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Microfinance Scheme in West Bengal and Bangladesh: A Venture for Financial Inclusion and an Inheritance of Tagore's *Cooperative Principle*

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Abstract

Tagore had started the 'Kaligram Krishi Bank' at Patishar village in Naogaon district of today's Bangladesh in 1905, but it was then in India. For millions, Rabindranath Tagore's literary greatness is unforgettable and especially for the Bengali population, the benchmark for everything and anything is still Tagore. However, the Apex bank in Bangladesh is now looking into the little known aspect of Tagore's life-as the founder of microfinance schemes in South East Asia, as is stated in their Annual Report' 2015-16. My attempt in this paper will be to discuss the role played by Tagore in pathfinding the journey of 'microfinance schemes' in West Bengal and Bangladesh aiming at inclusion of the marginalized section of the society into the mainstream state economy and to explore certain parts of his *Cooperative Principle* to bring out the theoretical

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premises behind this venture.

Keywords : Microfinance Scheme, Rabindranath Tagore, Financial Inclusion, *Cooperative Principle,* West Bengal and Bangladesh.

Introduction

Bangladesh’s microfinance scenario faced a rough weather, leading to a change of guard at Grameen Bank, the country’s leading micro- lender, as Nobel Prize winner Muhammad Yunus was removed following allegations against him for mishandling a Norwegian fund. There were legal interventions also when a Bangladeshi court commented on interest rates of Grameen Bank.

However, Atiur Rahman, governor of Bangladesh Bank, the country’s central bank, says there’s “no crisis in in our microfinance sector.” Rahman, who was here today, told Business Standard: “After Yunus also Grameen Bank is performing well. What we are now trying to do is implementing the ideologies of Tagore in our existing micro credit mechanisms like Agriculture Bank and Grameen Bank."

"He is the pioneer and understanding the importance of that, I am working myself on implementation of his banking ideas in our system. In terms of financial inclusion, it is a perfect example on how to include farmers a part of the system," Rahman said.

Taking a cue from Tagore, Bangladesh's Agriculture and Grameen Banks have taken inclusive measures for the farming community. It is believed that Tagore even rolled his Nobel prize money of rs. 1,30,000/- for the microfinance scheme. The highlight of Tagore's

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bank was its collateral-free lending scheme in about 600 villages, compared with the higher interest rates of Grameen Bank.

Tagore had selected three members, including a principal in each village, who used to distribute the money. "His ideas are something that can be modelled, even in this era," Rahman added.

Coming by all these in a leading Bangladeshi daily, *The Daily Star*, dated 16-02-2016, I became interested in venturing into the microfinance schemes, running in Grameen Banks and Agricultural Banks in West Bengal. In this venture I would also like to relate Tagore's *The Cooperative Principle* as the connecting link among the presently operating microfinance schemes in West Bengal and Bangladesh.

Analysis

Tagore had started the Kaligram Krishi Bank at Patishar village in Naogaon district of today's Bangladesh in 1905, but it was then in India. For millions, Rabindranath Tagore's literary greatness is unforgettable and especially for the Bengali population, the benchmark for everything and anything is still Tagore. However, the Apex bank in Bangladesh is now looking into the little known aspect of Tagore's life-as the founder of microfinance schemes, as is stated in their Annual Report' 2015-16.

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Taking a cue from Tagore, Bangladesh's Agriculture and Grameen Banks have taken inclusive measures for the farming community. It is believed that Tagore even rolled his Nobel prize money of rs. 130,000/- for the microfinance scheme. The highlight of Tagore's bank was its collateral-free lending scheme in about 600 villages, compared with the higher interest rates of Grameen Bank.

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Grameen Banks and Agricultural Banks in India, especially in West Bengal. In this venture I would also like to relate Tagore's *The Cooperative Principle* in this regard.

While looking into the landscape of microfinance in Bangladesh I found it dominated by a few large players, notably the Grameen Bank, BRAC and ASA (Association for Social Advancement), each of which commands a vast hinterland of clients and also has a global presence. More recently, it is ASA that is often lauded by the microfinance industry as the Bangladesh success story, making it to the top of the "MIX Global 100" and "productivity" (Fernando and Meyer 2002). In 2008, ASA received the "Banking at the Bottom of the Pyramid" award of the International Finance Corporation and *The Financial Times*. In these global rankings, the Grameen Bank is recognized primarily for its 'outreach', in other words for the millions of borrowers that it serves, but it is rarely presented as a model of innovative microfinance. Instead, such praise is reserved for BRAC, whose innovations have been circulated by CGAP (Certified Government Auditing Professional, a U.S. based non-profit organization) and its experts. BRAC's founder Fazle Abed has received substantial global recognition from the Conrad N. Hilton Foundation Humanitarian Prize to the first Global Citizen Award of the Clinton Global Initiative. Still then, the significance of the Grameen Bank in the context of financial inclusion is more significant than ASA and BRAC for its 'outreach', importance of which is asserted by Tagore in Lokahita and questions regarding it are raised and are suppressed not only in India and Bangladesh, but also in

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USA as without optimum financial inclusion and eradication of poverty success of microfinance scheme is absolutely impossible.

In 2007, in a meeting organized by the Microcredit Summit Campaign, US lawmakers met with World Bank President Robert Zoellick to double World Bank spending on Microfinance i.e. from 1% to 2%, to commit half of those funds to those living below $1 a day, and to use poverty measurement tools to ensure compliance. But as Results itself reports: " all Mr. Zoellick could promise was more meetings" (Results 2008). Zoellick's response to Results, that the poor require grants and safety nets rather than microcredit, echoes a poverty truth that is entrenched in the circuit of CGAP and Boulder. This truth, sketched by Marguerite Robinson, in that indelible line that she draws between the economically active and entrepreneurial poor and the economically inactive poor, seems impossible to challenge. It haunts the debates around the legislation, such that an unusual voice, Didier Thys (2004), serving then as executive director of MIX (Microfinance Information Exchange), asks somewhat angrily in a letter to the New York Times, also unpublished: "Why should a poor woman in India, stigmatized as an 'untouchable', be less worthy of investment than the landowner for whom she works? Can't fifty cents on every dollar we invest in microfinance be used to help her and her neighbours? Does it all have to go to the landowner? I thought it was beyond that."

The Annual Report' 2014 of the World Bank deals with the present scenario of microfinance in South Asian countries like India and Bangladesh in vivid detail. The model, they

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present bears a close resemblance with Marguerite Robinson's diagram separating the bankable poor from the unbankable. Yet, against prevailing CGAP wisdom, he drew his arrows past the ultra-poverty line indicating how World Bank programs in South Asia and targeting the ultra-poor and seeking to harness their 'entrepreneurial skills'. It includes the need for 'flexible credit delivery mechanisms' for the bottom 10% of the poor, who are included in a ultra-poverty programme. It does also assert the need for introduction of a unified model of microfinance in to fight against dense and extreme poverty to lead to a unique narrative of development where the emergence of poverty-focused institutions was embedded in the more ambitious enterprise of nation-building. In such context the CGAP principles and mandates to grow large to play a significant role in the market and to invest in the infrastructure of market seem irrelevant and strangely out of place. Size and scale, in this context are only elements of a distinctive ensemble of development ideas and practices. Led by charismatic men, these are 'home-grown institutions' (Bornstein, 1996: 249) that while different in methodology are united in an ideology of poverty alleviation and institutional practice without any conscious effort for commercialization and having focus on poverty-eradication instead of profit making, but following the 'banking' model instead of 'NGO' model.

The need for 'lump sums' of money (i.e. larger amounts than are normally available on a day-to-day basis) for investment in economic and social opportunities, consumption, life cycle needs, and to cope with crises and

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emergencies is the starting point of any microfinance scheme. Poor people can obtain these lump sums through putting aside smaller sums of money when they become available – either as savings, as repayments for credit, or as investment in other financial services such as insurance. Credit for enterprise development continues to play an important role, but it is one of a number of dimensions to microfinance that supports poor people's livelihoods. Noponen and Kantor (Noponen and Kantor, 1990) discuss the use of microfinance as one important component of livelihood support programmes. They highlight the way in which the financial services assist poor people in managing the predictable and unpredictable needs for money, and thereby reduce their vulnerability, increase their ability to take hold of opportunities, and contribute to a sustainable movement out of poverty. In a similar vein, BRAC has considerable evidence of movement in and out of poverty and cautions the view that access to credit leads to sustained income growth and underlines the importance of BRAC's programme in reducing the vulnerability of clients to shocks which can precipitate a downward slide.

The social impacts that develop through the non-economic aspects of microfinance – 'a social understanding of poverty takes account of… other "deficits" that matter to people, sometimes more than money' are usually discussed. Impacts take place in different areas. That of 'family and kinship' is the area most commonly examined in impact assessment. Beyond the household are 'community and civil society', 'markets and economy' and 'state and polity'. While recognising that these domains

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intersect and overlap, Kabeer focuses particularly on what she calls 'wider social' impacts which she defines as those that operate in 'domains of society beyond the household' or which bring the private into the public domain. Examples of such 'wider social' impacts are given by Noponen and Kantor (Noponen and Kantor, 1990). Noponen describes reductions in violence against women, as PRADAN (Professional Assistance for Development Action) members record incidents of violence against them in their diaries. She suggests that it is the public nature of this record that leads to the change in behaviour. She does also present evidence of the stabilising effect that micro-insurance services can have for MFO clients in Bangladesh and Uganda. The reduction of risk and vulnerability at an individual level creates wider impacts on the stability of income for the wider community. The resulting improvements in income security for the community as a whole then provide a basis for the strengthening of personal relationships and social capital.

It is usually suggested that the use of group-based methodologies in the delivery of microfinance has the potential to increase clients' knowledge of and participation in the wider world. However, while the use of groups has the potential to build social capital, develop skills and empower clients, the way they are used varies considerably between MFOs. Some use them solely as a means for creating peer group pressure while others use them more deliberately as a vehicle for the empowerment and development of clients. Noponen and Dash discusses the role of Self- Help Groups (SHGs) in the Indian context,

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particularly in terms of their ability to take collective action on issues beyond the narrow confines of financial services in the wider community. These groups of poor women develop in autonomous, self-sustaining units which facilitate savings and credit, and are also a vehicle for the empowerment of the poor, both on an individual and community level. Noponen presents a framework for understanding potentially reinforcing processes in household well-being, economic empowerment, and social and political empowerment. This highlights the potential for SHGs to create benefits on an individual and wider level, in terms of a number of dimensions of income poverty, and social exclusion. For the 'new poor' in context of high unemployment in the former communist states of Eastern Europe, vulnerability is created by the lack of the right social connections, particularly as sources of social security. Despite good education and a high level of assets, many people lack the resources to maintain their social connections. In this context microfinance groups have the potential to build social capital and Kantor concludes that microfinance has an important role in developing and strengthening informal social connections. However, structural inequalities in society remain, and there is no evidence of increased participation in formal associations where most of the power within society lies.

The nature and extent of the impact of microfinance, particularly on poverty incidence, and the nature of the economic and social outcomes that microfinance is expected to have – particularly the impact on poverty –continues to promote lively debate. There is

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evidence that microfinance can have a positive impact on the economic and social situation of clients, their households and their businesses, as well as wider social and economic impacts, including changing social relationships and labour market effects (Morduch and Haley 2002). These impacts can in turn affect the overall incidence of poverty, whether defined in narrow income terms or more broadly. Hence, one important aspect of debate is the potential contribution of microfinance to the Millennium Development Goals (Littlefield *et al*. 2003). However, the potential impact of microfinance may go beyond these definitions of poverty. For example, impacts on gender inequality may relate to women above as well as below the poverty line (Jackson 1996). While working with relatively poor people, many microfinance organisations (MFOs) have explicit social goals that are not solely defined in terms of poverty. For this reason, the term "social performance" is used to cover the broad concern with social and economic impact (including poverty), which together with "financial performance" constitutes an MFO's "double bottom line". Systems for routinely measuring social performance of microfinance are at an early stage of development. Until recently, most formal social performance measurement took the form of ad hoc impact assessment studies with a 'proving' objective (Hulme 2000), in other words, to justify donor funding. These studies were generally undertaken by external consultants, and often relied on formal sample surveys of clients and control groups. In recent years there has been a move away from this type of "donor-led" impact assessment

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towards work that is more closely aligned to the operational needs of MFOs. This orientation is intended to enable MFOs themselves to better understand who they are reaching, how they use the services available, and what change is occurring as a result. The intention is to ensure that findings about impact are useful in further developing the products and services on offer and hence improving both practice and future impact (Simanowitz 2001).

This impact was missing from the mainstream of the microfinance industry in the 1990s when financial sustainability became the key goal (Otero and Rhyne 1994). However, many MFOs have retained their concern to demonstrate their social performance. While the use of public funds for microfinance is one reason for donors to require impact assessment work, MFOs that are financially sustainable and do not require donor subsidies may have their own social mission against which they wish to measure their progress. The *Imp-Act* programme developed from a concern that MFOs wanted to conduct impact assessment work to understand and report on the benefits and costs that their services provided to their clients. It has therefore built on prior work in the industry that emphasises the need for more timely and cost-effective data. Examples include development of “middle-range” impact assessment studies which could be carried out by MFOs themselves (Barnes and Sebstad 2000), as well as work on how to develop more client-focused products and services through “listening to clients” and through market research (Wright 1999; Cohen 2002). The work of *Imp-Act* has sought to further develop

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this agenda, with an emphasis on the development of impact assessment systems. This focus on systems recognises that MFOs have multiple stakeholders: boards, managers and staff, clients, investors – whose needs for information about social performance vary. It is then necessary to accommodate these needs by information collection, analysis and feedback mechanisms that are ongoing and dynamic rather than one-off events. In moving from a "proving" to an "improving" agenda for impact assessment, the programme seeks to combine a concern with credible analysis of information about the impact of microfinance on poor people's livelihoods, with the need to ensure that this information enables MFOs to improve their services, and hence improve their performance in terms of both their financial and social bottom lines. The articles themselves are arranged into three groups under the broad headings of "poverty", "institutionalisation" and "wider impacts". Rather than following this structure, the sections in this overview are based upon a distinction between the three components of a performance management system. Section Two reviews what the articles have to say about broad strategy and performance *goals*. Section Three considers performance *assessment*, and Section Four considers performance *management*.

The microfinance industry is moving on from a predominant emphasis on financial sustainability to a renewed concern with social performance and the "double bottom line". At the same time, MFOs are recognising the need to collect and analyse this data themselves in order to respond to the needs of their clients and improve their

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products and services. Key to the achievement of improved social performance are the generation of information that is credible, useful, appropriate organisational systems, and a commitment to learn and use the information generated. Client-led microfinance must be responsive, not only to the needs of clients evident from market research, but to a deeper understanding of the underlying social, economic and political processes in which an MFO operates. Finally, some form of standards or benchmarks will be useful, both to MFOs themselves that have a commitment to their social objectives, and to the industry as a whole in its search to ensure high standards of operation and secure subsidised funds. On this issue there is still further work to be done.

In this context I fail to resist myself from quoting Tagore, “The most precious wealth that man has attained is the consciousness of his fundamental unity, which is more and more impelling the human world to work together for the service of every individual born in it. This consciousness which is gradually gaining ground in our economic life, because it represents the highest truth of man, is the only means that can lead to the true wealth of the people, the wealth born of the fruitful meeting of individual's will. The huge megatherium of capitalism with its stupendous tail of bought-up workers will naturally become extinct when individual men come to realize that their real well-being can be achieved, not through an exaggeration of their own exclusive wealth, but by the associated endeavour of their individualities, based upon mutual trust and help. It was a realization of this fundamental truth, as it seemed to me, that impelled the

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promoters of the Hindusthan Co-opera**tive** Insurance Society to make this daring **experiment for** which the country was then hardly prepared, to **venture** out into the open road in the face of all risks, determined to acquire and learn through their own experiences, rather than succumb to the timid counsels of worldly wise critics who believe it to be an advantage for a child to be spared the troubles and dangers of growing, and think it is a sign of prudent respectability to be content with a monotonously easy success depending on some hoarded patrimony of tradition. And it was, I repeat, because I had felt in my heart the truth they sought to reduce to practise throughout our country, that I was impelled *to* give these venturesome spirits my blessing, and bid them god-speed." (Tagore, 1963).

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