

Chapter - VII

Agricultural Credit Institutions in the Study Region: *Surveys of Formal-sector Banks*

7.1 The Agricultural Credit Situation in the Daudkandi Region

Local credit situations in rural areas are determined by the form and structure of rural financial markets [RFMs]. The RFMs in Comilla Zila and Daudkandi upazila show the strong presence of formal-sector in terms of branch numbers and spread of operations. However, it has also been seen that the existence of a large branch network does not necessarily imply a wide spread of rural credit operations. This issue needs to be investigated, since it implies a disequilibrium in RFMs.

Better understanding of the formal agricultural credit situation in Daudkandi upazila is obtained by examining the spread of credit services provided by the bank branches located here. This may be assessed from the following tables which show the number of loan sanctions and credit advances made in different agricultural credit categories by the formal sector banks in the upazila.

As seen above, the number of crop loans sanctioned through BKB has consistently exceeded the combined number of crop loans sanctioned by the four NCB banks throughout the study period, after 1994-1995. Through most of this period, the number of BKB crop loans has also maintained a rising trend. On the other hand, the aggregate number of NCB crop loans has declined considerably, and in 1999-2000 stood at less than half of the total crop loans sanctioned in 1994-95. Only the Elliotgonj branch of the Sonali Bank stands in exception. The reason for its comparatively better performance lies in its location in a well-irrigated and agriculturally progressive part of Daudkandi upazila. In 1998-99 which was a flood-year, the number of crop loans showed marked increase both for BKB and the NCBs.

Although medium-term credit assistance for purchases of agricultural equipment is sanctioned primarily by BKB, the number of such loans has remained relatively constant, and is insignificant in proportion to total agricultural loans. The NCB branches in Daudkandi upazila are uninvolved in providing medium-term credit for the purchase of agricultural equipment. Similarly, only BKB has provided livestock loans, with their number showing a declining trend through the study period. Analysis can also be made of the locational participation of different bank branches in overall credit activity in Daudkandi upazila. The number of crop loans sanctioned by the Daudkandi branches has, as expected, consistently been less than crop loan sanctions by the branches located outside Daudkandi during the period under investigation.

Unlike the number of formal-sector loan sanctions in Daudkandi upazila, which show more definite trends, total crop advances made by the formal sector banks have shown a fluctuating pattern. Total crop advances by BKB have consistently exceeded crop advances by the four NCB banks, and appear in fact to have grown over the study period. NCB crop advances have tended to remain at a constant level. Livestock advances on the other hand, have tended to stagnate while equipment advances have fallen to only half the levels that obtained at the start of the study period. BKB continues to be the principal source for such advances. As expected, crop advances provided by the banks have been found to be lower for the Daudkandi branches than for branches located outside Daudkandi.

Joint analysis of agricultural loan sanctions and credit advances establishes the prominent role played by the BKB branches in the agricultural credit situation of Daudkandi upazila, both in terms of credit categories as well as locations. Interestingly, considering that fewer bank branches are located at headquarters, average advances made by each Daudkandi branch are not inferior to average advances made by each non-Daudkandi branch, even though aggregate crop advances sanctioned at Daudkandi are lower than those sanctioned outside. Nevertheless, except for special credit programmes and extra inducements from the government, the NCBs in general appear to be reluctant in extending agricultural credit to the study area.

Table 7.1: Spread of Formal Rural Credit Services in Daudkandi Upazila:
Loan Sanctions by Banks

CROP LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Crop Loan Numbers					
Janata-Batakandi	418	311	225	145	194	121
BKB-Daudkandi	815	657	528	736	1741	514
Sonali-Daudkandi	147	78	89	27	125	31
Janata-Daudkandi	213	184	69	43	168	48
Agrani-Daudkandi	-	-	-	-	-	-
Sonali-Elliotgonj	749	87	367	624	1328	547
Janata-Gouripur	182	174	117	41	506	103
Sonali-Gouripur	112	113	92	68	197	38
Agrani-Jagatpur	-	-	-	-	-	-
BKB-Juranpur	571	685	684	802	1449	1473
BKB-Machimpur	148	96	298	255	1294	381
BKB-Naiyair	407	221	240	288	2702	533
Sonali-Raipur	147	81	90	51	133	49
Janata-Sundalpur	187	250	141	110	137	60
ALL BRANCHES	4096	2937	2940	3190	9974	3898
BKB BRANCHES	1941	1659	1750	2081	7186	2901
NCB BRANCHES	2155	1278	1190	1109	2788	997
EQUIPMENT LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Equip. Loan Numbers					
Sonali-Gouripur	-	-	-	1	-	1
BKB-Juranpur	12	17	15	13	13	13
ALL BRANCHES	12	17	15	14	13	14
BKB BRANCHES	12	17	15	13	13	13
NCB BRANCHES	-	-	-	1	-	1
LIVESTOCK LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
	Livestk Loan Numbers					
BKB-Daudkandi	48	36	6	22	52	3
BKB-Juranpur	355	364	307	291	291	288
BKB-Machimpur	83	4	92	36	7	-
BKB-Naiyair	2	9	16	31	7	11
ALL BRANCHES	488	413	421	380	357	302
BKB BRANCHES	488	413	421	380	357	302
NCB BRANCHES	-	-	-	-	-	-
LOANS BY LOCATION	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
	Loan Numbers					
<u>Within Daudkandi</u>						
Crop Loans only	1593	1230	911	951	2228	714
<u>Outside Daudkandi</u>						
Crop Loans	2503	1707	2029	2239	7746	3184
Non-Crop Loans	500	430	436	394	370	316

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

Table 7.2: Spread of Formal Rural Credit Services in Daudkandi Upazila:
Credit Advances by Banks

CROP LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Crop Loan Advances					
Janata-Batakandi	29.27	23.27	16.88	11.67	14.14	12.51
BKB-Daudkandi	67.57	59.3	53.26	94.18	183.49	68.71
Sonali-Daudkandi	26.29	18.62	25	25.83	44.19	40.65
Janata-Daudkandi	12.71	16.82	7.2	6.09	14.9	4.47
Agrani-Daudkandi	-	-	-	-	-	-
Sonali-Elliotgonj	35.35	4.99	39.05	59.64	76.64	47.14
Janata-Gouripur	11.32	12.47	10.52	3.26	25.74	6.8
Sonali-Gouripur	9.7	9.59	10.54	8.13	13.78	4.16
Agrani-Jagatpur	-	-	-	-	-	-
BKB-Juranpur	97.54	86.98	84.12	94.88	161.57	160.32
BKB-Machimpur	12.36	8.17	29.48	28.78	132.58	52.4
BKB-Naiyair	23.81	16.05	16.63	25.39	259.94	64.08
Sonali-Raipur	8.8	6.46	9.33	6.04	9.41	6.33
Janata-Sundalpur	10.94	21.03	14.17	12.72	14.92	10.07
ALL BRANCHES	345.66	283.75	316.18	376.61	951.3	477.64
BKB BRANCHES	201.28	170.5	183.49	243.23	737.58	345.51
NCB BRANCHES	144.38	113.25	132.69	133.38	213.72	132.13
EQUIPMENT LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Equip. Loan Advances					
Sonali-Gouripur	-	-	-	0.34	-	-
BKB-Juranpur	12.69	13.03	10.44	7.27	6.61	6.57
ALL BRANCHES	12.69	13.03	10.44	7.61	6.61	6.57
BKB BRANCHES	12.69	13.03	10.44	7.27	6.61	6.57
NCB BRANCHES	-	-	-	0.34	-	-
LIVESTOCK LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Livestk Loan Advances					
BKB-Daudkandi	6.42	4.92	1.06	2.69	6.09	0.51
BKB-Juranpur	58.82	59.59	46.57	38.3	39.53	33.06
BKB-Machimpur	8.2	0.4	8.35	3.71	0.8	-
BKB-Naiyair	0.2	0.96	1.77	2.3	0.56	0.66
ALL BRANCHES	73.64	65.87	57.75	47	46.98	34.23
BKB BRANCHES	73.64	65.87	57.75	47	46.98	34.23
NCB BRANCHES	-	-	-	-	-	-
LOANS BY LOCATION	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
	Loan Advances					
<u>Daudkandi Area</u>						
Crop Loans only	135.84	118.01	102.34	137.77	256.72	126.34
<u>Outside Daudkandi</u>						
Crop Loans	209.82	165.74	213.84	238.84	694.58	351.3
Non-Crop Loans	86.33	78.9	68.19	54.61	53.59	40.8

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

Since the association of aggregate loans to aggregate credit advances is reflected in the average sizes of loans sanctioned, an evaluation of the collective impact of credit services provided by BKB and the NCBs in Daudkandi upazila can also be made in terms of average loan amounts sanctioned.

**Table 7.3: Spread of Formal Rural Credit Services in Daudkandi Upazila:
Average Loan Sanctions**

CROP LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Av. Crop Loan Size					
Janata-Batakandi	0.070	0.075	0.075	0.080	0.073	0.103
BKB-Daudkandi	0.083	0.090	0.101	0.128	0.105	0.134
Sonali-Daudkandi	0.179	0.239	0.281	0.957	0.354	1.311
Janata-Daudkandi	0.060	0.091	0.104	0.142	0.089	0.093
Agrani-Daudkandi	-	-	-	-	-	-
Sonali-Elliotgonj	0.047	0.057	0.106	0.096	0.058	0.086
Janata-Gouripur	0.062	0.072	0.090	0.080	0.051	0.066
Sonali-Gouripur	0.087	0.085	0.115	0.120	0.070	0.109
Agrani-Jagatpur	-	-	-	-	-	-
BKB-Juranpur	0.171	0.127	0.123	0.118	0.112	0.109
BKB-Machimpur	0.084	0.085	0.099	0.113	0.102	0.138
BKB-Naiyair	0.059	0.073	0.069	0.088	0.096	0.120
Sonali-Raipur	0.060	0.080	0.104	0.118	0.071	0.129
Janata-Sundalpur	0.059	0.084	0.100	0.116	0.109	0.168
ALL BRANCHES	0.084	0.097	0.108	0.118	0.095	0.123
BKB BRANCHES	0.104	0.103	0.105	0.117	0.103	0.119
NCB BRANCHES	0.067	0.089	0.112	0.120	0.077	0.133
EQUIPMENT LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Av. Equip Loan Size					
Sonali-Gouripur	-	-	-	0.340	-	0.000
BKB-Juranpur	1.058	0.766	0.696	0.559	0.508	0.505
ALL BRANCHES	1.058	0.766	0.696	0.544	0.508	0.469
BKB BRANCHES	1.058	0.766	0.696	0.559	0.508	0.505
NCB BRANCHES	-	-	-	-	-	-
LIVESTOCK LOANS	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Bank & Branch	Av. Livestock Loan Size					
BKB-Daudkandi	0.134	0.137	0.177	0.122	0.117	0.170
BKB-Juranpur	0.166	0.164	0.152	0.132	0.136	0.115
BKB-Machimpur	0.099	0.100	0.091	0.103	0.114	-
BKB-Naiyair	0.100	0.107	0.111	0.074	0.080	0.060
ALL BRANCHES	0.100	0.100	0.100	0.100	0.100	0.100
BKB BRANCHES	0.100	0.100	0.100	0.100	0.100	0.100
NCB BRANCHES	-	-	-	-	-	-
LOANS BY LOCATION	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
	Av. Loan Size					
<u>Within Daudkandi</u>						
Crop Loans only	0.085	0.096	0.112	0.145	0.115	0.177
<u>Outside Daudkandi</u>						
Crop Loans	0.084	0.097	0.105	0.107	0.090	0.110
Non-Crop Loans	0.173	0.183	0.156	0.139	0.145	0.129

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

The table above reveals that, apart from the exceptional jump in 1998-99, average crop loan sizes in Daudkandi upazila have risen through the study period. Because of extraordinary increase in the combined number of loan sanctions, average crop loan sizes in 1998-99 were small for the aggregate of BKB and NCB loans. Diverging trends are however noticed in the division of average loan sizes between BKB branches and the NCB branches over the period, with NCB loan sizes showing much more fluctuation. Although average equipment loan sizes have continuously declined over the period, the unit size of these loans is high compared to the combined average size of crop loan advances by BKB and the NCBs. Among the NCBs,

only the Gouripur branch of Sonali Bank extended an equipment loan in the year 1997-1998. Nevertheless, the size of this single loan is small compared to the average size of equipment loans advanced by the BKB branches. Unlike equipment loans, for which average size has been variable, average sizes of livestock loans have remained relatively static. The sizes of crop loans sanctioned by the Daudkandi branches is generally higher than those sanctioned outside Daudkandi. Remarkably, average non-crop loans exceed average crop loans in size throughout the study period.

A number of conclusions emerge from the analysis. Agricultural credit in Daudkandi upazila is dominated by the short-term market for loans that support the crop financing needs of the Daudkandi farmers. Although the demand for such loans has increased, the amount of banking resources committed for such purposes has not increased commensurately. Consequently, the unit-sizes of agricultural loans have tended to decline, indicating that credit support has fallen in per capita terms. Even in a distress-year such as 1998-99, when credit demand was at its highest, the rise in resource commitments proved inadequate, leading to a decline in average loan size. Although crop credit operations by BKB have remained at relatively even level, they have not been able to compensate for the declining agricultural credit support from the NCBs. Since loan sizes are smaller for the NCBs and provide credit support to small and marginal farmers, the decline implies that this section of farmers is being increasingly deprived of access to institutional credit.

Alarming, little credit support is provided by the formal sector banks to asset creation by the rural population of Daudkandi, either in the form of livestock loans to small farmer families or as support for improvements of agricultural technology by larger farmers. Even though the prices of agricultural equipment have witnessed escalation over the study period, total resource commitment for equipment advances has not risen sufficiently. Thus in real terms, equipment credit has actually declined. Similarly, the trends in livestock advances do not adequately reflect livestock prices in Bangladesh, where the purchase price of a medium-sized cow is currently around Tk.7000. As expected, the urban or 'headquarter' influence plays an important part in determining the locational pattern of agricultural credit advances within Daudkandi upazila.

7.2 Performance of the Banking System in Daudkandi Upazila

It is important to consider whether the agricultural credit patterns of Daudkandi banks, as noted above, are the consequence of low utilisation of banking services by the rural population i.e. *real shortages* in credit demand, or are determined by banking caution and prudential norms i.e. *nominal shortages* in credit supply. To assess this, study is first made of the deposit position in the formal sector banks functioning within Daudkandi upazila, in order to obtain an idea about the circulation of financial resources within the local banking system. The operational performance of the banks is then analysed in terms of their credit-deposit ratios and credit-recovery ratios.

The distribution of bank deposits between savings and current depositor accounts in the formal banking system of the upazila is presented in the table below. Separate identifications are made of local deposits mobilised through BKB and through the NCB branches.

As would be expected of a rural region, the overwhelming proportion of bank deposits in Daudkandi upazila comprise small savings accounts. However, most of these savings deposits have been mobilised by the NCBs, and have increased substantially over the study period. Strikingly, the proportion of savings deposits with BKB is much lower and a very large proportion of its deposits are held as term deposits and other accounts. Although the proportion of current accounts in the upazila banks is low and has remained relatively steady, a decline is noticeable in the proportion of such accounts with BKB. A larger proportion of current accounts are held by the headquarters branches located at Daudkandi branches. Although a similar position exists with respect to saving accounts, the difference between the Daudkandi and non-Daudkandi branches is less. While the number of savings accounts has increased in absolute terms over the study period, the proportion of such accounts held outside Daudkandi shows marginal fluctuation.

While the large number of accounts with the NCBs appears proportionate to their larger branch network in Daudkandi upazila, the higher presence of current accounts at the Daudkandi branches is related to the greater prevalence of commercial activities like small trade, petty business, etc., at the upazila headquarters. It is common in Bangladesh to open such accounts with the NCBs, since they render all types of general banking services to their customers. Since BKB is a specialized bank, only accounts having direct relation

with agricultural activity are generally opened at BKB branches, even though the opening of other accounts is permissible.

Table 7.4: Composition of Depositor Accounts in Formal Sector Banks in Daudkandi Upazila

Bank	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
	Current Accounts	% of Total Accounts								
ALL BANKS	4134	4241	4729	4567	4903	4.77	4.45	4.51	4.22	4.20
BKB Branches	861	886	952	714	500	2.46	2.30	2.25	1.75	1.11
NCB Branches	3273	3355	3777	3853	4403	6.34	5.91	6.04	5.72	6.13
<i>Branch Location</i>										
Daudkandi	1658	1774	1946	2045	2158	7.70	7.17	7.37	7.01	6.70
Outside Daudkandi	2476	2467	2783	2522	2745	3.80	3.50	3.55	3.19	3.25
Bank	Savings Accounts	% of Total Accounts								
	ALL BANKS	63190	71232	80878	81678	88498	72.95	74.75	77.17	75.45
BKB Branches	20643	22985	27784	24321	27629	58.95	59.72	65.66	59.53	61.48
NCB Branches	42547	48247	53094	57357	60869	82.44	84.94	84.97	85.10	84.80
<i>Branch Location</i>										
Daudkandi	17524	20394	21865	24446	27115	81.42	82.46	82.79	83.78	84.24
Outside Daudkandi	45666	50838	59013	57232	61383	70.14	72.05	75.28	72.38	72.62

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

The relative efficiency of formal banking operations in Daudkandi upazila can be assessed from the respective credit-deposit and credit-recovery ratios of BKB and the NCBs.

Table 7.5: Performance Indices of Formal Sector Banks at Daudkandi Upazila

Bank Branch	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
	Credit-Deposit Ratio	Credit-Recovery Ratio								
<i>BKB Branches</i>										
BKB-Daudkandi	0.86	1.57	0.66	0.82	1.15	0.59	0.26	1.43	0.80	0.94
BKB-Naiyair Bazar	0.24	0.16	0.15	0.24	1.82	0.83	1.27	1.43	0.99	0.25
BKB-Juranpur	1.08	0.90	0.66	0.82	1.39	0.20	0.18	0.36	0.24	0.15
BKB-Machimpur	0.28	0.15	0.43	0.54	2.08	0.69	1.18	0.76	0.79	0.33
<i>NCB Branches</i>										
Sonali-Elliotganj	0.29	0.22	0.26	0.28	0.28	0.18	0.76	0.63	0.30	0.25
Sonali-Daudkandi	0.20	0.20	0.21	0.21	0.23	0.56	0.32	0.29	0.21	0.19
Sonali-Gouripur	0.14	0.18	0.17	0.18	0.18	1.28	1.89	1.30	0.75	0.47
Sonali-Raipur	0.19	0.17	0.18	0.14	0.31	0.99	0.96	0.45	0.24	0.10
Janata-Daudkandi	0.16	0.15	0.13	0.13	0.19	0.49	0.67	0.62	0.63	0.62
Janata-Gouripur	0.01	0.02	0.01	0.00	0.02	2.04	0.56	1.35	4.96	0.43
Janata-Batakandi	0.16	0.16	0.16	0.15	0.14	1.67	1.89	2.18	2.49	2.40
Janata-Sundalpur	0.10	0.12	0.11	0.11	0.11	0.38	0.16	0.78	0.60	0.66
Agrani-Jagatpur	0.04	0.13	0.12	0.14	0.23	0.67	0.46	0.54	0.44	0.66
Agrani-Daudkandi	0.03	0.02	0.03	0.03	0.05	0.67	0.66	0.80	0.82	0.90
ALL BANKS	0.21	0.25	0.18	0.19	0.28	1.58	1.67	1.05	1.56	1.88
BKB BRANCHES	0.73	1.12	0.56	0.70	1.37	1.99	3.73	0.88	1.51	1.78
NCB BRANCHES	0.14	0.14	0.13	0.13	0.15	1.38	1.04	1.18	1.59	2.00
<i>Branch Locations</i>										
Daudkandi	0.27	0.37	0.22	0.22	0.29	12.06	8.05	5.35	10.75	14.48
Outside Daudkandi	0.17	0.16	0.15	0.16	0.28	0.76	0.67	0.57	0.81	1.06

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

The credit-deposit ratio of BKB vastly exceeds the credit-deposit ratio of the NCB branches through all years of the study, attesting to the better credit performance of BKB. Nevertheless, this ratio appears to fluctuate in alternate years. At particular frequency, BKB advances have surpassed deposits, raising credit-

deposit ratios above 1.00. Since this is noticed particularly after flood-years, credit advances by BKB uniformly appear to be important relief instruments for flood-stricken farmers. NCB credit-deposit ratios are uniformly low on the other hand, and do not show much fluctuation. The higher credit-deposit ratios of formal bank branches located at Daudkandi is mainly explained by relatively better credit performances by the headquarters branches of the NCBs. In contrast, the agricultural credit performance of NCB branches located outside Daudkandi is poor.

It is also noticed that credit recovery is better in branches where credit-deposit ratios are low. Mostly, this is due to higher recovery of past loans relative to the offtake on new loans. However, since credit-recovery ratios are high for the NCB branches whose current loan performance is poor, the pattern implies low loan release rather than high recovery in absolute terms. Some differences are noticed in the performances of individual BKB and NCB branches. For example, credit recovery in BKB - Juranpur branch is low relative to its release of fresh credit. In the case of BKB-Daudkandi, credit releases and recoveries are more evenly matched. In general, higher credit releases by the Daudkandi banks match better recovery rates.

For the rural branches, both releases and recoveries of credit are poorer. The high demand for agricultural credit generally faced by most BKB branches is reflected in the relevant credit deposit ratios, while higher credit-recovery ratios also indicate that credit release by BKB is determined more by general credit policy rather than by the accounting positions of different BKB branches. This does not appear to be the case among the NCBs, where the individual branches seem to adhere to their respective local positions, rather than being guided by overall credit policies.

7.3 Staffing & Workload of the Formal Banking System in Daudkandi Upazila

The success of rural banking enterprise is partially dependent on the staffing of bank branches. This is especially true of agricultural credit programmes because of the rural spread of their activity. An adequate field staff of officials and clerical personnel are specially necessary to supervise loan administration and recovery. The comparative staffing position of the BKB and NCB branches in Daudkandi upazila is examined below. Over the study period, it is noticed that while the total staff of the branches has remained relatively stable, the ratio of supervisory (bank officers and supervisors) to non-supervisory staff has risen. This rise has been sharper for BKB than for the NCBs. Thus, while the number of officers in the formal sector banks of Daudkandi upazila has increased, the number of clerical staff has declined. This would suggest that the number of bank officers has been increasing mainly because of promotion of supervisory and clerical staff to higher posts. In relation to bank-wise staff assignments within and outside Daudkandi, it is noticed that the ratios of supervisory to non-supervisory staff diverge less sharply. Nevertheless, the ratio has been increasing more rapidly in Daudkandi.

The quality of banking services and output is influenced by the workload upon the branch staff and officers. It thus becomes possible to assess banking quality in terms of the average work-assignment for each staff member. Branch-wise workloads have been calculated for the formal sector banks of Daudkandi upazila, both with respect to customer handling as well the accounting load.

Customer-staff ratios are seen to be much higher for the BKB branches than for the NCB branches. Since it had been observed earlier that the NCB branches handle a larger number of depositor accounts on the average, the higher staffing needs are partially justified. However, although a larger number of small depositor accounts are maintained at the rural branches of BKB as well as the NCBs, staffing is greater at the headquarters branches at Daudkandi, where the average account size is larger. This is especially true for Sonali Bank in general, both for its Daudkandi branch as well as the rural branches at Elliotgonj and Gouripur. Generally, the customer-staff ratios at the rural branches are high. However, this also indicates that the headquarters branches of NCBs and their staff have to handle a larger workload of routine banking services and are consequently able to devote less time to agricultural credit. The position of BKB in this respect is more satisfactory, and the very high customer-staff ratio of its rural branches indicates that its extension of rural banking services is better despite more limited presence of staff. The higher customer-staff ratios of the BKB branches reflect the focus of BKB towards agricultural credit. Fewer farmers prefer to deal with the NCBs, and the higher average account sizes at the NCB branches thus reflect the credit preferences of the NCBs which favour the non-agricultural sector.

Table 7.6a: Comparative Staffing Position of Formal Sector Bank Branches in Daudkandi Upazila

	1995	%	1996	%	1997	%	1998	%	1999	%
ALL BANKS										
Officers	48	28.6	52	30.2	70	38.9	69	39.4	74	41.8
Supervisors	22	13.1	17	9.9	19	10.6	18	10.3	16	9.0
Clerical	62	36.9	65	37.8	53	29.4	51	29.1	50	28.2
Other	36	21.4	38	22.1	38	21.1	37	21.1	37	20.9
Total	168	100.0	172	100.0	180	100.0	175	100.0	177	100.0
BKB Branches										
Officers	15	34.9	16	37.2	16	36.4	19	43.2	22	47.8
Supervisors	9	20.9	7	16.3	8	18.2	8	18.2	6	13.0
Clerical	10	23.3	10	23.3	10	22.7	8	18.2	9	19.6
Other	9	20.9	10	23.3	10	22.7	9	20.5	9	19.6
Total	43	100.0	43	100.0	44	100.0	44	100.0	46	100.0
NCB Branches										
Officers	33	26.4	36	27.9	54	39.7	50	38.2	52	39.7
Supervisors	13	10.4	10	7.8	11	8.1	10	7.6	10	7.6
Clerical	52	41.6	55	42.6	43	31.6	43	32.8	41	31.3
Other	27	21.6	28	21.7	28	20.6	28	21.4	28	21.4
Total	125	100.0	129	100.0	136	100.0	131	100.0	131	100.0
Daudkandi										
Officers	21	35.0	21	33.9	27	40.3	26	41.9	30	45.5
Supervisors	5	8.3	3	4.8	8	11.9	7	11.3	6	9.1
Clerical	23	38.3	25	40.3	19	28.4	18	29.0	18	27.3
Other	11	18.3	13	21.0	13	19.4	11	17.7	12	18.2
Total	60	100.0	62	100.0	67	100.0	62	100.0	66	100.0
Outside Daudkandi										
Officers	27	25.0	31	28.2	43	38.1	43	38.1	44	39.6
Supervisors	17	15.7	14	12.7	11	9.7	11	9.7	10	9.0
Clerical	39	36.1	40	36.4	34	30.1	33	29.2	32	28.8
Other	25	23.1	25	22.7	25	22.1	26	23.0	25	22.5
Total	108	100.0	110	100.0	113	100.0	113	100.0	111	100.0

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

Table 7.6b: Ratios of Supervisory to Non-Supervisory Staff

	1995	1996	1997	1998	1999
ALL BANKS	0.7	0.7	1.0	1.0	1.0
BKB Branches	1.3	1.2	1.2	1.6	1.6
NCB Branches	0.6	0.6	0.9	0.8	0.9
Daudkandi	0.8	0.6	1.1	1.1	1.2
Outside Daudkandi	0.7	0.7	0.9	0.9	0.9

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

7.4 Productivity Performance of the Formal Banking System in Daudkandi Upazila

Further insight into rural credit performance in Daudkandi upazila may be gained by assessing the relationship of branch staffing with the cycle of deposits, credit advances, loan recoveries and loan outstandings observed at branch-level. This is accomplished in the next two tables.

As revealed above, while the ratios of deposits to staff for the BKB branches are generally smaller compared to the NCB branches, the ratios of advances to staff tend to be higher for BKB. However, the bulk of these BKB advances are issued through the BKB-Daudkandi and BKB-Juranpur branches. While the NCB branches on the other hand commonly show remarkably high deposit-staff ratios, their local release of credit is not commensurate and thus yields low advances-staff ratios. On the whole, the headquarters branches of all banks located at Daudkandi display higher deposit-staff ratios as well as advance-staff ratios, compared to bank branches outside Daudkandi. Two main NCB branches, namely Sonali Bank-Daudkandi and Agrani Bank-Daudkandi reveal the highest deposit-staff ratios. However, while the main Sonali Bank branch participates more actively in credit activity, credit issue by the main Agrani Bank branch is still very low.

Table 7.7. Comparative Staffing and Service Ratios of Formal Sector Bank Branches in Daudkandi Upazila

Bank Branch	1995 Customer- Staff -Ratio	1996 Customer- Staff Ratio	1997 Customer- Staff Ratio	1998 Customer- Staff Ratio	1999 Customer- Staff Ratio	1995 Average Account Size	1996 Average Account Size	1997 Average Account Size	1998 Average Account Size	1999 Average Account Size
BKB Branches										
BKB-Daudkandi	307	332	320	346	367	7343.6	8251.9	8839.2	8055.9	8324.2
BKB-Naiyair Bazar	1394	1407	1487	1545	1557	1000.0	1000.0	1108.1	1000.0	1000.0
BKB-Juranpur	1207	1350	1602	1568	1649	1000.0	1000.0	1000.0	1000.0	1000.0
BKB-Machimpur	1153	1246	1388	978	1104	1000.0	1000.0	1000.8	1000.0	1000.0
NCB Branches										
Sonali-Elliotganj	338	342	338	347	371	10918.7	12520.0	12966.8	13780.7	15566.3
Sonali-Daudkandi	261	287	274	351	332	25602.6	20617.2	21209.8	21155.2	21674.4
Sonali-Gouripur	431	427	428	486	550	8811.4	10692.8	11153.3	11421.6	10733.4
Sonali-Raipur	335	288	409	398	413	6367.3	7960.8	6008.7	6707.1	8192.4
Janata-Daudkandi	493	545	541	689	736	9287.6	9545.5	9594.2	9056.6	7480.5
Janata-Gouripur	527	554	642	635	663	9550.9	10415.9	11613.0	11110.9	10178.2
Janata-Batakandi	560	597	633	664	742	8640.4	7660.6	7298.1	7066.2	8037.6
Janata-Sundalpur	349	491	515	629	674	7718.7	6413.4	5886.4	5563.2	5906.5
Agrani-Jagatpur	280	304	342	390	428	5323.5	4158.6	4358.7	4106.4	4289.3
Agrani-Daudkandi	387	498	509	541	590	17173.0	16999.7	16503.1	17689.0	20635.4
ALL BANKS	516	554	582	619	659	7261.0	7517.1	7637.7	7872.2	7953.7
BKB BRANCHES	814	895	962	928	977	2113.0	2188.6	2218.6	2136.7	2197.6
NCB BRANCHES	413	440	459	514	548	10754.3	11127.7	11307.4	11348.8	11557.4
Branch Location										
Daudkandi	359	399	394	471	488	12829.9	12731.4	13029.4	12920.4	13205.0
Outside Daudkandi	603	641	694	700	762	5420.1	5689.4	5821.1	6009.3	5954.2

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

Table 7.8: Staff Productivity Indices of Formal Sector Banks at Daudkandi Upazila:
Deposits & Advances

Bank Branch	1995 Deposits -Staff Ratio	1996 Deposits -Staff Ratio	1997 Deposits -Staff Ratio	1998 Deposits -Staff Ratio	1999 Deposits -Staff Ratio	1995 Advances -Staff Ratio	1996 Advances -Staff Ratio	1997 Advances -Staff Ratio	1998 Advances -Staff Ratio	1999 Advances -Staff Ratio
BKB Branches										
BKB-Daudkandi	22.56	27.40	28.25	27.90	30.58	19.43	42.97	18.69	22.75	35.15
BKB-Naiyair Bazar	13.94	14.07	16.48	15.45	15.57	3.32	2.19	2.54	3.67	28.35
BKB-Juranpur	12.07	13.50	16.02	15.68	16.49	13.05	12.08	10.64	12.87	22.93
BKB-Machimpur	11.53	12.46	13.89	9.78	11.04	3.18	1.82	5.96	5.26	22.98
NCB Branches										
Sonali-Elliotganj Bank	36.86	42.80	43.84	47.88	57.81	10.73	9.58	11.28	13.18	16.36
Sonali-Daudkandi	66.74	59.22	58.05	74.31	72.00	13.52	11.65	12.14	15.26	16.55
Sonali-Gouripur	37.97	45.65	47.71	55.52	59.04	5.31	8.08	8.33	9.93	10.76
Sonali-Raipur	21.32	22.94	24.57	26.70	33.80	4.06	3.89	4.44	3.73	10.59
Janata-Daudkandi	45.76	52.04	51.87	62.44	55.06	7.39	7.96	6.65	8.41	10.23
Janata-Gouripur	50.37	57.65	74.53	70.57	67.50	0.63	1.01	0.72	0.21	1.46
Janata-Batakandi	48.39	45.71	46.23	46.95	59.67	7.76	7.41	7.23	7.12	8.60
Janata-Sundalpur	26.93	31.46	30.32	35.01	39.80	2.81	3.67	3.21	3.98	4.49
Agrani-Jagatpur	14.89	12.65	14.92	16.02	18.35	0.56	1.62	1.86	2.26	4.15
Agrani-Daudkandi	66.40	84.70	83.97	95.62	121.82	1.89	1.96	2.23	3.02	5.82
ALL BANKS	37.44	41.65	44.47	48.69	52.45	7.83	10.47	8.07	9.29	14.86
BKB BRANCHES	17.21	19.59	21.34	19.84	21.47	12.60	21.99	11.90	13.87	29.43
NCB BRANCHES	44.40	49.00	51.95	58.39	63.33	6.19	6.63	6.84	7.76	9.75
Branch Location										
Daudkandi	46.02	50.79	51.36	60.80	64.40	12.20	18.99	11.14	13.62	18.70
Outside Daudkandi	32.67	36.49	40.38	42.05	45.34	5.40	5.67	6.26	6.92	12.58

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

The relative position of deposits and advances for BKB branches indicate that BKB undertakes sizeable lending to the agricultural sector, in spite of its lower deposit-base. The reverse is true for the NCBs, whose cumulative lending is low compared to their high mobilisation of rural deposits. Staff productivity at the NCBs is thus much higher in terms of deposit realisation than in terms of credit release. While the semi-urban NCB branches located at Daudkandi have the highest deposit-staff ratios, only Sonali Bank-Daudkandi has relatively high credit release. On the whole, this implies that NCB banking activity in Daudkandi upazila is still oriented towards the urban population, and the release of credit by the rural branches is low. The urban orientation also results in fewer NCB officers and staff being posted at the rural branches, as seen earlier.

Table 7.9: Staff Productivity Indices of Formal Sector Banks at Daudkandi Upazila: Recoveries & Outstandings

Bank Branch	1995 Recov- very to -Staff Ratio	1996 Recov- very to -Staff Ratio	1997 Recov- very to -Staff Ratio	1998 Recov- very to -Staff Ratio	1999 Recov- very to -Staff Ratio	1995 Outstan- dings to -Staff Ratio	1996 Outstan- dings to -Staff Ratio	1997 Outstan- dings to -Staff Ratio	1998 Outstan- dings to -Staff Ratio	1999 Outstan- dings to -Staff Ratio
<i>BKB Branches</i>										
BKB-Daudkandi	11.46	11.10	26.69	18.27	33.12	45.41	84.62	76.63	89.54	99.46
BKB-Naiyair Bazar	2.74	2.78	3.65	3.64	7.04	24.14	21.64	21.77	20.83	43.13
BKB-Juranpur	2.63	2.23	3.83	3.06	3.38	23.18	16.61	21.01	20.25	29.50
BKB-Machimpur	2.21	2.14	4.54	4.16	7.54	15.36	15.79	18.48	16.85	35.71
<i>NCB Branches</i>										
Sonali-Elliotganj Bank	1.95	7.32	7.14	3.97	4.12	24.84	23.95	22.80	28.64	32.92
Sonali-Daudkandi	7.52	3.74	3.48	3.27	3.17	20.82	17.79	18.04	22.83	24.43
Sonali-Gouripur	6.81	15.24	10.87	7.46	5.05	7.39	10.35	10.37	12.28	13.89
Sonali-Raipur	4.01	3.75	2.01	0.88	1.04	7.07	6.82	7.10	7.59	9.66
Janata-Daudkandi	3.63	5.34	4.12	5.26	6.33	7.96	8.13	8.75	11.52	13.32
Janata-Gouripur	1.28	0.56	0.97	1.06	0.63	1.24	1.36	1.71	1.49	2.91
Janata-Batakandi	12.94	13.98	15.75	17.75	20.66	6.02	7.00	7.43	7.55	10.03
Janata-Sundalpur	1.07	0.60	2.51	2.40	2.96	4.39	0.00	0.00	0.00	9.51
Agrani-Jagatpur	0.38	0.75	1.00	1.00	2.75	0.61	1.62	1.86	2.26	4.15
Agrani-Daudkandi	1.27	1.29	1.80	2.48	5.23	1.89	1.96	2.23	3.02	5.82
ALL BANKS	4.96	6.27	7.70	5.97	7.90	15.40	19.13	18.70	21.27	27.20
BKB BRANCHES	6.33	5.90	13.57	9.19	16.52	32.42	47.58	46.05	49.67	63.96
NCB BRANCHES	4.49	6.39	5.80	4.89	4.87	9.54	9.65	9.85	11.73	14.29
<i>Branch Location</i>										
Daudkandi	1.01	2.36	2.08	1.27	1.29	22.85	33.58	30.68	36.84	41.09
Outside Daudkandi	7.16	8.48	11.03	8.55	11.82	11.25	10.98	11.60	12.72	18.94

Source: Consolidated Operational Statement provided by Bank Branches at Daudkandi Upazila, personal collection

Besides the mobilisation of deposits and the disbursement of credit, the staffing positions of the formal sector banks also have a bearing on the effectiveness of debt monitoring and recovery. Since the recovery of loans is a personnel-intensive activity, larger presence of branch staff is likely to improve the recovery record of the branch. In the table above, the recovery performance of different bank branches operating in Daudkandi upazila is assessed in terms of the ratio of outstanding loans and loan recoveries to the staffing of each branch. Over the period under investigation, both recovery-staff ratios and outstandings-staff ratios for all bank branches in Daudkandi upazila as a whole have shown rising trends. However, although the cumulative recovery ratios for all BKB branches taken together exceed those for the NCB branches, the ratios of outstandings-to-staff are also significantly higher for BKB. Nevertheless, while the ratio of loan recoveries to staff for all formal sector banks in Daudkandi upazila is relatively stable, except for mild fluctuation, the ratio of outstanding loans to staff has been rising rather sharply. As can be seen in the table, BKB and NCB branches located outside Daudkandi headquarters show higher loan recovery ratios. On the other hand, sharp increase in outstandings has mainly occurred at the semi-urban Daudkandi branches. Once again, the Daudkandi and Elliotganj branches of Sonali Bank are the main contributors to the rise in outstandings among the NCBs, while Janata Bank-Batakandi branch is the main contributor to NCB loan recoveries. Most other NCB branches show low levels for both credit outstandings and recoveries. Among

BKB branches, the best recovery performance is shown by the BKB-Daudkandi while the other BKB branches lag far behind. In terms of loan outstandings however, the BKB branches are more evenly balanced.

The most remarkable observation from the above table pertains to the higher recovery-staff ratios displayed by the BKB branches compared to the NCBs. BKB functions as a specialised development bank, unlike the NCBs which hold huge deposits and are also heavily involved in commercial banking operations. Although the staffing needs of the NCB branches are consequently high, a considerable part of staff activity is also devoted to accounting and inter-bank transactions. It is therefore seen that BKB, with lower staff commitments per branch, is able to generate better rates of loan recovery and has therefore been able to accelerate its disbursements of new credit. Furthermore, since BKB credit is exclusively directed to the agricultural sector, this also shows that the recovery rates for agricultural loans in Daudkandi upazila are satisfactorily high. On the other hand, although deposit mobilisation by the NCBs is extraordinarily high, the lower recovery-to-staff ratios observed for the NCB branches appear to relate to non-agricultural credit operations, as well as poor loan management and the absence of incentives for the issuance of good loans to the agricultural sector. To some extent, the present orientation of NCB banking is also the product of government direction and political intervention. Because of periodic rescheduling of agricultural loan repayments, the ratio of outstanding BKB loans to branch staff is high and is rising. BKB is also required to provide high-risk loans to priority sectors and to politically influential borrowers. Political parties in Bangladesh have also been known to commit themselves to writing-off outstanding agricultural debt. Because of the resultant expectation, farmers have been known to extent loan repayment schedules, resulting in cumulative increase in loans. The NCBs and BKB in Daudkandi upazila are no exception.

Table 7.10: Correlation Analysis of Formal Bank Staffing Patterns in Daudkandi Upazila

DETERMINANT		CORRELATION COEFFICIENTS				
Banking Service		1995	1996	1997	1998	1999
Staffing	All Banks	0.403	0.360	0.284	0.378	0.363
relative to	BKB Branches	-0.769	-0.713	-0.795	-0.634	-0.578
Branch Accounts	NCB Branches	0.907	0.868	0.827	0.847	0.822
Staffing	All Banks	0.720	0.682	0.515	0.658	0.617
relative to	BKB Branches	0.160	-0.003	-0.284	-0.018	0.032
Savings Accounts	NCB Branches	0.895	0.857	0.795	0.814	0.773
Staffing	All Banks	0.301	0.276	0.337	0.316	0.574
relative to	BKB Branches	-0.751	-0.203	-0.468	-0.237	0.201
Current Accounts	NCB Branches	0.423	0.339	0.414	0.361	0.651
DETERMINANT		CORRELATION COEFFICIENTS				
Banking Turnover		1995	1996	1997	1998	1999
Staffing	All Banks	0.803	0.862	0.851	0.829	0.780
relative to	BKB Branches	0.999	0.998	0.999	0.996	0.994
Branch Deposits	NCB Branches	0.867	0.916	0.892	0.895	0.849
Staffing	All Banks	0.701	0.729	0.776	0.770	0.391
relative to	BKB Branches	0.999	0.997	1.000	0.998	0.991
Demand Deposits	NCB Branches	0.793	0.804	0.846	0.837	0.325
Staffing	All Banks	0.555	0.588	0.531	0.530	0.822
relative to	BKB Branches	0.999	0.997	0.999	0.995	0.995
Term Deposits	NCB Branches	0.479	0.500	0.432	0.459	0.895

7.5 Service Turnover and Bank Staffing in Daudkandi Upazila: Correlation Analysis

In view of the dispersal of BKB and NCB branches across Daudkandi upazila and the consequent variation in branch staffing patterns, it is relevant to examine whether the bank-wise and branch-wise staff positions are related to branch workloads and to financial performances. Hypothetically, the number of banking staff assigned to each branch may bear a fairly strong relation to the workload handled by the branch. In such a case, more staff would be assigned in ratio-terms to the number of customers served by the branch. On the other hand, staff assignments may be related to the volume of financial transactions handled by the branch, and consequently to the profitability of the branch. In this case, the assignment would bear a stronger relation to the magnitude of deposits held by the branch. A vital role in differentiating between the two criteria is played by the average size of deposits, which has been seen to vary critically between the BKB and NCB branches in Daudkandi upazila. A rural branch with a sizeable number of smallholder

accounts would not necessarily be highly profitable in banking terms, despite serving a large number of customers.

A correlation analysis has been undertaken to assess the relationship between branch staffing patterns and the operations of formal sector banks located at Daudkandi upazila, in order to understand whether staffing is determined by the potential number or potential size of branch transactions. The correlation patterns above indicate that banking staff assignments in Daudkandi upazila bear a much stronger relation to the volume of deposits held by a branch and its potential financial turnover, than to the number of accounts handled by it. Differences in the strength of the correlation relationship indicate that more staff tend to be assigned to branches which handle a large volume of current demand deposits. Other than in 1999, the order of correlation between staffing and current deposits remains stable. On the other hand, except in 1999 when term deposits rose from increased rural savings following a good post-flood harvest, staffing is less correlated to the volume of term deposits. In comparative terms, the number of customer accounts handled by the banking system generally have little influence on staffing positions, except in the case of savings accounts.

While these are general patterns for all formal-sector banks taken together, considerable variation is observed between the corresponding correlation patterns for BKB and the NCBs. In terms of deposits and potential financial turnover, the relevant correlation with staffing patterns is much stronger for BKB than for the NCBs. NCB branch staffing is observed to bear a fairly strong relationship to the number of savings accounts, which is nearly absent for BKB. Nevertheless, the relationship of branch staffing to deposit size is stronger for BKB. The implication is that NCB branch-staff in Daudkandi upazila participate more actively in mobilising local savings than in the release of credit. The converse is true for BKB, which often issues credit in advance of equivalent local deposit mobilisation. As a result, the correlations of BKB staffing with the number of branch accounts are often seen to be negative.

7.6 Problems of RFMs in the Study Region : Institutional Analysis

Overall conditions within the rural credit sector in Daudkandi upazila do not match up to the expectations arising from agricultural credit policy pronouncements in Bangladesh. The credit flow to agriculture is still meagre, and is mostly directed towards short-term crop financing needs rather than to medium and long-term rural asset creation and improvement of agricultural technology. Deposit mobilisation outweighs credit outflow from the formal banking system, leading to the net transfer of rural savings to other places and uses. A major role in such net transfers is played by the NCBs, which have a large branch network and asset-base, but do not play an adequate role in the rural credit market. Credit-deposit ratios for the NCBs are consequently low. The BKB is a specialised agricultural credit institution mandated to look after the specific credit needs of the farming population. Although in Daudkandi upazila, BKB shows better performance compared to the NCBs, the magnitude of financial resources at its command is relatively low.

The NCBs on the other hand, have greater access to resources but do not perform effectively. While the deposit operations of the NCBs are directed towards mobilising savings from rural areas, their release of credit is directed towards the non-agricultural sector located in urban and semi-urban areas. Consequently, staffing and personnel performance for the NCBs is better at urban branches. Even then, the higher magnitude of accounts and deposits collectively handled by all NCBs imposes higher accounting needs, so that less attention can be given by NCB staff to local credit development.

7.7 Results from Bankers' Opinion Surveys

No analysis of institutional credit through banks would be complete, if appraisal was not also made of the difficulties encountered by branch managers and supervisory officials who are in charge of the field operation of rural credit programmes. In the course of field investigations, an attempt was therefore made to obtain first-hand information on the operational aspects of agricultural financing. Responses from bank officers and supervisory and other staff of the different bank branches who are mainly concerned with the operation of agricultural credit programmes in Daudkandi upazila were collected through a structured questionnaire. Separate questionnaires were also addressed to the controlling officers of these banks at divisional level to elicit responses from them. The questionnaires pertained to bankers' perceptions on the prudential norms of agricultural credit, the credit-worthiness of borrowers and other related matters.

Selection of respondents for the bankers' opinion survey was made in multiple stages from a sample drawn from bank personnel at all officiating levels involved in providing banking services to Daudkandi upazila, irrespective of their physical place of posting. In order to ensure adequate coverage of the policy stages and operational stages of rural credit operations, the sampling universe thus included bank officials with postings ranging from regional and divisional offices to the headquarters and rural branches of the respective banks. Special emphasis was laid during the selection on bank officials who were directly involved in agricultural credit operations. Thus, 30 bank personnel were finally selected for direct interviews. Among the respondents, 9 officers were serving divisional and regional bank offices located at the Comilla district headquarters, 8 officers were branch managers at BKB and NCB branches located within Daudkandi upazila and 3 were field officers serving in a supervisory capacity at the BKB and the NCB branches of the upazila. Another 10 respondents were drawn from other bank personnel with service-experience of more than 10 years who were currently officiating as supervisors and field assistants in agricultural credit operations. Since the divisional offices of the NCBs were located outside the physical boundaries of Comilla district at Chittagong, divisional officers from the NCBs did not enter the sample. All respondents selected for interviews were closely involved with agricultural credit operations in Daudkandi upazila at policy and field stages. Opinions sought from them covered current bank policies, funding and personnel inadequacies, potential strategies for improving agricultural credit operations, as well as general information on credit administration and management which reflected their attitudes towards agricultural credit operations by the concerned banks.

Most bank officials presently posted in the study area had served at different positions in branches serving the credit needs of several other places within Bangladesh. However, while the managerial and supervisory personnel were directly concerned with branch-level credit operations in their present place of posting and accordingly exercised local discretion within prescribed credit limits, the divisional officers simultaneously looked after credit operations of the concerned bank (BKB) in several districts and exercised discretion in cases where loan applications for higher amounts were referred up to the division by the concerned branch. The relationship between bankers and borrowers tended to be more direct in the case of branch officials, and was indirect in the case of the divisional officers. Nevertheless, because of transferability of bank officials within their cadre, personnel upto mid-level might interchangeably serve divisional offices and branches at the discretion of the bank managements.

7.7.1 Procedural Norms

Generally, any citizen of Bangladesh is eligible to draw credit from any bank functioning in Bangladesh. Such a borrower must however have credit-worthiness to justify his repayment capacity. It is also expected that the applicant would have a good reputation relating to his financial dealings. Even though the banks have laid out specific loan procedures for sanctioning approval to different types of loans, the practical working experience and attitudes of loan-sanctioning officers can visibly influence loan approval activity. Decision-making personnel at the bank branches also exercise some discretionary power. As a result, they have individual attitudes about the desirable characteristics of borrowers and have responded accordingly. In order to ascertain the prime considerations that influence officials of formal-sector banks in sanctioning or disapproving loans, relevant prudential indicators like the collateral sufficiency and solvency of loan applicants, were just positioned with personal indicators like the average service experience of the responding officials, the social positioning of loan applicants, and their personal acquaintance with bank officials, etc. As visible, some of these were procedural indicators common to all banks, while the others were administrative indicators relating to the discretionary powers of the officials. The responses of bank officials at different levels are laid out below.

Responses from bank officials in the three categories were accordingly seen to differ regarding the most relevant criteria for loan approval. Among the different loan-approval criteria offered to them, officials in all service categories identified elite positioning of the loan applicant as the single most important determinant for the approval of loans. Collateral sufficiency was the second most important factor for obtaining sanction for loans. This was equally true for BKB and for the NCBs. However, while personal acquaintance of the borrower with the banker and knowledge about borrower solvency were also reported to be important for loan approval by BKB officials, these were absent in the responses of NCB officers. In the

NCBs on the other hand, unspecified other factors were reported as the third most important determinant for loan approval. Only divisional officers were found to have well-distributed responses over all loan approval factors. Responses from managerial and supervisory officials who were closer to field-level agricultural credit operations were clustered around the social positioning and collateral sufficiency of the borrower and generally ignored the other criteria.

Table 7.11: Approval Criteria while Sanctioning Rural Credit

Administrative Level	Av. Banking Experience	Elite Position of Borrower	Collateral Sufficiency	Borrower Solvency	Personal Acquaintance	Other Criteria
Divisional Officers	19.9	9	5	2	3	1
	% Affirmative	90.0	50.0	20.0	30.0	10.0
Managerial Officers	20.4	10	3	0	0	1
	% Affirmative	100.0	30.0	0.0	0.0	10.0
Supervisory Officials	15.6	10	4	0	0	0
	% Affirmative	100.0	40.0	0.0	0.0	0.0
All Personnel	18.6	29	12	2	3	2
	% Affirmative	96.7	40.0	6.7	10.0	6.7
BKB Personnel	19.4	17	11	2	3	1
	% Affirmative	94.4	61.1	11.1	16.7	5.6
NCB Personnel	17.4	12	1	0	0	1
	% Affirmative	100.0	8.3	0.0	0.0	8.3
Divisional Officers	19.9	9	5	2	3	1
Bagichagaon	% Affirmative	90.0	50.0	20.0	30.0	10.0
Branch Personnel	18.0	20	7	0	0	1
Daudkandi	% Affirmative	100.0	35.0	0.0	0.0	5.0

Source: *Field Survey of Bankers' Opinions*

It was seen that, apart from the usual prudential criteria commonly followed by all banks, individual discretionary and administrative attitudes among bank personnel played an equally important part in the loan-sanctioning decision. Responses on social positioning, credit-worthiness and personal acquaintance from field-level officials appeared to be tied, so that a banker having personal acquaintance with local borrowers was likely to be more informed about their credit-worthiness. At the divisional level, the personal acquaintance factor was largely absent. The divisional officers thus appeared to be more concerned about the fulfilment of all procedural norms before sanctioning loans. On the other hand, the field-level officials appeared to handle agricultural credit operations from practical experience, thus exercising greater discretion.

Although the Government of Bangladesh has been making continuous efforts to extend adequate credit cover to the rural poor, the credit-flows from institutional sources has not increased much. Very often, formal-sector banks have not been able to disburse targeted credit in the annually earmarked amounts, even though there is a huge demand for rural credit in the country. It is also often reported that a large proportion of loan applications are commonly rejected by banks. Traditionally, formal-sector banks supply credit to borrowers under binding prudential procedures. Bank personnel are required to reject agricultural loan applications in any case of procedural deficiency, lack of collateral and unclear ownership title to agricultural land. A loan application can also be rejected if the applicant is found to have defaulted on loan repayments to any bank or financial institution or has otherwise acquired a bad reputation in financial dealings. The bankers' survey sought to ascertain the individual importance of each of these criteria in deciding the rejection of loans by the formal-sector banks. Other discretionary criteria, including the lack of personal acquaintance, general banker dissatisfaction with the applicant, etc. were also included in order to ascertain the personal attitudes of bankers. The response patterns have been tabulated below.

The main criteria for loan rejection commonly cited by all bank officials in all banks is the prior default record of the applicant. This is accompanied by general banker dissatisfaction with the applicant and the applicant's lack of adequate collateral. However, differences in proportional responses exist between bankers in different categories. It is revealed for example that bankers' dissatisfaction, lack of collateral and prior default record are the main criteria in order of importance for loan rejection at the BKB branches. In case of the NCBs, prior default record emerges as the single most determining factor for loan rejection, followed at some distance by procedural deficiency. The other criteria have marginal importance. The

strong responses of divisional officers are also clustered around bankers' dissatisfaction, lack of collateral and unclear title. Prior default record of the borrower stands fourth in order of importance. In contrast, the responses of branch-level officials mainly focus on prior default record and procedural deficiencies as the main reasons why most loan applications are rejected. Not surprisingly, the responses of branch managers and supervisory officials who operate at field level are similar in identifying the factors behind loan rejection.

Table 7.12: Usual Criteria for Rejecting Rural Credit Applications

Administrative Level	Lack of Collateral	Unclear Title	Procedural Deficiency	Prior Default Record	Applicant Unknown	Banker Dissatisfaction	Other Reasons
Divisional Officers	6	6	2	5	1	7	3
% Affirmative	60.0	60.0	20.0	50.0	10.0	70.0	30.0
Managerial Officers	3	1	4	6	0	3	3
% Affirmative	30.0	10.0	40.0	60.0	0.0	30.0	30.0
Supervisory Officials	3	1	4	7	1	3	2
% Affirmative	30.0	10.0	40.0	70.0	10.0	30.0	20.0
All Personnel	12	8	10	18	2	13	8
% Affirmative	40.0	26.7	33.3	60.0	6.7	43.3	26.7
BKB Personnel	11	6	7	9	2	11	7
% Affirmative	61.1	33.3	38.9	50.0	11.1	61.1	38.9
NCB Personnel	1	2	3	9	0	2	1
% Affirmative	8.3	16.7	25.0	75.0	0.0	16.7	8.3
Divisional Officers	6	6	2	5	1	7	3
% Affirmative	60.0	60.0	20.0	50.0	10.0	70.0	30.0
Branch Personnel	6	2	8	13	1	6	5
% Affirmative	30.0	10.0	40.0	65.0	5.0	30.0	25.0

Source: *Field Survey of Bankers' Opinions*

The information so gathered on loan approval and rejection strongly suggests that, instead of giving much importance to purely economic and prudential criteria, bank officials rely on personal perceptions while appraising a loan proposal. There is not much discernible difference in the refusal policy followed by different banks. The evolved loan procedures of all banks give considerable local flexibility to branch managers regarding both the scale of finance made available and the rejection of small loan proposals. This has an adverse impact on the extension of small agricultural loans. Since the small borrowers are drawn from small and marginal farmers who comprise the relatively weaker section in rural society, their chances of being deprived of formal institutional credit is accordingly higher.

As per the prevailing institutional credit norms in Bangladesh, short-term crop loans are to be granted to the borrowers by the banks on pledge or hypothecation of crops and goods, and also against personal surety. Since the latter norm is less secure, this causes formal-sector banks to hesitate in extending unsecured short-term loans. Medium and long-term loans are granted against collateral security in the form of lands, buildings, bank guarantees, fixed deposits, farm machinery, etc., which are adjudged by the bankers to be better secured than short-term crop credit. Hesitation on the part of the banks to commit their financial resources to the support of the rural sector is one of the basic reasons for inadequate credit-flow to that sector. This hesitation is also due to the fact that credit support to other non-agricultural sectors is financially profitable to the banks. Since the banks can also invest resources in the industrial and commercial sectors, where investment are less risky and more cost-effective, extra investment effort is not forthcoming on their part for the rural sector. To understand how these banking attitudes affect the rural credit programme, bank officials were asked for their comments on the high industrial credit preference of banks in terms of comparative prudential criteria like lower credit risks, lower transactions and service costs, as well as administrative criteria like easier loan supervision and local political pressures.

Clearly, the potential for easy supervision of loans is the most attractive reason for the high industrial credit preference of banks. Such an opinion exists in common among divisional and branch-level officers in all banks. Political pressures for sanctioning industrial credit are commonly identified as the second most important factor. However, officers from the NCBs attach less importance to the political factor and more importance to criteria relating to the administration of industrial loans, such as easier supervision and lower service costs. As an agricultural bank, BKB does not participate directly in industrial credit outside agro industry. Nevertheless, bank officials with the BKB regard political pressures to have an important bearing on industrial credit preference and also perceive industrial credit to operate at lower risk. Officials in all

categories in the NCBs tactfully restrict the identification of political factors, even though the NCBs participate directly in the industrial credit sector. Bank officers at divisional level strongly perceive industrial credit as being easier to supervise and being subject to lower credit risk. This obviously reflects current bank policies. While managerial and supervisory personnel concur on the advantages of easier supervision and the presence of political pressures, they do not perceive industrial credit as being subject to lower credit risks.

Table 7.13: Reasons for High Industrial Credit Preference of Banks

Administrative Level	Lower Risk	Lower Service Costs	Political Pressures	Easier Supervision
Divisional Officers	5	1	3	7
% Affirmative	50.0	10.0	30.0	70.0
Managerial Officers	1	1	3	5
% Affirmative	10.0	10.0	30.0	50.0
Supervisory Officials	0	2	5	5
% Affirmative	0.0	20.0	50.0	50.0
All Personnel	6	4	11	17
% Affirmative	20.0	13.3	36.7	56.7
BKB Personnel	6	1	8	9
% Affirmative	33.3	5.6	44.4	50.0
NCB Personnel	0	3	3	8
% Affirmative	0.0	25.0	25.0	66.7
Divisional Officers	5	1	3	7
% Affirmative	50.0	10.0	30.0	70.0
Branch Personnel	1	3	8	10
% Affirmative	5.0	15.0	40.0	50.0

Source: Field Survey of Bankers' Opinions

7.7.2 Rural Lending Risks

Growth in the volume of rural credit is essential for increasing agricultural production and for the diversification of rural economic activity. However the progress made by Daudkandi upazila in this direction has been seen to be inadequate. The bankers' survey sought to establish whether this resulted from financial inadequacy in the banks and the lack of incentives to commit resources to agricultural lending, or from low awareness levels among rural borrowers. It was also deemed possible that the banks might not be willing to invest in rural areas due to high service costs or collateral adequacies. Thus, officials from formal-sector banks in Daudkandi region were asked to analyse the reasons for poor rural credit performance in the light of the above hypotheses. The responses received are outlined below.

Table 7.14: Reasons for Low Rural Credit Preference of Banks

Administrative Level	Lack of Information	Lack of Collateral	Fund Insufficiency	High Service Costs
Divisional Officers	5	8	1	4
% Affirmative	50.0	80.0	10.0	40.0
Managerial Officers	6	5	3	1
% Affirmative	60.0	50.0	30.0	10.0
Supervisory Officials	7	7	2	0
% Affirmative	70.0	70.0	20.0	0.0
All Personnel	18	20	6	5
% Affirmative	60.0	66.7	20.0	16.7
BKB Personnel	10	13	3	5
% Affirmative	55.6	72.2	16.7	27.8
NCB Personnel	8	7	3	0
% Affirmative	66.7	58.3	25.0	0.0
Divisional Officers	5	8	1	4
% Affirmative	50.0	80.0	10.0	40.0
Branch Personnel	13	12	5	1
% Affirmative	65.0	60.0	25.0	5.0

Source: Field Survey of Bankers' Opinions

The bank officials commonly identify lack of information and lack of collateral among borrowers as the principal reasons for low preference for rural credit among the banks serving the study area. Very few officials attribute low rural credit preference to fund insufficiency or high service costs. While both BKB and NCB officials agree on this, the BKB personnel attach more importance to collateral inadequacy and the NCB personnel attach more importance to low awareness of borrowers. Only divisional officers think that high service costs are also a cause for low rural credit preference. More branch personnel however think that fund insufficiency has a role to play in low rural credit performance. The responses received from the bank officials offered a partial explanation for poor release of medium and long-term credit to the agricultural sector, since banks loans in these categories are subject to collateral security. The security-oriented agricultural credit policy of the banks has a dampening impact on rural borrowers, especially among small and marginal farmers who find it difficult to offer the required collateral to the banks. In the case of short-term crop loans where collateral was not required, bank officials feel that awareness among borrowers is too low to improve loan offtake. A change in rural credit policy might therefore be desirable where the banks could sanction loans on the basis of credit-worthiness and repayment-records of the borrowers rather than on the basis of collateral security.

Poor rural debt recovery and the proliferation of non-performing assets [NPAs] have been identified in various sources in the literature as major problems afflicting rural credit in developing countries. In Bangladesh, the overdue on rural loans, especially agricultural loans, have reached such an alarming proportion that formal-sector banks in the country often face serious liquidity problems. The general trend of loan recoveries was earlier noted to have worsened. Since many operational factors could conceivably contribute to poor recovery of rural debt, including pressures for meeting current loan targets and present weaknesses in the system for enforcing legal recovery, lack of borrower-incentives for prompt loan repayment, as well as frequent debt writeoffs by the government. The survey attempted to assess the importance of these reasons from the responses given by bank officials.

Table 7.15: Reasons for Poor Rural Debt Recovery

Administrative Level	Possible Debt Writeoff	Pressure of Bank Targets	Legal Weaknesses	No Repayment Incentive
Divisional Officers	8	1	6	2
% Affirmative	80.0	10.0	60.0	20.0
Managerial Officers	8	0	6	1
% Affirmative	80.0	0.0	60.0	10.0
Supervisory Officials	7	1	4	4
% Affirmative	70.0	10.0	40.0	40.0
All Personnel	23	2	16	7
% Affirmative	76.7	6.7	53.3	23.3
BKB Personnel	15	2	11	2
% Affirmative	83.3	11.1	61.1	11.1
NCB Personnel	8	0	5	5
% Affirmative	66.7	0.0	41.7	41.7
Divisional Officers	8	1	6	2
% Affirmative	80.0	10.0	60.0	20.0
Branch Personnel	15	1	10	5
% Affirmative	75.0	5.0	50.0	25.0

Source: *Field Survey of Bankers' Opinions*

As identified by the bank officials, the two most important reasons for poor rural debt recovery by the banks are borrower reluctance to meet repayment schedules because of the expectation of future debt write-off as well as weaknesses in the legal system that would allow the banks to enforce recovery. However, while BKB officials give more weight to these two reasons, the responses from NCB personnel are more spread out. A smaller proportion of bank officials, mainly from the NCBs, thus also believe that the absence of repayment incentives compounds the problem. Only BKB personnel regard the pressure for meeting credit targets as being partially responsible for the poor recovery position. No significant differences of opinion exist in this respect between divisional and branch-level officials. It thus appears that the main causes for poor debt recovery are rooted outside the direct sphere of banking system. Most bank officials concur that direct political intervention by the Government in the rural credit sector through frequent mass

loan-disbursement programmes and debt writeoffs has been the prominent reason. Because of legal weaknesses, neither the banks nor the concerned bank personnel have legal authority to seek redressal from loan-defaulters. It appears that under the presently existing framework for rural credit in Bangladesh, a system has developed under which rural borrowers are provided no incentives for loan repayment and face no disincentives for non-repayment.*

Existing credit sources in Bangladesh presently appear to be inadequate to meet the credit needs of farmers. Thus the total amount of rural credit currently released by financial institutions is far short of the actual requirements. Several studies have already noted that the institutions which supply credit to the agricultural sector are also saddled with several operational drawbacks and personnel deficiencies, including the lack of motivation, which combined to lower the efficiency of rural banking services. Nevertheless, the banking system normally attributes poor credit performance to the general deficiency of rural credit demand and the fact that many rural loan applicants are still unable to fulfil the procedural requirements for receiving agricultural credit. In order to identify the true nature of the problems faced by formal-sector banks in providing services to the agricultural sector, opinions were sought from the bankers on the relative influence exercised on institutional credit by current operational problems like low loan demand, low fund availability, frequent loan-default and low interest realisation. Opinions were also sought, in addition, on the state of motivation of bank personnel and the local political pressures faced by them when dealing with rural credit.

Table 7.16: Problems in Banking for Agricultural Credit Markets

Administrative Level	Low Loan Demand	Low Fund Availability	Low Personnel	Unmotivated Realisation	Low Interest Pressures	Local Political Defaults	Frequent
Divisional Officers	3	1	5	1	5	6	
% Affirmative	30.0	10.0	50.0	10.0	50.0	60.0	
Managerial Officers	0	0	8	0	7	7	
% Affirmative	0.0	0.0	80.0	0.0	70.0	70.0	
Supervisory Personnel	1	0	7	0	6	5	
% Affirmative	10.0	0.0	70.0	0.0	60.0	50.0	
All Personnel	4	1	20	1	18	18	
% Affirmative	13.3	3.3	66.7	3.3	60.0	60.0	
BKB Personnel	3	1	13	1	13	12	
% Affirmative	16.7	5.6	72.2	5.6	72.2	66.7	
NCB Personnel	1	0	7	0	5	6	
% Affirmative	8.3	0.0	58.3	0.0	41.7	50.0	
Divisional Officers	3	1	5	1	5	6	
% Affirmative	30.0	10.0	50.0	10.0	50.0	60.0	
Branch Personnel	1	0	15	0	13	12	
% Affirmative	5.0	0.0	75.0	0.0	65.0	60.0	

Source: Field Survey of Bankers' Opinions

While considering the present problems that affect the disbursement of agricultural credit in Daudkandi upazila, most bankers agree that institutional banking problems overshadow the actual operational side of the credit market. The bank officials accordingly identify the lack of personnel motivation as the major institutional problem within the banking system, and the existence of local political pressure as the major external problem. Hence, the high frequency of loan default is the only major operational problem that they currently face. Both BKB and NCB officials respond similarly, although the responses of BKB personnel are stronger than those of the NCB personnel. These opinions are more commonly met at branch level, and are less prevalent among divisional level officers. The high order of responses from BKB and branch level officials is understandable, since they handle agricultural credit operations directly and are in close contact with the institutional problems. On the other hand, no banker believes that operational problems such as low fund availability or low loan demand have any bearing on the present functioning of agricultural credit markets. This would show that enough scope exists currently for improving rural banking services in Bangladesh, even with the present levels of credit supply and demand.

7.7.3 Potential Solutions

In view of this potential and their personal working experience, the respondent bank officials were also asked to provide suggestions on how rural banking services might be improved. The possible areas for

administrative reform and improvement which they were asked to assess included tighter personnel supervision and better staff deployment, closer monitoring of funds, as well as improved banking regulation and greater autonomy of branches in the long term. The responses received are tabulated below.

Table 7.17: Possible Areas for Improving Rural Banking Services

Administrative Level	Branch Autonomy	Improved Regulation	Better Staff Deployment	Tighter Supervision	Closer Fund Monitoring
Divisional Officers	5	3	9	7	4
% Affirmative	50.0	30.0	90.0	70.0	40.0
Managerial Officers	5	4	9	7	1
% Affirmative	50.0	40.0	90.0	70.0	10.0
Supervisory Officials	6	6	8	6	3
% Affirmative	60.0	60.0	80.0	60.0	30.0
All Personnel	16	13	26	20	8
% Affirmative	53.3	43.3	86.7	66.7	26.7
BKB Personnel	13	11	17	13	4
% Affirmative	72.2	61.1	94.4	72.2	22.2
NCB Personnel	3	2	9	7	4
% Affirmative	25.0	16.7	75.0	58.3	33.3
Divisional Officers	5	3	9	7	4
% Affirmative	50.0	30.0	90.0	70.0	40.0
Branch Personnel	11	10	17	13	4
% Affirmative	55.0	50.0	85.0	65.0	20.0

Source: Field Survey of Bankers' Opinions

The responses received were well-distributed over the different categories of operational and institutional improvements. Most bankers connected with agricultural credit operations give highest importance to institutional improvements which can be implemented administratively. The need for better staff deployment is widely accepted by nearly all bank officials, and a large proportion among them also concur on the need for tighter supervision. The need for greater operational autonomy at the branches is also acknowledged, both among divisional and branch personnel. However, few managerial officers believe that closer fund monitoring is necessary, even though there is fairly wide agreement on this at both divisional and supervisory level. General improvement in the regulations governing agricultural credit is also considered necessary by a large proportion of the bankers at branch and supervisory level. Such improvements would involve certain policy issues and would therefore have to be implemented both at bank head-offices and at the policy-planning stage by the Government. Even though the responses of BKB and NCB bankers and those of bankers at branch and divisional levels maintain similar patterns, the need for improved banking regulation and branch autonomy is more widely felt by BKB officials than by NCB officials.

7.8 Problems of RFMs in the Study Region: Bankers' Perceptions

The bankers' survey revealed credit-eligibility norms and various procedural factors as being critical to the approval or rejection of rural loan-applications by the formal-sector banks. Such problems are common to both BKB and NCB branches. Bankers in all service categories identify collateral sufficiency of the loan applicant closely with his social status. Thus, apart from usual prudential criteria, the individual attitudes of bank officials play an important part in the issuance of rural credit. Identification of credit-worthiness with social positioning and personal acquaintance with the borrower is found to be particularly high among field-level banking personnel. Operational difficulties arising from political interference, pressure for meeting credit targets, legal weaknesses and frequent debt-writeoffs are commonly encountered by both BKB and the NCBs.

From the opinions expressed by bank officials in Daudkandi upazila and Comilla and the prior analysis of the agricultural credit situation in the study region, it appears that present banking services have not made much headway in meeting agricultural credit demands. Because of inconsistent preferences and treatment by bank personnel, the major benefits of agricultural credit programmes accrue only to elite and affluent sections of the rural population. Small and marginal farmers thus do not get easy credit access to formal-sector banks due to the rigid attitudes of bank officials. Since adverse decisions on loan applications are often taken in the light of bankers' attitudes and discretion, a question arises as to whether bankers are fair in using

their discretionary power. While local discretion may have a good impact on some credit operations, it is reported widely that this also generates unfair practices and unsympathetic attitudes on the part of bank officials. Very often, discretionary loan-sanction can also debar small and marginal farmers from access to institutional credit, in spite of supportive policies, specially for crop loans, adopted by the Government and Bangladesh Bank.

***Note**

*Rahman[1990] identifies similar reasons, observing that a defaulting habit has grown among borrowers because frequent writing-off of interest and loan principal by the Government has created the impression that such scope would also be available in the foreseeable future. The Planning Advisor's Task Force [MOP, 1991] has also pointed out that the politically-motivated tendency for 'loan forgiveness' and 'interest remissions encourage delinquent behaviour, increasing the volume of overdues on loans and consequently squeezing the refinancing capability of lending institutions.