

## **The Micro-Credit Conundrum and the Shifting Nature of State-Citizen Liaison in the Urban Slums of Dhaka**

Tahmina Rashid

*Economists have come to feel  
What can't be measured isn't real  
Count numbers, only numbers count.<sup>1</sup>*

### **Urban Poverty: Linkages Outside the Economic Sphere**

Scholars studying the socio-economic phenomenon in South Asia are perplexed by the social indicators and economic growth that seem to have transformed the lives of the poor and lower classes in Bangladesh (Siddique, 1998). Income for the urban rich increased by 13.36%, while that of the urban poor decreased by 5.34% during 2004-05. This income disparity raises question regarding development efforts to alleviate poverty and claims to eliminate poverty by 2015 (*The Daily Star*, 2005).<sup>2</sup> Urban poverty is interlinked with rural-urban migration although the “incidence, economics, demography and politics of poverty differ between rural and urban areas” (Pernia, 1994). Urban migration results in pressure on the household vital essentials like food, shelter, water, and fuel need to be paid (Crook, 1997). Urban poverty in Bangladesh has to be viewed within the context of a predominantly agrarian economy, a growing number of small-scale textile industries, a higher rate of unemployment, a widening gap between rich and poor, corruption and an expanding non-governmental sector (Smillie and Hailey, 2001). Dhaka has around 4000 slums with a population of over 1,100,000 living in bamboo or tin shelters, defined by a structural socio-economic hierarchy, extreme insecurity, lack of access to essential services, violence, drug and arms culture, police corruption and social isolation (Urban Slums, 1996).<sup>3</sup> Like in other South Asian states, poverty in Bangladesh has many faces, changing from place to place and across time, characterised by diminishing resources, unequal economic opportunities, vulnerability and fear of further poverty (Sen, 1994).

### **Micro-Credit and Development Matrix**

There has been a phenomenal growth of Micro-Credit Institutions (MCIs) in Bangladesh over the last three decades. The mushrooming of development agencies and micro-credit organizations, the international seal of approval for the Grameen micro-credit model as a cure that will eradicate poverty have de-legitimized the critique of these organizations, relegating it to mere polemic criticism. The MCIs followed an integrated development

approach with various sectoral programs on health and family planning, adult education, vocational and skill training and income generating activities. Their experience and expertise in various aspects of development are an internal resource for national development in general and poverty alleviation in particular (Smillie and Helmich, 1994).<sup>4</sup>

Scholars of development have long contested the argument that the economic empowerment of women leads to their social and political empowerment (Sharma and Buchenreider, 2002). There is insufficient empirical evidence that prove that women's economic empowerment has any significant impact on their decision making power within the household (Elson and Pearson, 1997). Empowerment is the process of building individual and collective assets that will uplift the position of women (Hoque, 2004). Micro-credit was the brainchild of Dr. Younas who visualized development through credit based on the following assumption:

...(the) poor have skills which remain unutilised or under-utilised. It is definitely not the lack of skills which make poor people poor. Poverty is not created by the poor, it is created by the institutions and policies which surround them. In order to eliminate poverty all we need to do is to make appropriate changes in the institutions and policies, and/or create new ones.... Unleashing of energy and creativity in each human being is the answer to poverty. Grameen brought credit to the poor, the women, the illiterate, the people who pleaded that they did not know how to invest money and earn an income. Grameen created a methodology and an institution around the financial needs of the poor, and created access to credit on reasonable terms enabling the poor to build on their existing skill to earn a better income in each cycle of loans. (<http://www.grameen-info.org/mcredit>)

Credit institutions use highly regimented memorized slogans, savings deadlines, meetings, business plans and group formation. Members share collective responsibility by creating self-enforcing peer pressure (Kackson, 1998). Fieldworkers complain that senior managers exclude field inputs in the policy making processes.<sup>5</sup> Donors give funds for certain activities and evaluate the impact of that 'aid' on certain criteria. Management pushes workers to maintain higher return rates to ensure regular supplies of funds, affirming that achievements have to be measured in numbers to be real (Stiles, 2002).

Like any social movement of consequence, MCIs have begun to generate serious controversy and the mythic fabric of MCIs indeed has a few tatters and tears. The highly paid top jobs largely remains dominated by men, from the top of the hierarchy all the way down to the village branch level.<sup>6</sup> In addition, many of the most serious situations in Bangladesh are not the 'inevitable consequences of poverty' that both MCIs and policy makers seem to believe. Poverty is caused by complex socio-economic and political factors and is not likely to be solved in the near future by the slowly rolling poverty alleviation programs that dominate the development scene in Bangladesh (Mokbul 2003). Though the evidence for success remains controversial, there is no denying that the programs have some effect on the condition of poor people in both urban and rural areas, owing to continuous subsidies provided by international donors ("WB to provide grants,"

2004). The transition in the global economy had deepened the polarization among the “haves” and the “have-nots”, while the withdrawal of the state from redistributive social programs meant that it will do less to redress such polarization. The notion that home-based work can replace mass factory production and fight poverty is questionable, especially in the face of aggressive globalisation and free market economic structures.

### **Predicament in the Field**

The MCIs in the field are operated by a large number of fieldworkers (men and women) many of whom are working there till they get a “proper job”. They have to make decisions in the field whether or not they share the vision and for the borrowers, they are synonymous with MCIs (Goetz, 1996: 118). In order to maintain return figures, the absolute poor are not a priority (Lapenu, 2002). For a participatory 'development' there is a need to include clients' voices in determining the terms, conditions and nature of the loans. Because of lack of coordination, clients can switch MCIs to obtain credit or borrow from various MCIs to maintain repayments, consequently getting into difficult situations which force them to borrow from other lenders that overtly display gender bias (Lyne and Darroch, 2002). Micro credit is necessary for the poor but is no panacea. MCIs provide credit along with other services, particularly on the basis of priorities identified by field workers and clients, as these services are necessary for sustaining the groups and micro enterprises. Access to credit comes with a combination of low-interest micro loans and labour advocacy on behalf of women employed in the informal sector (Singh and Wysham, 1997). It is vital to put a proper regulatory and supervisory framework in place, under which these entities are ensured that intermediaries, corporate bodies and others involved in micro credit are open to public scrutiny (Heyzer, 1994). Otherwise, there is a possibility that micro-credit institutions would gain legitimacy and greater financial clout yet would eventually become another exploitative form of organized money-lending (Singh and Wysham, 1997).

My fieldwork analysis reveals that the micro-credit program does not have the claimed profound impact on the reduction of poverty since borrowers remain in the debt net. For micro-credit to make an impact on the reduction of poverty, it has to be used for productive purposes (Zeller and Sharma, 2002). This suggests that the over-drive on micro credit for women must be reigned in because it is the men who own assets such as land and they use the women's loans, furthering the inequality in the balance of gender relations (Agarwal 2001).

In general, micro credit benefits the less poor more than it does the absolute poor, even if it reaches the latter. This relationship can be easily explained in terms of the greater need of the poor for consumption loans, their greater vulnerability to asset sales forced by adverse income shocks and their limited range of investment opportunities. It is claimed that in the targeted credit programs in Bangladesh, it will take, on average, about five years for poor program participants to rise above the poverty line and eight years to achieve economic graduation (i.e. to stop taking loans from a targeted credit program). My field data showed little evidence that clients are altering their structural position

within the economy. The group membership and loan structure treats women as a homogeneous group, which challenges the MCIs' claim that every loan awarded to a woman is a step forward in her empowerment. Although MCIs claim that most clients graduate from the debt cycle, my field data suggests otherwise. Most of the women who have been taking loans for over a decade are still unable to graduate out of the poverty net and debt cycle.

My field study supports the argument that the very small loans give clients very little economic uplift. With this nominal economic progress, other aspects of 'development' in their lives have remained largely ignored. One client shared her experience. She took two loans from two MCIs. Her husband lost one loan money in a business the previous year. This year, due to the loss of sustainable income, her son stopped attending school to work in a nearby workshop while her daughter began work as a domestic helper in a nearby posh area. This proves that the relationship between access to credit and investment in education is not unequivocally positive. Another woman, whose husband used the loan to buy a pull rickshaw, had to pull out her daughter from school to work as a maid. Rickshaws were banned on some "elite" roads as part of a UNDP funded project to streamline and manage traffic congestion on main roads and rehabilitate rickshaw pullers. Despite working for longer hours the income dropped and she had to take another loan to ensure regular payments. Such complex situations affirm the need for collaboration between MCIs, international organisations and the State; otherwise the shifting nature of poverty would keep on pushing more people to live below the poverty threshold.

### **Political Dimension of Development**

Bangladesh remains the single largest recipient of International Development Association funding and ranks close to the top of the list in most foreign funding agencies (bilateral official donors/ multilateral official donors/ private multilateral agencies) (Stiles, 2002). These donors have considerable influence on prioritization of development agendas in the developing world. These tendencies can lead to situations described in Sylvia Borren's article:

My nightmare is that poverty reduction strategies will be designed in the offices of Washington or The Hague-and that we as development NGOs will be controlled in our networking and strategic opportunities, and told which sectors ... we will be allowed to work in. (Borren, 2003: 86)

The state has allowed foreign donors access (through MCIs) to its citizens in the public as well as private domain, influencing family matters, reproductive health, education (political and legal included) and the course of local and national politics. Donors seem to be carving a political role for themselves by interfering in political affairs, speaking on behalf of the MCIs as well as (at times) becoming the spokespersons of communities. Political interference by donors in Bangladesh is alarming as nowhere in the world are donors so vocal in raising their concerns. The following statement from the donor community needs to be carefully examined by concerned scholars of polity and society,

Bangladesh's development partners have a stake in this country's social and economic development. As we have made clear on previous occasions, we are gravely concerned by the damage done to the nation by political intolerance, violence and intimidation. We join with many Bangladeshi community leaders from all sectors in calling on the leaders of all political parties to work together for the future of the country and its people (*The Daily Star*, 1999).

Though MCIs are an alternative to the rather deficient role of the government, they tend to follow the logic of the market and concentrate in areas where markets are well developed and people have started to articulate their needs as effective demand.

...their freedom to function implies that NGOs can do what governments cannot, ought not or will not do-supporting human rights, for example, or working in politically "difficult" areas...or asking questions about the impact of large scale projects on the environment. But the will to do so derives not from some formalistic assertion of autonomy, nor even from independence from government money, but from a vision of development rooted in values and choices. It is this willingness to explore alternatives and to experiment with new initiatives, which makes NGO autonomy valuable and worth protecting (Brodhead and Copley, 1988: 70).

Be that as it may, development project evaluators remain apprehensive regarding poverty alleviation and eradication claims as MCIs seldom reach the poorest. They are too often unaccountable to their target groups and other stakeholders; they are not always efficient, effective, flexible or innovative; and they have trouble proving that policy changes can be attributed to their efforts (Borren, 2003). The impact of MCIs and claims of gender empowerment have to be examined in the context of power that governs a range of relationships:

...formal power to decide, make and implement rules; the power to sanction positively or negatively; with money, control mechanism, public opinion; the power of networking--among the elite, at the grassroots level, horizontally and globally; the power of knowledge and experience, and the ability to apply this; the power to convince others, with content and leadership, and sometimes charisma; the power of identity, and the successful demand for consideration because of it (Borren, 2003: 81).

Professional attitude gained through interaction with donors filters down in many ways reinforcing hierarchical structures within MCIs. These MCIs manage their internal affairs

with firmness and despite propagating a horizontal and participatory model, members enjoy no influence on these boards. A large number of upper tier management are upper middle class, foreign trained professionals and enjoy newly found clout. The MCIs' relationship with the state however, remains contentious, as Rehman Sobhan has observed:

Over the last two decades, foreign aid has been determining both the direction and structure of Bangladesh's development programs. This trend has contributed to the depreciating authority of the Government of Bangladesh (GOB) in retaining control over the direction of Bangladesh's development. This weakness derives from the GOB's inability to mobilize adequate development resources, improve efficiency of resource use and design its own policies. The donors have in the 1980s thus become progressively more assertive in seeking policy reform from the GOB and in seeking improvements in the management of the economy (Sobhan, 1996).

Foreign funding (grants, low interest loans) comes in the guise of humanitarian projects dealing with post-conflict peace building, good governance, free and fair elections, voter education, election monitoring, accountability and responsiveness, training investigative journalists, women's rights, women's health, universal education, water management, rural development, etc (Stiles, 2002). Development agencies accommodate donor preferences and are therefore more malleable than state institutions. They can easily shift from humanitarian to rights based projects that have political implications. Scholars remain apprehensive over the development agencies' lack of financial accountability other than to foreign donors and doubt their commitment to the people. One critic made an interesting observation on their style of work.

(It) can be referred to as the "flavor of the month" approach to development. What it basically means is that whichever buzzword or term is in common use to reflect the priorities being assigned by the funding agencies is then blindly recited by all the fund-hungry NGOs in the hope of obtaining more foreign funding.... Over the last ten years, it has covered a variety of subjects. These have included women's rights (a longtime favorite, this one--a tired and overused term to describe just about any program which can in any way be linked to women as beneficiaries, no matter how tenuous the link) and family planning (another old favorite reflecting the western obsession with how to keep the third world population--also known as "them"--in check) as well as more recent innovations, such as the flood action plan (FAP), the environment and children's rights (Quoted from Choudhury 1995 in Shehabuddin, 1999: 1011) .

Development agencies are expanding commercial entrepreneurs and are becoming conglomerates through foreign funding as well as subsidized and tax-exempt capital. These agencies have non-union shops, cheap labour, foreign sponsorship and protection, local and foreign clientele, sympathizer customers, and are already a recognised brand name (Quoted from Choudhury 1995 in Shehabuddin, 1999: 115). The proceeds of various commercial projects fund the rest of the development work of MCIs; therefore there is little incentive to increase lowly paid workers allowances (especially lower management and field staff). Business communities criticise these commercial enterprises for enjoying

a tax-free regime while the business community has to pay tax, compete with the market for wages and face union pressure.

MCI's will continue to face antagonism from conservative Islamist groups which have the tendency to impede or even jeopardize their efforts and projects. Previously, Islamists have burned down schools established by BRAC in some rural areas (Smillie and Hailey, 2001). Anne Marie Goetz's analysis seems partly naïve when she claims that the state's ambivalent response to violence against women development workers indicates that Islamic groups are a more powerful constituency as compared to women (Goetz, 1995). She ignores the fact that the state is engaged in a rival and often confrontational relationship with development organizations. In order to de-legitimize MCI's, the state ignores protection provisions for citizens since it has long relinquished its responsibilities. The state is virtually without citizens while organizations do not have the capacity to enforce law and order in the country. Citizens have inadvertently become non-citizens. An increasingly weak state will lose its ability to deal with issues due to unremitting political bickering, lack of resources, ill managed law enforcement mechanism and corruption. In such circumstances the donors' efforts to increase the influence of development agencies can backfire, further pushing the state to remain distant.

The occurrence of incidents where religion is used to de-legitimize participation in development activities (burning schools and mulberry trees) have long been reported but it can also be argued that in many situations the shifting nature of the traditional social power hierarchy includes attempts to sustain the existing class system and gender relations. Though religion continues to play a regulatory role in the lives of women, public participation is not determined through religious decree but through service delivery. Public reaction towards activities generated by development agencies is partly caused by the failure of the state to provide these goods and services as constitutional rights of citizens and to protect the weak and vulnerable from hooligans and religious zealots.

Due to the growing influence of Islamists (led by Jamat-e-Islami) in the coalition led by BNP, recent conservative tendencies have been resurrecting the question of Muslim identity among the poor masses and academic circles. A number of poor slum dwellers refuse to take micro-credit, because it is interest based and therefore un-Islamic. They even criticize development agencies as "foreign agents" "unpatriotic" and "western elements out to pollute the core values of Bangla culture and society" (Goetz, 1995). Islamists view MCI's as agents of the west out to destroy the indigenous Islamic culture and values. Patriarchal and social conservatives oppose them as they threaten the existing status quo in social relationships. Government sees them as rivals as they are receiving huge amounts of money from sources that otherwise would be channelled through state bodies. MCI's also provide services which generally the state must provide, explicitly overtaking the domain of the state consequently curtailing its authority and raising doubts regarding its legitimacy.

According to Kendall Stiles, “faced with opposition from across the political spectrum, MCIs may find it increasingly difficult to find a hearing in the corridors of power and therefore retreat to the development circle and the protection of their foreign donors.” But this criticism seems a little unrealistic in view the growing political clout of the MCIs in the polity of Bangladesh (Stiles, 2002). However, the reflection that the society may largely remain “aloof from the fundamental process of social and political transformation” is already gaining credibility among local scholars. The MCI’s reliance on donors and its international profile make them less inclined to make alliances with potential allies in civil society, the private sector or even the grass roots movements, limiting their interaction to like-minded development agencies. If the client-patron relationship between borrowers and development agencies continues, it might generate new centres of authority that will be lacking in democratic spirit and replicating of the existing hierarchies but in new modes.

Stiles views the donor-MCI relationship as one of patron and client. According to him, Bangladesh has a tendency to seek patrons--a tendency that creates a sycophantic inclination. He finds that even donors themselves find it difficult to criticise and challenge the policies of major players due to the increasing international portfolio of the chief executives (Grameen, BRAC etc). Any criticism is labeled as polemic. Snubbing criticism can eventually lead to serious flaws in the management of various programs, creating an autocratic regime of development agencies (Stiles, 2002). Strangely professionals (except radical scholars and academicians) outside the development circle support donor policing and assertiveness instead of MCI self-management, which in turn the MCIs view as an expression of professional rivalry and distrust by the local institutions.<sup>7</sup>

Developing countries have successfully managed projects using indigenous sources attracting international attention and foreign funding. It brought new professional skills and practices yet partly destroyed the dynamic, homespun and innovative indigenous spirit. It helped expand the organizations (vertically and horizontally) yet also compromised the ability of the projects to benefit the absolute poor and sever old social ties (Stiles, 2002). It also obscured the efforts of indigenous civil society, commodifying social movements and took “the fire out of a potential revolutionary movement” “by intervening to attenuate suffering” (Stiles, 2002: 122). Likewise, it generated political activity (through foreign finances) within the development sector, giving it an active role in the collapse of the military regime through political rallies, political advocacy and democratic efforts, and legal education.

Bangladeshi society has sharp political divisions and strong political affiliations. Trade and labour unions, university professors, student bodies, the bureaucracy, the military, the chamber of commerce, newspapers as well as the general public openly support the Awami League or the BNP coalition.<sup>8</sup> Donors have been instrumental in ensuring the growing influence and participation of MCI executives in national policymaking; they are given advisory positions and are in “electoral campaigns as constituency spokespersons” (Stiles, 2002: 107). The Bangladeshi people are aware of political realities and have been active supporters of Leftist politics despite strong religious beliefs. Female participation



in electoral politics is evidently increasing and women have found ways to negotiate their political power in imaginative ways. Once elected, the politician generally tends to forget his constituents until the next election, therefore voters bargain for cash or kind in exchange for votes. This attitude may reflect the common practice of asking for a Bakhshesh (tip, bribe) which is not generally considered inappropriate. However, many development circles take credit for increased voter turnout and growing political participation due to economic empowerment gained through micro-credit, The MCIs' "role as models of democratic governance and accountability" as well as its "involvement in election monitoring" has opened "new channels of communication between state and society" (Stiles, 2002: 121). However, there is not enough evidence from non-affiliated scholars and researchers to substantiate these claims and there is still a long way to go has to go before one can suggest that development agencies are a catalyst for democratic reforms at the national level.

### **Dynamics of State-Citizen Relationship**

Successive democratically elected regimes in Bangladesh have "demonstrated profound ambivalence for democratic procedures and participatory governance" and at the same time blame each other for undemocratic, corrupt and rife with nepotistic tendencies (Stiles, 2002: 103). Despite the efficiency and success of the development sector, the state retains a strong position in society. However, this trend may not continue due to the growing corruption, political instability and gradual withdrawal of the state from performing essential duties towards its citizens. Unlike those in other countries, the Bangladeshi development sector began operations with the establishment of the state. These institutions have benefited from implicit or explicit state support before reaching its zenith in the 1990s. These agencies have been instrumental in providing relief and essential services to a people who remain out of the reach of a politically and economically struggling state. They have provided the state a cushion when it was trying to stabilize in the early phase. By the time the state was able to turn its attention towards the flow of foreign money, development agencies had already established strong linkages with donors (Smillie and Hailey, 2001). Many development agencies were founded by activists to fill the service gap left by the State institutions due to lack of resources or vision. These agencies impulsively consider state actors as inefficient and in opposition to development efforts (Smillie and Hailey, 2001).

Various regimes have unsuccessfully attempted to regulate the NGO sector through enactment of laws and institutions (NGO Affairs Bureau etc.) to deal with this huge influx of development agencies and donor money. The failure of the state to regulate these agencies has put them in oppositional sides (Stiles, 2002). On the one hand these efforts pushed the MCIs to acquire political clout for survival; on the other hand they opened avenues for collaboration with the state. Direct links with the state also increased their capacity to influence and interfere in grass root level politics. If development agencies continue to be seen as "instruments" for democratization and as vital elements that will strengthen civil society and lead to economic success (Stiles, 2002), the

marginalized, weaker, corrupt, disempowered and emaciated state will lose its capacity to lead the country towards democratic development (Stiles, 2002).

Donors' preference for MCIs is partly due to the failure of the government to provide services to the people and partly due to the assertive authority they enjoy over MCIs. Among donor circles it is commonly believed that donor interventions in state-MCIs relationship helps maintain their hegemony and provides opportunity for them to police MCIs. This complex relationship between donors/state and development agencies manifests itself in many ways. For instance, the recent efforts by the World Bank to gain immunity has to be examined in this context; MCIs and civil society groups are opposed to this idea while the current regime is set to give the World Bank a free hand.<sup>9</sup>

Since funding in Bangladesh is funneled through MCIs, the state loses many previously available avenues to fund its projects thus the budget cuts in social and development sectors. In the wake of the globalization of economies, the ability of the state to invest in the social capital sector will be further restricted. The state faces increased burden on shrinking public services and dependence on foreign funding. The recognition of newly found power (MCIs) and a sense of deprivation (state) have led to hostility between the MCIs and the state and at times, even between the MCIs and other civil society groups that feel left out due to the development sector's monopoly on foreign funding and credit for strengthening civil society and democracy. Critics question the patriotism and legitimacy of the MCIs and suggest its exploitation of disadvantaged social groups. Many scholars (e.g. Sobhan) believe that the state elite does not want an end to poverty since it ensures increased foreign funding and the survival of communities living at the edge. Nevertheless, the prevailing situation has generated new centers of loyalty further undermining and eroding the legitimacy of the state.

The state has reluctantly and inadvertently privatized many essential services and responsibilities to prove that it is not a failed state, even if there is much reliance on external help to remain viable as a state and maintain a level of sustainable development. The development sector has a twofold impact on the state and society. The infusion of huge funding by foreign donors has not only increased the capacity (in terms of finances and professional skills) of the MCIs to take over public services previously funded and managed by state institutions. It has also relieved the state from performing its constitutional duties. People are receiving these services not as their rights as citizens but as benefits from social welfare projects funded by donors and managed through the philanthropy of development agencies. The displacement of the state by MCIs has disempowered the state, yet the state remains the sole constitutional guarantor of rights and provider of national infrastructure. Although people have access to services such as education, health, telecommunications, Internet and credit, these services are not yet it is not in the form of citizens' constitutional rights and the current providers are accountable to the donors and not to the people. As a result, society may "end up with aid-dependant social sector, a patch-work quilt of welfare provision, eroding governmental authority and quiescent NGOs" (Stiles, 2002: 128).

Privitization of service delivery as a result of reduction of state capacity will likely result in a state's loss of control over national policy. Worse yet, well-

intentioned public officials will find themselves disempowered and their roles denigrated. At this juncture, citizens find no particular reason to support the State, except as the symbolic embodiment of the nation (but not in the Hegelian sense) as they turn their loyalties to either sub-national or supra-national entities. The state finds itself without citizens, and thereby without legitimacy. Conversely, the citizens may find themselves without guaranteed rights since no private association can enforce them. (Stiles, 2002: 128)

The state at times uses its legislative and institutional power to impede the activities of MCIs through regulatory demands and procedural obstacles and has the potential to regulate taxation, import-export policies detrimental to the commercial ventures of the MCIs. Since the future of an efficient and democratic polity seems in doubt, the probability of instituting a strong “state apparatus capable of renegotiating terms” of foreign financial aid and intervention seems near impossible in the current murky political milieu. The weak, inefficient and corrupt state has no option but accede to the demands of MCIs to further loosen its supervisory functions in the face of explicit opposition and pressure from donors. There is lot of tolerance towards such political interference. Even challenges to national sovereignty are tolerated by the government, scholars, and community leaders. Stiles offers his views on the situation:

The voter education and legal awareness programs being funded by external donors are designed with no other purpose than to upset the political status quo in rural areas. Regardless of whether the ultimate goals are the betterment of the society, it is clear that in many cases donors have been involving themselves in the political life of Bangladesh (Stiles, 2002: 130).

A weak state in a strong society remains under permanent risk of political breakdown, which will serve neither the interests of the MCIs nor of the people of Bangladesh. For Borren, formal power rests in the hands of government bureaucrats and politicians; they can not only make or change laws but also enact new administrative rules and accountability standards to increase control of development agencies (Borren, 2003). However, governments can create financial instability and smaller creditors will become unsustainable, therefore a balance of power must be created between the state and the MCIs to avoid political intrusion and harmful effects on the poor (Lapenu, 2002). The development agencies tend to become the “sole spokesman” of the needs and demands of the masses, reinforcing the existing elite structures by creating a new breed of middle-class professionals while robbing the people of agency to articulate their needs and demands from the state which is their legitimate right as citizens. Already there are signs that people are looking at MCIs as an institution that can redress their grievances. Its short-term solution is through development agencies intervention as developmental welfarism. But in the long run, citizens are disengaged from the state, de-legitimizing its existence, and losing their constitutionally guaranteed rights as citizens. If the development sector changes its focus then citizens will have no avenue to demand redress for squeezed services.

One basic missing link in the debate regarding whether or not MCIs are democratic instruments is the fact that democracy cannot be brought about by credit, education,

elections only; it has to be learnt through participatory ethics and political tolerance learned from ordinary experiences. The existing political culture has given informal legitimacy to the sharp political division of society, encouraging intolerance and bypassing the law, even providing justification for political violence. This will not only erode the existing values of the system but also create new values detrimental to the society. The situation is critical not only for the weakening state but more so for the citizens, as the inability of the state to protect human and civil rights will eventually hurt them.

### Endnotes:

---

<sup>1</sup> Chambers, Robert. 1997. *Whose reality counts? Putting the first last*. London: Intermediate technology Publications, p. 42.

<sup>2</sup> *The Daily Star*, May 14, 2005 (Formal sector employment in the urban sector is still dominated by men in as around 44.33% the persons employed in major economic activities that are engaged in the urban areas of Bangladesh, women constituted only 3.83%, highlighting the exclusion of their contribution in non-formal sector.)

<sup>3</sup> *Urban Slums in Dhaka Metropolitan Areas* (1996) Field Survey by CSU for UPRP, Dhaka: CSU. See also, Stiles, Kendall W. 2002. *Civil Society by Design: Donors, NGOs and the Intermestic Development Circle in Bangladesh*. London: PRAEGER, p. 38.

<sup>4</sup> Smillie, Ian & Helmich, Henny (eds). 1994. *Non-Governmental Organisations and Governments: Stakeholders for Development*. Paris: OECD, p. 21, see also Goetz, Anne Marie, "Dis/Organising Gender: Women Development Agents and NGO poverty reduction Programmes in Bangladesh" in Rai, Shirin M. & Lievesley, Geraldine, 1996, *Women and the State: International Perspectives*. London: Taylor & Francis, p. 122.

<sup>5</sup> One international NGO, MCC (Mennonite Central Committee) Bangladesh; one large national NGO, PROSHIKA; one regional NGO, the RDRS (Rangpur-Dinajpur Rural Service) Bangladesh; and three small NGOs/GROs, which are 'partners' of SCF (Save the Children UK) Bangladesh.

<sup>6</sup> *The Left Business Observer* (LBO) cited research suggesting that 63% of the bank's loans to poor women may actually end up in the hands of their male relatives. The study found that as many as 22% of the women borrowers passed the funds on to a male and had no idea how their brothers, fathers, husbands or sons had used them. Another study by the World Bank found that Grameen borrowers tend not to move into higher incomes that would make them eligible for mainstream banking - raising the question of whether Grameen is fostering a permanent dependency, rather than eliminating poverty.

<sup>7</sup> Informal conversations with academia, journalists, fieldworkers October 2004-June 2005.

<sup>8</sup> During my stay at Dhaka University campus in numerous discussions with my informants, university students, journalists, teachers and MCI workers all expressed allegiance to a political group.

<sup>9</sup> *The Daily Star*, October 2004 – June 2005 (National dailies have continuously reported this immunity issue, apparently to no avail).

## References

“ADB approves grant to help Bangladesh monitor poverty reduction programs.” *Xinhua News Agency*, June 9, 2004.

Agarwal, Bina. 2001. “Poverty in a globalizing world at different stages of women’s life cycle.” UN Expert Group Meeting on Gender and Poverty: Some Issues. EGM/POV/2001/EP.2, 19 November.

Borren, Sylvia. 2003. “Changing Patterns; Changing Assumptions.” Ian Smillie and Henri-Bernard Solignac Lecomte (eds). *Ownership and Partnership*. Paris: OECD.

\_\_\_\_\_. 2003. “Power Relationships: Government, the Market and Civil Society.” Ian Smillie and Henri-Bernard Solignac Lecomte (eds). *Ownership and Partnership*. Paris: OECD.

Brodhead, Tim and Brent Herbert-Copley. 1988. *Bridges of Hope*. Ottawa: North South Institute.

Chambers, Robert. 1997. *Whose reality counts? Putting the first last*. London: Intermediate technology Publications.

Crook, Nigel. 1997. *Principles of Population and Development*. New York: Oxford University Press.

Elson, E. and R. Pearson. 1997. “The subordination of Women and the Internationalization of Factory Production.” N. Visvanathan, L. Duggan, L. and N. Wiegiersma (eds). *Women and Irish Society: A Sociological Reader*. Belfast: Beyond the Pale.

*The Daily Star*, May 14, 2005.

*The Daily Star*, March 11, 1999.

*The Daily Star*, October 2004 – June 2005.

<http://www.grameen-info.org/mcredit/> visited on Feb. 27, 2005.

Goetz, Anne Marie. 1996. "Dis/Organising Gender: Women Development Agents and NGO poverty reduction Programmes in Bangladesh." Shirin M. Rai and Geraldine Lievesley (eds). *Women and the State: International Perspectives*. London: Taylor & Francis.

\_\_\_\_\_. "The Politics of Integrating Gender to State Development Processes: Trends, Opportunities and Constraints in Bangladesh, Chile, Jamaica, Mali, Morocco and Uganda." Geneva: United Nations Research Institute for Social Development, Occasional Paper 2, May 1995.

Heyzer, Noeleen. 1994. "Increasing Women's access to Credit in Asia: Achievements and Limitations." *Gender, Economic Growth and Poverty*. New Delhi: Kali for Women.

Hoque, Serajul. "Micro-credit and the reduction of poverty in Bangladesh." *Journal of Contemporary Asia*, March 2004, 34(1), p.21(12).

Kackson, Cecil. 1998. "Rescuing Gender From the Poverty Trap." Cecile Jackson and Ruth Pearson (eds). *Feminist Visions of Development: Gender, Analysis and Policy*. London: Routledge, pp 39-64.

Lapenu, Cecile. 2002. "The Microfinance Revolution: Implications for the Role of the State." Manfred Zeller (ed). *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact*. Baltimore: IFPRI.

Lyne, Michael and Mark Darroch. 2002. "Improving Access to Land Market: Evidence from Emerging Farmers in KwaZulu-Natal, South Africa." Manfred Zeller (ed). *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact*. Baltimore: IFPRI.

Mokbul Morshed Ahmad. "Distant voices: the views of the field workers of NGOs in Bangladesh on microcredit." *The Geographical Journal*, March 2003, 169(1), p.65(10).

Pernia, Ernesto M. 1994. *Urban Poverty in Asia: A Survey of Critical Issues*. Hong Kong: Oxford University Press.

Sen, Gita. 1994. "Poverty, Economic Growth and Gender Equity: The Asian and Pacific Experience." *Gender, Economic Growth and Poverty*. New Delhi: Kali for Women. See also <http://web.worldbank.org/>

Sharma, Manohar and Gertrud Buchenrieder. 2002. "Impact of Microfinance on Food Security and Poverty Alleviation: A Review and Synthesis of Empirical Evidence." Manfred Zeller and Richard Meyer (eds). *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact*. Baltimore: IFPRI.

Shehabuddin, Elora. "Contesting the Illicit: Gender and the Politics of Fatwas in Bangladesh." *Signs*, Summer 1999, 249(4), p.1011.

Siddique, M.A.B. 1998. "Gender issues in poverty alleviation: a case study of Bangladesh." *International Journal of Social Economics*, Vol. 25 No. 6/7/8, Pp. 1095-1111.

Singh, Kavaljit and Daphne Wysham. "Micro-credit: band-aid or wound?" (Editorial). *The Ecologist*, March-April 1997, 27(2), p. 42(2).

Smillie, Ian and John Hailey. 2001. *Managing for Change: Leadership, Strategy and Management in Asian NGOs*. London: EARTHSCAN.

\_\_\_\_\_ and Henny Helmich (eds). 1994. *Non-Governmental Organisations and Governments: Stakeholders for Development*. Paris: OECD.

Sobhan, Rehman. 1996. "Aid Conditionalities and the Implications for Democratic Governance in Bangladesh." Abu Kalam (ed). *Bangladesh: Internal Dynamics and External Linkages*. Dhaka: UPL, pp. 353-63.

Stiles, Kendall W. 2002. *Civil Society by Design: Donors, NGOs and the Intermestic Development Circle in Bangladesh*. London: PRAEGER.

*Urban Slums in Dhaka Metropolitan Areas*. 1996. Field Survey by CSU for UPRP, Dhaka: CSU.

"WB to provide grants for Bangladesh poverty alleviation projects." *Xinhua News Agency*, June 30, 2004.

Zeller, Manfred and Manohar Sharma. 2002. "Access to and Demand for Financial Services by the Rural Poor: A Multicountry Synthesis." Manfred Zeller (ed). *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact*. Baltimore: IFPRI.