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Editorial Notes

It is well known that the banking sector is in serious crisis due to the inability or unwillingness of a number of big borrowers to repay a huge amount of bank credit. A considerable portion of our industrial bank credit is stuck up with a few big industrialists. The larger sized funds are channeled to them not only through an evaluation of their project, but the loans are also secured or supposed to be secured with sufficient collateral in compliance with the requirements of the banks. But still banks have not found the proper path to get the credited amount back and even in some cases the total funds just have gone down the drain. So, what is the implication of collateral requirements if it can not serve the expected purpose as the last resort. On the other side, a number of MFIs are successful in maintaining a very high repayment rate by providing collateral free credit to the lower income groups of Bangladesh. This trend does not prove that collateral is immaterial in banking business. Rather it implies that collateral is not the only factor that can ensure repayment of loan. Some other important factors must be associated to ensure successful credit operation. In the case of micro credit also the loans are basically not collateral free. Rather collateral is substituted by some other factors that serve the purposes of physical collateral. Thus on the one side physical collateral is not essential for all types of credit operation and on the other side collateral free credit operation can not be designed for all sectors with the expectation of fruitful results. Moreover, the sectors where collateral free credit mechanisms are expected to be designed may result in very bad output if the collateral substitutes

are not handles properly. From a number of studies it seems that 'collateral free credit operations of banks' of the country could achieve very little in comparison to the MFIs. The monitoring and supervision of most of the public sector banks with regard to the loan operation have never proved to be proper which is one of the most important instruments of the MFIs for their successful micro credit operation problem to a considerable extent. A close contact and monitoring by the asymmetric information about the motives, skill, activities and business of the borrowers for the safety of the loan fund especially in the context of collateral free lending.