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Bangladesh Bank

U.S. Agency for International Development

RURAL FINANCE EXPERIMENTAL PROJECT

SOCIOLOGICAL REPORT

May 1982

Public Administration Service / S.F. Ahmed & Co

Project Office: 128 New Eskaton Road, Dacca, Bangladesh

RURAL FINANCE EXPERIMENTAL PROJECT

PUBLIC ADMINISTRATION SERVICE
McLEAN, VIRGINIA, U. S. A.

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DACCA BANGLADESH

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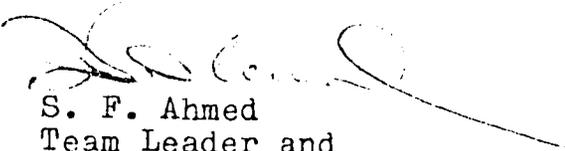
Sociological Report

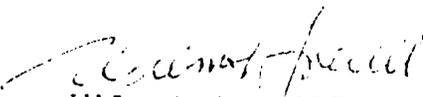
Dear Mr. Ahmed,

As requested by you, we are enclosing herewith five copies of the Sociological Report prepared by Dr. Clarence Maloney and Dr. A. B. Sharfuddin Ahmed.

The report is the product of personal interviews professional observations and a compendium of the oral responses to questions put to individuals by the social science researchers. No claim is made that all that has been reported are factual. The statements and information herein represent the views, opinions and conclusions of the authors and not necessarily the consultant contractors.

Yours sincerely,


S. F. Ahmed
Team Leader and
SFAC Representative


Wilmot Averill
PAS Representative

SPECIAL ANTHROPOLOGICAL REPORT
FOR THE RURAL FINANCE EXPERIMENTAL PROJECT

Clarence Maloney

A. B. Sharfuddin Ahmed

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SPECIAL ANTHROPOLOGICAL REPORT
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Clarence Maloney

A. B. Sharfuddin Ahmed

Background

This report was prepared with the consulting advice of Dr. A. B. Sharfuddin, and with the help of three research assistants in the Anthropology Section: Md. Wahiduzzaman Chowdhury, Md. Anwar Hussain, and Md. Abdul Jalil.

A report, "Sociological Observations", by Sharfuddin and Maloney, was submitted in February to be part of the third RFEF Evaluation. The present report supplements those findings. To conserve space in this report and avoid unnecessary redundancy some findings in the first report are not repeated here. It is suggested that report be read in the context of this one for a full coverage of the study work performed.

This report paper is based on 3 sets of questionnaire surveys, two of which were administered by our anthropology team and one by the RFEF field research staff.

1. "Anthropological Survey of Borrowers", a questionnaire having 765 respondents from 24 outlets in diverse parts of the country and representing all participating institutions. This survey especially developed information on actual loan use, as well as on other practices and attitudes. It was administered by the R.F.E.P. field research staff.
2. "Special Anthropological Survey", a questionnaire having 420 respondents from 4 outlets: Natore, Bhatra, Shaduhati, and Feni. This was administered by the Anthropology Section research assistants. It developed information on number and type of loans, as well as on attitudes. This was for both borrowers and non-borrowers in areas around the respective outlets.

3. "Survey of Non-Institutional Credit", a questionnaire having 168 respondents, based on the responses of the "Special Anthropological Survey" of those who had such loans, plus some other respondents in 3 localities in Faridpur and Jess Districts. This questionnaire developed diverse information on non-institutional credit.

These questionnaire surveys are probably less important than our many talks with borrowers, non-borrowers, bankers, and others. We customarily visited RFEP target areas without the company of the bank officials. We also refer to some existing literature on non-institutional credit. The information on malpractices was obtained mostly in interviews with borrowers, and was not confirmed by auditing.

The quantitative data in this report may be seen to supplement the earlier report, "Sociological Observations". That report had more case studies. For this reason have not added many additional case studies to this report where they would again be an unnecessary duplication.

I Rural Credit

Indebtedness

It is not easy to make sweeping assertions about the extent of indebtedness in modern rural Bangladesh. However, Table I below shows the findings from 5 studies. The 1956 and 1965 studies are too old to be of much use; the 1968 study was on one village, and the 1970 study on 2 villages. Our own study was on 4 villages.

TABLE I : STUDIES ON INDEBTEDNESS IN BANGLADESH

Year *	Households with some debt	Average debt in Taka	Percentage institutional loans	Comments
1956	68%	181	4.9%	Wide sample
1965	49%	265	11.9%	Wide sample
1968	71%	146	28.2%	1 Comilla village with heavy debt; 41% of respondents had mortgage debt, but in TCCA credit project area.
1970	75%	398	40.0%	2 villages with good access to institutional credit.
1982	56%	1255 ⁺ 3444# 1276 ⁰	52.1%	4 villages with some access to RFEP and other institutional credit (see Table 2).

+ RFEP, # Other inst. 0 Non inst.

* Source

1956. Dacca University Socio-Economic Survey Board. Report on the Survey of Rural Credit and Rural Unemployment in East Pakistan. Dacca, 1956.

1965. Registrar of Cooperative Societies, East Pakistan. Agricultural Credit in East Pakistan, January, 1966. Dacca, 1967.

1968. All Akhtar Khan. Rural Credit in Gazipur Village. Pakistan Academy for Rural Development, Comilla, 1968.

1970. M. Asaduzzaman and Mahbub Hossain. Some Aspects of Agricultural Credit in Two Irrigated Areas in Bangladesh. BIDS, Dacca, 1974. (Villages Thakurgaon in Dinajpur and Phulpur in Mymensingh).

Other sources on rural indebtedness:

Akhunji, Syedul Haqud. The Role of Institutional Credit in Agricultural Development in Bangladesh. M.Sc. thesis, American University of Beirut. 1979.

Ahmed-ul-Ghani, A.K. Performance of the IRDP in a Selected Area of Bangladesh. M.Sc. thesis. American University of Beirut. 1981.

Roughly 50% to 70% of rural people traditionally had some debts. But our own study shows that 56% of households have some debt, and only 34.8% of them have traditional non-institutional debts (Table 2). While it is true that many rural people suffer under a heavy burden of debt and may never recover, the picture is not so gloomy as is sometimes supposed. The subject is dealt with separately below.

Table I indicates a trend of institutional credit increasing notably. The figures shown may not be entirely representative, however, because the 3 later studies were all done in areas with good access to institutional credit, and our own study was partly in areas having RFEP. Nevertheless, the institutionalization of credit is proceeding, and along with that the professional money-lenders are disappearing in certain areas. Along with the increase in institutional credit, the size of debts has increased.

Another trend is that more credit is being used for productive purposes. The 1956 study showed that about 70% of borrowed funds were used for family or consumption purposes, including 13% for repayment of old debts. The 1965 study showed about 54% of credit used for consumption, and the 1968 study showed that 75% of families borrowed only to meet family expenses. In the 1970 studies in the two villages loans for consumption were respectively 42% and 27%. In our studies we have found that of non-institutional loans 63% are used for consumption (Table 29), and of RFEF loans only 7.7% are acknowledged to be used entirely or partly for consumption (Table 16).

If one could make a study of a cross-section of rural people one might find that the percentage taking institutional loans, and loans to be used as capital, is much smaller than is suggested by our figures in Table 1. Most RFEF borrowers say there are no other institutional sources for loans such as they have taken, and these borrowers cannot usually get agricultural or other types of loans.

Table 2 below shows that in our 4 study villages, 55.5% of families have some debt and that quite a few have both institutional and non-institutional loans.

TABLE 2 : PERCENT OF POPULATION HAVING LOANS

Type of loans	No. of Borrowers	% of Total	No. having additional loan from another source
RFEF loan	93	22.1%	18
Other Inst. loan	66	15.7	22
Non-Inst. loan	146	34.8	32
No loan	187	44.5	-
Total	420	117.1	72 (17.1%)

Source : Special Anthropological Survey

We also found that of 93 RFEF borrowers 14 had non-institutional loans and 4 had bank loans. These they should not have had under RFEF policy. We see further from Table I that bank loans among our respondents were for fairly large amounts, averaging 3444 taka whereas non-institutional loans and RFEF averaged under 1300 taka.

Ideas about Bank Loans

Table 3 below shows that of respondents who did not take bank loans, about 25% did not need loans, and about 57% thought there would be some problem in trying to get a bank loan. In particular, the statements that bank loans are "difficult to get", "there is nobody to help me", "fear about loans", and "have no security", show that many people lack confidence to walk into a bank and ask for a loan. Our interviews with truly landless and daily wage labore show that most of them truly have a fear of loans, and think that reprisals might come if they default. They are conditioned to such thinking throughout life.

TABLE 3 : INTERVIEWEES REASONS FOR NOT TAKING BANK LOANS

not needed	24.7%
difficult to get	14.8
takes too much time	9.9
nobody to help me	7.6
fear about loans	6.9
have no security	6.3
tried but couldn't get	3.0
don't like to take loan	3.0
high rate of interest	2.0
no idea about bank loan	2.0
loan not for my needed purpose	1.0
religious obstacle	.7
want individual loan	.3
NA	<u>17.3</u>
	100 %

(N = 420 : 304 had not taken bank loans)

Source : Special Anthropological Survey

Nevertheless, most people now would prefer a bank loan to a non-institutional loan, if they had to take a loan. Table 4 shows that over three-quarters of respondents would prefer to take an individual bank loan, and 8% would prefer a cooperative or group loan from an authorized institution. Only 12% now would prefer a non-institutional loan. The main reasons for preferring non-institutional loans are that it is easy to communicate with the lender, and the loan is available any time without formalities or bribe.

TABLE 4 : PREFERENCE OF LOAN TYPE AND REASONS

<u>Reasons given for preference</u>	<u>Individual loan</u>	<u>Coop. or group loan</u>	<u>Non-institutional loan</u>	<u>No Loan</u>	<u>Total</u>
Easy to pay and repeat	185				185
Individualistic feelings	90				90
Easy to communicate with lender		4	35		39
Very difficult to organize a group	27		5		32
Low interest rate	6	9			15
No loan needed				12	12
Member can communicate with lending institutional absence of others		11			11
Loan available any time without formalities or bribe			10		10
Prefer to work with fellow community members		9			9
Easier and lower interest than other sources	7	1			8
In a group one cannot borrow again till all repay	5				5
Nobody will give me a loan, village pradhan says cooperative is good		1		3	3
	<u>320</u>	<u>35</u>	<u>50</u>	<u>15</u>	<u>420</u>
	(76.2%)	(8.3%)	(11.9%)	(3.6%)	(100%)

Source: Special Anthropological Survey

Table 4 confirms the preference (as stated in "Sociological Observations") that the majority of RFEF borrowers prefer individual loans. The survey yielding these data was done in areas where people were familiar with RFEF (although only 22% had RFEF loans). But they felt inclined to be individually responsible for their debts, and also felt that it is difficult and time-consuming to organize a group for the group loan system, or to rely on the cooperative. However, cooperative and group loans are working well in some places, particularly through the better IRDP branches and through some of the Janata outlets.

It is interesting to note in Table 4 that only 3.6% of respondents state that they don't need a loan. The value of capital is clearly recognized in Bangladesh rural society, and it is our observation that most RFEF borrowers truly want to use their loans as capital for productive purposes. The section below on non-institutional loans shows that in traditional Bengali society there was a complex of loan and financial arrangements, so that there was a traditional demand for capital which was easily channeled by the commercial banks when they began to open branches in rural areas. While these rural banks at present collect more capital than they give in local loans, RFEF is one mechanism encouraging them to meet the truly existing latent demand for productive small capital.

II. Borrowers and RFEF

Local Politics and Factionalism

The question frequently arises as to how much a program such as RFEF gets controlled by local influentials. According to Table 5 below, 3/4 of the borrowers reported they received help from their U.P. member or chairman, relative, neighbor, grām sarkar member, or local businessmen. About 1/4 of the borrowers received help from the

officials of their cooperatives, which is to be expected. More than half the borrowers received help from their banker (many borrowers got help both from the banker and from a local influential person).

Of the borrowers, about 45% got help from the U.P. member, village official, or gram sarkar member. In our observations, this was largely because the banks often require the signature of such a person on the application form. This gives room for mal-practice, both indirect in use by the official of a program such as RFEP to build up his own clientele, and direct in his possible demand for gratuities for signing. Cases have been noted of denial of loans to persons who are in factions opposing such local officials. These problems are also referred to in the previous paper, "Sociological Observations". In the absence of security requirements, the banks may require signatures of local officials. The position of the loan officers is also to be respected; they have to somehow make loans to

TABLE 5 : WHO HELPED BORROWERS GET RFEP LOANS

bank staff	51.3%
union parishad member	26.8
KSS manager	24.1
relative	18.0
matabbar/sardar/mandal .	10.5
neighbor	9.9
gram sarkar member	7.3
TCCA director	2.6
local coop.member	2.1
business man	1.2
member of weaver union .	.7
local political leader	.5
IRDP employee	.1
own landlord	.1
NR	<u>2.9</u>
	158.6%

(N =765, but 448 of them got help from two persons.)

Source: Anthropological Survey of Borrowers.

several hundred poor borrowers who are supposed to be credit-worthy, and therefore the banks rely on the recommendation signatures of local officials. In some banks, especially BKB, the local officials sign that they will "guarantee" to help the bank deal with a defaulter though they do not sign that they are actually liable for the loan.

While in a number of outlets such local officials are regularly given small gratuities for signing application forms, in only a few cases is this considered serious abuse. But it is one more hurdle discouraging the truly landless wage laborers to apply. Denial of loans because of factionalism also has been noted, but its extent cannot be easily ascertained. While there may not be large-scale abuse in these matters in the present experimental project, in the follow-on project this question should be monitored carefully.

Target Group

A point was made in "Sociological Observations" that a smaller percentage of loans than should be expected actually reached the very poor and the landless daily wage laborers. Whereas the Continuous Survey showed that only 8.4% of borrowers interviewed gave daily wage labor as their occupation, Table 18 below shows that 8.1% of loans have gone to daily wage laborers, which is much smaller than their percentage in the population.

Case Studies:

Five case studies are cited in "Sociological Observations" (p.6) from BKB, Rupali, Pubali, BSBL, and IRDP to the effect that not many landless laborers get loans, and in many outlets land records and land security documents are required. Further examples:

At BKB, Madaripur, Faridpur out of a sample of 340 borrowers whose records were examined in the ledger books, 93% had some agricultural land (at least 1/3 or 1/2 acre), and most of the rest were established traders.

In IRDP, Natore, Rajshahi, out of 6 samitis taking RFEF loans, only one was entirely rural, and was composed of farmers who had some land; the other samitis were semi-urban and included landless people, but most of them took loans for petty trade, and many defaulted. There was no attempt to make RFEF loans to daily wage laborers in the more stable rural areas.

In IRDP, Babuganj, Barisal, most samiti members had some land, and the landless did not have access to RFEF through IRDP. So a landless (bhumihin) samiti was formed. But "landless" for this purpose was defined as having under two acres, so the truly landless day laborers still found it difficult to get loans.

Many landless laborers, in interviews, said they thought such loans were not really available for them; they are not accustomed to expect loans from any source; it is common enough that even relatives will not lend capital to truly poor kin, and instances are known of relatives in effect disowning kin who have become so poor they are an embarrassment. Table 3 above shows that people who do not take bank loans often fear the difficulties; psychologically they need somebody to help them, they have a fear of loans because they have heard stories in the past about reprisals against poor defaulters, and they know they have no security. Nevertheless, after discussions, most of the daily wage laborers in rural areas are confident that if they had a loan they could at least buy a cow, or maybe take some land on lease, or maybe buy a pair of plow oxen so they could lease land, or take up some productive enterprise. We have shown in "Sociological Observations" that the landless floating population around towns such as Kushtia, Natore, and Mymensingh are not very good targets for unsecured loans.

But the landless laborers in rural areas are more amenable to social pressure and are concerned about their reputation, and are better loanees. An effort should be made in the follow-on project to make loans available to the truly poor daily wage laborers in settled rural communities.

Interest Rates for Loans

Table 6 shows that Bangladeshis have several ways of computing interest, in contrast with the standard practice in the west of computing it on an annual basis. Computation of daily interest was not

TABLE 6 : CUSTOMARY METHOD OF COMPUTING INTEREST

<u>Method</u>	<u>No. of respondents for whom method is customary</u>	
daily	0	
weekly	1	
monthly	107	
yearly	55	
at one time	134	
no interest	82	
no loan	<u>41</u>	
Total	420	Source: Special Anthropologic Survey.

found customary in our survey sample, but it is known to exist, particularly in bazars where small traders will borrow from a money-lender or large merchant in the morning, buy some wholesale good which they retail throughout the day, and repay the loan in the evening with 10% interest. Computation of interest by the week is not common. Computation of interest monthly is the most common in rural Bangladesh. It is fortunate that RPEP interest rates are set at 12%, 18%, 24%, 30% and 36% which are easily convertible to monthly rates of 1%, 1½%, 2%, 2½% and 3% and many borrowers will state the latter as their rate of interest. This should be kept in mind in the follow-on program, and where interest rates are printed the monthly

as well as the annual rates may be given. But many borrowers are familiar with computation of annual interest also. A third of our respondents preferred to compute interest in a lump sum to be given at the time of repayment. This arises from the custom in traditional or non-institutional credit, of giving a loan and expecting lump-sum repayment with interest (often in form of part of the harvest) after a specified time. Many borrowers find this computation convenient if they take an RFEP loan for a crop, cattle raising, goat raising, or small trade. It is easy for them to compute what they must sell their product for to repay principal and interest and make a profit. The participating institutions have different policies about repayment schedules, but in many cases the loans are tailored to the circumstances and the potential of the borrower to make profit at certain times.

About 20% of respondents answered the question about computation of interest by stating that they prefer to compute no interest. As shown below in the section on non-institutional credit, the majority of informal loans in rural areas are actually given without interest, particularly short-term loans by relatives and friends, and this is also favored in Islamic tradition.

As regards rates of interest, 63% of our respondents in the four study villages could not or did not state the prevailing rate of interest for bank loans there. Those who did state it mostly mentioned 12% to 14%. In these areas, 67% of respondents could not state the rates of interest of RFEP loans (only 22% of respondents were actual borrowers).

Statements by respondents of acceptable or desired interest rates do not correspond with people's behavior in taking loans. We explained to our respondents in the 4 study villages that interest rates should be high enough to cover: (1) inflation, which may be 15% a year, (2) bad loans, (3) bank expenses (building, salaries), and

(4) profit to the bank on loans lent out. I could not understand these points. He then asked them what they thought should be the rate of interest on small loans, in consideration of these points. Of respondents, 45% still thought it should be 4% to 4 1/2%, 37% thought interest should be 4 1/2% to 4 3/4%, 7% thought it should be 4 3/4% or 4 1/2% and only 1% thought it should be over 5%. But these people were in areas where loans were in considerable demand at 4 1/2%, 4 3/4% and 5%.

According to our "Anticipatory Social Survey of Borrowers", as shown below in Table 8, only 1% spontaneously refer to high interest as a problem in life. Less than a third of borrowers having loans at 30%, and less than half having loans at 30%, volunteered dissatisfaction with the high interest. But when the subject of interest is brought up, the borrowers usually say they want it lower.

Case Studies:

In BSEL outlet in Batuzore, Barisal, most loans are for business at 40%, especially in the bazar, but some loans are also for crops at 18%. Repayment is poor. Every interviewee expressed an opinion that interest rates are very high and demanded that it should be brought down to 12% or 15%.

In Janata bank in Hoopara, Sylhet loans are given at 24% and are used for crops, releasing mortgaged land, oxen, and rickshaws, besides family expenditure. Out of 15 borrowers interviewed all said the interest rate is very high and it would be better if it were brought down to 10% to 12%.

But the demands for repeat loans in the majority of outlets is a far better indication of acceptable interest rates than is people's opinions.

The question of religious attitudes about interest was also explored. Out of 420 respondents, only 3 said that religious belief about interest was an obstacle to their taking loans, and these persons said they would prefer loans without interest. The study of credit in a Comilla village (Ali A.Khan 1968:33) noted that there was a change in beliefs about this, and that moneylenders made new arguments about the acceptability of loans for "profit" rather than interest. Money would simply be advanced to needy people and after a year the lender would get some profit out of his investment. We found another rationalization on this point; it was stated that banks could legitimately take interest because they are institutions working in the public welfare, referring especially to the nationalized banks. In general, the religious obstacle to interest is hardly a significant factor affecting RFEP loans.

Borrowers' Views about RFEP

Table 7 shows borrowers' spontaneous favorable comments about RFEP, which is derived from the "Anthropological Survey of Borrowers" in 24 outlet areas. Most of those responding thought the loan system was satisfactory. The village agent system used by Rupali received favorable comments in particular, and a number of respondents were grateful to get an RFEP loan because they could get no other loan.

TABLE 7 : BORROWERS' SPONTANEOUS FAVORABLE COMMENTS ABOUT RFEF

Satisfactory system ^{1/}	152
Loan helped me to increase my income	35
Formalities were not a problem ^{2/}	23
Village agent is a local person who helped much ^{3/}	18
None gave me a loan except RFEF	16
There is no need for security	16
Interest rate is helpful	14
It is easy to get a loan	12
It is helpful to repay in installments	7
Loan made me a ricksha owner	4
	<u>297</u>
	(N=765)

Note

- 1/ The comments "satisfactory system" are especially from Sonali, Agrani, Rupali, Janata, BKB and some from Pubali.
- 2/ The comments about no formalities all came from Janata, Jhikargacha, which has the group lending system.
- 3/ The comments about usefulness of village agent are all from Rupali outlets.

Source: Anthropological Survey of Borrowers.

TABLE 8 : BORROWERS' SPONTANEOUS COMMENTS ABOUT DIFFICULTIES WITH RFEF.

High interest ^{1/}	154
New loan not available unless all group members repay ^{2/}	74
Loan amount was not enough ^{3/} _{4/}	65
Repayment time is too short ^{5/}	48
Took too much time to get the loan	46
Not satisfied with banker's behavior	42
Loan inspector takes payment ^{6/}	13
Bank is too far away	11
No loan available without land deed	3
	<u>456</u>
	(N=765)

Notes:

1/ Those volunteering dissatisfaction with high interest can be categorised as

<u>Number having loans at:</u>		<u>Percent volunteering dissatisfaction</u>
12%	165	0 %
18%	263	6.1
24%	129	31.8
30%	190	48.4
36%	18	27.7 (unreliable)

2/ Those expressing inability to get new loans unless all repay are all in cooperatives or in Uttara group lending.

3/ Those expressing dissatisfaction with loan size are mostly in Pubali, with some in the cooperatives, Rupali and Sonali.

4/ Those disliking short repayment time are in particular outlets of Sonali, Rupali and Pubali.

5/ Those disliking long delay in getting loans are all with IRDP and BSBL and one Uttara outlet.

6/ Those referring to bribes are with IRDP Chauddagam, and BSBL, Taltoli.

Source: Anthropological Survey of Borrowers.

Table 8 shows borrowers' difficulties with RFEP, which is more significant. First is high interest, spontaneously mentioned by 20% of borrowers. Those having cooperative or group loans often mentioned, in this survey as well as in our informal discussions, that inability to get new loans till other group members repay is troublesome. Loan size was not enough for many borrowers, also discussed in "Sociological Observations". About 10% of borrowers here thought the repayment time was too short, and 10% said it took too long to get the loan. Nearly 10% have some complaint about the banker's behavior. We found in our informal interviews that in some outlets the bankers are regarded as being too harsh and unpleasant with borrowers. Some bankers feel it is necessary to intimidate the borrowers a little bit to improve the repayment. One Subdivisional Cooperative Officer in an area where repayment was not good, said, "We are torturing the people for repayment". In this table there are few complaints about requirements of land deeds; where such deeds, mortgages, or securities are required, borrowers do not complain much because they may not know it is not to be required, and we can hardly know how many persons failed to apply or were turned down for lack of land records or security. As regards bribes, see the section below on mal-practices.

Bankers' Views about Borrowers

Table 9 shows that bankers could comment on the majority of borrowers individually. They tend to be optimistic about those who have overdues, and they appreciate the effect of RFEP on borrowers' economic position. Since the bankers selected the borrowers, they might well be verbally optimistic about them.

TABLE 9 : BANKERS' SPONTANEOUS FAVORABLE COMMENTS ABOUT BORROWERS

He is repaying in installments	131
He will repay in due time	112
He is a good borrower	106
Loan helped him increase his income	95
Without loan he could hardly maintain his family	18
Village agent is a local person and that helped us select the borrower	18
His savings position is good	10
Group compelled him to repay	<u>4</u>
	494

Source: Anthropological Survey of Borrowers

Table 10 shows that in about 24% of cases bankers had some adverse comment to make about the borrowers, but mostly they tended to excuse overdues because of poor crops, insufficiency of loan amount, or the bank's bureaucratic process. In only a few cases did the bankers state that the borrower used the funds for consumption, made bad business judgment, or defaulted because of the influence of other defaulters.

In general, we have the opinion that bankers know the borrowers personally and are interested in their welfare and their repayment potential. This is particularly true with the village agent, and where bankers have to form borrowing groups. Borrowers are always known to the secretaries of cooperatives when loans go through that channel. Only in some of the larger outlets of BKB, for instance, do the bank officials not know the borrowers; in BKB in Faridpur there is now a requirement that borrowers have to submit a photograph along with their application form.

TABLE 10: BANKERS' SPONTANEOUS COMMENTS ABOUT DIFFICULTIES WITH BORROWERS

His overdue is because of a poor ^{1/}	35
His loan amount is not enough ^{2/}	29
Loan procedures led to delayed disbursement ^{3/}	22
His overdue is because his business is losing	19
He used the loan for his family expenditure ^{4/}	16
His repayment time can be extended	13
We do not know the cause of his overdue	11
His loan is overdue but we hope he will repay shortly	10
He is not repaying because others are not repaying ^{5/}	9
30% interest is too high	7
His default is induced by other defaulters	6
He thinks loan is non-refundable aid	2
Borrower's husband used the money for family expenditure	1
	<hr/> 180

- Notes: 1/ Excuse of overdues because of bad crops is mostly from BSBL, Taltoli, and Uttara, Mymensingh (having poor repayment because of bad administration), and IRDP, Daudkandi.
- 2/ Comments about insufficient loan amount come from Pubali, Satihat and Shahbazpur and IRDP, Joydebpur.
- 3/ Comments about long loan procedure come from Uttara, Mymensingh (an excuse for poor administration), and IRDP; Joydebpur (IRDP requires loan sanction at the district level).
- 4/ Comments about use of loans for family expenditure come from IRDP, Daudkandi, and BSBL Taltoli.
- 5/ Comments about non-repayment because of influence of other defaulters come from Uttara, Feni, IRDP, Natore and Rupali, Rajganj.

Source: Anthropological Survey of Borrowers

Loan to Women

We did not make a special effort to contact women borrowers or potential borrowers as we had no women research assistants.

A chapter in the Evaluation Report deals with loans to women. However, Table 11 and 12 reflect opinions by our respondents (mostly men) about loans to women.

TABLE 11: OPINIONS OF RESPONDENTS (MOSTLY MEN)
CONCERNING WOMEN BORROWERS

	<u>Yes</u>	<u>No</u>	<u>NA</u>
Can women use loans profitably?	73.7%	23.1%	.2%
Should a woman have a loan in her own name	70.5	29.3	.2
If so, should she go to the bank?	43.6	27.6	28.8
Should there be a woman officer in the bank?	81.9	17.9	.2
Should female bank officer go to woman borrower house?	54.8	45.0	.2
Should male bank officer go to woman borrower house?	10.7	89.0	.2

Source: Special Anthropological Survey

TABLE 12: OTHER SPONTANEOUS OPINIONS (MOSTLY BY MEN)
CONCERNING WOMEN BORROWERS

A woman should get a loan only for work she can do at home	36
Women's freedom should be increased by giving them loans	26
A women should get a loan if she has any special skill	8
I do not support women getting loans	8
Women engage in house work only	6
Women organized a society but local financial institution shows no interest	5
A woman borrower cannot work without her husband or another helping her	4
Women are not intelligent to use loans profitably	4
Many women are interested to take loans but their husbands do not agree	3
Only widows should be given loans, for their survival	2
If a woman needs a loan, she can borrow	2
A woman can do anything if she breaks <u>pardā</u>	1
Many women do not get loans because their husbands already have loans	1
No answer	314
	<u>420</u>

Source: Special Anthropological Survey

Most men think women can use loans profitably, and should borrow in their own names. The uncertainty comes on the point of pardā, about women's going out to public places. Of those who think a woman should have a loan in her own name, only 44% think she should be able to go to the bank herself. Most respondents think there should be a woman officer in the bank, but for some this conflicts with the view that women should not go out to a public place like a bank in any case. Only 55% think a female bank officer should visit the homes of women borrowers; this is not only troublesome and costly to the bank, but it appears that many men have some hesitation about their women talking business themselves, even with another women. Usually it is the man's responsibility to provide for economic matters and subsistence, and some are reluctant to put such obligations on women as a matter of pride. As to the question of whether male bank officers should visit women borrowers in their houses, 89% of respondents say no. They are bound to say that by the decorum of pardā, whether or not they would actually object if indeed a male bank officer came to their houses. Ideally, it seems a woman should be able to take a loan in her own name and utilize the money, but she should probably be escorted to the bank and discuss the matter in the presence of her escort.

BKB has women officers in its RREP operations, but they are deputed mainly to keep books, and also to collect savings from women. They are to refer potential women borrowers to the BKB loan officer. Several of the women doing this work indicated that they felt they could make loans to women, if they had the power to sanction them, and that such loans would be repaid and used properly. This should be tried in the follow-on project.

Table 12 shows other responses volunteered by respondents (mostly men) about women's loans. Some are clearly of the opinion that the women should stay at home for whatever work they do. Others think that loans will help women get increased freedom. Many respondents do not care much about women's loans and have no special comment. We also

found that in many banks there was a lack of interest or activity in the subject, and the idea of promoting women's loans was not congenial to some of the bank officers, while in a few cases there were sincere efforts in this regard. This shows up in the very spotty distribution of women's loans; some outlets have almost none and others have relatively large numbers.

Savings

Table 13 shows that of our 420 respondents, 41.2% had some kind of savings, either in a bank, in RFEF, or self-managed. Few had RFEF savings for capital use, but mainly for consumption and emergencies. But 38% of RFEF savers would not have saved there had it not been for the pressure of the banker. Most of those who had no savings declared that they have no surplus to save, which is not correct in many cases.

TABLE 13: SAVINGS: TYPE AND PURPOSE

Have some savings	41.2% ^{1/}
Other bank savings	22.6%
RFEF savings	17.3
Savings by self	15.2
Cause of RFEF savings	
for consumption	43.8%
Pressure by banker	38.4
For capital	17.8
No savings	58.8
Cause of no bank savings	
No surplus to save	88.1%
Prefer to save by self	8.9
Bank is too complex	1.7
Never thought of it	.9
Not interested	.4

Note: ^{1/} Some respondents had more than one type of savings.

Source: Special Anthropological Survey

As discussed in "Sociological Observations," most RFEF borrowers do not want to have part of their loans deducted as savings. They are mostly aware that they get far less interest on savings than they pay on loans. Many also do not get a loan large enough for their purposes, and resist losing part of it. But in a few cases people interviewed said that the savings deduction was helpful to make them thrifty.

We found that in several places borrowers were puzzled by the savings. Even in some places where it was not technically compulsory to save, the banker put such pressure on the borrower to save that it was virtually compulsory. We found that where the borrowers were illiterate and could not read their bank books, they often felt the deduction for savings was simply an expense they had to make for their loan, proper or improper, and in some cases they doubted that they would ever get it. People have heard of cases of savings in cooperatives having been usurped by the officials, and unsophisticated people such as most of our target borrowers do not have confidence in banks, though this will improve with more exposure. Savings should probably not be compulsory, nor even strongly demanded, but only made possible for those borrowers who want it.

III. Uses of RFEF Loans, and Economic Stimulus

Loan Use and Amount

Table 14 gives the uses of loans as given by the borrowers themselves, and the amount of the loans as shown in the bank records, by categories.

The banks and cooperatives customarily gave loans considerably smaller than the 4000 or 5000 taka permitted in the project, and often the loans were smaller than desired by the borrower. Some bank officials state that they give modest loans to be sure people get in the habit of repaying, but increase the amounts in

re-borrowing. Quite often, also, bank officials have rules of thumb about appropriate loan amounts for certain purposes; if a man has only 1 acre he cannot support 3 or 4 cattle on it and he should be limited to a livestock loan of 1000 or 2000 taka at most. The average loan size for small trade is slightly higher than for agriculture, and loans for rickshaws are on the average even higher. But most of the rice processing loans are taken for dhōki, sometimes by women, and the loan utilization potential is small. Loans for domestic consumption are small, and loans to provide money for relending are larger, but those loan purposes are not usually stated to the bank officials.

TABLE 14: ACTUAL LOAN USE BY LOAN AMOUNT

Loan Use	Amount of Loan (Taka)						Total
	0 - 500	501- 1000	1000- 2000	2000- 3000	3000+	NR	
1. Crop	18	63	72	43	14	7	217
2. Small trade	10	30	81	62	14	5	202
3. Livestock raising	11	21	78	38	16	7	171
4. Plow ox purchase	13	15	64	26	7		125
5. Rickshaw/cart	1	6	2	22	19	1	51
6. Domestic consumption	2	19	10	12	4		47
7. Relending		3	2	24	7		36
8. Rice processing	2	16	4	6			28
9. Seasonal crop bus			11	5	5		21
10. Milk cow purchase		1	8	1		6	16
11. Rabi crops		1	10		1		12
12. Bamboo crafts			1	5	5		11
13. Fish farming	1	2	3	2	1		9
14. Weaving					5		5
15. Other		2		2	1		5
16. Repayment of old loans		2			2		4
17. NR			1	2			3
18. Blacksmith				2			2
19. Barber		1					1
20. Nurse/dai			1				1
21. Carpenter			1				1
22. Land releasing				1			1
	58	182	349	253	101	26	969 ^{1/}

Note: ^{1/} N=765; table includes multiple uses of loans

Source: Anthropological Survey of Borrowers.

Actual Uses and Bank Records

Table 15 on following page shows 969 actual uses of the current or latest loan of 765 respondents, and the bank record of purpose against each loan.

Some of the loans used for crops were recorded as for buying plow oxen, or for small trade, but some of the loans used for small trade were recorded as for crops or for buying plow oxen. Livestock raising is the third most common use, but it is sometimes referred to as "beef fattening," a term less appropriate in Bangladesh, and in fact many such loans were taken for buying plow oxen. More rickshaws were purchased than were recorded in loan purposes; this might be because where interest rates are variable rickshaw loans are recorded as for agriculture or animals because interest rates are 18% and 24% instead of 30%.

None of the loans used for domestic purposes, relending for profit, or repayment of old debts, were recorded for such purposes in the banks.

Most borrowers add the amount of the loan to their family income, and actually spend it on several purposes. They may also change their priorities between the time of loan application and loan utilization. As long as borrowers repay and the rate of interest covers the expense of administering the loans, probably it should not be a great cause of worry if loans are used for other than the stated purposes, or partly used for consumption.

Actual Uses by Categories

Table 16 is given in 8 parts; table 16 being a summary of tables 16A through 16G.

TABLE 15

ACTUAL USE OF LOANS AND STATED PURPOSE

Actual Use of Loan	total	PURPOSE OF LOAN IN BANK RECORD																				
		1. crop	2. small trade	3. livestock raising	4. plow ox	5. ricksha/cart	6. rice processing	7. seasonal crop bus	8. milk cow	9. rabi crop	10. bamboo craft	11. fish farming	12. weaver	13. blacksmith	14. carpenter	15. barber	16. nurse (dai)	17. domestic uses	18. relending	19. repayment of loans	20. land releasing	21. others
total	969	286	204	87	160	42	20	22	6	6	4	6	2	4	1	1					8	110
crop	217	141	18	4	35	1															1	17
small trade	202	19	121	4	21		1	11		1			1								1	23
livestock raising	171	29	11	48	44			1														38
plow ox	125	26	4	22	52		1	1	1												1	17
ricksha/cart	51	8		3	2	34																4
rice processing	28	3	4				14															7
seasonal crop bus.	21		6				4	9														
milk cow	16	5		3	3				5													
robi crop	12	6	5																		1	
bamboo craft	11	1	2							5				1								2
fish farming	9	3		2							4											
weaver	5											5										
blacksmith	2		1										1									
carpenter	1													1								
barber	1														1							
nurse (dai)	1																					
domestic uses	47	20	18			5																
relending	36	23	10											2								
repayment of loans	4		2			2									1							
land releasing	1		1																			
others	5		1	1	1																	
NR	3	2																			1	1

Source : Anthropological Survey of Borrowers.

Fully 53.2% of RFEP loans are used entirely or partly for livestock/poultry/fishing, listed as "agriculture-related" in the bank records. Of these, buying plow oxen, raising livestock or calves, and buying milk cows are the most important, though loans for goat raising and chicken raising are also popular in some areas. Loans for fish farming (cleaning and stocking pukur, or local tanks) are few, and this category could be promoted in the follow-on project, in conjunction with the various government and private efforts to promote fish farming (see p. 41 below).

Tables 16 and 16B show that 34.1% of RFEP loans were used entirely or partly for small trade or business. Over half of such loans are used for shops in bāzārs, and 33% are used for trading in hāt, periodic markets usually meeting twice a week, but sometimes once or thrice. Some borrowers conduct business from their homes or on the street.

TABLE 16 ACTUAL USES OF RFEP LOANS

<u>Loan Use</u>	<u>No. of Loans</u>	<u>% of Total</u>
Livestock/poultry/fishing	407	53.2%
Business/trade	261	34.1
Agriculture	226	29.5
Domestic/consumption	59	7.7
Transport	54	7.1
Industry	36	4.7
Relending	34	4.4
Repayment of old debts	4	.5
NR	3	.4
Total	<u>1084</u> ¹⁷	<u>141.6%</u>

Note: 1/ N=765, but table shows that many used loans for two or more purposes; more uses are shown here than in Table 15 because multiple uses within categories are included

Source: Anthropological Survey of Borrowers.

TABLE 16A RFEP LOANS FOR LIVESTOCK/POULTRY/FISHING

Plow ox/buffalo	48.7%
Calf raising	41.3
Milk cow	15.1
Goat/sheep	8.7
Chickens	6.7
Fishing	3.2
Ducks	2.9
Fish farming	1.0
Other and NR	<u>2.0</u>
Total	129.6% ^{1/}

Note: ^{1/} Some loans were used for two or more purposes with the major category. (N=312)

TABLE 16B RFEP LOANS FOR BUSINESS

<u>Location</u>		<u>Main Commodity Traded</u>	
Bāzār(permanent market)	53.0%	Paddy/rice/wheat	25.9%
Hāṭ(periodic market)	32.9	General groceries	17.6
Home	7.8	Restaurant/tea shop	10.6
Street hawking	2.0	Mustard/mustard oil	7.8
Bus stand/rail station	1.2	Other seasonal crop	7.5
N.R. and other	<u>3.1</u>	Dried fish	7.1
Total	100.0%	Potatoes	5.9
		Cloth	2.7
<u>Businessman Category</u>		Cattle	2.7
Shopkeeper	41.6%	Shoes/sandles	1.6
Bepari(Wholeseller)	32.9	NR and other	<u>10.6</u>
Feriwala(itinerant)	13.3	Total	100.0%
Auctioneer	.4		
Others and NR	<u>11.8</u>		
Total	100.0%		

TABLE 16C RFEF LOANS FOR CROPS

<u>Crop Type</u>	<u>Percentage</u>	<u>Use of Loan Funds</u>	<u>Percentage</u>
IRRI/boro	38.5%	Water supply/ irrigation	41.6%
Aus/aman	30.1	Fertilizer purchase	40.3
Wheat	15.0	Seed purchase	28.3
Potatoes/rabi crop	8.0	Labor	21.2
Mustard	2.7	Plow purchase/rent	7.5
Chilis	1.8	Harvest costs	2.2
Jute	1.8	Sowing costs	1.3
Ginger	.9	Insecticide purchase	.9
Betel leaf	.4	NR	1.8
NR	.9	Total	145.1% ^{1/}
Total	100.0%		(N=226)

Note: ^{1/} 98 loans used for two or more inputs.

TABLE 16D RFEF LOANS FOR LAND

<u>Purpose</u>	<u>No. of Loans</u>
Renting land	7
Repayment of mortgage loan	4
Purchase of land	3
Land lease arrangement ^{1/}	2
Total	16

Note: ^{1/} In Bangladesh "mortgaging in"

TABLE 16E RFEF LOANS FOR DOMESTIC PURPOSES

<u>Purpose</u>	<u>No. of Loans</u>
Livelihood	42
Medical treatment	7
House repair	3
Gifts	1
Religious ceremony	1
Education expense	1
Other, NR	4
Total	59

TABLE 16F RFEF LOANS FOR TRANSPORT

<u>Purpose</u>	<u>No. of Loans</u>
Rickshaw	43
Ox cart	8
Boat	2
Push cart	1
Total	<u>54</u>

TABLE 16G RFEF LOANS FOR INDUSTRIES

<u>Industry</u>	<u>Number of Loans</u>	<u>Purpose^{1/}</u>
Rice husking	11	Paday purchase
Bamboo handicraft	6	6 bamboo; 1 tolls, 1 labor
Weaving	5	4 yarn; 4 spare parts
Blacksmithy	5	5 iron and charcoal
Carpentry	2	2 wood; 1 big saw
Tailoring	2	2 sewing machine
Welding	1	1 machine
Bamboo fan	1	1 tools, 1 colors
Fish net	1	1 cordage
Umbrella stick	1	1 wood
Rickshaw construction	<u>1</u>	1 raw materials
Total	36 = 4.7% (N=755)	

Note: ^{1/} Some loans used for several items

Whereas bankers may suppose that a borrower with a shop in a bāzār is a better credit risk, it is to be recognized that in many areas there are no bāzārs at all; indeed, it is estimated that half the people of Bangladesh never go to towns or bāzārs for their shopping, but only to the local hāt. The same table shows that only 41.6% of borrowers for business or trade have their own shops; many are bepārī, who may also be itinerant, but usually conduct wholesale business in some merchandise, and some

are feriwālās, who conduct small itinerant trade, often in specialized products, sometimes buying regularly from handicraft or other producers in return for loans or supply of raw materials to them. As regards commodities, a quarter of the loans for trade go for the rice (or other grain) business, but generally RFEP loans are not large enough for substantial investment in this business; established merchants and trade connections have most of the market and RFEP target people can only engage in this trade at a very local level. Setting up grocery shops (mudi dukān) and tea shops are other popular uses of these loans. There is a tendency to think of loans for petty trade as "non-productive" in the sense that there is not much value-added to the goods. However, experience in many countries has shown that petty trade plays a vital role in generating economic dynamics and a sense of entrepreneurship, on which later diversification of economic activity rests. While it might be undesirable if the larger part of RFEP funds went for capitalizing petty trade, the fact that there is at present so much demand in this area speaks well for latent economic dynamism. In the follow-on project efforts may be made to encourage borrowing for new and innovative types of business activities.

Tables 16 and 16C show that 29.5% of loans are used entirely or partly for crop production. A good percentage of these loans goes for IRRI rice and wheat, which are innovative crops. But a much more extensive list of rabi crops, vegetables, fruits, and other commercial crops could be anticipated if agricultural extension work were linked up with RFEP. The agricultural purposes for which the loans were used are shown in the table mostly as irrigation, fertilizer, seeds, and field labor, with some for plowing. But apart from this, we have shown in Table 16A that 48.7% of livestock loans go entirely or in part for purchase of plow oxen, so the total RFEP contribution to agricultural productivity in the target areas is not negligible.

In addition, the use of these loans for acquiring use of land also mostly comes under agriculture, and is shown in Table 16D. In our sample, 14 used the loans for renting, releasing, or purchasing land, and 2 used them for relending and got mortgaged land in return. Such uses of the loans are not shown in the bank ledger books. But it appears to us that more emphasis could be given to use of these loans for leasing (bargā) of land because, first, the really landless among the target group might get a new chance in life thereby, and second, in this circumstance the probability of their repaying the loan is good.

Loans used for domestic purposes are shown in Table 16E; 7.7% of loans are said to have been used entirely or partly for such purposes, and we may suspect that the actual figure is considerably higher. Most such loans were used for daily family consumption needs and some were used for medical emergencies and house repair. Often such borrowing may be used for a wedding and a dowry expense, ceremonies, and education costs but the borrower may not state this. Use of RFEP loans for consumption instead of for capital is relatively small considering that some studies of rural credit showed that over 70% of loans were used for consumption, and about 65% of the non-institutional loans are so used. We may take the attitude that if the borrowers repay, and if the banks can handle the program without subsidy, it should make little difference to the lending institution if some loans are used in ways considered economically "unproductive". There are expenditure necessities in all societies whose value is not measureable in purely economic terms.

Loans for transport, mostly rickshaws, are shown in Table 16F. Such loans probably help the borrower individually to re-establish himself. In many areas the number of rickshaws appears to be proliferating more than may be actually needed. It may be prudent to encourage more lending for ox carts and

boats, which play a direct role in the intensity of trade and commerce in the rural areas. In some parts of the country, particularly the eastern side, ox carts are scarcely known, and a service to the local economy could be done by encouraging their introduction through RFEP.

Only 4.7% of these loans was used for industry, shown in table 16 and 16G. This is disappointing, and the more so because of these a third were used only for dhéki rice husking, while the other cottage and small-scale industries are poorly represented. This may be because some of these artisans get their credit from feriwālās and sell their products to them in return. It may also be because the majority of craftsman in the country are Hindus, and many Hindus feel that having to take loans affects one's dignity (though this was true of landed castes more than the lower castes). It may be suggested that in the follow-on project more attention be paid to this category of loan use, and that BSCIC and other government and private field agencies link up with the loan program to provide all the services needed for small and cottage industry producers. The Rural Industry Study Project (BIDS) shows that there is huge scope in Bangladesh in this area, and that between 13% and 24% of people, depending on the area, have this as their major source of income.

Previous and Present RFEP Loans

We have not made a special study of trends in loan use; this can be ascertained to some extent in the bank records in which loan use is divided into 3 categories. The majority of borrowers become repeat borrowers, and in some places most have borrowed 3, 4, or 5 times. We found some outlets (IRDP, Burhanuddin, for example) where many borrowers had taken loans 7, 8, and even 9 times, according to the records. We did not find any falsification of bank records on this point, though we did not make detailed checks on it.

We did find in a number of outlets that there were notifications that lending should cease at some time, such as at the end of February, 1982. Bankers were afraid that if borrowers knew there would be no more loans, they would stop making payments. We found that many borrowers repaid and intended to immediately take out a new loan. If the momentum of the project stops, we may predict that defaults will increase much.

Table 17 shows uses of one previous loan for borrowers in our sample who had had a RFEF loan before, compared to the present or latest loan, and the bank record of its purpose. The general trend is that loans for crops are down, even in the stated bank record; loans for small trade have increased slightly; calf raising is up very much, but this should be balanced against a reported decline in purchase of plow oxen, and these two should probably be read together. Rickshaw purchases are up, seasonal crop business is down, and use for

TABLE 17 ACTUAL USES OF PREVIOUS AND PRESENT RFEF LOANS

Use	Previous Loan	Present Loan	Bank Record for Present Loan
1. Crop	34.0%	22.4%	29.5%
2. Small	19.3	20.9	21.1
3. Livestock/calf raising	5.7	17.7	9.1
4. Plow ox purchase	21.9	12.9	16.5
5. Rickshaw/cart	2.5	5.3	4.6
6. Rice processing	1.3	2.9	2.1
7. Seasonal crop business	5.9	2.7	2.3
8. Milk cow purchase	.9	1.7	.6
9. Rabi crop	1.1	1.2	
10. Bamboo crafts	1.9	1.1	.6
11. Fishing		.9	.4
12. Fish farming	1.3		
13. Weaving	1.1	.5	.6
14. Domestic consumption		4.9	
15. Relending		3.7	
16. Other	3.1	1.2	12.6
Total	100.0%	100.0%	100.0%

Source: Anthropological Survey of Borrowers

cottage industries remains small. There may be more use of the recent loans for domestic consumption and relending.

Loan Use, Employment, and Economic Dynamics

An important question about the success of RFEF would be its effect in releasing latent economic activities, stimulus of production diversity and innovation, and generation of new avenues of employment. It is difficult to provide quantitative data, but some indications are apparent in Tables 18 and 19. Table 18 shows 968 loan uses for 765 loans; each use of loans is shown against occupation of the borrower.

The first thing to be noticed in Table 18 is what daily wage laborers spend their loans for. We have mentioned that fewer of the truly landless and wage laborers receive RFEF loans than their proportion in the population merits. Nevertheless, this is a difficult group to lend to, and the fact that some have received loans is encouraging. The daily wage laborers in our sample used their loans first for buying calves to raise and sell (sometimes wrongly called "beef fattening"), and secondly, for crops on either their own fragments of land or on leased land, then equally for buying plow oxen, and for small trade. Few of them took up any innovative occupation or industry. But by these four activities some of them could improve their financial position; some of the case studies in "Sociological Observations" exemplify this. Another popular use of loans by this group is buying rickshaws. But we note that rickshaw drivers numbered 67 in our sample, but only 40 of them used their loans for rickshaws, and 16 used them for agriculture-related activities, while 5 must have been in distress and used them for consumption. We conclude that these loans do help some of the indigent people to diversify their income, but so far their loan uses are not really innovative.

TABLE 18

BORROWERS OCCUPATIONS RELATED TO STATED LOAN USES^{1/}

OCCUPATIONS	STATED LOAN USES																				
	TOTAL	1. CROP	2. SMALL TRADER	3. LIVESTOCK RAISING	4. PLOW OX	5. RICKSHAW/CART	6. RICE PROCESSING	7. SEASONAL CROP BUS	8. MILK COW	9. RABI CROP	10. BAMBOO HANDICRAFT	11. FISHING	12. WEAVING	13. BLACKSMITHING	14. CARPENTRY	15. BARBER	16. NURSING	17. DOMESTIC	18. RELENDING	19. REPAY LOANS	20. OTHER/NR.
TOTAL	968	217	202	171	125	51	28	21	16	12	11	9	5	2	1	1	1	47	36	4	8
1. FARMER	458	153	38	103	87	5	3	4	8	8	1	2						19	23	4	4
2. SMALL TRADER	264	23	138	15	15	3	19	12		4	4							16	10	2	3
3. DAY LABORER	78	18	11	27	11	3	4	1				1						2			
4. RICKSHA/CART	67	5		8	3	40		1	2									5		2	1
5. "SERVICE"	17	4	3	1	3			1	3									1	1		
6. BAMBOO CRAFT	9			2			1	1			5										
7. LIVESTOCK TENDER	8	1		4					3												
8. HOUSEWIFE	8			2	4			1											1		
9. WEAVER	8			1	2								5								
10. FISHER	7											6							1		
11. MASON	7	2		4															1		
12. BLACKSMITH	6		2											2						2	
13. CARPENTER	4		1	1											1				1		
14. TAILOR	3	2									1										
15. STUDENT	2	2																			
16. NURSE	1																1				
17. BARBER	1															1					
18. NR	20	7	9	3			1														

^{1/} 968 LOAN USES FOR 765 LOANS.

Source :Anthropological Survey of Borrowers.

Of farmers who received loans, most used them for crops, raising calves, and buying plow oxen, in that order. But quite a few farmers also used the loans to go into petty trade, and a few used them for milk cows, rabi crops, seasonal crop business, rickshaws, and rice processing. Proportionately more farmers than others used the RPEP loans for re-lending for profit, which is certainly a sort of entrepreneurship. Again, it appears that the loans were genuinely helpful to the borrowers, as most of them are quick to state, but that there were not many really innovative uses.

As for small traders, we may note that they are more numerous than the loans used for small trade, rice processing, and seasonal crop business combined, and some of them used their loans for agriculture-related activities, and proportionately more of them used the loans for domestic consumption. It may be suggested that petty trade is only marginally profitable for many people who engage in it. As many poor people try to get some income by this activity, it is very competitive, and we should not assume that small trade can easily provide income to much larger numbers of the landless. Some of those who used RPEP loans for re-lending for profit were small traders.

A further point to notice is that the loans taken by artisans and craftsmen (bamboo worker, weaver, fisher, mason, blacksmith, carpenter, tailor, and barber) were in many cases not used for those occupations. We tried to get information on use of these loans for capital and working capital of these small industries, but the responses were too few to be useful. Again, while in some cases capital can propel the artisan to a new level of production, realistically, most of these persons operate with very little capital. This is also shown in the Rural Industries Study Project (BIDS), and the percentage of them who used capital beyond their own inherited or earned resources is very few. When one asks them what they want, they want, they say "money" or "capital," but this may be an excuse for a saturated market, bad management, or poor quality.

Finally, Table 19 sums up these observations. We asked the respondents to state whether their RFEF loan was used for engaging in work at the previous level, for improved quality or quantity of the same work, or for an innovative activity. Only 16.3% of responses were that the loans were for a work new or innovative for the borrower, and of all the borrowers, only 6.7% used the loans for a crop they had not grown before, 4% for another productive activity new to them, 2.4% to open a new shop, and 2% to start in raising calves. Nevertheless, in a peasant society innovation is slow. In RFEF outlet areas where the loan program is successful, people do have higher optimism about their income-producing potential. In "Sociological Observations" some case studies are given of the overall effect of RFEF on productive activities. Even the extent of innovation shown in Table 19, if continued for some years, would have considerable cumulative effect. As regards other entrenched problems, such as dependence of the landless on daily wage labor, factionalism and village

TABLE 19 RFEF LOAN USE FOR INNOVATION

Loan used for engaging in previous work at the same level		43.8%
Loan used for improving quality or quantity of previous work		41.8
Loan used for work new or innovative to the borrower:		16.3
New crop	6.7%	
New productive activity	4.0	
New shop/sales	2.4	
Calf raising	2.0	
Rickshaw	0.7	
Small business	0.5	
Non-response		<u>0.8</u>
		102.7% ^{1/}

Note: ^{1/} N=765, but 20 gave two responses

Source: Anthropological Survey of Borrowers.

power politics, and women's absence from public economic activities, we cannot expect RREP to suddenly serve as a magic wand. We can at most expect results which over a decade or two will be significantly cumulative, and which will result in unquantifiable results such as individual optimism and entrepreneurship which in time have a real impact on employment and income, other conditions remaining equal.

Linkages

In RREP some of the participating financial institutions attempted to arrange linkages for borrowers, to provide expertise for productive purposes. Agrani Bank tried the small farmer service center concept, but it was dropped. Janata Bank had the area development approach, which is to some extent being implemented but the goal of all-round micro-area development has been dropped. Pubali Bank tried an "ombudsman" concept in which referrals would be made for technical services, but it has not had much impact, and the term has been dropped. IRDP is supposed to provide linkages through its multi-purpose cooperatives, but such services did not seem to have much effect on borrowers in the outlets visited.

These attempts were less than successful because banks do not really have expertise in any field except finance. At the same time, it is desirable that the follow-on project be so designed that it generates as much economic dynamism, innovation, and new productivity as possible. The suggestion is made here, therefore, that the follow-on program be designed from the beginning to involve the field agencies having technical expertise in the uses to which the loans are put. There are many field agencies in Bangladesh which are trying to stimulate new and increased production but are not associated with a credit program. The two should be married.

The following is a list of agencies which should be contacted, and perhaps agreements with them should be drawn up as to how their field agents could refer clients to the banks for loans, and the field agents would then provide the technical assistance and try to help the borrower be in a position to repay.

Government agencies:

BSCIC (Bangladesh Small and Cottage Industries Corp.) and District Industries Centers

Bangladesh Handloom Board

Sericulture Board

Fisheries Department and thana fisheries officers

Animal Husbandry Department and thana animal husbandry officers

Forestry Department and district officers

Cotton Development Board

Ministry of Commerce - for bazars and hats

IRDP - for loans for local production not covered by their credit system area development boards (Chittagong Hill Tracts, Offshore Islands, Haor, etc.)

Private agencies:

All important voluntary agencies (BRAC, RDRS, CCEB, MCC, CHCP, etc.)

Chambers of Commerce

Banglacraft

ADAB (to coordinate agencies for agriculture)

MIDAS (to coordinate agencies for small industries)

For example, BSCIC does not have an available source of cottage industry credit to which it may refer its clients. Yet it is in the process of setting up District Industries Centers with field agents. Our data shows that if the follow-on project is to have an affect on development of small industries something more than loans should be provided. An agreement may be made whereby BSCIC field agents would find and recommend the

borrowers (under incentive), who would be given loans by the bank, and the BSCIC field agents would provide all technical and marketing assistance and keep track of the borrowers. Such an agreement has recently been signed between BSCIC and BKB for small loans for women's industries and enterprises in four thanas, with funds provided by USAID. This agreement may serve as a model, and the other above-named government agencies should be appraised of the follow-on project and linked in a formal way with it.

There are many private and voluntary agencies, but they may be contacted under two heads. The agricultural and agricultural - related agencies may be contacted with ADAB as an intermediary. The agencies interested in promoting small industries or other small enterprises could be contacted with MIDAS as the intermediary; it has recently been set up with USAID funding for just such linkage purposes. For example, CCDB (Christian Commission for Development in Bangladesh) is now drawing up plans for area enterprise development to supplement its agricultural programs in 4 thanas. A scheme has been prepared for this, but CCDB lacks a complementary credit program. The RFEP follow-on program could be set up in these thanas, and CCDB field agents would refer its clients to the banks there. The existence of this CCDB project should be known to MIDAS, which might arrange for all the interested agencies to cooperate in a plan whereby their field agents could with confidence refer their clients to the appropriate banks.

By this procedure, the follow-on program would certainly generate more economic dynamism innovative production, and in the long run, more relief from unemployment and a better standard of living of the target group. These suggestions are made as a serious attempt to improve the effectiveness of the follow-on program in achieving its overall goals.

IV. Mal-practices

Members of the anthropology team visited 30 outlets, and found or suspected some mal-practice in 12; it may also exist in some of the outlets visited in which it was not the subject of special attention, or where the visit was not long enough to observe it. In no case did the anthropology team audit books or other records, though they were casually checked in some cases. Findings come mostly from comments of borrowers.

The mal-practices listed below can be ranked according to their seriousness as follows:

1. Charging for loan application forms except as officially authorized.
2. Requiring borrowers to get signatures of particular local officials (such as a UP Chairman or a grām sarkar) who then makes a practice of taking a fee from each borrower whose application form he signs. This is rather common.
3. Allowing a local intermediary, agent, or tout, to interact between the bank and the borrower. He claims to be able to influence the bank on behalf of the borrower, and his cut comes either as a presentation from the borrower or is deducted from the loan at the time of disbursement. He may also be in league with local political figures.
4. Gross mal-practice, such as falsification of books, giving loans to fictitious names, diverting funds, allowing political influence to determine target areas for profit of certain persons, requiring borrowers to get supplies from sources disadvantageous to them, disbursing less than the stated amount of the loan, and requiring borrowers to pay irregular travel or other expenses of cooperative officials. All these are noted to have occurred.

Several respondents have said that bribes are required in other loan programs but not in RFEP. Subjectively, we suppose that RFEP is a cleaner operation than some other programs, partly because it is new and experimental, and partly because of supervision. People commonly say that when bank loans are disbursed 10% is deducted; this may sometimes happen, but one suspects that people simply mistrust banks and repeat this figure without knowing whether it is accurate (in the same way that they repeat that interest on non-institutional loans is usually 10% a month, when in fact it is usually less). Most RFEP borrowers questioned said they got the actual loan amount in their hand, but a number suspected the bank because savings were deducted by compulsion or pressure of the banker. In a few cases we found that there was a deduction as a bribe, but they were few.

Out of 420 respondents (Special Anthropology Survey) conducted in the vicinity of 4 outlets (Natore, Feni, Shaduhati, Bhadra), none reported knowing of an incident of bribery in connection with RFEP, but 33 reported knowing of it for other bank loans, and 2 for cooperative loans.

One may surmise, however, that in the follow-on Rural Finance Project, mal-practice might become more entrenched, as the project becomes more bureaucratized, and as it passes the experimental stage with its enthusiasm, checking, and supervision. Special care should be taken in the follow-on project to nip in the bud all forms of mal-practice such as those noted below.

The mal-practices noted for RFEP are as follows:

Pubali, Shahbazpur, Comilla

At this outlet 15 borrowers said that they had to pay Tk. 10 each to the loan officer to get the application form. The loan officer justified this by saying that Tk. 10 was needed to pay a person who filled in the application forms on behalf

of the borrowers. No borrower complained of any other bribe.

No baseline survey had been taken at this outlet.

Rupali, Rahmatpur, Barisal

RFEP at this outlet appears to be working reasonably well and the village agents work hard; there were no complaints against bank officials.

However, applications have to be signed by an important person such as UP Chairman or matabbar. One chairman in particular seems to be taking some payment for signing, according to the statements of borrowers. One poor man said, "I gave him Tk. 5 to make him happy. But he is a good man." As to such payments, the bank officials said "such things happen by chance, and especially for the poor people."

BKB, Manikganj, Dacca

At this outlet, 20 borrowers interviewed said that they had to pay Tk. 10 to the Loan Officer to get the loan application form. Actually BKB charges loan application fee of Tk 10 for loans above Tk. 2,000 to Tk. 5,000, so these may not all represent mal-practice.

BKB, Madaripur, Faridpur

This outlet lends at 24%; as of November 30, 1981, there had been 1557 loans and overdues were about 8%. At the time of the visit there were 759 borrowers, but all these had to be handled by one loan officer plus one woman who spends all her time keeping books. He is so busy he disburses loans only on Mondays. He needs an assistant loan officer. (The author visited this site in February, but a field audit made of this outlet on November 28, 1981 disclosed 2 loan officers and one women assistant were on duty there).

The branch requires all RFEP loan applications to be signed by the UP Chairman, who is a powerful man. The bank requires this for reasons known best to the bankers. RFEP obviously supports his interest somehow, but we could not determine for sure if there is regular illicit payment. We asked several people and got evasive answers. One man said the rich get loans faster than the poor. Another said it sometimes takes 2 or 3 months to get a loan. But another said definitely he did not make a payment. All borrowers said they got the borrowed amounts in their hand, minus any savings. As to such bribery, the Loan Officer said "that does happen - there is a local rumor." The

landless did not come forward to take loans; all of them said they would be afraid to. I have the feeling there is some local political involvement we did not uncover.

This BKB outlet should be more flexible about requiring the UP Chairman to sign applications, and if there is any payment required, should correct the matter. Another loan officer, if appointed, could enable the bank to evaluate applications directly with more care.

IRDP, Chaudagram, Comilla

In this outlet repayment is good. Nevertheless, 10 borrowers interviewed stated that they had to pay bribes to the manager, a portion of which goes to the IRDP Inspector. Several said the bribe was Tk. 75 per loan. Abdul Momin, Vice-president of Boras KSS, Chaudagram IRDP, informed us that in fact no loan was disbursed without bribe to the IRDP officials. He said the bribe is included in the savings and shares of the borrowers so they are not always aware that they are paying extra. According to him, while disbursing Tk. 135,000, IRDP officials have taken Tk. 5000 improperly from the borrowers.

Separate confirmation of the existence of this problem comes from the sociological survey taken there, in which 6 out of 25 borrowers volunteered the information that they paid Tk.10 or more to the Inspector per loan.

Joshaidighi Bhumihin Cooperative, IRDP, Natore, Rajshahi

17 persons in this samiti took RREP loans in 1980, for small trade and goat raising. As they are landless and live in a sub-urban area and do odd jobs, they form an unstable population. Repayment was bad, and no repeat loans were given, and no further loans were given through this samiti, to the credit of the Inspector.

The reason for poor repayment is that the former samiti chairman left Tk. 160,000 unaccounted for, so a new committee was formed which filed a case against him. It was found that the loans were mostly given to his followers and the real target group didn't get many loans. The loans will probably never be repaid.

Dattapara Samiti, IRDP, Natore, Rajshahi

This is a bazar area near town in which most loans were used for small trade. Repayment is poor, and the Inspector has stopped giving more loans till overdues are paid.

The samiti manager has a big shop. He said one loan had been given to a woman, to make chānā chur (snack food). We found out that no woman got a loan, but that it was given to a friend of the manager. There was also a conflict between the manager and the secretary about the patronage they exerted through RFEP. Having found one clear piece of false information in this samiti, it is possible there are other such instances.

BSBL, Buildah, Kushtia

This outlet, as of October 31, 1981, had repayment of Tk. 131,000 and overdues of 171,000. It operates in a suburb of Kushtia town with an unstable population. It was formed by a local leader who tried to use it to get some "enemy property" which was lying vacant; the society he formed was supposed to be for the landless (bhumihīn), but in fact most of them do some trading in the town. The land was not obtained, and now RFEP is the only function of the society.

In the Central Bank in Kushtia, BSBL officers said the overdues are because the secretary of the samiti is not doing his job well. The managing committee should meet once a month, but it is not meeting regularly. The bank has filed cases against 10 chronic defaulters of RFEP loans. The samiti secretary says he doesn't know about this, that filing cases is his business, and that he has filed 6. Borrowers are not much concerned about this, as they say not everybody can be taken to court. The Subdivisional Cooperatives Officer in Kushtia said that loans in Buildah will not be recovered because the population is unstable, and also because there are so many "paper transactions" going on.

The samiti secretary says the overdues are in business loans, not crop loans. But he also said that the area is suffering because it is low-lying and was damaged by a flood. He warns that if because of overdues RFEP does not continue, none will repay. He said BSBL procedure is too long, and if the system is changed he can get repayments coming in. As for bribes, he said that "all banks and ministers in the country do it."

Borrowers and non-borrowers in the target area indicate loss of confidence in the samiti, and some also think the secretary is not honest. They also doubt the integrity of the BSBL officials. It is said that at time of disbursement some of the funds are kept back. On one occasion when the Assistant Loan Officer and the secretary were disbursing loans a quarrel arose between them on the disposition of the illicit payments. Because of this lack of confidence, non-payment has gained momentum, and many people are not inclined now to try to pay, as some have heard they may not get more loans anyway. Some also say the secretary formerly had an official position in which he practiced

some mal-administration. Some borrowers also suspect the Executive Officer of the Samabaya Bank in Kushtia, rather than the Assistant Loan Officer. Some say that it takes 3 to 6 months to get loans (the applications have to go to Dacca), and this tardiness causes late repayments. The Assistant Loan Officer says Buldan was selected for RFEP before he came, and he cannot bear responsibility for this selection, but he has selected two new outlets which are working better.

BSBL Panti, Kushtia

RFEP in this outlet is working well, and all the borrowers are farmers who have taken loans for sugar cane, and have repaid. They have confidence in their secretary and committee, and have no complaints about improper management, but rather praise for their cooperative.

However, the samiti secretary said that he had to pay Tk. 200 from his own pocket to get the Central Bank in Kushtia to forward the applications for RFEP loans to Dacca for approval, which further implicates the officials of BSBL there.

BSBL, Batazore, Barisal

At this outlet the overdues were more than repayments (October 31, 1981); by the time of our visit (February 15, 1982) it was said 124 loans had been made. All borrowers have land, and had given actual mortgages of their land on stamped paper, which we saw. Those who did not have land were guaranteed by somebody who had mortgaged his land on behalf of the RFEP borrower.

The Secretary, Wazid-al-Faruq, said repayment is bad because of too much rain, then a flood, then a drought in the fall which spoiled the pān, but thinks overdues will be paid. He said no bribe is taken.

Interviews were conducted with 8 borrowers and non-borrowers in the bazar. Two belong to the target group and applied for loans but did not get them, and think the reason is they did not give bribes. Another said he is too poor to pay the bribes and other fees to get a loan so he did not apply. Two persons said that the manager took fees and a bribe from somebody, but that person did not get the loan and his money has not been returned. Another said that a loan had been disbursed in his name but he did not get it, and he knows three other cases of the same. Two interviewees who are not of the target group, stated that most of the loans are disbursed to rich people or to friends of the manager. One borrower said loans are disbursed to the target group and the manager does not take any bribes.

Four interviewees said repayment is poor because people have to give bribes and they do not get much benefit from the loan, so do not repay. But two others said poor payment is because the pān crop was spoiled. But all the interviewees said that 30% interest (for business) is very high, and they would like loans at 12% or 15%. This outlet comes under the Samabaya Central Bank at Barisal, about which we also have some doubts (see below).

BSBL, Taltoli, Barisal

This society began in 1972 and took on RFEP in 1979, and is affiliated with the Central Bank in Barisal. It operates in an area of Barisal town. As of October 31, 1981, repayment was Tk. 185,000 and overdues Tk. 112,000.

To join and get a loan, fees should be Tk. 20 (share 10, application form 5, other fees 3, and admission fee 2). But two interviewees said they paid Tk. 25, 3 paid Tk. 40, and 4 paid Tk. 50. Besides this, two interviewees said they had to pay Tk. 100 for each Tk. 1000 borrowed.

Borrowers found that BSBL officials did not write in their cash book the figures which they wrote in borrower's savings books. This mal-practice was discovered by an audit committee organized by the borrowers. They found, for example, that borrower's savings book account No. 1025 had figures not written in the BSBL cash book. The audit committee found Tk. 24,000 written in their savings books, but only Tk. 2,179.42 in the cash book.

Borrowers who got rickshaws said that the samiti manager said he had to go to Dacca to get rickshaw licenses and that his expense for this was Tk. 400, which was collected from the rickshaw pullers at Tk. 15 each.

The manager attended an RFEP training session in Khulna in May 1980, and another in November. T.A. and D.A. for this was provided by RFEP, but the BSBL authorities collected Tk. 400 from the borrowers for this travel and training.

The BSBL authorities also show that they purchased a rice husking machine on 4/12/80 for Tk. 1000, but it is not seen to exist, and borrowers believe the money was used for the personal purposes of the officers.

The samiti manager also took a loan of Tk. 3000 for his business which was not recorded in the loan ledger book, but when the audit committee discovered it, the BSBL authorities wrote it down.

Mr. Md. Jabbar Khan, son of Abdul Majeed Khan of Charbaria Village, Taltoli, said somebody had written a loan of Tk. 4000

against his name for purchase of a rickshaw, but he did not get it; the audit team discovered this. His borrower's serial number is 146, loan ledger page is 461, and loan disbursement date is 17/12/81.

Another borrower said the last time he took a loan of Tk. 1000, of which the manager immediately borrowed Tk. 800 giving assurance he would return it in a week, but a year has passed and he has not returned the money nor the documents of the borrower.

As for the overdues, 7 persons interviewed said they fear that if they pay their loans the BSBL authority will not write it in the bank cash book, and then the government will take action against them. Of these 3 said they could actually repay the money within a week. Only 2 persons are not repaying because of poor crops, with which the loan officer and chairman also agree.

Further, there was a misunderstanding between BSBL officials and the borrowers because of the audit team. The bank officers say the audit team does not understand the official documents.

All the interviewees said they hope the loan program is not closed down, but that RFEF or the government will take necessary action. On these matters, the BSBL Executive Officer, A.K. Nazier Ahmed, was also interviewed. He said he heard about mal-practices at Taltoli only one month before, and "I cannot directly supervise it because I have to make decisions for about 1256 samitis under this central bank." He says the main cause of overdues is poor crops, and as to the misunderstandings, he said he will visit Taltoli and take necessary action.

There is separate confirmation of mal-practice at this outlet in the sociological survey, in which 7 borrowers volunteered the information that they gave Tk. 10 or more to the inspector per loan.

BSBL, Charkali Bari, Kotwali, Mymensingh

This outlet (as of October 31, 1981) had disbursed 86 loans; repayment was Tk. 64,000 and overdue was 45,000.

20 borrowers were interviewed, all of whom said they had lost confidence in the samiti chairman. Many said he could be easily bribed; 5 borrowers said they had paid some amount as najranā (bribe) to the chairman to get loans. It was also found that some persons applied for loans, which were sanctioned, but they never got the loans because the money had been diverted to some persons reported to be influential and close friends of the chairman. They further added that in this or some loans were sanctioned by the chairman to borrowers whose addresses appear to be false.

Some rickshaw drivers interviewed said they did not get rickshaw loans in cash but in kind, from a particular rickshaw and cycle shop in the town whose owner was closely related to the samiti chairman. The prices of the rickshaws were higher and the quality lower than the borrowers could have arranged elsewhere.

Non-Institutional Credit(all data in this section is drawn from the Survey of Non-Institutional Credit)

Systems of Traditional Credit and Security

As in any traditional peasant society, there are well-established systems of finance, credit, accounting, and the like, which may be quite complex and meet a variety of economic needs, but they tend to get obscured by the modern banking system. While many traditional loans are "informal" in the sense that they may be undocumented, many of them also abide by traditional forms and are part of traditional institutions, and it is not quite correct to call them all "informal" or "non-institutional" unless one excludes by those terms indigenous forms and institutions.

The following are the main systems of traditional credit, with their Bangla terms. But we have found that some of the terms have different meanings in different parts of the country.

Karja, Karja hāsānā, or Haulat. These refer to a loan without interest, usually from friends, relatives, neighbors, and well-wishers. The loan usually is a small amount, and the lender has personal assurance of timely repayment. Such interest-free credit is advocated in Islamic tradition.

Rin. This refers to a loan requiring cash payment of principal and cash payment of interest, such as a bank loan.

Bandhak, or Bandhaki rin. This is a loan of cash against some security, such as gold; ornaments, brass utensils, or land. The rate of interest may be between 30% and 100% of the borrowed

sum. The security is returned when the loan is fully repaid, with interest. While bandhak was formerly more widespread, the lenders were often Hindu professionals, many of whom have since left the country. Goldsmiths, silversmiths, and brassmiths commonly gave such loans against valuables, and professional moneylenders (mahājan) would often give loans against land.

Dādan. This refers to a cash loan which is to be repaid in the form of produce, but at a pre-determined rate which is lower than the normal price of the produce. The most common form of dādan is repayment of an agricultural loan in the form of part of the paddy harvest. It is also used by artisans, who may get loans and raw materials from itinerant agents (feriwālā, benārī) to whom they pay part or all of their produce for him to market.

Khāikhālāsī. This is usufructuary mortgage of land, which is common in Bangladesh. In return for a cash loan, the borrower hands over some land to the lender to be used by him for a stipulated period of time, which is in effect principal and interest. After the lender (literally) "eats" from the land for the set time, he "gives back" the land to the owner. This method of borrowing is popular among peasants because they have every prospect of recovering their land.

Kat. This is mortgage of land, often informal, in which the borrower allows the lender to use his land until he is able to repay the principal, and no separate interest is computed. This is done when the size of the loan is fairly high and the demand is heavy. The borrower risks losing his land, but usually there is no transfer of documents. The agreement rests on the relationship between lender and borrower in the network, and it works particularly if they have known each other for a long time. Lending under kat is well known all over Bangladesh, but in some areas it is defined as mortgage with a sale deed from the borrower.

Rehān. This refers to a mortgage agreement on stamped paper in which the borrower makes a promise to repay his loan under

agreed terms. This is done when the parties do not have a relationship sufficient to make a loan under kat, and the land is legal security.

Sāfkaulā, or Ṣāfkaḅālā. This refers to a deed of sale given by the borrower to the lender, which he holds until the loan is repaid.

Firtināmā. This is a document signed by the lender in case of sāfkaulā, in which he agrees to return the land together with the deed and documents upon repayment of the loan.

Ijārā, Bargā, Sankaralī. These terms refer to leasing of land and are not necessarily linked with credit; sankaralī refers to leasing of land for one agricultural season.

It can be understood from the above list that the concept of credit, interest, and security, is well established in rural Bengal, and RFEF builds on this as well as on existing familiarity with bank loans.

Sources of Traditional Credit

Table 20 shows who gave non-institutional loans in six studies conducted between 1956 and 1981, plus the estimates in the RFEF Project Paper, and two columns of our own data.

Relatives and friends. About one quarter to one half of all such loans are given by relatives and friends, who are the first sources a small producer will usually turn to when in need of credit, either for consumption or capital. Such loans may be without interest, and usually for short periods. They cannot be a major source of liquidity for poor families, because the poor seldom get loans sufficient to use as capital from their rich friends and relatives; there is a saying that for the poor there

TABLE 20

SOURCES OF NON-INSTITUTIONAL CREDIT AS SHOWN IN 9 STUDIES (BY PERCENTAGES)^{1/}

	1956 E.Pak.	1965 E.Pak.	1968 Gazipur Comilla	1970 Thakur- gaon Dinajpur	1970 Phulpur Mymen.	1977 ^{2/} RFEF PF esti- mates	1981 Bangla- desh	Alter- native ^{3/} for RFEF bor- rowers	This survey ^{4/}
Relative Friend Neighbor	52%]	30%]	32%]	26%]	28%]		43%	22% 8	28%
						20%		2	20
Local richman Own landowner	25	16	4			40-50	12		10 5
Moneylender Gold, Silversmith	5	45		66	59	20-30		52	1
Shopkeeper Marketing agent	14 2	1 5	3			5	24	1 1	36
Bank Cooperative			6 13			5-10		8 2	
Other	2	3		3	13		21	4	
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	-	<u>100%</u>	<u>100%</u>	<u>100%</u>
			(N=136)	(N=138)	(N=126)		(N=340)	(N=168)	

- Notes: ^{1/} Sources are given on the footnote for Table 1 of this report.
- ^{2/} USAID, Rural Finance Experimental Project. Project Paper, p. 30. These estimates are said to be subjective but made by persons familiar with the situation.
- ^{3/} This column is from the questionnaire of "Anthropological Survey of Borrowers" in which respondents were asked where a loan for the same purpose might have been obtained had they not received an RFEF loan.
- ^{4/} This column is derived from our "Survey of Non-Institutional Credit", conducted in 7 villages in Bangladesh, and all tables in this section are based on this survey unless otherwise stated.

are no relatives. This is one of the reasons the landless day laborers do not quickly come to take RFEF loans; they are not accustomed to thinking that anyone will give them capital loans, though some benefactors might give small charitable loans.

Local rich men and landowners. Between 10% and 50% of such loans are from these sources; often it is about one quarter. Many such loans are made by local landowners who have a surplus, and this activity may also be part of their build-up of local political support. A newer trend is that professional and salaried people now sometimes have funds to lend out, and they may not wish to deposit such funds in banks, for their own reasons. An alternative is to lend locally in return for usufructuary mortgage of land, by which they may also get a supply of rice.

Moneylenders, goldsmith. Moneylenders are, or were, sometimes also goldsmiths, silversmiths, and brasssmiths. As a moneylending class, their activities have declined since independence. While land is the best security, gold, silver, and brass has traditionally served the purpose too. Many Hindu moneylenders and jewelers have left for India. The credit business of others has been affected by the prevalence of institutional credit. In some areas there are now no professional moneylenders.

Shopkeepers and traders. Many people have small loans in their nearby grocery shops, or with seed dealers or other merchandisers, and often for consumption in the case of local shops. Interest charges are often concealed in high prices the borrower feels obliged to pay at the shop where he has a debt. Credit from merchants and tradesman is also important as a source of capital to persons in small industries. The creditors often supply raw material, or take care of the marketing, whereas the producer is tied to him for obtaining raw materials and for marketing, and such service is in many cases necessary

because the producer himself cannot bring his goods to market and still have time to produce at home. Tables 20 and 21 show that in our sample, at least, most small consumer loans are from local shopkeepers. This would not be true in rural areas where most marketing is through periodic markets(hats).

Amounts of traditional loans, as shown in Table 21, vary from Tk. 100 or a few hundred from grocery shops, to a number of loans for over Tk. 10,000 from marchants.

TABLE 21 NON-INSTITUTIONAL LOANS: SOURCE AND AMOUNT

Source of Loan	Amount of Loan (Taka)							Total
	Take 0-100	101- 500	501- 1000	1001- 2000	2001- 5000	5001- 10000	10000+	
Consumer sup- plier/shop	20	18	9	6		3	6	62
Relative	6	9	8	10	9	3	2	47
Neighbor	3	7	5	7	8	3		33
Local rich man		4	1	3	4	3	1	16
Own landowner		5			2	1		8
Goldsmith			1		1			2
	29	43	24	26	24	13	9	168

Loans from relatives and neighbors commonly range from Tk. 500 to Tk. 5000. Loans from local rich men are for slightly higher amounts on the average. Loans from one's own landlord are modest, and are usually for emergency consumption or for agricultural inputs.

Loan Security and Land Mortgage

Table 22 shows that in our sample 67% of non-institutional loans were given against no security, and 33% were given against land. But some loans from shops carried the obligation that the borrower buy at the shop where he had his debt, presumably at prices that might be high, and some loans were given according to dādan, whereby the crop or other product was considered to be security.

TABLE 22 CONDITIONS OF NON-INSTITUTIONAL LOANS^{1/}

<u>Condition's</u>	<u>% loans</u>
No conditions	53.0%
Lender will use mortgaged land till loan capital is repaid	31.5
Cash interest to be given	8.9
Borrower must buy goods from shop of lender	5.9
Repayment in paddy at harvest time	<u>.6</u>
	100 %

Note: 1/ Security: Land 33%
 No security 67%
 100%

Land is of the greatest value as a capital asset and as a hedge against inflation, and also is a basis of political power. quite often loans are made by a landowner to his tenants or laborers which have the effect of enhancing his political following, and quite often a large landowner will try to serve as intermediary to appear as if he were doing a service to his tenants or laborers by enabling them to get RREP loans. But a person having just a small piece of land does not have much security in that so he may get a loan by allowing it to be cultivated by the lender under the kat system. Loans against usufructuary mortgage do not result in loss of land through indebtedness.

Mortgaging of land and loss of land thereby is reportedly a serious rural problem. The 1968 study (A. Khan, p. 24) showed 'from one village in Comilla that 41% of families surveyed were involved in mortgage debt, and 15% of families had come to the position of mortgaging land in one year's time. The average amount of such debts was Rs. 673, which was a heavy debt at that time. But it appears that land mortgage is uneven in the country, varying according to density of population (more in the heavily populated and marginal subsistence areas), and of course, it would increase in times of calamity.

But in our study villages only one third of non-institutional loans were against land mortgage, and only 35% of people had non-institutional loans (Table 2). Moreover, we made an effort to ascertain the extent of loss of land through mortgage, and we found that out of 420 respondents only 10 could actually cite a case in which a borrower lost his land. Only 3 could cite a case in which violence or threat of violence occurred because of indebtedness. And none of our respondents could cite a case of bonded labor resulting from indebtedness. All three of these issues are politically sensitive in India; bonded labor and threats of violence to debtors are known to exist, at least in some areas. But despite its greater population pressure, these issues seem not so pressing in Bangladesh.

Interest and Repayment of Non-Institutional Loans

Table 23 shows that 57% of non-institutional loans in our sample are interest-free. Some of these loans carry hidden

TABLE 23 INTEREST ON NON-INSTITUTIONAL LOANS

<u>Interest as cash or as computed in kind</u>	<u>Repayment in cash</u>	<u>Repayment in kind</u>	<u>Totals</u>	<u>Percents</u>
Without interest			96	57.1%
0- 20%	1	2	3	1.8
21- 40%	1	14	15	8.9
41- 60%	1	8	9	5.4
61- 80%		11	11	6.4
81-100%	11	15	26	15.5
101%	<u>1</u>	<u>7</u>	<u>8</u>	<u>4.8</u>
	15	57	168	100 %

interest, such as required purchases at the shop of the lender, or political or other support to the lender. Nevertheless, many of these loans are small amounts given in karja or haulat in the Islamic tradition.

Of the loans carrying interest, most are to be repaid in kind, especially grain at the time of harvest, and in the table only 15 out of 168 loans are shown to carry interest and have to be repaid with cash, as rin. In our study we converted the value of the interest payment in kind to tākās, and the true interest paid is shown in Table 23. There is wide variation, but it is common that interest on such loans ranges from 20% to 100% a year and a not inconsiderable number of loans in our sample had actual interest of 80% to 100% a year. However only a few had interest more than 100%.

These figures do not really support the assertions that debtors often pay interest rates in the hundreds. We have found instances of 300% and 400% interest, but those were for small loans in specific circumstances. When villagers are asked about the true interest of agricultural loans, they frequently assert it is 10% a month, or 120% a year. Our figures show that interest is not usually this high, but people have a tradition of citing those figures because they wish to assume that moneylenders fleece the people. In view of the unsecured nature of such loans, the large number of loans given without interest, and the difference in the price of grain before and after harvest, we may assume that moneylending in general charges interest commensurate with supply and the risks involved. The study of indebtedness in a Comilla village (A. Khan 1968:25) showed only 16% of the total outstanding indebtedness repaid in a year, and only 50% of indebted families made repayments. Our own data in Table 25 show that 35% of those having non-institutional loans can't say how long it will take them to repay. This is not to say that there is no exploitation in traditional rural moneylending, but the level of insidious exploitation and loss of mortgaged land is not as high as some might suppose.

Table 24 shows that 77% of these loans have no fixed repayment time, though that figure may include some crop loans. In particular, most of the larger loans have no fixed repayment

time, whereas many of the small loans, presumably taken for subsistence, are to be repaid in 1 to 3 months.

TABLE 24 NON-INSTITUTIONAL LOANS: AMOUNTS AND REPAYMENT PERIODS

Amounts(Taka)	Repayment Periods					No fixed time	Total	Percent of totals
	Under 1 month	1-3 mon-ths	4-6 mon-ths	7-12 mon-ths	12+ mon-ths			
0- 100	9	4				17	30	17.9%
101- 500		6	6	1		32	45	26.8
501- 1000		2	2		1	17	22	13.1
1001- 2000		3		1	3	21	28	16.7
2001- 5000					1	25	26	15.5
5001-10000						12	12	7.1
10001+	—	—	—	—	—	5	5	3.0
	9	15	8	2	5	129(77%)	168	100 %

Of those who borrowed small amounts, under Tk. 500, most expect to be able to repay within 6 months, and the rest mostly can't say when they might repay; these are borrowers who mostly

TABLE 25 NON-INSTITUTIONAL LOANS: BORROWERS' ESTIMATES OF WHEN REPAYMENT MIGHT BE POSSIBLE

Months needed to repay	Loan Size(Takas)				Totals	Percent
	0-500	501-1000	1001-5000	5001+		
0- 6	43	9	10	4	66	39.3%
7-12	5	1	13	5	24	14.3
13-24			4	1	5	3.0
24+		1	9	4	14	8.3
Can't say	24	12	16	7	59	35.1
					168	100 %

have subsistence loans, and some of them are clearly unable to see their economic situation improving. This is deduced from Table 25, which also shows that of those having larger loans,

many can foresee repayment within 1 or 2 years, and they are obviously in better control of their financial situation.

Occupation and Loan Amounts

Table 26 shows that farmers take larger loans, and day laborers take small loans which would be for subsistence. This again suggests that daily wage laborers are not accustomed to thinking in terms of taking out loans for use as capital. Rickshaw pullers, naturally, take loans mostly in small amounts and then in relatively large amounts to buy rickshaws. Loans for businesses and shops, as well as most agricultural loans, are within the range specified by RFEP.

TABLE 26 NON-INSTITUTIONAL LOANS: OCCUPATION AND LOAN AMOUNT

Occupation of Borrower	Loan Amount (Taka)					Total
	0-100	101-500	501-1000	1001-5000	5001+	
Farmer	7	13	15	27	7	69
Day laborer	10	14	1	2	-	27
Rickshaw puller	11	5	1	10	-	27
Other business	-	5	2	5	3	15
Grocery shop	0	1	2	8	1	12
Service(clerk)	1	4	2	3	-	10
Tea shop	-	-	-	3	-	3
Other	-	1	1	3	-	5
	29	43	24	61	11	168

Tables 27 and 28 show loan amounts by income and landholding. Figures given on income are unreliable, but the relationship of small income with small loans is apparent. This relationship is less clear as regards landholding, because a number of those with under ½ acre would have taken loans for business or livestock and might be relatively well off. These tables show that persons in the RFEP target group normally can and do handle loans of Tk.1000 to Tk.5000, and this range is reasonable for RFEP.

TABLE 27 NON-INSTITUTIONAL LOANS: INCOME BY LOAN AMOUNT

Annual Income	Number of Loans by Taka Amount Borrowed					Total
	0-100	101-500	501-1000	1001-5000	5000+	
Up to 4000 taka	5	11	3	3	-	22
4001- 6000	22	22	8	19	3	74
6001-10000	2	9	9	30	5	55
10,000+	<u>2</u>	<u>1</u>	<u>4</u>	<u>9</u>	<u>3</u>	<u>17</u>
	29	43	24	61	11	168

TABLE 28 NON-INSTITUTIONAL LOANS: LAND OWNED BY LOAN AMOUNT

Land Owned	Amount of Loan (Taka)					Total
	0-100	101-500	501-1000	1001-5000	5000+	
Up to ½ acre	21	26	12	31	6	96
½ to 1 acre	3	8	4	9	-	24
1-2 acres	4	8	2	6	-	20
2+ acres	<u>1</u>	<u>1</u>	<u>6</u>	<u>15</u>	<u>5</u>	<u>28</u>
	29	43	24	61	11	168

Uses of Non-Institutional Loans

Tables 29 and 30 show that 64% of non-institutional loans are for consumption, 34% for capital, and 3% for repayment of old debts. Day laborers, rickshaw pullers, and clerks, took such loans almost entirely for consumption, but grocery and tea shop owners took them entirely to use as capital.

The loans used for consumption are more or less in line with the RFEP loans used for consumption and family expenditure. It is probably necessary to recognize the need for consumption loans in Bangladesh, and to accept that at least part of many loans will go for consumption. A marriage ceremony or emergency medical expense is a more important, and perhaps more socially productive use of money, than is defined by economists. Nevertheless, the follow-on project should make efforts to see that loans are not

TABLE 29 NON-INSTITUTIONAL LOANS: CONSUMPTION VERSUS CAPITAL USES

	<u>Consumption</u>	<u>Capital</u>	<u>Repayment of old loans</u>
Occupation:			
Farmer	39	26	3
Day laborer	21	1	
Rickshaw Puller	23	4	
Other business	3	11	
Grocery shop		10	1
Service (clerk)	8	1	1
Tea shop		3	
Other	<u>12</u>	<u>1</u>	<u>—</u>
	106	57	5
Income:			
Up to 4000 taka	21	1	
4001- 6000	47	26	1
6001-10000	27	25	3
10,000+	<u>11</u>	<u>5</u>	<u>1</u>
	106	57	5
Land Owned:			
Up to ½ acre	65	28	3
½ to 1 acre	14	10	
1-2 acres	9	11	
2+ acres	<u>18</u>	<u>8</u>	<u>2</u>
	106	57	5

used on a large scale entirely for consumption or for relending for profit.

The non-institutional loans used for capital purposes are also more or less for the same purposes as are RFEP loans, except that agriculture is proportionately more and raising of calves is proportionately less. More of the non-institutional capital loans are for urgent production costs, but RFEP loans often represent new opportunities, as for buying a milk cow or plow oxen, or opening some petty trade, which the borrower might not have taken the initiative to do if RFEP had not been available. This suggests that there are indeed many latent economic opportunities which are opened up through such a credit program, and if the program remains in place there is no doubt

that in the target areas where the project is working well, within a few years time a greater sense of economic dynamism is created, non-institutional loans decrease (as shown by our study of the vicinity of 4 target areas), and many individuals will be helped.

TABLE 30 NON-INSTITUTIONAL LOANS: PURPOSE AND AMOUNT

Purpose	Amount (Taka)						Total
	0-100	101-500	501-1000	1001-2000	2001-5000	5001-10000	
Consumption:							
Rice for consumption	12	21	11	2		1	47
Other consumed groceries	7	4	3	1	1	1	18
Other household expenses	1	1	2	2	3	2	13
Marriage ceremony		1	2	3	2	2	11
Medical treatment	3			2	2	1	8
House building		1		2	1		4
Purchase of clothes	1	2		2			5
	<u>24</u>	<u>30</u>	<u>18</u>	<u>14</u>	<u>9</u>	<u>7</u>	<u>106=63%</u>
Capital:							
Agriculture	2	2	1	3	2	1	12
Running grocery shop		1	1	4	3	2	11
Running other business		5	1	2	1		10
Livestock purchase		1		2	2		6
Land purchase	1	1			2	1	5
Running tea shop					1	1	3
Wholesale business					1		2
Rickshaw purchase			1	1			2
Paddy seed	1	1					2
Itinerant business (feriwala)					1		1
Cloth business				1			1
Pay for day laborers	1						1
Sending son abroad for work						1	1
	<u>5</u>	<u>11</u>	<u>4</u>	<u>13</u>	<u>13</u>	<u>6</u>	<u>57=34%</u>
Repayment of old loans			2	1	2		5=3%
Totals:	<u>29</u>	<u>43</u>	<u>24</u>	<u>26</u>	<u>24</u>	<u>13</u>	<u>168</u>