The Developing Economies, XXXIX-4 (December 2001): 432–35

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

MD. ABUL QUASEM

THIS article, which appeared in *The Developing Economies,* Vol. 38, No. 3 (September 2000), is quite thorough and informative to all academicians, development practitioners, and policymakers. It attempts to (a) verify the phenomenon of reversed credit flow from the poor to the rich in the informal financial markets of rural Bangladesh and investigate the causes and implications of such flows and (b) examine the use of Grameen Bank (GB) loans and explain the mechanism of how they help alleviate poverty among its member-participants. The article contains four main sections of which the second and the third form its core. Section II thoroughly analyzes financial markets, based on household surveys carried out in two remote villages of Bangladesh—one in Tangail District, the other in Bogra District. This section is divided into six subsections detailing mainly credit flows, terms and conditions of informal credit, and the possible causes of reversed flows. Section III mainly describes the use of GB loans and the mechanism for alleviating poverty among bank members.

I broadly agree with the major findings of the article's author, Dr. Fujita, but the conclusions he draws have some limitations which need a more in-depth investigation covering a wider geographical area in order to be accepted by the experts. Here I hope to pinpoint weaknesses in Dr. Fujita's observations so that he can refer to such factors whenever undertaking any new study on the subject. Let us first take up the issue of reversed flow of informal credit from the poor to the rich, although the title of the article envisages credit in general, formal and informal.

A. *Reversed Flow of Informal Credit*

The author observes that the land poor, including absolutely landless and functionally landless owning up to 0.50 acre, have positive credit balances (Tables V and VI, p. 350) in both villages studied, while the remaining four groups of landowners have negative balances. From the outstanding positive balance (credit-debt) of the land poor, he concludes that credit is flowing from them to the rich on the understanding that they are financially deficient.

Such a conclusion cannot be proved true unless we can specifically identify that the whole or major portion of their net balance goes exclusively to the rich. Actually, the surplus generated by the poor may also be borrowed by land poor borrowers (eighty-eight pure borrowers and fifty-five lender-cum-borrowers) in village D. In the estimate of group-wise balances, their “debts” have, however, been netted out. So, according to the author, the land rich are the exclusive receivers of the balance. This is possible only if the village itself is a closed economy. In reality such a situation does not exist. There are credit transactions among the people living in and around the village and outside credit transactions occur generally among their relatives and close associates. This is fairly clear from the negative aggregate balance for the village D. The negative sum is definitely received from others outside the village and may even have come from urban relatives and friends. To reach a definite conclusion in this context, the author needs to examine borrowers’ landownership status in terms of creditors’ landownership size for two to three years, as shown in the following table.

Borrowers’ Landownership Size (Acre)	No. of Creditors, Their Landownership Size, and Amount of Credit Paid											
	0		0.01–0.49		0.50–0.99		1.00–2.49		2.50–4.99		5.00–	
	No. of HH	Amount of Credit (Tk)	No. of HH	Amount of Credit (Tk)	No. of HH	Amount of Credit (Tk)	No. of HH	Amount of Credit (Tk)	No. of HH	Amount of Credit (Tk)	No. of HH	Amount of Credit (Tk)
0												
0.01–0.49												
0.50–0.99												
1.00–2.49												
2.50–4.99												
5.00–												

The Tables V and VI may also have produced the misleading conclusion that the land poor from the two villages do not borrow from the land rich as far as their net group balance is concerned, although there are land poor borrowers receiving credit from their rich relatives and neighbours. Such credit transactions are often evidenced in case of land poor female-headed households either mortgaging in land or constructing houses.

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

Furthermore, it may be relevant to report that the per household credit support stands at 3,656 taka and 3,679 taka in village D and village A against their respective debts of 4,778 taka and 3,122 taka, the two villages’ credit averages being 3,662 taka and debt 4,375 taka. These amounts are not adequate sums for even a petty enterprise establishment by GB members in rural areas. It is also not clear from the article whether the estimated outstanding amount is for only one year or a few years.

In mentioning the terms and conditions of informal credit, the author examines only interest rates without reporting anything on the period of a loan, collateral, repayment performance, or the efficiency of a financial market. He estimates an interest rate of 25 per cent for long-term loans in village D and 39–63 per cent in village A. In reality, they would be reduced if all transaction costs, such as mortgage costs, costs of defaults/delayed repayments, and costs of supervision and risk are duly taken into account. The article could be enriched by analyzing the terms and conditions of loans according to the landownership status of the creditors.

The case study of a wealthy farmer is an extreme case, as pointed out by the author himself, and thus citing it appears to have little meaning. Instead, the author could perhaps have presented the case of some land poor person who through usufructuary land mortgage was able to upgrade his/her economic status as mentioned in footnote no. 18 on p. 354. In my view, interest income alone cannot uplift economic status in a short period of time. Successful households seem to have various nonfarm sources of income earned by members other than the household head. The author is aware of such regular off-farm occupations such as handloom weaving, *biri* factory work, business, etc. in village D; therefore, income from there might have facilitated such reversed credit flows.

C. *Formal Credit*

Among the existing sources of formal credit in rural Bangladesh the author mentions the Bangladesh Agricultural Bank (BKB), commercial banks (CB), Swanirvar, cooperatives, and the Grameen Bank (GB). Of these, GB is noted to be the major source in both villages. However, since he does not estimate the total amount of formal credit, we cannot understand the relative importance of formal credit in rural financial markets. Also, no estimate can be made for reversed credit flow, if any, in case of formal credit. This is a weakness of the article. However, by analyzing the distribution of GB credit in village D, the author concludes that its impact on informal financial market is not decisive.

Turning to the Grameen Bank, which targets the landless and the functionally landless, it has, according to the author, largely excluded the poorest of the poor, as apparent in village D. Such a conclusion does not exactly follow from the findings in Table XVII on p. 363. It is true that about 40 per cent of the eligible households in the village are still left out by GB. This is not unexpected if adequate time has not yet elapsed. It may be that all those eligible will be gradually enrolled as GB members if they are interested in membership. Here the attitudes and aptitudes of the potential participants also matter. The principal criticism that the author levels against GB is that there are a number of land rich household with membership (twelve households or 11.2 per cent of total members), the majority of whom again appear financially well-off (three points and above).

On the other hand, we must laud the author’s careful investigation into the different uses of GB loans such as relending as well as consumption expenses, medical treatment, repayments, etc. Here he becomes very pragmatic in emphasizing that we should free ourselves from the fixed idea of GB loans being used in setting up micro-enterprises. The argument could be made more convincing by estimating the rates of return or saving of costs from credit uses and clearly showing the relative merits of such uses.

Let me conclude this comment by thanking Dr. Fujita for his critical analysis of prevailing financial markets in rural Bangladesh, which has definitely opened a horizon in the study of rural development. Social scientists in Bangladesh may in the future continue his research to confirm his findings and fill in their gaps and weaknesses.