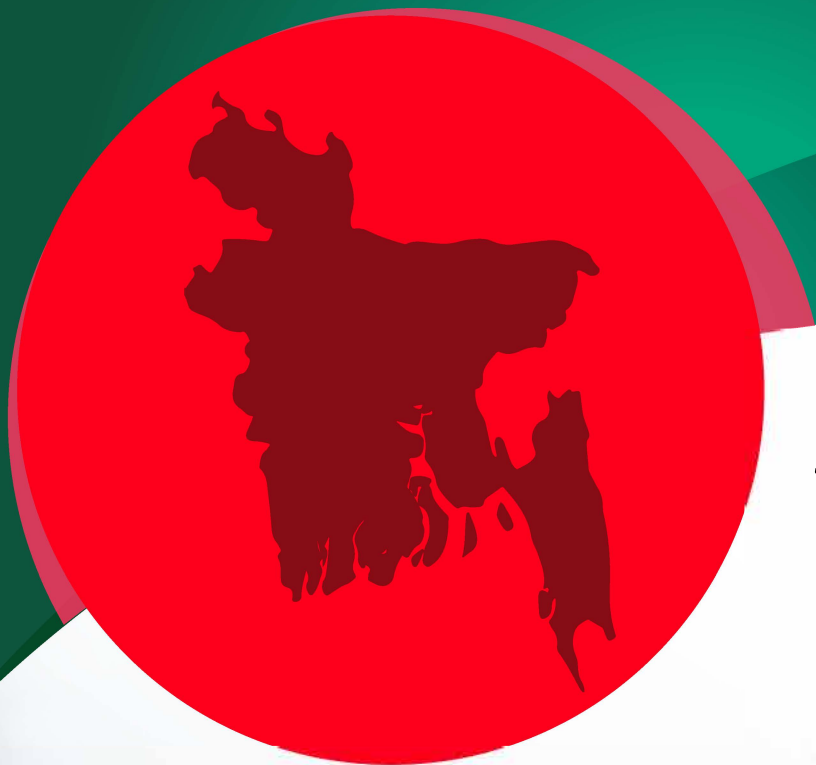


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TRANSPARENCY STATUS OF THE NGOS IN BANGLADESH

A.K.M. Ahsan Ullah

ABSTRACT

The paper addresses the role of the NGOs in capacity building of the rural poor by providing institutional credit; it also examines their transparency status in Bangladesh. Data were collected through face-to-face interviews with 96 randomly selected beneficiaries of two NGOs by using both structured and semi-structured questionnaires. The findings suggest that all the respondents benefited from the credit programs when judged against the indicators of institutional performance. About one-fourth of the respondents used local arbitration (or *shalish*) to resolve local problems, a slightly higher percentage made demands on government resources, around 39 percent took action against human rights abuses in society, while about 11 percent protested dowry demands. About 15 percent resolved divorce attempts and about 9 percent received legal aid from the NGOs. Most NGO members used institutional sources for borrowing money. Regarding transparency and accountability, both the NGOs were very weak. In order to be more effective NGOs should strengthen the programs relating to institution building and maintain upward and downward transparency.

Introduction

NGOs¹ evolved in Bangladesh immediately after the liberation war in 1971 as ambassadors of development for the historically disempowered section of society, i.e. the rural women. The NGOs spent time and effort designing their programs to best address the poor who lack access to institutional credit and thereby depend on the rural traditional money lenders (TML², hereafter). In striving to shift the trend from TML to institutions the NGOs claim to be trying to build the capacity of the poor to transform their labor into market-oriented commodity through offering a diverse set of skill training. Given the skewed distribution of land (Howes, 1996), the landless and functionally landless account for nearly half the rural households that delimits their access to rural credit. Not surprisingly, only 15 percent had access to institutional credit. This is largely due to high social competition and cumbersome formalities for subsidized credit, particularly where government resources have been insufficient to meet the high demand for credit (Mujeri, 1993; World Bank, 2001; Ahmed, 2000). This condition is exacerbated by the fact that the commercial/rural banks do not recognize that the poor are creditworthy; thus they remain reluctant to lend to the rural poor, in view of the administrative costs of delivering and recovering numerous small loans.

Bangladesh has been experiencing unprecedented growth of NGOs, the number being beyond 20,000. After three decades of NGO operations in Bangladesh, their role, efficiency and transparency issues are in question, the most critical factor being that the desired level of achievement in terms of

economic emancipation of the poor is not palpable (Ullah and Routray, 2003).

The focus of the NGOs is on institution building as a strategy to bring the rural poor into the mainstream of development. In this process, they build local women's leadership among the poor with their local organizations through social mobilization. The Village Organization (VO, hereafter) is the primary unit of institution building and the base for delivering services and inputs (BRAC, 1996). Through discussions in small groups and in village meetings the NGO staff convince the participants to organize themselves (BRAC, 2001; Lovell, 1992). Small groups, formed initially, combine themselves into a bigger body, i.e. village organization or VO. The NGO staff conducts an orientation course on the proceedings of the VO³ (BRAC, 2001; Proshika, 2001). Since society is unlikely to change unless social, economic and political institutions change (Ullah and Routray, 2003), it is imperative to push for collective action and advocacy to bring about this change in key structures and processes. Weekly savings, a mandatory condition for the NGO members, is said to help develop an inclination toward savings among the poor. Other than this, NGOs organize *polli shamaj* (Ward Federation), popular theatre, human rights and legal education and legal aid services. They convene workshops between VO leaders and community leaders to discuss local socio-political and legal issues in an open forum to make the traditional elite leadership more accountable to their communities. Similarly, certain unjust, illegal and exploitative practices of the society are highlighted through the Popular Theatre Program,

a new strategy of institution building of the NGOs (Ullah and Murshed, 1999; Goetz, 1996).

Presently, the large-scale development of NGOs, backed by increased donor funding, has generated contradictions between the state and the NGOs and has brought the issue of NGO accountability in the political discourse (Hashemi, 1996; Shah, 1996; Huq, 1998). The ordinance promulgated to regulate NGO activities [The Voluntary Social Welfare Agencies (VSW) Ordinance-1961] allows the government to intervene in the governance structure of the NGOs. The Department of Social Welfare (DSW) as the registering body is also authorized to suspend the governing body of an NGO without any right of appeal; on the contrary, the governing body of an NGO cannot dissolve the NGOs without the approval of the DSW. However, evidence suggests that the government has little control over the NGO activities. In fact, a few of the NGOs in Bangladesh (for example, Gano Shahajjo Shangstha-GSS, one of the biggest NGOs in Bangladesh) went bankrupt due to widespread corruption within the organization by the ir chief executives, rendering more than six thousand employees jobless and the future of the beneficiaries uncertain. Evidently, the NGOs intend to profit greatly by imposing high rates of interest on the poor in the name of 'micro-credit for poverty reduction'; they hide the magnitude of the scale of their business to evade taxation (Bari, 2002).

According to Tandon (1996) one of the most common practices is that the commitment of the NGOs to improve the lives of others transforms into a desire to improve their own. The government of Bangladesh is also critical of NGOs' expenditure patterns, which it considers to be biased toward high overhead costs that result in reduced cost effectiveness of their programs (World Bank, 1996). NGO survival has been almost de-linked from performance since they are under little obligation to tell the truth to their benefactors (Edwards and Hulme 1996; 1992; Bari, 2002). This situation has further deteriorated because they have never considered developing a countervailing system of downward accountability to the poor (Hashemi, 1996; Tandon, 1996). Furthermore, other opportunistic organizations do not concern themselves about ideology, but obey the dynamics of the market and call themselves NGOs in order to gain access to funds.

NGOs have been thought of as occupiers of the moral high ground when compared with governmental corruption and inefficiency. However, this notion has been questioned and according to Korten (1992),

NGO officials draw large salaries, use expensive cars, and occupy air-conditioned offices. Sadly, they have strayed from the moral high ground by the money that they are empowered to put to good use. This paper looks at the institution and capacity building efforts of the NGOs, and their current transparency status.

Methods

This paper draws on information both from primary and secondary sources. Relevant literature, journal papers, and annual reports of the respective NGOs (under study) served as secondary sources of information. Interviews with the NGO beneficiaries were conducted using both open and structured questionnaire; a semi-structured checklist was used to collect data on qualitative aspects.

The objective of the study was to gather information on the impact of institution-building interventions of the sample NGOs by investigating pre- and post-NGO situation of the beneficiary households. Four experienced field interviewers were engaged to collect data through face-to-face interviews, while the author closely supervised data collection activities to ensure data quality. Two NGOs, BRAC and Proshika⁴, were selected purposively. A total of 96 households [respondents] were selected using random sampling.

Different statistical tests of significance were applied to determine the difference between 'after' and 'before' situations. Chi-square (χ^2) was used to test for difference in borrowing from institutional sources between pre- and post-NGO period. To assess the state of transparency, three basic indicators were developed: a) whether the borrowers knew the rate of interest on the amount borrowed; b) whether the NGOs had explained the reasons for deducting money from the principal amount; and c) whether seed, poultry birds or saplings were given to them forcibly.

The state of transparency and institution building situation 'before' joining NGOs was assessed against each institutional and transparency indicator and the 'after' situation was also measured accordingly. Selection of the two study villages in Babujanj Thana of Barisal district was based on the following criteria: (i) the villages incorporate all major NGO activities; (ii) the sample NGOs (BRAC and Proshika) have been working in this district for the last 15 years; (iii) the socio-economic characteristics of the district are homogenous in terms of income, household consumption, health, etc., except literacy;

(iv) both NGOs' interventions focus on institution building; and (v) the range of activities and programs of the two NGOs in the sample villages are almost the same as in other areas (BRAC, 2001).

Core NGO Activities and Importance of Local Structures

Training, one of the key components of the NGOs' development activities, aims to build the capacity of the poor and thereby enhance their ability to achieve specific objectives. Most NGOs in Bangladesh provide training in three broad areas: empowerment-related, health and nutrition related, and skill-based. Training related to empowerment includes literacy, leadership, awareness raising, group formation procedures and management, accessing government services, legal rights and women's rights. Health and nutrition training includes hygiene, sanitation, diet and kitchen gardening. In a few programs some specific skills such as those of Traditional Birth Attendants (TBA, thereafter) are included (BRAC, 1996; Proshika, 2001; Irish and Simon, 1999). Skill centred training includes agriculture, pisci-culture, sericulture, tailoring, poultry and other livestock raising, plantation, environmental protection and a variety of specialized topics, including those provided by NGOs operating in urban areas. Many poor people have strong preference for skill-centred training in association with credit. Data show that nearly 29 percent of the respondents received training within their membership period both from the NGOs and the government agencies: Only eight categories of training courses were offered to the members on nursery, poultry vaccine, human rights and legal education (HRLE, hereafter), livestock, health and hygiene practice, life skill development, fish farming and TBA. Data also show that the training received on poultry and poultry vaccine, and HRLE were provided solely by the NGOs. However, the government provided training only on TBA practices.

The number of training courses related to health and hygiene offered by the government was higher when compared with the NGOs. About 26 percent of the respondents received training once, while 3 percent received it twice in post-NGO period. In the pre-NGO period, around 11 percent received training once only, while about 2 percent received it twice. A significantly higher percentage of training courses was offered in the post-NGO period as compared to pre-NGO period ($P < 0.001$).

The principal objectives of forming groups of the rural poor women are to ease credit operation, and resolve problems encountered within the community through the local arbitration bodies formed with local leaders and VO members. The data show that NGOs' institution building activities play an important part in resolving problems. As a result the members have been able to solve many problems raised in the community by themselves. About 28 percent resolved local problems through the local arbitration or *shalish*, while about 35 percent made demands on government resources. Around 39 percent protested and took action against human rights abuses in the society, while about 11 percent protested dowry demands. About 15 percent foiled divorce attempts, while about 9 percent received legal aid on various issues from the NGOs (Table 1).

The Centrality of Micro Credit

The programs of the NGOs constitute a package of which micro-credit is a central component. One of the main goals of micro-credit is to provide the rural poor with access to money and empower the women by reducing economic dependency on informal sources such as traditional money lenders (Ahmed, 2000). Data show that none of the sample beneficiaries borrowed money from the NGOs before they joined, while all of them borrowed from the

Table 1 Uses of Group Cohesion in Daily Life

Uses of Institutions	<i>f</i> (n=96)	%
Resolved local problems through arbitration*	27	28.13
Received legal aid from NGOs	9	9.38
Participated in demanding government resources**	34	35.42
Protested dowry demand	11	11.46
Resolved household crises	3	3.13
Action taken against human rights abuses***	37	38.54
Resolved divorce attempt	14	14.58
Total	96	100.00

*Conflict with neighbors over land distribution etc.

**Demand for road construction and renovation, installation of tube well etc.

*** Rape, acid burning, or other forms of violence against women.

Table 2 Sources of Loan Borrowed During Pre and Post NGO Period

Sources of Loan Borrowed	Pre-NGO		Post-NGO		Total		Significance
	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	
NGOs	0	0	96	100.0	96	100.0	-
Informal sources*	39	100	4	10	43	100.0	P<0.000

Source: Field Survey 2002.

*Traditional money lenders (relatives are excluded).

Table 3 Purposes for which loan was used

Purposes	Borrowed (n=43)	Used (n=43)	Significance
	(%)	(%)	
Paddy husking	7	4	P<0.000
Purchasing rickshaw/van	12	4	
House construction/renovation	5	34	
Consumption	-	19	

Data sources: Survey 2002 (data reflect multiple responses)

NGOs after they joined. However, 39 (100 percent) respondents borrowed money from informal sources, while this number went down to only four (10 percent) in post-NGO period. A significantly higher percentage of respondents borrowed money from informal sources before joining NGOs ($P<0.000$). This indicates that the NGOs play a very important role in motivating the rural poor toward institutional sources for loan.

Over the years, savings and credit programs have formed the backbone of most NGO activities. Compulsory savings provision for retaining membership is used as their capital. Most of the NGOs claim to have been successful with their recovery rate when compared with any formal bank's recovery situation. NGO loan is purpose-specific and hence it is disbursed among the members accordingly. However, it is often noticed that the loan is used for another purpose, referred to as 'wrong purpose'. Clearly, 7 percent borrowed money for paddy husking but only 4 percent used it for the same purpose. About 12 percent of them borrowed for purchasing rickshaw/van, while only 4 percent used it as promised. Five percent of them borrowed for house construction or renovation, but about 34 percent used their loan for that purpose. About 19 percent of the members consumed the loan during a crisis (Table 3). However, the difference between the purposes of taking loan and using loan was significant ($P<0.000$). It means that NGO beneficiaries used their loan for purposes that the NGO did not approve. This might be explained by the wrong selection of the target group and insufficient time given to invest money before installment payments were collected.

Data further shed light on the 'real users' of loan money showing that the money borrowed from the NGOs were used both by self (beneficiaries) and spouse. Around 46 percent of the respondents borrowed Tk⁵ 4,001 – 7,000, followed by category of Tk 7,001 – 10,000 (38 percent). Only about 3 percent and 8 percent of primary members and their spouses respectively borrowed the lowest category of Tk 1,000 – 4,000. The mean loan size is Tk 7,412.5. Statistical tests show that there is no relationship between the loan size and the users. It means the loan size does not determine its users [i.e. male or female]. The key informants questioned why NGOs offer loans to those who were well off. They accused NGOs of making profit only, irrespective of how poor or how rich their clients (Table 4).

Data show that about 27 percent of the female members handed over their money to their husbands to invest in more profitable schemes. Money is often handed over under pressure and around 19 percent said that if money was handed over, husbands didn't ask for money everyday. The highest percentage of respondents (41.4 percent) said that husbands became happy when they got the money. Seven (10 percent) of them reported that only money could placate their husbands, while about 3 percent reported that it increased their prestige in the family. Regarding the dilemmas they encountered, around 50 percent of the respondents thought that handing over the money made them more dependent on their husbands. To the majority, the loan did not help empower them. About 10 percent reported that since husbands are not accountable to their wives, they asked their husbands about how the money was spent and about 11 percent claimed that their husbands spent the money and did

Table 4 Distribution of Users of Institutional Credit by Amount

Loan Category (by amount)	Loan Used by the Spouse	%	Loan Used by Self	%	Total	%
1,000 – 4,000	8	8.33	3	3.1	11	11.5
4,001 – 7,000	33	34.4	11	11.5	44	45.8
7,001-10,000	25	26.1	11	11.5	36	37.5
1,0001-20,000*	4	4.2	1	1.04	5	5.2
Mean			7412.5			
Significance (χ^2)			P<0.481			
Total	70	72.9	26	27.1	96	100.0

*Class interval has jumped for making the frequencies statistically analyzable.

Source: Computed from Survey Data 2002.

Table 5 Sources of Money for Repaying Current Installment

Sources	f	%
Cutting short the number of meal	4	4.89
Sale of crops/trees	7	8.54
From the loan received	19	23.17
Selling household valuables	12	14.64
Taking another loan	9	10.98
Borrowing from relatives/neighbour	13	15.85
From NGO activities	18	21.95
Total	82	100.00

Source: Field Survey 2002

not care about the payment of installments. About 23 percent stated that their husbands spent the money lavishly. The members thought that they did this because it was not their hard-earned money. Nearly 7 percent reported that issues like payment of installment, asking for some money from their husbands for personal expenses etc., often made their husbands abusive

Loan Repayment Dilemmas

Loan repayment has caused landlessness and pauperization among many of the NGO members. 'As the stormy wind destroys the little branches of a tree, loan crushed us just like that'- said an NGO member in a village of Bangladesh (BRAC, 1995). During the survey, 82 respondents were current on paying their installments. They were asked about the sources of money they used to pay their installment. The replies simply reinforce the above quoted statement. Around 5 percent reduced their food intake to pay back the loan. Around 9 percent sold out their yield crops during harvest or their growing trees, while about 15 percent sold out their valuables, such as livestock, ornaments, utensils etc. The highest number of the respondents (23.17 percent) paid their installments from the principal loan. This has been a long debated issue that there should be an

'installment holiday' so that they can invest the money before they start paying the installment,

because it is very unlikely that they can invest the money for a productive scheme in a week. About 11 percent were getting entrapped with another loan. They paid their installment with another loan made either from the respective NGOs or other NGOs, while about 16 percent borrowed money either from relatives or from neighbors to pay back the installment. About 22 percent of the respondents paid their loan back from the income of NGO related activities (Table 5).

The Loan Repayment Score Sheet

Poor loan repayment is often the single most important factor affecting the NGO's reputation and sustainability. When loans are not repaid, the funds available for new loans are reduced unless new capital is secured (Chowdhury, 1989). Loan recovery performance is best measured by the repayment rate on loans. The repayment rate indicator includes the amount past due in previous periods. Since NGOs often have a large number and high amount of loans delinquent from previous periods, repayment rates that include these loans are preferable. Ideally, the amount received would not include payments made in advance, as they tend to overstate the repayment rate which is helpful to make cash flow projections as

they provide information on the amount an institution can expect to recover each day, week, or month. A 95 percent repayment rate means that 5 percent of the amount due has not yet been paid, not that 5 percent of the portfolio is past due. The repayment rate is above all a useful internal management tool for monitoring recovery and making projections (Fowler, 1996).

The NGOs often proclaim greater than actual success in recovering the loan. The claims go even up to 100 percent and range from 98 percent to 100 percent, exceeding Goldmark and Rosengard's standard (for more see Ullah and Routray, 2003), which seems to be a miracle. The high recovery rate of NGOs brings reputation and reliability to the NGOs. Uncontrovertibly, the recovery rate of NGO loans is much higher than that of the formal banks. It was hypothesized that regular monitoring and rigid regulations helped bring about this success. An attempt was made to delve into a deeper issue pertinent to the NGO members with reference to Khan's (BRAC, 1995) study, which revealed that extreme misbehavior with and threats made by the NGO officials to their beneficiaries are among the basic tools for recovering loans. That study was undertaken by BRAC following a huge dropout of members in one area of its programs in Bangladesh. Respondents were asked if they could repay their first or second loan. Data show that 70 percent borrowed money more than once. Most of them reported to have paid their first and second loan back. The question was how was it repaid. About 24 percent reported that half of their first loan was repaid by the respective NGOs themselves by deducting the outstanding from the principal amount of the second or third loan when they showed their inability to repay. About 9 percent repaid three-fourths of the first loan the same way. About 12 percent complained of misbehavior and threats of NGO officials. Misbehavior of NGO officials with the beneficiaries has become a threat to the sustainability of the credit program because to many researchers this behavior prompts the dropout of its members (BRAC, 1995). About 29 percent sold their valuables and 18 (26.8 percent) borrowed from different sources for repaying the loan. Literally, collateral is a security of either cash or kind for ensuring repayment from the beneficiaries. Commercial banks usually keep the deed or document of moveable or immovable assets of value equivalent to the money to be disbursed, while NGOs are said not to need such collateral security. However, the NGOs adopt some strategies to disburse loan. For example, none can get money from NGOs whenever they want it. They have to go through exacting processes⁶.

Question about Transparency and Accountability

Mora shud janina, mora khali kistee dei, amgo kokhono koina koto taka shud, khali koe kistee dite oibo"-We do not know the rate of interest, we just pay installments, we are never told the rate of interest, just asked to pay the installments.

Kohinoor, a NGO beneficiary in Kalikapur village of Chandpasha Union is not aware of the concept of 'transparency or accountability'. She just unraveled what she experienced in relation to her loan and membership. Respondents were asked whether they knew the rate of interest of the loan taken from NGOs; only about 9 percent knew it, and 91 percent claimed total ignorance of the rate of interest. Statistical tests show that a significantly higher percentage of respondents ($P < 0.000$) claimed their total ignorance of the rate of interest as compared to those who knew. They were asked if the NGOs explained the reasons for deducting money from the principal amount of loan. Again, 88.5 percent of the respondents replied 'No'. Respondents were also asked, if they took poultry birds, seed etc, on their own from the NGOs during loan disbursement. A significantly high percentage ($P < 0.000$) of respondents (74.0 percent) reported to have been forced to do so. The above findings clearly answer the question of transparency of the NGO activities. Karim (1996) argued that Bangladeshi NGOs are regularly answerable to at least four different authorities: their boards of governors or executive committees and through them to their general members; to the government, which approves their projects and budgets; to the people; and to the donors. Tandon (1996) characterizes the NGO boards as follows. Family board: One of the most common characteristics of many NGO boards is their family character. In both composition and style of functioning, these boards operate like a family, with all the necessary informalities, affection and trust that a small family-held business demonstrates (Tandon, 1996; Ullah and Murshed, 1999, 2002; Uphoff, 1996). Invisible board: Many NGOs have largely invisible boards comprised of small coteries of friends and family assembled by the founder or founders for the purposes of meeting statutory requirements on paper. The board acts as only a "rubber stamp" (Tandon, 1996). Downward accountability is thus poorly instrumentalized in most NGOs. Their accountability is also currently seen as satisfying the donors who support them; thus downward accountability is weak. In fact, NGOs have no readily acknowledged parameters against which their performance can be measured (Bari, 2002).

Table 6 How the First Loan Was Repaid

How was First Loan Repaid	<i>f</i>	%
Half of the first loan was reduced from second, third or fourth loan	16	23.8
Three fourths of the first loan was reduced from second, third or fourth loan	6	9.0
Threats to lodge cases with police	8	12.0
Selling out valuables	19	28.4
Borrowing from relatives and others	18	26.8
Total	67	100.00

Source: Field Survey 2002.

Conclusion

The beneficiaries use their group cohesion and strength in resolving local problems which indicates that they have achieved a certain level of empowerment in the society, as well as in the family during post-NGO period. A shift of dependence from traditional money lenders to institutional sources is also clearly visible. They were less likely to be vulnerable to exploitation by the TML. This indeed reinforces proclamations of the NGOs' success. All the sample beneficiaries had access to institutional credit and about two thirds borrowed more than once. However, for most cases, the women borrowers, did not use the loan for themselves. They were either pressured or they willingly handed over the money to their husbands. Unfortunately, NGOs still use pressure and threats to recover the loan as their most primary mechanism. The income from NGO related activities are not the principal source, for most cases, for repayment of installments. Whatever the level of success the NGOs claim in the empowerment indicators because of their innovative interventions, economic emancipation so far has largely remained more rhetoric than substance. Significant economic rejuvenation of the rural economy is required to establish the effectiveness of their activities. However, the prominent question today is: How far can the NGOs go with their mission of economic emancipation of the rural poor, when the most important issues of governance (e.g., transparency and accountability) remain ignored in their program strategies?

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End Notes

1. Non-governmental organizations
2. Who lend money with a very high rate of interest, some time it goes up to 60-100 percent.
3. The VOs, comprised of 35-55 members meet once a week to discuss and facilitate credit operations and again once a month to discuss various socio-political and legal issues, including social inequality and injustice, discrimination and violence against women (BRAC 2001; Proshika 2001).
4. BRAC, formerly known as Bangladesh Rural Advancement Committee, was established as a relief and rehabilitation organization in 1972 after the Bangladesh Liberation War. Over the years BRAC has gradually evolved into a large and multifaceted development organization with the twin objectives of alleviation of poverty and empowerment of the poor. Its programs cover all the districts of Bangladesh. The budget for the year 2003 was US\$174 million. Today it is known to be one of the largest NGOs in the world. Proshika, the

second largest NGO in Bangladesh, took its first step in 1976 although the Proshika development process started in a few villages of Dhaka and Comilla districts in 1975. The name Proshika is an acronym of three Bengali words, which stand for training (proshikkhan), education (shikkha), and action (karmo).

5. Bangladeshi currency. About 58 Takas (Tk) are equivalent to 1.0 US\$ (as of April 2004).
6. One has to be a member of NGO *Samitee* headed by one president (*shovanetri*) from among the members of the respective village, who is held responsible for holding regular meetings, and collections: she is empowered to take harsh steps to get the loan back from the members. Depositing a

particular amount of money on a regular basis, which NGO terms as building the practice of savings among the poor, is obligatory. Members needing a loan amount of Tk 1,000 have to have at least Tk 260 as savings with the respective NGO (Hashemi, 1996; Wils, 1996). In case, membership is alive but one has no savings and they want a loan, the NGO reduces a particular amount from the principal during disbursement. But interest and installments are determined over the total amount. The amount of loan each member is eligible to borrow depends on her total savings. In addition, the borrower must also deposit Tk 50.00 as security for every loan of Tk 1,000. Therefore, a client who asks for Tk 3,000 receives Tk 2,850 cash in hand.

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