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EDITORIAL NOTES

Micro finance is now considered as not only a banking tool but also a development tool. This technology has already crossed its embryonic stage and now the micro finance industry is more matured. Therefore, we have to recognize that the overall performance with regard to the micro credit programs of our banks require more involvement, attention and integration for reaching the rural poor effectively through various appropriate approaches. It may be mentioned that a number of Asian state owned banks are using the linkage technology successfully within the regulatory framework of the Government and are showing tremendous performance in the context of outreach capability, and, accordingly, contributing a lot in poverty alleviation and rural development. Our Government and commercial banks may follow their experiences.

Linkage signifies a financial technology which links different segments of a financial market for better transferring savings into investments for the matter of rural development. This strategy is not completely a new concept in the financial market. In fact, this financial technology was first developed by Asia and Pacific Rural Agricultural Credit Association (APRACA) in the late 1980s with a view to assisting the commercial banks to increase their outreach to the rural poor and to ensure financial viability to the bank branches operating in rural areas.

Linkage technology helps to reduce transaction costs and moral hazard problems of the banks. This technology also ensures high loan recovery rate and provides benefits to both parties engaged in linkage. But it is observed that Nationalized Commercial Banks (NCBs) and Specialized Banks (SBs) of Bangladesh are performing major duties in this regard. Now, Private Commercial Banks (PCBs) should come forward to address the needs of the rural poor. Though PCBs are doing selective banking business, we suggest them to disburse credit directly to NGOs and the rural branches of the commercial banks so as to participate in the rural development program of Bangladesh. It is also to be mentioned here that among the different forms of linkages, linkage with NGOs is showing excellent performance in disbursement and recovery of micro credit. It is observed that linkage between banks and informal moneylenders in the rural financial market is almost absent.

Therefore, initiatives should also be taken to form linkages with the moneylenders who are controlling still a big share of the rural market.

Further, it is found that almost all the linkage schemes now being operated in Bangladesh are far-off in establishing financial linkage. It is to be mentioned that in our country donors' fund and refinance from the central bank are always considered as 'cold money' and borrowers do not feel obligatory to refund the fund. But if the borrowers take money from neighbors and group members, they feel it obligatory to repay the fund. It is observed that there exists a very weak link between savings and credit. Therefore, it is argued that high link between savings and credit needs to be maintained for ensuring smooth operation of the linkage technology.

However, to be successful in this field, innovative credit products should be developed and offered in such a way as to fulfill the financial needs of the rural poor. Our commercial banks and other financial institutions should design appropriate microfinancial products keeping in mind the specific conditions of the poor. They should also design appropriate linkage programs for effective micro financial activities from their own context. Banks may also consider introducing pilot testing for identifying the appropriate linkage partner.

As opposed to individualistic approach, the linkage approach (between Banks, NGOs, Informal Moneylenders and Self-help Groups (SHGs)) is far more promising in creating and extending a viable rural microfinancial structure. Experience further reveals that links between bank with NGOs and SHGs for that matter link with rural people through low cost units show good performance in reducing transaction costs. The financial intermediaries, especially banks and NGOs of our country, have to look into this aspect very seriously for achieving our goal with regard to alleviation of poverty and rural development.

It appears that three approaches are popular to the microfinancial institutions of Asian Countries (GB, Cooperatives and SHGs). GB approach which has gained worldwide popularity and success in reaching the poor should be followed by all kinds of institutions engaged in micro financial activities. Moreover, the remaining two approaches should also be experimented extensively considering their success in other countries, because, no single

model can be effective for all situations. Moreover, appropriate form should be established for experience sharing among banks, NGOs and SHGs, which are engaged in linkages, for consolidation and strengthening the system.

Though the extent of involvement of banks in providing microfinancial services is not that extensive as compared to microfinancial institutions like GB, BRAC, PROSHIKA, ASA, yet they are observed to be penetrating gradually into the microfinancial field. It is encouraging that most of the newly introduced linkage programs of our banks are performing well, at least in terms of recovery. It would not be unrealistic to believe that with the active support of the Government and the central bank, commercial banks in the near future would touch the peak of success by implementing innovative credit and savings product along with the efficient NGOs in the field of micro finance in Bangladesh.

Dr. Bandana Saha
Editor

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