

Chapter - II

Rural Economy and Rural Financial Markets [RFMs] in Bangladesh: An Overview

*"Bangladesh is a unitary, independent, sovereign Republic to be known as the People's Republic of Bangladesh."*¹

2.1 The Land

Bangladesh is a new state occupying an ancient land. The territory now constituting Bangladesh was under Muslim rule for a period of over five and a half centuries from 1201 to 1757. It subsequently came under the sway of the British after the last sovereign ruler of Bengal, Sirajuddowla, was defeated at the Battle of Plassey (Palashi) on 23 June, 1757.² During the period of British rule lasting nearly two centuries between 1757 and 1947, Bangladesh formed part of the British Indian province of Bengal and also the former Sylhet district of Assam, excluding certain thanas in Karimganj subdivision. After gaining independence along with the rest of India in August 1947, it became the eastern province of the new state of Pakistan and was then known as East Pakistan. After remaining a province of Pakistan for around twenty-four years, Bangladesh became an independent country on 16 December 1971, after a bloody war of liberation lasting nine months between 25 March - 16 December 1971.³

The country derives its name Bangladesh from the cognate name Vanga (Banga), first mention of which is found in the Hindu scripture *Aitareya Aranyaka*. The etymological roots of the term Vanga are traced by linguists to the languages found in adjoining areas. One linguistic school thus maintains that the word is derived from the Tibetan term 'Bans' meaning 'wet and moist'. By this interpretation, Bangladesh is literally a wetland. Another school believes that the term Vangla (Bangla) is derived from the words 'Bang' and 'La' used by the Bodo (the aboriginal inhabitants of Assam), which connote a "wide plain".⁴

2.1.1 Physiography and Climate

Bangladesh spans an area of 1,47,570 sq.km between latitudes 20° 34'N and 26° 38'N and longitudes 88° 01'E and 92° 41'E on the northeastern fringes of South Asia. The country is surrounded to the west, north and east by India, and shares a boundary with Myanmar at its extreme southeast. The southern coastal boundaries of Bangladesh are formed by the Bay of Bengal. Except for hilly regions to the east of the country and some highlands to the north and northwest, the country mainly comprises low, flat and fertile estuarine lands formed by three major subcontinental rivers, namely the Ganga, the Brahmaputra and the Meghna.⁵ This deltaic area includes a network of 230 rivers including various tributaries and branches of the main rivers. As a consequence, the combined Ganga-Brahmaputra-Meghna river system brings in a load of 2.4 billion tonnes of sediment that continuously enriches the alluvial soil of the country.⁶

By virtue of its proximity to the Bay of Bengal, Bangladesh has a subtropical monsoon climate characterised by high temperatures, heavy rainfall and excessive humidity, with clearly marked seasonal variations. The country suffers from frequent floods and cyclones including tidal surges when the windspeed rises to 100 mph or more.⁷ However during the cold months between November and March, the average temperature hovers around 64°F (17.8°C). Minimum temperatures remain relatively high, as a result of which a variety of tropical crops can be grown throughout the year in Bangladesh.

2.1.2 Administrative Structure of Bangladesh

Bangladesh is ruled by a democratically elected Parliament, with the Prime Minister heading the Government of Bangladesh. The country is divided into six administrative divisions, each placed under a

Divisional Commissioner. Details of the administrative divisions are provided in the table below. Each administrative division is further subdivided into Zilas (districts), which now number 64. The civil administration of each Zila is entrusted to a Deputy Commissioner who is assisted by several other officers. Each Zila comprises of several upazilas (literally, subdistricts) and Thanas (police stations). Under administrative reforms which have made the upazila the focal point for public administration in Bangladesh, the Upazila-level administration has been upgraded and thoroughly reorganised for efficient discharge of bureaucratic responsibilities and quick attention to local problems. After administrative restructuring, there are now 490 upazilas in the country. Every upazila is divided into several Unions, which are the smallest units of administration and local governance. The number of Unions in the country is currently 4451.⁸

Table 2.1: BANGLADESH BY DIVISION
DIVISIONWISE SETTLEMENT STRUCTURE

Name of Division	Area (sq.km)	1991 Population in '000	1991 Persons per sq.km	1991 Urban Thanas	Unions	Wards	Mouzas	Av.Thana Size (sq.km)	Av.Thana Population
BANGLADESH	147570	106316	720	490	4451	600	59990	301.2	217.0
Barisal Division	13297	7463	561	38	335	46	3396	349.9	196.4
Chittagong Division	33771	20524	608	93	909	103	8311	363.1	220.7
Sylhet Division	12596	6765	537	35	322	17	5496	359.9	193.3
Dhaka Division	31119	32666	1050	134	1234	199	16900	232.2	243.8
Khulna Division	22274	12688	570	63	559	98	6981	353.6	201.4
Rajshahi Division	34513	26210	759	127	1092	137	18906	271.8	206.4
<i>Percentages</i>									
Barisal Division	9.01	7.02	-	7.76	7.53	7.67	5.66	-	-
Chittagong Division	22.88	19.30	-	18.98	20.42	17.17	13.85	-	-
Sylhet Division	8.54	6.36	-	7.14	7.23	2.83	9.16	-	-
Dhaka Division	21.09	30.73	-	27.35	27.72	33.17	28.17	-	-
Khulna Division	15.09	11.93	-	12.86	12.56	16.33	11.64	-	-
Rajshahi Division	23.39	24.65	-	25.92	24.53	22.83	31.52	-	-

Source: BBS [1997]: *Statistical Pocketbook of Bangladesh*, pp.101-103 & 113-132

2.2 Critical Characteristics of the Rural Economy of Bangladesh

Bangladesh is a principally rural country with 90 percent of its area being covered by rural settlements. About 56 percent of the rural population is landless and 51.7 percent is miserably poor. Bangladesh thus accounts for around 7.2 percent of the world's poor.⁹ The estimated number of people living in poverty in 1995-96 was 55.3 million, of which 45.7 million lived in rural areas. As the high incidence of poverty has constantly undermined the economic achievements made by Bangladesh, development of rural areas has become the prime concern of the Government of Bangladesh [GOB]. Rural development in the Bangladesh perspective has meant the development of the country's rural areas through poverty alleviation programmes, creation of agro-based small industries and cottage industries and promotion of business activities that can provide alternative employment opportunities to the rural poor. Since all these anti-poverty measures require firm financial support, rural development in Bangladesh greatly depends on adequate availability of rural finance, its proper planning and utilisation.

Table 2.2: Rural Landholding Pattern & Agricultural Labour Households of Bangladesh

Category	Reporting %	Residual %	% HH with Zero Landholding	% HH with Homestead Land only	% HH with Homestead + Farmland upto 0.5acres	% HH with Homestead + Farmland 0.5-1.0acres
Rural Households	68.8	31.2	8.7	19.6	28.2	12.3
Category	% Total Rural Households	% Rural Nonfarm Households	% Rural Farm Households	% Rural Small Farm Households	% Rural Medium Farm Households	% Rural Large Farm Households
Rural Households	39.8	63.0	31.1	40.9	8.9	1.3

Source: Computed from BBS [1997]: *Statistical Pocketbook of Bangladesh*, pp.163-165 & 168

Bangladesh is among the least developed of the developing nations. As of 1998, 127 million people crowd the country's limited land area of around 1,47,570 sq.km,¹⁰ and in terms of population, Bangladesh is the ninth most populous country in the world with its population projected to reach 182 million in 2025.¹¹ Around 80 percent of the present population of Bangladesh, numbering approximately 89.16 million people, live in the 68,000 villages scattered across the country. Average density of population in Bangladesh is thus almost 755 per sq.km, and consequently the land-man ratio is among the lowest in the world. Average landholding per farm family ranges between 1.00-3.00 acres. A tenth of the total farm households are landless, 80 percent own lands in sizes ranging between 0.05-2.49 acres, 17 percent own land in sizes between 2.50-7.49 acres, while 3 percent own lands with a size of 7.50 acres or more.¹²

Typically, the agricultural holdings in Bangladesh are small, fragmented and widely scattered. Such critical landownership features have made proper land management and the efficient use of irrigation and agricultural mechanisation very difficult. Though land is fertile, agricultural productivity in Bangladesh remains comparatively low as the prevalent modes of cultivation are traditional, backdated and inefficient. Because of lack of the requisite infrastructure for applications of improved agricultural technology, subsistence farming continues to be the permanent characteristic of agriculture in Bangladesh. Thus the great majority of the country's farmers are poor and often live at levels below subsistence.

Under such critical circumstances, generation of surpluses by the Bangladesh agricultural sector can hardly be expected without adequate reinforcement of the rural economy. External financing therefore becomes an inevitable necessity. But because of socioeconomic and institutional limitations and inherent difficulties in reaching the target poor, providing rural finance in Bangladesh is a difficult and complex task. The limiting constraints of the rural economy in Bangladesh must therefore be clearly understood, before discussion commences on the rural financing situation in the country.

2.2.1 Demographic Constraints

Since the development process involves both the individual and society, the growth and distribution of population in the target area is naturally relevant to development. Since man is not only the creator of resources but also their prominent user, study of the availability of human resources becomes important in any discussion of economic development and rural poverty. The fruits of economic development may be enjoyed by the population of particular regions or by an entire country. A close relation exists between economic development and the growth of population. If the rate of growth of population exceeds the rate of income growth in a particular region, the regional economy is liable to be caught in a 'low-level equilibrium trap.

The most intractable national problem of Bangladesh is the high rate of population growth, which has been the major cause of high unemployment, high dependency ratios and increasing poverty in the country. The third decennial Population Census of Bangladesh conducted by the Bangladesh Bureau of Statistics [BBS] in March 1991 enumerated the population of the country at 106.31 million. After adjusting for Census underenumerations, the figure for total population was revised to 111.45 million,¹³ and was estimated to have increased further to 127 million by 1998.¹⁴ Of this, urban population was estimated at 19.6 percent and the population residing in rural areas at 80.4 percent.¹⁵

The Government of Bangladesh has been making incessant efforts for reducing the high rate of population growth in the country. As a consequence of these efforts, a decline was observed in annual population growth rates from 2.31 percent in 1981 to 1.8 percent in 1995. However, even if present growth rates are maintained, the population is likely to be doubled in the next 40 years, greatly increasing population density in the country.

2.2.2 Land Constraints

Land is the basic productive resource of a rural economy, which cannot be increased at will. Agricultural production is influenced to a large extent by the land factor. In Bangladesh, this valuable resource is extremely scarce and fragmented, as a result of which Bangladesh has the lowest land-man ratio in the world, barring the city-state of Singapore.¹⁶

Land has traditionally been central to the social status of the people in Bangladesh. It has also been the dominant factor of production which has a primary role in generating income and earning opportunities in

rural areas. Of the the total land area of approximately 36.66 million acres in Bangladesh, 19.13 million acres or 52 percent of the total land area is under cultivation at present. Another 13 percent of lands are under forest, while 3 percent comprises fallow lands.¹⁷ The residual portion is covered by roads, highways and other built-up areas, as well as lakes, rivers and other inland water bodies. With constant seasonal alluvion and diluvion in riverine and coastal areas, total availability of land in the country has remained almost unchanged. Salient features of land availability and utilisation in Bangladesh are examined in the following table.

Table 2.3: Land Utilization Pattern of Bangladesh, 1994-95

Land Category	Area [million acres]	% of Total Land Area
Total land area	36.66	-
Land unavailable for cultivation	10.12	28
Forest	4.86	13
Culturable wasteland	1.54	4
Current fallows	1.00	3
Single-cropped area	7.22	20
Double-cropped area	9.53	26
Triple-cropped area	2.37	6
Net cropped area	19.13	-
Total cropped area	33.41	-

Source: BBS [1997]: *Statistical Pocketbook of Bangladesh*, p.126

As revealed by the table, net cropped area amounts to only 52 percent of the total land area of the country. Around 20 percent of this represents single-cropped lands, while the double-cropped area amounts to 26 percent. Only 6 percent of the total cropland yields three crops a year. Since net cropped area cannot be increased at will, the only alternative option for the farm sector in Bangladesh is the adoption of intensive cultivation. Even so, the current cropping intensity levels in Bangladesh are relatively low at only 174.64 percent.¹⁸ Besides the land limitations reflected in the above table, Bangladesh faces the more severe constraint of absolute scarcity of land. Per capita land availability in 1991 against the base population of 115 million was already less than 20 decimals, and has declined even further. Since in comparative terms, per capita land availability at the commencement of the 20th century was approximately 1 acre, the alarming rate at which population pressure on land has been increasing is readily apparent. Based on Rahman (1994)¹⁹ and supplementary figures, estimates of periodic change in the land-man ratio in Bangladesh are also presented in the table below.

Table 2.4: Increasing Population Pressure on Land in Bangladesh

Land-Man Ratios	1960	1977	1983-84	1996
Per Capita Cultivated Land (acres)	0.37	0.24	0.25	0.14
Rural Population per acre of Cultivated Land	2.52	3.83	4.08	5.04
Average Farm Size (acres)	3.54	3.50	2.00	1.50

Sources: (i) Rahman [1994]: p.54

(ii) BBS [1996]: *Census of Agriculture*, p.4

The table reveals that a sharp decline has occurred in per capita landholding from 0.37 acres in 1960 to 0.14 acres in 1996, while population dependence on cultivated land has increased from 2.52 persons per acre in 1960 to 5.04 persons per acre in 1996. Increased population pressure and the decreased availability of agricultural land per capita have in fact been the most important cause of increasing poverty in Bangladesh.

2.2.3 Farm-size Constraints

While the availability of cultivable land in Bangladesh is extremely meagre, relative to the large rural population of the country, the number of farm households is very large. As a natural consequence of land pressure, farm-sizes in Bangladesh are small. The total number of farm households in the country in 1995 was estimated at approximately 11.80 million,²⁰ having increased sharply from 6.14 million in 1960 and 10.04 million in 1983-84. The proportionate increase in farm households amounted to more than 63 percent

between 1960 and 1983-84 and more than 92 percent over the 35-year period between 1960 and 1995. On the other hand, the area of lands under agricultural operations decreased from 22.67 million acres to 19.95 million acres between 1983-84 to 1996, during which the number of farm households rose by approximately 1.7 million. The rising rural population consequently led to fragmentation of agricultural landholdings, reflected both in the proportion of increase in the number of small landholders and in the increase in the proportion of cultivated area operated under small farms revealed in the table below.

Table 2.5: Farm Size Distribution and Area Operated in Bangladesh

Farm-Size Category	% of Farms			% of Farm Area		
	1960	1983-84	1995	1960	1983-84	1995
Small Farms (0.50 -2.49 acres)	51.71	70.34	72.70	16.20	28.98	36.80
Medium Farms (2.5 -7.49 acres)	37.62	24.72	23.10	45.70	45.10	43.40
Large Farms (7.5 acres & above)	10.67	4.94	4.20	38.10	25.29	20.80
<i>Average Farm Size in acres</i>	3.5	2.2	1.5			

Sources: (i) Rahman [1994]: p.73

(ii) Rahman [1998]: p.71

While the table shows that a sharp increase occurred between 1960 and 1995 in the proportion of small farms ranging between 0.05-2.49 acres in size, the proportionate decline in medium farms between 2.50-7.49 acres in size was considerably sharper than the proportionate decline in large farms of sizes exceeding 7.50 acres. In terms of the area operated, however, the major proportionate decline occurred in large farms, while the decline in area under medium farms was more moderate. Changes of this order indicate, that fragmentation of landholdings through inheritance, etc., has had a major impact on the distribution of farmland in Bangladesh. Since the proportion of rural population in the country has remained relatively steady, the shift from farm to non-farm activities has been limited. Meanwhile the customary mode of inheritance, under which the parental landholdings are divided equally between siblings, has led to rapid fragmentation of farmland, particularly in the case of large farm-holdings. This is also reflected in the sharp decline in the size of the average farm, which has more than halved from 3.5 acres in 1960 to only 1.5 acres in 1995. Land fragmentation of this order has also led to sharp increase in the proportion of farmers with uneconomic holdings and in the proportion of rural landless farmers in Bangladesh. Rapid fall in the size of farms has created major obstacles for the improvement of agricultural technology and the mechanisation of agriculture in Bangladesh..

2.3 Present Problems of Agricultural Development in Bangladesh

Bangladesh is primarily an agricultural country, with soils and climatic conditions that are conducive to large-scale agricultural diversification. The huge silt-load and sediments of about 2.4 billion tons brought in annually by the combined Ganga-Brahmaputra-Meghna river system makes the land highly fertile.²¹ In spite of these favourable factors, agriculture in Bangladesh is characterised by primitive technology. This is the product of a vicious cycle. Cultivators in Bangladesh are very poor because low agricultural yields. Most farming activity still comprises subsistence agriculture, and the use of HYV seeds, and input-intensive agricultural technology is still confined to about 20 percent of total cropped area.²² Agricultural lands are still ploughed using wooden ploughs drawn by a pair of bullocks. Most existing landholdings are too small and fragmented to favour major increases in production. Since the liberation of the nation in 1971, the Government of Bangladesh has constantly encouraged the adoption of modern irrigation techniques, and increasing use of chemical fertilisers, improved seeds, etc., for improving the agricultural situation in the country. However, the progress continues to be slow and the agricultural sector has remained relatively stagnant over several decades. Agricultural growth rates only showed a minor increase from 2.7 percent to 2.8 percent per annum between 1960-61 to 1983-84.²³ While the growth rate has risen since then and reached 3.4 percent per annum²⁴ in FY1994-95,* backward agricultural technology and the uneven distribution of agricultural land has led to many small and marginal farmers becoming landless.

2.3.1 Cropping Patterns and Food Security

According to the Fifth Five-Year Plan (1997-2002), non-plantation agriculture contributed around 24 percent to total GDP in Bangladesh, and around 73 percent to agricultural GDP in 1996-97.²⁵ Rice is the dominant crop of the country covering nearly three-fourths of all cultivated land, and accounts for around 70 percent of the total value of crop output. The present cropping pattern in Bangladesh along with the allocation of cultivated land to different crops is described in the table below.

Table 2.6: Cropping Pattern and Cropped Areas in Bangladesh

Agricultural Crop	Gross Cropped Area [' 000 acres]	% of Gross Cropped Area
Rice	24517	73.38
Jute	1383	4.14
Sugarcane	445	1.33
Tea	118	0.35
Tobacco	89	0.27
Wheat	1580	4.73
Pulses	1755	5.25
Oilseeds	1381	4.13
Spices	355	1.06
Others	1790	5.36
Total	33413	100.00

Source: BBS [1995]: *Statistical Yearbook of Bangladesh*, pp.142-147

It is seen that more than 80 percent of the gross cropped area in the country is devoted to the production of foodcrops such as rice, wheat, etc. Increases in aggregate crop production in Bangladesh are mainly the result of the growth in foodgrains production, particularly the production of rice. The yields of wheat and of other non-cereal crops such as pulses, oilseeds and vegetables have remained virtually stagnant and have thus not resulted in substantial increases in output. Recent trends in the production of foodcrops in Bangladesh are revealed below.

Table 2.7: Foodcrop Production in Bangladesh

Foodcrops	[in million metric tonnes]									
	1980-81	1984-85	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Aus	3.29	2.78	2.49	2.33	2.18	2.07	1.85	1.79	1.68	1.87
Aman	7.96	7.93	9.20	9.17	9.27	9.69	9.42	8.50	8.79	9.55
Boro	2.63	3.91	6.17	6.36	6.80	6.59	6.77	6.54	7.22	7.46
Total rice	13.8	14.6	17.8	17.8	18.2	18.3	18.0	16.8	17.6	18.8
Wheat	1.09	1.48	0.89	1.00	1.07	1.18	1.13	1.25	1.37	1.46
Major Foodcrops	14.9	16.1	18.7	18.8	19.3	19.5	19.1	18.0	19.0	20.3
(% change)	—	(7.5)	(16.7)	(0.6)	(2.4)	(1.0)	(-1.8)	(-5.7)	(5.4)	(6.7)

Source: Ministry of Finance [1997]: *Bangladesh Economic Review*, p.38

As can be seen above, over 93 percent of the increase in foodgrains production between 1980-81 and 1996-97 is accounted for by increased production of rice. Most of this increase has resulted from increases in the production of high-yielding boro rice, relative to which the production of wheat and aman rice has remained relatively stagnant and the production of aus rice has declined. However, although substantial increases in the boro crop occurred in the 1980s, the progress since then has been rather slow. Consequently the improvements in food availability that occurred between 1980-81 and 1989-90, have not been sustained since then, again raising the problem of food security for Bangladesh. In a flood-prone country like Bangladesh, food-security risks are multiplied by the frequent losses of foodcrops because of the occurrence of floods. Hence in a major drought-affected year such as 1994-95, the combined production of all rice-crops showed a major decline aggregating (-) 1.20 mn.MT, within which the loss of the aman crop alone amounted to (-) 0.98 mn.MT. Since then, till 1996-97, the aman rice crop had not recovered to peak production levels of 9.69 mn.MT witnessed in 1992-93.²⁶

As would be evident from the table, a populous country like Bangladesh with low per capita availability of arable land and high frequency of natural disasters is subject to high food-security risks, since it is still not self-sufficient in food production. The precarious food situation of the Bangladesh is brought out more

clearly in the table below, which reveals the growing food gap that has emerged in recent years as a result of stagnation in rice production. Against the annual foodgrains requirements of the projected Bangladesh population estimated against the nutritional norm of 465 grammes per capita per day, the present deficit in foodgrains production has almost doubled relative to the level in 1990-91. Because of the subsistence character of agriculture, the marketable surplus of foodgrains in the country is usually low. Thus despite the best efforts of the Government, internal foodgrains procurement in Bangladesh has been subject to wide fluctuation leaving the country dependent in most years on a sizeable quantity of foodgrain imports, which have risen from around 1.5 mn.MT at the commencement of the 1990s to more than 2.3 mn.MT by the middle of the decade.²⁷

Table 2.8: Growth of Foodgrains Requirements, Procurement and Foodgrains Production

[Foodgrain quantities in '000 metric tons]

Particulars	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Net Foodgrains Production	16971	17385	17565	17262	16270	17150
Population ('000)	111000	113000	115000	117000	119000	121000
Total Foodgrains Requirement @465gm	18836	19176	19516	19855	20194	20534
<i>Foodgrains Deficit</i>	<i>1866</i>	<i>1791</i>	<i>1951</i>	<i>2593</i>	<i>3924</i>	<i>3384</i>
Internal Foodgrains Procurement	783	1035	227	166	278	422
Foodgrains Imports	1530	1517	1149	937	2492	2361

Source: Adapted from Abdullah et. al [1996]: p.234

2.3.2 Current Agricultural Technologies in Bangladesh

At the present scientific age - land, proper inputs, adequate and timely credit supply and modern technology are so much interlinked that they influence the agricultural production to a great extent.

(a) *Use of Improved Seeds*

Seeds play an important role in successful crop production for the economic development of the country. They occupy a pivotal position among the inputs used for cultivation of good crops. Use of improved and healthy seeds is a must for obtaining maximum yield. It is obvious that use of healthy seeds naturally tends to keep down diseases intensity in the commercial crops, thus minimizing the losses of yield. In Bangladesh, quality seeds are being produced under the auspices of the Bangladesh Agricultural Development Corporation [BADC]. But there are questions about the quality of the improved varieties. However, in 1974-75, the total area under improved cereal seed was 3.6 million acres which has reached to 12.5 million acres in 1992-93.²⁸ Thus, our present production of seeds is not sufficient and there would be tremendous increase in the demand in the years to come.

(b) *Use of Chemical Fertilisers*

Among all other inputs the use of chemical fertilizers is the most important one for increasing productivity. In a traditional system of agriculture like Bangladesh, it is rarely possible to realize the importance of the use of chemical fertilizers. But it is a happy situation that in the recent years the use of chemical fertilizers is increasing. Year-wise distribution of fertilizers during the period 1982-1983 to 1996-97 are shown in table below.

The table shows that Bangladesh has experienced a rising trend in the use of chemical fertilizers, which has grown more than threefold from 0.8 mn.MT in 1982-83 to 3.02 mn.MT in 1995-96. However, in spite of this rise, fertilizer consumption per acre of land is still very low for an agriculture-dependent country. While the country's farmers provide for most agricultural inputs like labour, land preparation, irrigation and seeds from their own personal sources, their entire requirement of chemical fertilizers has to be purchased in cash from the market. Distribution of fertilizers in the country has been handed over to the private sector under the present policy of privatization, while the Ministry of Agriculture continues to monitor fertilizer prices. There are nevertheless many complaints that the large farmers who have selectively better access to fertilizers have become the principal beneficiaries of market agriculture, while small and marginal farmers have limited access to fertilizers at prevailing market prices. In fact, farmers in many parts of the country

now have to buy fertilizers at prices that exceed the ceiling fixed by the Government of Bangladesh.

Table 2.9: Year-wise and Type-wise Consumption of Chemical Fertilizers in Bangladesh
[in metric tonnes]

Year	Urea	Tsp	Mp	Others	Total
1982-83	619	203	50	—	872
1983-84	707	261	63	—	1032
1984-85	832	346	69	—	1247
1985-86	647	259	52	—	952
1986-87	795	297	60	—	1152
1987-88	1022	388	86	—	1496
1988-89	1023	416	94	—	1533
1989-90	1368	480	119	—	1967
1990-91	1222	515	150	120	2007
1991-92	1533	447	137	160	2277
1992-93	1505	407	126	235	2273
1993-94	1584	234	104	301	2223
1994-95	1745	123	154	613	2635
1995-96(estimated)	2046	111	155	717	3022

Source: Ministry of Finance [1997]: *Bangladesh Economic Review*, p.106

(c) Irrigation Methods

The modernisation of irrigation technology plays a crucial role in raising agricultural productivity.²⁹ Several studies in Bangladesh have shown that the recent induction of new agricultural technologies on the farm including irrigation development have had a favourable impact on alleviation of rural poverty.

As a source of added growth, irrigation is as important as fertilizer, particularly in case of HYV rice, wheat, potatoes, sugar-cane, etc., Bangladesh has predominantly a monsoon agriculture. The main source of water is the monsoon. It brings heavy rainfalls for five months from the middle of May to the middle of October. The timely arrival of the monsoon is the wealth and it has a positive impact on the agriculture of the country. However, early or late monsoon also has equal and opposite effects. The early heavy monsoon rains can destroy the *Aus* rice crop and heavy late rains are even worse, since they mean the ruin of the *Aman* rice crop and also very valuable jute crop. There are some rainfalls in Bangladesh throughout the year, but it varies in different parts of the country.

Table 2.10: Area under Irrigation in Bangladesh

[in million acres]

Types	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
<u>Ground water</u>						
Shallow tubewell	2.66	3.04	3.44	3.42	4.04	4.95
Deep tube-well	0.90	1.07	1.07	0.96	1.24	1.33
Hand tube-well	0.04	0.04	0.05	0.07	0.06	0.12
<u>Surface water</u>						
Powered pump	1.26	1.23	1.22	1.13	1.32	1.40
Traditional	1.23	0.78	0.79	0.86	0.61	0.51
Canal	0.78	0.61	0.71	0.80	0.87	0.87
Total	6.89	6.80	7.31	7.26	8.16	9.20
Increase/ Decline (in %)		(-) 1.3	7.6	(-) 0.8	12.5	12.7

Source: Ministry of Finance [1997]: *Bangladesh Economic Review*, p.39

The other source of water for agriculture is irrigation. During the short winter season crops can not be grown in many areas due to lack of irrigation facility. Introduction of controlled irrigation in the dry winter season has become essential for cultivation of *Boro*. Irrigation provides a supplementary source of water supply in case of failure of rain during the monsoon too. Performance of irrigation in the previous years and its coverage may be seen in the table below.

Area under irrigation has increased. It has increased from 6.8 million acres in 1990-91 to 7.3 million acres in 1992-93. It has sharply increased from 7.2 million acres to 8.1 million acres in 1994-95 and to 9.2 million acres in 1995-96. An additional 10 percent increase is expected during the year 1996-97 leading to

an irrigated area of 10.12 million acres.³⁰ By this time, the thirty-year historic Ganges water sharing treaty has been signed with India. Hopefully, this would help increase flow of water during the dry season and help irrigation of Bangladesh.

Although the area under irrigation in Bangladesh has gone up considerably in the year 1994-95 and 1995-96 (12 percent only), it is still at a fairly low level for an agriculturally skilled country. Earlier, a comprehensive study on this issue estimated that 70 percent of the land of Bangladesh could be brought under irrigation in the long run, of which 20 percent could be covered by available surface water and 80 percent by ground water. If adequate availability of credit stands in the way of installation of sufficient tube wells and opportunities for irrigation are fully used, Bangladesh can go a long way with agricultural development.

2.3.3 Poverty Alleviation and the Role of Agricultural Credit

Poverty alleviation has become an important issue throughout the world since mid 1970s. According to the World Bank, approximately 85 percent of all absolute poverty is in the rural areas and in all, about 550 million people are suffering from absolute poverty in the rural areas of the developing world.³¹ In case of Bangladesh, this situation is not at all better. Bangladesh is a rural country with majority of its people living in rural area. The population projection estimate for 2000 is 129.0 million of whom 84.3 percent are rural dwellers.³² A document prepared by the International Fund for Agriculture Development [IFAD] in 1995 revealed that about 70 percent of the rural population remains below the poverty line. According to the recent data of BBS, collected from 3300 rural households of 64 districts of the country for rural Poverty Monitoring Survey-1997, it reveals that 46.8 percent of households of the country live below the poverty line. This poverty can be attributed to unfavourable man-land ratio where agriculture is considered to be the main source of employment opportunity. This source of employment, on the other hand, is also going to be shrunked day by day due to gradual mechanization of agriculture. The existing available rural labour force is much higher than the actual requirement in agriculture sector. As a result, employment opportunity in agriculture is seriously thwarted.

(a) *Rural Landlessness and Poverty*

In a predominantly agricultural country like Bangladesh, where land constitutes the main productive asset of farmers, between 50-60 percent of the population is presently landless because of absolute scarcity of land. According to the recent Census of Agriculture-1996, the rural households in Bangladesh are absolutely landless with 10 percent owning neither homestead nor cultivable land, 11.0 percent having land upto 0.04 acres and 34 percent owning 0.05-0.49 acres of land. But the common definition of landlessness includes those who have upto 50 decimals of land.³³ So, total landlessness stood at 56 percent in the Census of Agriculture, 1996.

Another survey, conducted by Bangladesh institute of development studies [BIDS] in 1995, shows that the total landlessness is 50 percent of the rural households out of which 22 percent do not have any land.³⁴ As a matter of fact, the landlessness situation in Bangladesh is alarming as evident below.

Table 2.11: Landlessness in Bangladesh

Land ownership (acres)	% of Rural Households		
	1983-84	1995	1996
0 - 0.04/(0.05)	19.00	22.00	21.55
0.05 - 0.49/(0.50)	28.00	28.00	34.46
Total landless	47.00	50.00	56.01

Sources: BBS [1996]: *Agricultural Census*, pp.xiii & 71

The table above shows that the landlessness has been increasing rapidly from 47 percent during the year 1983-84 to 50 percent in 1995 and to 56 percent in 1996. It is because of population growth, river erosion and various other social and economic factors. The population pressure on arable land has also been rising gradually. The increasing pressure results not only in fragmentation of existing landholdings but also

in downward mobility in the distribution of land ownership over the period. A substantial number of initially large and medium farm households experienced a downward mobility which, in turn, helped in increasing landlessness. The landless and the nearly landless households form the core of the rural poverty. Earlier this view has also been well illustrated by ILO (1979) in its study on developing countries.³⁵

The households engaged in non-farm occupations occupy an intermediate position between the farmers and agricultural labourers as estimated in the BBS poverty survey. The relative ranking of major rural occupations in terms of the incidence of poverty is fairly stable over the four survey periods conducted during the period between the early eighties and the early nineties. The poverty ranking of the occupations does not change when one switches from one type of poverty measure to another. The major occupations and their poverty situation are shown in table below.

Table 2.12: Household Occupational Distribution & Poverty Levels in Bangladesh

Principal Occupation	Extremely Poor Households	Moderately Poor Households	Non-poor Households
Cultivation	20.6	24.4	55.0
Agricultural Wage Labour	46.7	40.2	13.0
Nonagricultural Wage Labour	24.3	34.6	41.1
Rural industry	26.5	38.5	35.0
Trade	9.3	29.6	61.1
Transport	22.3	34.0	43.7
Construction	36.5	34.6	28.8
Salaried Service	4.7	14.7	80.6

Source: Computed on data from the *Analysis of Poverty Trends Project* [AFTP], 1994, BIDS

As seen in the table, 5 major occupational categories displaying a higher concentration of the extreme poor. These are - 47 percent in agricultural wage labour, 37 percent in construction work, 27 percent is employed in rural industry, 24 percent is non-agricultural wage labour and 22 percent is transport worker.

The most immediate implication of the poverty situation is that policies and market process that encourage people to move out from agricultural wage labour and construction labour to non-farm occupations would benefit the extreme poor. However, access to non-farm activities from agricultural and non-agricultural wage labour may have a favourable impact on poverty.

(b) *Rural Savings Patterns*

Like other Asian countries, domestic savings comprises the largest component of the national savings of Bangladesh. During 1965-70, the domestic savings amounted to an average of 8.4 percent of GDP.³⁶ This rate fell drastically due to liberation war after 1971. In fact, there were no confirming statistics at that time to determine the sources of domestic savings or to measure it accurately. However, the household expenditure survey in 1978-79 showed that, for the top quarter of the population, the rate of savings was 11 to 14 percent and for the bottom quarter it was 6 to 13 percent. The Rural Finance Project, 1985 in its final report, estimated that the rural upper 15 percent had a saving rate of 19.6 percent and for the urban upper 15 percent that rate was 11.9 percent. Report also showed that the overall household savings rate in rural and urban area was 10 percent.

Maloney and Ahmed (1988) found that the rural poor save between 2 and 12 percent of income, the moderately poor save on average of 12 to 14 percent, the ordinary small farmers and small business men 20 percent and above these groups save 25 to 40 percent or even more.³⁷ According to their findings, the overall rate of household savings was 19 percent of income. They also estimated that nationwide household savings, as defined by the people themselves, was 11 to 14 percent of income.

The above rates of savings found by Maloney and Ahmed and by the rural finance project are somewhat higher than those of published rates of national savings as a percent of GDP. It may be because both the studies were done with the average data of different rural financial projects since 1982 to 1985. But according to the government statistics, the savings rate was 4.3 percent in 1981-82. In the mid 1980s, it began to rise and the national savings rate exceeded the pre-independence level. The domestic savings and the national

savings as proportionate to GDP in selected years are presented below.

Table 2.13: Domestic & National Savings Ratios in Bangladesh

Year	% Domestic Savings to GDP	% National Savings to GDP
1965-70	8.4	---
1990-91	4.13	10.86
1991-92	5.84	13.00
1992-93	6.97	14.44
1993-94	7.45	14.93
1994-95	8.24	16.00
1995-96	7.52	14.25
1996-97 (provisional)	7.70	14.40

Sources: Ministry of Finance [1997]: *Bangladesh Economic Review*, p.11

It is evident from the table above that the domestic savings is about 8 percent. It has remained almost in the level of 7 to 8 percent for the last few years. The rate of domestic savings is still very low. Khan (1995),³⁸ opined that the domestic saving rate, though significantly higher in the early 1990s than in 1970s and 1980s, remains dismally low by the international standards. Even the national saving rate is way below the average rate for the low - income countries (28 percent in 1994).

The savings rate of marginal and small farmers is rather gloomy. Their average savings is 16 percent of their income, which is almost equivalent to the landless savings.

Table 2.14: Savings Propensity and Landholding in Bangladesh

Landholding	Number of Households	% Total Households	% Monthly Savings
10 acres & more	21	7.0	32
5.0 - 9.9 acres	49	16.3	27
2.0 - 4.9 acres	78	26.0	25
1.0 - 1.9 acres	53	17.7	21
0.5 - 0.9 acres	26	8.7	15
0.0 - 0.5 acres	59	19.7	13
Landless	14	4.7	16
Total	300	100.0	[Avg] 19

Source: Maloney and Ahmed [1988]: *Rural Savings and Credit in Bangladesh*, p.17

Families who have absolutely no land save 16 percent of their income which is a little higher than the families who have less than 0.5 acre of land. The marginal and small families, owing to 0.5 to 1.99 acres of land, save an average of 16 percent of their income. The medium and large families, owing to 4.99 to 10 acres of land or above, save an average of 28 percent which is almost double of the savings of landless and small families.

The above data indicates that the medium and large farmers are the main potential savers in rural areas. In fact, they are agricultural entrepreneurs. On the other hands, the marginal and small farmers are only subsistence producers and they need a big amount of finance for crop inputs in the agricultural season. Most of them can not meet these costs from their savings. They have to borrow locally or have to take an advance from the surplus farmers or from the moneylenders with high rate of interest.

(c) Need for Agricultural Credit

The success of agriculture is synonymous with the free availability of credit. Reporting on the necessity for agricultural credit in his report entitled *Land and Agricultural Banks* (1895), Sir Frederich Nicholson had noted the necessity of agriculturists to borrow.³⁹ Agricultural credit thus refers to the amount of money that farmers must mobilise from external sources to meet both production and consumption needs. Farmers borrow in order to purchase new agricultural land or to release mortgaged land, to make permanent improvements on land, and to purchase productive inputs as well as agricultural equipment and implements.

They also borrow to meet consumption expenses. Agricultural credit needs multiply as farmers apply more and more modern inputs to agriculture. Most agricultural inputs have to be bought from the open market. Few inputs are available now at subsidised rates. Consequently the pumping of water is expensive, and fertiliser and HYV seed prices are correspondingly high. Credit needs also rise because of the increasing intensity of agriculture and the increasing need to apply hired labour at the time of land preparation and sowing and at harvest time.

According to the Rural Credit Survey conducted in 1987, 72 percent of all rural credit in Bangladesh was supplied by non-institutional sources and only 28 percent was supplied by institutional sources. 67 percent of credit from all sources was used in rural areas, out of which 23 percent was availed by agricultural labourers and used mainly for purposes other than cultivation. The Survey also found that non-governmental sources including Grameen Bank then provided only 4 percent of rural credit. Such figures would indicate that the flow of agricultural credit in Bangladesh is still very low and needs to be increased substantially if the agricultural sector is to develop.

2.4 Rural Financial Markets [RFMs] in Bangladesh

Rural finance is an important tool for the creation of employment opportunities in the rural areas. It promotes trade and agriculture and increases productivity in all other sectors of rural economy.⁴⁰ For all these activities finance is the *sine qua non*, which can be arranged through mobilization of domestic resources and channelling them to proper direction. Rural financial markets [RFMs] for a developing country are, therefore, a must through which different development programs of a country may be financed. In the absence of a suitable rural financial market a number of difficulties may arise. Prominent among these are:

- (a) the total demand for finance in the rural areas cannot be properly assessed;
- (b) untapped financial sources cannot be utilized in rural finance;
- (c) planning for rural investment and development cannot be made.

Rural financial markets in developing countries are mainly characterized by the existence of both formal and informal arrangement.⁴¹ Formal financial markets are well understood and are best characterized by the operation of institutional credit operation. Credit institutions may be a mix of commercial and development banks and co-operatives and savings organizations. But as a rule, they conduct business following a set of rules and procedures laid down in their organizational charters. Informal financial markets are personified by the village money lenders. It continues to be a significant source of rural credit as yet. Sometimes the informal arrangement surpasses the formal arrangement quantitatively and qualitatively for its nature of arrangement. But in the developed countries, stable financial market is the only formal source of finance. It is now an established truth that with the development of rural financial markets the process of rural development gets a good push.

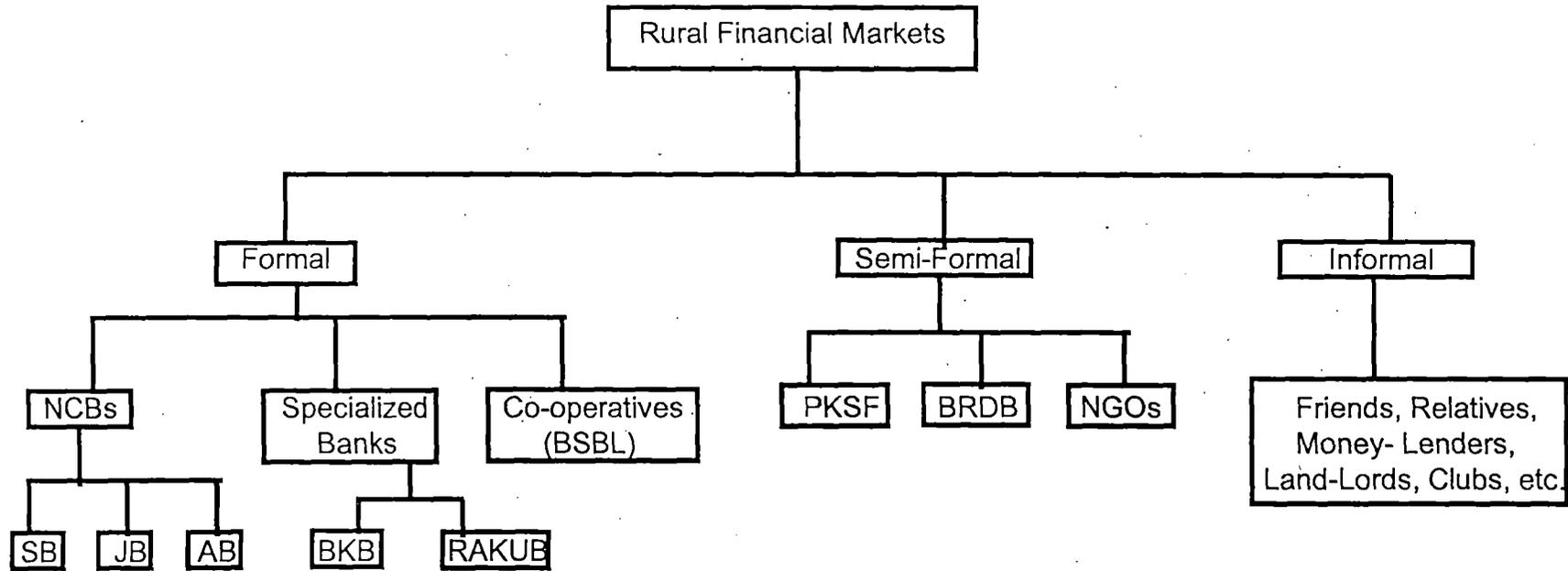
2.4.1 Institutional Structure of RFMs

Like in other developing countries, rural financial markets in Bangladesh exist in two principal component-categories, namely *formal* RFMs and *informal* RFMs. In addition to these, rural financial markets also exist in a *semi-informal* institutional form. For this reason, rural financial markets in Bangladesh are broadly classified into three sectors, namely formal, semi-formal and informal RFMs,⁴² only the third of which is non-institutionalised. The *formal rural finance sector* in Bangladesh includes

- (a) branches of the Nationalised Commercial Banks [NCBs] such as Sonali Bank, Janata Bank and Agrani Bank. The fourth NCB i.e. Rupali Bank has partly privatised by this time and its portfolio has been concentrated on its core business. Rural operations do not consider as core operations and were transferred to Sonali Bank.⁴³ Therefore, Rupali Bank was not included in this study as the part of RFMs.
- (b) specialised rural banks such as the Bangladesh Krishi Bank [BKB], the Rajshahi Krishi Unnayan Bank [RAKUB] and the Bangladesh Samabaya Bank Ltd. [BSBL] which have been established to extend credit to rural areas.

Chart - 2.1

Structure Of RFMs In Bangladesh



Sources: Compiled from -
(i) The Report of World Bank, 1996
(ii) Choudhuri et.al. 1996.

The *semi-formal rural finance sector* in Bangladesh includes

- (a) autonomous credit institutions such as the Palli Karma-Sahayak Foundation [PKSF] and the Grameen Bank [GB],
- (b) various Non-Governmental Organizations [NGOs] that have a lending programme, as well as
- (c) registered cooperatives organized by Bangladesh Rural Development Board [BRDB].

The *informal rural finance sector* in Bangladesh collectively comprises

- (a) professional moneylenders, as well as businessmen and traders who extend temporary lines of credit.
- (b) landlords, friends and relatives, who extend credit with or without interest on the basis of personal acquaintance, and
- (c) self-help groups [SHGs], unregistered cooperatives and clubs which occasionally function informally as credit unions.

The operating structure of RFMs in Bangladesh is outlined in the chart below. The lines of demarcation between formal RFMs on the one hand, and semi-formal and informal RFMs on the other, are thus drawn mainly with reference to the functional and operational regulations in respect of capital, reserve and liquidity requirements, ceilings on lending, audit and reporting requirements, etc., imposed on formal-sector credit institutions by the central banking authorities. RFMs in the semi-formal and informal sectors are virtually free of such monetary regulation.

(i) *Institutions in the Formal Credit Sector*

Three nationalized commercial banks (Sonali, Janata and Agrani), two specialized agricultural banks (BKB and RAKUB), the traditional co-operative societies - financed by Bangladesh Sambaya Bank Limited [BSBL] and two-tier co-operatives under Bangladesh Rural Development Board [BRDB] - financed by Sonali Bank, comprise the formal sector of Bangladesh. These banks are now regulated by the Bank Companies Act.-1991 and have to follow directions and guidance given by the Central Bank and the Government.

Table 2.15: Bankwise Branch Network of the Formal Credit Sector in Bangladesh, 1995

Bank	Urban Branches	% Urban Branches	Rural Branches	% Rural Branches	Total Domestic Branches	Foreign Branches	Total Bank Branches
Sonali Bank	420	32.21	884	67.79	1304	7	1311
Janata Bank	247	27.63	647	72.37	894	4	898
Agrani Bank	243	26.91	660	73.09	903	nil	903
Bangladesh Krishi Bank [BKB]	116	13.88	720	86.12	836	nil	836
Rajshahi Krishi Unnayan Bank [RAKUB]	20	6.64	281	93.36	301	nil	301
Total	1046	24.68	3192	75.32	4238	11	4249

Source: Compiled from the *Resumes of the Activities of Banks and other Financial Institutions*, [1989 to 1998], Ministry of Finance, GOB

Before the inception of Bangladesh, formal sector banking system of the country was urban-oriented and served mainly the needs of the industrial and urban sectors. But since liberation in 1971, steps were taken for expansion of banking facilities in the rural areas to mobilize idle rural savings as well as to develop banking habits amongst the masses. With these objectives in view a deliberate policy was pursued to cover all the unbanked business centers and important places of the country. In fact, the major expansion in rural banking in Bangladesh took off from 1977 when the Bangladesh Bank introduced rural target loan programs under its refinancing policy. Prior to that period, rural bank branches constituted about only 40 percent of total bank branches. But during the period 1978-81 the banks were required to open two branches in rural areas for every new urban branch under the 'two-for-one' branching policy for effective disbursement of Taka 1,000 million Special Agricultural Credit. By the end of 1995, bank branches in the formal sector stood at 4238 out of which 3192 (75 percent of total branches) branches have been working in the rural areas. Bank-wise branches detail are registered in the table above.

Other than these branches shown in table, Bangladesh Sambaya Bank Ltd. (a Cooperative Bank) has been working in the formal sector of rural financial market with its 469 member-societies. The government of Bangladesh and different Cooperative Societies are the members of this bank. Presently, it has been working with almost 3.5 million of its personal members throughout the country.

The financial sector policy of the Government of Bangladesh, especially for the rural areas, was formulated with an intention to expand the network of formal rural financial institutions (including specialized, commercial and cooperative banks) and increasing their share - specially in terms of loan/credit in the rural financial markets. The main vision behind such a policy was to curtail the so-called "monopoly power" of the traditional rural money-lenders who had been exercising throughout the country though realizing high interest rates from the rural borrowers of small or negligible means.

(ii) Institutions in the Semi-Formal Credit Sector

In the recent years, a rapidly growing sector in the rural financial markets in Bangladesh is the semi-formal sector. Some government funded institutions like Palli Karma Sahayak Foundation [PKSF], Grameen Bank, etc. are engaged in this sector. Grameen Bank is being regulated under its own ordinance the Grameen Bank Ordinance, 1993. The regulatory framework of different NGOs is different. Most of the NGOs are registered under the Societies Registration Act, 1860. Some are registered as non-profit companies under the Companies Act, 1994. NGOs which receive foreign donations, are required to be registered with the NGO Affairs Bureau. They have been striving to generate self-employment, income generation and self-sufficiency for the rural poor. They have explicit agenda to cater to the poorest sections of the non-agricultural population with woman making up a majority of their clientele.

Palli Karma Sahayak Foundation [PKSF] is a specialized financial institution for financing the micro-financing institutions called PKSF-partners. It has contributed substantially to expanding the outreach of rural credit by providing wholesale loan to its partner organizations (i.e. small NGOs). Although there are several hundreds of NGOs registered in Bangladesh, approximately 200 NGOs have reasonably large rural credit programs. In fact, four large NGOs dominate the semi-formal sector. They are the Grameen Bank [GB], the Bangladesh Rural Advancement Committee [BRAC], Proshika and the Association for Social Advancement [ASA]. The largest NGO working in this sector is the Grameen Bank. It has made a breakthrough in reaching the poor with rural financial services. The success of Grameen Bank, for the last two decades, has encouraged hundreds of NGOs to start rural finance programs. Credit Development Forum [CDF] estimates over 1000 NGOs offer credit services in Bangladesh. Their own policies and directions for the efficient functioning in the financial services guide them.

(iii) Informal Credit Sources

The informal credit sector has always been an important part of the financial system in rural Bangladesh. It provides the bulk of credit to the rural economy. Although no firm estimate is available of the size of the informal credit market in rural Bangladesh, fragmentary evidence based on various micro surveys conducted over the last two decades suggests that the informal credit sector has been providing as much as two-thirds of the total credit requirements in rural areas. A parallel study conducted by the World Bank in 1982 showed that only 20-25 percent of total farm credit requirements was being supplied by formal lending agencies, and remaining requirement was supplied by informal sources. A similar proportion of non-farm credit requirements and distress-loans for meeting consumption expenditures were also being met by the informal credit sector. Regional variations in the relative size of the informal credit market were seen to depend on the degree of adoption of improved agricultural practices, the existence of organised activities and most importantly on the availability of credit from formal sources. Interest rates and collateral requirements were also seen to vary from market to market, with hardly any uniformity being seen in the working of informal credit markets.

2.4.2 Operational Performance of RFMs in Bangladesh

Rural financial markets [RFMs] in Bangladesh are now on the way to developing a stable footing in economy. Several positive features of the RFMs may be noted in this respect, of which the rapid expansion of financial outlets in rural areas has been a very important step forward. The recent restructuring of

commercial banks and the authority extended to agricultural banks like BKB and RAKUB and to the NCBs by the Bangladesh Bank to freely determine interest rates on individual loans in accordance with their business strategies, etc., have all had positive impact on stabilising RFMs in the country. The increasing flexibility shown by Government Organisations [GOs] and Non-government Organisations [NGOs] while experimenting with policies and programmes for rural finance have also had a beneficial impact on RFMs in Bangladesh.

(i) Performance of Formal-Sector Banks

Rapid branch expansion by the formal-sector banks comprising the NCBs and BKB had been a remarkable feature of the 1970s, when branch numbers rose by 139 percent from 1148 in December 1971 to 2742 in June 1978. Most of this increase came from the 285 percent increase in rural branches from only 414 to 1594 over the identical period. As many as 496 rural branches were opened in FY1977-78 alone. Thus, by June 1978, the rural branches of the formal-sector banks constituted over 58 percent of the total branch network, against only 36 percent in June 1972.⁴⁴ The branch network of the formal-sector banks has continued to expand in the period since and touched 3938 branches in December 1997. The corresponding number of rural branches rose even more sharply to 3029 over the identical period. The largely rural presence of formal-sector banking institutions in Bangladesh today has been a major achievement of the rapid expansion of the banking sector in Bangladesh under the Special Agricultural Credit Programme [SACP], which commenced in 1977. The broad trends in the expansion of the rural banking network in Bangladesh are visible from the table below.

Table 2.16: Expansion of Bangladesh Rural Banking Network

Year	% Rural Branches	Change in %
1972	36.00	-
1978	58.13	61
1988	76.38	31
1997	76.91	1

Sources: (i) Ahsan [1978]: p.20

(ii) MOF [1998]: *Resume of the Activities of Banks and other Financial Institutions*, p.i

It can be seen from the table that rapid expansion of rural bank branches continued unabated until 1988, although the rates of expansion slowed down in the 1980s compared to the rates achieved during the 1970s. In the decade subsequent to 1988, the rate of branch expansion has been extremely slow. Moreover, the Bangladesh Bank has been unable to ensure the effective dispersal of rural branches outside upazila headquarters, as a result of which around 60 percent of the 4000 Unions in the country are still not served adequately by bank branches, although there is excessive representation of the formal-sector banks at the upazila headquarters.⁴⁵

Table 2.17: Deposits & Advances of Rural Banking Network in Bangladesh

Banking Heads	as on 30-6-1978	as on 31-12-1991	as on 31-12-1996
Rural Bank Deposits	13.78	21.28	22.07
Rural Bank Advances	6.50	19.25	19.07

Source: Majumder [1998]: *Bank Parikrama*, BIBM, p.91

However, although rural bank branches now constitute over 76 percent of the formal-sector bank branches, they still only account for an insignificant proportion of total deposits and advances in the rural areas. The trends in rural bank deposits and advances are explored more intensively in the table above.

As becomes evident in the table, the rural bank branches accounted for only around 14 percent of total deposits and around 7 percent of the total advances made in 1978. Although deposits with the formal banking system rose by 22 percent between 1979 and 1996, the advances made by these banks increased by only 19 percent. Ironically, although the proportion of rural branches in the formal banking network rose from 58 percent to 77 percent over the same period, this was not matched either by proportionate or progressive increase in the ratio of rural credit advances to deposits. Considering that the rural sector in Bangladesh

contributes around 80 percent to national GDP, its low share of 22 percent in total bank deposits and 19 percent in bank advances seems untenable.

Although their share is still unduly low, rural credit disbursements by the formal-sector banks have increased somewhat in absolute terms in recent years. This is evident from the table below which pertains to the disbursements of rural credit made between 1991-92 to 1996-97 by the NCBs and the specialised agricultural banks, namely BKB and RAKUB.

Table 2.18: Rural Credit Disbursement by Formal Banks

Bank		[in crore Taka]						
		1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Sonali Bank	Total Credit Advances	49.0	51.4	49.1	95.9	115.9	110.5	80.9
	Agricultural Advances	43.4	36.5	46.0	62.6	59.1	68.0	48.6
	Nonagricultural Advances	5.6	14.9	3.1	33.3	56.8	42.5	32.3
Janata Bank	Total Credit Advances	9.8	11.1	15.4	36.1	48.3	81.8	22.3
	Agricultural Advances	8.0	7.7	6.8	9.8	11.0	9.4	4.0
	Nonagricultural Advances	1.8	3.4	8.6	26.3	37.3	72.4	18.3
Agrani Bank	Total Credit Advances	5.6	7.3	19.1	22.9	31.6	35.4	21.7
	Agricultural Advances	1.2	2.2	3.2	5.9	7.9	5.4	3.2
	Nonagricultural Advances	4.4	5.1	15.9	17.0	23.7	30.0	18.5
BKB	Total Credit Advances	13.2	17.0	35.6	65.1	99.3	112.8	57.2
	Agricultural Advances	9.6	11.4	18.7	23.5	27.8	29.8	14.7
	Nonagricultural Advances	3.6	5.6	16.9	41.6	71.5	83.0	42.5
RAKUB	Total Credit Advances	3.8	5.6	7.8	8.7	8.3	8.6	7.3
	Agricultural Advances	1.7	2.0	3.7	3.0	3.2	3.4	2.9
	Nonagricultural Advances	2.1	3.6	4.1	5.7	5.1	5.2	4.4
All NCB Banks	Total Credit Advances	81.4	92.4	127.0	228.7	303.4	349.1	189.4
	Agricultural Advances	63.9	59.8	78.4	104.8	109.0	116.0	73.4
	Nonagricultural Advances	17.5	32.6	48.6	123.9	194.4	233.1	116.0

Source: Majumder [1998]: *Bank Parikrama*, BIBM, p.90

As seen above, rural credit disbursements by formal-sector banks in Bangladesh rose more than four-folds from Tk.81 crore to Tk.349 crore over the six-year period between 1991-92 and 1996-97. However, the most striking trend observed over the period was the tremendous spurt in non-agricultural rural lending by the banks after 1993-94, which has caused a sharp decline in the relative importance of agricultural credit in their rural credit portfolios. Thus while the aggregate increase in annual agricultural advances amounted to Tk.52 crore between 1991-92 and 1996-97, it represented only 19.5 percent of the total increase in rural advances and was exceeded considerably by the increase of Tk.216 crore in annual nonagricultural rural advances over the identical period. While Sonali Bank with its large rural branch network remained the leading source of institutional credit in the RFMs in Bangladesh, its earlier dominance declined considerably as a result of increased rural lending by the other banks. From 1991-92, when rural credit disbursements by Sonali Bank had accounted for over 60 percent of all rural lending by the banks in Bangladesh, its share in annual rural credit disbursements was halved by 1996-97, even though its actual disbursements rose by Tk.62 crore.

The main reason for this decline was the massive increase in nonagricultural lending by the other banks over the period. Thus while Sonali Bank retained its leading position in agricultural lending by the banks, its share in nonagricultural advances declined sharply because of increased lending by the other banks, most notably BKB and Janata Bank. Only when aggregate rural credit advances fell sharply by over 45 percent to Tk.189 crore in 1997-98, the last year of the review-period, did agricultural credit advances regain some of their former importance because of the relatively faster decline in nonagricultural advances. In overall terms, only BKB has shown fairly consistent increase in agricultural lending over the period, even though the growth in its agricultural advances has been outstripped by its increased nonagricultural lending. The collective contribution of the other NCBs to agricultural credit has remained virtually in absolute terms and has declined in relative terms through much of the period.

Though total disbursements of rural credit by formal-sector banks in Bangladesh have increased

considerably in the recent period, the share of formal credit in the RFMs is still relatively insignificant when compared to total rural credit disbursements in the country. This is evident from the table below.

Table 2.19: Rural Credit Disbursement by Organised Institutions in Bangladesh 1990-91 to 1993-94

[in Tk.million]

Credit Source	1990-91	%	1991-92	%	1992-93	%	1993-94	%
GOs	623.18	6.0	280.87	1.7	671.61	3.1	1044.81	3.1
NGOs	4324.61	41.6	8671.25	51.9	12925.42	59.0	21999.99	65.0
Banks	5456.60	52.4	7771.80	46.4	8299.34	37.9	10820.20	31.9
Total	10404.39	100.0	16729.92	100.0	21896.37	100.0	33865.00	100.0

Source: Saha *et. al* [1998]: p.62

As seen in the table, formal-sector banks and Government organisation collectively disbursed only 35 percent of the total rural credit advanced in Bangladesh in FY1993-94. Against, this, disbursements by the NGOs alone amounted to 65 percent of the total rural credit advances, and exceeded the combined advances by the Government institutional sector by over 10 times. More alarmingly, even though rural lending by other Government organisations continued to increase through the period, actual disbursements of rural credit by the banks fell to barely a fifth of their level in 1990-91. Tendencies of this type would serve to indicate that formal-sector banks in Bangladesh have lowered the priorities they had attached to rural credit, as a reaction to the growth in the NGO credit sector. Thus while cumulative growth rate of NGO rural credit amounted to almost 70 percent over the relevant period, it stood at only 24 percent for rural credit disbursements by the banks.

The loan-recovery performance of formal-sector banks in Bangladesh has also not been satisfactory as a result of which overdues have mounted steadily, with recovery rates falling below 20 percent in the year 1995.⁴⁶ The World Bank has assessed that most overdues have been due for over 5 years. The Agricultural Banks [AGBs] on the other hand have performed comparatively better, and have been able to recover two-thirds of their current dues. Recovery performance is particularly good for BKB, which has a recovery rate of 76 percent on current dues. The recovery performance of cooperative credit institutions provides a strong contrast, with very low recovery rates of 4 percent of current dues. On the whole therefore, the loan-recovery performance of formal-sector credit institutions in Bangladesh has not been particularly strong.

(ii) *Performance of Semi-formal Sector*

In contrast, the performance of the semi-formal rural credit sector has been remarkable both in terms of credit outreach and in terms of the quality of services provided to clients. Almost all institutions in this sector adhere to the group-lending model pioneered by Grameen Bank, and provide an alternative credit delivery mechanism for the rural poor which is collateral-free by nature. Grameen Bank [GB] continues to operate as the largest single micro credit institution in the semi-formal sector in Bangladesh and had extended lending operations through its 1086 branches to 37,109 villages upto June 1997. At that time, it had 2.15 million members, among whom nearly 2 million were women. Against cumulated savings of these members amounting to Tk.5903.6 million, GB had disbursed credit amounting to Tk. 79,092 million. Its credit outstandings at the time were Tk.12,744 million with a loan-recovery rate of 98 percent.⁴⁷

A very large number of other NGOs similarly provide micro credit and savings facilities on the Grameen model to the rural poor in Bangladesh. Although the exact number of such NGOs is not known, a study conducted by Credit and Development Forum [CDF] estimates that more than 1000 NGOs are now engaged in semi-formal rural financing activities in Bangladesh. Among these, the recent credit performances of reputed Bangladesh NGOs like BRAC, ASA and Proshika are noteworthy and are summarised in the table below. Another recent CDF study reveals that credit union membership of 6.6 million members has been mobilised by 369 NGOs, among which 5.3 million are women. Till June 1997, the total savings mobilised by these members amounted to Tk.2843 million, against which Tk.35279 million had been distributed as credit to 5.5 million members.⁴⁸

Table 2.20: Growth of NGO Lending in Bangladesh since 1995

Particulars	BRAC			ASA			PROSHIKA		
	upto Dec. 1995	upto Dec. 1996	upto Nov. 1997	upto Dec. 1995	upto Dec. 1996	upto Nov. 1997	upto Dec. 1995	upto Dec. 1996	upto Nov. 1997
Loan Disbursements (Taka million)	9619	14724	21583	2917	4389	8320	1737	2990	5069
Loan Repayments (Taka million)	7386	11663	17576	2310	3450	6454	985	1812	3682
Total Members (Lakhs)	15.11	18.44	2.24	4.04	5.62	12.00	8.41	10.60	13.35
Total Savings (Taka million)	801	1181	1749	246	444	770	Nil	nil	nil
Total Outstandings (Taka million)	2233	3061	4007	607	939	1865	752	1178	1898

Source: Shah *et. al* [1998]: *Bank Parikrama*, p.60

But the NGOs generally target the rural poor and finance mainly non-farm activities. They do not disburse adequate fund to the farmers for agricultural development of the country. The 369 NGOs including 3 leading NGOs like ASA, BRAC and Proshika disbursed only 12 percent of their credit in agricultural sector during the FY 1998.⁴⁹ The table reveals that they are less interested in the investment in agriculture sector of the country.

Palli Karma Sahayak Foundation [PKSF] and BRDB are also playing an important role in rural financing. PKSF is mainly a government initiated institution supported by the Govt. and donor agencies, which its operation is known as a "second tier" financial institution primarily lending to NGOs for on-lending to final borrowers. Until December, 1996 PKSF disbursed loans of \$31.6 million to 135 NGOs. A total of 5,46,000 members ultimately obtained loans through these facilities.⁵⁰

(iii) *Borrowing from the Informal Credit Sector*

The informal sector has been playing a dominant role in the RFMS of Bangladesh. World Bank survey (1996) shows that the informal sector continues to be the main source of credit for the majority of the rural people.⁵¹ Those who do not have any access to formal sector/semi-formal sector, they borrow from local money-lenders. Those informal lenders are perceived to function efficiently with low defaults and low transaction costs. It is revealed from the World Bank survey that on an average the rural poor borrow three times a year from informal lenders ranging between Tk. 250 to 1,50,000. The average duration of loans has been found to be six months. Their transaction cost is also very low- i.e., 1.2 percent and recovery rate is almost 100 percent.

2.5 Need for Expanded Rural Banking

Central to the development strategy of Bangladesh is the rural sector and rural finance plays a pivotal role in rural growth. The lack of a smooth operating environment in rural financing threatens to become a serious constraint to further development, especially agricultural growth. An efficient delivery mechanism and cost-effective financial service is also essential to enable people for entrepreneurship, innovation and production in the rural areas. The rural people need reliable savings facilities and farmers, specially, the small and marginal farmers need timely access to credit and the entrepreneurs need adequate financial assistance for the economic development of the country.

But still to-day, the over all performance of RFMs in Bangladesh is not that extensive and praiseworthy. The outreach of formal sector in the rural areas has been very poor. It's portion is only 32 percent of the total rural credit disbursed in FY 1993-94 throughout the country. Also it is seen that the formal sector banks generally cater only the rich and bankable borrowers who have collateral and other tangible assets and better credit risk.

On the other hand, the semi-formal sector has been successful in reaching the poor people. But they offer a limited range of credit services. It is because a vast majority of NGOs are critically dependent on grants or subsidized funds. Other than these, the NGOs target one section of the rural poor and disburse loan to them for common traditional activities. They do not in general address the problem of finance in agriculture which is, in fact, the principal problem of Bangladesh. Bhattacharjee in 1997 rightly drew an opinion that

their [NGOs] investment pattern is not directed towards individual needs and fund disbursement to non-formal agricultural activities dominates their operations. Many NGOs charge high interest rates to be cost-effective. In many cases it happens to be 30-40 percent.

The informal source of financial intermediary still plays a very significant role in the RFMs of Bangladesh. The successful existence of informal sector is due to fact that formal sector is not easily accessible to the rural poor. The informal sector is popular among the rural poor not because it is to their advantage, but because it is at their door step and free of any formality. But this sector is beset with enormous problems. It is highly disorganized. It is a widely known fact that informal sector charges high interest rate - sometimes 100 percent or more. So taking credit from this sector is not at all cost-effective for the rural people, specially for the small and marginal farmers.

Considering the nature of purposes of credit and categories of beneficiaries, rural finance programs should cover two groups - the agricultural group and the non-agricultural group. Agricultural finance is needed for the farmers for increasing agricultural production which is the top priority sector of the country. Non-agricultural finance is needed for the rural poor for increasing income, savings and self-employment opportunities to alleviate poverty from the rural areas. The above analysis shows that the purpose of latter group is served by the semi-formal and informal sectors successfully. It is also true that semi-formal sector provides some real services to the rural poor who are deemed to be credit-unworthy by the formal sector banks. The informal sector satisfies the immediate consumption demands of the large section of rural people. But the former one i.e. agricultural finance has not yet been appropriately taken care of by semi-formal sector. And it is also not possible for this sector because of its fund constraint. Informal sector on the other hand, is an unhealthy indicator for agricultural finance. So it is necessary to expand the formal sector for agricultural finance in the rural areas. It will also complement the semi-formal and informal sectors to develop a total and stable rural financial market [RFMs] in Bangladesh.

Despite too many problems and deficiencies the formal sector banks, specially, the Agricultural Banks have done some good things for overall development of the rural finance including agricultural finance and is hoped to play more vital role in near future. The large potential financial market of formal sector, size of their rural branches net-work, their long experience regarding RFMs can be of real advantage for the formal sector (NCBs and specialized banks) for financing in rural areas. In that case they have to formulate their organizational outreach policy to redesign their credit delivery system for various programs and take appropriate steps for motivation of all concerned in the banks and the rural people.

Note:

*The *Fiscal Year* (FY) for Bangladesh commences from 1st July and ends on 30th June; FY1997-98 for instance, covers the period between 1st July 1997 to 30th June 1998.

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