The Developing Economies, XXXIX-4 (December 2001): 436–39

CREDIT FLOWING FROM THE POOR TO THE RICH—THE FINANCIAL MARKET AND THE ROLE OF THE GRAMEEN BANK IN RURAL BANGLADESH: REPLY

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FIRST of all, I would like to express my sincere gratitude to Dr. M. A. Quasem for his attention to my article and his highly constructive comments, to which I would like to respond here.

A. *Reversed Flow of Informal Credit*

Dr. Quasem's first and most important concern is that the alleged reversed credit flow cannot be proved adequately if one discusses only the net balance of credit. This is quite understandable if the fact is taken into account that many land poor borrow money while at the same time acting as lenders in rural informal financial markets. It is also evident that the village itself is not a closed economy, and we should also take that into account.

I have prepared two additional tables, according to Dr. Quasem's suggestion. Table I shows the matrix of inter-strata credit flowing in village D for long-term credit with land mortgage (*bhograhani*), while Table II indicates the same for short-term credit without land mortgage. To construct these tables, I had to drop credit transactions beyond village boundaries. Also omitted was credit generated by informal saving and credit society (*sanchoi samity*) organized by a group of villagers,[1] because in those cases lenders cannot be classified based on landownership size.

If we confine ourselves to such intra-village transactions among individuals, therefore, the total amount of credit (including both long-term and short-term) comes to 1,612,635 taka. Let us compare this data with the figures in Table V in the original article. Given that the total amount of credit generated by the villagers was 1,966,900 taka, while their total debt was 2,570,750 taka, the credit covered by the new tables comes to 63–82 per cent.

[1] Typically, fifteen to twenty persons form a society, saving 5 taka per person every week and after several months "investing" the accumulated money; i.e., lending it in the short-term informal financial market and/or mortgaging land to be rented to a tenant. At the time of the survey in village D there was one case of borrowing from *sanchoi samity* with land mortgage (2,000 taka) and five cases of borrowing without (the five cases accounted for 25,500 taka of credit).

TABLE I

INFORMAL CREDIT FLOW WITHIN THE VILLAGE IN VILLAGE D (*BHOGRAHANI*)

Borrowers' Landownership Size (Acre)	Creditors' Landownership Size (Acre)													
	0		0.01–0.49		0.50–0.99		1.00–2.49		2.50–4.99		5.00–		Total	
	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)
0	1	4,000	1	2,500									2	6,500
0.01–0.49	20	47,050	20	61,200	6	21,500	8	32,400					54	162,150
0.50–0.99	21	85,800	20	93,500	10	36,300	9	32,500	4	15,500			64	263,600
1.00–2.49	27	108,350	27	118,900	10	49,000	11	48,600	3	13,000			78	337,850
2.50–4.99	17	85,500	10	49,300	8	63,000	6	29,000	1	9,000			42	235,800
5.00–	10	46,500	14	55,400	3	8,400	10	69,400	2	7,500	1	5,000	40	192,200
Total	96	377,200	92	380,800	37	178,200	44	211,900	10	45,000	1	5,000	280	1,198,100

Source: Prepared by the author based on the baseline survey of June–August 1992.

TABLE II

INFORMAL CREDIT FLOW WITHIN THE VILLAGE IN VILLAGE D (SHORT-TERM CREDIT)

Borrowers' Landownership Size (Acre)	Creditors' Landownership Size (Acre)													
	0		0.01–0.49		0.50–0.99		1.00–2.49		2.50–4.99		5.00–		Total	
	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)	No. of Cases	Amount (Taka)
0	37	69,500	20	30,500	11	10,405	9	9,700	2	2,700	7	12,000	86	134,805
0.01–0.49	19	26,700	14	20,000	8	7,660	7	5,800	1	2,000	4	1,300	53	63,460
0.50–0.99	13	13,500	12	14,600	8	9,800	4	5,000	1	1,000	1	1,500	39	45,400
1.00–2.49	16	17,100	11	18,300	4	4,800	4	3,250	3	7,500	1	5,920	39	56,870
2.50–4.99	6	10,000	2	2,500			2	8,000			1	7,000	11	27,500
5.00–	6	38,000	3	11,500	1	10,000	4	27,000					14	86,500
Total	97	174,800	62	97,400	32	42,665	30	58,750	7	13,200	14	27,720	242	414,535

Source: Prepared by the author based on the baseline survey of June–August 1992.

Now we get the more detailed picture of the credit flowing between villagers of different strata. First, in the case of long-term credit, it is evident that most of it was issued by the lower strata to higher strata villagers. Secondly, however, in the case of short-term credit, the tendency of the credit flowing in reverse becomes much weaker, although it still exists. This shows the existence of the poor having to rely on the rich for mainly consumption credit, as Dr. Quasem expects. However, since the share of long-term credit is much larger than the short-term credit, it can be concluded that the reversed credit flows from the poor to the rich is proved true for village D.

B. *Amount of Credit and Its Terms and Conditions*

The second question Dr. Quasem raised is whether the estimated outstanding amount is for one or a few years. The answer is that it is the outstanding amount at the time of the survey irrespective of the timing of credit provision, so that some of the credit might surely be given prior to one year ago, especially in the case of long-term credit. It should also be noted that the cases of credit issued within the past year and repaid already by the time of the survey date were not covered. The short-term credit market can be characterized as dealing in small amounts with frequent transactions. If such credit flowing within the last one year is covered, the share of the short-term credit market becomes larger, and there is a possibility that a slightly different picture can be obtained about the informal credit market as a whole.

Next, let me briefly explain the terms and conditions of informal credit. For long-term credit, I have already explained in detail the different systems in the villages studied (pp. 351–52) and have nothing to add here. Concerning short-term credit some explanation was given on pp. 352–53, and only the fact to be added here is that it was usually transacted neither with collateral nor predetermined loan periods.

It is important to note that the short-term credit market is very diversified regarding terms and conditions. Still, in village D there seems to be largely two types of credit. One is for consumption purposes for the (real) poor. The amount is usually very small (100–500 taka) and 10 per cent monthly interest is imposed. It should be noted here that even with such a high interest rate, the poor (especially the poorest of the poor) cannot get consumption loans very easily. As already pointed out, they are usually excluded from such a market even as pure borrowers. The other is credit for the "credit-worthy." The "credit-worthy" includes the poor involved in successful business and/or have fairly stable income sources, besides the rich in general. The loan amount is fairly large, and interest is to be paid in kind (2–3 maunds of paddy per year per 1,000 taka) in village D. The micro-entrepreneurs in Table XX were the main borrowers of this latter type of short-term credit.

C. *Formal Credit*

The major reason why I did not estimate the total amount of formal credit was that in the case of the Grameen Bank, the major source of the formal credit, it was difficult to get accurate figures for loans outstanding, due to its weekly repayment system. Be that as it may, my conclusion that formal credit inflow did not have a decisive impact on the informal financial market in the villages studied remains unchanged.

Dr. Quasem asserts that about 40 per cent of the eligible households are still left out by the Grameen Bank in village D only because adequate time has not yet passed. I would like to raise two points here. The first is that not a few poor could not participate in GB even if they wanted. They know that they cannot repay weekly according to the GB's rule, so they give up joining GB voluntarily, or they are rejected by village women with whom they must form five-person groups. Even if they could join, many would be obliged to drop out later because they could not perform satisfactory. The other point I want to raise is related to who actually can participate in micro-credit programs. Not all the poor, that is for sure. What I wanted to say in the article is that those who have some fairly stable regular income sources can be the most successful participants. I want to reiterate here the importance of abandoning the idea that micro-credit is a panacea, and we must look more closely at what is happening in the field, in contradiction to the very strong current trend of international aid that promotes micro-credit without full consciousness of the mechanism by which micro-credit can be successful in poverty alleviation.

Lastly I would like to add another critical point related to policy implications. The reversed flow of informal credit does not automatically mean that the poor lender will be better-off than the rich borrower. On the contrary, if the rich invest the borrowed money in some more profitable business, they are benefited more than the poor lender who only obtains the interest. In this sense I fully agree with Dr. Quasem when he says that interest income alone cannot uplift the status of the poor. More seriously, the rich invest loan money in more profitable long-term opportunities like higher education of their sons and daughters or emigration to the Middle East or Malaysia. In such cases income disparity in rural areas will most probably be widened. Unfortunately, I have not been able to deepen my analysis of this very critical issue.

Many research agendas remain to be explored. I am very happy if my article stimulates more criticism and discussion, thus inviting more research on rural finance and rural development in general, and, needless to say, I am also eager to continue to participate in such research.