a direct lender with no intermediation between it and the agriculturist (Faruque, 2011). The Moneylenders in colonial period enjoyed much to make their basket full. Usury was prevalent and had miserable effect in the socioeconomic status of the rural Bengal.

On the other hand, developing financial institution specially for rural finance or institutionalization of rural finance or cooperation for financing have not been well established before the advent of Grameen Bank in Bangladesh. A major step before Grameen approach is known as “Comilla Model”, a Rural Development Programme, launched by Pakistan Academy for Rural Development (renamed Bangladesh Academy for Rural Development in 1971) in 1959, finally lost its *preeminence*. The founder Dr. Akhtar Hameed Khan had inspiration for cooperative development perspectives for his Model from German cooperative pioneer Friedrich Wilhelm Raiffeisen, which is an early example of institution-building in predominantly non-literate communities. It was considered as a reply to the failure of Village Agricultural and Industrial Development (V-AID) program of 1953, taken in East and West Pakistan which was established with technical support from the US government. After departure of the founder, the model failed. The programs suffered from distortion, mismanagement, corruption and subversion, loan default, weak internal control, too big member list, elite capture and basically had been missing a cooperative principle: to be independent of the Government, therefore, all these brought the journey unsuccessful. ***Finally Taccavi and cooperative movement as an institutional challenge to the usury and immoral practice failed to change much of the situation.***

The failure of Comilla Model left lesson for the next starter. The breakthrough of Grameen Bank and BRAC (Bangladesh Rural Advancement Committee) was different in nature by adjusting as per required procedure. It was concluded by the founders that cooperative strategy as was used in Comilla Model would not work in rural Bangladesh. Both the programmes targeted the poor directly and developed policy for keeping out the non poor away from the programmes, formed small groups mostly homogeneous type and developed central control. Microcredit programmes of various NGOs have infiltrated in the rural market through various supportive programmes having the exception for Grameen Bank that had specific credit programme from the very beginning. During and immediately after the liberation struggle of Bangladesh in 1971, famous NGOs e.g. Bangladesh Rural Advancement Committee (BRAC), Proshika and the Association for Social Advancement (ASA) were established – in 1972, 1976, and



1978 respectively. All these had various development objectives with a vision to work in socioeconomic sector. But the current microcredit model is the result of action-research in the late 1970s, carried out by academics as well as practitioners in organizations those were initiated to deal with the relief and rehabilitation in post-independence Bangladesh. Gradually, they realized that a basic impediment that had been facing by the rural poor including other incapability was the access to finance at least for their small economic activities. Later on, they added microfinance to their menu. In 1980s an increasing number of non-government organizations (NGOs) experimented their different modalities for delivering credit to the poor. Few NGOs have tried to establish self-help group (SHGs) approach in developing financial service delivery system. In this system, the promoter or the NGO organizes self-help groups with the objective of mobilization of savings for the poor women/men from among themselves. When a member needs loan he can borrow from their own savings funds. But SHG initiatives failed because of poor loan recovery rate, inappropriate accounting system maintained by illiterate people, unskilled management and leadership etc . The efforts of several NGOs i.e. , Ashrai, Caritas, Concern Worldwide and donor-funded projects to develop alternative systems could not establish any viable alternative (Alamgir, 2009). Ultimately in the beginning of 1990s, the various models converged towards a fairly uniform 'Grameen-model' for delivery of microcredit and rapid expansion occurred (Zaman, 2004). It is particularly mention worthy that the development know-how and confidence in implementing large programs arose from the experience of scaling-up programs not related to microcredit.

Before the inception of MFIs, organized microcredit was provided by rural co-operative societies though scant enough to meet the demand. Banks with their weak rural network were out of the reach of the almost all of the poor, later on the importance of cooperative societies declined in meeting rural credit need as the growth and expansion of MFIs continued (Alamgir, 2009; Charitonenko and Rahman, 2002; Gauri and Fruttero, 2003; Zaman, 2004).

### **5.3.1. Grameen Bank and Microfinance:**

The origin of Grameen Bank, basically as a village bank with special objectives for lending the poor community has come into the field in 1976 through an action research plan of Professor Muhammad Yunus. The background story and inspiration behind establishing Grameen Bank was not simply a business plan, it was more than a philosophical step ever taken in the poverty ridden Bangladesh. The beginner of the

beginning, Professor Muhammad Yunus had been teaching Economics at the University of Chittagong in 1974, during a terrible famine in the country. Professor Yunus quickly became disheartened while people around died from hunger. He went to village Jobra, adjacent to the University of Chittagong to see whether he had anything to do and met a poor woman making bamboo stool. Professor Yunus learned through discussion that the poor woman earned equivalent of two cents for a bamboo stool as a finished product. The woman did not have the capability to buy bamboo with her own resource and had to borrow from a middleman, who subsequently used to buy the finished product at his dictated price. So the chain of lending, borrowing and selling had been moving around a continuous sketched diagram keeping the borrower at her margin and to be content with what she had been earning being within this circle. Professor Yunus asked her that how much the bamboo cost to begin with. She had replied, it was about 20 cents and the professor became stunned. Later on Professor returned with one of his students and found 42 hardworking people in the village had been working in the same manner and their total collective debts was equivalent to US\$ 27.00. Then Professor Yunus lent them from his own pocket to be repaid when they could and made them free from the conditional lending cycle and also made them free to sell their handmade product at market price to anywhere. Soon Professor got back all his money from the poor borrower. Later on he went to the local bank in favour of the poor whether they could consider granting loan to the Micro-entrepreneurs. But unfortunately, banks could not believe that the poor would repay the loan, moreover, banks were (and are) preoccupied to lend under collateral guarantee. He also tried to convince the commercial banks later and failed.

Then Professor Yunus launched the action research project the "The Grameen Bank Project" to examine the possibility of designing a credit delivery system without any collateral by targeting the rural poor community having few objectives. The action research was conducted during 1976-1979 in village Jobra, and some of the neighbouring villages, adjacent to Chittagong University. The project was extended to Tangail district in 1979, with the sponsorship of the Central Bank of the country along with support from nationalized commercial banks. With the success in Tangail, the project was extended to several other districts in the country. Being successful continuously the project was extended to several other districts. The Project was transformed into an independent bank by government legislation in 1983 as Grameen Bank.

### 5.3.2. Grameen System in Practice :

At the beginning, Grameen Bank initiates its action through practical intensive fieldwork in the targeted rural area. A branch is set up with a branch manager and few centre managers that covers an area of about 15 to 22 villages. The manager and the workers start visiting villages to make them familiar with the local milieu, communicate with the local people, identify the prospective clientele and explain the purpose, the functions, and the mode of operation of the bank to the people. Groups of five prospective borrowers are formed; those are self-selected. Organizing the primary groups of self-selected five members and federating them into centres stands as a foundation of Grameen Bank's system. Functionally these centres are linked to the Grameen Bank, wherein the bank fieldworkers have to attend Centre meetings every week.

In the first stage, only two persons of a group become eligible for and receive, a loan. At the same time the group is observed for a month whether the members are conforming to the rules of Grameen Bank. The other members of the group become eligible for loan after the first two borrowers begin to repay as per requirement over a period of six weeks. This restriction as a condition put a substantial group pressure to keep individual records clear. This peer pressure as a group guarantee acts as an alternative to collateral. When the operation was started, members created two savings accounts: one is Group Fund Accounts (including individual savings, group tax and others), and the other is the Emergency Fund. Each borrower had to pay more than five BDT per week into the Group Fund. In addition, during loan disbursement, 5% of the amount was automatically deducted and deposited into the Group Fund and furthermore, each borrower paid an amount equivalent to one-fourth of the total interest paid to the Bank, which was also deposited in the Emergency Fund and this fund served as a kind of insurance fund. However, there has been few modification and flexibility in overall system over a long period of time to match with the changing situation of the socioeconomic condition.

The success of Grameen Bank is based on the policy and methodological approaches those are different from the conventional banking practices. The following critical steps, specially designed and followed to bring success :

- **Target Group** : Poor people, mainly women have been targeted and as a criteria the person own less than 0.5 acre of land (functionally landless) is considered eligible.

➤ **Group Formation :** The organizational structure consists of self-selected group of 5 persons those are basically of homogenous to avoids elite capture and thus 30-50 members form a centre (Kendra), in a para/village where Grameen Bank staff visits to make transactions.

➤ **Loan:** Loans are collateral free, small in size but significant for microenterprise undertaken by borrowers: rice-husking, machine repairing, purchase of rickshaws, buying of milk cows, goats, cloth, pottery etc. and easy to manageable that suits with the managerial capability of the poor women.

➤ **Repayment:** Repayment is made weekly that ensures continuous repayment practice and the Peer pressure works as a collateral under solidarity group guarantee. Moreover, eligibility of the subsequent borrowing depends on the repayment of the first loan.

➤ **Door-Reach Banking:** Instead of going to bank, the bank staffs go to the client and ensure services.

➤ **Simplicity:** Loan procedure, application and all administrative steps are simple and made easy for the rural local people who in fact otherwise do not feel easy in formal official environment.

➤ **Open Transaction:** All the financial transaction are made in centre meeting to avoid ambiguity and eliminate any possibility of corruption.

However, Grammen Bank follows a hierarchy of administrative and operational offices to manage the whole network and group members as clientele. Grammen bank is being controlled by its central office. From top to bottom, under this central control at the end of 2015 it had 40 zonal offices, 265 area offices and 2568 branch offices and thus it encompasses 81,392 villages out of nearly 87,362 villages of the country. Usually a zonal office administers 10-12 area office and an area office controls 10-15 branches. A branch serves nearly 70-80 centres. And a centre is based on 8-10 groups.

Usually, a mature and successful Grameen Bank branch includes 75 centres. A centre manager has 10-12 centres under his operational management and every centre comprises of 8-10 groups consisting of 5 members for each group. Thus, the Centre Manager typically has to manage a minimum of 500 to a maximum of 600 members and branch has 3,500 to 4,200 members under its service control. At the beginning there had been a uniform number of items under each hierarchy. Gradually this whole procedure has become successful and popular. The replication of Grameen model has become evident later on among other MFIs for their outreach and survival.

A Grameen-style microcredit program is of high demand since the beginning that requires a committed and dynamic leadership, hard work, disciplined supervised staff having strong commitment to serve the poor. Moreover, assured funding source and deep understanding of the Grameen methodology is highly required. Starting a Grameen-style microcredit programme is not easy as it is being regarded in Bangladesh. Source of fund is a vital thing to continue. External source of fund is of first priority at least for the first two to three years. It can not be on track before reaching operational self-sustaining position. It is learned that ASHI, one of the earliest Grameen replication programs in the Philippines almost collapsed in the late '80s few years of operation at its pilot phase because the management required to spend more time in mobilizing fund.

Not only the Grameen Bank but also a few other NGOs along with their credit programmes have changed the rural financial structure gradually. For the last four decades a continuous credit delivery programmes and other accessories services have shaped a newer rural credit culture in rural financial geography. The most remarkable other two largest NGOs those have strong footage in microfinance are Bangladesh Rural Advancement Committee (BRAC) and Association for Social Advancement (ASA).

#### **5.4. BRAC Steps Forward:**

BRAC was established by Fazle Hasan Abed in 1972 just after Independence of Bangladesh. It was as “Bangladesh Rehabilitation Assistance Committee” and subsequently renamed as Bangladesh Rural Advancement Committee, in short BRAC, the popular name. Primarily and basically the emergence of this NGO was to assist the social development through philanthropic activities under various programmes. ***Presently it stands as the largest non-governmental development organisation in the world which is measured by the number of employees and the number of people it has helped. BRAC entered into microfinance in 1974*** through delivering credit to the rural people in Sylhet district and started analyzing the usefulness of credit inputs in the lives of the poor. Unlike Grameen Bank, BRAC emphasis on a various objectives focusing a variety of social problems and microfinance is one of the focused programmes it has. Gradually BRAC concentrated on community development initiatives through multi-sector development programmes in rural areas that includes agriculture, fisheries, cooperatives, rural crafts, adult literacy, health and family

planning, vocational training for women and construction of community centers, moreover there are several projects under each of these sectors.

Gradually BRAC has developed several microfinance programmes tailored to a wide range of socioeconomic class such as rural women, youth and adolescents, landless poor, marginal farmers, migrant workers, urban poor, and small entrepreneurs by addressing their character demand specific demand.

### **5.5. ASA is Sustainable Enough:**

Association for Social Advancement, in short ASA, came into birth in a typical village Tepra, under the Manikganj district (then sub-division) ,Bangladesh, in 1978. Primarily it started to assist the underprivileged people of the society in attaining better livelihood and acquiring means to escape poverty trap. Its **Microfinance programme** is considered as the most efficient micro-lending model in the world because of its specialty in scaling up with sustainability and steady growth through decades. Microfinance is the core programme of ASA with seven million clients across Bangladesh currently though it has been implementing a number of non-financial programs for development of Education, Healthcare, Sanitation, Hygiene and Agriculture support services. The most important feature of ASA is its sustainability. It is an absolutely self-financed organization having no grants or donations of any kind from anywhere both at home and abroad. Unlike other NGOs ASA bears the cost of its non-financial programmes costs from its own resource exclusively generated out from microfinance operation.

It is established that Grammen Bank, BRAC and ASA have the best performance in regard to outreach, service delivery and area coverage, moreover all of these three institutions have expanded to abroad. In foreign lands they gradually have established their methodologies. Though microfinance is found to be a substantial part of activities of all MFIs yet survey data reveals that all most all the MFIs are engaged to other social development activities beyond their microfinance programmes. Generally these programmes cover a range of training programmes to develop skill for the poor community in area of sewing, poultry farming, cattle farming etc. These trainings ultimately assist poor unskilled borrowers to manage and run income generating programmes more efficiently and actively.

Beyond microfinance programmes, few other remarkable activities taken by MFIs in 2014-2015 are poverty reduction, agricultural activities, climate change, water and sanitation, developing the quality of community life, awareness building and

development of adolescence, education programme, health programme, training programme etc. So a remarkable difference between conventional banking and MFIs are well established through their business focus and area of work. Though the MFIs have their own loan and savings products to cater to local need only few products of large MFIs can be discussed as an example to show that how do they gradually shift their focus and mission to grasp the rural credit market.

### **5.6. Microfinance Evolution:**

Though a conceptual base about MFIs from the beginning is that they serve the bottom line of the society and only a tiny amount of money is disbursed to work with, yet through practice and development in the last four decades the range of services, products, loan ceiling, client base and innovative lending have expanded the total portfolio at remarkable height. Very specially a wide range of rural economic activities are being financed by MFIs where the other commercial banks have less or almost nil footprints. Targeting the poor and only the women and again only the group based lending, all these features have gradually got changed. Paradigm shifting in financing the need and responsive development has found its own way through practice. NGOs like ASA, BRAC and Grameen Bank also have shifted their group based lending focusing specific case to case based financing and doing business to gain sustainability is getting priority. Microfinance development occurred comparatively at a faster pace during 1990s through replication of Grameen Model across the countries and up to the present time till it reached its matured stage (Salim, 2013). Bangladesh is considered the most matured microfinance market due to various experiments conducted by a large number of MFIs according to their own capability and organizational good practices. Gradually MFIs started offering loans of higher ranges compared to microcredit and poverty eradication financing. The MFIs defined their products according to various need and thus enterprise financing emerged along with other products wherein presently up to TK. 50,000.00 is considered as microcredit and enterprise loan usually exceeds this ceiling. The MFIs gradually have got out of its shell that was previously branded with a financier of the poor. Presently a well established link with business financing at small scale but with an expanded base across the rural areas of the country have created a tension in the financial sector. The gradual infiltration into the rural financial market and a journey of increasingly intermediation has attracted the attention of the policy makers, researchers and development workers both at home and abroad. It happened through a wide range of product launched by MFIs those have been gaining ground to be the recognized and popular financial

intermediary in the market. Increasingly MFIs started experiment with catering to new niche markets because of the slow growth in traditional microcredit business. Several NGOs began to provide comparatively higher loan ceiling to 'graduate' microcredit borrowers and in some cases to new nonmember households who need microenterprise loan (Zaman, 2004). During the growth and expansion period of MFIs, donor's fund played the vital role as a strong base to continue the same. At that time the establishment of Palli Karma-Sahayak Foundation (PKSF) as a wholesale financing institution for the MFIs made the path easy. The PKSF had built rapport with the MFIs as partner organization under a set of conditions to finance their projects.

### **5.7. Few Loan Products in Selected MFIs as Paradigm Shifting:**

Credit and savings in MFIs differ from one to other both in feature and nature in delivery. Similarity occurs among these as those are offered at a competitive scale by various MFIs but yet few features of few selected MFIs are remarkable. Due to limit, the discussion and for presenting the popular scenario the few specific products of Grameen Bank, BRAC and ASA are discussed below.

#### **5.7.1. Grameen Bank Loan Products:**

By this time general credit programmes have reached their momentum and the borrowers have become familiar with credit culture and organizational characteristics of Grameen Bank. Gradually other loan programmes have been introduced to meet growing social and economic development needs of the clientele emphasizing the need of the poor community. These programmes are:

- Credit for building sanitary latrines
- Credit for installation of tube-wells that supply drinking water, irrigation and for kitchen gardens
- Credit for seasonal cultivation to buy agricultural inputs
- Credit for leasing equipment / machinery, ie., cell phones purchased by Grameen Bank members
- Finance projects undertaken by the entire family of a seasoned borrower.

It has other specific programmes also. Housing loan, Higher education loan, Microenterprise loan etc. are remarkable. Microenterprise loan is absolutely a special one for generating income. Loan sizes are larger enough compared to microcredit and are used to finance investments in transport facilities, sawmills, large-scale poultry farms, etc. On the other hand the other popular items of the microfinance program



include power tillers, irrigation pumps, transport vehicles and boats for transportation and fishing and so on (Alam and Getubig, 2010). In fact there is no restriction for this category of loan size. So far 7,221,574 members availed microenterprise loan equivalent to BDT 249.59 billion (US\$<sup>16</sup> 3,363.11 million). The average loan size is BDT 34,563 (US\$ 439) and the maximum size of a single loan taken so far is BDT 4.0 million (US\$ 51,606). However, at the end of December 2015 Grameen Bank disbursed 1,582,486 number of microenterprise loan amounting BDT 40,106.10 million (US\$ 512.80 million) and the average loan size was BDT 25,344.00 (US\$ 324.00) (GB Annual report 2015). This paradigm shifting from micro to comparatively higher grade financing took place due to absence of commercial banks in rural areas that extremely suffer from continuous credit flow and institutional patronization and therein, MFIs are increasingly developing their portfolio with upper class of the rural financial market.

### **5.7.2. BRAC Loan Products:**

BRAC microfinance Products are tailored to cater to a wide range of groups including women, small entrepreneurs, migrant workers, youth, tenant farmers, and landowning farmers and its gradual development towards higher range of loan amount ensures microenterprise financing. The primary microfinance product is for the “borrower group” that is called village organization (VOs) which consists of around 15 to 25 women from the local community. The basic products are microfinance for women, agricultural loan, migration loan, small enterprise finance etc.

Gradually BRAC introduced microloans named “Dabi” having a range of US\$ 160.00 – 5,000.00, specially designed for individual women who are on the other hand a member of village organization. Another high value product is Small Enterprise Loan named “Progoti” having its range from US\$ 13,00.00 – 25,000.00 specially designed for entrepreneurs of both genders. This is a financing to expand and develop the existing enterprise those are usually too small to qualify for loan from mainstream financial institutions.

### **5.7.3. ASA Loan Product:**

Development of product or the growth or the increase of Loan ceiling according to socioeconomic development and market demand has been a priority of almost all of the MFIs and ASA is not exception to it. Presently, ASA offers two types of loan product and these do not require any type of collateral or group guarantee. These are: Primary Loan and Special Loan. Primary Loan has a maximum tenure of 12 months and the amount ranges from BDT 5,000.00 to BDT 70,000.00 However, the special

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<sup>16</sup> 1 US\$ = 78.2096 BDT as on 31 December, 2015

Loan has a maximum tenure of 30 months and ranges from BDT 71,000.00 to BDT 10,00,000.00 and both the loan products have flexibility.

### **5.8. MFI Commercialization:**

Through the passage of time the growing demand of finance in rural Bangladesh has created a competitive market. The breakthrough of microfinance from its charity focused or donation dependence has ended gradually. External resources had played an important role in the first phase of its experiment, subsequent growth in outreach and institutional strengthening. The large MFIs have successfully managed their Donors such as Ford Foundation, Oxfam, Aga Khan Foundation etc. These subsidizing were not free from controversy as the funding of these loan programmes had to face arguments within their own agencies (Zaman, 2004).

Donor dependency or uncertainty of source of fund had made MFIs innovative in searching own way of sustainability. Paths of commercialization are not same all over the world. Financial sector liberalization and development of Microfinance have occurred most rapidly in Latin America, wherein many new entrants were purely commercial during 1990s. In Bangladesh and East Africa (Uganda), competition had emerged in a smaller number of countries, mostly through the increasing scale of donor-supported microfinance programs. The MFI-commercialization across the world and particularly in Latin America has strong evidence of competition. Even therein commercial banks have been providing with the microfinance service since long. In Chile, it was evident that during 1990s the microfinance market was turned to be highly commercialized. Although commercial banks entered into the market nearly before 2000, they have sharply outperformed the pioneering NGOs those introduced microfinance in Chile in the late 1980s. Banks offered the customers a more attractive service to win the competition with MFIs and at the same time the time-bound government subsidy assisted their entrance in the microfinance market. Consumer credit in Chili was important factor in market development like that of Bolivia as millions of loans had been disbursed to salaried persons which were comparatively secured. Whereas, in Bangladesh the MFIs do not have scope to cater to the salaried persons and basically they focus only the micro enterprises or poor from the beginning. MFIs are more inclined to income generating programmes rather than giving other loans.

Commercialization occurred across the world comparatively faster while the market demand has been created by the early introducer. Their operations are in fact profitable. Association for Social Advancement (ASA) and Buro Tangail (Buro) in

Bangladesh, BancoSol and Caja de Ahorros y Préstamos los Andes in Bolivia, Asociacion para el Desarrollo de la Microempresa (ADEMI) in the Dominican Republic, Financiera Calpia in El Salvador, Banco Solidario in Ecuador, the Cooperative Bank of Uganda, Self Employed Women's Association (SEWA) Bank in India are good examples. In case of Bolivia the push towards commercialization was assisted by private financial funds (FFPs), a special institution created by the government at the urging of MFIs, the regulated financial intermediaries with a relatively low minimum capital requirement. FFP provides pathway for NGOs those step to transform into commercial operations or for entering into purely commercial companies with a view to delivering small loans (Rhyne and Christen, 1999). The establishment of BancoSol in Bolivia in 1992 created a trend in institutional development within the microfinance industry. The opportunity of transforming NGOs into formal financial institutions with access to domestic and international financial markets gave a space for sustainable development. Mobilization of public savings was another important factor in building sustainable growth. By the late 1990s, the microfinance in Latin America experienced a variety of product diversity and subsequently the industry underwent a process of expansion, formalization and consolidation as well (Marulanda and Otero, 2005). Today, Peru, Bolivia and Ecuador are the most mature market in the world proved through experiments.

So far it can be traced that during the early 1980s, microfinance pioneers started shifting the focus from farmers to "non-farm enterprises" those are involved in making handicrafts, livestock-raising and running small stores which is less vulnerable than farming. The paradigm shifting brought advantages at its final stage. The experiences in cities and villages in Latin America, Africa and Asia gradually challenged the conjecture that serving the poor needs massive subsidies (Cull *et al.*, 2009).

But the apparent commercialization of Microfinance in Bangladesh has been in the process since early 1990s. The MFIs had been continuously failing to meet the growing demand of successful microenterprises, who had more capital needs beyond the limit of their traditional microfinance loan. Gradually MFIs started to loose their control over the systematic approach that favoured only the poor. Various loan products with various loan ceiling had been introduced to cater to a variety of client groups. ASA had eliminated required attendance at weekly meetings. Grameen Bank provided clients' greater access to their forced savings and started to develop loan ceiling. All most all of the MFIs started to target commercially viable clients and successful microenterprises had been prioritized in getting refinance. Giving loan to

family members of successful borrowers was a path also. Lending to out of group members increased gradually. But most of the medium-sized NGOs started offering some type of microenterprise loan much earlier. Even several small NGOs had begun disbursing individual microenterprise loans, specially to a limited number of successful client. Shifting towards individual loan instead of group and focusing men in few cases are seen as development of outreach (Charitonenko and Rahman, 2002).

Initiatives may be cited as examples of stepping towards commercialization of MFIs through loan products beyond the methods of microfinance. ASA first introduced microenterprise loans in 1992 by crossing the limit of microcredit under the banner “Small Entrepreneur Development Program (SEDP)” and loans were given on an individual basis, clients were organized into groups of about 20 borrowers. Loan sizes were Tk. 10,000.00–30,000.00 whereas, the traditional microcredit amount was around Tk. 9,000.00 at that time. BRAC introduced Micro Enterprise Lending and Assistance (MELA) program in 1996 focusing microenterprise for their start-ups and expansions having loan range between Tk. 20,000.00 - 200,000.00 at the beginning and targeted to individual women with entrepreneurial ability. On the other hand Grameen Bank introduced leasing first in 1992 to experiment by leasing power looms to weavers in the Ariahazar area of Dhaka District. Gradually product diversification is developed. Presently most of the Grameen’s leasing programs are related to the small manufacturing and service industries of which Village Phone project is the most successful one. These programmes have targeted the experienced borrowers and their family members who can handle larger loan sizes than Grameen’s traditional microcredit products. The flexibility of assessing a client was that a member who have some skill in a certain technology in producing goods and services can buy the required equipment or any other items under this program. Shakti Foundation for Disadvantaged Women (SHAKTI) introduced leasing operations at the end of 1999 and made it accessible for the members of its third general loan cycle. After a long time experiments and growth, all these programmes have got diversification and loan ceilings have got developed to meet the demand of time. Consequently, the up-scaling of BRAC lending programmes failed to attract borrowers from the existing microcredit client pool due to unwillingness. Self-exclusion or inability to meet the criteria, of the potential clients could be the major cause behind this failure (Emran *et al.*, 2006). Market imperfection and the lack of demand creation in the overall market matter. The vertical expansion (amount of scaling up) of loans may not run on in a full swing with its horizontal (geographical distribution) expansion due to the distributive pattern of inequality and poverty across the country (Mahmud and Tulla, 2015).

However, commercialization while at urban areas, is also a matter of fierce competition with the existing commercial banks as those are taking advantages of institutional capabilities. In fact most of the commercial banks are not interested in micro level lending though few banks have entered into the microfinance market albeit at limited scale to reach the small borrowers. Islami Bank Bangladesh Ltd., Prime Bank, Mercantile Bank, Agrani Bank, Sonali Bank etc. are on the forefront. Compared to MFIs, commercial banks are more experienced and have reached more clients. At the same time private commercial banks usually have less outreach and cannot reach more clients except Islami Bank Bangladesh Ltd. Nationalized commercial banks suffer from shortage of human resources to handle small loans, because these requires more attention and strong supervision (Alamgir, 2009). In this regard MFIs are enjoying more opportunities to be more nearer to the remote rural enterprises and can enjoy a relationship lending mode of methodology than the commercial banks. On the other hand the establishment of BRAC Bank has created controversy over commercialization of Micro-lending as this bank is established by BRAC, a NGO and a portion of its start-up money received from donor funds which should not be used for commercial purposes. Finally the basic controversy was raised by development workers and other concerned segments about microfinance commercialization. The term “commercialization” bears a negative image in Bangladeshi society because it is assumed exploitative for the poor while it categorically relates to MFIs. NGOs are supposed to be innovative, flexible and supportive to the poor instead of being a profit making organization. Negative attitude towards NGO-MFIs, on the other hand others (commercial banks) have positive image in the same socioeconomic platform, which subsequently hampers NGO-MFIs . Therefore, to be fully commercial, perhaps a sustainable one in the long run is controversial (Charitonenko and Rahman, 2002; Cull et al., 2009; Gauri and Fruttero, 2003). Finally the dual objectives of profitability and poverty alleviation within a same programme are considered conflicting rather than mutually supportive.

The NGO-MFIs have objectives with double bottom lines; humanitarian objective of poverty alleviation attainable by lending to the poor and wanting to be financially self-sufficient by minimizing operating costs. (Mallick and Nabin, 2011), and the objective for financial self-sustainability is to become independent of donor subsidies (Hatarska and Nadolnyak, 2007). Finally the commercialization of MFIs is viewed as a “mission drift”. Experts opined that the commercial view would gradually oust the poor and subsidized borrowers. Consequently the MFIs would turn to be more cautious and sceptical to philanthropic objectives, even if dual objectives exist at the

same time. MFI commercialization usually indicates the application of market-based principles or the MFI operation is profit-driven.

Commercialization of MFIs is also a geographic phenomenon as it is highly a matter of space and economy that brings profit and sustainability. It is expected that NGO-MFIs will bring microfinance to the poor, where commercial financial institutions do not have presence due to high operating costs. They are dependent on donor support to be cost effective and to minimize operating costs. The placement of MFIs are dependent on characteristics of the space and therefore, programme placement occurs in the areas having vast productive investment opportunities (Mallick and Nabin, 2011). This can also be considered as geographic mission drift, because the MFI sustainability would ultimately divert the programme placement of MFIs into developed areas having a semi-urban essence with better infrastructural facility than the remote rural deprived communities. The social performances of MFIs expressed through various indicators i.e. average loan size, interest rate and share of female borrowers. Shifting priorities from social to financial performance is usually considered as mission drift (Armendariz and Szafarz, 2011; Ghosh and Van Tassel, 2008; Mersland and Strøm, 2010). All over the world it is a burning question that a basic mission drift occurs while newer bigger lending focuses men at the sacrifice women. Women are also poorer than men on the average and tend to ask smaller loans, and fewer subsidies are required for maintaining this social service. (Agier and Szafarz, 2013; Mersland and Strøm, 2010). Lower subsidies are related to tight cost management. Armendariz *et al.*, (2012), explains that subsidy uncertainty is associated with mission drift.

But commercialization could not be finally undermined as a demand of time. Without ambiguity, the duality might be preserved in the same institution. So a major part to balance between commercialization and philanthropy may be regulation dependent instead of self driven. MFIs are fast growing institutions having social and financial motivations. A vast majority of MFIs launched their programmes with subsidies (Armendariz and Morduch, 2010). But gradually a remarkable shift towards commercialization is evident (Marshland, 2009). Though the lack of subsidies worsen the social performance, yet nearly 23% of the world's MFIs run without any subsidy (D'Espallier *et al.*, 2013) It is assumed that shifting the focus of Global donors and their priority shifting from Global South to African lands including former Soviet Union and Eastern Europe have been playing a vital role in decreasing donor's fund for grant based microfinance. Gradually the source of fund for MFIs increased over time.

The fund composition from 2008 to 2015 is shown below Table 10.

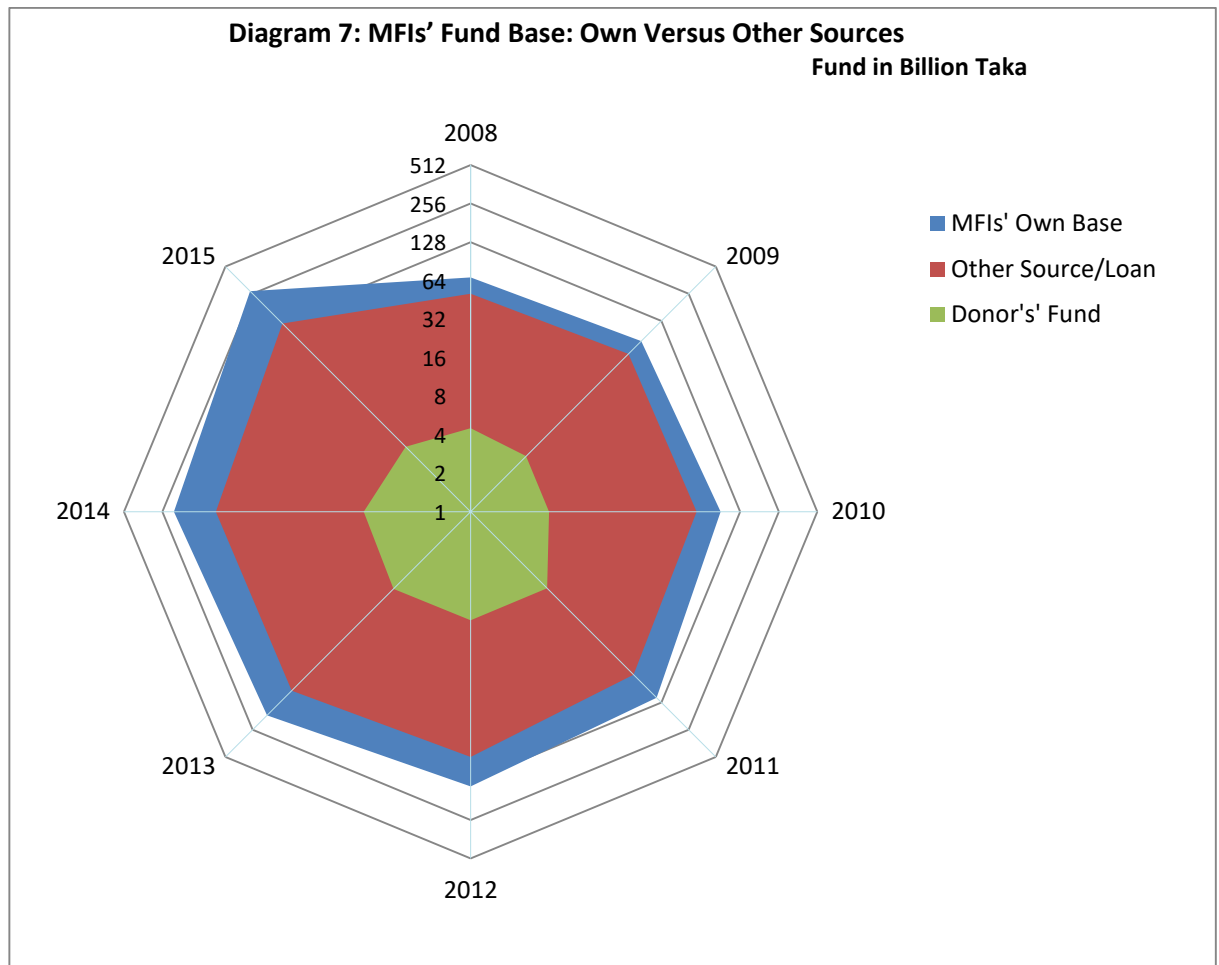
Table 10: Source of Fund of NGO-MFI in Bangladesh (2008 - 2015). BDT in Billion

Year (Ended in June)	client's Savins	%	loan from PKSF	%	Cumulative Surplus	%	Donor's Fund	%	Loan from Bank	%	Other Fund	%	TTotal	%
2008	36.40	29.67	22.70	18.50	31.17	25.40	4.50	3.67	23.49	19.14	4.44	3.62	122.70	100.00
2009	40.52	29.73	22.67	16.63	36.26	26.60	4.11	3.02	23.90	17.53	8.84	6.49	136.30	100.00
2010	47.43	31.15	24.49	16.08	42.34	27.81	4.10	2.69	23.00	15.10	10.91	7.16	152.27	100.00
2011	63.30	34.46	31.76	17.29	50.30	27.39	7.01	3.82	23.58	12.84	7.72	4.20	183.67	100.00
2012	74.99	32.62	33.57	14.60	65.44	28.47	7.06	3.07	32.65	14.20	16.17	7.03	229.88	100.00
2013	94.00	33.63	34.07	12.19	83.26	29.79	7.10	2.54	42.70	15.28	18.39	6.58	279.52	100.00
2014	107.00	34.21	34.52	11.04	100.94	32.28	6.86	2.19	51.50	16.47	11.91	3.81	312.73	100.00
2015	135.41	33.94	37.77	9.47	137.71	34.52	5.22	1.31	68.57	17.19	14.24	3.57	398.92	100.00

Source : (1). NGO-MFIs in Bangladesh, 2010, a Statistical Publication of MRA. (2). NGO-MFIs in Bangladesh, 2015, a Statistical Publication of MRA. (3). Annual Report 2015, MRA ( Bangla Version)

Members' deposit along with development of local source made the commercialization base more sustainable. Out of total sources of fund, it is evident, that the share of various sources have not changed sharply over time but the amount involved in this regard for few sources expanded much as a sign of development. The dependence on donor fund decreased gradually with few ups and downs but the gradual expansion of members' deposit is attractive. Over the same period of time the **Cumulative surplus**<sup>17</sup> has shown a steady growth as a basic development of sustainability. The increase of Loan from commercial banks is also an important feature of growth which can be expressed as "Confidence building" in the market and also a sign of commercialization.

Since the beginning, the MFI sector in Bangladesh is gradually reshaping its strength and capabilities to meet the market demand. The fund composition picture is also divided into two parts; MFIs' own source as the base and the external source as the dependence. The following diagram No. 7 expresses the development of MFI base.



**Source:** (1). NGO-MFIs in Bangladesh, 2010, a Statistical Publication of MRA. (2). NGO-MFIs in Bangladesh, 2015, a Statistical Publication of MRA & (3). Annual Report - 2015, MRA (Bangla Version)

However, microfinance scaling-up is the step to fit itself for the growing demand of market. Due to existing systematic approach, lending to SMEs, a **slightly bigger**<sup>18</sup> “cousin” of the microenterprise, is not easy. It is not too small to attract microfinance and not sufficiently well documented to secure a commercial loan (Zaman, 2004; Zeller *et al.*, 2001). Microfinance procedure of group based lending, shouldering other’s responsibility of the solidarity group and creating social pressure from within group is not active for comparatively bigger enterprises. Moreover, successful man/woman with more capabilities must not be inclined to backward groups. Even, evidences shows that up-scaling of the loan programme of BRAC failed to attract borrowers from its active microcredit client pool due to unwillingness, which may be due to self-exclusion or inability to meet the requirement of the potential clients (Emran *et al.*, 2006).

<sup>18</sup> Though usually it is claimed that SMEs are slightly bigger cousin of Microenterprise yet in practical it is not established in that way. Only the lowest category of SMEs may be compared. The range of SME by definition is very wide, so in most cases it is quite impossible to generalize the comparison between microenterprise and SME.



The overall initiatives of paradigm shifting and up-scaling of MFIs may be positive in creating a response in the economy of backward spaces but the overall financial landscape of MFIs is comparatively better positioned among all other providers. The Institutional microfinance is being provided by 697 regulated MFIs, Grameen Bank, Government and private banks and specialized programmes of various ministries. Table 12 below shows a comparative picture of borrowers and loan disbursement of various organizations ended on June 2015.

<b>Table 12: Microfinance Providers &amp; Their Position</b>				
<b>Service Providers</b>	<b>Client in Million</b>	<b>Loan Outstanding (Tk. Billion)</b>	<b>Loan Disbursed (Tk. in Billion)*</b>	<b>Percent Out of Total Disbursed</b>
MFIs	26.00	352.41	634.00	75.92
Grameen Bank	6.72	91.29	138.90	16.63
Government & Private Banks	0.65	39.04	38.48	4.61
Programmes of Various Ministries	1.21	20.71	23.74	2.84
<b>Total</b>	<b>34.58</b>	<b>503.81</b>	<b>835.12</b>	<b>100</b>
*Loan disbursed from July, 2014 to June, 2015				
<b>Source</b> : NGO-MFIs in Bangladesh, 2015; (2). Annual Report - 2015, MRA ( Bangla Version)				

75.92% in disbursing loans and Grameen Bank alone has contributed the single biggest share as 16.63% and the client (number of clients and number of borrowers are not same) base for them are 26 million and 6.72 million respectively. In most cases the MFI success is measured by its client outreach and Grameen Bank alone stands on the top both in disbursing loan and client outreach. It is evident that out of total microfinance provided by all sort of Institutions including programmes of various ministries and banks, 697 regulated MFIs have a share of The MFI performance is on the other hand very much monopolized into few big numbers rather than being it a competitive one. Out of the big volume of MFIs only few and mostly the top ten MFIs are dominating the market of savings, loan disbursement, client outreach and geographic outreach. More specifically only three have the major control over the whole sector. A comparative picture of top five MFIs regarding various indicators within sector has been shown below in Table 13.

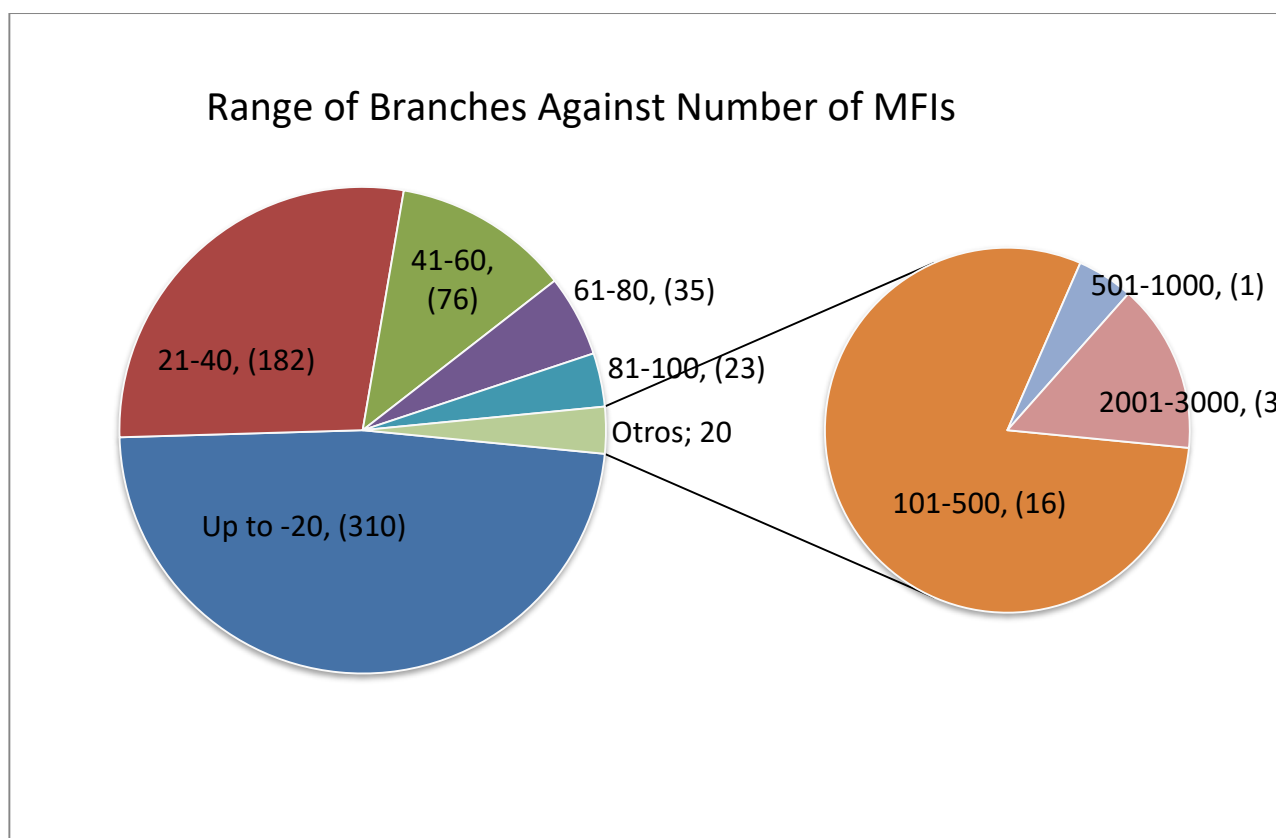
Table 13: Position of Top 10 MFIs Regarding Various Outreach and Performance										
Name of MFI	No. of Branch	Percent in Sector	No. of Members (in Million)	Percent in Sector	No. of Borrowers (in Million)	Percent in Sector	Loan disbursed (Tk. Billion)	Percent in Sector	Deposit (Tk. Billion)	Percent in Sector
Grameen Bank	2568	14.13	8.68	25.03	6.72	24.82	138.90	17.97	169.87	55.64
BRAC	2051	11.28	5.42	15.63	4.74	17.51	172.57	22.33	36.10	11.83
ASA	2932	16.13	6.31	18.19	5.36	19.80	146.39	18.94	37.24	12.20
Bureau Bangladesh	640	3.52	1.27	3.66	0.84	3.10	26.30	3.40	5.70	1.87
TMSS	596	3.28	0.80	2.31	0.69	2.55	23.48	3.04	4.40	1.44
Jagori Chakro Foundation	287	1.58	0.45	1.30	0.34	1.26	11.68	1.51	8.14	2.67
SSS	255	1.40	0.48	1.38	0.38	1.40	15.08	1.95	3.94	1.29
Uddipon	271	1.49	0.42	1.21	0.30	1.11	10.16	1.31	2.19	0.72
Padokkhep	295	1.62	0.29	0.84	0.24	0.89	7.5	0.97	2.06	0.67
Shakti Foundation	378	2.08	0.49	1.41	0.44	1.63	6.19	0.80	1.29	0.42
<b>Sub-total of 10 MFIs</b>	<b>10273</b>	<b>56.52</b>	<b>4.61</b>	<b>70.96</b>	<b>20.05</b>	<b>4.07</b>	<b>558.25</b>	<b>72.23</b>	<b>270.93</b>	<b>88.75</b>
All Other MFIs	7904	43.48	10.07	29.04	7.02	25.93	214.65	27.77	34.35	11.25
<b>Total MFIs</b>	<b>8177</b>	<b>100.00</b>	<b>34.68</b>	<b>100.00</b>	<b>27.07</b>	<b>0.00</b>	<b>772.90</b>	<b>100.00</b>	<b>305.28</b>	<b>100.00</b>
All MFIs Excl Grameen Bk	5609	85.87	26.00	74.97	20.35	5.18	634.00	82.03	135.41	44.36

**Source:** MRA Annual Report, 2015 (Bangla Version), Grameen Bank Annual Report, 2015 & Issue No: 426, Issue Date : July 07, 2015.

It is also evident that out of total MFIs only top 10 MFIs are dominating the whole market regarding all sort of outreach and services. These MFIs cover 56.52% of branch network, 70.96% of members, 74.07% of borrowers, 88.75% of total deposits and 72.23% of all disbursed loan. This sector has disbursed Tk.772.90 Billion to 27.07 million borrowers. In a more concentrated way only three MFIs i.e. Grammen Bank, BRAC and ASA take the lion's share of all these services. These three MFIs control 41.54 % of branch network, 58.85% of members, 62.14% of borrowers, 59.24% of loan disbursement and 79.67% of deposits in the sector.

Branch penetration of MFIs is a big challenge since the beginning. The earlier larger and pioneering MFIs have expanded their branch base comparatively faster probably because of the internal and external supports delivered through various development objectives.

**Diagram 8: Range of Branches against number of MFIs**



Source: Grameen Bank Annual Report, 2015; MRA Annual Report, 2015 (Bangla Version).

The vision of today including dual principle of doing business and delivering services under altruism were not on the mandate at least at the beginning. So, the competition is not so acute for all because a huge number of MFIs have very few branches operating in a small geographic and economic area. Only three MFIs

including Grameen Bank have been enjoying the nationwide branch network. So in practical a monopoly in the MFI-finance market stands on the forefront. The Diagram No 8 shows the range of number of branches for MFIs.

As per revealed data of MRA and Grameen Bank 659 MFIs' number of branches have been calculated during the end June, 2015. It is shown that 310 MFIs have branches within a range of 1 to 20, though 182 MFIs have branches within a range of 21 to 40. The more the number of branches increase the number of MFIs decreases and thus it is revealed that only 16 MFIs have branches within a range of 101 to 500. Three MFIs have branches within a range of 2001 to 3000 though only one MFI has branches within a range of 501-1000.

### **5.9. Institutionalization of Informal Financing and Women Empowerment :**

During the emerging period of microfinance i.e. in early 1980s, the financial sector environment in most developing countries showed little interest to marginal and micro-level clients. Most of the developing economies, including Bangladesh, had a financial system mostly controlled by policies those favoured directives. Competition in financial sector was not on the forefront like today. Financial institutions had little incentive in deposit mobilization. Lending to unconventional clients was not in practice and had no experiment ever been launched. The marginal clients, specially the landless poor were served only by Government directives. Credit to them were highly subsidized and government-owned development banks and directed credit programs were the only channel they could enter (Rhyne and Christen, 1999). Social institutions were extremely informal and almost all the lending occurred informally. Informal financial channels were not sufficient to deal with the dynamic demand of the vast majority of the people and their needs. Moreover, these were comparatively and heavily socially channelized instead of uniform and commonly accessible for all sort of people. Women are particularly hindered with remarkably less accessibility to financial institutions. Even the informal financial channels are not equally exposed to the women. Things are mostly socio-economic having its origin deeply rooted in the formation of gender biased division of labour and women's right over wealth as an heir. Position of woman in the society and her definitive position in respective family is important enough to establish her control over social institutions, specially in Bangladesh, predominantly a Muslim country having defined role for women in socio-cultural exposure.

There exist several bargaining related to economic approach and family, which is a place of natural harmony and cohesion. Few feminist group like to see the family as a space of systematic oppression and dominance. The practical economy on the other hand considers family as a space of permanent cooperation and conflict. The permanent tension between conflict and cooperation exposes itself as compromise and negotiation. Its contents and outcome are dependent on social, economic and political resources of the family members, These are broadly formal and informal property rights, control over assets and income, access to common resources, social networks outside of the private-domestic sphere, outside support from state or other authorities and so on. It is also assumed that transactions and specifically monetary and financial practices stand at the core of permanent tension between conflict and cooperation that interrupt family relation. It is well conceptualized that income, budget management, asset management, mode of savings, borrowing or reciprocal gifts etc. are completely engaged in permanent process of redefining family relations in positioning each individual, both male and female (Guérin, 2008). And finally the position of women is the concern. Social security system is highly involved with the process and due to the nature and gravity of state intervention into the process clearly defines the position and activities of every citizen in broader perspectives. It can be argued that weak state interventions in this sector enables other factors help dominate the function. Therefore, social bondage, cultural integrity, religious and ritual control and so on dominate the structural design of social as well as family structure.

In Bangladesh starting from the very birth, the journey of women to graveyard follows a systematic dependency channel. Primarily she belongs to her father at her early ages and the control over her transferred to her husband after marriage and after passing a long conjugal life (happy life) she has to depend basically on her son (mostly not daughter) at her old age while she posses nothing at her own control. The Muslim family law also gives women's inheritance property right just 50% of their counterparts. That means a boy will get two times than his sister during inherited property distribution. And in many cases women usually do not claim any property right (mainly landed property) from her family after she gets married because claiming such properties will loose family ties and may create anger, dissatisfaction and tension in families. Woman on the other hand is ensured food, lodging and other usual needs assigned upon her husband by virtue of marriage contract, a document, but mostly applicable as mutual contract borne through love and affection under a socio cultural feelings that brings the final family ties. Their sacrifices for tens of years have become a customs of the society. Her sacrifices to property rights has been imposed on her

shoulder as a duty and responsibility as an indemnity of the social configuration and property rights for the males, irrespective of the nature of tragedies she faces through her life. In African context, partially relates to that of Bangladesh, it is explained that the division of labour ensures responsibilities for respective gender; father bears the economic responsibility that protects the family and more particularly the duty of daily expenditure and family food supply, but women are responsible for protecting and educating the children (Diop, 1981, as cited in Guérin, 2008). But when poverty is concerned, the needs create tension in the family and women gradually become conscious of her property rights and also about her ability that inspires her participation in income generating activities. At the same time in a society wherein **Purdha**<sup>19</sup> is prevalent, the women's role in outdoor economic activities is hindered through many fronts. It can be mentioned that at the early ages of developing Grameen Bank, violence within household increased substantially because of the involvement with Grameen Bank (Kabeer, 2005).

In India, the Hindu religious rule also disfavours women. Traditionally, Hindu women are totally excluded from access to property and inheritance. Few years back a legislation related to inheritance at the federal level expressed equal rights of all children irrespective of gender. But in practical it would be conflicting to implement the states' rule at all sphere of the society. Women have no access to property but they are given dowry (valuable items and mostly gold) at the time of marriage which gives them few property rights and protection. The cases of African continent may also be examples. The decaying of community norms in African societies brought in individualistic practices that have various contrasting effect on women. In Senegal, women have gained a recognition for right to inheritance and individualistic property, which is far from its execution as a automatic process and remains mostly theoretical (Bop, 1996, as cited in Guérin, 2008). So if the woman gets control over money at any stages of her life it may get a little change but not much against the wind. MFIs are the first of its kind to lend to women in Bangladesh, a clear institutionalization of informal financing by breaking all the social boundaries pioneered by Grameen Bank. Irrespective of its objectives, mode and deliberation, the success history of MFIs are based on women's participation in borrowing and repayment characteristics being it 96%, the ever highest repayment compared to any lending. Agier and Szafarz (2013a) claims that repayment behaviour of women is more reliable than men. At the same time the gender biased lending brought attention of development workers along with

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<sup>19</sup> In order to stay out of the sight of men or strangers, women in most Muslim societies cover their bodies so as to cover their skin and conceal their form by wearing clothes. Somewhere it is so rigid that the cloths cover every part of the bodies including fingers and eyes. The practice also prevails in Hindu societies in India but not so rigidly and systematically as Muslims do.

academicians who subsequently claim that Microfinance empowers women though controversy exists. The concept of empowerment is a complex one in the social process. Microfinance has institutionalized the lending to women through an informal mode and gradually established it as a popular one that has overcome all the social and economic hindrances ever built.

The term empowerment is widely used by academicians, policy makers and development workers and the debate continues. The philosophy of empowerment had not been developed initially in gender context. Brazilian educationist Paulo Freire developed the "Pedagogy of the Oppressed" to empower the poor, the "oppressed". His approach had led to an influential social and educational movement and literacy program to create empowerment (Leder, 2015). Kabeer (1999) defines empowerment as "the process by which those who have been denied the ability to make strategic life choices acquire such an ability". It indicates the process of change from disempowerment to empowerment by developing some ones' ability to make first order decisions which brings desired outcomes.

Krishna (2003), has also defined empowerment as "the process of increasing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes. Central to this process are actions that both build individual and collective assets and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets." There exist so many concepts and definitions of women empowerment. Not only the academicians but also development organizations and feminist groups defines women empowerment according to practice. Our main theme is related to microfinance and automatically the scope includes poor women and the discussion continues around her microfinance borrowing, dealings and its impact in empowering her. Whatever it might be, measuring women's empowerment is a little bit tricky problem faced by theorists. Empowerment is not simply a multifaceted concept. It is extremely a sensitive issue related to social and cultural context within which surroundings it is measured (Garikipati, 2010). Though it is difficult to measure the exact impact of microfinance on different dimensions e.g. impact on decision making and on self-confidence, researchers claim that MFIs indeed have a positive effect on each of these different dimensions of women's empowerment (Kulkarni, 2011).

The women empowerment has even different meanings and dimensions that cannot be conceptualized by fairly looking into her economic involvement. It is rather better to under her reality from her own perspective, that how does she feel and whether she wants to be empowered beyond the limit of her own feelings and cultural

bondage. The European State-of-Art in women empowerment has its own complex meaning may be conflicting while applied in societies that is culturally and socially different from the inner philosophy. The state policy of intervening, protecting, welfare policy, social security and finally citizen's right are highly influential. It is more vital to be specific that where and in which field or in which circumstances women are empowered. From most of the literatures, so far it can be derived, it is learnt that the women empowerment within family atmosphere has been focused undermining all other responsibilities of societies and states. Therefore, the discussion and analysis remain incomplete. Participation in microfinance activities has specific implications in empowering women, but it does not appear automatically. Studies on Intra-household decision making have commonly been investigated. Its impact on women's household decision-making is not evenly happening and not effective across all areas of decisions (Kabeer, 2005). Hashemi, *et al.*,(1996). claimed that duration of MFI membership has significant and positive impact in making major decision making in the family including deciding large and small purchases in Bangladesh. Holvoet (2005), in a careful research in Tamil Nadu, India, found that taking group loan rather than individual loan increased the likelihood of women's decision-making and bargaining relative to male decision-making which was particularly regarding loan use, money management, time and task allocation and decisions related to cottage industry.

Women empowerment in Bangladesh through microfinance is highly appreciated. Kabeer (1998), argued that just bringing financial resources to the households rewards women an agency along with a sense of the power they feel within themselves. The contribution to household assisted reducing abuse to women and strengthened relationship with husbands. Hashemi *et al.*,(1996) in line with Kabeer (1998), claimed the same findings regarding Bangladesh, moreover, since long women showed a substantial amount of empowerment in their capacity to articulate their needs and in their receptivity to new ideas including emergence of women's groups as a dynamic, articulate constituency and so on because of substantial development in the social sector of Bangladesh.

Based on a research in Sri Lanka, Aladuwaka and Momsen (2013), claim that women empowered by microfinance through providing them with bargaining power in decision making within family and also helps to achieve several other gains. This on the other hand depends on socioeconomic and cultural background. Kato and Kratzer (2013) and Armendáriz and Roome (2008) claim almost the same. Few more evaluations expressed that microcredit assists women in improving their earning capabilities, help develop greater confidence and ability to overcome cultural



asymmetries (Hashemi et al., 1996; Pitt and Khandker, 1998; Kabeer, 2001). This overall women empowerment in microfinance context has been strongly opposed by Karim (2008), she found that although women are the loan receiver in 95% of cases, there is normally her husband or other male behind the scenes as the end user of the funds. Karim also accused Professor Mohammad Yunus, the MFI founder, of hiding this truth. She also explained that that researchers and NGO officials censor this truth from public for several reasons. One of the important reasons is to satisfy the western donors', who on the other hand expect to see the women participation in economic activities. The popularity of microfinance in the global community in the mid-1970s was due to the engagement of women in economic activities occurred through micro-lending in Bangladesh Armendáriz and Roome (2008). There are also evaluations those are in line with that of Karim(2008). This camp finds that loans disbursed to women are controlled by their husbands but dependence on their husbands for repayments sometimes creates extreme situations and finally brings in domestic conflict and violence (Goetz and Gupta, 1996; Leach and Sitaram, 2002). Furthermore, researchers claim that the responsibility and accountability for repaying the microfinance loans are shouldered by woman but the benefits of loans accrued to men and other family members, which causes increased levels of stress and dependency (Kabeer 1998; Goetz and Gupta 1996; Rahman 1999; Todd, 1996). Garikipati (2010), in a research on India found that lending to women benefits their households, not necessarily the women concerned and the reason behind this paradox is not well conceptualized. It is also argued that the way in which the women's loans are used is found critical to make a decision of empowerment.

However, the bargaining over women empowerment is an unending process that cannot be concluded so precisely because of the heterogeneous lenses of evaluation. But it is evident that the microfinance has finally made a way of formalizing lending to women, who otherwise had been out of the policy hemisphere of all institutional finance and recognition. Gradually the recognition has brought in exercising few unconventional power and dominance within and outside family boundaries of the women concerned. Both the financing and empowering are increasingly becoming evident by defying all sort of resistance in the society.

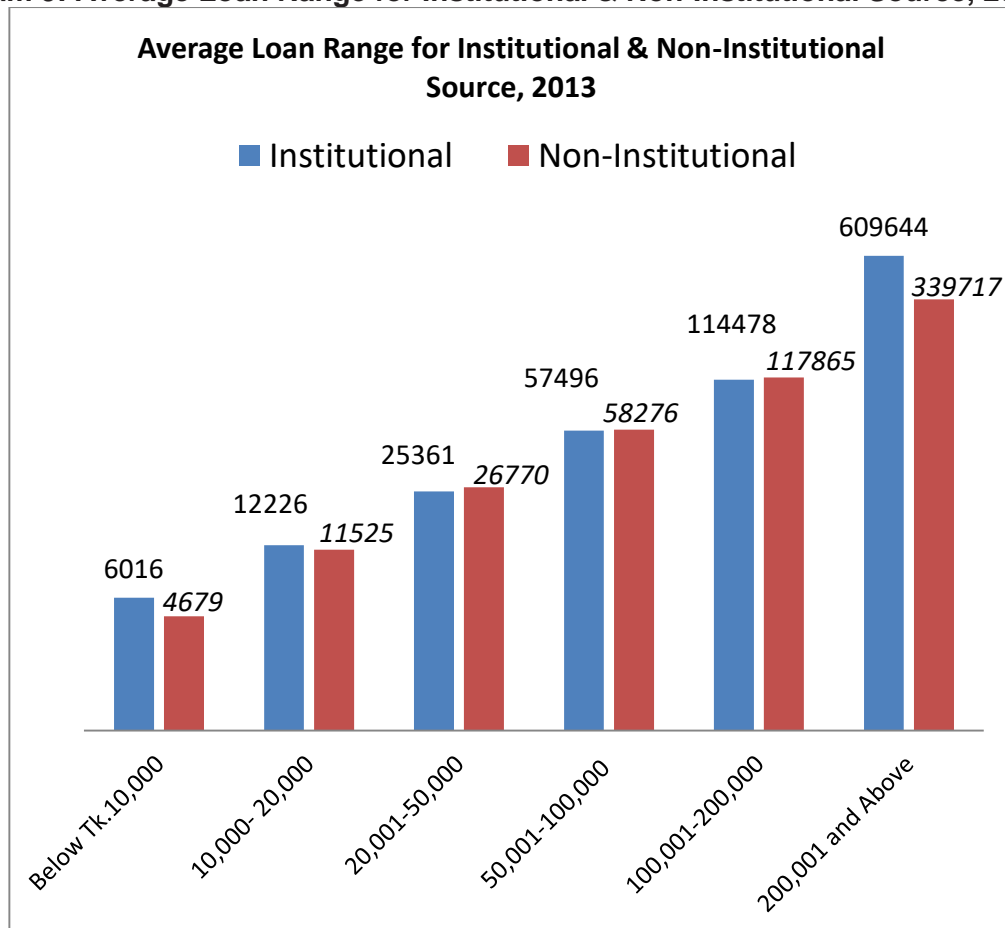
## **5.10. Rural Credit and Savings Atmosphere:**

### **5.10.1. Rural Credit:**

Rural loans are broadly divided into two parts: the Institutional and the non-institutional. Non-institutional loans are basically informal. A vast majority of informal

financial lending is undiscovered due to its nature of lending and statistically this is far from recording. Primarily, it can be summarized that two types of informal lending exist. One is non-commercial being a social responsibility as an act of social bondage and the other is purely commercial based on business principle. Most of informal lending follow a social relationship and it occurs among family, friends and other relatives. In such cases the lending is interest free, for small amount of money and for shorter duration. In all most all the cases, collateral security is not asked but for few cases when the amount seems to be big and repayment uncertainty may arise, valuable goods like gold and landed properties are kept as collateral security. The rural credit survey revealed that security was not strong requirement for non-institutional loan. More than 84.1% loan was disbursed without any collateral requirement 84.1% non-institutional loan was disbursed without any security (BBS, 2014).

**Diagram 9: Average Loan Range for Institutional & Non-Institutional Source, 2013**



But informal commercial lending is mostly controlled by moneylenders who impose high interest rates and play the role of last resorts of its kind. According to Rural Credit Survey 1987, the rural credit market was highly dominated by professional moneylenders, landowners, friends, relatives and other sources (BBS, 1989) being it mainly (71.6%). By this time a substantial change occurred both in credit source and

amount. Moreover, the emergence of new institutions and few changes in financial rules and regulations shaped the market into a new financial landscape. It is claimed that the all aspects Rural Credit Survey-2014 is not comparable with that of 1987 because there are significant changes in survey methodology and definition used. However, in 2013 about 1.5 million number of non-institutional loans have been disbursed. The purpose and the range of loan varied. The institutional loans differ greatly from non-institutional loan regarding disbursed numbers but the average amounts usually are comparable within various ranges. The Diagram No. 9 shows a comparative picture of the average loan amount of various ranges disbursed from these two sources in 2013.

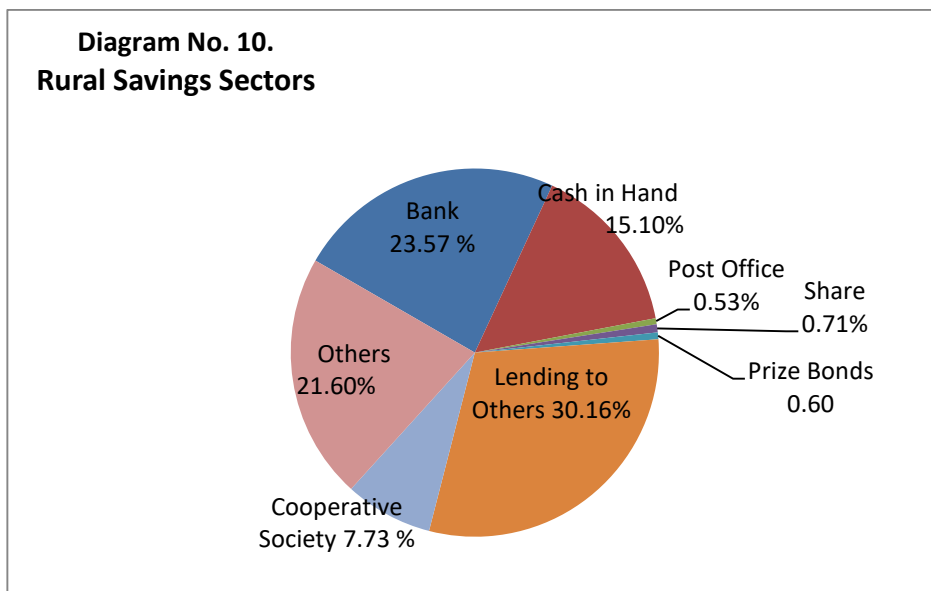
But the total disbursed loans and the number of loans for these slabs/ ranges vary sharply in each range by almost a contrasting figure. In 2013 nearly 302.69 billion BDT of institutional loan was disbursed to 118,120,910 persons whereas the amount was only 63.10 billion BDT for non-institutional loan disbursed to 1,478,457 persons (BBS, 2014).

On the other hand, in recent years, gradually institutional loans are becoming influential power in rural credit market. Bank loans are not expanding much like MFI loans but the regulatory bindings has pressurized commercial banks to disburse more rural credit. More recently, commercial banks are increasing agricultural lending. As per Policy Guideline of Central Bank regarding agricultural loan, the commercial banks follow the Grameen Bank group forming methodology at least partially, to create alternative of collateral by forming solidarity group who shoulders the guarantee of each other of their group members. As per central bank guideline, all banks are instructed to disburse agricultural and rural credit at least up to 2.5% of total loans and advances disbursed till 31<sup>st</sup> March of the preceding year. Comparatively the offer of commercial banks in regard to amount and interest rate are much favourable to the poor farmers. In the 2015-16 fiscal year almost 2.6 million small and marginal farmers have got around Tk. 120.93 billion as agricultural and rural loan from banking sector (BB, 2017).

#### **5.10.2. Savings in Rural areas:**

(Halim et al., 2016) scrutinized the savings GDP ratio for Bangladesh from the period of 1971 to 2015, getting data from World Development Indicator, World Bank. During the first few years, savings was vulnerable and the state was heavily aid dependent from other nations as it was just after the liberation war of 1971 and during that period rigorous nationalization of industries, banks, insurances and public

enterprises. Consequently savings behaved unsteadily but it became moderate/steady at the second half of the first decade while denationalization, privatization and new industrial policy have come into effect. Savings rate had a steady growth since the mid 1980s and got strength since the early 1990s though it was stagnated from 2002 to 2006. From 2007 it has been fluctuated for a few years and has grown up again from 2011. From 2011 to 2014 though there is an increasing trend in savings pattern in 2015, again it decreased. Osmani and Sen (2011) explained that overall savings rate in rural Bangladesh has increased from a merely a 14 percent to 22 percent during last decade (data processed up to 2010) and sketched the rise of savings by the top quintile from 32 percent to 54 percent though there had been a fall in the rate of consumption.



Savings in rural areas are not so much strong. The source of income and the people's profession play critical role in monetary savings and at the same time the number of financial institutions in the area has specific influence on deposit mobilization. In case of MFIs, the savings types include the only common option of getting deposit is the member's mandatory savings usually taken monthly or weekly etc. One of the basic conditions of lending to MFI-Members was to deposit regular weekly/monthly deposit for a specific time period without any withdrawal options. In many MFIs this restriction has been relaxed. The prohibition of collecting public deposit by MFIs hampers savings mobilization even after having their presence in rural areas. But in recent years few MFIs are getting public deposit like time deposit, special savings and so on, under specific conditions because the regulatory authorities are relaxing few conditions. A set of conditions are declared for MFIs to be qualified for collecting public deposit (ANNEXTURE).

According to classical approach, the propensity of savings is positively related to wealth and therefore income inequality ensures that income flows usually towards the agents who would tend to save more (Galor 2009, as cited in Halim et al., 2016). The consumption and savings behavior of a country is dependent on the distributive pattern of income. As per BBS (2014), it is found that the borrowing households had some sort of savings and debts. Estimation says that nearly 7 million households hold savings with an average of TK. 9,745.00 It is more interesting that the type of savings vary, though lending to others takes the biggest percentile being it 30.20%. Furthermore, it is revealed that households take loans even after having their own fund. Most of the savings are non-profitable or idle. The diagram No. 10 shows a savings structure of rural areas.

### **5.10.3. Credit Determinants:**

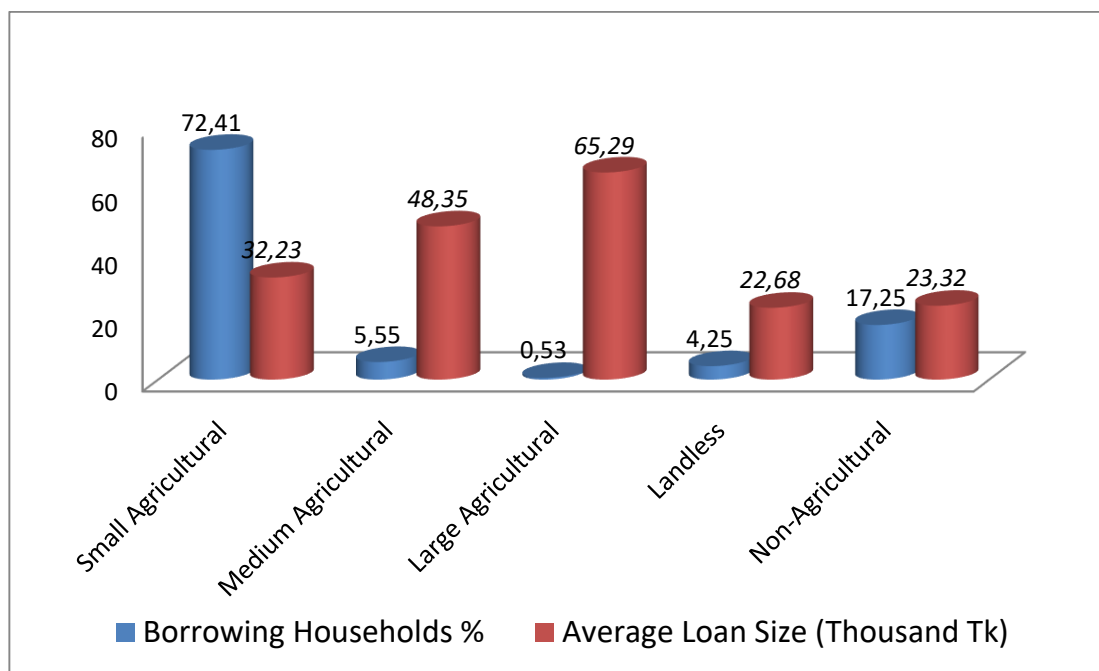
Where does the credit go? Who is qualified for borrowing? And what is the scenario in rural context is a major concern of the theme. The range of credit and the qualification for borrowing are extremely dependent on cultural and social system. The informal lending is mostly set by unorganized procedures but the formal lending is well organized and follows specific procedures set by institutions. The main impediment of flow of institutional finance into small and medium enterprises is detected as the bank's preoccupation with collateral based lending. Traditionally banks use fixed asset ownership and most particularly land ownership is judged as credit-worthiness which places SMEs at relative disadvantage (Alam and Ullah, 2006). But MFIs have targeted a new set of determinants for lending to poor specially, the collateral free lending. At the primary stage, most of the MFIs including Grameen Bank and BRAC used land ownership as the salient targeting criteria for lending. Any household having more than half acre (50 decimal) of land is in principle is not eligible for borrowing. A widely used indicator of extreme poverty is the ownership of lands less than 10 decimals for a household. As extreme poverty is closely linked to landlessness, there are also few ultra-poor lending programmes but not fit for microcredit programme (Berg et al., 2013). Thus MFIs primarily target the moderate poor by excluding the extreme poor or so-called ultrapoor (Rabbani et al., 2006; Rahman, 2003). On the other hand the extreme poor may also suffer from self exclusion as they lack the required human capital and the substantial time commitment required for group meetings etc. They also suffer from low-return activities for survival (Matin et al., 2008; Rabbani et al., 2006). Few basic things are influential for financial inclusion and also differ in important ways by individual characteristics. The position of every individual is important. Gender,

education level, age, and rural or urban residence etc. are indicators of reaching to finance.

Demirgüç-Kunt and Klapper (2012) searches that whether account penetration depend simply on an economy's income level or whether there are other determining factors. And they argued that large amounts of credit in a financial system (commercial and consumer) do not necessarily always correspond to broad use of financial services. Therefore, credit can be concentrated among the largest firms and wealthiest persons. They finally suggests that financial depth and financial inclusion are distinct dimensions of financial development. It can also be summarized that financial systems can become deep without delivering access for all. In case of rural Bangladesh, MFIs are highly successful in reaching rural poor who cultivate less than 0.5 acre of land. In earlier days of Grameen Bank, since its inception as a bank of the poor, was deemed as 'Beggars' Bank. Rural elite and middle-class avoided microcredit from this MFI because borrowing from MFIs was conditioned to had to sit with poor women in the same groups that was considered a loss of dignity in the society. Fortunately Grameen Bank and other MFIs have become a permanent features of rural financial life at their need at a cost and interest rates far lower than moneylenders' rates (Alamgir,2009). But a question was raised that has the microfinance movement fared any better in delivering the rural poor from the "clutches" of moneylenders? The microfinance proponents note that while the government credit programs were captured by the large landholders. MFIs made a target for land-poor who usually are avoided by the formal banks and creates the market for moneylenders. Consequently MFIs create an effective competition for the moneylenders wherein the MFI clients get collateral free loan relatively at lower interest rate than conventional moneylenders (Berg et al., 2013). Bargaining over finance and development and whether specific intervention can be a tool of reducing poverty is still a matter to be discovered. Cross-country literature on finance and development tells that credit market imperfections may constrain development but researchers finally remain largely in the dark on the issue whether and how to intervene. New question arises- where the credit goes? It is criticised that "elite capture" has rendered the volume of state-led credit programmes in developing nations, which made the state intervention mostly ineffective. Therefore, the call for microfinance has gradually replaced these banks in rural areas. The formal subsidized funds gradually have concentrated in few powerful hands instead of the targeted poor and pushed the poor out of the market by undermining rural development (Burgess and Pande, 2003). However, borrowing patterns of farmers during 2000-2002 revealed a picture of credit supplies. Farmers having 5.0–7.5 acres of land, considered as medium

size farmers, had the worst access to credit. Only 12% of them had access to formal credit though 40% had no access to any credit. For Large farmers having land more than 7.5 acres, these figures are 29.79% and 17.20% respectively (Ferrari, 2008). This figure over time has changed because the growing MFIs outreach and effort. On the other hand the rural credit survey-2014, revealed that 12,006,602 rural households borrowed in 2013. The share of borrowing according to economic status of the borrowing households is sketched as follows in the diagram no. 11.

**Diagram 11: Share of Borrowing Households & Average Loan size**



But still a large volume of enterprises and farms remain on the border of the lending programmes of banks and MFIs. Ferrari (2008), sketched Micro, small, and medium-size enterprises (MSMEs) and marginal, small, and medium-size farmers (MSMFs)—together as the “missing middle”. Usually these segments bear the heterogeneous characteristics and both the MFI’s and Bank’s credit programmes do not cater to these. While the MFIs avoid the land poor and also the wealthy clients, the banks do not cater to informal enterprises those lack required collateral and/or documentation to satisfy the credit requirement and consequently these missing middles fall in the “Air-Pocket” to attract any formal institution as a lender. But things have been changing gradually as the MFIs are gradually developing credit programmes for new niche market to commercialize the lending. Even formal banks are catering to few of these through various programmes, though these development programmes have not yet been entered into main stream financing programmes. Rural programmes

of commercial banks normally spread to nearer villages of the branch locations keeping the remote settings as before.

#### **5.10.4. Lending and Distance:**

The Geography of banking power is strongly related to all the banking service and exclusively the lending decision and its monitoring after loan disbursement. Both the functional and operational distances are influential in delivering services. The concept of operational distance refers to the ease of access to banking services availed by savers and borrowers established locally and it depends on the physical distance which separates the customers from its physical banking office. But the notion of functional distance reflects the economic distance being the decisional centre physically and culturally separate from its operational point. Economic literature mainly emphasizes on the problems of operational distance between banks and customers instead of giving much attention to functional distance between centre and periphery of banking structure, though all these distances control the overall banking system strategically. The effect of functional distance may be keen in riskier and less developed region. Based on Italian banking data of 2000-2002 the research found that functional proximity has asymmetric effects on bank performance though it depends on the degree of regional development where the bank is located (Alessandrini et al., 2005).

During 1990s researchers began to examine that how banks and other financial institutions might mitigate information problems specially for commercial lending to SME. Subsequently these steps focused mostly on “lending technologies” rather than on individual elements of loan contract, wherein the lending technology refers to combination of few elements namely screening mechanisms, contract elements and monitoring strategies (**Berger and Udell, 2006**). And very specifically most of the literature has focused a specific lending technology “relationship lending”. As the relationship lending is developed over a concept that is highly related to proximity between borrower and lender and can be attributed through a relation between them because relationship lending is based significantly on “soft and qualitative information” gathered through contact over time with the SME/borrower and often with its owner and members of the locality”. Empirical evidence shows that the strength of the bank-borrower relationship is positively related to credit availability including other credit terms such as loan interest etc. (Berger and Udell, 1995; Carbó-Valverde et al., 2005; Elsas and Krahnen, 1998; Harhoff and Körting 1998; Petersen and Rajan, 1994, 1995). These researches have also a general concluding finding that smaller domestic banks may have comparative advantage in delivering relationship



lending (Berger, 2004; Berger and Udell, 2002; Berger et al., 2005; Carter et al., 2004; Hannan, 1991; Stein, 2002). It is also found that smaller banks can invest more time and efforts to these SME segment and mostly can reach them. To gather information the loan officers need to follow long-term and repeated contractual arrangements which will remain important in environments with weak infrastructures and informal economic activity. While the creditworthiness of the borrower is hard to evaluate or quite unmeasurable, there may be no alternative to relationship lending (Honohan and Beck, 2007) and distant banks are at disadvantageous position in relationship lending. Functional distance between banks and local communities may have impact on the performance of banks in many ways. The governance and agency problems increase with the distance between the parent bank and the agent. Most importantly, the proximity of the "bank thinking head" within an area increases the social embeddedness. It influences the feelings and sensitivity of the local need of the economy that increases the ability for evaluating and satisfying the demand of local firms. However, credit markets integration lead to concentration of the decisional and strategic centres of banking industries, though it would broaden the transaction and reduce transaction and operation cost to gain in competitive market by penalizing on functional distance pushing the decisional power away from the border. As the local communities are different in economic, social and cultural characteristics from the regions where the bank is headquartered, it potentially imposes negative impact on local development, specially for less developed regions. A basic problem of increased functional distance faced by local officers is extremely disappointing for job satisfaction. The preliminary screening of loan applications following well-defined bank rules is done by the local officers but the final decision of granting loan is released by the officers of the strategic office (Alessandrini et al., 2005). Evidences show that when the lending decision is taken at the higher layers of the organizational structure, less emphasis is given on soft information that penalizes small opaque firms and get less loan approval (Liberti and Mian, 2009). A research on French SMEs, revealed that both operational and functional distances have significant role in explaining financing constraints of local firms (Kooli, 2012). Petersen and Rajan (2002) explained that the severity of the asymmetric informational problem intensifies with increase of distance. In this concept, the local lenders have the easy access in collecting soft information on small firms over time compared to remote lender as a competitor. Therefore, this informational advantage can be used strategically in creating a threat of adverse selection for more distant competitors. And the U.S. data revealed that remote credit applicants are more likely to be declined, although this effect is strongly decreasing over time. But Agarwal and Hauswald(2010), argued that credit availability decrease with the bank-borrower

distance but on the other hand it increase with the borrower-competitor distance. Bofondi and Gobbi (2004), added that while a functionally distant bank enter into a new market, it experiences a significantly higher loan default rate than incumbent banks though this may be different if the bank expands through branches. Regarding operational proximity of French banking system, (Kooli, 2012) found that although technological progress has enabled expanding the ability of banks in producing hard information and therefore substitute transactions-based lending for relationship lending, *banking should be more operationally nearer to local firms to better suit their funding needs, moreover, the research finally sketched a particular suggestion that persistent importance of relationship lending for small opaque borrowers should be in practice.*

Several studies argued that organizational complexity of banks influences the reduction of credit availability of small businesses (Berger et al., 1999), though those are highly bank finance dependent (Berger and Udell, 1998; Cole et al., 1996), wherein large banks allocate fewer resources to small business lending compared to small banks as they face a real competitive disadvantage in evaluating the creditworthiness of small business entities (De Young et al., 1999; Keeton, 1995; Peek and Rosengren, 1996; Sapienza, 2002). But Jayaratne and Wolken (1999) contradict over the issue and argued that SME rationing probability is not significantly related to the presence of small banks in the market, but may be due cost disadvantageous status of small banks in lending to small borrowers.

For SMEs bank credit has been the major source of external financing but it can not be ensured relentlessly through passage of time. The lending practice and research literature over time has identified few critical problems faced by financial methodology to retain continuous financing as a regular practice. The problems related to information asymmetry, adverse selection and moral hazards have raised tension in in credit market. Jensen and Meckling (1976), Myers and Majluf (1984) and Stiglitz and Weiss (1981), have argument on these issues and particularly the issues are acute for SMEs.

In last few years geographical expansion of banking structures and instruments have increased due to deregulation and development in information and communication technologies, which has brought banking services operationally close to its clientele. But the consolidation of the banking sector has brought in geographical concentration of banking decisional centres with it's strategic functions. By increasing functional distance, in fact the "technology application" has expanded the impersonal

methods to conduct businesses, such as internet-banking, home-banking or phone-banking etc. (Kooli, 2012).

#### **5.10.5 Changing Geography of Rural Financial Landscape:**

Changing geography of rural financial landscape across the world is a common feature as the use of technology in financial industries has changed the overall picture by bringing the essential financial services to the mass people. Bangladesh is not exception to it. Though there are several dimensions to be focused yet few services are on the forefront and categorically these are Credit Card, ATM Booth, Mobile banking etc. With the growth of information technology, the common popular dialogue in the financial geography stands as “The End of Geography” in Banking. The main hypothesis behind the assumption is that the geographical location no longer matters in banking services.

In fact, that has not been established but the distance as a geographic element and the overall socioeconomic characteristics based on geography matters in economic development and banking. Though a lot of services can easily be delivered at distant points, yet the lending-borrowing, the most required item of development cannot be delivered avoiding geography instantly.

However, in recent years it is argued that money is shaped by the development and adoption of information and communication technologies (ICTs) and its regulations wherein, the effect behind the “end of geography” is a continuous process. A very revolution in the financial sector occurred in developing financial inclusion in developing economies, specially by delivering few urgent services, which on the other hand would not happened without the help of technology. The way towards branchless banking is gradually becoming popular in these scenario. In Bangladesh the growth of credit cards are limited enough being captured within the urban areas and specifically in few big cities having wide consumer market. These facilities are also featured with few limitations e.g. single payment schedule, failing which the rate of interest is extremely high than conventional loan product and therefore, it can be usually availed by persons having continuous flow of income like salaried people etc. But mobile banking having almost no geographic boundaries has established a branchless banking in Bangladesh in reaching the door of almost all sort of people across the country.

Bangladesh Bank (Central bank) has introduced mobile financial services (MFS) in 2011 for the development of financial inclusion to capture unbanked people. In the last two decades, financial service industries of Bangladesh have achieved phenomenal growth regarding branch outreach, viability, profitability, innovation and

competitiveness. In spite of that a vast majority of population, specially in rural areas still remains outside the basic banking services. The basic reason behind such a volume of unbanked population are lack of direct access to financial institutions, absence of a need based suitable products, high operational costs and finally the risks due to asymmetric information that hampers smooth lending practices. Bangladesh Bank has given approval to 28 banks to operate mobile banking service, of which till January, 2016 only 18 banks have entered into operation. The success of mobile banking has become possible due to extreme growth of mobile network and mobile use all over the country and probably has reached the highest growth of its kind within last two decades. The mobile banking services include Inward Remittance, Cash In transaction, Cash Out Transaction Peer-to-Peer (P2P) transaction, Salary Disbursement, Utility Bill Payment etc. The number of mobile banking clients has reached at 33.18 million at the end of January, 2016, which is 31.31 % higher than the previous year. For the same period, total number of transactions were 3.96 million being it 44.80% higher than the previous year and the amount of daily transaction stood at BDT 5581.8 million (Sultana and Khan, 2016).



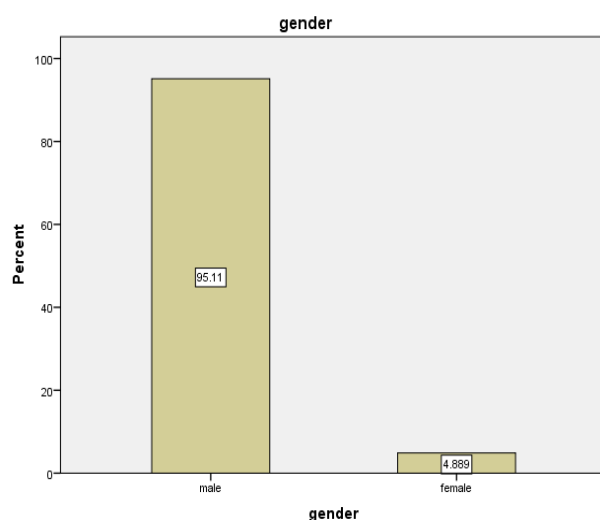
## 6. Data Analysis & Interpretation:

The primary data has been collected from field survey based on a bilingual questionnaire, though few other data both from bank and MFIs in the locality has been gathered. Keeping the assumptions in mind the information has been gathered, analyzed and interpreted. As the questionnaire targets the borrowers, the information gathered have specific characteristics to be interpreted through defined procedures. The field questionnaire has been attached as Annexure – 00.

**The following description is based on the Questionnaire Survey though few secondary data, that had not been within the reach of said Questionnaire has assisted the procedures.**

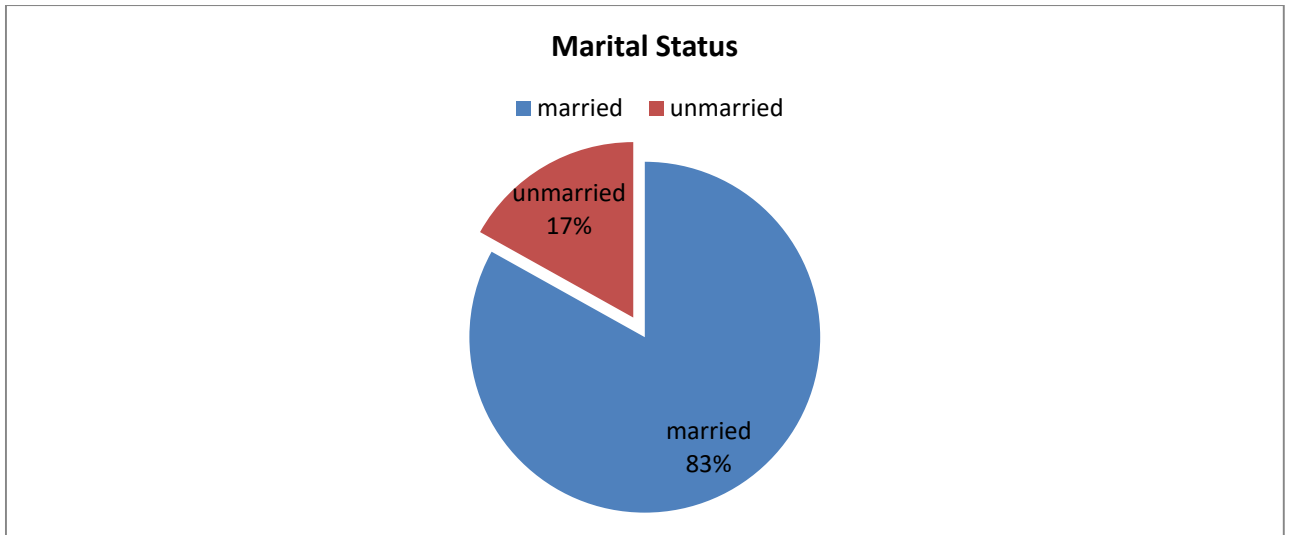
### 6.1. The Demography of the Respondents:

Out of 225 respondents only 11 are women and 214 are men. It is also important to realize that women are generally not much more involved with the tertiary activities those are on the forefront specially in the rural areas. It has already been recognized that MFI clients are mostly women, but the reality is, that all those borrowings are small and based on various objectives of lenders which usually are focused. In terms of enterprise financing and bringing those on the forefront males are advancing sharply. MFIs are also gradually shifting their objectives and focus as per demand of time. Due to choosing field in rural markets, the concentric point of all exchange activities specially in tiny geographic boundaries, the respondents are mostly males.



Here 95% respondent are males

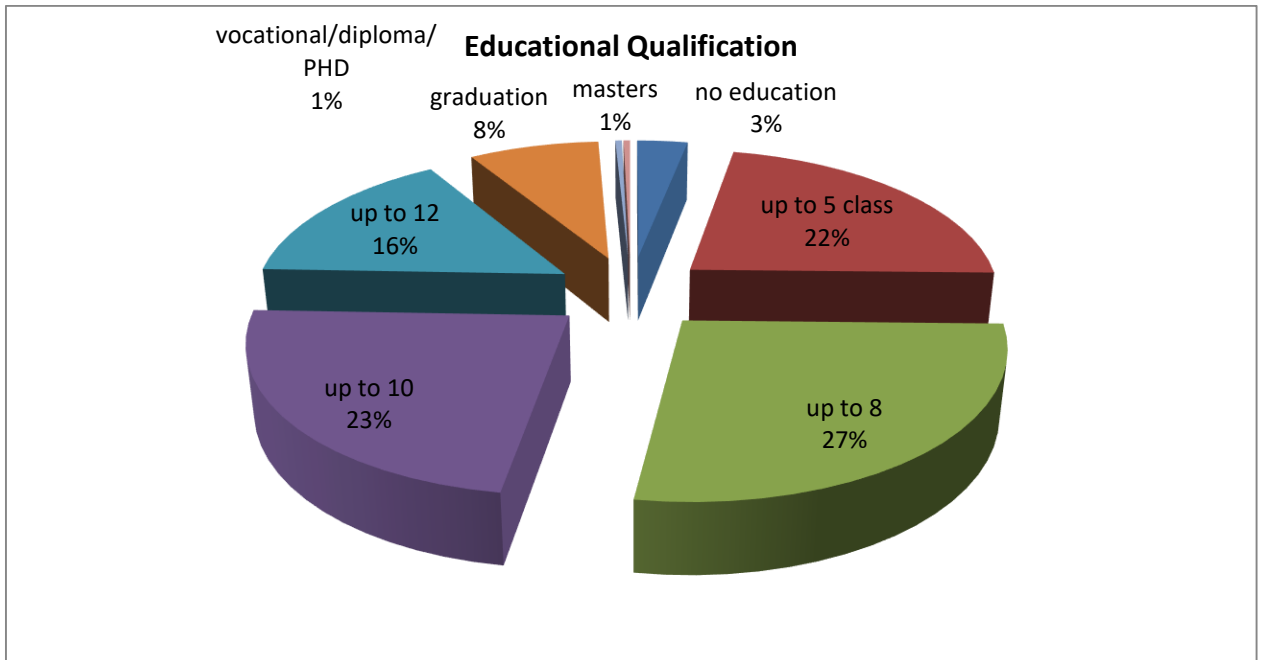
And out of total respondents in the field, it is observed that 187 are married that holds 83.1% and 38 are unmarried. This is also a matter of age structure of the total respondents, though a huge number of capable people are unemployed in Bangladesh, married people, specifically the married males are compelled to take initiatives for their livelihoods primarily as a need and also as a social pressure.



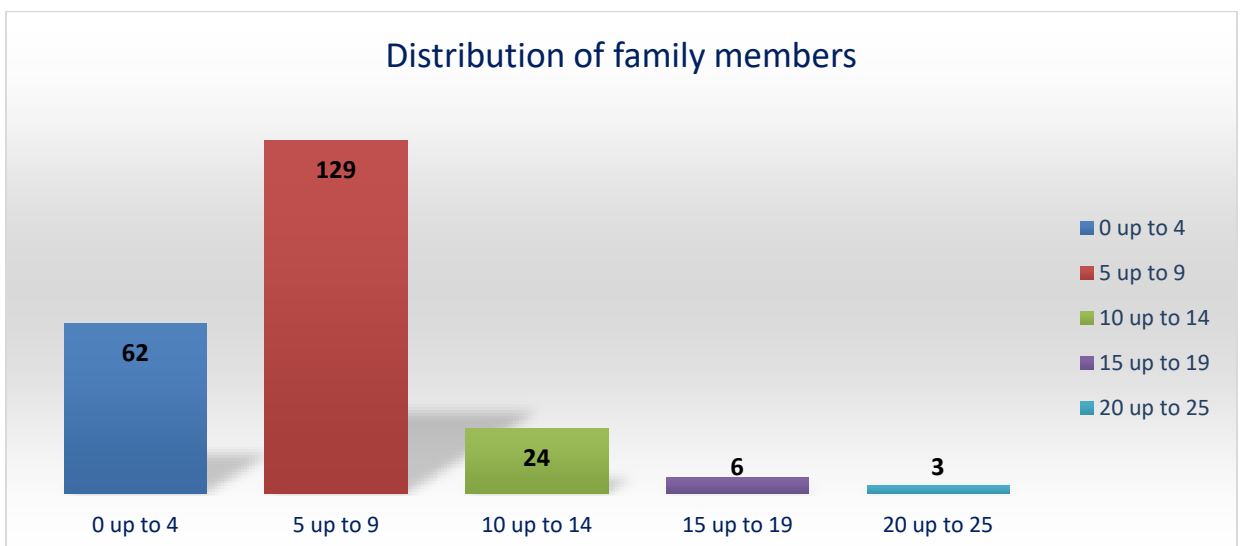
Out of total, 83% are married of which all the females being it 11 persons are married and 38 males are unmarried.

Age Structure				
No	Minimum	Maximum	Mean	Std. Deviation
225	17	66	36.87	11.357

Age structure of the respondents is important to have a clear picture. The minimum age is 17 years and the maximum is 66 years though the average age stands at below 37 years. However, the educational qualification of the respondents is below the usual standard level as shown in Annexure .... More than 22% have qualification of schooling up to class five and 27% have up to class eight though the schooling of 10 years and 12 years are at 23% and 15% respectively. Only 8% have qualification at graduate level though 3% have no education.



The family structure of them are different having a range of family members from 1-4, to 20-25. Though the nuclear families are gradually preferred due to modernization and consumerism nature of life yet in rural areas a huge number of families keep themselves jointly. To avoid complexities and scarcities of wealth and undivided landed properties inherited through ancestors and mostly the family headman remaining alive, it almost keeps the bondage to tie the families as joint family. Out of 225 families 50% being it 113 are joint families.

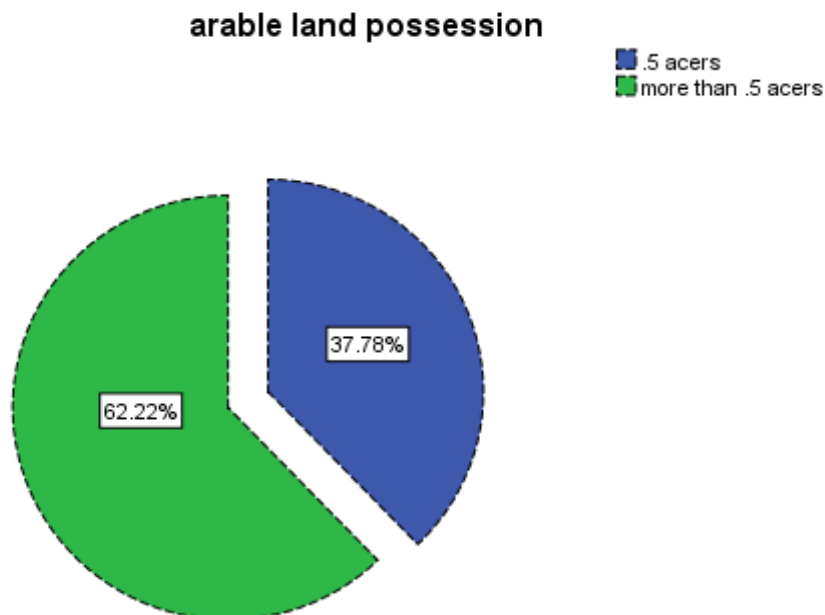


There are 129 families those have 5 to 9 members, though the biggest family members range from 20 to 25. Only three families are too big and 113 are joint families.



Type of Family			
	Frequency	Percent	Cumulative Percent
joint	113	50.2	50.2
nuclear	111	49.3	99.6
others	1	.4	100.0
<b>Total</b>	225	100.0	

## 6.2. The Economy and the Business:



As per annexure there are 113 respondents who live in joint families and 36 of them possess arable land less than 0.5 acres, though 77 of them have more than 0.5 acres of arable land. In the same line 47 nuclear family members possess less than 0.5 acres of land against 64 nuclear families who have more than 0.5 acres of land, therefore, total 140 families possess arable land more than .5 acres. On the other hand livelihood pattern of the respondents plays the vital role in shaping the loan portfolio because the nature of source of income itself creates demand for loan. The generalized concept is that while the business enterprises create demand for running capital and growth need, the service holders need consumer loan and housing loan. But in case of microfinance clients the demand is really a matter to meet a lot of

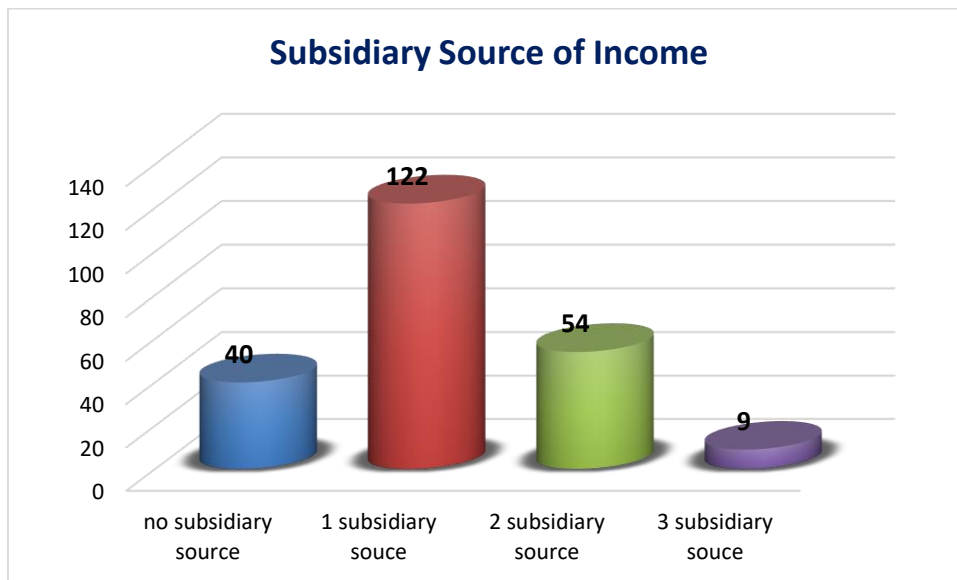
lacking. In fact business development cost and family expenditure including all other usages are not separate.

**Diagram No. ....**

<i>Primary Source of Income</i>			
	Frequency	Percent	Cumulative Percent
<i>business</i>	215	95.6	95.6
<i>agriculture</i>	8	3.6	99.1
<i>service</i>	1	.4	99.6
<i>fisheries</i>	1	.4	100.0
<b>Total</b>	225	100.0	

Out of 225 number of respondents 215 (95.6%) persons claimed business as their primary source of income and only 8 persons (3.6%) earns from agriculture as a main source of income. Though subsidiary source of income matters.

Diagram No. ...

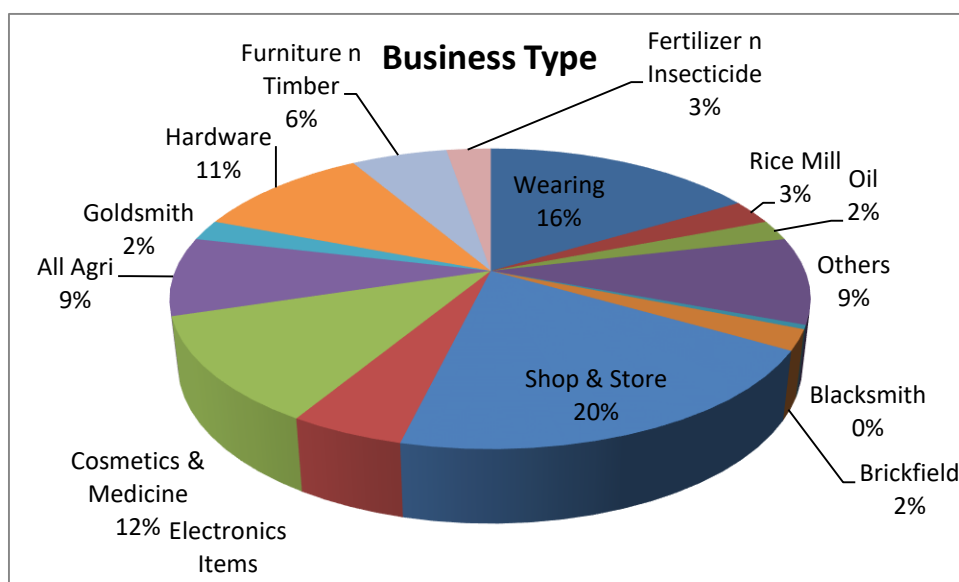


40 respondents have no subsidiary source of income. 122 respondents claimed that they have another subsidiary source of income though 54 have more than two subsidiary sources and 9 persons avail 3 sources. A common ground behind such configuration is their family type and mostly the joint family. When people are living

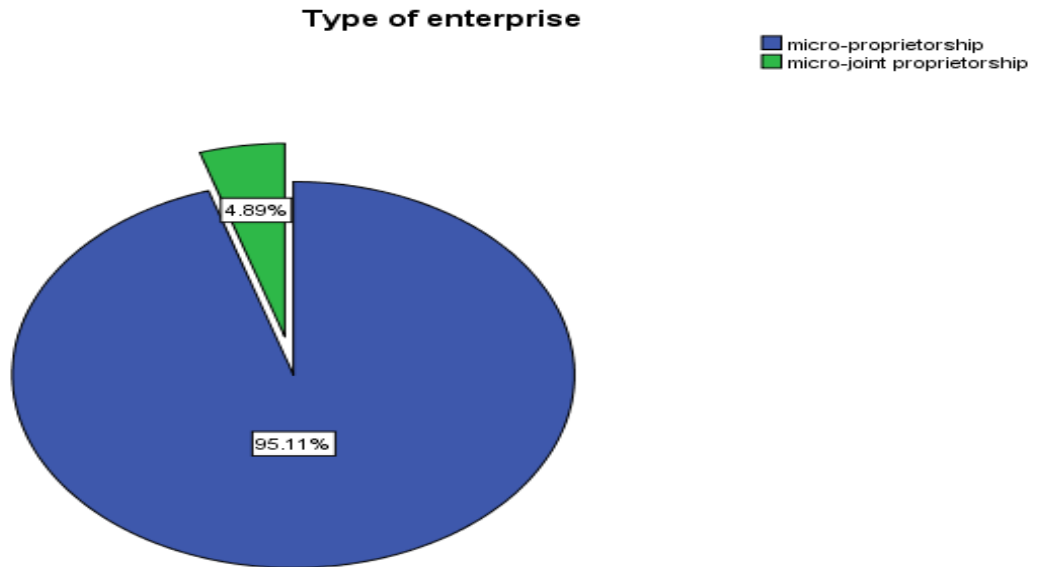
together under a single family head all other members usually contribute to the family if they possess any source to do so.

Peoples in the rural market have various types of shops and service centers. Most of them have a link to other economic activities. As market area is the concentration point of all types of economic activities and people usually gather, so it is the best place to catch the rural economy comparatively easily. The highest share of the respondents are from shop and grocery stores (20%) though only 9% are from agriculture and agri-product related. Rural people are mostly dependent on these market areas for their regular and common needs of commodity and services. These businesses are the heart of the rural life wherein MFIs are gradually turning to invest as a most secured sector.

Diagram No. ...

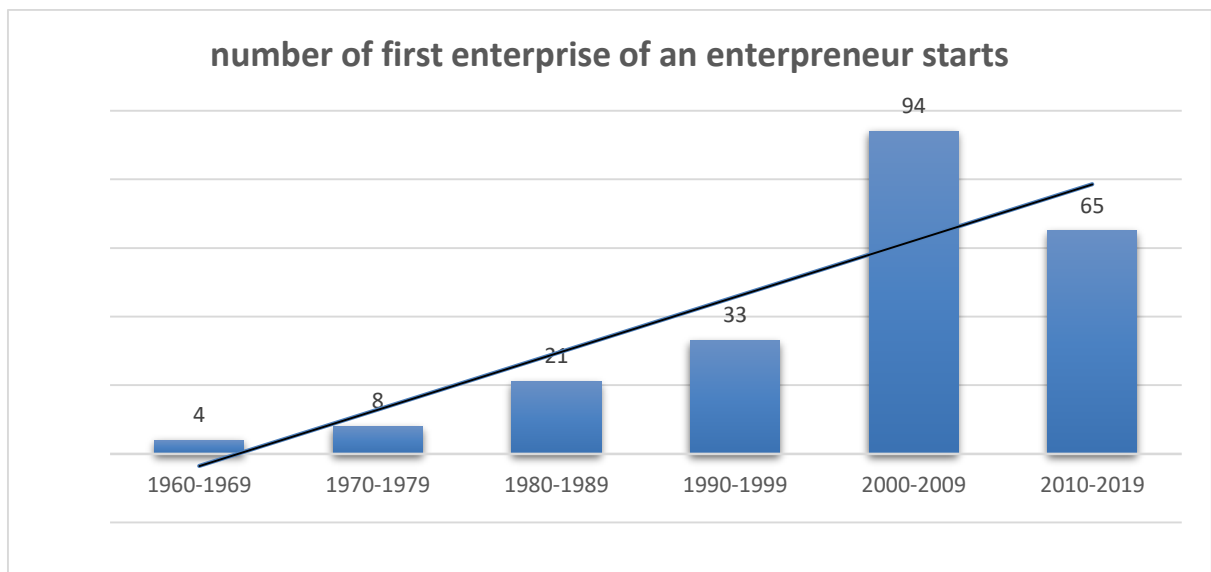


Almost all these are microenterprises covering 95.11%. Few large enterprises are in fact different from the regular nature of the rural habit e.g. Brick Fields, big Rice Mill etc. those need huge amount of investment and are the product supplier of big cities. In such cases the local MFIs and banks are comparatively weak to feed the growing financial demand including running capitals. These enterprises are geographically concentrated to specific areas wherefrom the market is easy reachable.



It is observed (as in Annexure) that out of total 225 respondent-enterprises only 4 are old and had been established in between 1960 to 1969. Most of these have been established after 1990 of which 94 numbers of enterprises have been established in between 2000 to 2009 through 65 have been established after 2010 and therefore, a trend of establishing new and first enterprise of an entrepreneur between 2010 to 2019 is sketched as under.

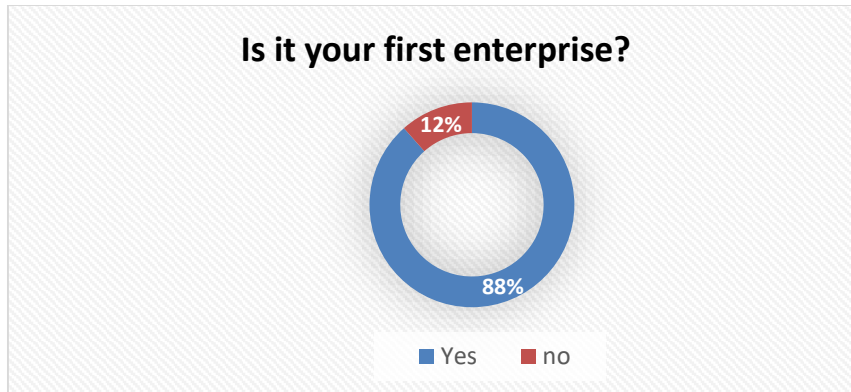
Diagram No...



Establishing an Enterprise successfully is important. Sometimes entrepreneurs close all the activities of their Enterprises and wind up the business due

to loss or other problems. And sometimes they wind up the old one and start a new one though due to growth and development few entrepreneurs establish another one. Our 88% respondents claimed their establishment as the first one.

Diagram no....



According to cross-tabulation (as in Annexure) between “is it the first enterprise” versus “have you any other enterprise”, it is observed that 199 persons claim that **the present one is their first establishment** though 33 of them have another one. 26 persons do not claim it as their first establishment out of which 12 respondents presently have another enterprise. As almost all of the enterprises are microenterprises, these are mostly i.e. 97.8% handled/managed by them though only 4 claim that they manage jointly with family member.

<i>Who manages / look after the Enterprise</i>			
	Frequency	Percent	Cumulative Percent
<i>self</i>	220	97.8	97.8
<i>family member</i>	4	1.8	99.6
<i>others</i>	1	.4	100.0
<i>Total</i>	225	100.0	

The overall above picture have substantial impact on the nature of borrowing and its degree of yearly turnover which ultimately bring the sustainability of loan cycle.

### 6.3. Credit and Savings Profile & Geographic Distance:

The credit profile is the basic concern. How many people/enterprise have taken loan? From how many sources and what type of sources borrowers usually take loan? How much money have been borrowed from a single source and how much have been borrowed in total from all sources? Where the lending office is situated? Is it far from

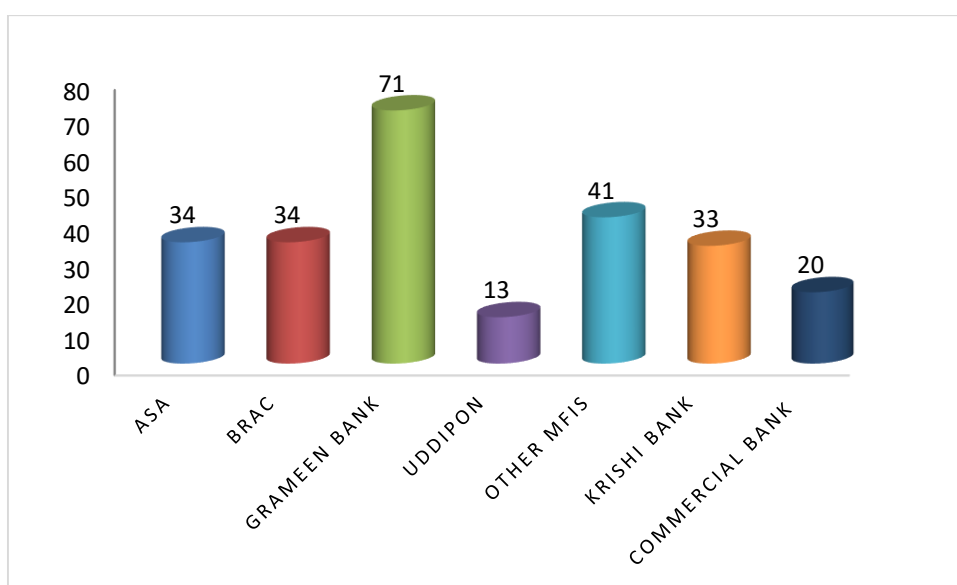
the borrower? Does distance effect on degree of lending ? What is the overall profile? And so on. Thus few answers have been sought to reach the goal. And all these are depicted on the data of time frame between 2013-2014.

Our observation in Diagram No.... ensures that out of total 225 respondents 153 (68%) have taken loan either from a single source or from multiple sources.

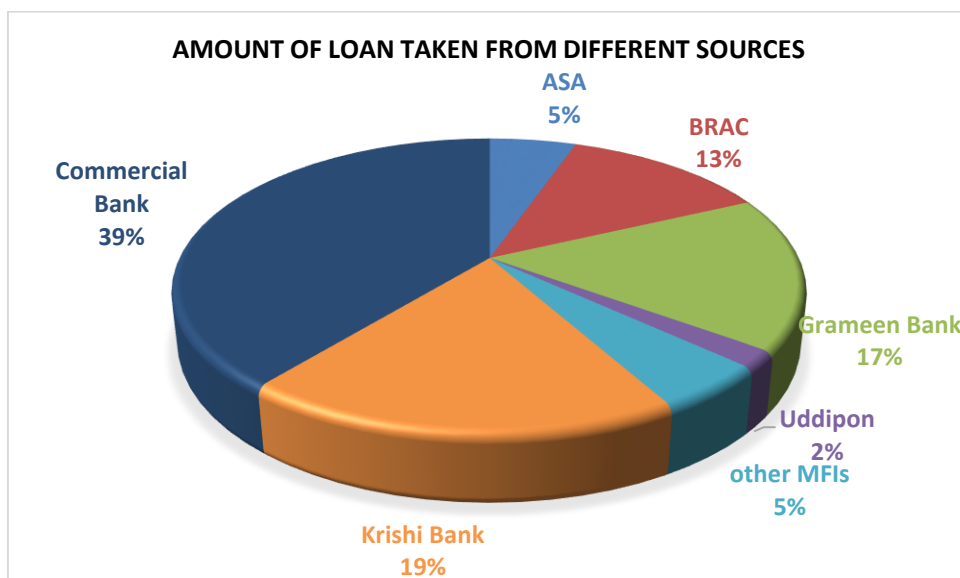
Diagram No.

<i>Had any loan last year</i>			
	Frequency	Percent	Cumulative Percent
yes	153	68	68
no	72	32	100.0
<i>Total</i>	225	100.0	

It is also observed ( Diagram no....) that most of the borrowing are from few big MFIs like Grameen Bank, ASA, BRAC etc. It is also notice worthy that these MFIs have highest geographic coverage and client outreach in Bangladesh. Regarding loan sources 71 numbers of loans have been taken from Grameen Bank, being it the single highest source. Loan from ASA, BRAC, Uddipon and other MFIs have been taken by 34, 34, 13 and 41 incidents respectively, though 33 numbers are from Krishi Bank ( Agricultural Bank) and 30 from all other commercial banks of the areas. The presence of Krishi Bank as a Government agent in the rural area has been playing vital role also. Commercial banks jointly have a different type of role but in fields they are absent physically but borrowers approached from distant places from 20 Banks.



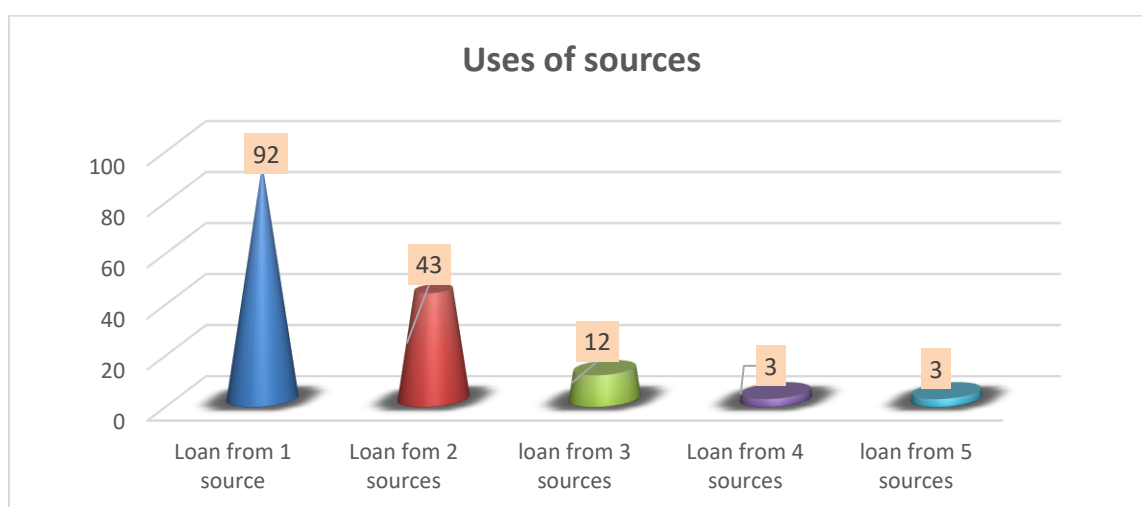
As per Diagram No.. & No.. we conclude that though the total number of loans taken from Grameen Bank is highest yet the total amount of loan taken from the same institute is not highest or not noticeable being it Tk. 56,40,000. It is observed that 71 number (count) of loans cover only 17 % of the total fields. In the same manner ASA, BRAC and Uddipon cover 5%, 13% and 2% respectively. However Krishi Bank covers amazingly 19% by 33 number of loans amounting Tk. 63,460,000. Surprisingly, commercial banks cover 39% by only 20 numbers of loan having an amount of Tk. 1,29,65,000. It can also be depicted all the MFI borrowing sources are within an highest average distance of 2.7 Km. though maximum of these are within 1 km, but commercial banking sources are away from rural areas being it's average distance of 10.6 km. It is mention worthy that the user of commercial sources are also different from the rest of the rural borrowers. These are comparatively big entities with big volume of transactions. These are the enterprises having links beyond the rural geographic boundary and mostly supply their products across cities. These usually consist of rice mill, husking mill, brick fields etc. and by nature are not dependent on rural market. The average loan taken from commercial banks is Tk. 6,480,250 which around 9 times than the MFI average being it Tk. 72,000.



Borrowing Sources & Borrowing Feature				
Borrowing Source	Total loan (Tk)	No. Of Loan	Average Loan (Tk)	Average Distance (km)
ASA	1767000	34	51970.59	1.1
BRAC	4218000	34	124058.82	1.2
Grameen Bank	5640000	71	79436.62	1
Uddipon	608000	13	46769.23	1
Other MFIs	1663000	41	40560.98	2.7
<b>Sub Total: ALL MFIs</b>	<b>13896000</b>	<b>193</b>	<b>72000.00</b>	
Krishi Bank	6346000	33	192303.03	<b>1</b>
Commercial Bank	12965000	20	648250.00	10.6
<b>Total</b>	<b>33207000</b>	<b>246</b>	<b>134987.80</b>	

As the people need money for a queer variety of reasons including business and as they have to meet few criterions those are more or less different from each lenders and while the loan ceilings according to Product design are different or people want different amounts, the borrowing amounts differs from institute to institute in case of multiple borrowing. In fact sometimes people meet their needs from multiple sources. As per Diagram No., in our fields, 92 persons borrowed from single source and 43 persons have loans from two sources. Though 12 persons borrowed from three sources only 3 person have used 4 sources and another 3 persons borrowed from 5 sources.

Diagram No..





Out of 153 persons 10 have taken huge amount of loan. They in fact do not represent the rural scenario and all most all of them have got support from remote commercial banks. These figures ultimately impose unrealistic image on the data set and therefore, the various statistical values got unpredictable result. The total amount of loan is measured as Tk. 33207000 of which only big ten have Tk. 15810000. These big 10 enterprises consist 6.53% of the total borrowers but takes 47.65% of total borrowing. Therefore, during getting a picture of loans we have omitted them from calculation in below table No....

	N	Minimum	Maximum	Mean	Mode	Total loans
<i>Amount of loan (Tk)</i>	143	5,000	715,000	121,447.5524	50,000	17,367,000

However, these 10 big borrowings express the nature of geographic and institutional limitations in the rural areas for getting loans. They borrowed from several sources and also from remote sources crossing the boundaries of rural geography. In most cases MFIs could not afford their demand because of the nature of the borrower's appetite and growth. It is clear that when the business grows or any high demand for money is created in rural context, the appetite really suffer to hunt outside of the rural boundaries.

purpose of loan			
	Frequency	Relative frequency	Cumulative Percent
<b>only business</b>	127	81.4	81.4
<b>to meet family needs</b>	2	1.3	82.7
<b>pay other loan</b>	2	1.3	84.0
<b>buying tools</b>	3	1.9	85.9
<b>house repairing/construction</b>	3	1.9	87.8
<b>buying land</b>	3	1.9	89.7
<b>others</b>	13	10.3	100.0
<b>Total</b>	153	100.0	

In fact borrowers nurture a queer variety of motives behind every lending, corporate culture., therefore lenders want to be well informed about the motives, whether the borrowed money is properly used as per asking. Lenders are also anxious about the fund diversion and multiple use of their loans. Among the borrowers 81% took loan only for business purpose though others claimed that they borrowed to meet other need like paying other loan, family needs, buying tools etc. There are several other reasons that consists 10.3% of total borrowers.

Interest rate of loan and the expected interest rate are very much important issues both for borrowers and lenders. These items control the demand and supply logic and maintain market elasticity. It significantly influence the source of fund and the operational sustainability. As the market principle controls the mechanism, the duality principles of commercial investment and philanthropic objectives of NGO-MFIs are partly dependent on interest rates. However, the financial literacy of the rural borrowers and their acquaintance with the whole matters plays vital role in shaping the credit market. Out of total respondents only 80 persons have responded about their expectation of rate of interest. Everything is not rational. The minimum borrowing rate of interest is 1% and maximum is 15%, which is too low from the reality. As per rules and regulations of MRA the highest lending rate is set at 27% which was very high for few MFI. Earlier, this was so exorbitant and some charged nearly 40% yearly through various calculative approaches which was not clear to the ignorant borrowers.

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>
<i>expected interest rate (loan)</i>	80	1	15	8.17

On the other hand borrowers in the market are almost ignorant about the comparative structure of the interests. Most of the borrowers only are aware of his own lender. They do not know who offers which lending rates. Out of total 153 respondents only 19 persons claimed that they have knowledge about the lending rate of other lenders and 133 ( 87.7%) persons are totally ignorant about the interest rates of other lenders. Absolutely this weak financial literacy hampers competition in the rural credit market.

Do you know the Lending Interest rate of other Lenders in the Market ?			
	Frequency	Percent	Cumulative

			Percent
<b>yes</b>	19	12.3	12.3
<b>no</b>	133	87.7	100.0
<b>Total</b>	153	100.0	

However, it is observed that after taking loan, few have enhanced their loan limit due to business growth and overall demand for money. We found that 47.4% person enhanced their loan limit though 52.6% person didn't do so.

Did you enhance your loan limit before					N	Minimum	Maximum	Mean
	Frequency	Percent	Cumulative Percent					
<b>yes</b>	74	47.4	47.4	after how many months	<b>75</b>	<b>1</b>	<b>24</b>	<b>12.20</b>
<b>no</b>	82	52.6	100.0					
<b>Total</b>	** 156	100.0						

\*\*Few people answered about their previous loan taking instances that is why total frequency got changed.

Out of total 74 persons 66 persons told that they had enhanced their loan limit after 12 months of taking the loan though only one person claimed to enhance it after 1 month and all enhancement happened within 24 months. A major issue of enhancement is relied on the development of loan ceiling. As the demand of loan and payment characteristics of previous borrowing differs substantially to satisfy the lenders, it obviously have strong influence on the enhancement of loan ceiling.

Rate (%) of Enhancement up-to how many times of Primary Loan					
	N	Minimum	Maximum	Mean	Mode
<b>Enchantment percent</b>	74	10	1900	320.07	100

Out of 153 borrowers 74 persons responded that they have enhanced their loan ceiling and the minimum enhancement occurred at 10% of previous/ primary loan amount though it is 1900% at the maximum level having the mean at 320.07%. Firstly who approaches or what the overall lending environment at initial stage before inception, is important in influencing the credit market. As per Annexure 131 borrowers

asked for loan to lenders at their own initiative. On the hand 28 persons claimed that the lenders or their agents approached to them at their own initiative. Secondly who borrowed is important. As the rural enterprises or the rural families and their economic activities are predominantly informal, so against which entity a loan is sanctioned is highly important. It is the decision of the lenders that how the repayment will be ensured while the legal entity of the borrowers are mostly informal and the legal enforcement mechanism is weak in informal rural economy and rural credit market. A 118 (75.6%) borrowers claimed that they took loan against their own though 11 borrowers took loan against their family members excluding spouses and 27 persons took loan against their spouses.

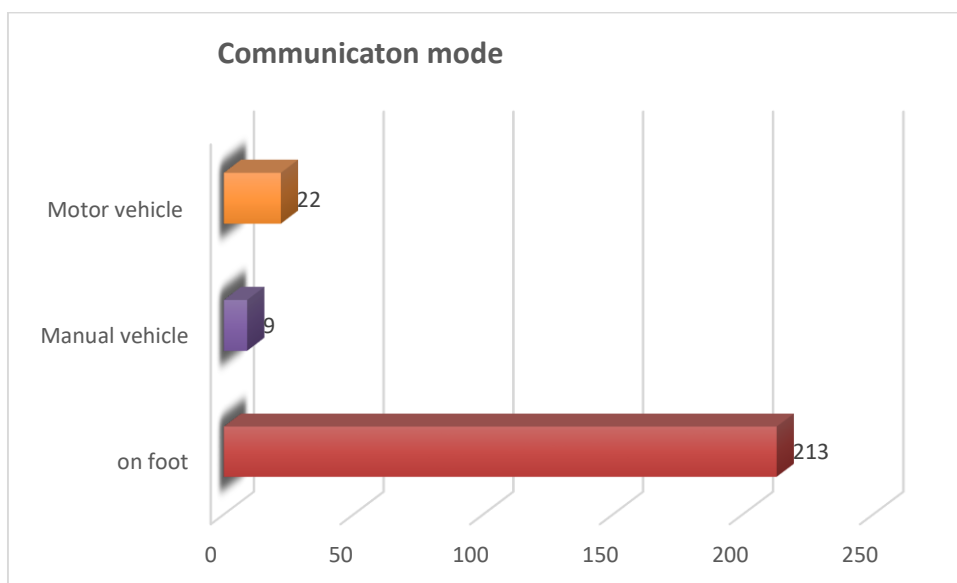
who borrowed the money			
	Frequency	Percent	Cumulative Percent
<b>self</b>	118	75.6	75.6
<b>family member</b>	11	7.1	82.7
<b>husband/wife</b>	27	17.3	100.0
<b>Total</b>	156	100.0	

Under the geographic context and also from organizational point of view the place of submitting the loan applications and paying installments are very much important for getting loan and maintaining the whole loan cycle. At the same time it is arguable that while the loan granting office and the installment payment offices are both within the range of few minutes of walking distance then usually people do not rely on others specially for installment paying because handing over cash to other out of the office premises are not comfortable and sometimes not felt trust worthy. So installment collection services may always not work good in an informal social texture. And as per Annexure...( **where did you apply for loan**) 147 persons out of out of 156 respondents claimed that they applied for loan by going to Lending Office /agent Office though in case of 8 persons the lenders agents/ officers collected the loan application and for only 1 case the applicant submitted the application during group meeting. It is also remarkable that where the lending office is. The physical distance between borrower and lender creates a primary environment of loan seeking, loan information gathering and so on. The minimum distance between borrower and lender is 1 Km. whereas it is 46 Km. at the maximum having a mean distance of 2.81 Km.

Distance between Lender & Borrower (Km)					
	N	Minimum	Maximum	Mean	Std. Deviation

<b>distance from business office (Km)</b>	156	1	46	2.81	5.458
<b>Distance between Lender &amp; Borrower (minutes by walking)</b>					
<b>time by walking (minutes)</b>	156	5	45	7.85	7.593

The minimum walking distance stands within 5 minutes and maximum 45 minutes, while the borrowers usually walk. But it is observed that 87.29% (213 cases) borrowers usually reach the lending office on foot. Only 9 borrower use manual vehicle though 22 of the borrowers depends on motor vehicles.



Charging minimum initial fees for loan is a common item in commercial lending in the banking arena. It is observed that due to lack of knowledge or weak financial literacy people are not well aware of it. While the initial fees are charged to the account most of the people think that it is usual and they take it easily, because the charges are mostly tolerable and when people want money they care less to such events. Out of 102 respondents (as the rest are not aware of it) 43 persons claimed that there is an initial charge and 59 claimed they did not pay any initial fees. It is mention worthy that as the loan programmes and objectives are different, the various internal procedures are not similar.

Initial fees for loan			
	Frequency	Percent	Cumulative Percent
<b>yes</b>	43	42.2	42.2
<b>no</b>	59	57.8	100.0

<b>Total</b>	102	100.0	
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Due to weak financial literacy and lack of knowledge about the overall sector people may not be well informed. After getting loan, paying instalment properly is the main concern and to avoid delinquency regular contact between lender and borrower and the convenient time for paying is of higher priority. Usually in most of the commercial instalment loan paying schedule is set monthly or quarterly for larger industrial loans with moratorium period. But MFIs have been following a weekly instalment paying schedule to avoid delinquency and for keeping the borrowers in touch. This helps get payment regularly as the loan ceiling is low and the borrower's economic turnover and financial profile is comparatively weak compared to conventional commercial clients. 108 (69%) borrowers' instalment paying are scheduled weekly and 41 have to pay monthly though only 7 borrowers enjoys other options.

<b>Instalment paying schedule</b>			
	Frequency	Percent	Cumulative Percent
<i>weekly</i>	108	69.2	69.2
<i>monthly</i>	41	26.3	95.5
<i>others</i>	7	4.5	100.0
<b>Total</b>	156	100.0	

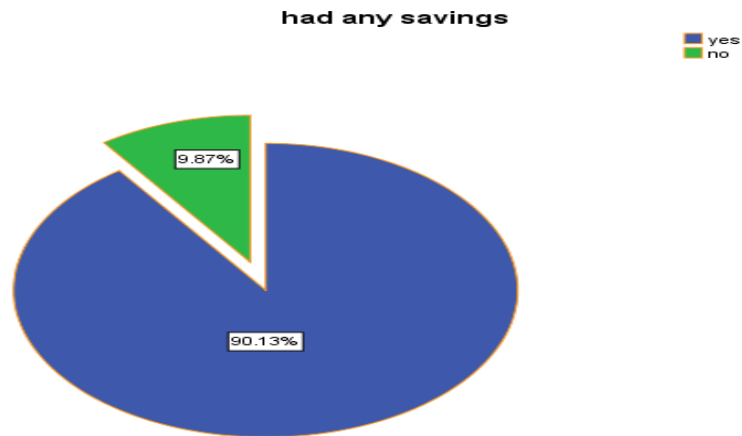
However,

<b>Instalment paying schedule (multiple loans)</b>				
		for multiple loans		Total
		fortnightly	monthly	
<i>instalment paying schedule</i>	weekly	2	23	25
<b>Total</b>		2	23	25

Out of total loans, 25 have multiple paying schedules against their multiple type of borrowings, of which 23 are monthly instalments and 2 are fortnightly. But the concern about instalment paying schedule is whether it is convenient and favourable. Most of the borrowers (77.6%) feel that their instalment paying schedules are favourable to them and only 22.4% claimed it to be non-convenient.

<b>Is the schedule favorable</b>			
	Frequency	Percent	Cumulative Percent
yes	121	77.6	77.6

<i>no</i>	35	22.4	100.0
<b>Total</b>	156	100.0	



Other than Credit, Savings in a bank or MFI has been considered as indicators for explaining the themes. Out of 225 respondents, about 90% have savings and around 65% have savings with MFIs. Compared to loan the number of savings in Banks are 72, which is higher than bank borrowing.

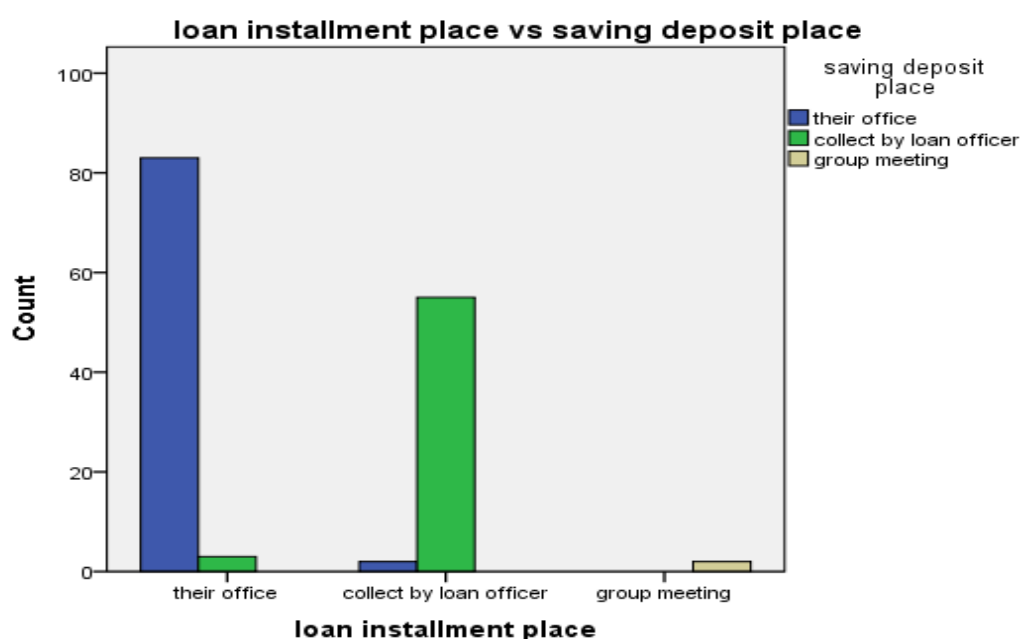
Have savings			Where ?		
	Frequency	Percent	Institute	Frequency	Percent
<b>yes</b>	203	90.22	MFI	131	64.53
<b>no</b>	22	9.78	Bank	72	35.47
<b>Total</b>	225	100.0	Total	203	100.0

have any idea of other bank (savings)			
	Frequency	Percent	Cumulative Percent
<b>yes</b>	17	7.9	7.9
<b>no</b>	199	92.1	100.0
<b>Total</b>	216	100.0	

loan installment paying place			
	Frequency	Percent	Cumulative Percent
<b>at their office</b>	95	61.7	61.7
<b>collect by loan</b>	57	37.0	98.7

<b>officer</b>			
<b>In group meeting</b>	2	1.3	100.0
<b>Total</b>	154	100.0	

Interest on savings given to customer has been playing a vital role in savings mobilization in banking sector specially in bank based financial system. Financial institutes collect savings in a competitive manner and offer better interest on savings. Unfortunately, the weak financial literacy or less competition or finally only one or two or no option to institutional savings in the rural areas make people ignorant of the issue. Among 216 respondents about 92% do not know the rate of interest on savings offered by others.



Loan instalment paying place is important geographic issue as it creates favourable financial service delivery mood. About 62% borrowers responded that they deposit instalment by going to lender's office and 37% claimed that the instalment is collected by the loan officers which is a very good sign.

<i>savings depositing place</i>			
	Frequency	Percent	Cumulative Percent
<i>at their office</i>	140	68.3	68.3
<i>collect by officer</i>	63	30.7	99.0



<i>group meeting</i>	2	1.0	100.0
<b>Total</b>	205	100.0	

MFIs usually provide such services to ensure loan repayment which help reduce delinquency.

Regarding savings it is important that where it is being deposited. about 68% savers deposit their savings by going to the Office though a large number (about 31%) of deposit is collected by the officials to ensure their service and finally collect fund in their favour. MFIs ensure such services and have created a market in the rural areas. Only two persons deposit during group meeting. A 83 persons told that they pay loan instalments and deposit savings by going to respective office but officials collect both loan instalment and savings in 55 cases.

However, there might be deciding factors for choosing an institution to borrow. Distance has been preferred to other causes and 88% borrowers choose their lenders because of the proximity to them though 6% have given preference to issues of “responding as per demand” of the clients. The next deciding factors are “Easy Application” process and loan officer proposed to borrower.

choosing institute of loan			
	Frequency	Percent	Cumulative Percent
<b>close to office</b>	137	88.4	88.4
<b>loan officer proposed</b>	3	1.9	90.3
<b>easy application</b>	5	3.2	93.5
<b>response as my demand</b>	9	5.8	99.4
<b>none of above</b>	1	.6	100.0
<b>Total</b>	155	100.0	

Other than these single causes there are multiple deciding factors for choosing a lender.

choosing lending institute (multiple causes)						
		choosing institute of loan (multiple)				Total
		loan officers proposed	easy application	response as my demand	none of above	
<b>choosing lending institute</b>	close to office	1	49	20	2	72
	loan officers proposed	0	1	0	0	1
	easy application	0	0	3	0	3

<b>Total</b>	1	50	23	2	76
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A 76 persons responded that they have chosen their lending institute for multiple reasons of which 49 persons told that the institute is close to their Office/home/Business point and due to flexible application procedure but 20 persons claimed that promiximity to their office including lenders' response as per demand are the deciding factors. But in case of savings, 93% preferred their institution for savings because the office is close to them. Out of 203 savers only 3 persons have chosen because the officer/agent proposed to them.

choosing institute for saving			
	Frequency	Percent	Cumulative Percent
<b>close to office</b>	189	93.1	93.1
<b>officers proposed</b>	3	1.5	94.6
<b>convenient deposit cycle</b>	1	.5	95.1
<b>response as my demand</b>	1	.5	95.6
<b>none of above</b>	9	4.4	100.0
<b>Total</b>	203	100.0	

Rejection of loan application is a common issue in financial institutions . Out of 218 respondents 40 (18%) respondents were rejected from borrowing and 82% have never been rejected before by any institute. Among them 4 persons were rejected by MFIs.

have you been rejected for loan			
	Frequency	Percent	Cumulative Percent
<b>yes</b>	40	18.3	18.3
<b>no</b>	178	81.7	100.0
<b>Total</b>	218	100.0	
rejected for savings			
	Frequency	Percent	Cumulative Percent
<b>yes</b>	1	.5	.5
<b>no</b>	218	99.5	100.0
<b>Total</b>	219	100.0	

On the other hand it is very much unusual to be rejected by any institution for savings. Out of 219 persons 1 person claimed that he was rejected to open a savings account.

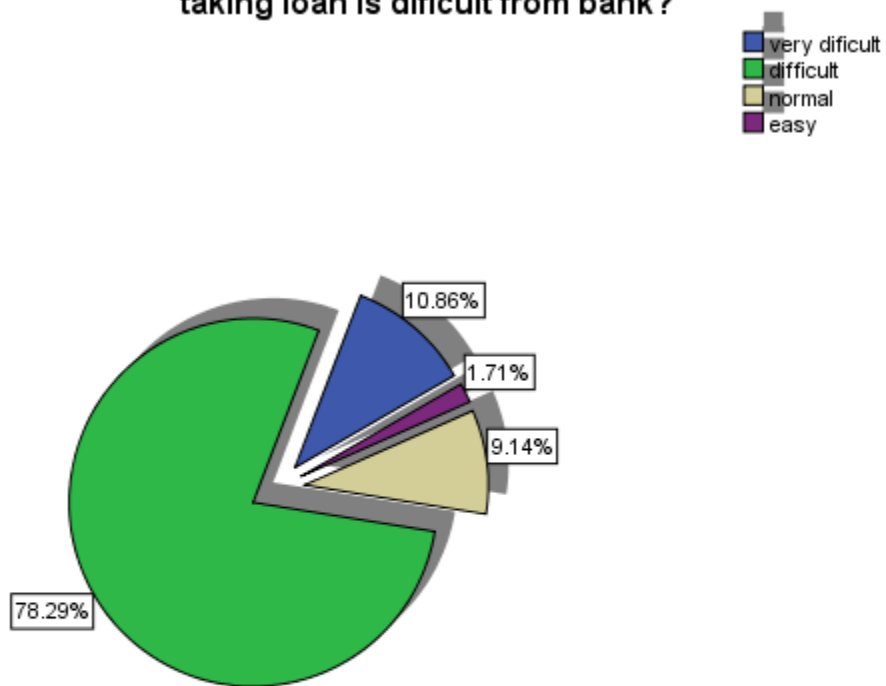
rejected for savings			
	Frequency	Percent	Cumulative Percent
<b>yes</b>	1	.5	.5
<b>no</b>	218	99.5	100.0
<b>Total</b>	219	100.0	

Finally peoples' perception about bank is very much important in taking initiative for getting service from them. How do people evaluate banks as a whole is significant enough in getting proper service? Our observation expresses negative result regarding people's perception and evaluation of banks.

getting loan is difficult from bank?			
	Frequency	Percent	Cumulative Percent
<b>very difficult</b>	19	10.9	10.9
<b>difficult</b>	137	78.3	89.1
<b>normal</b>	16	9.1	98.3
<b>easy</b>	3	1.7	100.0
<b>Total</b>	175	100.0	

Among 175 respondents, 137 claims that it is difficult to get loan from bank sources.

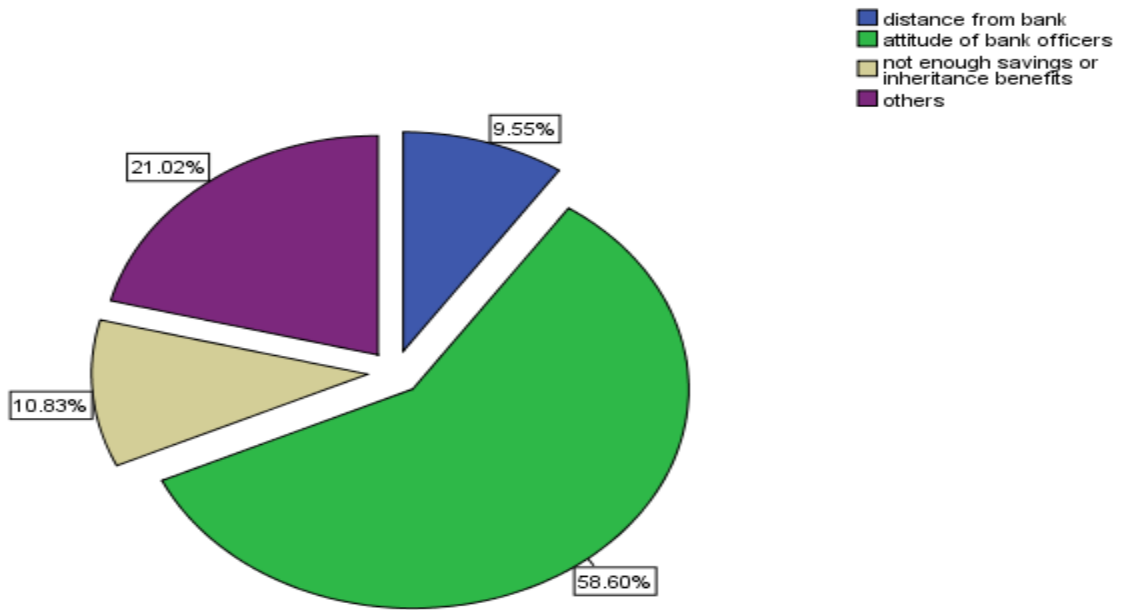
### taking loan is difficult from bank?



if it is difficult the causes are?			
	Frequency	Percent	Cumulative Percent
distance from bank	15	9.6	9.6
attitude of bank officers	92	58.6	68.2
not enough savings or inheritance benefits	17	10.8	79.0
others	33	21.0	100.0
<b>Total</b>	157	100.0	

Distance from bank in getting loan is responsible at 10% level but attitude of bank officer contributes 59% for making the loan getting difficult.

**if it is difficult the causes are?**



Few people also think that there are multiple causes for making the bank loan difficult.

**taking loan is difficult from bank vs if it is difficult the causes are (Cross-tabulation)**

		if it is difficult the causes are?				Total
		distance from bank	attitude of bank officers	not enough savings or inheritance benefits	others	
taking loan is difficult from bank?	Very difficult	3	15	1	0	19
	difficult	12	77	16	32	137
	normal	0	0	0	1	1
Total		15	92	17	33	157

**Correlations**

	<i>Communication mode</i>	<i>Choose this institute as lender</i>	<i>Choose this institute as savings</i>
<i>communication mode</i>	1		
<i>Choose this institute as lender</i>	0.51542773	1	
<i>Choose this institute as savings</i>	0.14842131	0.323011292	1

Communication easiness is moderately correlated with choosing lending institution but it is observed that the increase of loan amount does not effect strongly on distance and people takes large loans from distant lenders.

where did you apply for loan vs loan installment place Cross-tabulation				
where did you apply for loan	loan installment place			Total
	their office	collect by loan officer	group meeting	
going to their office	95	49	1	145
collected by their loan officer	0	8	0	8
in group meeting	0	0	1	1
<b>Total</b>	95	57	2	154

Submitting loan application place and installment paying place are vital enough.

<i>Symmetric Measures (where did you apply for loan vs loan installment place Crosstabulation)</i>					
		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
<i>Interval by Interval</i>	Pearson's R	.373	.082	4.962	.000 <sup>c</sup>
<i>Ordinal by Ordinal</i>	Spearman Correlation	.331	.057	4.326	.000 <sup>c</sup>
<i>N of Valid Cases</i>		154			

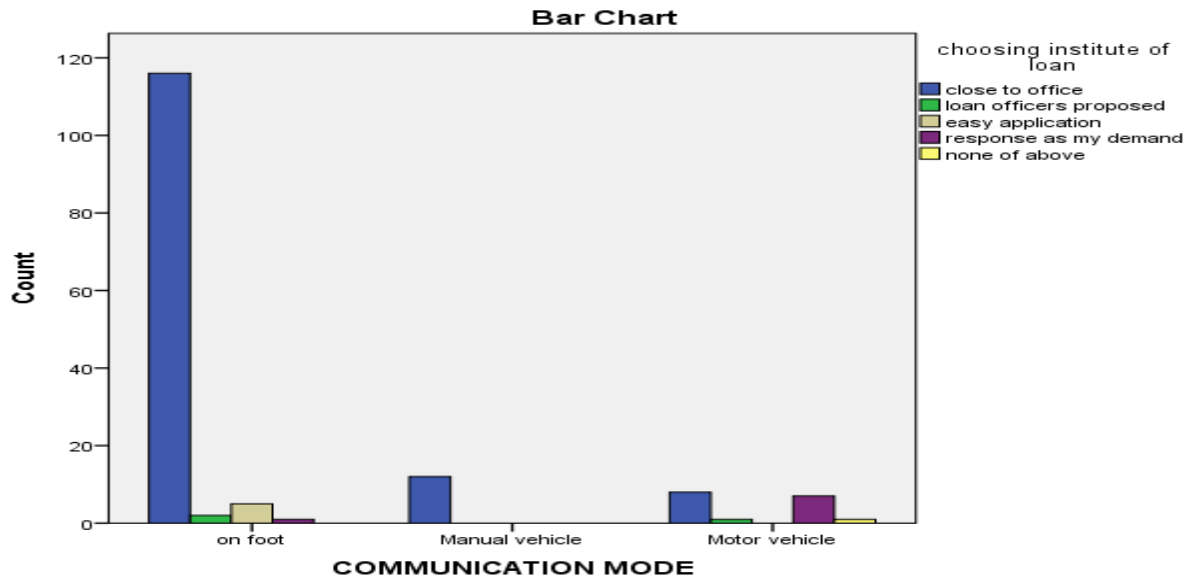
where did you apply for loan vs saving deposit place					
		saving deposit place			Total
		their office	collect by loan officer	group meeting	
<b>where did you apply for loan</b>	going to their office	90	54	1	145
	collected by their loan officer	1	7	0	8
	in group meeting	0	0	1	1
<b>Total</b>		91	61	2	154

Among 154 respondents 145 said that they applied for loan by going to their office, among them savings deposit location by going their office is 90, lending officer/agent comes to collect loan installment is 54.

LOAN SOURCES	LOAN Source and Communication Mode			
	Communication Mode			
	On foot	Manual Vehicle	Motor Vehicle	Total
ASA	28	5	1	34
Brack	31	2	1	34
Grameen Bank	71	0	0	71
Uddipon	13	0	0	13
Other MFIs	36	0	4	41
Krishi Bank	33	0	0	33
Commercial Bank	1	2	16	20
<b>Total</b>	<b>213</b>	<b>9</b>	<b>22</b>	<b>246</b>

Communication mode vs choosing institute for loan							
COMMUNICATION MODE		choosing institute of loan					Total
		close to office	loan officers proposed	easy application	response as my demand	none of above	
		on foot	116	2	5	1	
Manual vehicle	12	0	0	0	0	12	
Motor vehicle	8	1	0	7	1	17	
<b>Total</b>		<b>136</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>1</b>	<b>153</b>

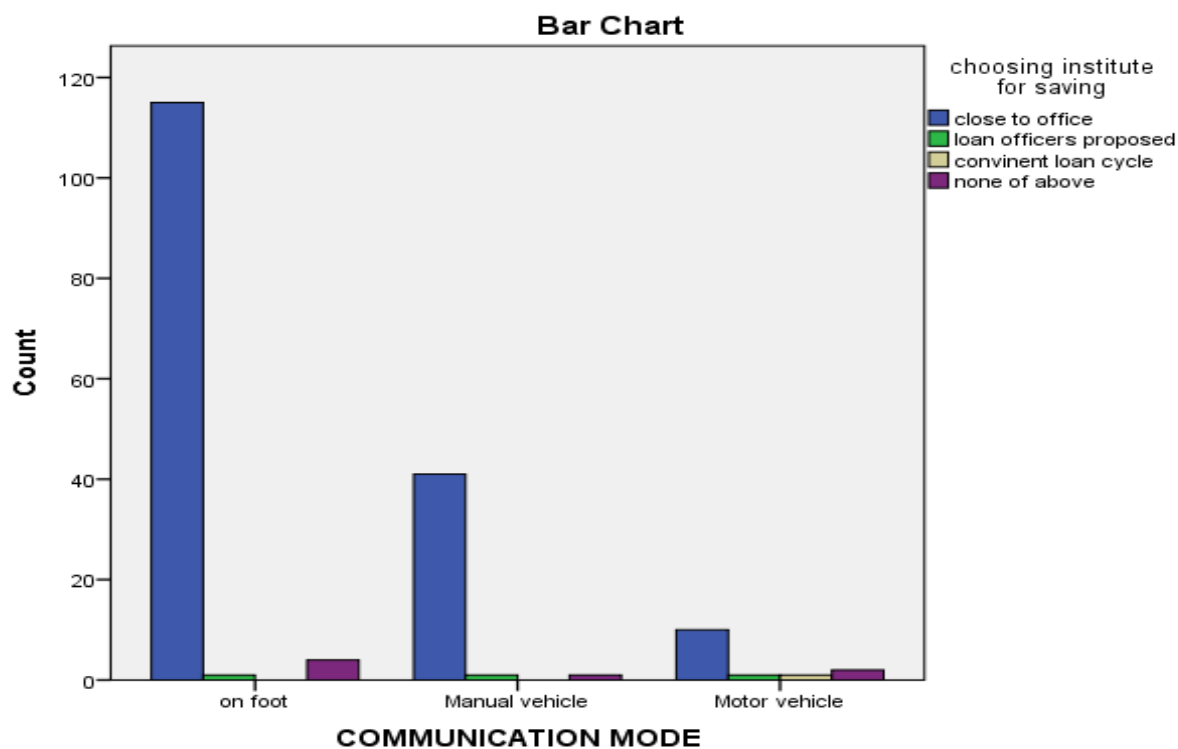
Symmetric Measures						
			Value	Asymp. Error <sup>a</sup>	Std. T <sup>b</sup>	Approx. Sig. <sup>c</sup>
Interval by Interval	by	Pearson's R	.515	.102	7.389	.000 <sup>c</sup>
Ordinal by Ordinal		Spearman Correlation	.360	.107	4.749	.000 <sup>c</sup>
N of Valid Cases			153			



**Communication mode vs choosing institute for savings**

COMMUNICATION MODE		choosing institute for saving				Total
		close to office	loan officers proposed	convenient loan cycle	none of above	
	on foot	115	1	0	4	120
	Manual vehicle	41	1	0	1	43
	Motor vehicle	10	1	1	2	14
Total		166	3	1	7	177





The Model Summary of our analysis regression model analysis for loans

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.515 <sup>a</sup>	.265	.217	385168.386	.265	5.502	9	137	.000

a. Predictors: (Constant), taking loan is difficult from bank?, earning members, source of income, education qualification, had any loan last year, who approaches for loan, COMMUNICATION MODE, arable land possession, instalment paying schedule

<i>Coefficients<sup>a</sup></i>						
Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1009107.552	357903.251		-2.819	.006
	education qualification	2867.699	28576.187	.008	.100	.920
	earning members	3365.888	33854.988	.007	.099	.921
	arable land possession	50770.392	71023.958	.058	.715	.476
	source of income	12900.610	42117.800	.023	.306	.760
	had any loan last year	450421.182	280337.678	.120	1.607	.110

who approaches for loan	85244.754	88210.986	.073	.966	.336
COMMUNICATION MODE	222564.038	50349.430	.344	4.420	.000
instalment paying schedule	101206.238	36611.361	.232	2.764	.006
taking loan is difficult from bank?	57371.675	64709.686	.070	.887	.377
<i>a. Dependent Variable: Q18loan</i>					

As example the calculated value above shows when source of income increases by one unit on an average the loan taking tendency increases .023 unit however, communication mode is highly related loan taking tendency and the next effective criteria is “ installment paying schedule”.

#### 6.4. Assumption Testing:

**First Assumption:** We assumed that distance is related to borrowing in rural areas. Our Null Hypothesis ( $H_0$ ) was that there is no association between distance and borrowing and our Alternate Hypothesis ( $H_1$ ) was that there is an association between distance and borrowing.

And therefore, we followed procedures as follows to reach our decision:

#### Chi Square test

Distance from business

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
<b>Pearson Chi-Square</b>	211.522 <sup>a</sup>	9	.000
<b>Likelihood Ratio</b>	253.364	9	.000
<b>N of Valid Cases</b>	225		

Tabulated value is 16.91898

Time by walking

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
<b>Pearson Chi-Square</b>	211.534 <sup>a</sup>	9	.000
<b>Likelihood Ratio</b>	253.594	9	.000

<b>N of Valid Cases</b>	225		
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Tabulated value is 16.91898

#### Communication mode

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
<b>Pearson Chi-Square</b>	132.759 <sup>a</sup>	2	.000
<b>Likelihood Ratio</b>	130.107	2	.000
<b>Linear-by-Linear Association</b>	33.193	1	.000
<b>N of Valid Cases</b>	188		

Tabulated value is 5.991465

In above tests our calculated values are greater than tabulated values so we may reject our null hypothesis and accept our alternate hypothesis, i.e. there has been a significant association between distance and borrowing.

**Second Assumption:** We assumed that for every financial product in rural areas when the flexibility in documentation i.e. number of required documents like photographs, national identity card etc. and the costing like minimum amount required for account opening, minimum fees charged for loan etc. are within tolerable limit then the rural enterprises may have better access to financial products.

In fact our observation has not been tested through statistical methods because the weak financial literacy in the respondents can not represent the clear picture of the situation. The borrowers/ clients are not completely aware of the requirement though they have to follow the procedures. But in this regard the discussion with MFI/Bank managers in the locality have revealed the real picture. But the complexity arises when the programmes across the institutions and through the time are not similar. ***As rural development and rural financial intermediation have to go through various government directives and donor's objectives in case of MFIs, the loan requirements are not uniform.*** It is also difficult to find harmony among same programmes through the passage of time. On the other hand rural borrowers accumulate loan through various sources to meet their need irrespective of the sources and its objectives. The name, fame or objectives of the loan programmes do not matter but money matters. Even the recent change in rural financial sector have impact on the overall requirement.

**DOCUMENTATION:**

***For opening a Bank Account, usually clients need to submit following documents and follow few procedure:***

1. Photograph
2. National Identity Card
3. An Introducer ( to introduce on the prescribed application form)
4. Trade license in case of Enterprise

**Moreover, for loan application another two documents are required as follows:**

5. Guarantor ( usually two persons need to give the guarantee against a loan)
6. Collateral ( mostly immovable properties i.e. landed properties are preferred)

For MFIs these are comparatively relaxed and numbers of document vary from organization to organization. For opening a membership account the identification is ensured primarily by two documents

1. National Identity Card / Birth registration document
2. Group members recognition

But for loan no guarantee and collateral is required.

**COSTING :**

We have also followed the information of nation-wide sample survey on Rural Credit in 2014, conducted by Bangladesh Bureau of Statistics, which is the second credit survey after 1987. It has been revealed that for getting loan borrowers had to spend few amount of money for application, preparation of required documents, photograph, registration, tips etc. and on an average it was Tk. 409.

The amount spent substantially differed from institution to institution.

**The average amount spent for types of institutes are as under :**

- average amount spent by Bank borrowers Tk. 809.
- average amount spent by Nationalized Bank borrowers Tk. 1071.
- average amount spent by Non-Government Bank borrowers Tk. 719.
- average amount spent by Specialized Bank borrowers Tk. 581.
- average amount spent by NGO-MFI borrowers Tk. 299.

BBS, (2014).

**It is crystal clear that for opening any account, MFI clients have to submit less documents and need to spend less amount of money than all types of banks during getting loan.**

**Third Assumption:** Finally we assumed that Microfinance Institutes are both physically nearer and accessible to rural enterprises by tolerable costing and flexible documentation, in contrast to all conventional banks.

This assumption is strongly based on and biased of other two assumptions. The other two assumptions have been merged into a single concept believing that in comparison to Banks, MFIs are favourable by physical location being nearer to rural enterprises, comparatively flexible in required documents along with tolerable costing.

As per our observation in four fields we found and sketched in Table No.....below, that from the borrower's point the Commercial Bank's average distance is higher than MFI's average distance ( 10.6 km > 1.53 km).

Comparative distance of Lenders												
LENDERS	No. of loan	Distance (km).				Distance (Time-minutes)				Mode of communication		
		Average	Within	Max *	Mode	Average	Within	Max	Mode	On foot	Manual vehicle	Motor vehicle
<b>All MFIs</b>	183	1.53	1	46	1	5.74	5	12	5	179	7	6
<b>All Banks</b>	20	13.35	1	46	15	21.85	5	45	30	1	2	17
<b>Krishi Bank</b>	33	1	1	1	1	5.00	5	5	5	33	0	0

\*Max= Maximum

Moreover, for account opening and loan application banks want 4-6 documents but MFIs usually want 2 documents, which is much less compared to bank.

Finally, costing for loan application stands as follows

Bank borrowers spent Tk. 809 on an average whereas, this amount is Tk. 299 for MFI borrowers which is much less and within tolerable limit when compared.

Considering these information it can be concluded that Microfinance Institutes are both physically nearer and accessible to rural enterprises by tolerable costing and flexible documentation, in contrast to all conventional banks. In addition to that, prolonged processing time for a required loan is extremely negative. Researches

confirms that After submitting all the required documents it takes 40 days on an average to get a loan from a bank which is 28 days for MFI (Ferrari, 2008).

Alternatively, as per our proposed procedures by following the methodology of Beck., Demirguc-Kunt and Peria (2007) we present the calculated values to measure financial inclusion as under.

- Geographic branch penetration : Of Bank
- Demographic branch penetration : Of MFI
- &
- Loan accounts per capita: Of Bank
- Deposit accounts per capita: Of MFI
- &

(Commercial Operational Distance) COD

For Bank and MFI

### **6.5. Summary of Findings:**

The overall descriptive statistics above shows that people specifically the rural enterprises have preferred MFIs to Bank specially the commercial banks. Common findings suggest that factors behind such preference is generally logical and it is found that:

- MFIs are within the reach of Rural Enterprises both by physical distance and organizational attitudes.
- “Easy documentation and tolerable costing” is the main attraction for reaching to rural small and microenterprises .
- But MFI lending is small in size and they have limitation in usual business transaction including regulatory bindings in reaching public fund.
- Commercial banks are conditioned by excessive documentation and collateral requirement , that automatically creates hindrance for rural low-income household and their enterprises in reaching them. Moreover, the cost involved in getting credit from banks are not tolerable being it much higher than MFI, being it 2.7 times higher on an average but in case of comparing it with nationalized banks, it is 3.58 times higher.
- Commercial banks are physically at distant places and culturally away from the rural community to realize their need and response as they desire.

- The attitude of bank officials is a threat to the rural people and therefore, these people feel it difficult to get any favour from them and particularly it creates difficulties in getting loan.

## **7. Suggestions, Recommendation and Conclusion:**

After various changes and development through history the present financial structure reveals the nature of overall service delivery system that in practical deprives the rural agrarian firms, rural people and their enterprises in getting proper services and categorically the credit facility. Geographical distribution pattern of banking and the required formalities asked to deliver the financial services are the main hindrances for rural people and their enterprises for getting access to financial services. Loan product design usually does not comply the various demand nature of small enterprises as these entities suffer from a multidimensional lacking to met the lender's requirements like physical collateral, business history, recorded cash flow to prove repayment capability etc. The number of required documents including collateral and guarantee from third party stand as extreme capability constraints. During urgent requirement of loan, the prolonged time to dispose a loan application disappoints the entrepreneurship. On the other hand though savings requirements are not conditioned much but the distance from the rural community primarily matters. Bank savings Products are not well designed to invite rural low income people save by any small amount with flexible time schedule.

But the inception of MFIs and their expansion into rural areas have created a new wave of responses among the village communities. The MFIs have reached a large number of low-income households and their enterprises at least to give them a rise. Savings through membership enabled them to save and erase capability constraints to apply for loan. Loan products are comparatively designed with low requirement of documents and no requirement of guarantor and collateral. MFIs being physically nearer and culturally closer had extended a kind of facility that had never been practised by the conventional commercial banks. But the capability constraints of MFIs have been exerting another problem. They are not authorized in doing financial business or are not permitted to provide the people with any usual banking services. MFIs also have no right to collect public fund, though few have such permission. For operational sustainability they depend on member's deposit, donors fund, government allocation, commercial bank lending and so on. Whatsoever it is, while the small borrowers grow and expand their appetite to much higher loan ceiling, the MFIs fail to meet their further demand. Sometimes the successful and growing enterprises require other banking services with business transactions under one single roof and due to capability constraints of service providers the borrowers remain within a boundary of doldrums. In few cases while the borrowers are more capable and qualified than the usual MFI borrowers, they move forward to distant commercial lenders and satisfy



them for higher loan ceiling. It is also observed state owned development banks are suffering from unskilled and weak management. Moreover, these are insolvent to respond to the proper need. State owned commercial banks are another group of cancer in the financial sector because in recent years the Non performing Loans (NPLs) have reached at the alarming situation. Private commercial banks are not far behind from the practice. Every year around 60% of rural savings are being channelizing to urban appetite and thus the rural fields are kept hungry. So rural fields will remain automatically deprived unless a strong regulatory binding of “ rural investment, savings security and regional control over regional savings” is permitted.

In this connection it should be considered that the rise of NGO-MFIs in Bangladesh has not been well structured and well planned from the beginning. During the liberation war of 1971 and afterwards situations, the NGOs infiltrated in the country help develop various socio economic problems. They acted as a social organization instead of being a money dealer or money lender. As the society had had its historical legacy of poverty, deprivation and social inequalities, the scope for NGOs to infiltrate into various sectors has become quickly evident. NGOs felt it essential to assist people in income generating activities in effective manner for sustainable development including other necessary services like health care, sanitation, education, social awareness and so on. At a later stage they added objective based micro financing into their menu. The exception is the Grammen Bank that started its programme with micro credit services specially to women who were considered deprived but good client for repaying their loans. It subsequently declared a war against the prejudice that poor are not reliable for lending and women are categorically not. The Grameen model has become successful and within the shortest period of time the Grameen model has been replicated as a popular one by others. It is remarkable and mention worthy that women were the focus. Focusing woman has brought controversy enough from two angles. Firstly, Bangladesh being a Muslim majority country having its society mainly male dominated keeping the women behind the scene of exposed economic activities reacted against lending to women. They usually do not want women to be unveiled and become exposed to the outer world. The conjecture is that male community feared of losing control over women that might erase the demising walls between men and women and the male supremacy might be curtailed, though a basic religious belief of keeping women under the veil is a common ritual of consideration across the country. Secondly, a group of conscious camp argued that women have been focused to attract donation from western organizations as a satisfying criteria.

Through the passage of time the socio economic changes gradually accepted MFIs and their activities. MFIs on the other hand become a vital part of everyday rural economy in the countryside where the deprived communities are becoming dependent on it's services. The growth and expansion of MFIs occurred due to the prevailing gap of financial services in to the remote geographies. The failure of conventional banking services to extend their services to remote rural geographies as per rural demand has created the path for MFIs to infiltrate into rural financial service sector, extend the dimensions and continue as an essential one making a vast majority of rural people and their enterprises MFI dependent. As per new world order, the globalization of various concepts and under the new reality of donors objectives, NGOs started to gain self sustainability specially for MFI services. So far it can be realized that after the fall of communism across the world the donor focus has prioritized Eastern Europe over other older links. MFIs started paradigm shifting from altruism to commercialization keeping a duality in principles in their objectives. Doing business by commercializing microfinance and helping poor and deprived communities through altruism in the manner of assisting them develop their capability, generate income and create job etc. as a social responsibility have attracted strong criticism from several corners showing a common ground that focusing business entities would hampers the basic objectives of NGO-MFIs as those preserved during their establishment. They claim that MFIs will mind their focus of doing business by rationing the services to the poor and subsequently the poor will be ousted from the MFIs in the long run. But through practice MFIs have institutionalized the informal financing by establishing a strong base in the rural economy. They have focused commercial entities in the rural market and have become successful in bringing the most of the entities under their service umbrella. It does not ensure complete dependence and reliability on all the institutions. Because only 3 MFIs out of total 698 (including Grameen bank) MFIs contribute 42% of branches, 59% of members, 62% of borrowers, 59% of loan disbursement and 80% of deposit.

It is crystal clear that no institutions between bank and MFIs have sole satisfactory control over the rural financial structure to reach the rural poor and their enterprises as per demand as it is sought.

In such situation it can be concluded as recommendation and suggestion that :

- A collaborative approach between Bank and MFIs to reach the “rural poor, their micro and small enterprises and agrarian farms” may be considered.
- Few MFIs can be given more authority to collect public fund and act like bank or work as bank agents in remote areas with few financial services to deliver.

Priority in this area should be given in delivering credit services, financial transaction among banks and extending savings deposit services to collect money by possible small amounts with flexible time schedules.

➤ Banks may accept microfinance model in delivering credits to micro and small enterprises by relaxing collateral security requirement and in such cases bank officials need to be more close to their rural clients both physically and culturally and understand their clients and their needs, problems they are facing etc. This on the other hand would help bank officials to realize the borrowers' attitude, capability and strength and their rational demand which ultimately will help them for extending relationship based lending.

➤ In case of all banks "Regional Savings Security" may be ensured by enacting law to prohibiting fund diversion from rural to urban areas.

➤ For the banks, the bindings of creating "delivering credit proportionate to regional savings" within same region may be created by regulatory authority.

*Thank you very much for your kindness attention to this PhD. Thesis dissertation.*

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**ANNEX:**  
**RESEARCH QUESTIONNAIRE IN ENGLISH AND BANGLA.**

গবেষণা প্রশ্নপত্র  
Research Questionnaire

গবেষণা প্রকল্প (পিএইচডি), ভূগোল বিভাগ, অটোনমাস ইউনিভার্সিটি অব বার্সেলোনা. স্পেন।  
Academic Research Project (PhD), Department of Geography, Universitat Autònoma de Barcelona, Spain

ব্যক্তিগত তথ্য (১-৫) :

Personal Information (1-5)

১. নাম :  
Name

২. লিঙ্গ :                      ক). পুরুষ :                      খ). মহিলা :  
Sex                                      Male                                      Female

৩. ঠিকানা এবং মোবাইল নং :  
Address and Contact Cell Number

৪. বৈবাহিক অবস্থা :  
Marital Status

ক). বিবাহিত                      খ). অবিবাহিত                      গ). বিচ্ছিন্ন                      ঘ). বিধবা /বিপত্নিক  
Married                                      Un-married                                      Separated/Divorced                                      Widow

৫. বয়স :  
Age

৬. শিক্ষাগত যোগ্যতা :  
Educational Qualification

ক). কোন প্রাতিষ্ঠানিক শিক্ষা নেই  
No Education

খ). প্রাথমিক শিক্ষা  
Primary Level (up to 05 years)

গ). অষ্টম শ্রেণী পর্যন্ত  
Up-to class VIII

ঘ). এস.এস.সি  
SSC (up to 10 years)

ঙ). এইচ এস সি  
HSC (up to 12 years)

চ). স্নাতক  
Graduation

ছ). স্নাতকোত্তর  
Master

জ). পি এইচ ডি/ কারিগরি বা ডিপ্লোমা  
বা অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন)  
PhD / Vocational or Diploma or Others  
(please specify)

৭. পরিবারে মোট সদস্য সংখ্যা (রাতে একত্রে থাকে এবং একত্রে খায়)  
Total Number of Family Members ( stay together at night and eat together )

৮. পরিবারে নির্ভরশীল সদস্য সংখ্যা  
Number of Dependents in the family

৯. পরিবারে উপার্জনকারী সদস্য সংখ্যা  
Number of Earning Persons in the family

১০. পরিবারের ধরন :  
Type of Family

ক). যৌথ Joint      খ). একক Nuclear      গ). অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন )  
Others ( please specify)

১১. আপনার কতটুকু কৃষি জমি আছে?  
How much Arable Land do you have?

ক). ১/২ একর বা ৫০ শতাংশের কম Below . 0.5 Acer      খ). ১/২ একর বা ৫০ শতাংশের বেশী  
More than 0.5 Acer

১২. আয়ের উৎস (অনুগ্রহ পূর্বক এক বা একাধিক ঘরে টিক চিহ্ন দিন):  
Source of Income

ক্রম SL	আয়ের প্রধান উৎস (অনুগ্রহ পূর্বক একটি ঘরে টিক চিহ্ন দিন) Main Source of Income (please mark only one)	ক্রম SL	আয়ের সহযোগী উৎস (অনুগ্রহ পূর্বক এক বা একাধিক ঘরে টিক চিহ্ন দিন) Subsidiary Source of Income (please mark one or more)
ক.	ব্যবসা Business	ক.	ব্যবসা Business
খ.	কৃষি Agriculture	খ.	কৃষি Agriculture
গ.	চাকুরী Service	গ.	চাকুরী Service
ঘ.	বৈদেশিক রেমিট্যান্স (বিদেশ থেকে) Foreign Remittance	ঘ.	বৈদেশিক রেমিট্যান্স (বিদেশ থেকে) Foreign Remittance
ঙ.	দেশি রেমিট্যান্স (দেশের ভিতর ) Local Remittance	ঙ.	দেশি রেমিট্যান্স (দেশের ভিতর ) Local Remittance
চ.	মুরগী চাষ Poultry	চ.	মুরগী চাষ Poultry
ছ.	দুগ্ধ খামার Dairy Farm	ছ.	দুগ্ধ খামার Dairy Farm
জ.	গরু মোটা তাজা করণ Beef Fattening	জ.	গরু মোটা তাজা করণ Beef Fattening
ঝ.	ছাগলের খামার Goat Farm	ঝ.	ছাগলের খামার Goat Farm
ঞ.	মৎস্য চাষ Fisheries	ঞ.	মৎস্য চাষ Fisheries
ট.	শ্রম Labour	ট.	শ্রম Labour
ঠ.	অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন) Others (Please Specify)	ঠ.	অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন) Others (Please Specify)

**প্রতিষ্ঠানের তথ্যাবলী :**

**Enterprise Information:**

১৩. এটা কোন ধরনের এন্টারপ্রাইজ / প্রতিষ্ঠান  
What type of Enterprise is this?

ক). ক্ষুদ্র (একক মালিকানা স্বত্ব)  
Microenterprise (proprietorship)

খ). ক্ষুদ্র ( যৌথ মালিকানা স্বত্ব)  
Microenterprise (Joint proprietorship)

গ). প্রাইভেট লিঃ কোঃ  
Private Limited Company

১৪. এটা আপনি কখন শুরু করেন?  
When did you Start this ?

১৫. এটা কি আপনার প্রথম প্রতিষ্ঠান?  
Is it the first Enterprise you started?

ক). হা Y	খ). না N
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১৬. এটা ছাড়া আপনার অন্য আরও প্রতিষ্ঠান আছে কি ?  
Do you have more Enterprises other than this ?

ক). হা Y	খ). না N
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১৭. এর দেখাশোনা/ ব্যবস্থাপনা কে করেন?  
Who manages / looks after the Enterprise?

ক). নিজেই  
Self

খ). পরিবারের সদস্য  
Family member

গ). স্বামী/ স্ত্রী  
Husband/ Wife

ঘ). স্বামী ও স্ত্রী মিলে  
Both Husband and Wife Jointly

ঙ). অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন)  
Other (Please specify)

**ঋণ এবং সঞ্চয় তথ্যাবলী :**

**Loan and Savings Information**

১৮. গত বছর পর্যন্ত কোন উৎস থেকে এ প্রতিষ্ঠানের জন্য কোন ঋণ নিয়েছেন ?  
Did you have a loan from any source up to Last year for this enterprise?

ক). হা Y	খ). না N
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যদি নিয়ে থাকেন তবে নীচের (পরবর্তী পৃষ্ঠায়) এক বা একাধিক উৎসে টিক দিন আর না নিয়ে থাকলে সরাসরি ৩১ নং চলে যান।

(If yes please mark with tick one or more source of the following and if No please go to item no 31 directly)

**পূর্ণাঙ্গ ঋণ তথ্য:**

**Complete Loan Information**

ক্রম SL	উৎস Source	ঋণের পরিমাণ Loan Amount	সুদের হার Interest Rate	ঋণের ধরন Type of Loan (whether loan /advance)	ঋণ কর্মসূচীর নাম Name of Loan Program	ঋণের মেয়াদ Loan Term	মন্তব্য (সুবিধা অসুবিধা সম্পর্কিত) Remarks (on advantage and disadvantage)
ক.	এম এফ আই- (১) MFI (1)						
খ.	এম এফ আই- (২) MFI (2)						
গ.	এম এফ আই- (৩) MFI (3)						
ঘ.	বিশেষায়িত ব্যাংক (১) Specialized Bank (1)						
ঙ.	বিশেষায়িত ব্যাংক (১) Specialized Bank (1)						
চ.	বাণিজ্যিক ব্যাংক (১) Commercial Bank (1)						
ছ.	বাণিজ্যিক ব্যাংক (২) Commercial Bank (2)						
জ.	ইনফর্মাল (বন্ধু/পরিবার) Informal(Friend/Family)						
ঝ.	স্থানীয় ঋণ দাতা /মহাজন/দাদন দাতা Moneylender(1)						
ঞ.	স্থানীয় ঋণ দাতা /মহাজন/দাদন দাতা Moneylender(2)						
ট.	অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন) Others (Please Specify)						

১৯. ঋণের উদ্দেশ্য কি ?

What is the Purpose of borrowing ?

ক্রম SL	ঋণের উদ্দেশ্য Purpose Of Loan
ক.	কেবল মাত্র ব্যবসা/ প্রতিষ্ঠানের জন্য For Business only/ For Enterprise only
	ব্যবসা/ প্রতিষ্ঠান সহ অন্যান্য পয়োজন (নীচের এক বা একাধিক কারণ অর্থাৎ উপরের ক সহ নীচের খ থেকে জ পর্যন্ত এক বা একাধিক)   For other need including Business/ Enterprise Need as mentioned below.
খ.	পরিবারের নিত্য পয়োজন মেটানোর জন্য To meet the daily family need
গ.	অন্য ঋণ পরিশোধ করা To pay other loan
ঘ.	সন্তানের শিক্ষা ব্যয় Education of children
ঙ.	উপকরণ ক্রয় Buying tools
চ.	গৃহ নির্মান / মেরামত House building/ house repairing.
ছ.	চিকিৎসা/ডাক্তার / হাসপাতাল ব্যয় ইত্যাদি Medical /doctor/hospital etc.
জ.	জমি ক্রয় Buying Land
ঝ.	অন্যান্য জরুরী প্রয়োজন (অনুগ্রহ পূর্বক উল্লেখ করুন) Other Emergency (please specify)

২০. আপনি কত হারে সুদ আশা করেন (ঋণের ক্ষেত্রে) ?  
What is your expected interest rate (for loan)?

২১. অন্যান্য প্রতিষ্ঠানের সুদের হার সম্পর্কে আপনার কোন ধারণা আছে কি? (ঋণের ক্ষেত্রে) Do you know the interest rate of others?

ক). হা Y	খ). না N
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(আপনি যদি মাইক্রোফাইন্যান্স ইনস্টিটিউটের গ্রাহক হয়ে থাকেন তবে ব্যাংকের ক্ষেত্রে কত- তদুপ বিপরীত ক্ষেত্রে)  
(If you are a Microfinance Institute client then what is for a Bank and vice-versa)

২২. আগে কখনো ঋণ সিলিং (সীমা) বাড়িয়েছেন কি?  
Did you enhance your Loan limit before?

ক). হা Y	খ). না N
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বাড়িয়ে থাকলে ক). ঋণ গ্রহণের কত মাস পর?  
If yes then After how many months from the beginning ?

খ). প্রাথমিক ঋণ সীমার কত শতাংশ?  
Up to what percentage of the Primary amount?

গ). এটা “ক্ষুদ্র ঋণ” থেকে “এন্টারপ্রাইজ ঋণে” উন্নয়ন ঘটেছে এমন  
This enhancement happened due to development to Microenterprise loan from microcredit loan .

২৩. কার নামে/কে ঋণ নিলেন?  
Who borrowed the money?

ক). নিজেই      খ). পরিবারের সদস্য      গ). স্বামী / স্ত্রী      ঘ). অন্যান্য(অনুগ্রহ পূর্বক উল্লেখ করুন)  
Self              Family member              Husband /Wife              Others ( please specify)

২৪. আপনি কি নিজ উদ্যোগে এদের/ এদের প্রতিনিধিদের (এম. এফ আই , বিশেষায়িত ব্যাংক, বাণিজ্যিক ব্যাংক ইত্যাদি) কাছে ঋণের জন্য এসেছেন? Did you approach for Loan to them/ their agent ( MFI, Specialized Bank, Commercial Bank etc.) at your own initiative?

ক). হা Y	খ). না N
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২৫. এরা / এদের প্রতিনিধি (এম. এফ আই , বিশেষায়িত ব্যাংক, বাণিজ্যিক ব্যাংক ইত্যাদি) কি নিজ উদ্যোগে আপনার কাছে ঋণ পস্তাব দিয়েছে?  
Did the lender or their Agent ( MFI, Specialized Bank, Commercial Bank etc.) approach to you at their own initiative ?

ক). হা Y	খ). না N
-------------	-------------

২৬. ঋণের জন্য কোথায় আবেদন জমা দিয়েছেন?  
Where did you apply for loan?

ক). তাদের অফিস/প্রতিনিধি অফিসে গিয়ে ।  
By going to their Office/ Agent Office

খ). ঋণদান কর্মকর্তা / প্রতিনিধি এসে আবেদন পত্র সংগ্রহ করেছেন ।  
Lending officer/ agent came to collect the Application.

গ). গ্রুপ মিটিং এর সময় ঋণদান কর্মকর্তা / প্রতিনিধি আবেদন পত্র সংগ্রহ করেছেন ।  
Lending officer/ agent collected during group meeting. ( if any)

ঘ). অথবা অন্য কোথাও (অনুগ্রহ পূর্বক উল্লেখ করুন)  
Or to other place ( please specify)

২৭. আপনার ব্যবসা প্রতিষ্ঠান থেকে এটা (অফিস/মিটিং এর স্থান) কত দূরে/ কি: মি: ?  
How far is it from your business enterprise ? ( Please tell in Km. approximately)
- ক). পায়ে হেটে যেতে কত মিনিট সময় লাগে ?  
How long (time in minute) it takes approximately by walking ?
- খ). প্রচলিত মাধ্যমে কত সময় লাগে ?  
How long (time in minute) it takes through local mode of Journey?
২৮. ঋণ আবেদনের জন্য কোন ন্যূনতম ফি আছে কি ?(ফি, ষ্ট্যাম্প ইত্যাদি)  
Is there any minimum charge for loan application? (fees/stamps etc.)
- |             |             |
|-------------|-------------|
| ক). হা<br>Y | খ). না<br>N |
|-------------|-------------|
- ( যদি থাকে তবে কত ?)  
If yes , how much ?
২৯. ঋণ কিস্তি জমা দেয়ার সূচী কেমন ?  
What is your Installment Paying Schedule?
- ক). সাপ্তাহিক      খ).পাঞ্চিক      গ). মাসিক      ঘ). অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন)  
Weekly              Fortnightly              Monthly              Others (Please Specify)
৩০. ঋণ কিস্তি জমা দেয়ার সময়সূচী কি আপনার ব্যবসা চক্রের সাথে সামঞ্জস্যপূর্ণ ? Is the Installment Paying Schedule suitable for your Business Cycle?
- |             |             |
|-------------|-------------|
| ক). হা<br>Y | খ). না<br>N |
|-------------|-------------|
৩১. গত বছর আপনার কি কোথাও কোন সঞ্চয় ছিল ?  
Did you have any type of Savings/ Deposit with any source in the last year ?
- |             |             |
|-------------|-------------|
| ক). হা<br>Y | খ). না<br>N |
|-------------|-------------|
- (হা হলে এক বা একাধিক ঘরে টিক দিন)  
(If yes please mark one or more)
- ক). এম. এফ. আই      খ). ব্যাংক      গ). ইনফর্মাল (বন্ধু/ পরিবার )  
MFI                      Bank                      Informal ( Friend/family/etc.)
- ঘ). স্থানীয় ঋণ দাতা /মহাজন/দাদন দাতা      ঙ). অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন )  
Moneylender                      Others ( please specify)
৩২. সঞ্চয় হিসাব খোলার জন্য ন্যূনতম কত টাকা জমা দিতে হয় ?  
Minimum Balance required to open a deposit/savings account.
৩৪. সঞ্চয়ের বিপরীতে বর্তমানে কত টাকা হারে মুনাফা (সুদ) পাচ্ছেন ?  
What is the existing offered interest rate ( you get from savings) ?
৩৫. আপনি কত হারে মুনাফা আশা করেন (সঞ্চয়ের ক্ষেত্রে) ?  
What is your expected interest rate ( for savings borrowed by Bank/MFI etc.) ?
৩৬. অন্যান্য প্রতিষ্ঠানের মুনাফার হার সম্পর্কে আপনার কোন ধারণা আছে কি ? (সঞ্চয়ের ক্ষেত্রে) Do you know the interest rate of others?
- |             |             |
|-------------|-------------|
| ক). হা<br>Y | খ). না<br>N |
|-------------|-------------|
- (আপনি যদি মাইক্রোফাইন্যান্স ইনস্টিটিউটের গ্রাহক হয়ে থাকেন তবে ব্যাংকের ক্ষেত্রে কত- তদুপ বিপরীত ক্ষেত্রে ?)  
(If you are a Microfinance Institute client then what is for a Bank and vise-versa)



৩৭. ঋন কিস্তি/ সঞ্চয় জমা দেয়ার স্থান :

Loan Installment/ Savings Installment depositing Location

ক্রম SL	ঋন কিস্তি জমা দেয়ার স্থান : Loan Installment depositing Location	ক্রম SL	সঞ্চয় জমা দেয়ার স্থান : Savings Installment depositing Location
ক.	তাদের অফিসে/প্রতিনিধি অফিসে গিয়ে । By going to their Office/ Agent Office	ক.	তাদের অফিসে/প্রতিনিধি অফিসে গিয়ে । By going to their Office/ Agent Office
খ.	ঋনদান কর্মকর্তা / প্রতিনিধি এসে কিস্তি সংগ্রহ করেন । Lending officer/ agent comes to collect loan installment	খ.	সঞ্চয় কর্মকর্তা / প্রতিনিধি এসে সঞ্চয়ের কিস্তি সংগ্রহ করেন । Deposit Collecting Officer/ agent comes to my address to collect deposit
গ.	গ্রুপ মিটিং এর সময় ঋনদান কর্মকর্তা / প্রতিনিধি এসে কিস্তি সংগ্রহ করেন । Lending officer / agent collect during group meeting. ( if any)	গ.	গ্রুপ মিটিং এর সময় সঞ্চয় কর্মকর্তা / প্রতিনিধি এসে কিস্তি সংগ্রহ করেন । Deposit Collecting Officer/ agent collect during group meeting. ( if any)
ঘ.	অথবা অন্য কোথাও (অনুগ্রহ পূর্বক উল্লেখ করুন) Or to other place ( please specify)	ঘ.	অথবা অন্য কোথাও (অনুগ্রহ পূর্বক উল্লেখ করুন) Or to other place ( please specify)

৩৮. ঋন / সঞ্চয় করতে নির্দিষ্ট প্রতিষ্ঠান পছন্দ করার কারণ :

Choosing specific Institution to borrow/deposit.

ক্রম SL	ঋন নিতে এ প্রতিষ্ঠানকে কেন পছন্দ করলেন? Why did you like this Institute as your Lender ?	ক্রম SL	সঞ্চয় করতে এ প্রতিষ্ঠানকে কেন পছন্দ করলেন? Why did you like this Institution for Savings ?
ক.	আমার অফিস / বাসা /ব্যবসা কেন্দ্রের নিকটে । Nearer to my Office/home/ business point	ক.	আমার অফিস / বাসা /ব্যবসা কেন্দ্রের নিকটে । Nearer to my Office/home/ business point
খ.	ঋন দান কর্মকর্তা / প্রতিনিধি নিজ উদ্যোগে আমার কাছে ঋন প্রস্তাব দিয়েছেন । Lending officer /their agent approached from their own	খ.	সঞ্চয় কর্মকর্তা / প্রতিনিধি নিজ উদ্যোগে আমার কাছে সঞ্চয়ের জন্য অনুরোধ করেছেন । Deposit officer /their agent approached from their own
গ.	আবেদন প্রক্রিয়া সহজ । Flexible application procedure.	গ.	আবেদন প্রক্রিয়া সহজ । Flexible application procedure.
ঘ.	সুবিধাজনক ঋন সাইকেল । Convenient Loan cycle.	ঘ.	সুবিধাজনক সঞ্চয় সাইকেল । Convenient Loan cycle.
ঙ.	তারা আমার চাহিদামত সাড়া দিয়েছেন । They responded as per my demand	ঙ.	তারা আমার চাহিদামত সাড়া দিয়েছেন । They responded as per my demand
চ.	উপরে ক থেকে ঙ পর্যন্ত একটিও সঠিক না । None of the above –a to – e-	চ.	উপরে ক থেকে ঙ পর্যন্ত একটিও সঠিক না । None of the above –a to – e-
ছ.	অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন) Others (Please Specify)	ছ.	অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন) Others (Please Specify)

৩৯. আগে কখনো নীচের কোন প্রতিষ্ঠানে ঋন চেয়ে প্রত্যাখ্যাত (বিমূখ) হয়েছেন? Have you ever been rejected /denied before by any of the following Institution during seeking Loan?  
হয়ে থাকলে নীচের এক বা একাধিক ঘরে টিক দিন  
( If yes please mark one or more of the following with tick)

ক). হা Y	খ). না N
-------------	-------------

ক). এম. এফ আই  
MFI

খ). ব্যাংক  
Bank

গ). সমবায় সমিতি  
Co-operative society

ঘ). স্থানীয় ঋন দাতা  
/মহাজন/দাদন দাতা  
Moneylender

৪০. আগে কখনো নীচের কোন প্রতিষ্ঠানে সঞ্চয় করতে এসে প্রত্যাখ্যাত (বিমূখ) হয়েছেন। (হয়ে থাকলে এক বা একাধিক ঘরে টিক দিন )  
Have you ever been rejected before by any of the following Institution during opening a savings account?

ক). হা Y	খ). না N
-------------	-------------

ক). এম. এফ আই  
MFI

খ). ব্যাংক  
Bank

গ). সমবায় সমিতি  
Co-operative society

ঘ). স্থানীয় ঋন দাতা  
/মহাজন/দাদন দাতা  
Moneylender

৪১. আপনি কি মনে করেন যে ব্যাংক থেকে ঋন নেয়া কঠিন?  
Do you think that it is difficult to get a loan from bank sources?

ক). অত্যন্ত কঠিন  
Very difficult

খ). কঠিন  
Difficult

গ). সাধারণ  
Normal

ঘ). সহজ  
Easy

৪২. কঠিন হয়ে থাকলে আপনার মতে কারনগুলো কি?(এক বা একাধিক ঘরে টিক দিন )  
Which are the reasons of this difficulty in your opinion? (Please mark one or more of the following with tick)

ক). ব্যাংকের দূরত্ব  
Distance to Bank Office

খ). ব্যাংকের কর্মকর্তা/ প্রতিনিধিদের মনোভাব  
Attitude of the of the Bank officer/ Agent

গ). কারন আমার যথেষ্ট সঞ্চয় বা উত্তরাধিকার সূত্রে প্রাপ্ত সুবিধা নেই  
Because I don't have enough savings or inheritance.

ঘ). অন্যান্য (অনুগ্রহ পূর্বক উল্লেখ করুন )  
Others ( specify please).

৪৩. মাইক্রোএন্টারপ্রাইজে ঋন দেয়ার ব্যাপারে আপনার কোন মতামত থাকলে বলুন।  
Would you like to give another opinion related to loans given to Micro-enterprises?

**NB:** The Original “ Field Questionnaire” is constructed in English and for use in the field of Bangladesh it is produced in Bilingual Format having English Text under the line of each respective Bangla Text. But whatsoever it is- in case of any discrepancy arises in between these two during interpretation, the “English Version” shall be deemed as original and therefore, should be considered for any clarification.