

**RURAL FINANCE IN AGRICULTURAL SECTOR OF BANGLADESH:**  
**PRESENT STATUS AND FUTURE DEVELOPMENT STRATEGY FOR FORMAL SECTOR BANKS**

*Thesis submitted in partial fulfilment of requirements  
for the Degree of Doctor of Philosophy  
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**CERTIFICATE**

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## PREFACE

A dynamic rural economy that is based on both agricultural and non-agricultural activities requires adequate institutional and financial support. Since agriculture has continued to play a key role in the economic development of Bangladesh, provision of credit to agriculture operation is a prime concern of the Government of Bangladesh. The farming population of the country requires adequate agricultural credit to finance the adoption of advanced agricultural technology. As farming in Bangladesh is mostly carried out at subsistence level, savings generation among farmers is still very low. The farmers thus have to obtain loans from institutional or private sources in order to carry out farming operations. Credit from private sources is an expensive alternative for the farmers in view of heavy interest charges on the borrowed principal. Other conditionalities that are an integral part of the credit facility extended by private sources also tend to be unfavourable to the farmers. Thus institutional finance becomes a prime necessity in order to cater to the agricultural credit needs of the country. Since the attainment of independence in 1971, the Government of Bangladesh has consistently endeavoured to meet the growing credit requirements of farmers through credit from the financial institutions. Amongst these institutions, the formal sector banks are the most important sources for rural finance in the context of agricultural development in Bangladesh.

The primary objective of the present study is to examine the role and significance of the formal sector banks in the present rural economic context of Bangladesh. The issues for investigation include the disbursements of agricultural finance made by the banking institutions, especially to small and marginal farmers, and recovery of loans against this, as well as an evaluation of the institutional credit impact on agricultural production. The importance of agriculture and agricultural credit in the development of Bangladesh has been discussed in the first two chapters of the study. The banking history of Bangladesh and the present structure of the banking system has been outlined in chapter III. An examination of the disbursements and recoveries of loans and other related aspects against the projected requirement of credit for agriculture, and the performance of agricultural credit agencies in this respect has been undertaken in the two subsequent chapters. Chapter VI provides an outline of the study region where the empirical investigation was carried out. The results from the empirical study of the agricultural credit activities of formal sector banks in the study region, including the results of the bankers' survey and farmers' credit survey have been analysed in chapters VII and VIII. The final chapter collates the findings of the study and offers policy suggestions to improve the rural credit situation in Bangladesh.

The study reveals that although there has been expansion in the coverage of the rural banking sector, very little has been achieved in terms of the extension of agricultural credit to the rural areas. Only the better-off farmers, who constitute a small minority among the rural households, receive the bulk of institutional credit. The quantum of loan overdues has been rising and there has also been an increasing tendency to default on debt repayments. With the coverage of institutional credit being inadequate, farmers have to resort to non-institutional sources of credit which still constitute the major portion of credit advances to the rural areas.

The study is thus able to make several useful suggestions which can improve the efficacy of institutional credit to a great extent. Amongst various other suggestions, it recommends the simplification of procedures for loan disbursement to farmers and effective loan supervision and monitoring at the field level, the adoption of the creditworthiness of farmers as a criterion for loan sanction instead lending against 'security', and the earmarking of specific amounts of credit for distribution to small and marginal farmers. It also emphasises that credit policy measures should be focused towards more efficient handling of credit by both borrowers and lenders.

It is sincerely felt that the information and analyses presented in the study will provide useful guidelines to planners and policy-makers who may seek to evolve appropriate strategies for accelerating the growth of agricultural credit operations in Bangladesh. It is also hoped that the findings of the empirical study will stimulate further interest for research in this important field.

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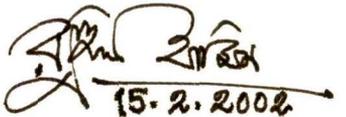
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15.2.2002

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## ABBREVIATIONS USED IN THE THESIS

AB	-	Agrani Bank
ABP	-	Agricultural Bank of Pakistan
ACD	-	Agricultural Credit Department
ADB	-	Agricultural Development Bank
ADBB	-	Agricultural Development Bank of Bangladesh
ADBP	-	Agricultural Development Bank of Pakistan
ADFC	-	Agricultural Development Finance Corporation
AGB	-	Agricultural Bank
ALA	-	Agriculturists Loans Act
APRACA	-	Asia Pacific Rural and Agricultural Credit Association
ASA	-	Association for Social Advancement
BAAC	-	Bank of Agriculture and Agricultural Co-operatives, Thailand
BADC	-	Bangladesh Agricultural Development Corporation
BARD	-	Bangladesh Academy for Rural Development
BASIC	-	Bank of Small Industries and Commerce
BB	-	Bangladesh Bank
BBS	-	Bangladesh Bureau of Statistics
BIBM	-	Bangladesh Institute of Bank Management
BIDS	-	Bangladesh Institute of Development Studies
BKB	-	Bangladesh Krishi Bank
BRAC	-	Bangladesh Rural Advancement Committee
BRDB	-	Bangladesh Rural Development Board
BRI	-	Bank Rakayat Indonesia
BSB	-	Bangladesh Shilpa Bank
BSBL	-	Bangladesh Samabaya Bank Limited
BSRS	-	Bangladesh Shilpa Rin Sangstha
CDF	-	Credit Development Forum
DC	-	Deputy Commissioner
DTW	-	Deep Tubewell
EMBL	-	Eastern Mercantile Bank Ltd
FSRP	-	Financial Sector Reform Programme
FY	-	Fiscal Year
GB	-	Grameen Bank
GDP	-	Gross Domestic Product
GO	-	Government Organization
GOB	-	Government of Bangladesh
HYV	-	High Yielding Variety
IDA	-	International Development Association
IDBP	-	Industrial Development Bank of Pakistan
IFAD	-	International Fund for Agricultural Development
ILO	-	International Labour Organization
IRDP	-	Integrated Rural Development Programme
JB	-	Janata Bank
Kg.	-	Kilogram
LILA	-	Land Improvement Loans Act
MFI	-	Micro Finance Institution
MOF	-	Ministry of Finance
NABARD	-	National Bank for Agriculture and Rural Development
NBP	-	National Bank of Pakistan
NCB	-	Nationalized Commercial Bank
NGO	-	Non-Government Organization
NIT	-	National Investment Trust
NP	-	Normal Programme
NRSP	-	National Rural Support Programme
PARD	-	Pakistan Academy for Rural Development
PICIC	-	Pakistan Industrial Credit and Investment Corporation
PKSF	-	Palli Karma Sahayak Foundation
RAKUB	-	Rajshahi Krishi Unnayan Bank
RFM	-	Rural Financial Market
SACP	-	Special Agricultural Credit Programme
SB	-	Sonali Bank
SFDP	-	Small Farmer Development Programme

- SHG - Self-help Group
- STW - Shallow Tubewell
- Tk. - Taka
- UNDP - United Nation Development Programme
- UNO - Upazila Nirbahi Officer

# Chapter - I

## The Rural Economy, Credit & Agricultural Development

### 1.1 Economics of Rural Development

'Food' has been identified by Adam Smith as the factor conditioning the growth of an economy.<sup>1</sup> Technical advance in agriculture thus serves as the pivot for generating development in the other sectors of the economy. The importance of agriculture in economic development was also recognised by other classical writers later on, and it is now well known that Adam Smith's basic growth model or the 'Wage-Fund Doctrine' refers to this pivotal role of the agricultural sector.<sup>2</sup> A recent report by the Organization for Economic Cooperation and Development [OECD] outlines how agriculture contributes to economic growth by increasing the efficiency of production and releasing resources to other sectors.<sup>3</sup> As more contemporary writers have commented, "the role of agriculture as a major source of surplus for primitive accumulation, prior to the self-sustaining accumulation of industrial capital"<sup>4</sup> becomes a major reason for this focus, along with its importance as a 'home market' for industrial products.

#### 1.1.1 Agriculture and Economic Development

Agriculture thus forms the base for economic development. It is the oldest and most widely practiced form of production activity in the world and has evolved gradually with the passage of time. Agriculture contributes significantly to overall economic growth all over the world.<sup>5</sup> Development of agriculture still holds paramount importance today, not merely because it provides food, fodder and other agro-products to a rising population, but because it also ensures a strong base for the extension of markets and investible resources. Agriculture also provides many of the raw materials used by industry. The fate of the textile industry, for instance, is crucially linked with the supply of raw cotton, and the food processing and tobacco manufacturing industries are equally dependent on agricultural products.

Many economists have concurred on the importance of agriculture in the process of economic development. As early as the eighteenth century, the Physiocrats had argued that only agriculture produced an economic surplus over and above the costs of production and thus played the most strategic role in the economy.<sup>7</sup> It was observed much later by B.Sen in 1967 that "agriculture is the natural base for the overall development of the majority of the developing countries and the industries based on agriculture are a natural stepping stone towards industrial development on a large scale."<sup>8</sup> B.Datta also noted that "industrialisation is possible only when agriculture has reached a high level of prosperity so as to provide self-sufficiency in food, to create a surplus for capital formation and to increase the demand for secondary products."<sup>9</sup> Nicholls argued that "the existence of a substantial agricultural surplus is a pre-condition for industrial development."<sup>10</sup>

In many developing countries, agriculture must also generate exportable surpluses in order to earn the foreign exchange required to finance the import of capital goods and industrial raw materials. However, agriculture is not only a supplier of goods for domestic and export needs but is also indirect determines the supply of factors of production such as capital and labour. J.W.Mellor notes, therefore, that the need for food and the extremely low efficiency of agricultural production in low-income countries where nearly two-thirds of the world's population presently resides demands that most of their labour force and land resources be engaged in agriculture.<sup>11</sup>

In Asia and other developing regions, agriculture is thus the *sine qua non* of economic development. The development of agriculture depends upon a number of factors including physical, human and natural resources, entrepreneurship and the availability of agricultural credit. Any entrepreneur is a catalyst or dynamic agent of change, who transforms physical, natural and human resources into corresponding production possibilities.<sup>12</sup> As such, entrepreneurship is indispensable for the growth of agriculture in any society. Commenting on the causes of 'backwardness' of many Asian and African nations, J.K.Galbraith observes that their people are poor because they lack in ambition, and thus lag behind the people of other nations in economic development. The part played by entrepreneurship in the development of the Western

nations has made developing nations conscious about the importance of entrepreneurship in a programme for rapid economic development.<sup>13</sup> Entrepreneurship is also perceived now as a concept that is not only vital industrial progress but also for the development of agriculture.<sup>14</sup>

Generally in developing countries, the farmer constitutes the weakest agent of production because of the widespread practice of traditional agriculture. A shift from traditional agriculture to modern agriculture through the induction of advanced technology requires radical innovation in almost every aspect of farming. Commenting on the differences in farming practices between the developed and developing nations, T.W.Schultz has pointed out that differences in land are least important, differences in the quality of material capital are substantially important and differences in the capabilities of the farming population are most important.<sup>15</sup> Schultz further illustrates this point by comparing trends in agricultural production in different parts of the world. Thus, Western Europe with its poor endowment of farmland and a population density much greater than Asia's has been able to increase agricultural production at a rate that would have been thought impossible only a couple of decades ago. Italy, Austria and Greece, for example, with less per capita arable land and with farmland inferior in quality to that available in the developing countries have increased agricultural production tremendously. The same is true for Israel and Mexico which stand as the best examples for many low-income countries to emulate.<sup>16</sup> Even in Asia, the experience of Japan provides a similar example. Economic development in its early stages in Japan was based on interlinkages between the agricultural and industrial sectors.

Agricultural development may be defined in terms of the increasing production of crops and other farm products, and higher incomes and better standards of living among the farm families.<sup>17</sup> Elaborating these further, Mellor comments that higher living standards essentially include higher purchasing power, improved health, education and communications, and also increasing leisure derived from more efficient use of labour resources in production of material goods.<sup>18</sup> The general objective of economic development is thus closely related to agricultural development. In the light of the foregoing arguments, development of agriculture is seen to be a prerequisite for overall development of the economy.

### 1.1.2 Importance of Credit in Agriculture

The word 'credit' is derived from the Latin word 'creditum' which means 'that which has been entrusted' by one person or institution to another person or institution for a particular period of time for use with the belief that it will be returned.<sup>19</sup> Credit refers to some form of capital, usually in terms of money. Generally, it is given by one person or institution called the lender or creditor to another person or institution called the borrower or debtor who uses it for a particular period of time in return for a fee known as interest. Many later writers have defined 'credit' in various other ways. The most comprehensive definition holds that credit is the transfer of assets or wealth, or of the right to acquire assets or wealth, from a person who possesses to one who does not. This transfer is done against a promise to repay with interest, after a specified period of time, the value of what was borrowed with the rate of interest being fixed beforehand.<sup>20</sup>

Credit is the lifeblood of all economic activity. In the production of commodities, the requirement for capital credit arises for the purchase of land, the construction of buildings, the purchase of raw materials, machinery and other inputs, and for the hire of labour. However in the case of agriculture, credit refers to the amount of money that the farmers borrow to meet their production requirements as well as their current consumption needs. Farmers may borrow to purchase new agricultural land or to release mortgaged lands, to make permanent improvements on land, to purchase production inputs or agricultural machinery, etc. Farmers may also borrow to meet consumption expenses. The money that is borrowed by farmers to meet all such requirements is termed as 'agricultural credit'.

Agricultural credit is among the most indispensable production inputs in agricultural development. Finance is required in every productive enterprise including agriculture, finance because productive operations have to be started and expenditure incurred on them in anticipation of actual production. Writing more than a century ago in his report on 'Land and Agricultural Banks' [1895], Sir Frederick Nicholson had noted in this regard that "the lesson of universal history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country nor the position of agriculture affects the one great fact that agriculturist must borrow".<sup>21</sup>

It is clear therefore that credit plays a vital role in accelerating agricultural production. Provision of

technical services alone is not enough to attract farmers to modern agricultural technology. They also need financial support for the shift from low-yielding traditional agriculture to more costly but highly productive modern agriculture. Modern agriculture comprises the use of improved inputs like HYV seeds, chemical fertilizers and pesticides, irrigation, mechanical power and so on, all of which require capital investment. Even after new production techniques have been adopted, agricultural credit also has the potential to remove many of the economic constraints that continue to be faced by the rural population, including small farmers. This is true for both farm and non-farm activities. Thus a similar approach towards supporting small farmers through credit had been advocated by Robert McNamara when he was President of the World Bank in 1973:

'The miracle of the Green Revolution may have arrived, but for the most part, the poor farmer has not been able to participate in it. He simply cannot afford to pay for the irrigation, the pesticide, the fertilizer.... For the smallholder operating with virtually no capital, access to credit is crucial. No matter how knowledgeable or well motivated he may be, without such credit he cannot buy improved seed, apply the necessary fertilizer and pesticide, rent equipment, or develop his water resources. Small farmers generally spend less than 20 percent of what is required on such inputs because they simply do not have the resources.'<sup>22</sup>

In developing countries, the majority of poor farmers cannot afford to undertake this investment. The only solution that can benefit them is the smooth flow of agricultural credit in adequate amounts. T.W.Schultz has noted that the low productivity of farm labour in such countries was more attributable to the absence of credit to finance specific factor inputs, and the supply of new agricultural inputs to them through credit was seen by him as the most practical way to increase agricultural productivity.<sup>23</sup>

Agricultural production can be raised in two possible ways: firstly, through *extensive* agriculture that brings more land under cultivation, and secondly, through *intensive* agriculture involving the introduction of improved technology into agriculture. In most developing countries, the scope for expanding the area of agricultural lands is limited since almost all cultivable land has already been brought under cultivation. Thus, the use of modern scientific methods of agriculture on a wider scale is the only way for increasing production. Adoption of modern agricultural methods including crop rotation and multiple cropping involves huge capital investment. Since the vast majority of the farmers in developing countries are extremely poor and cannot undertake the required capital investment from their personal savings, adequate credit has to be provided to them.

Studies undertaken by Saha and Dutta,<sup>24</sup> S.N.Rai *et al.*,<sup>25</sup> Colyer and Jimenez<sup>26</sup> and R.C.Vogel,<sup>27</sup> in many different countries show that adequate supply of credit has positively influenced the growth of agricultural output and farm incomes. The history of agricultural development in all the advanced countries also confirms that an integrated system of credit provisioning has led each country to the path of agricultural prosperity. Referring to the developing countries of Asia, Kim has noted that the population living in the Asia-Pacific region alone constitutes much more than half the world's population, and the agricultural population comprises almost 70 percent of the agricultural population in the world. However, the region's agriculturists control only about 24 percent of the world's arable land, and thus cultivate average farmland of 0.3 ha against the world average of 0.7 ha. More concentrated effort is therefore called for on the part of these countries to initiate agricultural and rural development through the strengthening of credit services to farmers and particularly to small farmers.<sup>28</sup> Agricultural credit thus assumes great significance in an agrarian country that is trying to modernise traditional agriculture.

## 1.2 Role of Institutional Credit in Agricultural Development

The credit avenues accessible to farmers living in rural areas may be classified under the two functional categories of *formal* credit and *informal* credit. Some sources in the literature have used the alternative terminology of *institutional* credit for *formal* credit, and *non-institutional* credit for *informal* credit which is not adopted here.<sup>29</sup> The formal credit sector includes government banks, commercial banks, credit bureaus, etc., as well as the specialised banks set up in countries like Thailand, the Philippines and India, that cater especially to the credit needs of rural production.<sup>30</sup> The informal credit sector includes professional moneylenders, traders, rich farmers, landlords, shopkeepers, etc., as well as the relatives and friends of the borrowers, who collectively form the traditional sources of credit in rural areas and still remain dominant.

Although the informal credit market is an important constituent of the financial system in many Asian countries, in several countries it has remained unorganised and fragmented in structure and has allegedly played a exploitative role.<sup>31</sup> Daulatunnaher Khanam remarks in the context of Bangladesh that credit from

informal sources does not help the farmers in the desired manner, since informal credit is generally inadequate and is only available at high interest charges.<sup>32</sup> Thus, while the normal rates of interest on formal credit did not exceed 17.5 percent p.a., the rate of interest on informal credit ranged between 50-100 percent p.a., sometimes rising to 150 percent p.a. or even more.<sup>33</sup> In addition, the frequent adoption of unscrupulous methods of credit administration by the informal credit agents often has other serious implications. The usual collateral accepted in lieu of credit by professional moneylenders is land. In such cases, the farmer signs or makes a thumb-impression on some document that binds the borrowers' land to the lender. Because of high interest costs, the farmer often defaults on the timely repayment of the loan which, under the compound interest system, almost doubles in course of time. The ultimate consequence is that the debt has to be liquidated by making over the pledged land. In the process, many small and marginal farmers gradually become landless, which aggravates the problems of rural unemployment, poverty and income-inequality, etc. Describing this situation as it applied to India, H. Wolff had remarked earlier that "the country is in the grips of Mahajans. It is the bond of debts that shackle agriculture".<sup>34</sup> Strictly speaking, therefore, the informal credit market has limited the process of agricultural development. Examining the role of rural moneylenders in India, the Agricultural Finance Sub-Committee had also commented in 1945 that the credit dispensed by the moneylenders acted as a serious drag on agricultural development instead of contributing to it.<sup>35</sup> For such reasons, agricultural credit provided by the informal sector cannot help in raising agricultural production either to the desired extent or in the desired manner.

In Bangladesh, the well-known Grameen Bank and the other NGOs of the country, which have otherwise proved to be effective semi-formal institutions for reaching the poor, do not extend sustained credit to the agricultural sector to any significant extent. Banik has noted that most activities of Grameen Bank are of the 'point-input continuous-output type', where the key to the success of Grameen Bank has been the system of weekly repayment of loans. In contrast, agricultural operations are of the 'point-input point-output type' and cannot be made to yield continuous income.<sup>36</sup> Therefore, the role of semi-formal agencies in the provision of agricultural credit remains insignificant.

The formal credit sector includes all institutions which supply agricultural credit to farmers under certain statutory conditions. While non-institutional credit sources, as private agencies, are based on the profit motive and can sometimes be highly exploitative in nature, formal credit institutions are required to alleviate the exploitation of farmers by informal credit agencies by providing credit to these farmers at much lower cost. Greater involvement of formal credit institutions in rural credit markets is essential to release farmers from the clutches of professional moneylenders.

Thus the transition from moneylenders' credit to formal credit is a process concurrent with the transformation of traditional agricultural to modern agriculture and is also a process for breaking down the bonds of poverty in the developing countries. The success achieved by formal banks in certain Asian countries<sup>37</sup> in this respect are recounted in Box 1 and Box 2 below.

### Successful Asian Formal Credit Institutions

#### Box 1

**Bank for Agriculture and Agricultural Co-operatives [BAAC], Thailand** BAAC, a state-owned financial institution, was founded in 1966. It replaced the Bank for Cooperatives, which failed for several reasons including poor delivery and enforcement problems. BAAC's primary objective is to provide financial services to the agricultural sector. BAAC enjoys certain privileges aimed at stimulating lending to agriculture. For example, it continues to have preferential borrowing rates from the central bank, it is exempted from certain taxes and reserve requirements, and commercial banks are required to invest at least 20 percent of their deposits in agriculture, either directly or through BAAC. BAAC has considerable operational and financial autonomy, with the exception of pressure to keep interest rates 1-2 percent below the commercial bank rates reflecting its preferential status with the central bank. It aims at low-medium income farmers and uses progressive interest rates on loans and lends to small farmers without traditional collateral. BAAC has achieved significant success in outreach (77 percent of farming households) and has been consistently profitable since 1975. (Source: World Bank [1996]: *Bangladesh Rural Finance*, p.20)

**Box-2**

**Bank Rakyat, Indonesia [BRI]** BRI started its network of 3600 unit banks in 1970 as part of the national rice intensification programme. Until 1983, the bank primarily channeled subsidized credit. Low interest rates (12 percent) made loans desirable and were often allocated to the elite. Poor programme design and misguided implementation produced high arrears and declining participation of the villagers due to the lack of trust in banks. During 1983, BRI's unit banks suffered a loss of \$28 million. Therefore, government started financial sector reforms, such as - initiated a general rural credit programme at market-based interest rates, programme design including autonomy, profit-sharing for employees, interest rebates for prompt repayment, etc. Henceforth, the performance of BRI unit banks has been very impressive with low arrears and the units are now consistently profitable. (Source: World Bank [1996]: *Bangladesh Rural Finance*, p.20)

Certain other formal banking institutions and credit programmes, such as the National Bank for Agriculture and Rural Development [NABARD] of India, the National Rural Support Programme [NRSP] in Pakistan, Small Farmer Development Programme [SFDP] of Agricultural Development Bank [ADB] in Nepal, etc. also stand testimony to the importance of the role that formal credit can play in agricultural advancement,<sup>38</sup> showing clearly that the potential developmental role of formal sector banks in extending agricultural credit is tremendous.

### 1.2.1 Potential for Agricultural Credit and Agricultural Development in Bangladesh

Bangladesh is a predominantly rural country, with most of its population dependent on agriculture.<sup>39</sup> Agriculture is thus the most important sector of the national economy, generating 33 percent of the country's GDP and 30 percent of its exports, while employing 68 percent of the labour force in 1997.<sup>40</sup> Development of the rural economy is thus central to Bangladesh's development strategy, as a result of which agriculture continues to play a pivotal role in rural growth. Agricultural growth is also required for food security reasons, since the farmers depend entirely on agriculture for their livelihoods, it is only through the development of the agricultural sector that they can increase their earnings and enhance their standard of living.

Agricultural credit is among the most essential inputs for agricultural development. However, the socioeconomic situation of farmers in Bangladesh today is such that the resource-poor farmers, particularly those belonging to the small and marginal classes, can hardly form any capital to meet their investment needs. Thus most farmers have to meet their capital needs by taking recourse to credit. Nevertheless, the small and marginal farmers who together constitute approximately 80 percent of the farming population in Bangladesh do not receive adequate agricultural credit from the formal sector,<sup>41</sup> and the credit presently allocated to the agricultural sector by the formal institutions falls far short of the actual requirements. The institutions that presently provide agricultural credit are also saddled with many procedural drawbacks and deficiencies, which hinder the timely flow of agricultural credit to the farmers. At the other extreme, the rate of loan-recoveries by formal sector banks in Bangladesh has been very low.<sup>42</sup> The lending activity of a bank is greatly influenced by the availability of loanable funds with the bank, which to a large extent are determined by the rate of recovery of past loans advances. Because of poor loan-recovery rates, the formal sector banks have been suffering from liquidity problems to a significant extent.

The absence of a conducive financial environment has thus become a serious constraint on further economic development, especially in terms of agricultural growth. Efficient and cost-effective financial services are thus essential to Bangladesh's longterm development strategy, in the sense that these enable farm innovation and productivity increases to occur. From the point of view of the small and marginal farmers who live in a precarious condition, development of agriculture is even more important, since a slight fall in agricultural production would be a deathblow to them. Economic protection has therefore to be extended to them in a way that can facilitate an increase in their productivity. The only manner to accomplish this is to ensure the smooth and adequate flow of agricultural credit.

It is in this context that the present agricultural situation in Bangladesh needs to be studied. No formal attempt has so far been made to study the particular problems faced by small and marginal farmers, who form four-fifths of the farming population of the country, in securing agricultural credit. In view of the great

importance that the development of agriculture holds as a solution to the problems of poverty and unemployment in Bangladesh, an attempt of this nature is made by the present study.

### 1.3 Review of Literature

A brief review of research work already conducted in this field will help in spelling out the fundamental objectives behind the present study. The main body of extant literature on institutional agricultural credit has emanated from official and semi-official studies conducted under the auspices of Government or donor agencies. Private contributions to this literature also exist in the form of research publications in journals, Ph.D theses and books. Relevant research areas covered in this literature include the development needs of agriculture and agricultural credit; the supply, utilisation and impact of agricultural credit; problems associated with the supply and recovery of credit; and issues relating to agricultural credit policy. A qualitative review of some of these studies is made below.

#### 1.3.1 Agriculture, Credit and Economic Development

Substantial research has been undertaken to assess the need for agricultural growth in developing countries and to estimate the agricultural credit needs of farmers. Several studies also have specific focus on different aspects of the agricultural economy, including agricultural production, which directly affect small farmers.

As noted in OECD [1965] and Akhunji [1982], agriculture has been recognized by both classical writers as well as modern writers as having contributed significantly to overall economic growth across the world. Sadhu & Singh [1983] point out that that it was Adam Smith's Wage-Fund theory that laid down the principle that technical improvements in agriculture could initiate economic development by increasing the efficiency of production and releasing resources for the development of other sectors in the economy. Mathur [1974]), Datta [1987] and Breman & Mundle [1991] express similar opinions, demonstrating that the development of industry only becomes possible after agriculture has attained a level of development that ensures self-sufficiency in food and creates a substantial agricultural surplus that can be utilized for capital formation, increasing the demand for secondary products. As noted by Khanam [1989], agriculture forms a natural base for development in most developing countries, and agro-based industries become natural stepping stones for national industrialisation on a wider scale.

In a major study of the process of transformation that traditional agriculture underwent during economic development, Schultz [1970] described the experiences of many countries across the world which had been able to transform and modernise their economies by increasing agricultural production and productivity. Considering the benefits that can be derived from agricultural transformation, Mellor [1970] shows that such transformation implies increased farm outputs as well as higher farm incomes, which lead in turn to higher standards of living, higher purchasing power, improved health and educational standards, as well as increasing leisure as a result of more efficient use of labour resources in the production of material goods. As shown in Roy [1996], agricultural development has assumed paramount importance today. Besides securing the food, fodder and raw material needs of a growing economy and population, agriculture also provides a base for the application of capital and the extension of markets. The objectives of economic development thus coincide strongly with agricultural development.

The importance of agricultural credit was increasingly noted by international donor agencies from the 1970s onwards. Bathric [1981] makes reference to the Nairobi Conference of the Board of Governors of the World Bank in 1973, in which great emphasis was laid on raising the productive capacity of small farmers. The then World Bank President, Robert S. McNamara noted that programs in this direction could '...be initiated quickly by governments and will make a major contribution to the goal of a 50 per cent growth rate in the output of small-scale agriculture by 1985.' He observed further that '...without rapid progress in small-holder agriculture throughout the developing world, there is little hope either of achieving long-term stable economic growth or of significantly reducing the levels of absolute poverty.' Bawn [1981] reports on the comprehensive review of agricultural credit that was subsequently initiated by the Agency for International Development (AID) in 1973, under which 63 evaluations were conducted on AID-funded and non-AID-funded agricultural credit programs in 36 countries, which the study under reference described as being the "largest collection of field studies ever assembled". Similar reviews of agricultural lending programs were

also undertaken by the World Bank and the Food and Agricultural Organization of the United Nations (FAO) in 1974 and 1975. All international reviews concurrently identified common policy issues that needed to be considered by national credit institutions and international donor agencies in order to improve programs that addressed the credit needs of small farmers. Commenting on the need to involve public financial institutions such as NCBs in strengthening agricultural credit programs in India and Bangladesh, empirical studies by the RBI [1968] and Ahmad & Ahmed [1982] noted the utility of this approach in increasing institutional credit flows to the agricultural sector, since the NCBs were observed to have rapidly expanded their branch networks in both countries.

Echoing the views of Nicholson [1985] on the classic interrelations between agricultural credit and agricultural development, Padmanabhan [1988] cites the World Bank's advocacy of credit support to small farmers as an essential device for agricultural progress. Several studies including Elias [1988], Alam & Nath [1989], Rahman [1990] and Haq [1993], which have reviewed the agricultural contexts of Bangladesh, have observed that the need for bank finance has grown with the introduction of technological innovation in agriculture, especially in the crop sector. Concurring that the HYV technology in agriculture is capital-intensive by nature, these studies stress that a wideranging network of credit programs can help increasing numbers of farmers to reap benefits from this technology. The studies have also found that once new production techniques have been established, agricultural credit has the potential to remove many of the technological constraints faced by rural populations, especially small farmers. Outlining the nature of credit dependence within agriculture, Ray [1998] remarks that the adoption of modern agricultural technologies requires current investments to precede future payoffs. Thus, even ongoing productive activity requires advance provision of inputs in advance, while the revenues realized from this only accrue at a later point of time.

Parthasarathy [1971] in a districtwise case study of the Indian state of Andhra Pradesh, had analyzed the magnitude of agricultural problems confronted by small cultivators. While serious problems of longrun survival were observed to exist among cultivators who owned less than 2 acres of land, the study also revealed that farmers in this class showed evidence of actively seeking improvement in agricultural incomes, which could be assisted by a policy of liberal agricultural credit. With reference to Schultz's view that low labour productivity in traditional agriculture arises from the lack of credit finance for the application of complementary factor inputs, strengthening of input support through credit has been seen widely as the most practical means for achieving increased agricultural productivity. Assessing the comparative experience in several developing economies, Padmanabhan [1988], found that low penetration levels of formal credit commonly existed among small agriculturists, even though the economies depended on them for the production of food and raw materials. Analysing the present crisis in Asian agriculture, Kim [1993] thus stressed the importance of harnessing rural credit as a means for accelerating agricultural production and rural development. The capital needs of agriculture have been compared to the industrial need for capital by Mamoria & Tripathi [1989] and Sadhu & Singh [1989]. However, due to peculiarities inherent to agriculture, including high rents, low returns and agricultural uncertainty, many cultivators are unable to carry out agricultural operations without access to outside sources of finance, and high levels of poverty and indebtedness consequently existed among such cultivators. Only the adequate and timely provision of cheap credit to farmers would stimulate the tempo of agricultural production. Several empirical studies including those by Saha & Dutta [1971], S.N.Rai *et al.* [1975], Colyer & Jimenez [1971] and R.C.Vogel [1981] provide strong evidence of the positive association between adequate credit availability and rising agricultural outputs and farm incomes in several country contexts.

A large literature exists that makes references to agriculture in the region that now forms Bangladesh. In the early period, Ahmad [1962] had made a longterm study of agriculture over a period of 29 years from 1932 to 1961 in the 17 districts of what was then the province of East Pakistan. The study observed that prevailing living standards in agricultural countries like Pakistan were the sum of living standards among individual cultivators. Finding considerable scope for increasing crop production and improving the economic lot of cultivators, the study stressed that even slight improvements in the economic condition of the cultivators could contribute to a considerable raising of economic standards in the country as a whole. More recent reviews of the development experience of Bangladesh, such as Abdullah & Shahabuddin [1996], Census of Agriculture [1996] and CDF [1999] have noted that the country still has to import several million tonnes of foodgrains in order to meet domestic food requirements. These studies deem it essential therefore that agricultural production in Bangladesh be raised to meet the food needs of the growing population, noting

that the corresponding requirements of agricultural credit are likely to be very high because of the low rural incomes that prevail in Bangladesh.

Hossain [1984] and CDF [1999] have also established that the agricultural sector in Bangladesh has become dominant as a supplier of raw materials to non-farm activities and as a source of demand for their goods and services since the 1980s. Although targeted credit flow to the non-farm economy may appear to contribute effectively towards alleviation of poverty in the country, concomitant growth of agriculture is also required for further expansion of the non-farm economy. Strong backward and forward linkages between agricultural and non-agricultural activities are observed to exist in the rural areas of Bangladesh. Similarly strong and highly elastic responses of non-agricultural output and employment to increased agricultural output have been measured in Taiwan and the Philippines by Stewart & Rains [1990].

APO [1988] noted in its Bangladesh Country Paper that savings levels among farmers were very low because of the subsistence nature of farming in Bangladesh. Farmers thus had to depend either on institutional or private financing sources for the provision of loans for carrying out farming operations. Although credit from private sources was costly and the credit terms were unfavourable to borrowers, institutional credit sources met only 25-30 percent of the total agricultural credit requirement in the country. For effective development of agriculture in Bangladesh, a strong effort needed to be mounted to increase the flow of institutional credit. The comparative roles of agricultural and non-farm credit programs in Bangladesh were subsequently assessed by Rahman & Khandker [1994], which was based on an empirical survey of 1798 sample households. Survey results revealed that NGO-based credit programs such as those conducted by the Grameen Bank and BRAC had benefited the non-agricultural sector much more than the agricultural sector.

A more recent effort to quantify institutional credit needs among small and marginal farmers has been made in the study conducted in three Bangladesh districts by Khan [1999]. Small and marginal farmers required cash to purchase improved agricultural inputs, such as HYV seeds, fertilizers and pesticides, and to pay for irrigation water. They also required institutional support for investments in irrigation pumpsets, other farm implements and equipment, and draught animals, etc. The study concluded that the credit needs of these farmers have become even more compelling with the technological advancement and the increasing commercialization of agriculture. Exploring the relationship between farm sizes and agricultural yields in Bangladesh, Mandal [1980] had earlier observed rising agricultural productivity upto a certain level after which productivity decreased as farm size increased. The explanations advanced for higher productivity on small farms related mainly to the intensive use of family labour on small farms and qualitative differences in inputs. Khan [1999] provides more recent corroboration that small farmers in Bangladesh use more labour-intensive methods of cultivation, devote more time and care to land preparation and harvesting, and are more inclined to intercultural operations. The relatively high agricultural yields of small farms thus make small farmers a priority target-group for agricultural development in the country.

### 1.3.2 Availability & Impact of Agricultural Credit

A brief review is made below of literature that deals with agricultural credit availability by sources, the uses and impact of agricultural credit and the relative accessibility of small and marginal farmers to credit from the NCBs. Some studies on the credit structure and the credit delivery systems that exist in different countries are also reviewed here.

It had already been pointed out in Heady & Jensen [1958], in the context of the economics of farm management, that the use of short-term credit increases farming efficiency by assuring adequate and timely supplies of feed, fuel, fertilizer, labour and other inputs required for efficient farm production. Farmers with access to credit can therefore increase incomes and accumulate capital at a faster rate than if such credit were not available.

Extending the analysis to rural credit markets in developing countries, Ray [1998] adopts the definitions used by the US Department of Agriculture [USDA, 1965], under which the main markets for agricultural credit may be classified as formal or informal. While formal credit markets are more important as a source of agricultural credit in economically advanced countries, informal credit markets are the dominant source of credit in developing countries. Nearly two-thirds of all agricultural loans in India, Pakistan, Thailand and Philippines, are thus made by non-institutional credit agencies. The existing agricultural credit structure in several Asian countries was also surveyed in Akhunji [1982]. Non-institutional credit sources were found to

have been dominant in Sri Lanka (84.2 percent in 1969), India (75 percent in 1971-72), Malaysia (65 percent) and Pakistan (53 percent in 1976-77). In comparison, such sources were less dominant in the Philippines (10 percent in 1973) and in Indonesia and Burma (20 percent). Among the Asian countries, institutional credit markets were found to be most developed in Japan. Recent studies by the World Bank [1996] and Subrahmanyam [1999] have shown that formal sector banks can participate effectively and profitably in the agricultural credit market, citing the examples of several Asian banks such as BAAC in Thailand, NABARD in India, NRSP in Pakistan and ADB-SFDP in Nepal.

A study of small farmers' credit problems under the cooperative credit system in India was made in Sen [1973]. The study pointed out that such problems arose because small and marginal farmers were not considered creditworthy, since they could not offer collateral security in the form of the tangible assets desired by the system. The Crop Loan System introduced during the Second Five-Year Plan had thus sought to change the criterion for judging the creditworthiness of rural borrowers from their possession of tangible assets to their productive potential. However, the evaluation pointed to "considerable gap between accepted principles and actual practice," which left the credit needs of poorer farmers outside the formal credit market.

It was noted in Akhunji [1982], Rahman [1986] and Khanam [1989] that the unorganized and fragmented structure of informal credit markets does not assist the farmers in a positive way and leaves them open to exploitation. Thus informal credit markets are generally inadequate as credit sources and moreover offer credit at very high interest charges. The perverse effect this has in depressing agricultural growth has also been identified in Islam [1982], Ghosh [1985] and Khanam [1989] as the cause of increasing landlessness among small and marginal farmers. Several separate surveys carried out after the independence of Bangladesh, including Rahman [1972], Akhunji [1982] and World Bank [1983], have evaluated the relative performance of the institutional credit agencies in meeting the credit needs of farmers. These studies noted a sharp increase in agricultural credit requirements between the pre-independence and post-independence periods, with a much larger proportion of the agricultural credit needs being met from institutional sources throughout the 1970s. Subsequently, however, a proportionate decline is found to have occurred, with agricultural credit now constituting a much smaller component of total institutional credit. More recently, MOP [1991] has reported an even sharper reduction in the proportionate share of the agricultural sector in institutional lending. The case of India presents certain similarities. It has been reported in Mishra & Puri [1996] and Nair [2000] that a major portion of farm credit is now delivered through institutional sources and that formal credit institutions have been able to significantly increase their presence in rural credit markets. Thus from the meagre level of 7.2 percent in 1951, the share of institutional sources in rural credit rose to 61.2 percent in 1981, following which a mild decline brought the share to 55 percent in 1994-95. The studies however remark that despite remarkable growth in deposits and advances by the credit institutions, rural credit advances have not been able to make much of a dent in the rural economy. Thus institutional credit is able to meet only around 30 percent of the credit needs of rural families, and the credit needs of small and marginal farmers who constitute the target group for the rural institutional credit system continue to be inadequately attended to.

Hossain [1977] had earlier observed that 17 percent of the small farmers in Bangladesh had access to institutional loans and received 28 percent of the total credit advanced to the agricultural sector. In contrast, 61 percent of the large farmers in the country had received loans amounting to 67 percent of the total agricultural credit sanctioned in 1973-74. It was hoped then that the Special Agricultural Credit Program would increase the access of the small and marginal farmers to credit from the formal sector banks. Yunus [1981] however found that the current volumes of agricultural credit in Bangladesh continued to remain very low in comparison to the volumes of agricultural output in the country, with the formal credit portfolio constituting less than 2 percent of the net contribution made by the agricultural sector to GDP over the period between 1972 to 1977. Though GDP increased substantially by the year 1991, Hossain [1991] found that the allocation of bank credit resources between urban and rural areas had continued to remain disproportionate. Thus, while the rural sector contributed around 50 percent of GDP, it had received only 12 percent of bank credit on the average. A subsequent study by Roy & Roy [1993] analysed the role played by bank credit in financing the technological transformation of agriculture in Bangladesh. It was shown by this study that the share of agricultural advances to total advances had continued to decrease, despite higher resource allocations each year to the annual agricultural credit programme.

Several independent studies, including Nathan [1979], and the surveys by the Agricultural Credit Department (ACD) of the Bangladesh Bank reported in the Joint Review by GOB and the World Bank [1983] and the World Bank [1984], had revealed that the proportion of borrowers cultivating upto 2.5 acres of land under the SACP programs of the NCBs was exceedingly low and that the main beneficiaries of the SACP program were farmers cultivating between 3-9 acres of land. The Joint Review by GOB and the World Bank [1983] also showed that the credit performance of public sector banks had remained very poor in terms of rural outreach and in the credit access afforded to small and marginal farmers. In subsequent studies, Solaiman [1992] and Rahman & Hossain [1995] analysed the data from a large-sample study of spanning 64 Bangladesh villages, which covered one village drawn from each Bangladesh district. It was found by these studies that in June 1989 when the survey was conducted, only 23-24 percent of the rural households had reported access to institutional credit. While the proportionate access to institutional credit among the poor, who constituted half of the rural households, was only 17 percent, the large and medium land owning groups constituting only a fifth of the households, accounted for almost 50 percent of all institutional borrowing. A more recent evaluation of rural credit utilization in Bangladesh has been made in Salimuddin & Mahiuddin [1999], using both secondary and sampling data. This revealed that while 54.7 percent of rural borrowers made full utilization of institutional loans, 64.1 percent of the borrowers made full utilization of non-institutional loans.

Examining the role of financial institutions in relation to the overall availability of rural credit in Bangladesh, studies by Saha [1985], Murshed & Karim [1992] and Roy & Roy [1993] have found that medium and large farmers have a much better credit access than the small and marginal farmers who need credit support the most. It is observed that the agricultural credit institutions indirectly assist the rural rich in consolidating their advantaged position, by making institutional credit relatively inaccessible to the rural poor. MOP [1991] revealed that the access of small and marginal farmers to credit advances by the NCBs and specialized banks such as Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank remains very limited. Once again it was found that the dominance of better-off farmers as borrowers in the institutional credit markets depressed the credit shares of small and marginal farmers.

Investigating the potential role of semi-formal credit institutions in rural finance, the monograph by Hossain [1984] on the credit performance of the Grameen Bank showed that 40 percent of the loans issued in 1983 had been utilized for trading and shopkeeping activities, 26 percent for processing and manufacturing activities and another 26 percent for livestock and poultry raising. This effectively left less than 2 percent of the GB loans for disbursement to the agricultural sector. Identifying the reasons why Grameen Bank had not been able to extend its lending to support farming operations, Banik [1993] observed that the system of weekly loan repayment that was the key to the Grameen Bank's success required that the investment of capital received on credit by the borrower should generate a steady stream of income that would sustain regular debt repayments. In the case of agriculture, capital investment at the point of commencement of agricultural operations was followed by income yields at the end of the cropping season, rendering the weekly loan-repayment mode unsuitable for the needs of small agriculturists whose income from farming was discontinuous.

### 1.3.3 Problems of Credit Access & Recovery

Because of the circular dependence of credit with the cycle of loan advances and repayments, the empirical literature on rural credit access and recovery has special relevance to the present study. A brief review is presented below of several studies that deal with the patterns of credit access and problems of loan-recovery that pertain to agricultural credit.

A recent structural controversy that had developed around farm finance in low-income countries was reported in Egaitso [1988]. The controversy centred around the desirability of continuing to subsidize credit for the purpose of agricultural development, as had been traditionally advocated under the farm finance (FF) approach. The modern view that had appeared as a successor advocated what is known as the Rural Financial Market [RFM] approach, under which the balancing of demand and supply for rural credit was to be left to competition within the credit markets. Confidence in the competitive market mechanism thus characterized the RFM approach. Fulfilment of competitive conditions by the RFM would make it necessary that rural borrowers should be undifferentiated and should constitute a homogeneous class. However, while looking into problems concerning collateral security, Sen [1973] had pointed out that the small farmers

did not constitute a homogenous group, but included owner-operators, tenants, mixed tenants and sharecroppers. Among these subgroups, only the owner-operators could offer land as collateral security, while tenant farmers and sharecroppers had access to formal credit only if records were available to identify the tenancy terms and the lands they had leased-in. In many cases, such records were unavailable or were not updated regularly.

The repayment behaviour of farmers also tended to differ by ownership class. The impact of bank finance on borrower-farmers was assessed by Raõ & Mallya [1980] on data drawn from a sample of 100 such farmers belonging to South Kanara district in India. This study revealed that the smaller farmers were generally more conscientious of timely repayments, while loan-repayments by the larger farmers were more often subject to payback lags. While trying to assess the impact of 'Urban Organized Banks' into agricultural lending, the study by Virmani [1984] found that these banks had well-developed procedures for dealing with established clients in the organized sector of the economy. When forced to transact in rural credit markets, the banks were confronted by completely different informational constraints and therefore tended to seek out their rural clients from among large farmers who had also had some education. As a result of such preferences, tenants and small farmers were unable to secure adequate institutional credit. As noted by Mamoria & Tripathi [1989], farmers are unable to exercise complete control over their outputs or income, because of uncertainties relating to agricultural yields and incomes from the sale of agricultural produce. This feature made ordinary credit agencies unwilling to lend to farmers except at interest rates higher than those charged to other industries. Consequently, agricultural credit was often not easily available as and when needed.

Studying the institutional credit situation in Bangladesh, the report by the Commonwealth Secretariat [1982] revealed that availing of credit from institutional sources involved considerable paperwork, for which intending borrowers had to make several visits to the institutions and also had to wait for long periods before being able to get sanction for their loan applications. This transactional delay involved extra expenses both in terms of money spent as well as time and labour expended, which disadvantaged rural farmers who were not in a position to commit prior to obtaining loans. The real problems associated with credit programs for small rural producers in Bangladesh were evaluated in Ahmad & Ahmed [1982] and more recently in Banik [2000]. The studies found that the institutional credit programs in Bangladesh still catered largely to better-off farmers, since even after two decades of lending, regular government credit programs had only managed to reach between 3-5 percent of the small borrowers. Since the small farmers were unable to offer collateral, they were perceived by the lending agencies as being risky clients who would not be in a position to repay loans. The studies therefore concluded that conventional banking practices would not work when lending to the rural poor, since the requirement for land collateral and the enormous amount of paperwork required effectively put bank loans beyond their reach.

Reviewing the cooperative credit sector and the performance of Bangladesh Rural Development Board [BRDB] in this context, as reported in MOP [1991], the Planning Advisor's Task Force found that benefits accruing to the Krishi Samabay Samity [KSS] within the structure of BRDB-facilitated cooperatives tended to be monopolized by landed members. The study therefore concluded that, given the existing property-based structure of rural power, it appeared unlikely that farmers' cooperatives would be able to work in a way that brought equal benefits to small farm households. In spite of their unequal credit access, evidence has been accumulating that small farm households make better borrowers. While studying the impact of deregulation of rural credit on Bangladeshi farm households disaggregated by holding-size, Ahmed & Kennedy [1994] reported that many small-farm households were able to borrow for crop production and non-farm activities and also to repay such loans within one year. On the basis of this, the study suggested that single-minded institutional focus on crop loans only as the best means for promoting income growth and welfare among small farm households may have been misplaced.

While analysing the performance of the Small Farmers Landless Labourers Development Project, it had been noted in Karim [1995] that more than 53 percent of the credit released to support various income-generating activities went into cattle rearing, followed by 35 percent that went into small business. Very little of this credit directly supported agricultural activity. However, the study also pointed out that no small farmer was included as a member in the landless group, or vice versa. It may be noted that the landless and functionally landless classes among the rural poor have constituted the target group for micro finance institutions operating in Bangladesh. However, as reported by Khan [1999], another substantial group among

the rural poor comprise small and marginal farmers who own between 0.5-2.5 acres of land and generally live below the absolute poverty line. This group was usually left out of micro-finance programs. Without reasonably priced institutional credit support, this farming group continues to remain in the rank of landless poor. With support from institutional credit, CDF [1999] concluded that the processes of increasing landlessness among small and marginal farmers in Bangladesh could be weakened considerably. Thus the problem and priorities of small and marginal farmers were deserving of immediate attention, under the principle that preventive action was better than future cure.

#### 1.3.4 Agricultural Credit Policy Issues

Given the many problems that have confronted rural credit situations and programs, both in Bangladesh and elsewhere, the issue of credit policy naturally comes to the fore. Several changes in credit policy thinking and implementation have occurred over the long period of the time that is under review, especially concerning the policy issue of promoting agricultural credit among farmers. A brief review of some of these as they have arisen in the literature is presented below.

As noted above, the fragmented nature of RFMs in developing countries limits the credit services they can provide to the farming population. The studies by Akhunji [1982], Adams [1984], Rahman [1986] and Khanam [1989] had also noted that additional distortions crept in because of the intrusions made by local politics, which had sometimes brought institutional lenders to the edge of bankruptcy. The study of Asian RFMs by Egaitu [1988] had shown their credit performance to have been fairly adequate in terms of their contribution to the rural development process criterion, but unquestionably poor in terms of longterm viability. It was noted that the core of recent developments in Asian RFMs lay in the infusion of external funds into domestic agriculture, in the form of cheap loans channeled by government-related special lending institutions. Both the successes and failures that had been achieved in credit extension were therefore largely due to these government interventions. Under the new RFM approach, it was therefore being widely argued that the dismantling of government institutional interventions in rural credit markets would prove more beneficial in achieving high efficacy and longterm viability within the rural credit programs.

However, such reasoning was by no means universal. Analyzing the role of credit policy in the context of agricultural growth, the studies by Raju [1993] and APO [1996] had pointed to the positive influence that bank nationalization in India had exercised on the expansion of formal credit activities in rural areas. Expansion of the rural banking network had been achieved by the policy intervention that linked the licensing of urban branches to the opening of new bank branches in rural areas. Another important act of the government had been to stipulate fixed commitment of a given proportion of total bank advances to the account of the agricultural sector, while a distinct change in economic policies at the national level had also created additional pressure for increasing institutional lending to agriculture by the nationalised banks. Thus, as acknowledged in Padmanabhan [1988], the alternative argument held that rural credit would continue to be a powerful mechanism in most developing countries for stimulating development, particularly among the disadvantaged rural classes. It was pointed out in this context that the effectiveness of rural institutional lending lay in the quality of loan appraisal and loan approval procedures, the commitment of field animators, the incidence of transaction costs, and soundness of monitoring and evaluation systems. Thus an institutional spirit of enquiry, experimentation and flexibility in the rural credit market would be able to ensure better results. A similar position had been taken during an earlier study of agricultural finance in West Bengal by Pal [1973]. After analyzing the demand and supply situation of agricultural credit in the context of rapid modernization of agriculture, this study had recommended that an integrated credit policy was required in which all existing financial institutions including commercial banks, cooperatives and other public-sector lending organizations would all have assigned roles to play.

Considering the problem of increasing the efficiency of rural credit administration in Bangladesh, Akhunji [1982] drew attention to the procedural need for correct assessment of actual credit requirements as the principal credit policy issue. A manual on loan operations, and the accompanying systems of monitoring and evaluation to be followed by BKB is described in Maldia [1986]. While dealing with the procedures and formats relating to different aspects of BKB lending operations, the existing operational inadequacies of the credit system were discussed frankly, with notes on how these could be avoided in future. Solaiman [1992] also advocated the possibility of adopting easier lending procedures under the institutional credit system, since the experiences of Grameen Bank and Small Farmers Development Programmes [SFDP] had amply shown that easier credit procedures worked to the benefit of the target groups.

Poor performance on the part of public sector banks in Bangladesh had been reported in World Bank [1996]. While pointing out that an inefficient credit-delivery mechanism had limited their outreach, and the overwhelming amount of loan arrears had made them unsustainable, the study also concluded that many serious policy, institutional and structural issues affected the performance of public sector credit institutions. Investigating the habit of loan-defaulting which has grown among borrowers, and the frequent interest-waivers and writing-off of loan under government instruction, Rahman [1990] noted that this had fostered an impression among borrowers that such debt-reliefs would continue to be available in the near future. The study however noted the credit programs announced by government were often not linked realistically to the manpower available at the banks, leading to increasing default. As a consequence of such continued imbalances, the banks gradually became more and more focused on the recovery of existing loans, rather than on the disbursement of new loans to the agricultural sector. Taking critical note of the same, the Planning Advisor's Task Force had pointed out in MOP [1991] that politically-motivated tendencies towards loan forgiveness and interest remissions encouraged delinquent behaviour among borrowers. With time, this led to an increasing volume of loan overdues that constantly squeezed the refinancing capability of lending institutions.

Studying the delivery cost of credit in Bangladesh, Hulterstrom *et al.* [1996] identified three cost components, viz. *operational costs* (personnel costs, depreciation and other operational expenses), *funding costs* (interest charges, loan-loss provisions and managers' commissions) and *overhead cost* (office costs at the headquarters and district offices). Assessing the high level of such costs in six rural projects conducted by the Bangladesh Rural Development Board [BRDB], the study found the interest rate-structures of different projects to be too disproportionate for any breakeven loan volume to be arrived at, since breakeven loan volumes require interest rates to be hiked in the range of 20-25 percent.

While identifying the major hindrances such as procedural delays and collateral difficulties faced by small and marginal farmers in securing credit access, the studies by Kim [1993] and CDF [1999] had also pointed to the sizeable commissions that had often to be paid by the borrowers to middlemen and loan-agents. All these increased the effective cost of borrowing substantially, making real interest charges much higher than the official rates of interest. Small and marginal farmers were often not welcome to the banks because of their lower social stratification and illiteracy. These non-operational barriers were often the principal causes that led small and marginal farmers to informal credit sources for fulfilling agricultural credit needs. It was also found that while the prices of agricultural products remained relatively low at harvest time, internal procurement of foodgrains by the government which had previously helped in stabilizing producers' price, has declined sharply in recent years. In spite of such adverse circumstances, small and marginal farmers were compelled to sell their produce at the going price soon after harvest, in order to repay past loans and to meet immediate consumption needs. Such studies concurred that financial help for the upliftment of their economic status must come through government interventions that enabled them to increase production and income. The reorganization of rural institutional credit was regarded as a prerequisite for ensuring coordination of the agricultural credit program with complementary arrangements for marketing and processing, as well as other economic activities of the cultivators.

## **1.4 Justification for the Present Study**

### **1.4.1 Gaps in the Literature**

While revealing the vast range of issues relating to institutional and agricultural credit covered in the existing literature sources, the foregoing review has also exposed less explored areas in this field where more work needs to be done. Considerable work relating to the general nature of credit needs among rural borrowers, the quantum of agricultural credit requirements, and the credit delivery systems and credit recovery systems functioning within institutional credit markets has already been done by international consultants as well as individual researchers for specified purposes, both in Bangladesh and elsewhere. However, no in-depth study on the credit needs of small and marginal farmers in Bangladesh and their relative access to credit from formal sector banks has yet been carried out. The present study will seek to fill this knowledge gap.

### **1.4.2 Objectives & Scope of the Study**

The broad objective of the present study is to examine and evaluate the performance of formal sector

banks in agricultural credit operations in Bangladesh with particular reference to the credit needs of small and marginal farmers in the country. The specific purposes of the study are

- (a) to analyse the working of the rural economy and rural financial markets in Bangladesh;
- (b) to examine, in the historical perspective, the agricultural credit situation currently prevailing in Bangladesh;
- (c) to evaluate the performance of formal sector banks in agricultural credit operations;
- (d) to highlight the need for incorporating small and marginal farmers into special agricultural credit programmes;
- (e) to identify the problems currently faced by the banks and their borrowers while dealing with agricultural credit;
- (f) to suggest policy measures that would help in improving the present agricultural credit situation in Bangladesh.

In the light of these objectives, a study would be made of the working of rural financial markets [RFMs] in Bangladesh which, in their present form, include the *formal*, *semi-formal*, and *informal* credit sectors. The credit institutions functioning in the formal sector include all public sector banking institutions, including the NCBs, the specialised agricultural banks, and the Samabaya Bank or cooperative bank. The semi-formal sector includes micro-credit institutions and micro finance programs, most of which are administered and run by non-governmental organisations [NGOs]. The informal sector includes all private credit transactions falling outside the purview of the regulated banking framework.<sup>43</sup> Past studies in Bangladesh have documented the dominance of the informal credit sector in rural finance with a proportionate share of around 57 percent), followed by formal banking institutions with a share of 35 percent, and semi-formal micro-credit organisations with a share of 8 percent.<sup>44</sup>

However the domination of the informal sector in financial intermediation is an unhealthy indicator for rural finance, since this sector charges higher interest rates and does not adhere to any banking regulations, and is therefore least sustainable as a sound financial market. Since numerous studies on the informal credit sector already exist, the present study excludes this sector from its empirical investigation. The semi-formal credit institutions which have now proliferated all over Bangladesh still cover a limited section of the rural population, and rely heavily on the mobilization of loan capital from foreign sources, which is not conducive to longterm financial sustainability. Since their lending patterns do not address the needs of agriculture and are directed towards non-formal rural activities, the semi-formal credit sector is also excluded from the empirical investigation.

Hence, the present study concentrates its attention on the formal credit sector, mainly comprising public sector banks, which are relatively large in size, have a broad institutional base and provide wide loan coverage, while remaining accountable to the citizens. Tremendous scope still exists for improving the working of these formal credit institutions if they are efficiently managed and provided adequate financial support by the Government and by other agencies. The principal focus of the empirical study is on identifying how public sector banks can operate more effective crop credit programs that can meet the credit needs of small and marginal farmers in Bangladesh. The credit needs of allied village activities such as animal husbandry and fisheries are not directly addressed by this study because of the insignificant contribution they presently make to the GDP of Bangladesh.

### 1.4.3 Justification for the Study

Among the major socioeconomic objectives of national development policy in Bangladesh is to ensure that developmental benefits do not accrue only to privileged sections in the community but percolate to the underprivileged social sections as well. However, the working of the institutional credit structure has yet to be evaluated against this principle in order to ascertain the extent to which the credit flow to agriculture has reached unprivileged sections of the rural community, comprising the country's small and marginal farmers.

The Census of Agriculture conducted in Bangladesh in 1996<sup>45</sup> had revealed the existence of a total of 1,17,98,242 farm holdings in the country. Among these, 79.87 percent were marginal or small holdings ranging between 0.05-2.49 acres in size, 17.61 percent were medium holdings ranging between 2.50-7.49

acres in size, and only 2.52 percent were large farm holdings with a size exceeding 7.50 acres. The high concentration of small and marginal farmers in Bangladesh shows that special attention needs to be given by the formal credit sector to farmers in this class when extending institutional credit support to agriculture. Despite their collective importance, however, small and marginal farmers in Bangladesh presently do not receive adequate credit from formal sources. The reasons that underlie this neglect are many, and include administrative inefficiency and the lack of proper coordination between formal credit institutions, procedural red-tape within the credit institutions, the financial constraints faced by the formal credit institutions, as well as their collective failure to attract adequate credit responses from small and marginal farmers.

A large number of studies on the role of agriculture in the economy, the functioning of RFMs and the banking sector in Bangladesh, and the pressing need for agricultural development and agricultural credit have been conducted over the past 25 years, including those by Khanam,<sup>46</sup> Quasem,<sup>47</sup> International Fertilizer Development Center,<sup>48</sup> Government of Bangladesh and World Bank,<sup>49</sup> However, studies that specifically address the role of financial intermediation by public sector banks in the intensification of agriculture in Bangladesh, and in the diversification of credit operations to rural areas to benefit small and marginal farmers are found to be largely absent in the economic literature on the Bangladesh economy. As a result, the access of small and marginal farmers to rural institutional credit remains a little-researched issue. The present study, which is the first of its kind, will address these issues from the perspective of cost-effectiveness of the financial services presently rendered to rural areas in Bangladesh.

The study will also evaluate the performance of the formal rural financial institutions, and make recommendations on alternative policies and institutional changes that would improve their performance. Since the study focuses on a section of the rural farm population which currently has little or no access to such services, the study can claim immense significance. Hence the findings of the study are expected to be of great use to Government policy planners and bankers in Bangladesh in formulating an effective agricultural credit policy that can guide the rural credit operations of formal sector banks in the country.

## 1.5 Methodology of the Study

### 1.5.1 Operational Definitions and Research Hypotheses

Concepts and operational definitions are explained below in the sense that they have been used in the study.

*Rural* means "characteristic of and suitable for the countryside",<sup>50</sup> or "pertaining to the countryside".<sup>51</sup> Thus a rural area is essentially an area characterized by non-urban modes of life in its occupational structure, social organization and settlement patterns. Elaborating on this definition, Mishra & Sundaram state that in a geographical sense, "rural is essentially agricultural, its settlement system consists of villages or homesteads; socially it connotes greater interdependence among people, more deeply rooted community life and a slow moving rhythm of life built around nature and natural phenomenon; and occupationally it is highly dependent on crop farming, animal enterprises, tree crops and related activities".<sup>52</sup>

*Rural finance* and *agricultural finance* are often considered to be synonymous, because of the relatively high importance that agriculture has in the rural economy. However, many other potential activities exist in rural areas which need financial support. The present study confines its attention to agricultural finance alone, which includes the funds borrowed by farmers to finance the purchase of new land or to release hypothecated lands, to make permanent improvements on land, or to purchase agricultural inputs and equipment, etc., and to meet consumption expenses. The terms 'finance', 'credit' and 'loans' are used interchangeably in the study.

*Formal Sector Banks* are a principal constituent of the rural credit sector in Bangladesh. Besides them, the RFMs include *informal* and *semi-formal* credit agencies.<sup>53</sup> The present study deals mainly with the performance of the formal sector banks in Bangladesh, which include NCBs such as Sonali Bank, Janata Bank and Agrani Bank, and specialized rural and agricultural banks such as the Bangladesh Krishi Bank [BKB], the Rajshahi Krishi Unnayan Bank [RAKUB] and the Bangladesh Samabaya Bank Ltd. [BSBL].

*Households* are the basic unit of inventory in the Agricultural Censuses of Bangladesh. For the purpose of the present study, a household refers to a group of persons including dependants, relatives, servants, etc.,

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who normally live together and have common cooking arrangements.<sup>54</sup> In this sense, a household may be a one-person household or a multi-person household. In certain cases, more than one household may dwell in a single house, or a single household may occupy more than one house or dwelling space.

*Family Structures* in Bangladesh include both unitary and joint families. The typical unitary family comprises a married couple and their unmarried offspring, although in individual families, one or more other relatives may occasionally reside with them. The typical joint family comprises more than one married couple, and may include both their married or unmarried offspring as well as the offspring of later descendants and other additional relatives.

*Agricultural holding* is a technoeconomic unit of agricultural production held under single management, and comprises all land and livestock holdings used wholly or partly for farm production, without regard to title, legal form or size. Thus the definition embraces practically all holdings and all households engaged in agricultural production and animal husbandry.

*Farm holding* is a small agricultural production unit that includes all lands operated under single management and used wholly or partly for agricultural purposes, without regard to title, size or location. In the present study, farm holdings have been classified as the land under the operational possession of the rural household. However, households holding less than 0.05 acres of cultivated area are treated as non-farm household.<sup>55</sup> Lands measuring upto 0.04 acres that are generally utilized as kitchen gardens within the homestead area are excluded from the definition. Thus the qualifying size of operated land for classification as a farm holding is 0.05 acres or more. Cultivable land exceeding 0.05 acres that may be held in smaller parcels spread over several villages but remains under singular operational control qualifies as a single farm holding.

*Owned land* refers to the lands held under title by their holder or his or her family members, with the right to determine the nature and extent of use and transfer of lands. Other categories of land over which the holders have owner-like possession are included within the definition of owned land.

*Homestead area* refers to the area within which the landholder's household resides, including all courtyards and structures, as well land occupied by passages for entrance and egress. However lands adjacent to the holdings which are assigned to the cultivation of temporary or perennial crops, or are ponds and tanks or compact plantation are excluded from the homestead area.

*Fallow land* means the land which the farmers do not usually employ for cultivation, which may include land that has been kept fallow as a grazing ground for livestock.

*Cultivated area* is the area of land that is actually being cropped, regardless of the type or number of crops grown. It includes land that is under temporary crops and permanent crops.

*Operated area* is the land owned by the holder or rented by him or her from others minus any owned land that has been given to others on rent. It also includes uncultivated lands held by the holder, including homestead areas.

*Irrigated area* includes cultivated lands where irrigation has been artificially provided either through mechanical or manual means for raising crops. The source of irrigation may comprise surface water sources such as rivers, canals and ponds, or underground water sources, such as tubewells, etc.

*Agricultural work* on the holding refers to all agricultural activities of the holder and his or her labour force involving the planning, management and operation of the holding. Such activities include the preparation of land; sowing, tending and harvesting of crops; feeding and tending livestock and poultry; working on the fields or kitchen gardens; supervising agricultural workers; processing agricultural products for the market through either manual or mechanical means; repairing farm equipment and machinery; constructing farm buildings and fences; and engaging in land reclamation and improvement and related activities. They exclude all work relating to the operation of the home, including domestic work and other family work.

*Agricultural labour* is defined as the labour exchanged in lieu of wages in cash or in kind that is engaged in agricultural activities on land operated by other holders. Agricultural labourer households are households whose major source of income is the hired agricultural labour performed by their members.

### 1.5.2 Research Methodology

The word method originates in the Greek words *meta* and *hodos* which mean “a way”,<sup>56</sup> and methodology is thus defined as “the underlying principles and rules of organization of a philosophical system or inquiry procedure”.<sup>57</sup> The methodologies of social research may differ from one research study to another, depending on the principal objectives of the study. The present study is undertaken with a diagnostic outlook, and hence uses a descriptive methodology with an analytical base. The method of comparison over time and space has frequently been adopted while investigating the evolution of agricultural credit in Bangladesh and analyzing changes therein. Data used in the study have been collected from various published sources as well as through field investigation in Bangladesh.

### 1.5.3 Data Types and Sources

Secondary materials used in the study included various administrative orders, reports and planning documents of the Government of Bangladesh as well as manuals and guidelines used by the different banks. Statistical information was culled from statistical yearbooks, annual banking reports and departmental publications. Several academic sources including published papers, dissertations and books were consulted in the course of the study.

In order to acquire first-hand knowledge of RFMs in Bangladesh, three micro level field surveys using structured questionnaires [see *Appendices B, C & D*] were undertaken in Daudkandi upazila (literally, subdistrict) located in Comilla district in eastern Bangladesh. The purposive selection of Comilla district as the site for field investigation was done in view of its importance as a prominent agricultural district in Bangladesh. During these field studies, financial ledger information was collected from 14 branches of the formal sector banks functioning in Daudkandi upazila through a simple branch questionnaire that was sent to individual bank branches [see *Appendix-A*], in order to assess the broad patterns of rural credit disbursement and recovery. After making the assessment, selected field and branch staff of these bank branches and bank officers from the divisional and regional offices of the banks were interviewed in order to elicit their opinions regarding the policies, objectives and strategy of agricultural credit, and the difficulties encountered by the banks in terms of organizational limitations, and staff and fund inadequacies.

The third part of the field study interviewed a sample of farmers belonging to different operational size-classes who lived in a selected sample village served by the Daudkandi banks. In policy terms, these sample farmers were supposed to be direct beneficiaries of agricultural credit. The interviews of farmers enabled the identification of their family structure and status, the lands they operated and the cropping patterns practised, the incomes and creditworthiness of farm families and their credit requirements for various purposes, and the difficulties they currently encountered in obtaining institutional credit from banks. Comparison of the survey results enabled a diagnosis to be made about problems that currently characterize RFMs in Bangladesh, and suggest means for their redress.

## 1.6 The Primary Study

### 1.6.1 Selection Criteria

For empirical investigation of problems that afflict the rural institutional credit sector in Bangladesh, the area chosen for intensive study was the village of Maligaon in Daudkandi upazila. The main reason for locating the empirical study in Comilla Zila was related to its long historical background as a well-cultivated rice-growing area in the erstwhile Tippera district<sup>58</sup> and later in Bangladesh. With its vast endowment of water resources,<sup>59</sup> Comilla is densely settled, as a result of which the principal economic activity comprises smallholder agriculture. The high proportionate concentration (90.74 percent) of small and marginal farmers in the district gave the empirical study special importance, in view of the relatively strong presence of formal sector banks in the district [cf. *Appendix-E*]. The study village was selected purposively within the district so that representative sample results might be obtained.

### 1.6.2 Survey Methodology

The branch questionnaire schedule [*Appendix-A*] was used to gather financial information from 14 branches of the formal sector banks functioning in Daudkandi upazila in order to assess their rural credit performance. A structured questionnaire [*Appendix-B*] used during the interviews of bank personnel covered

30 bankers belonging to official, managerial and supervisory grades. The second structured questionnaire [Appendix-C] was used during the complete census enumeration of all households residing in Maligaon village. Of the 516 household heads interviewed in the study village, 282 were found to be engaged in the farming. A sample of 100 farming households was selected on random basis from these 282 households and the household heads were interviewed with a detailed and rigorously-structured questionnaire [Appendix-D] seeking information about social and economic conditions, agricultural patterns and agricultural credit needs. All questionnaires used for the empirical study were pretested on the field before finalisation and execution.

### 1.6.3 Analysis of Data

All data and other information collected from primary and secondary sources was compiled, computer-tabulated and analysed. The tables compiled from the secondary primary data have been widely used throughout the present dissertation, and comprehensively analyzed in order to draw instructive inferences about the rural credit structure in Bangladesh. Standard numerical techniques such as ratio analysis and averaging and the analysis of variance have been widely used for data analysis and presentation. The use of structured tables and graphs helped the exposition of insights gained from the study.

### 1.7 Organisation of the Thesis

The study has been organized under nine chapters. The present chapter or Chapter-1 has dealt with the importance of agriculture and agricultural credit as a background to the study, the current rural credit situation in Bangladesh and problems of agricultural credit. These have been followed by an investigation of issues found in relevant literature which underlie the research hypotheses and methodology of the study. Chapter 2 provides an overview of the rural economy and current state of rural financial markets in Bangladesh. Chapter 3 makes an investigative analysis of the present banking system in Bangladesh. Chapter 4 explores the present agricultural credit situation in Bangladesh and analyzes its problems. Chapter 5 deals mainly with the operational performance of formal credit institutions in Bangladesh in terms of their agricultural credit operations in rural areas.

With the background to the empirical investigation being laid out in the earlier chapters, Chapter 6 makes a descriptive exploration of the selected study region and study village, and takes special notes on the working of existing formal credit institutions located in the study area. Chapter 7 outlines the activities of the NCBs and Agricultural Banks [BKB] that operate in the study area, and the operational attitudes among bank officials with regard to agricultural credit operations. Chapter 8 deals with an investigation based on existing credit facilities available in the study area and their impact on the farmers. The problems and the opinions of other residents in the study area have already been discussed in this chapter. Chapter 9 makes a summary of the findings of the study, and concludes by making specific suggestions and recommendations.

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## 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."*<sup>1</sup>

### 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.<sup>2</sup> 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.<sup>3</sup>

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".<sup>4</sup>

#### 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.<sup>5</sup> 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.<sup>6</sup>

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.<sup>7</sup> 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.<sup>8</sup>

**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
<b>BANGLADESH</b>	<b>147570</b>	<b>106316</b>	<b>720</b>	<b>490</b>	<b>4451</b>	<b>600</b>	<b>59990</b>	<b>301.2</b>	<b>217.0</b>
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.<sup>9</sup> 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,<sup>10</sup> 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.<sup>11</sup> 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.<sup>12</sup>

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,<sup>13</sup> and was estimated to have increased further to 127 million by 1998.<sup>14</sup> Of this, urban population was estimated at 19.6 percent and the population residing in rural areas at 80.4 percent.<sup>15</sup>

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.<sup>16</sup>

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.<sup>17</sup> 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.<sup>18</sup> 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)<sup>19</sup> 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,<sup>20</sup> 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.<sup>21</sup> 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.<sup>22</sup> 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.<sup>23</sup> While the growth rate has risen since then and reached 3.4 percent per annum<sup>24</sup> 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.<sup>25</sup> 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
<b>Total rice</b>	<b>13.8</b>	<b>14.6</b>	<b>17.8</b>	<b>17.8</b>	<b>18.2</b>	<b>18.3</b>	<b>18.0</b>	<b>16.8</b>	<b>17.6</b>	<b>18.8</b>
Wheat	1.09	1.48	0.89	1.00	1.07	1.18	1.13	1.25	1.37	1.46
<b>Major Foodcrops</b>	<b>14.9</b>	<b>16.1</b>	<b>18.7</b>	<b>18.8</b>	<b>19.3</b>	<b>19.5</b>	<b>19.1</b>	<b>18.0</b>	<b>19.0</b>	<b>20.3</b>
(% 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.<sup>26</sup>

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.<sup>27</sup>

**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.<sup>28</sup> 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.<sup>29</sup> 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
<b><i>Ground water</i></b>						
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
<b><i>Surface water</i></b>						
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.<sup>30</sup> 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.<sup>31</sup> 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.<sup>32</sup> 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.<sup>33</sup> 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.<sup>34</sup> 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.<sup>35</sup>

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.<sup>36</sup> 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.<sup>37</sup> 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),<sup>38</sup> 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.<sup>39</sup> 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.<sup>40</sup> 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.<sup>41</sup> 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.

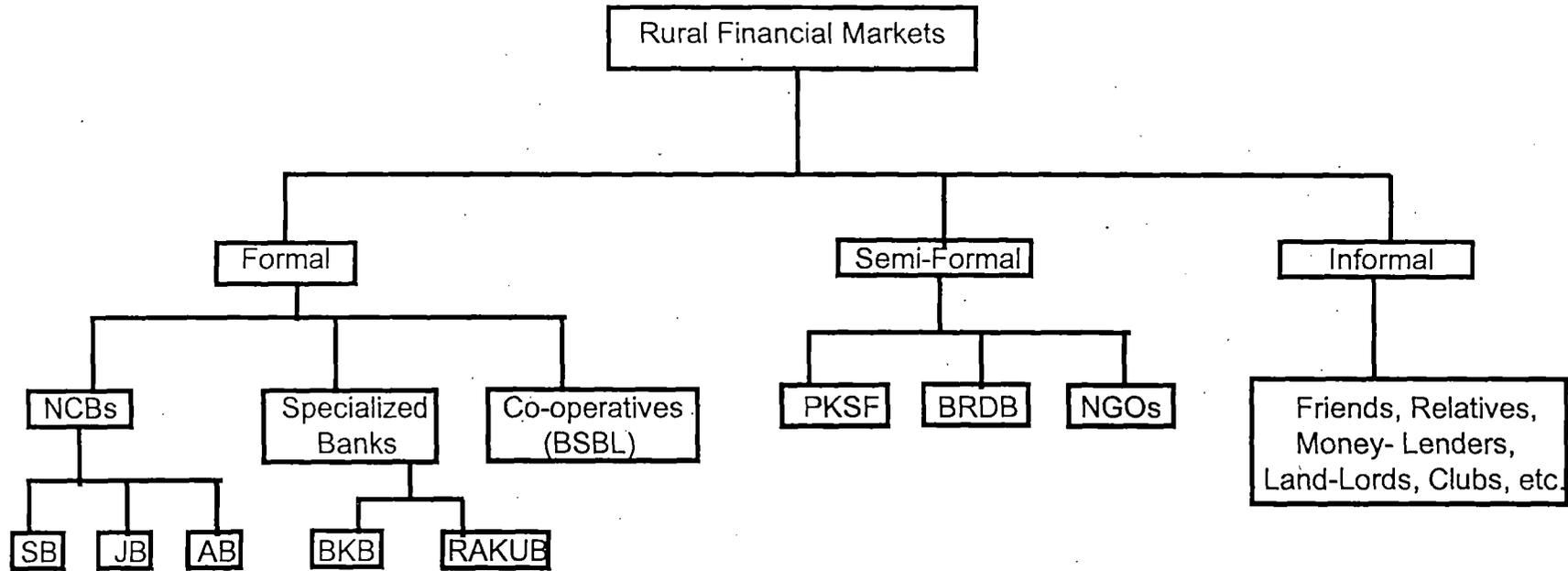
### 2.4.1 Institutional Structure of RFMs

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,<sup>42</sup> 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.<sup>43</sup> 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.<sup>44</sup> 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.<sup>45</sup>

**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.<sup>46</sup> 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.<sup>47</sup>

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.<sup>48</sup>

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.<sup>49</sup> 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.<sup>50</sup>

### (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.<sup>51</sup> 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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## Chapter - III

# The Banking System in Bangladesh

### 3.1 Banking in Bangladesh

Because of its shared history with India and Pakistan, the historical background of banking in Bangladesh is similar to these countries. Banking activity commenced in Bengal when the Agency Houses at Calcutta started banking operations for the convenience of their constituents. Prominent among these trading firms were establishments like Alexander & Co. and Fergusson & Co. However, banking operations of this early type did not resemble formal banking. Thus the earliest formal bank in British India was the Bank of Hindustan, which commenced banking operations under the directions of the British rulers.

#### 3.1.1 Origins of National Banking Institutions

Shortly after the partition of British India into Pakistan and India in 1947, an Expert Committee was appointed to study banking issues in the context of the new state of Pakistan. Under recommendations from the Expert Committee, the erstwhile Reserve Bank of India continued to function in Pakistan up to 30 September 1948. Thereafter the State Bank of Pakistan was established as an independent state banking institution on 1 July 1948.<sup>1</sup>

The province of East Pakistan became the independent country of Bangladesh in December 1971. No banks had been headquartered in East Pakistan prior to independence, and only branches of the State Bank of Pakistan, i.e. the central bank, functioned in the country. Another dozen local and foreign commercial banks had also been functioning with 1299 branches in East Pakistan.<sup>2</sup> Over the duration of the Liberation Struggle, all banks continued to remain under the control of Pakistan. These were abandoned when the Pakistani authorities left the country. The new Government of Bangladesh promulgated the Bangladesh Bank Order, 1971 [Acting President's Order No.2 of 1971]<sup>3</sup> to rehabilitate the war-devastated banking sector. Under this Order, the State Bank of Pakistan was deemed and declared the Bangladesh Bank, the new central bank of the new country. All assets, offices and branches of the State Bank of Pakistan were declared as assets, offices and branches of the Bangladesh Bank. The Order also declared that all currency notes and coins issued by the State Bank of Pakistan and Government of Pakistan would continue as legal tender and would be deemed to have been issued by the Bangladesh Bank, until otherwise directed by the Government of Bangladesh. Thus the new banking structure of Bangladesh was given a legal shape by the Bangladesh Bank Order.

On Independence Day, i.e. the 16th of December 1971, 12 banks were operating in Bangladesh.<sup>4</sup> These were, namely

- (i) The National Bank of Pakistan
- (ii) The Bank of Bahawalpur Ltd.
- (iii) The Premier Bank Ltd.
- (iv) The Habib Bank Ltd.
- (v) The Commerce Bank Ltd.
- (vi) The United Bank Ltd.
- (vii) The Union Bank Ltd.
- (viii) The Muslim Commercial Bank Ltd.
- (ix) The Standard Bank Ltd.
- (x) The Australasia Bank Ltd.
- (xi) The Eastern Mercantile Bank Ltd.
- (xii) The Eastern Banking Corporation Ltd.

To avoid the crises that might arise due to the political changeover, the Government of Bangladesh promulgated a second law under the Bangladesh (Administration of Banks) Order, 1971 [Acting President's Order No.3 of 1971]<sup>5</sup> making administrative provision for those banks whose head-offices were in Pakistan. An Administrator was appointed under this Order for the management and control of all such banks. Arrangements were also made to vest all the powers of the Board of Directors of these banks in the Government of Bangladesh, and to take care of other incidental matters under due provisions of the same law.

### 3.1.2 Nationalisation of Banks and After

Soon after Independence, the Government adopted a socialist development strategy for Bangladesh, under which it aimed at building a society in which wealth would be distributed as equitably as possible. As financial institutions, the banks in the country were custodians of private savings and also mobilised resources for the country while accepting deposits and channelising them into credit flows for national and industrial development. Accordingly, the Government of Bangladesh decided to nationalise all banks in order to implement its development strategy and promulgated the Bangladesh Bank (Nationalisation) Order, 1972 [President's Order No.26 of 1972] on 26 March 1972.<sup>6</sup> The major provisions of the Nationalisation Order, 1972 mainly dealt with the powers to make banking rules and regulations, the mode of transfer of the undertakings of existing banks, the reorganisation of existing banks and their constitution into six new banks, the management of the new banks, and the terms and conditions of service of the employees of existing banks under the new banks. Under the Order, all 12 existing banks were nationalised and reorganised into six separate institutional entities.

#### 3.1.2a *Transfer of Undertakings of Existing Banks*

Six new banks were constituted under Articles 4 and 5 of the Nationalisation Order, 1972, each having all the legal characteristics of a corporate body such as a common seal and continuous succession subject to the provisions of the law. Each new bank was empowered to acquire, hold and dispose of property in its own name. The undertakings of existing banks were transferred and vested with the new banks in accordance with pattern below.

**Table 3.1: Pattern of Reorganisation of Banks under the Nationalisation Order, 1972**  
[in lakh Taka]

Existing Banks	Authorised New Bank	Paid-up Capital	Capital
The National Bank of Pakistan The Bank of Bahawalpur Ltd. The Premier Bank Ltd.	Sonali Bank	500	200
The Habib Bank Ltd. The Commerce Bank Ltd.	Agrani Bank	500	100
The United Bank Ltd. The Union Bank Ltd.	Janata Bank	500	150
The Muslim Commercial Bank Ltd. The Standard Bank Ltd. The Australasia Bank Ltd.	Rupali Bank	500	100
The Eastern Mercantile Bank Ltd.	Pubali Bank	500	100
The Eastern Banking Corporation Ltd.	Uttara Bank	500	100

Source: Bhuiya [1994]: *Bangladesh Laws on Banks and Banking*, p.490

All tools and instruments, and ways and means of the existing banks were taken over under the Nationalisation Order. The Order also contained provisions on the authorised capital, functions, accounts and audit activities of the new banks. The general direction and management of the business affairs of the new banks was vested in their Board of Directors, which according to Article 10 of the Nationalisation Order, 1972, was to comprise "the Managing Director and six Directors, to be appointed by the Government, at least three of whom shall be from amongst persons who, in the opinion of the Government, have experience and shown capacity in the field of finance, banking, trade, commerce, industry or agriculture." Subject to

other provisions of the Order, a Director other than Managing Director, would hold office for three years and would be eligible for reappointment. The Board was empowered to exercise all powers and take all actions that the new banks were authorised to exercise.

**Table 3.2: Present Structure of Banking in Bangladesh**

<b>A. <u>Bangladesh Bank</u></b>	
<i>[Central Bank of the Bangladesh]</i>	
<b>B. <u>Nationalised Commercial Banks</u></b>	
1. Sonali Bank	2. Agrani Bank
3. Janata Bank	4. Rupali Bank Ltd.
<b>C. <u>Specialised Banks</u></b>	
1. Bangladesh Krishi Bank	2. Rajshahi Krishi Unnayan Bank
3. Bangladesh Samabaya Bank Ltd.	4. Bangladesh Shilpa Bank
5. Bangladesh Shilpa Rin Sangstha	6. Bank of Small Industries and Commerce
7. Ansar VDP Bank Ltd.	8. Grameen Bank
9. Employment Bank	
<b>D. <u>Local Private Banks</u></b>	
1. Pubali Bank Ltd.	2. Uttara Bank Ltd.
3. Al-Arafa Bank Ltd.	4. Arab Bangladesh Bank Ltd.
5. National Bank Ltd.	6. City Bank Ltd.
7. United Commercial Bank	8. IFIC Bank Ltd.
9. Islami Bank Ltd.	10. South-East Bank Ltd.
11. Dhaka Bank Ltd.	12. Eastern Bank Ltd.
13. Social Invest Bank Ltd	14. Dutch Bangla Bank .
15. Prime Bank Ltd.	16. Al-Baraka Bank Ltd.
17. Credit & Commerce Bank	
<b>E. <u>Foreign Banks</u></b>	
1. American Express Bank Ltd.	2. Standard Chartered Bank Ltd.
3. Grindlays Bank Ltd.	4. Habib Bank Ltd.
5. State Bank of India	6. Bank of Indo Suez
7. National Bank of Pakistan	8. Muslim Commercial Bank
9. Citibank N.A.	10. Faysal Islami Bank of Bahrain
11. Hanyil Bank Ltd.	12. Society General
13. The Hong Kong and Shanghai Banking Corporation Ltd.	

### 3.1.2b Denationalisation

With the passage of time, the Government of Bangladesh recognized the need for denationalising some of the nationalised commercial banks [NCBs] to develop an efficient financial system for the country. After accordingly amending the relevant provisions in the Nationalisation Order, Pubali Bank and Uttara Bank were transferred to the private sector in 1984, and have since been redesignated as the Pubali Bank Ltd. and the Uttara Bank Ltd. On 14 December 1986, Rupali Bank was also transformed into a Public Limited Company by reducing Government equity to 51 percent and opening 49 percent of the bank's shares to public subscription. The bank was then redesignated as the Rupali Bank Ltd.<sup>7</sup> During the process of financial reforms in Bangladesh, an Expert Committee composed of the Managing Directors of all banks and financial institutions and headed by the Finance Secretary was also constituted by the Government of Bangladesh to suggest amendments and modifications to the Banking Companies Ordinance, 1962, which was adjudged to have outlived its purpose, particularly in view of the socioeconomic conditions facing the independent nation. In recognition of the changed situation, the Government abrogated the said Ordinance of 1962 and, in accordance with the recommendations of the Committee, the new Banking Companies Act, 1991 [Act No.14 of 1991] has thereafter guided the banking sector in the country.<sup>8</sup>

### **3.2 Present Structure of Banking in Bangladesh**

In 1972, when all commercial banks in Bangladesh were nationalised, three specialised banks, namely the Bangladesh Krishi Bank, the Bangladesh Shilpa Bank and the Bangladesh Samabaya Bank, were established to cater to the specialised banking and credit needs of the agricultural, industrial and cooperative

sector in the country. After the institutional changes that have subsequently taken place, 4 Nationalised Commercial Banks [NCBs], 9 specialised banks, as well as 17 locally-owned private banks and 13 foreign-owned banks now function within Bangladesh.<sup>9</sup> The present structure of banking in Bangladesh has been outlined schematically above, and the functions and operations of the different banking institutions will now be examined.

### 3.2.1. The Bangladesh Bank

The Bangladesh Bank became the central bank of the country after the provincial branch of the State Bank of Pakistan was deemed as the Bangladesh Bank. Because of the period spent in recovering after the Liberation War, establishment of an organised and full-fledged Central Bank was delayed until promulgation of the Bangladesh Bank Order, 1972 [President's Order No.127 of 1972] on 31 October 1972. Through the Order, the Bangladesh Bank became the new country's central bank on permanent basis with retrospective effect from 16 December 1971.<sup>10</sup> The entire paid-up capital of Tk.3.00 crore of Bangladesh Bank was contributed by the Government of Bangladesh. Various other statutory funds have been created from time to time by the Bangladesh Bank from its annual operating profits. Apart from its Head Office branch in Dhaka, the Bangladesh Bank operates through two other branches in the city and one branch in each of the principal districts of Chittagong, Rajshahi, Khulna, Bogra, Sylhet, Rangpur and Barisal.

The functions and responsibilities of Bangladesh Bank are similar to those of the central banks in other developing countries. The Bangladesh Bank has the sole authority to issue bank notes and regulates the issue of currency in Bangladesh. This power enables the Bank to control the money supply of the country. The Bank also resorts to credit controls and other supportive measures for the efficient and successful implementation of the monetary policies of Bangladesh. The Bank is obligated to transact the banking business of the Government and thus accepts money on account of the Government and also makes payments on behalf of the Government. The Bank looks after the financial transactions of the Government of Bangladesh and manages the public debt. It also makes exchange remittances and carries out other banking operations. Moreover, as the banker to the Government, the Bangladesh Bank advises the Government on policy measures for overall monetary management and development of the nation. The Bangladesh Bank also supervises and controls the activities of commercial banks of the country under the powers assigned by the Bangladesh Bank Order, 1972. It acts as a banker to the commercial banks, who maintain deposit accounts with the Bangladesh Bank and also draw credit from the Bangladesh Bank in times of necessity. The Bangladesh Bank thus acts as a lender of the last resort by providing rediscounting facilities to the country's commercial banks.

The Bangladesh Bank is responsible for maintaining the internal and external value of the currency of the nation, namely the Taka. It is also concerned with the development of a sound and healthy commercial banking system, for which it ensures effective coordination and control of credit through appropriate monetary and credit policy measures. Additionally, it acts as the promoter of financial institutions in the country so that its policies can be effectively implemented to the service of economic growth, in terms of guidelines and policies formulated by the Government. The foremost duties of the Bangladesh Bank are to see that all banking business in the country is carried out on sound financial principles and to help in the provision of banking facilities throughout Bangladesh.

### 3.2.2 The Nationalised Commercial Banks

Before the liberation of Bangladesh in 1971, all commercial banks operating in the territory with the exception of the National Bank of Pakistan [NBP] and the Eastern Mercantile Bank Ltd, [EMBL] were privately-owned. The National Bank of Pakistan was partly owned by the Government and partly by private banking interests. After the Government's decision in 1972 to nationalise all banks in the country, the private banks operating were reorganised into six new NCBs, as described above. In partial reversal of this move, two NCBs namely Pubali Bank and Uttara Bank were privatised in 1983 while the Rupali Bank was partially privatised in 1986 when it became a Public Ltd. company.<sup>11</sup>

In keeping with the Government's economic thinking at the time, all NCBs were assigned a developmental role and asked to pay their fullest attention to ensuring the fulfilment of the socioeconomic objectives of Government policies. Special emphasis thus came to be laid on expansion of their branch

networks across the country in order to extend the scope of their activities beyond traditional banking. It was envisaged that, besides providing credit for trade and commerce, the NCBs would liberally grant loans to national priority-sectors such as agriculture, non-traditional exports and small industries, as well as to numerous small borrowers and unemployed youths, as well as to less-developed regions within the country. Beginning with latter half of the 1970s, considerable importance was attached to the extension of banking services into interior rural areas. This policy of branch expansion became a notable success as NCB rural branch networks reached the doorsteps of the rural population of Bangladesh in order to mobilise rural savings. As a consequence of the policy thrust, the NCBs now have a network of 3617 branches spread over Bangladesh.<sup>12</sup> Substantial expansion in the rural banking network immediately led to a significant increase in rural bank deposits from Tk.231.62 crore in June 1978 to Tk.307.86 crore in December 1978, representing an increase of Tk.76.24 crore (32.91 percent). Over the same duration, urban bank deposits expanded by Tk.292.51 crore (19.29 percent), touching Tk.1.808.58 crore at the end of the period.<sup>13</sup> The rising trends have strengthened since then, and deposits mobilised from the rural areas rose to Tk.11,170.84 crore by the end of March 1998. As a result of the high rate of increase in rural deposits, the share of rural deposits in total bank deposits in Bangladesh rose from 13.25 percent in 1978 to 22.7 percent in 1998.<sup>14</sup>

A number of factors have worked jointly to ensure expansion of rural banking operations in Bangladesh. Through powers assigned under the Banking Companies Act, 1991 [Act No.14 of 1991],<sup>15</sup> only the Bangladesh Bank can issue licences to commercial banks for opening new branches and conducting banking business. No commercial bank can commence business without obtaining a licence for each of its branches. Under conditions imposed by the Bangladesh Bank in exercise of these powers, all commercial banks were required to open two new rural branches for every new urban branch for which a licence was issued. Implementation of this condition soon ensured the rapid proliferation of rural branches in the country. A separate rural branch expansion programme was also drawn up subsequently which required the banks to extend their operations to all the Unions of the country within a specified timeframe. Again, in pursuance of the Government decision in 1977 to expand agricultural financing operation in the country, all NCBs had to aggressively extend their rural branch networks and expand their involvement in rural banking. The consequent increase in the number of rural branches has been very rapid over the late-1970s and the 1980s. Overall, there has been tremendous growth in banking facilities in Bangladesh during the post-independence period, well reflected in the expansion of NCB branches from 1,299 in 1972-73 to 5,973 by 1998-99.<sup>16</sup>

### 3.2.3 Specialised Banks

Of the nine specialised financial institutions listed above, three - namely, the Bangladesh Krishi Bank [BKB], the Rajshahi Krishi Unnayan Bank [RAKUB] and the Bangladesh Shilpa Bank [BSB] are nationalised banking institutions which are entirely Government-owned. Six others - namely, Bangladesh Shilpa Rin Sangstha [BSRS], Bangladesh Samabaya Bank Ltd [BSBL], Bank of Small Industries and Commerce [BASIC], Ansar VDP Bank Ltd., Grameen Bank and Employment Bank - have been working as development banking institutions.<sup>17</sup> The BKB was established in just after liberation under President's Order No.27 of 1973 to take over the functions of the former Agricultural Development Bank of Pakistan, and to cater to the needs of agricultural finance and agro-based industries in Bangladesh. RAKUB was established separately in 1987 to provide agricultural credit and thus contribute to the agricultural development of the Rajshahi area, which at that time was a relatively backward region. BSB was established on 31 October 1972 under the President Order No.129 of 1972 to take over the assets and liabilities of the erstwhile Industrial Development Bank of Pakistan [IDBP]. Similarly, BSRS was also established on 31 October 1972 under the President Order No.128 of 1972 after merger of three predecessor institutions, namely the Pakistan Industrial Credit and Investment Corporation [PICIC], the National Investment Trust [NIT] and the Investment Corporation of Pakistan. The other specialised financial institutions, namely Grameen Bank [GB], Bank of Small Industries and Commerce [BASIC], Ansar VDP Bank Ltd. and the Employment Bank were established on October 1983, January 1989, November 1995 and September 1998, respectively.

Among these, the Grameen Bank has acquired an international reputation for its promotion of microfinance activities in Bangladesh. Its loan portfolio mainly comprises small trading loans which the Grameen Bank extends to the targeted poor. Since the targeted poor are mostly landless, the Grameen Bank does not generally disburse agricultural credit. BASIC engages in all general banking services, but lays special emphasis on financing medium-term fixed and working capital loans for the development of the

small-scale and cottage industries sector. The Ansar VDP Bank Ltd. works for the development of rural economy, and has so far covered the broad rural financing area of fisheries development, livestock & poultry rearing and ancillary activities like horticulture, shrimp culture, cottage industry development, etc.<sup>18</sup> The Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha have emerged as the two major sources of term finance for industry in Bangladesh. They provide both credit facilities and equity support to industrial enterprises in the country, with the main objective of accelerating industrial investment and industrial growth in Bangladesh. Besides extending financial support, they also provide technical advice to industrialists on the setting up of new industrial projects. Assistance is also provided through these institutions to industrial concerns for balancing, modernising, replacing and expanding [BMRE] their capital structure.

### 3.2.4 Local Private Banks

The policy outlook of the Government of Bangladesh regarding the potential role of the private sector began to change after 1976. With changes in economic policy, the need was felt for allowing the entry of local private banks in order to encourage competition among the NCBs and to increase financial support for the growing private sector in the country. Disinvestments in some public sector enterprises during that period added further momentum to the policy changes. Accordingly, the Government of Bangladesh revised its banking policies and decided to allow operation of local private banks on a limited scale and initially permitted six private banks to begin operations in 1983. As shown above, the number of such local private has now increased to seventeen.<sup>19</sup>

Under terms originally outlined by the Company Act, 1913, any private bank must be registered as a public limited company before commencing banking business. The Sponsors and Directors of a bank must be reputable persons with existing involvement in trade, commerce and industry. The Chief Executive, who must be appointed with prior approval of the Bangladesh Bank, must have working experience of not less than 15 years in responsible positions in the banking sector. All requirements of the Banking Companies Ordinances, 1972, and relevant provisions of the Bangladesh Bank Order, 1972, and the instructions issued thereunder by the Bangladesh Bank also apply to the private banks in Bangladesh.

Despite their increasing presence since 1983, private banks in Bangladesh have not yet been able to generate effective competition with the NCBs.<sup>20</sup> It has also been reported that certain private banks have not been adhering to the rules and regulations of Bangladesh Bank.<sup>21</sup>

### 3.2.5 Foreign-owned Banks

Thirteen foreign-owned banks operate at present in Bangladesh, American Express and Grindlays Bank being the largest among them. The foreign banks still account for a relatively small percentage of banking deposits and advances in Bangladesh, but are active in international banking and the foreign exchange sector. Before commencing business in Bangladesh, a foreign bank is required to deposit an amount not less than Tk.5 million with the Bangladesh Bank. This deposit should be brought to Bangladesh through transfer of external funds through normal banking channels. On the date of commencing business, a foreign-owned bank is required to submit a certificate of this deposit to the Bangladesh Bank, accompanied by a statement of its existing assets and liabilities in Bangladesh. A foreign bank is also required to comply with all relevant provisions of the Banking Companies Act, 1962, the Bangladesh Bank Order, 1972, as amended in 1992 and other banking legislations and regulations currently in force in Bangladesh. The location and place of business of a private bank cannot be changed without prior concurrence from the Bangladesh Bank.

## 3.3 The Growth of Banking and Financial Facilities in Bangladesh

The banking sector in Bangladesh has shown remarkable growth during the last 29 years, after all banks functioning in Bangladesh were assigned a development role vis-a-vis the nation, and were directed to expand their networks over the entire country in order to facilitate lending to the priority sectors. Since most Bangladeshi banks are now owned corporately by the Government of Bangladesh or by Bangladeshi nationals and operate under the common guidelines of the Bangladesh Bank, there has been coordinated development of the banking sector since the liberation of Bangladesh in 1971.

Table 3.3: Expansion of the Branch Network of Banks in Bangladesh

Institutions	Number of Branches		Addition over 20 years
	1978-79	1998-99	
Nationalised Banks	2979	3617	638
Specialised Banks	262	1175	913
Private Banks	-	1150	1150
Foreign Banks	20	31	11
Total	3261	5973	2712

Sources: (i) Mongia [1982]: *Banking Around the World*, p.82

(ii) Khan [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh*, 1998-1999, p.i

### 3.3.1 Expansion of Branches

By decision of the Government in 1977, the nationalised commercial banks were required to expand their branch networks into the rural areas in order to become more involved in agricultural financing. The number of rural branches multiplied rapidly during the late 1970s and 1980s. The six NCBs opened 666 new branches in 1977-78 and another 447 branches in 1978-79 raising the total number of NCB branches to 2979 at the end of 1978-79. Because of the priority attached to the spread of banking into rural areas, as many as 348 out of the 447 new branches opened in 1978-79 were located in rural Bangladesh. Similarly, the Bangladesh Krishi Bank opened 55 branches and Bangladesh Shilpa Bank opened branches during the year 1978-79, raising the total number of their branches to 252 and 10 respectively. The total number of branches of commercial banks including 20 branches of the foreign banks which operate in Bangladesh, increased to 3261 at the end of June 1979.<sup>22</sup>

The pace of branch expansion over the years can be assessed from the table above. Over the course of time, banking business in Bangladesh has expanded considerably, and the proliferation of bank branches throughout the country is very noticeable. At present, 43 banks function in Bangladesh, among which are 4 Nationalised Commercial Banks [NCBs], 9 specialised banks, 17 private banks and 13 foreign banks. The total number of bank branches has now reached 5973, of which 2351 (39.36 percent) are located in urban areas and 3622 (60.6 percent) in rural areas.<sup>23</sup>

Table 3.4: Growth of Bank Deposits & Bank Credit in Bangladesh  
1972-73 to 1997-98

[in crore Tk.]

Period (uptil June)	Total Bank Deposits*	Deposits as % of GDP	Total Bank Credit	Credit as % of GDP	Money Supply [M2]	M2 as % of GDP
1972-73	712.4	-	544.25	-	989.10	-
1973-74	913.40	12.06	752.20	9.93	1244.50	16.43
1974-75	1014.30	8.16	828.60	6.66	1259.60	10.13
1975-76	1134.20	10.28	957.90	8.68	1396.90	12.66
1976-77	1438.20	12.40	1204.70	10.39	1739.90	15.00
1977-78	1706.20	17.75	1531.40	10.55	2141.00	14.75
1978-79	2193.40	12.60	1961.80	11.27	2760.00	15.86
1979-80	2680.30	13.67	2663.10	13.58	3244.90	16.55
1980-81	3342.90	14.45	3204.0	13.84	4136.00	17.87
1981-82	3803.30	14.68	4270.0	16.49	4548.70	17.56
1982-83	4948.80	16.82	4912.50	16.70	5898.30	20.05
1983-84	7087.30	19.95	6745.40	18.99	8385.80	23.61
1984-85	9139.20	22.46	9001.80	22.12	10534.20	25.89
1985-86	10800.20	23.16	10763.40	23.09	12338.10	26.46
1986-87	12805.90	23.75	11611.80	21.54	14353.10	26.62
1987-88	15143.90	25.36	13838.10	23.17	16408.00	27.48
1988-89	17860.00	27.08	16395.10	24.86	19078.10	28.92
1989-90	20481.00	27.77	19588.10	26.56	22297.60	30.23
1990-91	23078.40	27.66	21898.80	26.25	25004.40	29.97
1991-92	26561.60	29.30	22304.10	24.60	28525.90	31.47
1992-93	29746.40	31.38	24056.30	25.37	31535.60	33.26
1993-94	33937.90	32.94	24210.00	23.50	36403.00	35.33
1994-95	39073.00	33.39	29207.10	24.96	42212.30	36.07
1995-96	41867.00	32.17	34681.20	26.65	45690.50	35.10
1996-97	46555.10	33.18	38598.90	27.77	50627.50	36.08
1997-98	51745.40	33.58	44077.80	28.60	55724.10	36.16

Notes: \* Including government deposits but excluding inter-bank items.

Sources: Compiled from Bangladesh Bank, *Annual Reports* [various issues] & Ahmed [1999]:24:12

It is clearly seen that under the impetus of the branch expansion programme of the Government, the combined branch network of all banks including foreign banks has grown from 3261 branches in 1978-79 to 5973 branches in 1998-99. The opening of 1150 branches by private banks in that single year also provides clear indication of the growth of private sector banking enterprise in Bangladesh.

### 3.3.2 Bank Deposits and Bank Credit

As a consequence of the expansion in the branch network, bank deposits and credit have also grown considerably. Selected indicators of the growth in bank activities between 1972-1973 and 1997-1998 have been provided in the preceding table. In 1972-73, the combined deposits of all scheduled banks [excluding inter-bank items] amounted to only Tk.712.40 crore.<sup>24</sup> Bank deposits have since recorded a sharp increase to Tk. 51,890.40 crore in 1997-98. Marked growth occurred in time deposits which increased from Tk.1230.32 crore in June 1979 to Tk. 39,980.60 crore in June 1998. Demand deposits increased to Tk. 7,735.20 crore in 1998 from the level of Tk. 883.08 crore in 1979. Government deposits also went up to Tk. 4172.60 crore during the same period. On the other hand, total outstanding bank credit rose sharply from Tk. 544.25 crore in 1972-73 to Tk. 19,588.10 crore by 1989-90 and touched the level of Tk.44,077.80 crore by 1997-98. Of the components of bank credit, advances increased by Tk. 4794.80 crore or 12.9 percent and the bills purchased and discounted went up by Tk. 324.20 crore or 19.3 percent in 1997-98.<sup>25</sup>

Table 3.5: Growth of Banking Operations in Bangladesh

Year [ending June]	BANK DEPOSITS			BANK ADVANCES			Post Office Savings Bank & POSB Deposits	Total Bank & POSB Deposits	Deposits as % to Total Bank & POSB Deposits	Advance- to-Deposit Ratios on All Bank Deposits	Advance- to-Deposit Ratios on Term Deposits
	Demand Deposits	Term Deposits	Total Bank Deposits	Bank Advances	Bills	Total Bank Credit					
1986	29743	74102	103845	104564	3070	107634	950	104795	99.09	0.030	0.041
1987	31863	90903	122766	112891	3227	116118	1070	123836	99.14	0.026	0.035
1988	26327	113603	139930	133415	4690	138105	1873	141803	98.68	0.034	0.041
1989	28451	136174	164625	158867	4770	163637	1409	166034	99.15	0.029	0.035
1990	31805	159289	191094	190324	5465	195789	2551	193645	98.68	0.029	0.034
1991	35919	178006	213925	212457	6408	218865	2692	216617	98.76	0.030	0.036
1992	41846	202687	244533	215858	6978	222836	2689	247222	98.91	0.029	0.034
1993	45825	224730	270555	231924	7628	239552	3954	274509	98.56	0.028	0.034
1994	57511	252359	309870	239227	7454	246681	7503	317373	97.64	0.024	0.030
1995	66143	290329	356472	280859	11212	292071	12125	368597	96.71	0.031	0.039

Source: BBS [1997]: *Statistical pocketbook of Bangladesh*, p.292

The growth in total bank deposits has been slower than the growth in post-office savings deposits over the last decade, indicating that small savings in Bangladesh have seen rapid increase. However in absolute terms, total bank deposits rose more than three-fold between 1986 and 1995. Advance-to-deposit ratios on all bank deposits have remained more or less steady over the period, although advances have risen two-fold in terms of current prices. In 1986, term deposits were only twice as large as demand deposits. Considerable acceleration has been witnessed since then, and term deposits with the banks in 1995 were four times as large as demand deposits, with the difference of value amounting to Tk.22,418 crore. In spite of this acceleration, the advance-to-deposit ratios for term deposits do not however show significant change between 1986 and 1995, reflecting that the increase in such deposits has not been matched by increased bank lending.

The main reason for the accelerating trend in term deposits may thus lie in the present fund management practices of banks, under which deposits collected by the branches must be sent for investment to the bank head offices against guaranteed but minimal returns. The more long-duration and risky investments are made at the head office level. It is these high profile investments that allow the banks to record operating profits after combined interest charges on branch and head office deposits have all been taken care of. While this practice multiplies term deposits, it also ensures that more of the advances go to the bank's larger clients, while the credit needs of the region from which the deposits were initially mobilised may in fact remain unattended. Increases in time deposits may also be a response to the perception of additional risk by the banks. This would explain how raised statutory liquidity requirements increase the proportion of longterm deposits, while proportionately reducing advances. Since total bank deposits in 1995 amounted to Tk.35,647.20 crore, greatly exceeding total bank credit of Tk.29,346.40 crore, it would also appear that a large deposit amount valued at Tk. 6300.80 crore had remained idle in the hands of the banks. This amount

would constitute a leakage from the national economy, which if invested properly, should have generated additional national income as well as additional operating profits for the banks.

**Table 3.6: Divisional Distribution of Financial Resources of the Bangladesh Banking System**

Division		Deposits in Year ending June 1993 [Tk.million]	Deposits in Year ending June 1993 [Tk.million]	Deposits in Year ending June 1993 [Tk.million]	Advances in Year ending June 1993 [Tk.million]	Advances in Year ending June 1993 [Tk.million]	Advances in Year ending June 1993 [Tk.million]
Barisal Division		7176	8311	9274	3816	4324	5183
	Urban	3755	4329	4799	1682	1838	2196
	Rural	3421	3982	4475	2134	2486	2987
Chittagong Division		81423	92327	105280	50209	54794	65537
	Urban	54820	62260	71031	40064	43720	53240
	Rural	26603	30067	34249	10145	11074	12297
Dhaka Division		165822	187901	217523	165099	169011	196125
	Urban	149243	168255	194534	149036	151424	175434
	Rural	16579	19646	22989	16063	17587	20691
Khulna Division		19716	21729	24563	22734	26129	29417
	Urban	12779	13777	15674	17111	19954	22206
	Rural	6937	7952	8889	5623	6175	7211
Rajshahi Division		25315	29216	32602	26434	29034	33533
	Urban	13696	15816	17671	9355	10081	11733
	Rural	11619	13400	14931	17079	18953	21800
<b>Total Bangladesh</b>		<b>299452</b>	<b>339484</b>	<b>389242</b>	<b>268292</b>	<b>283292</b>	<b>329795</b>
	Urban	234293	264437	303709	217248	227017	264809
	Rural	65159	75047	85533	51044	56275	64986
		1993	1994	1995	1993	1994	1995
Division	Category	% Share in Total Bank Deposits	% Share in Total Bank Deposits	% Share in Total Bank Deposits	% Share in Total Bank Advances	% Share in Total Bank Advances	% Share in Total Bank Advances
<i>Barisal Division</i>		2.40	2.45	2.38	1.42	1.53	1.57
	Urban	1.25	1.28	1.23	0.63	0.65	0.67
	Rural	1.14	1.17	1.15	0.80	0.88	0.91
<i>Chittagong Division</i>		27.19	27.20	27.05	18.71	19.34	19.87
	Urban	18.31	18.34	18.25	14.93	15.43	16.14
	Rural	8.88	8.86	8.80	3.78	3.91	3.73
<i>Dhaka Division</i>		55.38	55.35	55.88	61.54	59.66	59.47
	Urban	49.84	49.56	49.98	55.55	53.45	53.19
	Rural	5.54	5.79	5.91	5.99	6.21	6.27
<i>Khulna Division</i>		6.58	6.40	6.31	8.47	9.22	8.92
	Urban	4.27	4.06	4.03	6.38	7.04	6.73
	Rural	2.32	2.34	2.28	2.10	2.18	2.19
<i>Rajshahi Division</i>		8.45	8.61	8.38	9.85	10.25	10.17
	Urban	4.57	4.66	4.54	3.49	3.56	3.56
	Rural	3.88	3.95	3.84	6.37	6.69	6.61
<b>Total Bangladesh</b>		<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
	Urban	78.24	77.89	78.03	80.97	80.14	80.30
	Rural	21.76	22.11	21.97	19.03	19.86	19.70

Source: BBS [1997]: *Statistical Pocketbook of Bangladesh*, p.293

### 3.3.3 Spatial Distribution of Banking Resources in Bangladesh

The economy of Bangladesh has been witnessing a mismatch between bank deposits and credit programmes, a decline in the levels of agricultural credit, a high proportion of loan overdues as well as net transfer of resources from rural to the urban areas.<sup>26</sup> According to the Bangladesh Bank, the overall flow of bank advances to rural has significantly decreased in the country, although the rate of deposit collection has improved. The regional distribution of the financial resources of the Bangladesh banking system is examined in the table above.

The table shows that the total bank deposits increased by Tk.8979.00 crore or 29.98 percent from Tk.29,945.20 crore to Tk.38,924.20 crore during the period 1993-95, while the total bank advances increased by Tk.6150.30 crore or 22.92 percent from Tk.26,829.20 crore to Tk.32,979.50 crore during the same period. It is also evident from the table that the advances fall by 7.06 percent against deposits during 1993-95.

However when the data on bank deposits and credit are broken down by the five major divisions in the country and by their urban or rural character (data for the newly-created Sylhet division being shown with Chittagong division), certain distortions become noticeable. It is noticed, for instance, that annual bank deposits are always higher in Dhaka division (55 percent) followed by Chittagong (27 percent), Rajshahi (8.5 percent), Khulna (6 percent) and Barisal divisions (2.3 percent). Urban deposits surpass rural deposits in all divisions, averaging 79 percent every year. Dhaka division draws more than half of all bank advances, followed by Chittagong, Rajshahi, Khulna and Barisal divisions. Fourth, the percentage of share of rural advances during 1993-95 was lower than the percentage of share of rural deposits in total bank deposits during the same period. All these factors establish the inequality between urban and rural bank operations.

Table 3.7a: Bank Deposits and Credit Advances to Selected Urban Centres in Bangladesh

Urban Centre	Zila	Division	1993	1994	1995	1993	1994	1995
			% Share in Divisional Deposits	% Share in Divisional Deposits	% Share in Divisional Deposits	% Share in Divisional Advances	% Share in Divisional Advances	% Share in Divisional Advances
Barisal	<i>Barisal</i>	Barisal	29.96	30.04	28.07	24.74	22.90	22.88
Noakhali	<i>Rangamati</i>	Chittagong	1.71	1.84	1.88	1.08	1.08	1.01
Chittagong	<i>Chittagong</i>	Chittagong	42.72	42.85	43.13	67.96	104.53	69.77
Comilla	<i>Comilla</i>	Chittagong	3.35	3.38	3.12	2.29	2.19	2.12
Chandpur	<i>Chandpur</i>	Chittagong	1.02	1.01	0.94	1.02	0.95	1.07
Sylhet	<i>Sylhet</i>	Sylhet	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mymensingh	<i>Mymensingh</i>	Dhaka	0.96	0.93	0.93	0.45	0.47	0.50
Dhaka	<i>Dhaka</i>	Dhaka	81.73	80.97	81.08	82.09	81.29	80.98
Faridpur	<i>Faridpur</i>	Dhaka	0.53	0.54	0.51	0.41	0.45	0.49
Narayanganj	<i>Narsingdi</i>	Dhaka	2.30	2.36	2.27	4.80	4.62	4.55
Khulna	<i>Khulna</i>	Khulna	33.05	30.45	31.04	54.23	55.65	5.21
Jessore	<i>Jessore</i>	Khulna	11.55	11.57	11.68	9.26	10.08	12.50
Kushtia	<i>Magura</i>	Khulna	5.62	5.96	6.24	3.28	3.07	3.25
Bogra	<i>Bogra</i>	Rajshahi	7.72	7.34	7.96	7.88	7.46	7.42
Rajshahi	<i>Rajshahi</i>	Rajshahi	10.02	11.43	10.79	3.81	3.91	3.73
Pabna	<i>Pabna</i>	Rajshahi	5.76	5.42	5.50	5.60	5.44	5.29
Rangpur	<i>Rangpur</i>	Rajshahi	6.08	5.83	6.45	4.49	4.36	4.33

Source: BBS [1997]: *Statistical Pocketbook of Bangladesh*, p.294

The data on urban bank deposits and advances at selected centres in Bangladesh shows that almost all divisional headquarters, namely Barisal, Chittagong, Sylhet, Dhaka, Khulna and Rajshahi, contribute the largest share of deposits and draw the largest advances. Most economic activities in each region of Bangladesh are clustered around the divisional headquarters. Hence, the number of bank branches is not distributed uniformly across divisions, and is usually highest at the divisional headquarters. Once again, because of metropolitan character of Dhaka, deposits and advances in Dhaka division outstrip the levels recorded at other divisions. Rajshahi division lags behind in all respects, possible because of low cropping intensity and prevalence of single cropping in that division.

Table 3.7b: Urban Credit-Deposit Ratios at Selected Urban Centres in Bangladesh

Urban Centre	Zila	Division	CD Ratio	CD Ratio	CD Ratio
			1993	1994	1995
Barisal	<i>Barisal</i>	Barisal	0.44	0.40	0.46
Noakhali	<i>Rangamati</i>	Chittagong	0.39	0.35	0.33
Chittagong	<i>Chittagong</i>	Chittagong	0.98	1.45	1.01
Comilla	<i>Comilla</i>	Chittagong	0.42	0.39	0.42
Chandpur	<i>Chandpur</i>	Chittagong	0.62	0.56	0.71
Sylhet	<i>Sylhet</i>	Sylhet	0.19	0.18	0.17
Mymensingh	<i>Mymensingh</i>	Dhaka	0.47	0.45	0.48
Dhaka	<i>Dhaka</i>	Dhaka	1.00	0.90	0.90
Faridpur	<i>Faridpur</i>	Dhaka	0.78	0.75	0.87
Narayanganj	<i>Narsingdi</i>	Dhaka	2.08	1.76	1.81
Khulna	<i>Khulna</i>	Khulna	1.89	2.20	0.20
Jessore	<i>Jessore</i>	Khulna	0.92	1.05	1.28
Kushtia	<i>Magura</i>	Khulna	0.67	0.62	0.62
Bogra	<i>Bogra</i>	Rajshahi	1.06	1.01	0.96
Rajshahi	<i>Rajshahi</i>	Rajshahi	0.40	0.34	0.36
Pabna	<i>Pabna</i>	Rajshahi	1.01	1.00	0.99
Rangpur	<i>Rangpur</i>	Rajshahi	0.77	0.74	0.69

Source: BBS [1997]: *Statistical pocketbook of Bangladesh*, p.294

Credit-deposit ratios are highest in the four districts of Chittagong, Dhaka, Narayanganj and Khulna, indicating that credit mobilisation has been successful in these districts. Chittagong district has economic importance because of the port location and the establishment of Chittagong Export Processing Zone [EPZ]. Dhaka district has additional economic importance as the capital city and industrial base of Bangladesh. Khulna is important because of its port and because of increased shrimp cultivation and Narayanganj for industrial belt *i.e.* textile and hosiery.

The other districts could not utilise at least half of their bank deposits because of uneven regional development patterns. Since advances exceeded deposits in some districts, this would also indicate shifting of deposits from regions where they were less utilised to regions with high credit demand. Thus the divisional credit-deposit ratios for rural and urban areas show that, with the exception of Barisal and Rajshahi division, the CD-ratios favour urban areas, which may partially be because bank branches are not uniformly distributed over the country. Since most economic activity in Bangladesh is urban-based, banks are reluctant to disburse credit to rural areas, since it is not cost-effective for the banks to do so, and since it is harder to recover loans in rural areas. In the rural areas of Rajshahi division, the higher mobilisation of credit is a possible impact of RAKUB. The distribution of financial resources of the banking system in the country thus suggests a net transfer of resources from the rural to the urban sector, under the mediation of the banking system in Bangladesh.

Table 3.7c: Divisionwise Credit-Deposit Ratios in the Bangladesh Banking Sector

		CD Ratio- in June 1993	CD Ratio in June 1994	CD Ratio in June 1995
<i>Barisal Division</i>		0.53	0.52	0.56
	Urban	0.45	0.42	0.46
	Rural	0.62	0.62	0.67
<i>Chittagong Division</i>		0.62	0.59	0.62
	Urban	0.73	0.70	0.75
	Rural	0.38	0.37	0.36
<i>Dhaka Division</i>		1.00	0.90	0.90
	Urban	1.00	0.90	0.90
	Rural	0.97	0.90	0.90
<i>Khulna Division</i>		1.15	1.20	1.20
	Urban	1.34	1.45	1.42
	Rural	0.81	0.78	0.81
<i>Rajshahi Division</i>		1.04	0.99	1.03
	Urban	0.68	0.64	0.66
	Rural	1.47	1.41	1.46
<i>Total Bangladesh</i>		0.90	0.83	0.85
	Urban	0.93	0.86	0.87
	Rural	0.78	0.75	0.76

Source: BBS [1997]: *Statistical pocketbook of Bangladesh*, p.294

### 3.4 Financial Sector Reforms in Bangladesh

The financial system of Bangladesh is still underdeveloped with a weak banking sector. The Government has acknowledged the need for financial reforms since 1980s to ensure an effective role for the financial sector in the economic development of the country. In 1984, the Government constituted a National Commission on Money, Banking and Credit, which submitted its report to the Government in June 1986 after comprehensively reviewing the banking and credit system of Bangladesh. Based on its recommendations, the Government initiated the Financial Sector Reform Programme [FSRP] in 1990 and undertook certain measures to reform the national banking system.<sup>27</sup> Certain reform measures had also been initiated by the Government in the late 1980s.

#### 3.4.1 Reforms relating to Interest Rates

Major reforms on the liberalization of interest rates were undertaken in November 1989. Prior to that year, deposit and lending rates had been set by Bangladesh Bank. The aim of liberalization programme was to introduce flexibility into the determination of deposit and lending rates. Under the new system, Bangladesh Bank fixed ceilings and floors between which individual banks were allowed to set their own interest rates on both deposits and lending in the stipulated band. Further flexibility in interest rate determination was

introduced from June 1992, when the interest rate bands on lending were completely removed except for the agricultural sector (permissible lending rates of 10-14 percent), the small-scale and cottage industries sector (permissible lending rates of 9-12 percent) and export sector (permissible lending rates of 8-10 percent).<sup>28</sup>

Except for credit operations by Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank, the refinancing window at the Bangladesh Bank has been closed completely and a rediscount window on the bank rate has been opened instead for commercial banks. The bank rate was gradually lowered from 9.75 percent in January 1990 to 5.5 percent in March 1994. It was again raised from 5.5 percent to 8.00 percent on 24 November 1997, in order to reduce the dependence of commercial banks on the Bangladesh Bank, and to motivate them to generate their own financial resources to conduct their business and credit programmes.<sup>29</sup>

### **3.4.2 Classification and Provisioning of Loans**

The continuing crisis that has resulted from the cumulation of bank loan defaults has emerged as one of most serious constraints to economic development in Bangladesh. All NCBs have advanced a huge amount of unrecoverable bad loans. Provision had not been made earlier for assessing the quality of the credit portfolios of the banking sector such. Bangladesh Bank, as a part of the financial reforms initiated in 1989, introduced regulations that required commercial banks to annually classify their loans. Under this regulation, all loans were to be reviewed and sorted into four categories, viz., unclassified loans, substandard loans which were overdue by one year, doubtful loans which were overdue by three years, and bad loans or losses which were overdue by more than five years. The probability rates for recovery of substandard, doubtful and bad loans were set at 90 percent, 50 percent and nil, respectively.<sup>30</sup>

### **3.4.3 Capital Adequacy**

In 1989, Bangladesh Bank introduced legal norms for the capital adequacy of banks. The main objective of the capital adequacy requirement was to protect the depositors from any losses resulting from bad financial decisions by bank managements, particularly in the case of private banks. Capital adequacy requirements for the NCBs were less compelling, because the Government's implicit position as guarantor for the depositors. Capital adequacy norms for the NCBs were largely met through the infusion of new capital by Government, and for the first time, the Government issued bonds of Tk.1700 crore to recapitalize nationalised banks.<sup>31</sup> The private banks were required to raise new capital either through contributions of additional paid-up capital by their owners or through market operations. The minimum capital requirement for them was set at 8 percent of the banks' risk-weighted assets.

### **3.4.4 Reform of Legal Framework**

In Bangladesh, economic development has been badly hindered by mounting bank loan defaults. Human inefficiencies, debt rescheduling, industrial sickness, and frequent waivers of agriculture loans, etc., are the principal causes of the loan default problem. Effective measures have since been taken by the Government to remove legal deficiencies in the existing laws relating to the recovery of bank loans, particularly from large defaulters. Thus in 1986, an action programme was initiated by Government for the legal recovery of overdue industrial and agricultural loans. Under the Financial Loan Courts Act which was passed by Parliament, the Government has established Financial Loan Courts from whom the banks can obtain decrees against defaulters. An amendment to the Financial Loan Courts Act also allows the prosecution of defaulters. The Banking Companies Act has also been amended, mainly to limit the size of loans to individuals and to restrict inside loans to the bank directors. A Bankruptcy Act has also been passed and Bankruptcy Courts have been set up in Dhaka and Chittagong.<sup>32</sup>

## **3.5 Longterm Prospects for the Banking Sector**

Bangladesh's banking system is still underdeveloped and currently has an inadequate regulatory framework and a huge mass of unrecoverable loans. Banking operations have also been afflicted by weak management and political interference, etc. However, it is also true that the banking system in Bangladesh has experienced continuous improvement over the 30 years that have elapsed after independence. The main objective behind the nationalisation of commercial banks, namely to foster economic development through

nationwide branch expansion, appears to have been largely achieved. The banking sector has shown better performance over this period, in terms of growth in deposit mobilisations and credit disbursements. As the Government has a continuing stake in the stability of the banking sector, it can be hoped that the banking system in Bangladesh will improve further in the years ahead.

### **References**

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2. Ahmed [1999:10]
3. cf. Bhuiya [1994:13]
4. Bhuiya *op.cit.* [1994:13]
5. *ibid*, p.14
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## Chapter - IV

### **Agricultural Credit Situation in Bangladesh**

#### **4.1 Agricultural Credit Needs in Bangladesh**

Many economic activities have been initiated in recent decades for furthering economic development in Bangladesh. However, the adoption of modern technologies for agriculture requires current investment, with the payoffs being realised later. Even ongoing productive activity in the agricultural sector requires the provision of inputs in advance, with revenues being realised from this at a later point in time.<sup>1</sup> Thus in accelerating agricultural development, agricultural credit plays a pivotal role, particularly in less developed countries. Investment in agriculture can contribute tremendously to the improvement of agricultural production methods. It is necessary nevertheless necessary to receive higher returns on the investment. Thus agricultural production must also be increased continuously to meet the expanding food needs of a growing population. In view of the impending need to increase agricultural production, agricultural credit is the basic requirement to finance a low-income country like Bangladesh, which has around 11.79 million farms of which 97.48 percent are below 7.5 acres in size.<sup>2</sup>

#### **4.1.1 History of Agricultural Credit Operations**

Agricultural credit operations in Bangladesh have a long historical background. In its earliest forms, agricultural credit was more in the nature of "distress finance" advanced to alleviate the worst consequences of famines and floods or other natural calamities. Financial support was later extended to include permanent improvements in agriculture,<sup>3</sup> under the provisions of the Land Improvement Loans Act, 1883 [LILA] and the Agriculturists Loans Act, 1884 [ALA]. Loans issued to agriculturists under LILA used to be sanctioned for

- (a) the construction and repair of wells, tanks and other works of storage, and the supply and distribution of water;
- (b) the preparation of land for irrigation;
- (c) drainage and reclamation of lands from rivers or other waters, and for protection against floods, erosion, etc.
- (d) reclamation, clearance and enclosure, etc., of land for agricultural purposes; and
- (e) such other works as the provincial government might declare by notification from time to time, for the improvement of agriculture.

Under the provisions of ALA, loans used to be granted for the relief of agriculturists in distress, and for purchases of seeds, cattle, fodder, manure and agricultural implements, and for some of the purposes stated above.<sup>4</sup>

Loans sanctioned under these two Acts were popularly known as Taccavi Loans, and were usually advanced in cash. Prior to the sanction of loans under LILA, the loan-applicant's title to the land was ascertained, and the land value was assessed. Where the value of the land was insufficient to cover the loan, collateral security was demanded from the loan-applicant. However loans issued under ALA used to be sanctioned after a simple inquiry. These loans were sanctioned on personal bond, and sometimes against surety. The period of repayment was determined according to the purposes for which the loan had been taken. Thus loans for tubewells were repayable in ten years, and loans for the purchase of bullocks were repayable in two years. Other ALA loans for purchasing seed, fodder and manure were repayable at the time of the succeeding harvest.<sup>5</sup>

The performance of LILA and ALA as institutional sources of credit to agriculture during the late 19th century was not satisfactory, and it was also believed that the credit advanced by them did not have much agricultural impact.<sup>6</sup> Cooperative Agricultural Credit Societies were therefore established in 1901 to promote

agricultural credit among farmers. Three legislations were also issued between 1901 and 1940, in order to strengthen and expand the cooperative credit network introduced. However, the cooperative programme suffered major setbacks with the partition of India in 1947, which had a destabilising effect on the society as a whole. A large section of the private professional moneylenders migrated to India in 1947 following the creation of Pakistan. In view of these circumstances, the new Government of Pakistan felt a serious need for creating a specialised agricultural credit institution, and established the Agricultural Development Finance Corporation [ADFC] in 1952 to provide medium and long-term credit to the agricultural sector.<sup>7</sup> However, the existing demands for agricultural credit among the farmers were so large that the ADFC was unable to cope with them. This led to the establishment of the Agricultural Bank of Pakistan [ABP] in 1957 to supplement the credit disbursements work of the ADFC.<sup>8</sup> Since the purposes of these state-owned credit institutions were similar, they were eventually merged into a new institution in February 1961, renamed as the Agricultural Development Bank of Pakistan [ADBP].<sup>9</sup>

After the emergence of Bangladesh as an independent nation in 1971, highest priority was accorded to the agricultural sector by the new Government in order to rehabilitate the national economy which had been devastated during the Liberation War. Bangladesh had inherited the regional office of the ADBP along with its staff and other physical assets. This was restructured into the Agricultural Development Bank of Bangladesh [ADBB]. ADBB was subsequently renamed the Bangladesh Krishi Bank [BKB] in 1973 and asked to provide agricultural credit facilities to the farmers of Bangladesh.<sup>10</sup> In the changed scenarios after the liberation struggle, BKB had to simplify its loan procedures to accommodate farmer-applicants, many of whom had lost their deeds of title to the land which served as their main security for obtaining agricultural loans. Exemptions were also made against existing rules for producing personal photographs, nationality certificates and affidavits under the amended procedure.<sup>11</sup> BKB was even required to provide interest-free loans to rehabilitate farmers in the coastal districts of Bangladesh. After their nationalisation, the new Nationalised Commercial Banks [NCBs] also commenced lending to the agricultural sector in 1977 to supplement BKB credit and to increase the utilisation of improved agricultural inputs and raise foodgrains production in the country.

**Table 4.1: Sectoral Contributions to the Gross Domestic Product [GDP] of Bangladesh  
1974-75 to 1998-99**

Sectors	[percentages]								
	1974 -75	1980 -81	1990 -91	1994 -95	1995 -96	1996 -97	1997 -98	1998 -99 <sup>p</sup>	
Agriculture	48.1	44.2	37.6	32.8	32.2	32.4	31.6	31.5	
Mining & Quarrying	-	-	-	-	-	-	-	-	
Industries	10.9	10.5	9.8	11.3	11.3	11.1	11.5	11.2	
Construction	2.8	4.7	6.1	6.4	6.3	6.2	6.3	6.3	
Power, Gas, Water & Sanitary Services	0.2	0.3	1.3	1.8	2.0	1.9	1.8	1.8	
Transport, Storage & Communication.	10.0	10.6	11.8	12.1	12.1	12.2	12.3	12.4	
Trade Services	8.5	9.2	9.1	9.7	10.0	10.1	10.2	10.3	
Housing Services	8.0	8.1	7.6	7.5	7.4	7.2	7.1	7.0	
Public Administration & Defence	2.4	2.8	4.3	5.1	5.2	5.3	5.5	5.6	
Banking & Insurance	0.9	1.7	1.9	1.8	1.8	1.8	1.7	1.7	
Professional & Miscellaneous Services	6.7	7.8	10.7	11.5	11.7	11.8	12.0	12.1	
Total	100	100	100	100	100	100	100	100	

Source: MOF [1999]: *Bangladesh Economic Survey*, pp.116-117  
p = provisional figures

#### 4.1.2 Economic Contribution of Agriculture

The sectoral contribution made to Gross Domestic Product (GDP) by the agricultural sector in Bangladesh is described in the table above. Till the end of the 1970s, this sectoral share was nearly as large as the collective contribution made by the other sectors of the economy. Although there has subsequently been substantial growth in the other economic sectors, agriculture still contributes nearly a third of the national . As in other developing countries, agriculture provides a pivot for other economic activities revolve in Bangladesh, while meeting the food needs of the people. Because of the pressing nature of food demands in the country, agricultural programmes are assigned highest priority by the Government. In 1994-95, more than 2.55 million tons of foodgrains had to be imported to meet domestic food demands in Bangladesh.<sup>12</sup> It has therefore been recommended that more emphasis be placed on food security and agricultural growth in Bangladesh, which will save the hard-earned foreign exchange currently expended on food imports.<sup>13</sup> Given

the substantial nature of the contribution of agriculture and activities allied to it to GDP, and its importance as the major source of export earnings in the country, the flow of adequate credit to agriculture is imperative for steady growth of agricultural output in Bangladesh.

A major proportion of employment in Bangladesh is in the agricultural sector and in trade and other activities that are linked either directly or indirectly to agriculture. Sustained agricultural growth that leads to lower food prices can thus reduce wage costs, and enable the country to enhance employment, output and investment in the nonagricultural sectors. Widely-distributed agricultural growth also contributes to domestic industrialisation by generating considerable effective demand for simple industrial goods. In Bangladesh and other developing countries which are still at an early stage of industrial development and have limited access to the highly-competitive global market, the growth of agriculture and a prosperous peasantry can contribute significantly to industrialisation of the economy. In such circumstances, the main developmental task is to direct all national efforts towards extensive and intensive agriculture and to generate the investment resources required for this. This investment cannot be made by the peasant farming community in the first instance, hence credit from formal institutional sources like the banking sector becomes a necessary priority. Since significant agricultural development and increased agricultural production can be achieved with comparatively little investment, the funds for this should justifiably be sourced from government credit institutions.

Agricultural growth is also important for food security in Bangladesh, where farmers depend on agriculture for their livelihoods as well as sustenance. Only sustained progress in agriculture can increase their earnings and improve their living standards. Development of the agricultural sector thus becomes crucial to the welfare of small and marginal farmers in Bangladesh. Because of their precarious economic condition, a slight setback in agricultural production is capable of dealing a death-blow to them. No effort should therefore be spared in protecting farmers from economic uncertainties and enabling them to increase agricultural incomes and production. The only way to resolve this problem is to ensure the flow of agricultural credit to the farmers in Bangladesh in adequate amounts..

#### 4.1.3 Estimates of Agricultural Credit Needs

Correct assessment of actual credit requirements is among the most important requirements for efficient administration of agricultural credit. If the credit flow is not consistent with the actual credit requirements of the farmers, the process of loan-repayment is seriously affected. In many developing countries, institutional credit sources are currently confronting this crisis.<sup>14</sup> To overcome it, the flow of credit must be carefully calibrated to actual credit requirements and the proper utilisation of funds. A few isolated attempts have been made in the past to evaluate several important features of agricultural credit in Bangladesh. An early study dating from 1956 revealed that 68 percent of the farmers in the country borrowed during that year. This proportion was estimated at 75 percent by another study pertaining to 1969-70. The studies show that the average credit drawn by each borrower was estimated to be Tk.180 in 1956 and Tk.398 in 1969-70.<sup>15</sup> No systematic attempt has however been made so far to assess the actual agricultural credit needs for modernizing farming in the country.

Soon after the liberation of Bangladesh, the Bangladesh Bank had estimated the credit requirement of the country using three different methods, each carrying its own justification, at Tk.1,700 million, Tk.2,000 million and Tk.4,600 million, respectively.<sup>16</sup> The First Five-Year Plan (1973-1978) of Bangladesh estimated that the annual credit need at the end of the plan period would be around Tk.3,650 million, of which 70 percent would be composed of short term loans.<sup>17</sup> The wide variations in these estimates point to the complexities of determining the agricultural credit needs. Using all existing estimates and data, the Government of Bangladesh estimated the annual agricultural credit requirement for the year 1977-78 at around Tk.3,750 million. Institutional sources were estimated to have covered about 46 percent of the total credit needs of farmers in that year, because of the launching of a special credit programme of Tk.100 crore during 1977. The balance or 56 percent of the credit requirement was assumed to have been covered through lending by non-institutional and informal sources.<sup>18</sup>

The estimated volume of agricultural credit was very low in comparison to the volume of agricultural output in the country, and between 1972-1977, the formal credit portfolio amounted to less than 2 percent of the GDP generated by the agricultural sector.<sup>19</sup> The GDP of Bangladesh stood at Tk.158,289 million in the year 1979-80. The share of agriculture in the GDP was estimated by Prof.Muhammad Yunus at Tk.77,910

million, or 49.22 percent of GDP. He estimated the cultivated area in the country at 22.36 million acres for which the rough requirement of agricultural credit would have been Tk.11,180 million. However, the combined amount disbursed as agricultural credit in 1979-80 by all credit agencies which catered to the agricultural sector amounted to Tk.2683 million, which was only one-fourth of the required amount.

Annual agricultural credit flow increased to Tk.3,600 million in 1981. The Joint Review by the Government of Bangladesh and the World Bank shows that while the contribution of the agricultural sector to GDP amounted to 55 percent at the time, it received only 18 percent of the total volume of outstanding institutional credit.<sup>20</sup> It was estimated by the study that requirement of institutional credit to support farm production would rise to Tk.16,500 million by the year 1990. The details of this estimate are furnished below.

**Table 4.2: Estimated Demand for Institutional Agricultural Credit in Bangladesh**  
[in million Taka]

Loan Category	FY1981 [Actual]	FY1984	FY1987 [Projection]	FY1990
Short-term Crop Loans	2,750	5,508	9,639	14,040
Livestock Loans	NA	300	800	1,000
Fisheries Loans	NA	15	20	25
Minor Irrigation Loans	878	1,185	1,500	1,450
Total Credit Demand	3,628	7,008	11,959	16,515

Source: GOB & IDA [1983]: Report of the Joint Review, p.1, Annexure 1

However, the actual disbursement of agricultural credit in 1990-91 turned out to be only Tk.5,956 million, which was little more than a third (36.09 percent) of the estimate made by the Joint Review Team.<sup>21</sup>

#### 4.2 The Sources of Agricultural Credit

Agricultural credit is sourced from both institutional and non-institutional sources. Institutional sources generally form the principal credit sources in economically advanced countries like Japan, in contrast to which non-institutional sources of credit dominate in the developing countries. According to the report of US Department of Agriculture [USDA, 1965], more than two-thirds of all agricultural loans in countries like India, Pakistan, Thailand and Philippines were extended by non-institutional sources.<sup>22</sup> The agricultural credit situation underwent a transformation in many developing countries during the 1970s and 1980s. In Pakistan, the institutional share in agricultural credit increased from 15-20 percent during the 1950s to 47 percent in 1976-77. In India, the institutional credit share rose from a mere 7.2 percent in 1951 to 61.2 percent by 1981. The flow of institutional credit has also expanded in Bangladesh over the years. A report by the Task Force on Development Strategies for Bangladesh in the 1990s notes that agricultural credit flows from institutional sources increased substantially from Tk.32.5 crore in 1970-71 to Tk.1131 crore in 1984-85<sup>23</sup> and eventually touched the level of Tk.1643 crore in 1997-98.<sup>24</sup> A summary on the the changes in institutional and non-institutional shares of agricultural credit reported by different studies has been compiled below..

**Table 4.3: Proportional Share of Institutional and Non-institutional Credit under Different Credit Surveys**

Name of Credit Study	Survey Year	Survey Sites	% Institutional Credit Share	% Non-institutional Credit Share
Socioeconomic Survey Board [1958] Dhaka University	1956	na	4.9	95.1
Socioeconomic Survey Board [1962] Rajshahi University	1960	Puthia	23.6	76.4
Rahman [1979]	1974-75	na	23.1	76.9
Quasem <i>et al</i> [1978]	1975 -76	Patuakhali	11.3	88.7
Local-level Planning Project, BIDS [1985]	1984	Bhanga Mirzapur	49.1 38.9	50.9 61.1
Rural Credit Survey, BBS [1987]	1986-87	na	28	72
Planning Advisor's Task Force [1991] Ministry of Planning	1990-91	na	8.0-24.0	-
Credit and Development Forum [CDF] (1999)	1999	Rangpur, Thakurgaon & Tangail	15.8	84.2

Sources: Compiled from (i) B.K.Saha [1985]; *cf.* Khanam [1989], p.74

(ii) Ministry of Planning [1991], p.127

(iii) CDF [1999], p.23

Evidently, the share of institutional credit in agricultural credit flows has gradually risen in Bangladesh. However, net institutional credit flows during the period remained inadequate and the institutional sources could only meet between 8 percent to 28 percent of the credit needs of the rural population.

During the earlier regime of the Pakistan Government, a multinational credit supply system had been in existence. The principal sources of agricultural credit at that time were the Government, the Central Bank, the Agricultural Development Bank, and the Cooperative Banks.<sup>25</sup> In 1961, the Pakistan Government merged all Agricultural Development Banks into a new Agricultural Development Bank of Pakistan [ADBP], which had 75 branches spread all over the East Pakistan province (now Bangladesh). After Bangladesh had attained independence in December 1971 an agricultural development bank to be called the Bangladesh Krishi Bank [BKB] was created by the Presidential Order No. 27 of 1973.<sup>26</sup> BKB commenced its functions with 75 branches inherited from the erstwhile ADBP. The traditional three-tier system of cooperatives set up during British rule with Primary and Secondary Cooperatives at village and Union levels was still working under the new name of Bangladesh Samabaya Bank Limited [BSBL]. The two-tier Comilla System of cooperatives with Thana Central Cooperative Associations [TCCA] (later reorganised into Upazila Central Cooperative Associations [UCCA]) and village cooperatives [KSS] at primary levels has now been operating under the new name of the Integrated Rural Development Programme [IRDP], under the administrative control of Bangladesh Rural Development Board [BRDB].<sup>27</sup>

The credit institutions that form the principal sources of agricultural credit in Bangladesh are

- (i) Bangladesh Krishi Bank [BKB]
- (ii) Nationalised Commercial Banks [NCBs]
- (iii) Rajshahi Krishi Unnayan Bank [RAKUB]
- (iv) Bangladesh Samabaya Bank Limited [BSBL]
- (v) Bangladesh Rural Development Board [BRDB]
- (vi) Grameen Bank [GB]

#### 4.2.1 Institutions for Agricultural Credit Disbursement

As seen earlier, during the Pakistan period upto 1969-70, the Government had disbursed *Taccavi* loans to the farmers. The First Five-Year Plan [FFYP, 1973-78] for newly-independent Bangladesh proposed the abolition of *Taccavi* loans as a source of short-term credit and their conversion into distress grants.<sup>28</sup> The credit vacuum created was to be filled by IRDP programmes and institutional credit schemes run by the IRDP board (now BRDB), the Jatiya Samabaya Bank (now BSBL), and the NCB banking institutions that had been inducted into the agricultural credit sector.<sup>29</sup>

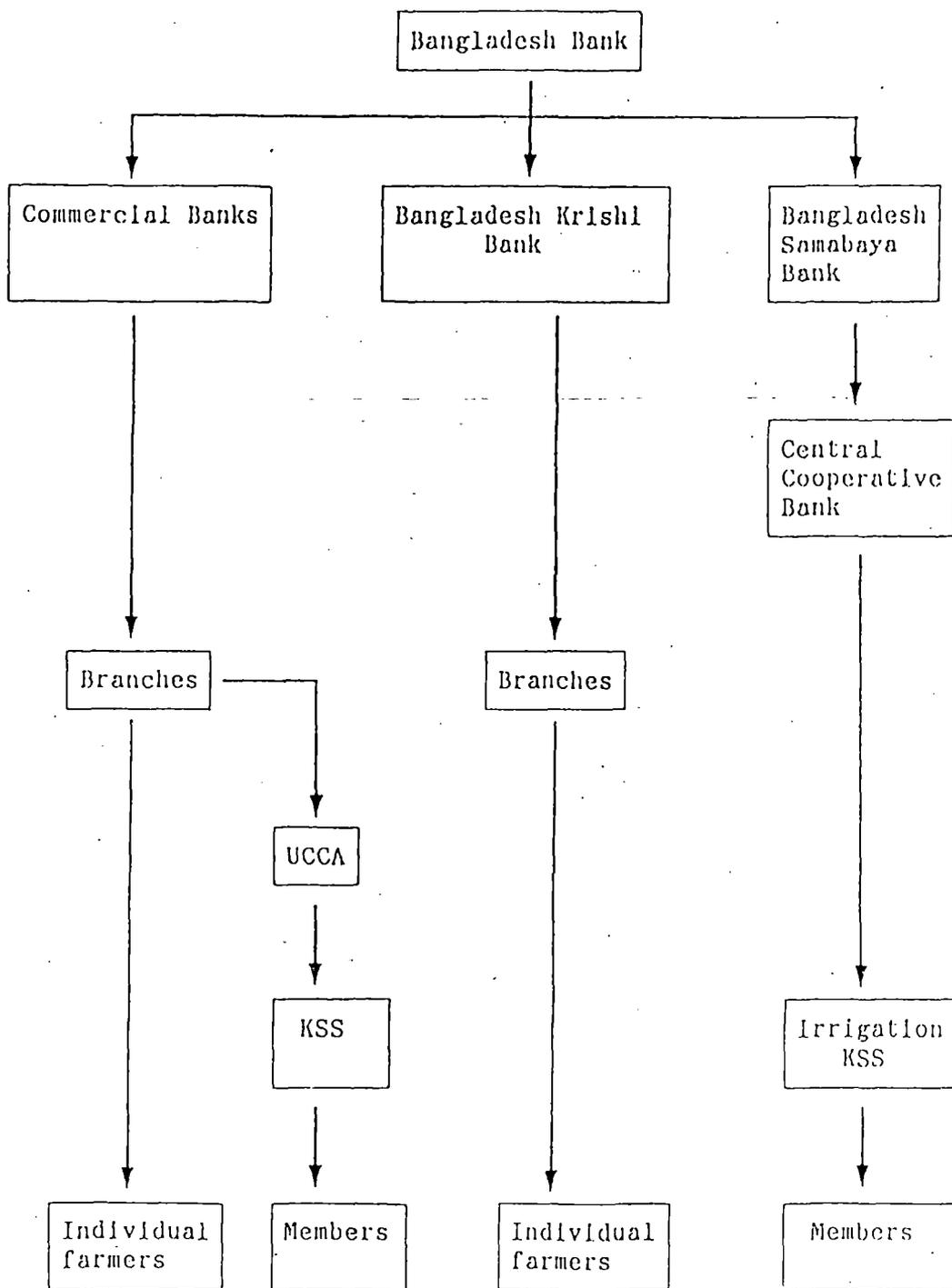
Under the high priority accorded to agricultural reconstruction, the Government of Bangladesh offered agricultural credit under (a) the Normal Programme [NP] and (b) the Special Agricultural Credit Programme [SACP] for which a special credit fund of Tk. 100 crore had been earmarked. Under the NP, all agricultural credit agencies worked individually, deciding their own procedural formalities including collateral requirements. The BSBL and IRDP organisations were not involved in the SACP, which was entrusted to BKB and NCBs. The credit norms for financing different crops under SACP and the allocations of credit to different districts and crops were set by the Ministry of Agriculture.<sup>30</sup>

SACP was launched in January 1977 with the specific objectives of increasing the participation of BKB and the other state-owned short-term lending institutions and the NCBs in the agricultural credit programme, and of increasing the flow of institutional credit to the agricultural sector. In consultation with the concerned credit agencies, comprehensive operational guidelines for the implementation of SACP were framed by Bangladesh Bank. The main policy guidelines envisaged

- (a) introduction of the lead bank system\* under which the task of coordination was given to the designated lead bank in each district;
- (b) constitution of District Agricultural Credit Committee led by the Deputy Commissioner with the Manager of the concerned lead bank as Member-Secretary;
- (c) opening of bank booths at important locations and the extension of banking services by mobile units to ensure doorstep delivery of loans to the farmers;

Chart-4.1

Channels of Agricultural Credit in Bangladesh



Source: Solaiman [1992]: *A Comparative Study of Cooperative and Private Management of Deep Tubewells in Comilla, Bangladesh*, p. 78

(d) payment of input costs in kind, and

(e) associating the Chairpersons and Members of Union Parishad in the disbursement of loans and the identification of borrowers.

The Thana Agricultural Officers and Tahshildars of each rural area were also required to assist in the disbursement of loans.<sup>31</sup>

**Table 4.4: Disbursement of Agricultural Credit under NP and SACP in Bangladesh 1977-1981**

*[in crore Taka]*

Year	NP Disbursement	NP % Recovery	SACP Disbursement	SACP % Recovery
1977-78	90.88	91	69.92	88
1978-79	125.97	90	41.37	79
1979-80	201.36	87	67.03	71
1980-81	279.60	75	72.68	54
1981-82	351.43	52	61.38	35

Source: Ali [1990]: *Agricultural Credit in Bangladesh*, pp.52-53

The early disbursements of agricultural credit under NP and SACP described in the table above show that disbursement volumes under NP were well ahead of the SACP. The comparative recovery profiles also point to the relative superiority of NP over SACP. While loans issued under SACP were limited to short term crop loans only, the NP loans were much broader both in size and scope. The possible reason underlying higher loan recoveries for NP may have been the rigorous screening of borrowers by the banks at the time of loan disbursement and enforceable means for ensuring repayment. In SACP, the selection of borrowers was mostly made under political pressures. In spite of these factors, the total disbursements of agricultural credit made by formal sector banks continued to increase over the years. This can be seen from the disbursement trends in total bank credit and agricultural credit in the table below.

**Table 4.5: Growth of Bank Credit and Agricultural Credit in Bangladesh 1980-81 to 1997-98**

*[in crore Taka]*

Year	Total Bank Credit	Total Agricultural Credit	% Agricultural Credit in Total Bank Credit
1980-81	3204	373	11.64
1981-82	4270	424	9.93
1982-83	4912	679	13.82
1983-84	6736	1005	14.92
1984-85	8984	1153	12.83
1985-86	10763	632	5.87
1986-87	11611	667	5.74
1987-88	13810	656	4.75
1988-89	16363	808	4.94
1989-90	19579	687	3.51
1990-91	21886	596	2.72
1991-92	22283	795	3.57
1992-93	23955	842	3.51
1993-94	24668	1101	4.46
1994-95	29346	1605	5.47
1995-96	34573	1636	4.73
1996-97	38783	1672	4.31
1997-98	43932	1815	4.13
<b>Total</b>	<b>339658</b>	<b>17146</b>	<b>5.05</b>

Sources: (i) Bangladesh Bank [1998]: *Bangladesh Bank Bulletin*, pp.102-103

(ii) MOF [1999]: *Economic Survey of Bangladesh*, p.133

As evident from the table, agricultural credit disbursements rose from Tk.373.00 crore in 1980-81 to Tk.1,815.00 crore in 1997-98, marking an almost five-fold increase. The proportion of agricultural credit disbursements to total credit disbursements are seen to have remained largely insignificant over the entire period except for the initial years. A liberal agricultural credit policy was followed by the formal-sector banks in the initial period, coinciding with the Second Five-Year Plan which had striven to increase the share of agricultural credit in total bank credit from the level of 12.5 percent in 1979 to 25 percent in 1984.

Although this policy for liberal disbursement of loans continued into the Third Five Year Plan,<sup>42</sup> the proportionate share of agricultural credit did not show a spectacular increase after that. The agricultural credit situation has thus remained unchanged in the period since.

Despite the importance of agricultural production in GDP and export terms, bank advances to agriculture amount to only 18 percent of total advances. In sharp contrast, advances to trade compose 30 percent of all bank advances, followed by the industrial sector which receives 27 percent.

Table 4.6: Bank Advances to Different Economic Sectors in Bangladesh 1992-95

Economic Sector	Advances Year ending 30-6-1992 [Tk.million]	Advances Year ending 30-6-1993 [Tk.million]	Advances Year ending 30-6-1994 [Tk.million]	Advances Year ending 30-6-1995 [Tk.million]	% to Total Advances upto June 1992	% to Total Advances upto June 1993	% to Total Advances upto June 1994	% to Total Advances upto June 1995
Agriculture, Forestry & Fishery	44209	47742	52880	58948	18.76	17.79	18.67	17.87
Industry	62980	73824	83291	90291	26.72	27.52	29.40	27.38
Construction	11733	14541	15830	19429	4.98	5.42	5.59	5.89
Electricity, Gas, Water & Sanitary Services	785	100	126	803	0.33	0.04	0.04	0.24
Trade	76245	86821	77855	101418	32.35	32.36	27.48	30.75
Transport, Storage & Communication	5879	6258	6941	8340	2.49	2.33	2.45	2.53
Working Capital & Financing	21789	23605	29169	28109	9.24	8.80	10.30	8.52
Miscellaneous Services	12076	15402	17180	22455	5.12	5.74	6.06	6.81
Total	235696	268293	283272	329793	100.00	100.00	100.00	100.00

Source: BBS [1997]: *Statistical Pocketbook of Bangladesh*, p.293

Since the trade sector and industrial sector respectively contribute only 10 percent and 11 percent to GDP,<sup>33</sup> the high commitment of institutional finance to these sectors are not a healthy sign in a poor economy like Bangladesh. Lower proportionate disbursements of agricultural credit illustrate that the credit norms prescribed by Bangladesh Bank and the Government are not being followed by the banking institutions involved in agricultural finance.

Table 4.7: Targeted and Actual Disbursement of Agricultural Credit in Bangladesh 1981-82 to 1997-98

Year	Credit Target	Credit Disbursement	Credit Undisbursed	[ in crore Tk.]
				% Credit Disbursed
1981-82	599.81	462.41	137.40	77.09
1982-83	884.19	719.85	164.34	81.41
1983-84	1187.16	1055.83	131.33	88.94
1984-85	1474.14	1260.13	214.01	85.48
1985-86	1364.60	728.84	635.76	53.41
1986-87	1204.05	672.01	532.04	55.81
1987-88	1301.50	726.92	574.58	55.85
1988-89	1511.00	889.88	621.12	58.89
1989-90	1605.00	721.59	883.41	44.96
1990-91	1426.00	641.30	784.70	44.97
1991-92	1550.10	802.32	747.78	51.76
1992-93	1474.41	841.85	632.56	57.10
1993-94	1643.08	1100.79	542.29	67.00
1994-95	1963.00	1012.20	950.80	51.56
1995-96	2242.00	1018.00	1224.00	45.41
1996-97	2196.80	1078.90	1117.90	49.11
1997-98	2352.50	970.70	1381.80	41.26
Total	25979.34	14703.52	11275.82	56.60

Sources: (i) Bangladesh Bank [1994]: *Scheduled Banks Statistics*, p.152

(ii) Computed from *Resumes of the Activities of the Financial Institutions in Bangladesh*, 1995-96 & other issues, MOF, p.135

Although the share of agricultural credit disbursements in total bank credit disbursements has remained poor over the years, the banks have been unable to fulfil their allocated agricultural credit targets, except for 1984-85. This would establish also that the endeavour of the Government to encourage the increasing participation of formal credit institutions in the agricultural credit programme has been largely unsuccessful. This has partly occurred as a result of the induction of organised urban banks into rural credit markets. These banks have developed banking procedures for dealing with organised firms and establishments that are incompatible with the rural agricultural environment.<sup>34</sup> The Government has also introduced new rural credit programmes, which were not linked up with the personnel strengths at the banks. Under their existing structure, the banks are thus preoccupied with the recovery of loans, rather than in their disbursement.<sup>35</sup>

The most important reason for the poor disbursement of agricultural credit by the formal-sector banks is the large amount of paperwork involved in the loan procedures, during which intending borrowers have to make many visits to the bank over a fairly long waiting period, before a decision is taken on their loan application.<sup>36</sup> Other formalities impede the transactions relating to agricultural credit, prominent among which is the requirement for borrowers to produce a Credit Pass Book which was introduced in 1984. The largely illiterate rural borrowers are unable to maintain or update their pass books and are thus unable to cope with the Credit Pass Book system, which is conditional for the disbursement of institutional credit to them.

#### 4.2.2 Institutional Charges on Agricultural Loans

Agricultural credit operations in Bangladesh are also found to suffer because of the lack of uniform interest rates between the lending institutions. Institutional charges on agricultural loans which are recovered as interest have been found to vary between institutions and even within the same institution. The study by Akhunji [1982] found the rate of interest charged by the NCBs to be between 10.5 to 11 percent p.a., against 12 percent p.a. for the cooperative banks and 17.5 percent p.a. for IRDP (including the service charge of 5 percent p.a.).<sup>37</sup> Within the BKB crop loan system, interest charges on loans were found to vary between 10.5 and 12.5 percent p.a. for different crops. The rate of interest applicable to loans for plantation crops like tea and jute was 10.5 percent p.a., but was as high as 12.5 percent p.a. for potatoes. The charging of differential rates is a part of the business strategy of the banks and other financial institutions. Except in the case of the agricultural sector, the small and cottage industries sector and the export sector, the older system of interest rate bands on lending has been abolished completely by Bangladesh Bank since June 1992.<sup>38</sup> Although the interest charges applicable to agricultural credit are determined by the credit institutions within the limits set by Bangladesh Bank, the fixing of institutional charges as interest on loans depends on the cost of funds, that costs of loan administration and service, and the risk factor. The mark-up added to this is the margin of the concerned bank.

It is evident from Government policy that concessional interest rates are charged on loans for exportable agricultural items, cottage industries, and the development of tea estate. Interest rates for short, medium and longterm agricultural loans are charged on an annual basis. In the case of cash credit and working capital loans, interest rates are chargeable on a quarterly basis unless otherwise specified by the sanctioning authority.<sup>39</sup> Irrespective of all these provisions, the interest rates charged to farmers by different credit institutions range between 15.5 to 17.5 percent p.a.<sup>40</sup> A provision also exists for realising penalty interest from the farmers at the rate of 6 percent p.a.. In contrast, the credit institutions generally secure loans from Bangladesh Bank at interest rates ranging between 7.5 to 8.5 percent p.a.. The interest rate on credit from non-institutional sources ranges between 50 to 100 percent p.a., rising occasionally to 150 percent or more. annually.<sup>41</sup> The wide contrasts between these differing interest charges, show that the borrower is often left little choice but to go to the nearest credit source. It is therefore quite clear that an efficiently managed institutional credit system which charges lower interest rates and supplies credit in adequate amounts will be of great advantage to all categories of farmers in Bangladesh.

#### 4.2.3 Institutional Recovery of Agricultural Credit

Although the disbursement of credit to the agricultural sector have increased over the years, the rate of loan recoveries is not so satisfactory. Lending activity at a bank is influenced to a large extent by the availability of funding resources at the bank. This depends in turn upon the recovery of earlier loan advances.

Recovery performance is thus an important factor for the banks. This is assessed on the basis of the recovery rate calculated on the loan amount recovered during the current year along with amount of loan overdue.<sup>42</sup>

Longterm changes in agricultural credit disbursements, and outstandings and recoveries may be assessed from the table below.

**Table 4.8: Agricultural Credit Disbursements and Recoveries in Bangladesh  
1972-73 to 1997-98**

[in crore Taka]

Year	Agricultural Credit Disbursement	Current Dues & Outstandings	Actual Recoveies	% Recovery
1974-75	37.70	n.a	36.67	97.27
1975-76	46.09	n.a	49.55	107.51
1976-77	86.39	n.a	57.10	66.10
1977-78	156.94	n.a	93.59	59.63
1978-79	163.17	n.a	116.04	71.12
1979-80	282.09	n.a	147.52	52.30
1980-81	373.42	n.a	220.91	59.16
1981-82	462.41	657.81	338.58	73.22
1982-83	719.85	843.07	367.62	51.07
1983-84	1055.83	1347.98	547.71	51.87
1984-85	1260.13	1797.12	631.17	50.09
1985-86	728.84	2529.08	651.75	89.42
1986-87	672.01	2985.68	1340.17	199.43
1987-88	726.92	2610.77	632.05	86.95
1988-89	889.88	3076.64	611.06	68.67
1989-90	721.59	4179.20	739.10	102.43
1990-91	641.30	4688.69	674.71	105.21
1991-92	802.32	4936.78	1160.60	144.66
1992-93	841.85	4719.93	869.23	103.25
1993-94	1100.79	5141.86	979.12	88.95
1994-95	1012.20	6586.60	799.60	79.00
1995-96	1018.00	7389.10	882.30	86.67
1996-97	1078.90	7135.40	1104.10	102.34
1997-98	1642.84	8125.80	1068.60	110.09
Total	16521.46	68751.51	14118.85	88.74

Sources: (i) Khanam [1989]: p.56

(ii) Bangladesh Bank [1994]: *Scheduled Banks Statistics*, p.152

(iii) Computed from *Resumes of the Activities of the Financial Institutions in Bangladesh*, 1995-96 & other issues, MOF, p.135

While the recovery rates on agricultural credit were high during the early years. Thus the recovery rate of agricultural credit during the year 1974-75 and 1975-76 was above 100 percent. Since then, it has declined gradually with an exception in 1986-87. In 1984-85 the recovery stood at 50 percent only. Subsequently after 1988-89, the recovery rate has reached a plateau. In 1988-89 the amount of credit outstanding was Tk.3076.64 crore of which Tk. 2,555 crore comprised overdue.<sup>43</sup> In 1997-98, outstanding credit rose to Tk.8,125.80 crore. Despite this increase, the share of agriculture, fishing and forestry in total outstanding advances of all banks in 1998 was 15.4 percent, whereas it was as high as 29.5 percent for industry and 28.4 percent for trade in the same year.<sup>44</sup> The proportion of outstanding credit in agriculture, fishing and forestry has in fact declined from 22.7 percent in 1990 to 15.4 percent in 1998. In contrast, outstandings in the industrial sector have increased from 26.5 percent in 1990 to 29.5 percent in 1998.

The reasons for default on agricultural loans are many. On the basis of random surveys, the Joint Review<sup>45</sup> had identified the following main reasons

- (a) crop failure and instability in production in the absence of assured irrigation facilities;
- (b) inadequate loan supervision leading to misuse and over- or under-financing;
- (c) willful default by bigger and influential borrowers and lack of legal means to enforce loan collection;
- (d) complexities in obtaining new loans, which led farmers to roll over previous loans;
- (e) lack of incentives for bank officials to improve loan recovery.

The Joint Review did not directly state the extent to which political patronage encourages and strengthens willful default. It is known however that certain special credit disbursement programmes in Bangladesh

were launched to keep rural voters happy. Under such programmes, the selection of borrowers was not made through normal banking prudence because of political intervention. The majority of these loans have now become bad loans. The propensity of borrowers to default on loan repayment was also triggered off by the frequent interest-waivers and writing-off of loans by the Government, which generated the impression that such a scope would be available again in the near future.<sup>46</sup> Besides such problems, it is also known that bank personnel lack transport facilities to exercise effective supervision over the activities of the borrowers. Due to untimely receipt and poor supervision, agricultural credit is often used for unproductive rather than productive purposes.

The Public Demand Recovery [PDR] Act was amended in 1979-80 to facilitate the recovery of agricultural loans which had been disbursed by the formal sector banks. However in very many cases, the influential local elite have used their political and social power to prevent the proper implementation of the Act. Neither bank managers nor the loan supervisors have the authority to take legal action against loan defaulters.

#### 4.2.4 Grameen Bank and other Semi-formal Credit Agencies

Globally, around 8 to 10 million households are now served by micro finance programmes, and the proponents of micro finance are trying to expand such facilities to 100 million poor households by 2005.<sup>47</sup> As the President of the World Bank, James Wolfensohn has pointed out that helping these 100 million households would mean that at least 500 to 600 million poor would be individually benefited. On the global platform, micro finance has appeared as a 'win-win' solution to poverty alleviation, from which both financial institutions and their poor clients would draw benefits.

Micro finance programmes in Bangladesh have evolved considerably in the last two decades. Most NGOs in the country started their work as relief organisations, but developed into development agencies in the course of time. Many of these have also subsequently become micro finance institutions [MFIs] because of their focus on savings and micro credit programmes. The manner in which NGO credit has evolved needs to be elaborated. A large credit gap had appeared in rural financial markets in Bangladesh over the last two decades. Commercial banks operating in the country had been asked during the mid-1970s to provide agricultural and rural credit that would supplement Government efforts at alleviating poverty in Bangladesh. However, the achievements of commercial banks in this respect have been rather frustrating because of inappropriate financial technology and the hostile internal and external environments in which they operated.

Instead of overcoming these obstacles, the 1990s have seen a virtual stoppage in the provision of rural and agricultural credit by commercial banks, in the name of bringing financial discipline into the banking sector through the adoption of financial sector reforms.<sup>48</sup> As a result of this, the flow of agricultural credit from these banks was only Tk.598.60 crore in 1990-91, comprising only 3 percent of total credit disbursements by the commercial banks.<sup>49</sup> Even in 1977-78, this flow had been at the level of 10 percent. As a result of the persisting rural credit gap, institutional sources were estimated to be meeting only 8-15 percent of the credit needs of farmers in Bangladesh, with the balance being met through the credit advanced by other agencies.<sup>50</sup> At a time when this vast credit gap prevailed in rural Bangladesh, the Grameen Bank and certain other NGOs came up with successful and viable models of alleviating poverty through the provision of credit to the poor. The innovative micro finance programmes run by the Grameen Bank and hundreds of NGOs over the last two decades have improved the quality of life of millions of people in Bangladesh. Quick proliferation of the NGO credit programme has been accompanied by high repayment rates, recently estimated to average 97-98 percent.<sup>51</sup>

Rapid development of the Grameen Bank and other NGO credit agencies have raised important questions about the future of agricultural credit in Bangladesh. The basic question is whether the Grameen Bank and the NGOs can substitute the role of formal sector banks in agricultural credit operations. The answer to this question is negative, since the magnitude of credit required for agriculture is much beyond the capacity of the micro finance institutions and organisations. Although the growth of Grameen Bank and NGOs have been rapid, their loan portfolios are still dominated by small trading advances to nonagricultural activities. For these reasons, the Grameen Bank and the Bangladesh NGOs cannot evolve into substitutes for the NCBs, but can only supplement the efforts made by the NCBs and Specialised Agricultural Banks towards the disbursement of agricultural credit.

Grameen Bank and the other NGOs generally provide loans to the targeted poor who own lands that are less than 0.50 acres in size, and hence prefer not to disburse agricultural credit. Sector-wise shares in the total disbursement of credit made during FY 1998 by 369 Bangladesh NGOs including leading organisations like ASA, BRAC and Proshika can be assessed from the table below. It is clearly evident that NGO loan disbursements are mostly directed to small business. The share of agricultural credit in their loan portfolio is nominal at only 12 percent.

**Table 4.9: Sectoral Loan Distribution by 369 Bangladesh NGOs including ASA, BRAC and Proshika**

Sector	% Sectoral Share in Disbursements upto June 1998
Agriculture	12.19
Fisheries	4.33
Food processing	10.17
Small business	42.13
Cottage industries	2.83
Transport	3.39
Housing	1.49
Health	0.51
Education	0.04
Livestock	17.94
Others	4.81
<b>Total</b>	<b>100.00</b>

Source: Alamgir [1999]: *Microfinancial Services in Bangladesh: Review of Innovations and Trends*, CDF, Dhaka, p.15

The Grameen Bank has been hesitant in undertaking credit programmes for the agricultural sector because most of the activities of Grameen Bank are directed towards 'point-input continuous-output' in contrast to agricultural operations which are characterised by 'point-input point-output'. The key to the success of Grameen Bank has been the system of weekly repayment of loans yielding a continuous income as against agricultural loans which are repaid mainly after the harvest and hence do not generate continuous income.<sup>52</sup> Therefore, with their very short term objectives the NGOs including the Grameen Bank cannot be expected to provide or meet the agricultural credit requirements of the farmers. It is the formal sector with appropriate policy measures, can cater to the credit needs of the small and marginal farmers of the country.

#### 4.3 Agricultural Credit Flows to Small and Marginal Farmers

Small and marginal farmers owning cultivable land between 0.5 to 2.49 acres account for about 79.87 percent of all farmers in Bangladesh, and depend primarily on agriculture for their livelihood.<sup>53</sup> These farmers live at bare subsistence or below subsistence level.<sup>54</sup> The social and economic life of these low-income farmers is frequently disrupted by natural calamities. In the absence of any protective measures, losses incurred due to natural hazards are borne by the poor farmers alone. Loans to tide over such situations are virtually inaccessible because the low-income farmers do not have enough land or other assets to mortgage. As a result, the credit institutions do not treat small farmers them as creditworthy borrowers and leave them to the mercies of the moneylender class.

Nevertheless, this large group of small and marginal farmers with good quality land to cultivate are really the potential farmers who should be targeted by agricultural credit institutions. The quality of land has an important bearing on the income that can be earned from the use of land. A farmer having 50 decimals of quality land with an irrigation facility would be better off than a farmer having an acre or even more of low quality land. The main constraint faced by the small and marginal farmers in improving agricultural yields has been the negligible flow of credit from various institutions due to the limited ability of the farmers to offer collateral in any form against the loans they seek. The meagre amount of the loan received does not serve the purpose of increasing productivity. Experience has shown that loans that are too small for adoption of new technologies, which are consequently likely to be used unproductively by the borrowers. This is more so because the consumption needs of small farmers cannot be wished away from their total credit needs. Therefore, agricultural lenders in some developing countries like the Philippines deliberately add a reasonable allowance for subsistence to the amount the farmer needs to pay for a full

package of technology.<sup>55</sup>

But the institutional sources of credit in Bangladesh are not satisfactorily geared towards this approach. The performance of formal-sector banks remains very poor in terms of outreach. The access of the small and marginal farmers in the formal sector banks is far from satisfactory. Evidence from evaluation reports of SACP indicates that the main beneficiaries are large farmers ploughing 3.00 to 9.00 acres of land.<sup>56</sup> They have enough land to offer as collateral to the banks.

With the engagement of NCBs for disbursement of the earmarked fund of Tk.100.00 crore under SACP in 1977, it was hoped that these banks would be effective instruments of extending agricultural credit to the neglected small and marginal farmers. But studies by Nathan,<sup>57</sup> and surveys conducted by Agricultural Credit Department [ACD] of Bangladesh Bank [1982-83], etc. show that in case of NCBs the proportion of borrowers cultivating up to 2.50 acres of land was very low under SACP. Hossain [1977]<sup>58</sup> finds that only 17 percent of small farmers had access to institutional loans and they received only 28 percent of the total credit, where as 61 percent of large farmers received those loans and obtained almost 67 percent of credit in 1973-74. Virmani<sup>59</sup> and Saha<sup>60</sup> in their studies found that the tenants and small farmers are not getting enough institutional credit and the medium and large farmers have a much better access to credit than the small and marginal farmers.

A summary of the composite findings from Nathan's sample-study of 158 borrowers provided below. It is evident from the studies that the NCBs have not succeeded in providing advances to the large number of small and marginal farmers under NP and SACP. Despite pronounced objectives of the SACP, it has not succeeded in reaching the small and marginal farmers. The table shows that the farmers owning less than 2.0 acres of land received only 15 percent of total credit. But the fact remains that over two third of the farming population of Bangladesh are small and marginal farmers and prosperity in agriculture rests on them. Unfortunately, they are the farmers who are still deprived of the facilities of agricultural credit to the extent they deserve.

Table 4.10: Distribution of SACP Loans by Landownership-class

Land Ownership-class	% of Borrowers	% of Total Credit Receipts
Landless	<i>nil</i>	<i>nil</i>
Farmers holding less than 2.0 acres	21	15
Farmers holding 2.0 to 5.0 acres	41	31
Farmers holding more than 5.0 acres	38	54
Total	100	100

Source: Yunus [1981]: *Rural Agricultural Credit Operations in Bangladesh*, Grameen Bank, Dhaka. p 19

The above situation further worsened further with the lowered performance of BKB. The proportion of loans issued by BKB to the small and marginal farmers under its normal programme declined from 55 percent in 1977 to 32 percent in 1981.<sup>61</sup> Similarly, the proportion of loans to small and marginal farmers under SACP decreased from 53 percent in 1978 to 43 percent in 1981. It is thus clear that small and marginal farmers have been the worst affected during the period 1977-1981 because of the restricted supply of agricultural credit to them over these years.

Inadequate credit facilities, especially for small farmers, have always been a feature in the agricultural credit market in Bangladesh. Even in better times, when the banks were suffering from excess liquidity in the mid-1970s, the small and marginal farmers were not getting reasonable access to bank credit. Even mandatory allocations could not provide a solution to the problem of not being able to create credit access for the small and marginal farmers and rural poor. Although the Government has recognised the credit need of the small and marginal farmers, the inherent weaknesses of the credit institutions have allowed institutional credit to remain concentrated in the hands of the medium and large farmers.<sup>62</sup>

The requirement of security or collateral against the provision of agricultural loans has thus deprived the small and marginal farmers from receiving agricultural credit through institutional sources. Farmers who are at subsistence or below-subsistence levels suffer the most, since they are unable to earn subsidiary income. Thus the large farmers reaped richer harvests while the small and marginal farmers have remained

helpless spectators. In the absence of adequate credit provision for small and marginal farmers who constitute 80 percent of the farmers in Bangladesh, it becomes increasingly difficult for the country to achieve the national goal of increasing the agricultural production and at the same time improving the economic condition of the rural poor in the country.

#### 4.4 Desired Directions

There has been increasing awareness of the need for an integrated and comprehensive approach to the entire issue of agricultural credit in many countries, including the Philippines, India and Pakistan. The basic underpinning is that without adequate provision of credit for the current production and consumption expenses of the farmers, realisation of planned targets for agricultural production would be difficult to attain. Agricultural lenders in certain developing countries like the Philippines thus deliberately add a reasonable subsistence allowance to credit amount the farmer needs to pay for a full package of technology.

The institutional sources of credit in Bangladesh lack this aspect. Their outreach activities are very limited and this in turn has a bearing on their credit performance. The access of small and marginal farmers to bank loans is insubstantial in spite of their large presence in the rural population. These farmers also form the potential target groups for the banks since their combined contribution to agriculture is also the largest. They also represent the poorest sections of the farming population with little or no assets. In order to bring about a qualitative change to agricultural technology on their lands to increase productivity, these farmers require more credit than the medium and large farmers. However, the share of institutional credit in total credit receipts by the rural population ranges between 8 to 24 percent. Of this, the largest portion of credit facilities are availed by medium and large farmers who are in an advantageous position because of their landed assets and can provide collateral against loans and advances. From this perspective, it is natural that small and marginal farmers find it more difficult to avail of credit facilities that require collateral. The performance of NGOs in advancing agricultural credit is not remarkable, and is virtually negligible. Thus the private informal sources of credit still play a leading role in meeting the credit needs of the farmers while charging exorbitant interest rates.

Given the relative importance of the large number of small and marginal farmers, extensive study of their access to institutional credit is required. Although the semi-formal credit operations of Grameen Bank and NGOs have been growing rapidly in Bangladesh, their loan portfolio is still dominated by small trading loans. Thus it cannot be expected that the Grameen Bank and the NGOs will be able to supplement the efforts of the NCBs and the Specialised Agricultural Banks in the disbursement of agricultural credit. Much hangs upon the credit efforts of the formal-sector credit institutions in Bangladesh, and upon their adoption of appropriate credit policy measures to meet the agricultural credit requirements of the small and marginal farmers of the country.

#### Notes

The *Lead Bank System* was introduced to avoid duplication and to maintain effective coordination in the disbursement of credit to each district. One bank in each district is designated as the Lead Bank for the district. The system is coordinated by the District Committee which the Deputy Commissioner of each district heads as Chairperson, with the Manager of the Lead Bank functioning as Member-Secretary. In consultation with the District Committee, the Lead Bank assigns credit responsibilities for the Unions in the district to different bank branches so that no Union is served by more than one bank branch. (for details, see Saha 1985).

An *Upazila* is the compact administrative unit created in 1983, which replaced the *Thana* (police station) level administration in Bangladesh. It also serves as a mid-level local government institution. There are currently 460 upazilas in Bangladesh.

A *Union* is the institution at the lowest rung of local government in Bangladesh and comprises a cluster of villages.

*Recovery Rate* is the

$$\frac{\text{Amount of loan dues recovered during the current year}}{\text{Amount of loan overdues + Amount of loan recoveries during the current year}} \times 100$$

This method of calculating the recovery rate is in common use among banks in Bangladesh (see Rahman [1998]: p.267)

## References

1. Ray [1998:529].
2. Census of Agriculture [1996:xiii]
3. Ali [1990:3]
4. *ibid.*
5. *ibid.*, p.4
6. *ibid.*
7. Akhunji [1982:33]
8. *ibid.*
9. BKB[1987]: *Loan Manual*, Part 1, *cf.*Zillur Rahman [1998:53]
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## Chapter - V

# Agricultural Credit Agencies in Bangladesh

### 5.1 Institutional Structure for Agricultural Credit

For any credit programme to be implemented effectively, proper institutional arrangements are most essential. Even well-designed programmes can fail if the institutional framework is not adequate. This is even more true in the case of agricultural credit where a vast area and a large rural population have to be covered by the credit programme. Rural credit programmes also have to be designed keeping the socioeconomic condition of the target people in view. For rural advancement of a nation, rural credit agencies generally have to cater to the financing needs of (a) agriculture, (b) small business and (c) cooperative development. Separate institutional credit arrangements may also have to be made to meet the special needs of a particular class of people with reference to their economic, professional or regional status.

The Government of Bangladesh has constantly endeavoured to provide adequate financial support to the rural and agricultural sectors of the country. Many institutions and agencies are thus involved directly or indirectly involved in agricultural credit and rural finance. An attempt will be next to examine the overall rural credit performance of formal-sector banks, which have been assigned a vital role in providing credit support to the agricultural sector, as noted earlier.

The formal-sector banks involved in credit disbursement to the agricultural sector in Bangladesh are

- (i) the apex bank, i.e. Bangladesh Bank;
- (ii) the Nationalised Commercial Banks [NCBs], i.e. Sonali Bank, Agrani Bank and Janata Bank; and
- (iii) the specialised banks, i.e. the Bangladesh Krishi Bank [BKB], the Rajshahi Krishi Unnayan Bank [RAKUB] and the Bangladesh Samabaya Bank Ltd.[BSBL]

The credit functions and activities of these institutions are examined here in the light of their overall impact on the agricultural sector in Bangladesh.

### 5.2 Agricultural Credit & the Bangladesh Bank

As the apex monetary institution of the country, Bangladesh Bank exercises ultimate control over all banking programmes in Bangladesh. It formulates the policies, rules and regulations that govern institutional credit and also monitors all development activities in the national economy. Bangladesh Bank also provides institutional support for efficient implementation of agricultural credit policies. In view of the country's primary dependence on agriculture, Bangladesh Bank has the onus of announcing the agricultural credit policy applicable for each year, especially on matters governing crop-loans. This policy is implemented through the credit operations of the NCBs as well as BKB, RAKUB, BSBL and the Bangladesh Rural Development Board [BRDB]. After the annual agricultural credit programme has been formulated by Bangladesh Bank in consultation with the Ministry of Agriculture, it allocates funds for the credit programme to different banking institutions and closely monitors the implementation of policy guidelines. While resolving any difficulties that may be encountered by banking institutions, Bangladesh Bank also functions as the lender of the last resort. The major functions of the Bangladesh Bank that define its role in relation to agricultural credit are discussed below.

#### 5.2.1 Policy Formulation

Detailed policy guidelines for proper disbursement, utilisation and recovery of agricultural credit are issued by Agricultural Department of Bangladesh Bank for implementation through the NCBs, and BKB,

BRDB, BSBL and RAKUB. In framing credit norms for financing the agricultural sector, the Bank takes account of the crop-wise, sector-wise and target group-wise credit needs of farmers to enable effective channelisation of finance.<sup>1</sup> Specific time schedules are announced for disbursement of various types of credit. The policy guidelines also make specific mention of the norms on borrower eligibility, the quantum of credit support to be disbursed for various crops, and the period over which credit recovery is to take place. Participating banks are expected to follow these schedules and norms meticulously.

### 5.2.2 Credit Targeting

Special attention is given to ensuring the adequate flow of bank credit to farmers in order to make Bangladesh self-sufficient in foodgrains by increasing major crop production and achieving overall development of the agricultural sector. Bangladesh Bank earlier used to prepare an Annual Agricultural Credit Programme to be followed by all financing banks and institutions. From the crop year 1991-92 onwards, the banks and institutions have been allowed to prepare their own Annual Agricultural Credit Programmes for implementation within the framework of the credit policy of the Government.<sup>2</sup>

In 1997-98, banks and financial institutions in Bangladesh undertook to disburse an agricultural credit target of Tk.2352 crore. Fund allocations to different agricultural subsectors under the credit programme comprised Tk.1027 crore (43.7 percent) as crop loans [for non-plantation crops], Tk.14 crore (0.6 percent) for purchases and installation of irrigation equipment and the remaining 55 percent for other activities. Against this, actual disbursement in 1997-98 amounted to Tk.1642.84 crore equivalent to 69.8 percent of the disbursement target for that year. Total recoveries of agricultural credit over the year amounted to Tk. 1068.60 crore. As a result, total outstandings of agricultural credit in 1997-98 increased to Tk.8125.80 crore.<sup>3</sup>

### 5.2.3 Credit Refinancing

To ensure smooth and timely disbursement of agricultural credit to farmers at reasonable rates of interest, Bangladesh Bank has extended liberal refinance facilities to all formal-sector agricultural credit institutions since 1983. Although refinancing rates have varied, concessional rates have occasionally been provided to particular institutions in the greater interest of the country's rural sector.<sup>4</sup> An overview of the extent of refinancing provided by Bangladesh Bank to different agricultural lending agencies can be obtained from the table below.

Table 5.1: Refinancing by the Bangladesh Bank

Institution	[in crore Tk.]			
	1982-83	1983-84	1987-88	1988-89
Nationalised Commercial Banks [NCBs]	166.57	232.97	110.29	84.87
Bangladesh Krishi Bank [BKB]	185.80	376.90	109.94	157.95
Rajshahi Krishi Unnayan Bank [RAKUB]	-	-	32.70	31.45
Bangladesh Samabaya Bank Ltd. [BSBL]	22.35	21.36	10.91	13.02
<b>Total</b>	<b>374.72</b>	<b>631.23</b>	<b>263.8</b>	<b>287.3</b>

Source: (i) Islam [1985]: *Rural Finance*, p.57

(ii) MOF [1989]: *Resume of the Activities of the Financial Institutions in Bangladesh*, 1988-89, pp.12-13

The refinancing policy of Bangladesh Bank does not uniformly cover all agricultural credit institutions. A Joint GOB & IDA Review in 1983 reported that the refinance received by BKB amounted to 70 percent of its annual credit programme and to 93 percent in the case of BSBL. In contrast the extent of dependence of the NCBs on refinance from Bangladesh Bank amounted to 7 percent only.<sup>5</sup> However, the refinancing policy was partially modified from January 1990, along with the implementation of the new interest rate policy. Rediscounting facilities were introduced in replacement of refinancing for agricultural credit from all formal-sector banks, except BKB and RAKUB. It was also decided that refinancing of agricultural loans disbursed by BKB and RAKUB would be extended at the existing Bank Rate. The agricultural credit programme of the Bangladesh Rural Development Board [BRDB] which is financed by the NCBs continues to be refinanced by Bangladesh Bank at the prevailing rate of interest.<sup>6</sup> As a result of the change in policy, refinancing by Bangladesh Bank to agricultural lending agencies during FY1997-98 amounted to only Tk.165.10 crore, representing a sharp decline from Tk.631.23 crore in 1983-84 and Tk.287.36 crore in 1988-89.<sup>7</sup>

### 5.3 The Nationalised Commercial Banks [NCBs]

Prior to the liberation of Bangladesh in 1971, commercial banks had played an insignificant role in agricultural and rural credit. Even after this event, the newly nationalised commercial banks remained rather unconcerned about rural finance. Institutional participation in the agricultural credit programme was stepped up after 1977 when a Special Agricultural Credit Programme [SACP] was introduced by the Government of Bangladesh.<sup>8</sup> Through the SACP, the Government of Bangladesh induced the NCBs to participate more actively in the disbursement of agricultural credit. Induction of NCBs into the agricultural credit sector heralded a new era in rural finance. The SACP marked a forward step through which credit support was extended to the rural poor at their doorstep.

The agricultural credit activities of the NCBs in Bangladesh need to be examined in relation to the national banking policy on agricultural credit. The credit performance of the three major NCBs are analysed next.

#### 5.3.1 Sonali Bank

After the emergence of Bangladesh as a sovereign nation, the new Government redesigned the banking institutions of the country. Sonali Bank was established under the Bangladesh Bank (Nationalisation) Order of 1972 and commenced functioning with 267 erstwhile branches of the National Bank of Pakistan, Bank of Bahawalpur Ltd. and Premier Bank Ltd.<sup>9</sup> Since then its operations have proliferated in the urban and rural areas of Bangladesh. Sonali Bank is at present the second-largest financier of rural credit among the NCBs in Bangladesh, both in terms of the volume of transactions and the size of its branch network.<sup>10</sup>

The main objective in establishing the Sonali Bank has been to mobilise scattered and untapped small savings from large sections of the people by extending banking services to them. In compliance with this objective, the branch network of Sonali Bank expanded to 1304 branches by 1998. Of these, 427 branches are in urban areas and 884 in the rural areas. Sonali Bank also has 7 overseas branches, 6 of which are in the United Kingdom and one in Kolkata, India.<sup>11</sup> The deposits held by Sonali Bank rose from Tk.290.17 crore in 1982 to Tk.15,279.50 crore by the end of 1998, showing more than fifty-fold increase in a span of six years.<sup>12</sup>

Sonali Bank has been extending financial support on priority basis to potential growth sectors in Bangladesh including agriculture, industry, trade and commerce, in order to strengthen the national economy. To accelerate the pace of industrialisation, Sonali Bank has expanded its industrial credit programme by extending financial support for the establishment of large, medium and small-scale industries. It has also continued to follow Government policies for financing people of smaller means on easy terms and conditions.

Sonali Bank commenced its rural financing programme in 1973 by financing the projects of the BRDB [the former Integrated Rural Development Programme or IRDP]. On the basis of the experience gathered from indirect financing through BRDB, Sonali Bank started direct financing programmes for rural people from 1976 onwards.<sup>13</sup> Sectoral loan disbursements and recoveries of Sonali Bank from the main economic sectors of the country in 1997 and 1998 are shown below. However, in spite of its long involvement in extending credit to rural areas, the share of agricultural credit in total credit disbursements by Sonali Bank amounted to only 7.91 percent in 1998. While a substantial amount of credit is being disbursed to industry and other non-agricultural sectors by Sonali Bank, disbursements of agricultural credit by the bank appear to have taken a backseat.

Table 5.2 Sectorwise Loan Disbursements and Recoveries by the Sonali Bank 1997 & 1998

[in crore Tk.]

Year	Particulars	Agricultural Loans	Industrial Loans	Other Loans	Total Disbursements
1997	Disbursement	286.80	1072.20	3494.10	4853.10
	Recovery	315.00	653.50	3162.60	4131.10
1998	Disbursement	393.50	1204.70	3376.00	4974.20
	Recovery	286.10	844.70	3101.20	4232.00

Source: MOF [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh, 1998-99*, p.17

The major rural credit schemes<sup>14</sup> of Sonali Bank provide credit support for the Special Agricultural Credit Programme [SACP], the Swanirvar self-reliance programme and the Krishi Shakha programme, and extend credit to farmers for sugarcane, banana and jute cultivation. Sonali Bank provides finance under the IFAD Credit Programme and Bangladesh-Swiss Agricultural Project, and also extends scheme assistance for rural irrigation, rural housing and rural transport. For rural poverty alleviation, Sonali Bank supports fisheries and shrimp development projects, and also finances the BRDB scheme for establishing Central Cooperative Societies at each *thana*. The bank also extends direct financial support to fertiliser dealers.

Table 5.3 Targeted & Actual Credit Disbursements by the Sonali Bank 1981-82 to 1994-95

[in crore Tk.]

Year	Credit Target	Credit Disbursement	Credit Undisbursed	% Credit Disbursed
1981-82	123.49	76.65	45.84	62.88
1982-83	210.25	131.63	78.62	62.61
1983-84	264.20	217.83	46.37	82.45
1984-85	276.25	311.31	-35.06	112.69
1985-86	317.60	190.82	126.78	60.08
1986-87	261.45	132.02	129.43	50.50
1987-88	251.00	167.07	83.93	66.56
1988-89	346.00	164.88	181.12	47.65
1989-90	369.00	152.61	216.39	41.36
1990-91	357.00	141.97	215.03	39.77
1991-92	351.85	161.08	190.77	45.78
1992-93	385.00	138.00	247.00	35.84
1993-94	327.00	172.31	154.69	52.69
1994-95	348.00	117.50	230.50	33.76

Sources: (i) Arefin *et al.* [1994]: pp.89-90

(ii) Bangladesh Bank [1994]: *Scheduled Banks Statistics*, p.156

Trends in rural credit targeting and disbursement by Sonali Bank over the period between 1981-82 to 1994-95 are revealed in the table above. After increasing steadily in the initial years, the annual growth in rural credit targets levelled off after peak disbursement of Tk.311.31 crore had occurred in 1984-85. Annual credit disbursements since then have fallen considerably. Total agricultural credit disbursed has hovered around 50 percent of agricultural credit targets, and the shortfall in credit disbursement in several years has exceeded 65 percent. Strong indication is thus obtained of Sonali Bank's repeated failure to extend adequate credit support to the agricultural sector.

Table 5.4 Growth in Rural Credit Disbursement by Sonali Bank 1973-1992

[in crore Tk.]

Year	Annual Disbursement	Physical Growth	% Growth Rate
1973	2.35	-	-
1974	3.75	1.40	59.57
1975	7.35	3.60	96.00
1976	15.53	8.18	111.29
1977	32.82	17.29	111.33
1978	35.88	3.06	9.32
1979	69.82	33.94	94.59
1980	75.80	5.98	8.56
1981	74.56	-1.24	-1.64
1982	86.45	11.89	15.95
1983	177.92	91.47	105.81
1984	309.20	131.28	73.79
1985	208.00	-101.20	-32.73
1986	183.97	-24.03	-11.55
1987	164.79	-19.18	-10.43
1988	164.00	-0.79	-0.48
1989	162.59	-1.41	-0.86
1990	154.34	-8.25	-5.07
1991	136.63	-17.71	-11.47
1992	171.75	35.12	25.70

Source: Arefin *et al.* [1994]: p.90

Further evidence of the slackening interest of Sonali Bank in the agricultural credit sector is provided in the longterm trends on rural credit disbursement reflected table below. When the rural lending programmes of the bank had commenced in 1973, high growth rates in the annual disbursement of credit to rural areas was registered initially. Till 1980, the growth in rural credit disbursements remained largely positive, but became progressively erratic, with high disbursement in certain years and considerable slackening in others. After 1984, a steady decline occurred in annual credit disbursements and another upturn only became visible again in 1992..

Although the recovery positions on agricultural credit of Sonali Bank have not been encouraging, an initial association is observed to exist between the level of loan recoveries in a particular year and agricultural credit disbursement in the year after. Following years when the recovery percentage has improved, loan disbursements have also registered an increasing trend. This is true for the period between 1981-82 to 1984-85, and again in 1986-87 and 1987-88. A declining trend is observed in the period thereafter in both loan disbursements and the recovery rate. With poor performance in the recovery of loans, Sonali Bank's outstanding liabilities have been increasing over the years imposing a financial strain on the bank's lending to the agricultural sector. Sonali Bank is caught in a vicious circle where the nonrepayment of loans increases liabilities and leads to a crunch on the funds that can be disbursed as further loans and advances.

**Table 5.5: Disbursement and Recovery of Agricultural Credit by the Sonali Bank  
1981-82 to 1992-93**

*[in crore Tk.]*

Year	Loan Disbursements	Loans due for Recovery	Loan Recovery	% Loan Recovery	Loans Overdue	Loans Outstanding
1981-82	77.65	171.67	53.47	31.15	118.20	115.81
1982-83	131.63	180.62	67.50	37.37	113.12	244.42
1983-84	217.83	272.93	106.64	39.07	166.29	379.81
1984-85	311.31	314.09	101.06	32.18	213.03	682.04
1985-86	190.82	586.74	127.74	21.77	459.00	781.00
1986-87	132.02	652.49	282.96	43.37	369.53	641.06
1987-88	167.07	561.16	109.10	19.44	452.06	786.81
1988-89	164.88	618.12	108.39	17.54	509.73	961.07
1989-90	152.61	951.41	125.78	13.22	825.63	1161.73
1990-91	141.97	1177.56	103.64	8.80	1073.92	1415.41
1991-92	161.08	962.02	89.29	9.28	872.73	1198.49
1992-93	138.00	1259.98	120.02	9.53	1139.96	1426.00

Source: Bangladesh Bank [1998]: Agriculture Credit Division-1, Dhaka

### 5.3.2 Agrani Bank

Agrani Bank, another leading NCB, was brought into existence by the Bangladesh Bank (Nationalisation) Order of 1972, under which Agrani Bank took over the assets and liabilities of the Habib Bank Ltd. and the Commerce Bank Ltd. which had functioned in East Pakistan.<sup>15</sup> At the time of commencing operations, it had a network of 888 branches located throughout the country, including its Head Office, 4 Circle offices, 54 Zonal offices and 38 branches handling foreign exchange. 582 branches (66 percent) of the Agrani Bank's 888 branches were located then in rural areas.<sup>16</sup> Since then, Agrani Bank has witnessed an expansion in terms of deposits, advances and branches. By the end of 1997 the total number of branches had risen to 903, of which 660 (73 percent) were rural branches.<sup>17</sup>

The primary aims of Agrani Bank also include the mobilisation of savings through acceptance of public deposits of all types, and the disbursement of credit to agriculture, industry, commerce and trade. In a broader sense, these functions include the provision of credit advances for productive activities and other commercial and social services through its branch network. Sector-wise loan disbursements and recoveries made by Agrani Bank in 1997 and 1998 are indicated below. Agrani Bank has been involved in rural finance since 1975-76. Its credit activities have extended to most subsectors of rural financing including agricultural and non-agricultural credit programmes. Nevertheless, credit operations by Agrani Bank are dominated by general lending. Thus although it has been an active participant in the rural credit sector, the share of agricultural credit in its lending portfolio amounted to a meagre 1.59 percent in 1997 and 2.55 percent in 1998.

**Table 5.6 Sectorwise Loan Disbursements and Recoveries by the Agrani Bank 1997 & 1998**

[in crore Tk.]

Year	Particulars	Agricultural Loans	Industrial Loans	Other Loans	Total Disbursements
1997	Disbursement	42.70	912.10	1727.60	2682.40
	Recovery	49.90	832.10	1867.40	2749.40
1998	Disbursement	93.90	506.20	3081.90	3682.00
	Recovery	43.50	465.20	2672.50	3181.20

Source: MOF [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh*, Year 1998-99, p.29

The principal rural finance schemes<sup>18</sup> of the Agrani Bank provide credit support for the Crop Loan programme, the Swanirvar self-employment programme and rural finance projects; banana and coconut plantations and the cultivation of minor crops; *lac* culture, silk weaving, salt manufacture; and livestock loans and shrimp culture and small-scale duckery and poultry projects. Agrani Bank supports Grameen development projects and the BRDB Rural Poor programmes, and finances small farmers under IFAD, DANIDA/NRDP-I and II. Under rural infrastructure, Agrani Bank finances Grameen godown and food godown projects, community schools, rural housing, rural electrification and transport, village machinery, agricultural and irrigation equipment including powered pumps. It extends credit support to poverty alleviation and rural self-employment projects, including fish and shrimp culture, and the establishment of small-scale cottage industries. Besides these, Agrani Bank supports Rin Prokalpa, land mortgages and also performs normal credit operations.

The longterm trends in agricultural credit disbursement, loan recoveries and loan outstandings of Agrani Bank over the period between 1976-77 to 1993-94 are revealed in the table below.

**Table 5.7: Agricultural Credit Disbursement, Recoveries & Outstandings of the Agrani Bank 1976-77 to 1993-94**

[in crore Tk.]

Year	Loan Disbursements	Loan Recoveries	Loans Outstanding
1976-77	5.46	1.97	5.06
1977-78	11.83	5.30	11.64
1978-79	6.64	6.40	13.21
1979-80	9.10	5.89	18.11
1980-81	8.30	6.67	22.21
1981-82	9.56	8.14	27.13
1982-83	30.78	13.34	50.18
1983-84	48.36	26.04	80.68
1984-85	67.28	29.35	130.42
1985-86	24.45	31.94	148.52
1986-87	13.60	97.36	98.49
1987-88	38.34	24.87	125.57
1988-89	55.26	25.61	172.40
1989-90	37.58	35.74	200.08
1990-91	30.15	27.60	232.10
1991-92	49.47	172.88	147.17
1992-93	48.21	37.51	180.46
1993-94	52.33	41.42	210.36

Sources: (i) MOF [1992]: *Resume of the Activities of the Financial Institutions in Bangladesh*, p.64  
(ii) Agrani Bank [1995]: *Annual Report*, p.1

Total disbursement of agricultural credit by Agrani Bank in 1976-77 amounted to Tk.5.46 crore. This figure had increased ten-fold to Tk.52.33 crore in 1993-94. However, with a sole exception during the year 1977-78, agricultural credit disbursements by Agrani Bank upto 1981-81 remained minimal. An uptrend was then registered upto 1984-85. Thereafter, a cyclical pattern in loan recoveries and disbursements is partially evident in the table upto 1984-85, but fades away later. The overall trends in loan recoveries by Agrani Bank of the bank between 1976-77 and 1993-94 have remained relatively flat with a sole exception during 1991-92. The outstanding liabilities of Agrani Bank have thus increased over time, exerting a financial strain on the bank's ability to lend.

### 5.3.4 Janata Bank

Janata Bank is another leading NCB in Bangladesh. It commenced functioning in 1971 with a network of 249 branches of the former United Bank Ltd. and Union Bank Ltd. of East Pakistan. In 1972, Janata Bank was nationalised under the terms of the Bangladesh Bank (Nationalisation) Order of 1972.<sup>19</sup> Since then, Janata Bank has steadily expanded its branch network into urban and rural areas in Bangladesh. In December, 1998, the branch network of Janata Bank had expanded to 897 branches. These included 4 overseas branches located in the United Arab Emirates. Of the branch network of 897 branches, 246 were located in urban areas and 647 (72 percent) in rural areas.<sup>20</sup>

Like the other NCBs, the banking objectives of Janata Bank include the mobilisation of deposits from urban and rural areas in Bangladesh and the financing of agriculture, industry, commerce and trade. Janata Bank has been extending credit assistance to priority production activities like tea, jute, tannery and so on, in order to strengthen the economy of Bangladesh. The bulk of its credit resources are deployed among traders and industrialists in the urban areas as well as in rural finance to farm and non-farm activities. The bank adheres to Government policies on financing people of small means and provides credit to them on easy terms and conditions.

The credit policies and programmes of Janata Bank are designed to cover all occupational groups among the rural population, including landless farmers, labourers, rural artisans, destitute women, educated youths, blacksmiths, fishermen, small traders, and so on. Under its rural lending programmes, Janata Bank has financed rural activities covering the cultivation of different seasonal crops, installation of irrigation equipment, livestock & poultry rearing, fisheries development and salt production, as well as allied activities like horticulture, shrimp culture, development of cottage industries, weaving, beef and goat (mutton) fattening, paddy processing, petty business, rural transport, rural electrification, rural house construction, and so on.<sup>21</sup>

Like the other NCBs, Janata Bank also finances a variety of rural schemes. Some of its major rural credit schemes<sup>23</sup> include the SACP, the Swanirvar Credit Programme and the Small Farmers Development Project [SFDP]; Crop Loans through CIDA assistance, loans for the cultivation of sugarcane, cotton and tea; horticulture development loans and loans for the purchase of irrigation equipment and powered pumpsets, as well as project loans to small farmers. Land mortgages and livestock loans for the purchase of bovine livestock like buffalo and cattle are also supported. In the non-farm sector, Janata Bank extends credit to weavers and supports self-employment programmes for trained rural youths. It also extends infrastructural credit for rural transport and rural electrification and finances rural house building. Its rural credit programmes thus cover the gamut of rural activities in Bangladesh and seek to accelerate rural development.

**Table 5.8 Sectorwise Loan Disbursements and Recoveries by the Janata Bank  
1997 & 1998**

		[in crore Tk.]			
Year	Particulars	Agricultural Loans	Industrial Loans	Other Loans	Total Disbursements
1997	Disbursement	160.90	1318.90	10999.50	12479.30
	Recovery	149.60	86.60	718.80	955.00
1998	Disbursement	191.30	1089.40	9990.50	11271.20
	Recovery	132.50	1055.50	8991.50	10179.50

Source: MOF [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh* 1998-99, p.24

Figures on the loan disbursements and recoveries of Janata Bank to various economic sectors in 1997 and 1998 are provided below. Janata Bank started its agricultural financing programme in 1974.<sup>22</sup> Despite the larger quantum of its agricultural lending compared to Agrani Bank, the share of agricultural credit in Janata Banks' lending portfolio amounted to only 1.69 percent in 1998. It is thus evident that a long way has still to be covered by Janata Bank in providing adequate financial support to the agricultural sector in Bangladesh. Thus although the spread of rural credit support by Janata Bank may seem attractive in terms of the number of schemes and activities covered, its credit disbursements to agriculture do not satisfactorily reflect the proliferation in its schemes. Janata Bank thus continues to specialise in providing credit to industry and to the nonagricultural sector and agricultural credit operations remain a secondary priority with the bank.

## 5.4 Credit Role of Specialised Agricultural Banks

It has been seen that the NCBs in Bangladesh have been reluctant participants in providing agricultural credit to the country's farmers. Despite the wide base of their financial operations, their commitment of financial resources towards the declared policy objective of strengthening agriculture and rural development is meagre and leaves much to be desired. Hence the role of the specialised agricultural banking institutions like BKB, RAKUB and BSBL comes to the fore, and is examined next.

### 5.4.1 Bangladesh Krishi Bank [BKB]

As its name suggests, the specific function of the Bangladesh Krishi Bank [literally, the Bangladesh Agricultural Bank or BKB] is to provide credit support for the promotion of agricultural and allied activities. As the pioneer specialised agricultural bank in Bangladesh, BKB has played a vital role by supplying nearly 60 percent of the institutional credit support received by agriculture.<sup>24</sup> Hence the history, objectives, policies and functions of BKB deserve special attention.

After the largescale migration of private professional moneylenders to India following the creation of Pakistan in 1947, the need for a specialised agricultural credit institution was acutely felt. To meet this need, the Government of Pakistan established the Agricultural Development Finance Corporation [ADFC] in 1952 to extend medium and longterm credit to agriculture.<sup>25</sup> However the demand for agricultural credit was so large that the ADFC was unable to cope with the situation. Consequently, the Government established the Agricultural Bank of Pakistan in 1957 to supplement the credit effort of the ADFC.<sup>26</sup> Since the purposes of both two state-owned institutions were similar, they were merged in February 1961 and renamed the Agricultural Development Bank of Pakistan [ADBP].<sup>27</sup>

The Bangladesh Krishi Bank [BKB] is the direct successor of ADBP. After the liberation of Bangladesh in December 1971, ADBP was initially renamed as the Agricultural Development Bank of Bangladesh [ADBDB] and subsequently as the Bangladesh Krishi Bank [BKB] under the Bangladesh Krishi Bank Order, 1973 [President's Order No. 27 of 1973] published in April 1973. The authorised capital of the Bank was Tk.50.00 crore, of which Tk. 45.61 crore (91 percent) was paid-up and fully subscribed by the Government.<sup>28</sup> An 11-member Board of Directors [including a Managing Director and three non-official Directors] was constituted by the Government in 1975 for overall administration of BKB's operational activities.

The primary objective of BKB is to provide credit facilities to individuals and cooperatives who are engaged in crop (i.e. non-plantation) production. BKB also extends financial and technical assistance to individuals and cooperative societies engaged in agro-based cottage industries, and in storage, warehousing or processing of agricultural produce. In the interest of agricultural development in Bangladesh, BKB aims to increase agricultural output and thereby to improve the economic and social conditions of the country's farmers.<sup>29</sup> Under the provisions of the BKB charter, preference is given to the credit needs of small agriculturists including sharecroppers and other backward socioeconomic groups over other more advanced sections of the rural population.<sup>30</sup>

To extend the banking facilities available to the rural population, BKB has been continuously expanding its network of branches throughout the country. In 1972-73, BKB only had 102 branches.<sup>31</sup> This number increased significantly to 836 in 1997-98, implying eight-fold growth in the BKB branch network compared to 1972-73. Of the 836 BKB branches that now exist, 720 are located in rural areas against 116 in urban areas.<sup>32</sup>

**Table 5.9: Sectorwise Loan Disbursements and Recoveries by the Bangladesh Krishi Bank 1997 & 1998**

*[in crore Tk.]*

Year	Particulars	Agricultural Loans	Industrial Loans	Other Loans	Total Disbursements
1996-97	Disbursement	484.80	102.00	194.40	781.20
	Recovery	529.50	98.80	172.60	800.90
1997-98	Disbursement	489.70	107.50	252.20	849.40
	Recovery	529.40	125.30	227.30	882.20

Source: MOF [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh, 1998-99*, p.162

The sector-wise loan disbursements and recoveries made by BKB in 1997 and 1998 are outlined in the table below. Disbursements of agricultural credit comprised 62 percent and 57 percent, respectively, of the total BKB credit portfolio in 1996-97 and 1997-98, which significantly exceeds the proportion in case of the NCBs.

The foremost achievement of BKB has thus been the massive disbursement of credit it makes to the agricultural sector in Bangladesh. Instead of scheme financing, BKB deals directly with the farmers and credit is directly provided to them through the BKB branch network. The longterm trends in BKB loan disbursements, loans outstanding, recoveries and overdues between 1971-72 and 1995-96 can be examined in the table below. The trends are made more explicit in their indexed values.

**Table 5.10 Credit Disbursements, Outstanding, Overdues and Loan Recoveries by the Bangladesh Krishi Bank 1971-72 to 1995-96**

[in crore Tk.]

Year	Loan Disbursements	Index	Loans Outstanding	Index	Loans Overdue	Index	Loan Recovery	Index
1971-72	9.64	100	46.05	100	22.62	100	2.92	100
1972-73	17.90	186	61.70	134	25.84	114	6.72	230
1973-74	13.57	161	68.22	145	30.06	131	11.90	307
1974-75	17.63	191	73.92	153	32.90	140	20.00	375
1975-76	18.51	196	74.21	153	32.61	139	27.48	413
1976-77	38.84	306	88.66	173	30.11	131	29.74	421
1977-78	55.30	349	119.40	207	39.89	164	38.18	449
1978-79	74.66	384	156.11	238	43.78	174	52.17	486
1979-80	141.49	473	247.02	296	57.51	205	74.73	529
1980-81	209.74	521	368.32	346	62.19	213	131.08	605
1981-82	271.04	551	497.28	381	93.49	264	197.03	655
1982-83	400.81	598	785.54	439	153.64	328	202.24	658
1983-84	592.43	646	1253.38	498	308.25	428	307.96	710
1984-85	614.73	650	1735.67	537	506.13	493	364.72	728
1985-86	365.06	609	2057.59	555	806.76	552	350.60	724
1986-87	419.24	624	1531.10	530	637.41	531	479.83	761
1987-88	335.96	604	1778.59	546	760.72	550	350.84	734
1988-89	445.09	637	2185.16	569	952.27	576	334.69	730
1989-90	376.93	622	2493.41	583	1271.77	609	414.56	754
1990-91	323.84	607	2180.22	570	1256.77	608	377.59	745
1991-92	441.78	644	2622.20	590	1601.39	635	423.62	757
1992-93	463.42	649	2627.50	591	1559.73	633	536.28	783
1993-94	598.55	678	2745.59	595	1554.69	632	569.24	790
1994-95	765.63	706	3010.98	605	1605.92	636	594.33	794
1995-96	778.90	708	3267.30	613	1747.00	645	665.54	806

Source: Rahman [1998]: pp.71, 77, 316

Total disbursement of agricultural credit by BKB in 1971-72 had amounted Tk.9.64 crore. This rose to Tk.778.90 crore in 1995-96, representing an increase of almost 80 times over the credit disbursement in 1971-72. As the pioneering specialised bank for agricultural credit, BKB's credit disbursements are routinely dedicated and directed toward the agricultural sector. Continuing refinance facilities offered by the Bangladesh Bank also ensure that BKB remains comparatively free from the commercial compulsions that affect the NCBs. While the growth in agricultural credit disbursements by BKB is creditable, it has not been able to match the agricultural credit targets assigned periodically to BKB.

Despite the failure to match targets, agricultural credit disbursement by BKB has grown rapidly, quite unlike the agricultural credit performance noted earlier in the case of the NCBs. A disturbing feature is the continuous growth in the quantum of loans outstanding. Although BKB loan recovery rates are relatively healthy and have risen faster than the growth in credit disbursements, a slight setback in recovery rates was observed during the mid-1980s. Thus, while the loan recovery trends of BKB between 1971-72 and 1995-96 have been more or less positive and loan recoveries have grown, these have not been enough to offset the increasing trend in loan overdues.

In view of the very large investment required for rural development, resource mobilisation is one of the principal objectives of development banking. Increased mobilisation of deposits allows increased lending, leading in turn to greater profit. Thus the policies on resource mobilisation adopted by BKB have also been

changing gradually. The emphasis has been on reducing the dependence of BKB on refinancing by the Bangladesh Bank while increasing its internal credit resources through deposit mobilisation. Various steps have been taken by BKB to achieve this.

Deposit mobilisation by BKB has thus increased over the years. BKB deposits rose sharply from Tk.258.92 crore in 1982-83 to Tk.1836.40 crore in 1996-97, representing a seven-fold increase over the their 1982-83 level. Longterm trends in deposit mobilisation by BKB and in the ratio of new credit issues to new deposits mobilised between 1982-83 and 1996-97 can be examined in the table below. During the early 1980s, the quantum of credit disbursed tended to outstrip the quantum of deposits mobilised. After 1985-86, there has been a reversal in this trend and credit disbursements have fallen short of deposit mobilisation. In proportionate terms, the percentage ratios of credit disbursement to deposit mobilisation have declined to an average 40 percent during the 1990s and have remained more or less static since then with no visible signs of increase. This would point to a position already noticed in the case of the NCBs, where the formal sector banks in Bangladesh have switched from rapid credit expansion to building up their financial reserves. While this has increased the capacity of the NCBs to lend to the nonagricultural sectors in the economy, in the case of BKB it has meant the holding of a sizeable quantity of investment resources in reserve, instead of committing them to new agricultural lending. In both cases, this means that the financial resources of the formal-sector banks are not being optimally employed for the development of agriculture in Bangladesh.

**Table 5.11: Deposit Mobilisation and Credit Disbursement by the Bangladesh Krishi Bank 1982-83 to 1996-97**  
[in crore Tk.]

Year	Annual Deposit Mobilisation	Annual Credit Disbursement	% Credit Disbursement to Mobilisation
1982-83	258.92	400.81	154.80
1983-84	359.06	592.43	164.99
1984-85	376.52	614.73	163.27
1985-86	433.98	365.06	84.12
1986-87	481.81	419.24	87.01
1987-88	524.71	335.96	64.03
1988-89	601.93	445.09	73.94
1989-90	713.61	376.93	52.82
1990-91	817.32	323.84	39.62
1991-92	1026.10	441.78	43.05
1992-93	1284.00	463.42	36.09
1993-94	1520.00	598.55	39.38
1994-95	1639.90	765.63	46.69
1995-96	1541.50	665.54	43.17
1996-97	1836.40	781.20	42.54

Source: MOF [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh, 1992-93, p.265 & 1998-99, p.162*

#### 5.4.2 Rajshahi Krishi Unnayan Bank [RAKUB]

The Rajshahi Krishi Unnayan Bank [literally, the Rajshahi Agricultural Development Bank, or RAKUB] was constituted under the President's Ordinance No.58 of 1986 and started functioning within the administrative sphere of Rajshahi Division on March 15, 1987.<sup>33</sup> The genesis of RAKUB lay in the special circumstances faced by Rajshahi as one of the more backward and impoverished regions of Bangladesh. RAKUB is the largest agricultural credit institution operating in the Division. It was established with the aim of extending specialised agricultural credit support to farmers in Rajshahi Division in order to promote rural development within its area. The authorised capital for RAKUB was set at Tk. 1500 million, from which Tk. 50 million was paid-up in the year of RAKUB's establishment. In March 1999, total paid-up capital of RAKUB had increased to Tk. 98.00 crore.<sup>34</sup>

The Head Office of RAKUB is located at Rajshahi, the divisional headquarters. The number of RAKUB branches, nearly all of them located within the Division, stood at 300 as on March 1999.<sup>35</sup> A single RAKUB branch was established outside the Division in Dhaka, in order to liaise with the Government and the NGOs. Regional offices of RAKUB were opened at each of the 16 district headquarters in Rajshahi Division. In accordance with the Ordinance governing RAKUB, a 7-member Board of Directors was constituted in January 1988 and entrusted with the responsibility of steering the operations of RAKUB in the desired

direction. The Managing Director of RAKUB thus fulfils dual responsibilities as an *ex-officio* Director on the Board.

Like BKB which operates throughout the country, RAKUB also fulfils the functions of a specialised rural credit bank, while also functioning simultaneously as a commercial bank. RAKUB has been playing the role of a financier in the rural money market and has also extended banking services to the farmers of Rajshahi Division, with the help of its divisional network of 300 branches located at municipal settlements and rural growth-centres and other areas in Rajshahi Division. RAKUB's lending portfolios provide financial support to the production of various seasonal crops, and the installation of irrigation equipment. Besides these, RAKUB funds other allied activities like horticulture development, livestock and poultry rearing, beef and goat (mutton) fattening and the development of fisheries. In addition to agricultural and agro related activities, RAKUB extends credit support to weaving activity and the development of cottage industries, as well as paddy processing, petty trade, etc. RAKUB also finances activities aimed at rural poverty alleviation and employment generation through farm as well as non-farm activities.

Major rural credit activities<sup>36</sup> undertaken by RAKUB include SACP and the Swanirvar self-reliance schemes, loans towards crop production and crop intensification by the marginal and small-farming system, loan disbursements towards livestock acquisition and fisheries development. RAKUB also offers technological credit for the supply of low-priced shallow tubewells, irrigation equipment and farm machinery, and extends credit support to the Women's Entrepreneurship Development Programme, and to small traders located in urban areas..

**Table 5.12 Sectorwise Loan Disbursements and Recoveries by the Rajshahi Krishi Unnayan Bank 1996-97 & 1997-98**  
[in crore Tk.]

Year	Particulars	Agricultural Loans	Industrial Loans	Other Loans	Total Disbursements
1996-97	Disbursement	140.90	7.10	28.90	176.90
	Recovery	180.10	5.60	29.10	214.80
1997-98	Disbursement	151.70	15.40	41.10	208.20
	Recovery	179.90	7.20	39.20	226.30

Source: MOF [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh, 1998-99*, p.168

The sectoral distribution of loan disbursements and recoveries made by RAKUB in 1997 and 1998 described above show that the proportionate share of agricultural credit in the lending portfolio amounted to 80 percent in 1996-97 and 73 percent in 1997-98. Loan recoveries were also similarly high. RAKUB extends a large proportion of its loans to the agricultural sector. Credit disbursements to industry are particularly low. RAKUB's credit performance can only be compared to the performance of BKB which has similar patterns of loan disbursement. As specialised agricultural banks, the lending programmes of BKB and RAKUB are both committed towards agricultural lending, while their involvement in other credit sectors is low..

RAKUB has also begun to assign special importance to deposit mobilisation for meeting its expanding needs for investible funds, while at the same time fostering banking habits among the rural population. To this end, it has gradually changed its credit policies to reduce its dependence on Bangladesh Bank. Deposit mobilisation by RAKUB has thus shown a rising trend after 1985-86, and its deposit balances reached the level of Tk. 319.60 crore in 1997-98, against only Tk.62.82 crore in 1986-87.

The growth trends in deposit mobilisation and credit disbursement by RAKUB over the first decade of its existence are revealed by the table below. Once again, the impact of deposit growth is more favourable towards agriculture, since RAKUB channelises much more of its direct lending to the agricultural sector. The increase in credit disbursement has not matched the increase in deposit mobilisation by RAKUB, and the ratio of disbursements to deposits hovered around 40 percent in the early 1990s and around 60 percent in the later years. Although agricultural credit occupies the lion's share of the credit disbursed, a higher disbursement ratio would channel more credit into the development of agriculture in the Rajshahi region.

**Table 5.13 Deposit Mobilisation and Credit Disbursement by the Rajshahi Krishi Unnayan Bank 1986-87 to 1997-98**

[in crore Tk.]

Year	Annual Deposit Mobilisation	Annual Credit Disbursement	% Credit Disbursement to Mobilisation
1986-87	62.82	-	-
1987-88	71.91	-	-
1988-89	83.14	-	-
1989-90	99.45	46.09	46.34
1990-91	118.10	37.07	31.39
1991-92	140.86	61.70	43.80
1992-93	145.40	70.80	48.69
1993-94	220.00	110.40	50.18
1994-95	260.90	129.20	49.52
1995-96	262.20	172.13	65.65
1996-97	286.20	176.9	61.81
1997-98	319.60	208.20	65.14

Source: MOF [1999]: *Resume of the Activities of the Financial Institutions in Bangladesh, 1992-93, pp.273 & 278 and 1998-99, p.168*

### 5.4.3 Bangladesh Samabaya Bank Limited [BSBL]

The cooperative system is the oldest institution for channelising credit from the formal sector to agriculture. The East Pakistan Provincial Cooperative Bank Ltd., which was the predecessor institution of the Bangladesh Samabaya Bank Ltd [BSBL], had been established in March 1948 with the primary objective of financing agriculture, while functioning as the apex financial institution for the cooperatives.<sup>37</sup> After the liberation of Bangladesh in 1971, it was renamed the Bangladesh Jatiya Samabaya Bank Ltd. It was again renamed the Bangladesh Samabaya Bank Ltd. in 1977 and its field of operation was extended over the entire country.

**Table 5.14 Disbursement and Recovery of Loans by the Bangladesh Samabaya Bank Ltd. 1972-73 to 1997-98**

[in crore Tk.]

Year	Annual Loan Disbursement	Annual Loan Recovery	% Loan Recovery to Disbursement
1972-73	14.25	12.75	89.47
1973-74	7.74	8.40	108.53
1974-75	9.06	9.16	101.10
1975-76	9.96	11.66	117.07
1976-77	11.18	10.37	92.75
1977-78	15.82	12.81	80.97
1978-79	20.11	11.89	59.12
1979-80	27.04	16.94	62.65
1980-81	27.64	16.13	58.36
1981-82	18.58	18.02	96.99
1982-83	22.95	20.34	88.63
1983-84	21.98	15.87	72.20
1984-85	28.84	18.02	62.48
1985-86	13.99	17.07	122.02
1987-88	13.97	9.69	69.36
1988-89	14.14	6.93	49.01
1990-91	2.27	2.95	129.96
1991-92	3.06	2.23	72.88
1992-93	3.43	3.63	105.83
1993-94	3.80	4.10	107.89
1994-95	4.30	5.00	116.28
1995-96	4.20	3.90	92.86
1996-97	5.70	4.80	84.21
1997-98	5.70	5.60	98.25

Sources: (i) Khanam [1989]: p.41

(ii) Computed from *Resumes of the Activities of the Financial Institutions in Bangladesh, 1988-89, p.135 & 1998-99, p.189*

BSBL commenced business operations in the second year of its registration. Its principal aim has been to arrange timely and adequate disbursement of credit at a reasonable rate of interest for the farmers through its affiliated agencies such as Land Mortgage Banks, Central Cooperative Bank, Central Cooperative Societies,

Union Cooperative Multipurpose Societies, Krishi Samabaya Samity\*, and so on. At the time of its establishment, the authorised capital of BSBL amounted to Tk. 1.00 crore only, which has grown to Tk.10.00 crore at present. Its share capital in March 1998 amounted to Tk. 3.20 crore.<sup>38</sup> In the early 1960s, its predecessor bank had around 144 member institutions. The membership has increased to 473 as of June 1998.

BSBL is primarily engaged in financing farmers' cooperative societies with the help and support of the Government of Bangladesh. Its major policy is to provide short-term production loan assistance to the farmers of the country. Its lending to the agricultural sector in 1998 amounted to Tk.3.9 crore, which was around 68 percent of its available funds for disbursement.<sup>39</sup> Longterm trends in loan disbursements and recoveries by BSBL over the period between 1972-73 to 1997-98 can be examined in table below

It is evident that the credit flows through BSBL has decreased substantially in the 1990s, compared to their substantial growth in the first phase between 1974-74 and 1988-89. Thus credit disbursement by BSBL has more than halved from Tk. 14.25 crore in 1972-73 to Tk. 5.70 crore in 1997-98. Credit disbursement reached a peak of Tk.28.84 crore in 1984-85, which has not been matched since. Recoveries have followed a similar pattern, with their level declining markedly during the 1990s. However, despite fluctuation, the ratio of recoveries has been adequate compared to most other formal-sector banks considered earlier in the study.

### 5.5 Credit Institutions and the Agricultural Credit Situation

The economy of Bangladesh is predominantly dependent on the agriculture which makes a large contribution to the nation's GDP. Technological progress in agriculture is crucial for the development of the country. In view of this, Government policies and plans have focused on increasing agricultural production and improving agricultural productivity through the provision of credit to farmers in Bangladesh. The key role in this strategy is played by the formal credit institutions, which have nationwide institutional reach and can thus disburse credit to all rural areas in Bangladesh. Because of the fundamental nature of banking, the formal-sector credit institutions are also in position to mobilise financial resources from the public in vast amounts for disbursement to the key economic sectors in the country.

Nevertheless, the foregoing review has shown poor credit coordination between Bangladesh Bank which frames and declares rural credit policies and targets, and the ultimate delivery institutions comprising the NCBs and specialised banks. It has been seen during the review that the specialised banks like BKB, RAKUB and BSBL prove more effective in reaching the farmers, and consequently have larger commitments of funds for disbursement to the agricultural sector. However, the capacity of these institutions to further expand their agricultural lending is restrained by the limited sphere of their banking activities and their limited deposit base. The NCBs are strongly placed in both respects, but show limited interest in direct agricultural lending and confine their rural lending to scheme assistance and to the financing of off-farm activities.

It therefore becomes instructive to compare the credit disbursements and recoveries made by the formal-sector credit institutions in order to arrive at an assessment of the institutional role being played by RFMs in Bangladesh. The table shows that total credit disbursements by formal-sector banking institutions as a whole amounted to Tk.20,978.6 crore in 1997 and Tk.20,990.7 crore in 1998. In this, disbursements by the NCBs amounted to Tk.20,014.8 crore and Tk.19,927.4 crore, respectively, with their proportionate share amounting to approximately 95 percent in both years. However, the collective disbursements of the NCBs to the agricultural sector amounted respectively to Tk.490.4 crore and Tk.678.7 crore only, being exceeded in both years by the disbursements made by the specialised banks. On the other hand, the NCBs made 95-98 percent of the total disbursements to the nonagricultural sectors. It is therefore evident that scant attention is being paid by the NCBs to national aims and guidelines that seek to strategically strengthen the agricultural sector of Bangladesh. The responsibility of meeting the agricultural credit needs of the country is being left largely to BKB and RAKUB.

The analysis in the table also shows that the disinterest shown by the NCBs in meeting agricultural credit demands is not related to the problem of poor loan recovery. For all NCBs, the proportionate ratios of recoveries to current agricultural disbursements were close to or more more than 100 percent in 1997. In 1998 which was a distress-year, NCB agricultural advances increased, thus lowering the proportionate ratios of recoveries to disbursements. Nevertheless, the loan recoveries that years showed little decline in

absolute terms, with Tk.1171.4 crore being recovered against current agricultural advances of Tk.1320.1 crore.

**Table 5.45: Sectoral Aggregates of Credit Disbursement & Recovery by Formal-sector Banks in Bangladesh 1997 & 1998**

[in crore Tk.]

Credit Category	Sonali 1997	Agrani 1997	Janata 1997	BKB 1997	RAKUB 1997	BSBL 1997	Total Formal Sector	Total NCBs	Total Specialised Banks	NCBs % Share	Specialised Banks % Share
							1997	1997	1997	1997	1997
<b>Disbursement</b>											
Agricultural	286.8	42.7	160.9	484.8	140.9	na	1116.1	490.4	625.7	43.9	56.1
Industrial	1072.2	912.1	1318.9	102	7.1	na	3412.3	3303.2	109.1	96.8	3.2
Other	3494.1	1727.6	10999.5	194.4	28.9	na	16444.5	16221.2	223.3	98.6	1.4
<b>Total</b>	<b>4853.1</b>	<b>2682.4</b>	<b>12479.3</b>	<b>781.2</b>	<b>176.9</b>	<b>5.7</b>	<b>20978.6</b>	<b>20014.8</b>	<b>963.8</b>	<b>95.4</b>	<b>4.6</b>
<b>Recovery</b>											
Agricultural	315	49.9	149.6	529.5	180.1	na	1224.1	514.5	709.6	42.0	58.0
Industrial	653.5	832.1	86.6	98.8	5.6	na	1676.6	1572.2	104.4	93.8	6.2
Other	3162.6	1867.4	718.8	172.6	29.1	na	5950.5	5748.8	201.7	96.6	3.4
<b>Total</b>	<b>4131.1</b>	<b>2749.4</b>	<b>955</b>	<b>800.9</b>	<b>214.8</b>	<b>4.8</b>	<b>8856</b>	<b>7835.5</b>	<b>1020.5</b>	<b>88.5</b>	<b>11.5</b>
<hr/>											
<b>Disbursement</b>											
Agricultural	393.5	93.9	191.3	489.7	151.7	na	1320.1	678.7	641.4	51.4	48.6
Industrial	1204.7	506.2	1089.4	107.5	15.4	na	2923.2	2800.3	122.9	95.8	4.2
Other	3376	3081.9	9990.5	252.2	41.1	na	16741.7	16448.4	293.3	98.2	1.8
<b>Total</b>	<b>4974.2</b>	<b>3682</b>	<b>11271.2</b>	<b>849.4</b>	<b>208.2</b>	<b>5.7</b>	<b>20990.7</b>	<b>19927.4</b>	<b>1063.3</b>	<b>94.9</b>	<b>5.1</b>
<b>Recovery</b>											
Agricultural	286.1	43.5	132.5	529.4	179.9	na	1171.4	462.1	709.3	39.4	60.6
Industrial	844.7	465.2	1055.5	125.3	7.2	na	2497.9	2365.4	132.5	94.7	5.3
Other	3101.2	2672.5	8991.5	227.3	39.2	na	15031.7	14765.2	266.5	98.2	1.8
<b>Total</b>	<b>4232</b>	<b>3181.2</b>	<b>10179.5</b>	<b>882.2</b>	<b>226.3</b>	<b>5.6</b>	<b>18706.8</b>	<b>17592.7</b>	<b>1114.1</b>	<b>94.0</b>	<b>6</b>

Thus the most critical problem visible in the agricultural credit performance of the formal-sector banking institutions has been their chronic inability to match credit disbursement to agricultural credit targets. Thus the increase in credit disbursements cannot be related to the growth of agricultural needs among the farmers, and can be primarily attributed to the proliferation of the branch network of the banks. While the specialised agricultural credit institutions like BKB and RAKUB have played commendable roles in extending credit facilities to agriculture, no real headway can be made until the NCBs increase their contribution to agricultural credit much beyond their present combined share of 4.05 percent. The branch networks and the deposit base of the NCBs are far bigger than those of the specialised banks. Even an increase of their contribution to RFMs by a few percentage points would mean that vast resources would flow to the country's farmers. A Fundamental rethinking is also needed on whether the present propensity of the NCBs to emphasise their industrial and trading credit operations is actually paying dividends to the country, since loan operations in these sectors are also seen to be subject to the risks of loan defaults. In comparison, the repayment performance of the agricultural credit sector on current loans has not been poor in any sense. Thus the continuous inability of formal credit institutions to match their agricultural credit targets with equivalent disbursements is something of a mystery. Closer understanding can only emerge from a study of the real agricultural situation as it exists in rural Bangladesh. An empirical investigation of the lenders and borrowers who constitute the players in agricultural credit markets is taken up next.

## **Notes**

Agriculturist means any individual engaged in agriculture or in the development of agriculture or agricultural products or in storage, warehousing, marketing or processing of agricultural produce, and any public or private limited company or cooperative society incorporated or registered by or under any law for the time being in force and so engaged, and any person, company or cooperative society incorporated or registered as aforesaid, who satisfies the Bank that the loan to be taken shall be spent on agriculture or agricultural products or on the storage, warehousing, marketing of agricultural products. [Bangladesh Krishi Bank, *The Bangladesh Krishi Bank Order, 1973*, cf. Rahman [1998], p.54].

Krishi Samabaya Samity means a village-based farmers cooperative association for agricultural development.

## **References**

1. Yousoof [1983:24]
2. Ministry of Finance [1993:13]
3. Bangladesh Bank [1998:51]
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5. GOB & IDA Review Committee [1983: i]
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14. *ibid.*, p.78
15. Ministry of Finance *op.cit.* [1992:53]
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21. Janata Bank [1997:14]
22. Islam *op.cit.* [1985: 70]
23. Ministry of Finance [1994:108-109]
24. Khanam [1989:81]
25. Akhunji [1982:33]
26. *ibid.*
27. Rahman [1998:53]

28. Ministry of Finance [1992:229]
29. Akhunji *op.cit.* [1982:35]
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31. Khanam *op.cit.* [1989:91]
32. BKB [1998:31]
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36. Ministry of Finance [1994:108-109]
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## Chapter - VI

### **Case Study: Socioeconomic & Agricultural Situations in Comilla Zila**

#### **6.1 Selection of the Study Area**

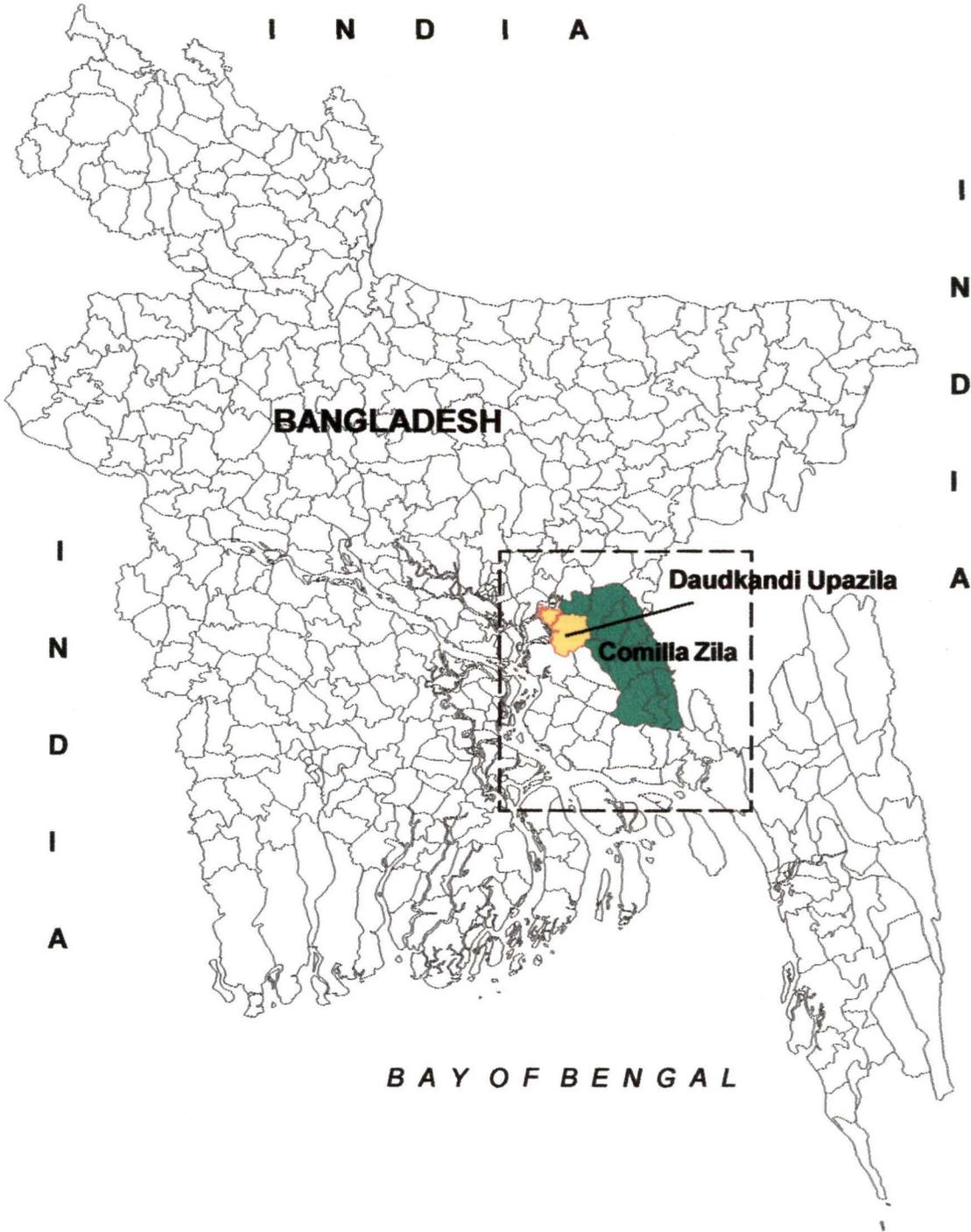
A brief account will be given in the present chapter about the study area in order to enable better understanding of the empirical study. The area chosen for empirical investigation of rural finance to the agricultural sector was Comilla Zila (district) in Bangladesh. The main reasons for selecting the district as the study area is because of its long historical background and its present status as among the most important agricultural areas in Bangladesh, growing mostly rice. During the period of British rule, Comilla was the administrative headquarters of Tippera (Tripura) district.<sup>1</sup> The District Census Report of Comilla<sup>2</sup> describes the greater portion of the district as “a rice growing plain, well cultivated and intersected by numerous rivers and streams.” Several other reasons were also involved in selecting Comilla Zila as the study area. The total population of Comilla Zila in 1991 stood at around 42.63 lakhs making it the most populous district in Bangladesh, with population density of 1,381 persons per sq. km, surpassed only by the megacity-dominated districts of Dhaka and Chittagong. Among the other less-urban Bangladesh districts, Mymensingh, which comes second in terms of population-size, has a population density of 938 persons per sq. km, which is much lower than in Comilla. Comilla Zila is an agricultural region where the principal economic activity mainly comprises small agriculture. Thus the concentration of small and marginal farmers, on whom this study is specially focused, in the current farm population of the district amounted proportionately to 90.74 percent in 1996, again the highest in Bangladesh. Thirdly, as reported by the Bangladesh Bank, expansion of formal-sector bank branches and their activities has been higher in Comilla Zila than in other districts.<sup>3</sup> Consequently, the relative level of bank deposits, credit advances and loan outstandings, which are the main indicators for assessing the performance of the formal banking sector, are all proportionately higher in Comilla Zila.

#### **6.1.1 The Physiography of Comilla Zila**

The district of Comilla (formerly known as Tippera) is the most northwestern district of Chittagong Division and is located on the Tropic of Cancer.<sup>4</sup> It is bounded to the north by Brahmanbaria Zila, to the east by the state of Tripura (erstwhile Hill Tippera) in India and by Noakhali and Feni Zila in Bangladesh, to the south by Chandpur Zila and to the west by the main stream of the Meghna across from which lies Narayanganj and Munshiganj Zila. In shape, the district resembles a long and somewhat narrow triangle with a length of almost 90 km between the Meghna and the forest-clad hills of the state of Tripura in India, with the base of the triangle being formed by the Bangladesh districts of Feni and Noakhali. The total area of the district is 3085 sq.km,<sup>5</sup> the greater portion of which is a rice-growing plain.<sup>6</sup>

There are no sharp variations in physical features in different parts of the district. To the southeast of the district, near the Comilla township, there is a narrow undulating strip of uplands comprising small ridges or *tilas* and intervening *bils* (marshlands). The rest of the Zila is a low-lying plain and water accumulates in several big marshes throughout the year along the Meghna to the north and west. Most of the countryside is thus inundated during the rains upto a depth of 5 feet (1.53 m) or more. During the monsoon, water accumulation on agricultural lands in the central parts of Comilla Zila sometimes reaches 20-25 inches, but dries up completely during the remainder of the year. Similar conditions prevail over a considerable area in the mid-southwest of the district. Inundation levels for the district are consequently around 26 feet amsl (above mean sea level).<sup>7</sup> Several large irrigation tanks exist all over the district, generally adjacent to a mosque or a Hindu temple in the midst of the well-cultivated plain. Several are of enormous size, resembling small lakes. Thus the Jagannath Dighi (tank) extends over an area of more than 40 acres while the Dharma Sagar within Comilla town is about half a mile in length. The numerous *bils* become a vast sheet of water during the rainy season, and become a magnificent grazing ground during winter.

Map 1: BANGLADESH & THE STUDY-REGION



The only hills in Comilla Zila are the Lalmai Hills, situated 5 miles to the southwest of Comilla town. These extend for about 11 miles from north to south in a tract about 25 miles in circumference, reaching spot heights of upto 150 feet in a few places. The average elevation of the tract is around 90 feet amsl, with its highest peaks at Kalirbazar and Chandimura. While the Lalmai Hills as well as the undulating country to the east of the district are formed of upper tertiary rocks, the remainder of the district is alluvial with soils along the course of the rivers being composed of sandy clay and sand, and of fine silt graduating into clays in flatter parts of the river plain. In 1871, small uneconomic deposits of brown iron ore and hydrated quioxide were found in the Lalmai Hills.

The climate of Comilla Zila is moderately hot and humid. Summer commences in March with the steady rise in temperature continuing till the end of May. Although thunder and hailstorms accompanied by occasional rain are frequent, particularly from May onwards, the monsoon proper commences in June continuing up to the end of September. The months between November and February are delightfully pleasant and the climate of the district on the whole is pleasant and healthy.

**Chart 6.1: Seasonal Temperature Normals in Comilla Zila**  
[in degrees Fahrenheit / Celsius]

Season	Duration	Mean Maximum Temperature	Mean Minimum Temperature
Summer	[March-to May]	90.40F [--C]	75.40F [--C]
Monsoon	[June- October]	88.00F [--C]	76.10F [--C]
Winter	[November- February]	80.90F [--C]	57.30F [--C]

Source: *District Census Report, Comilla* [1961]: p.6

The rivers of the Comilla region may be divided into four separate groups in order of importance. The first group comprises the Meghna and its offshoots, which constitute the major drainage of the district. Feeding into this system is the second group of hill streams and torrents that descending from the hill ranges of adjoining Tripura (now in India). The third group of streams comprises the overflow channels leading from one river to another, while the rivers and streams flowing in the south of the region comprise the fourth group. The Meghna, which forms the western boundary of Comilla Zila, flows down the old channel of the Brahmaputra southwards from Bhairab Bazar after receiving the waters of the Surma that descends from Sylhet. Near Satnal about 10 miles below Daudkandi, its volume is increased by the confluence of the Sitalakhya, Buriganga and Dhaleshwari rivers. Further to the south, opposite Chandpur, it receives the main combined stream of the Ganga and the Brahmaputra, which join it under the name of the Padma.

As the District Census Report for Comilla in 1961, reports "the general characteristics of the Meghna are.....a mighty rolling-flood of great depth and velocity, sometimes split up into a dozen of channels by sand banks of its own formation, sometimes spreading out into a wide expanse of water which the eye cannot see across".<sup>8</sup> Alluvion and diluvion constantly take place, leading to frequent formation of large islands which shift the main river current from one bank to another. Below Chandpur, the Meghna comes to resemble a sea, especially over the rainy season when its breadth exceeds ten miles. The Meghna is navigable throughout the year, and several business centres are located along its banks, including Chandpur, Ashuganj, Himechar and Chatalpar within Comilla Zila. Several small channels separate from the Meghna as it approaches the district from the north. After receiving the waters of the streams emerging from the western hills, these offshoots rejoin the Meghna further down its course. The most important among these branch streams are the Titas, Pagli, Katalia, Dhanagada, Matlab and Udhamdi, the largest among which is the Titas which bifurcates from the Meghna near Chatalpar and rejoins it midway between Lalpur and Maniknagar. The Titas presently waters a considerable part of Brahmanbaria Zila.

The most important of the streams which consecutively originate in the hills and flow through the district are the Gumti, Howrah, Kagani, Seniburi, Harimangal, Kagdi, Pagli, Kurulia, Bulujuri, Sunaichari, Handachora, Jangalia and Durduria. The largest of these is the Gumti which rises in the interior of Tripura in India. After following a meandering course through the Tripura hills, the Gumti turns westward and enters Comilla Zila district near Bibir Bazar, located about 8 miles east of the township of Comilla. Important settlements along the banks of the Gumti include Comilla, Zafarganj, Panchpukuria and Lalpur. Of the total course of the Gumti amounting to 200 miles, around 40 miles lie within Comilla Zila. During the rains, the

average breadth of the river reaches 200 feet, and the current is deep and rapid. In winter, the Gumti shrinks and is fordable in most places. During heavy rains, flood levels in the river can rise to more than 5 feet above the level of the surrounding countryside. Floods on the Gumti are thus an almost regular annual occurrence, and the township of Comilla was seriously menaced recently by a breach in the protective embankment. The Gumti is not navigable for large boats. Among the third group of streams which interconnect the major rivers traversing the district, the most important is the Bajni which connects the Titas with the Buri or Bijaiganga. In the last group of rivers which follows from Comilla district to the adjoining Noakhali and Feni districts lying to its south are the Dakatia, the Chota Feni and the Kaladumuria. After entering Noakhali and Feni districts, these rivers gradually curve towards the southeast and discharge into the upstream of the Bay of Bengal.

### 6.1.2 Social History & Demography of Comilla Zila

Any reliable account of the early history of Comilla is unavailable, since the Chronicles of the Kings of Tippera commence from the early 15th century, during the reign of King Dharma Manikya. However, first historical light is thrown upon the region by the travel account of Hiuen Tsang (*Yuan Chwang*) which dates back to the 7th century AD. The account states that "to the northeast of the country of Samatata (East Bengal) on the borders of the sea among mountains and valleys one comes across the kingdom of Chi-tcha-ta-la (Srikhatva) and beyond that on a bay to the southeast, one finds the realm of Kia-nolane-Kia (Kamalanko) and further on still to the south is the Kingdom of To-lo-pati (Darapati)".<sup>9</sup> Kamalanko is now generally identified as Comilla while Tolopoti perhaps represents Tripura. From the Chronicles of the kings of Burma (Myanmar), it is known that in the year 1058 AD, a prince of Patikara visited Burma and married into the royal family, begetting heirs who ruled Burma for 200 years. A copper plate dating from 1220 AD records that Kamalanko, Patikara and other places were governed by the Rajas of the family of Ranavankamalla.<sup>10</sup> Although it is difficult to fix the historical limits of the kingdom, it may have once extended over the present Comilla and Chandpur Zilas and included the northern portions of Noakhali Zila. The Tipperas (also called Tipras or Tripuras) who originally peopled this region were a Tibeto-Burman race akin to the Shans. In their own language, these people commonly identify themselves as Mrungs, further describing themselves by the name of one of the septs into which the Mrungs are subdivided.

Contact of the Tipperas with Bengal in the Muslim period began in the time of Ratnapha, who was one of the sons of Dungurpha, then King of Tippera. After being exiled by his brothers, Ratnapha made his way to Lakhnauti, then the capital of Muslim Bengal, and befriended Tughril Khan, then Governor of Bengal, who helped him with troops. With this help he killed his brothers and regained his kingdom, ascending the throne in 1278 AD. Tughril Khan then conferred the title of Manikya upon him, which was borne by the Rajas of Tippera ever since.<sup>11</sup> However, the Muslims did not obtain a permanent foothold in the region till the beginning of the 16th century. Raja Dharma Manikya was the greatest Raja of Tippera, and invaded Bengal, plundering Sonargaon. The large public tank in Comilla town which is known as Dharma Sagar was named after him. During the reign of Dhanya Manikya which commenced near the beginning of the 16th century, Sultan Hussain Shah of Gour made two invasions of Tippera but was twice defeated near Comilla. On his third invasion, he built a fortress at Kailar Garh (Kasba) and was subsequently victorious. Till the end of the 17th century, Tippera remained subject to the Mughals. However, Ratna Manikya XI (1684-1712) made himself virtually independent and it was not until the reign of Dharma Manikya (1714-1732) that the province of Tippera was finally annexed to the Mughal empire. British interest in the region commenced in 1760, when British troops from Chittagong invaded Tippera in support of the Mughals and established Krishna Manikya on the throne. Finally in 1765, Tippera came under full control of the East India Company [EIC].<sup>12</sup>

After assuming the Dewani of Bengal in 1765, the EIC made no instant changes in the existing revenue system, and continued to collect revenues and to administer the region with the help of local officers and the Nawab at Dacca (Dhaka). However, in 1769, a Supervisor was appointed by the EIC to look after the administration in the province of Dhaka which then apparently included the whole of the present districts of Comilla, Chandpur and Brahmanbaria.<sup>13</sup> Official correspondence now archived at the Comilla Collectorate dates back to 1776. Upon the division of the province of Dhaka, the northern portions of the Comilla region including Sarail Pargana were assigned to the province of Sylhet. Until 1789, the colonial administration treated Comilla as a district only for the collection of revenue. However, in 1790, Comilla came into being

with all administrative functions as a separate Bengal district, carrying the name of Tippera.<sup>14</sup> The subdivision of Nasirnagar which is now known as Brahmanbaria Zila was formed in 1860, and the southwestern thanas (police stations) were incorporated into the new Chandpur subdivision in 1879.

The boundaries of Comilla (Tippera) and Noakhali districts were again readjusted between 1873-75. In 1875, Tippera formed the 16th Division of the Commissioner of Circuit at Chittagong, but was subsequently transferred to Dhaka Division. Gazaria thana, which is now in Dhaka district, was then a part of Comilla district. Subsequently, the thana was attached to Munshigonj subdivision of Dhaka district, while Comilla was again transferred to Chittagong Division in 1880.<sup>15</sup> At the time of Permanent Settlement, the state of the country was not happy, since the Gumti embankment gave way frequently, causing widespread disaster. Thus Leake in 1784 found only one-fourth of the land to be cultivated, although there were signs that it had formerly been as prosperous as any other part of Bengal. The *raiya*s (peasants) were nomadic in habit and wandered from place to place, only paying rents for the lands actually cultivated. Upon the bifurcation of Bengal under Lord Curzon on 16th October 1905, Comilla became a part of the new province of Eastern Bengal and Assam. The Partition of Bengal was however followed by a public agitation by the Hindus, leading to serious riots between the Hindus and the Muslims at Mograhat in early 1907. With the Partition of British India and the foundation of Pakistan on 14th August 1947, the western portions of the old Tippera district became part of East Pakistan. Like the people of most other East Bengal districts, the people of Comilla had followed the leadership of the Quaid-e-Azam Mohammed Ali Jinnah and given unqualified support to the movement for creating the separate Muslim homeland of Pakistan.

On 1st October 1960, the name of the district was changed under administrative orders from Tippera to the more widely-used Comilla.<sup>16</sup> Comilla district at that time was divided into the four subdivisions of North Comilla, South Comilla, Chandpur and Brahmanbaria. However in 1984, many administrative subdivisions in Bangladesh were upgraded into full-fledged districts under the recommendations of the Administrative Reforms Committee.<sup>17</sup> Accordingly, Chandpur and Brahmanbaria subdivisions became separate Zilas, while North and South Comilla were merged and reorganized as the present Comilla Zila.<sup>18</sup>

Comilla Zila has always been a densely-populated area. In 1858, the District Magistrate had estimated the total population of Tippera at a little over a million. But during the house-to-house enumeration made during the revenue survey (1861-64), 7,17,470 persons were found to be resident in the district.<sup>19</sup> The subsequent readjustment of boundaries between Tippera and Noakhali decreased the area of the former district by 30 square miles. While 10 villages were transferred between 1881-1891 to Mymensingh district, Gazaria thana which had been under Comilla district was transferred to the Munshigonj subdivision of Dhaka district. All these changes in boundaries made it difficult to assess the population of the district precisely. In the 1951 Census conducted during the Pakistan period, the population of Tippera (Comilla) district was enumerated at 37,92,200 out of which 19,66,219 were males and 18,25,981 females. The total district population as recorded by the 1961 Census was 43,88,906, out of which 22,45,879 were males and 21,43,027 females. Thus, the decennial population increase between 1951 and 1961 amounted to 16 percent, with the respective increase being 14 percent for males and 17 percent for females.<sup>20</sup> In terms of population, Comilla district was thus the third most-populated district in East Pakistan as well as in Pakistan but came second in terms of settlement density.

After the Independence of Bangladesh in 1971, the population of the district was found to have risen substantially. Thus according to the 1974 Population Census, the population of Comilla district had increased to 58,08,935, implying the highest settlement density of 2241 persons per sq. mile among the Bangladesh districts.<sup>21</sup> The 1991 Census enumerates the combined population of the undivided Comilla district [Comilla, Chandpur and Brahmanbaria Zilas] at 82,06,860, which represents an increase of 41 percent over the population recorded by the preceding Census of 1974. In this, the population of the present Comilla Zila amounts to 42,63,538.

The distribution of urban and rural population in the study region is shown in the table below. Although the urban population has increased about eightfold in absolute numbers between 1951 and 1991, most people in the district still live in rural areas.

The vast majority of the district population comprises Muslims. The Hindus form the next important religious group, and there are also a few Buddhists in this district. The people of the Zila in general are religious-minded, and Pirs, Mursheds, Thakurs are held in high esteem. The Dargah (mausoleums) of the

dead saints are thus visited by large numbers of people seeking blessings for their spiritual and material wellbeing.

**Table 6.1: Rural and Urban Distribution of Population in Comilla District**

	1951	%	1961	%	1991	%
Rural Population	3675520	96.92	4249873	96.83	7394992	90.71
Urban Population	116680	3.08	139033	3.17	811868	9.89
Total Population	3792200	100	4388906	100	8206860	100

Sources: (i) *District Census Report, Comilla* [1961]: p.16

(ii) BBS [1995]: *Statistical Yearbook of Bangladesh*, p.43

Note: Figures pertain to the old Comilla District, incl. Comilla, Chandpur and Brahmanbaria Zilas.

The Muslims in rural areas generally follow Shariat rules in their daily life, and are strict in saying their *namaz* (prayers) and in the observation of fasting and other rites and rituals. The Hindus in the district observe Durga Puja and other Hindu Pujas with great pomp and ceremony. The Rathajatra in Comilla town is a major public attraction. The Buddhists of the district follow their own religious practices and celebrations, among which Buddha Purnima is the most important.

### 6.1.3 The Economy of Comilla Zila

Although trading and business activity in Comilla district has ancient origins, no statistical records are available for trade in the early period. However, the Comilla region has traditionally depended on agriculture, with rice as its principal agricultural product. Throughout the early period, Comilla has been identified as a rice-exporting area. Exports of rice from the district were estimated at 4,000,000 maunds (1 maund = 37.32 kg approx.) in 1874-75.<sup>22</sup> Exports of betel-nuts, jute and rice are still largely carried by country boats. Statistics of exported goods carried by railway are not available, and it is also not possible to give an estimate of the amount of rice carried by road and river. In the past, the principal imports to the district comprised salt, kerosene oil, cotton twist and piece-goods which were carried by rail either from Calcutta or Chittagong, and timber, bamboo, etc., which were brought in from Hill Tippera.<sup>23</sup> With the development of road-communication in the modern period, the modes of commodity transportation have also changed. Nevertheless, the overall trade situation has remained more or less similar. The chief centres of trade in the present Comilla Zila are the township of Comilla which is served by railway, that river-ports of Chitosi and Baghmara on the Dakatia river, and Gauripur and Daudkandi on the Gumti river, as well as Chandina, Elliotgonj, Daudkandi, etc., which are located on principal roads and highways.

No information is available on the existence or nature of industry in Comilla district during the Hindu and Muslim reigns in the pre-British period.<sup>24</sup> No large industry has existed in the district, with the exception of jute baling in Chandpur subdivision (now Chandpur Zila). A few weaving factories were set up in Brahmanbaria subdivision during the later period of British rule. Manufacturing activity centring around sawmills, light engineering and the seasonal manufacture of tea also made its appearance in Comilla district during that period. Three jute mills were subsequently established in Chandpur subdivision, commencing production between 1964 and 1965. More small industrial units and a few large industries have emerged in the district in the recent period.

Nevertheless, Comilla remains an agricultural district, and the primary economic activity of its people consists mainly of small agriculture. It has long been known as a well-cultivated area that mostly grows rice.<sup>25</sup> Excepting in the Lalmai Hills, where the soils are chiefly composed of decomposed rock and are reddish in colour, the greater part of the district contains alluvial soils composed of clay and sand in varying proportions. In most parts of the district, the soil is exceedingly fertile. Although, during the rainy season, nearly two-thirds of the district area remains submerged, the rainfall in most years is abundant and is quite helpful for irrigation.

In his 1866 report on Comilla district at the close of the Revenue Survey, Browne reports the area of Tippera to be 2,648 square miles. Of this, an area of 1,995 square miles or over 75 percent of the district was then under cultivation.<sup>26</sup> In 1874-75, the total cultivated area was estimated at 13,01,760 acres, amounting to 76 percent of the district. This had risen by 1901-1902 to 13,60,000 acres, and to 14,27,000 acres in 1907-1908. The double-cropped area was about 1,89,000 acres in 1901-1902, and nearly 2,94,000 acres in 1907-

1908. Thus, net cropped area in the respective years comprised 10,71,000 acres and 11,33,000 acres, equivalent to 67 percent and 71 percent respectively of the total district area.<sup>27</sup> Land records for the year 1907-1908 showed 72,000 acres as current fallows and included 1,23,000 acres as cultivable wastelands in the district. Practically all land deemed fit for cultivation has since been taken up, leaving little room for further extension of farming. According to the Census of Agriculture conducted in 1996,<sup>28</sup> the total area of the reorganized Comilla Zila amounts to 5,86,957 acres, while the net cultivated area is currently 4,81,879 acres, amounting to 82 percent of the total Zila area.

Rice is the most important crop in the Comilla region, and the proportion of land devoted to its cultivation has been increasing. Of the total cropped area of 13,60,000 acres in 1901-1902 and 14,27,000 acres in 1907-1908, total area under rice cultivation was 8,43,000 acres (63 percent) and 10,13,000 acres (69 percent) respectively.<sup>29</sup> By 1959-60, total cropped area in the district had increased to 18,36,705 acres. Of this, the total area under the rice crop was 16,16,100 acres, amounting to about 88 percent of total cropped area.<sup>30</sup> According to 1996 Census of Agriculture, the total area under rice is now around 7,16,198 acres, amounting to 76.85 percent of the total gross cropped area of 9,31,891 acres in the present Comilla Zila. Other foodgrains thus occupy less than one-fifteenth of cultivated lands.<sup>31</sup>

Paddy (*Oryza sativa* or dhan in the vernacular) is the principal crop of Comilla Zila. Depending on the season when it is sown and reaped, paddy cultivation in the Zila includes *Aus* or the autumn rice-crop, *Aman* or the winter rice-crop and *Boro* or the spring rice-crop. Many varieties of paddy are sown in the district. No less than 172 paddy specimens were collected by Cumming towards the beginning of the 20th century.<sup>32</sup> He reported the Gobindabhog and Jafarsil paddy varieties to be "aristocrats among rice seeds", which grew mainly on high fertile soil. Aman or winter rice constitutes the main rice-crop of Comilla Zila, and can be sown directly as well as transplanted. Coarse varieties of Aman rice originate from long-stemmed plants growing on low-lying lands. Heavy clayey soils which retain moisture are most suitable for this variety of paddy, some specimens of which are grown on marshy lands to the southwest of the district which are covered by upto 15 feet of water during the rains. The broadcast varieties of Aman grow along with Aus in low-lying areas in the western parts of the district. Boro or spring paddy is now widely cultivated in the marshy *bil* areas to the north of the district, and also wherever adequate water is available nearby. According to the 1996 Agricultural Census, the combined areas under local and HYV Aus in the district currently amount to 2,38,318 acres, under local and HYV Aman to 3,14,597 acres, and under Boro to 1,63,283 acres. The output of rice varies from year to year due to several reasons. However, even the early reports have shown Aus to produce just under 13 maunds of paddy (rice-in-husk) per acre and the long-stemmed winter rice to produce between 19-21 maunds of paddy per acre.<sup>33</sup>

The next crop to rice in order of importance is jute. Jute cultivation was previously extremely market-sensitive and was influenced by jute prices on the Calcutta market, leading to constant swinging of the pendulum, whereby high prices in a particular year were followed by subsequent increase in jute cultivation, and vice versa.<sup>34</sup> In 1901, the area normally under jute was computed to be 2,85,000 acres, but rose to nearly 3,47,000 acres after high prices had prevailed in 1904. In the undivided Comilla district in Bangladesh, jute normally occupied around 21 percent of gross cropped area, and was grown more extensively in Chandpur and Brahmanbaria subdivisions.<sup>35</sup> In course of time, jute cultivation has declined. Thus according to the 1996 Agricultural Census, the present area under jute is just 19,416 acres, or only 2 percent of gross cropped area in Comilla Zila. Besides paddy and jute, wheat is another important foodcrop in the district. The current area under wheat amounts to 67,853 acres, or around 7 percent of the gross cropped area. Cultivation of potatoes has gradually increased in the district in recent times and potatoes have become an important cashcrop for the Comilla farmers.

Vegetable cultivation in the district includes the cultivation of beans of various sorts, as well as brinjal, pumpkin, cucumber, sweet potato, onion, garlic, tomato, radish and turnip. Radishes (mula) of large size grow abundantly. The country bean is a climbing plant that grows on cottage roofs, covering them with masses of white and blue flowers during spring, or is trained on bamboo platforms about 3 feet above the ground. This bean is grown commercially and has a high market value. The variety of brinjal grown in the region is long and sausage-shaped, not egg-shaped or round. Tomato cultivation has increased recently, and both unripe and ripe tomatoes are brought to the market. Watermelons, papayas, mangoes and jackfruits are among the most valued fruits. Watermelons are grown in abundance in the Elliotgonj area of the district, and partially supply the needs of Dhaka city. Coconuts and dates are grown in the southern portions of

## Comilla Zila.

The Census Report of 1891 found that one-third of the residents of the district were direct (i.e. main) workers, who collectively supported the remaining two-thirds of the population. Nearly 76 percent of this population was found to depend on agriculture.<sup>36</sup> The Census also showed that around 8-9 percent of the 4,86,000 persons directly paying land rents in the district also had secondary occupations. Thus industrial workers accounted for 9 percent of the total population. Commercial classes accounted for only 1 percent of the population, most of whom were engaged in petty shopkeeping activity. Around 0.5 percent of the workers were employed in providing personal services.<sup>37</sup>

The current occupational distribution in Comilla Zila has not changed substantially beyond that period. Cultivation remains the dominant primary occupation of the people. A large number among them work as agricultural labourers and day-labourers. A certain segment of the working population including masons, carpenters, blacksmiths, goldsmiths, potters and weavers may be termed as skilled workers. Weaving, pottery, basket-making, mat-making and fishing are common secondary occupations. Seasonal migration of workers also takes place in the district. Thus a group of landless male labourers may temporarily migrate in search of work during the agricultural slack-season in winter, where most of them may perform work like carpentry, etc.. A large number of workers proceed in this manner to Sylhet district during the earth-cutting and harvesting seasons. The people of Comilla Zila are active and work almost the whole day during the peak agricultural season. However, women and children do not work on the fields and are generally involved in household work, besides tending the cattle and threshing, sunning, winnowing and storing paddy along with their other household chores. In cottage-industry like weaving, pottery, mat-making, basket-making, etc., the work-role of women is almost equal to men. The proportion of people working as boatmen in the region is also considerable.

Comilla is well-known as the first Bangladesh district to initiate the rural finance programme, when an experiment on generating agricultural and rural development through a two-tier system of cooperatives was undertaken in the early 1960s in the Comilla Sadar Thana (the present upazila), at the initiative of Pakistan Academy for Rural Development [PARAD] (the present BARD). The basic objective of this experiment was to promote the formation of small farmer-cooperatives which could learn to mobilise their own capital resources for investment in better farming practices. Unfortunately, the present state of rural banking in the Zila stands in contrast to that noble initiative. The banks today, especially nonagricultural banks, neither encourage the rural residents to save nor help farmers in investing their savings into their own development. Rather, the banks help to transfer whatever savings are mobilised by the rural areas to other regions and sections of the population.. It is thus found that in FY1996-97, these banks mobilised Tk.5634 million as savings from the rural residents of Comilla Zila, while investing only 44 percent of these resources or Tk.2517 million on rural credit in the region.<sup>38</sup> This therefore implies that more than half of rural savings are transferred outside Comilla Zila, and probably find their way into urban investments which thus benefit from the thrift of rural areas.

## 6.2 Daudkandi Upazila: A Brief Outline

The Daudkandi area, which now forms an upazila (literally, sub-district) of Comilla Zila, was selected for detailed quantification and micro study of the various economic parameters that determine the present state of rural institutional credit markets. The main reason for selecting the upazila for detailed study lay in the high concentration of agricultural credit activity by formal-sector banks, most notably BKB, in this focal region. As also noted below, both the number of loan accounts operated as well total loan disbursements and recoveries by BKB have remained consistently higher in Daudkandi upazila over the study period between 1998-99, compared to the 11 other upazilas within Comilla Zila [*cf. Appendix-E*].

### 6.2.1 Location & Rural Economy of Daudkandi Upazila

Daudkandi is an old thana of Comilla district. In 1858, during British rule, the greater Comilla district was first reorganised under 11 thanas, among which Daudkandi was one. By 1974, the number of thana-divisions in the undivided Comilla district had increased to 25.<sup>39</sup> When all erstwhile thanas in Bangladesh were upgraded into upazilas by Government decree in 1984, Daudkandi acquired distinct administrative

status as an upazila.<sup>40</sup> Daudkandi is the western-most upazila of the district, with the upazila headquarters at the Daudkandi township being located about 80 kilometres away from the Zila headquarters at Comilla. The upazila is bounded to the north by Homna upazila and to the east by Muradnagar and Chandina upazilas in Comilla district. To its south, it is bounded by the adjoining Chandpur Zila and to the west by the Meghna and Gumti rivers, across which lie Narayanganj Zila and then Dhaka City. Physiographic, sociocultural and economic conditions in Daudkandi upazila are similar to those described in case of Comilla district. Salient features describing the Daudkandi upazila are summarised briefly below.

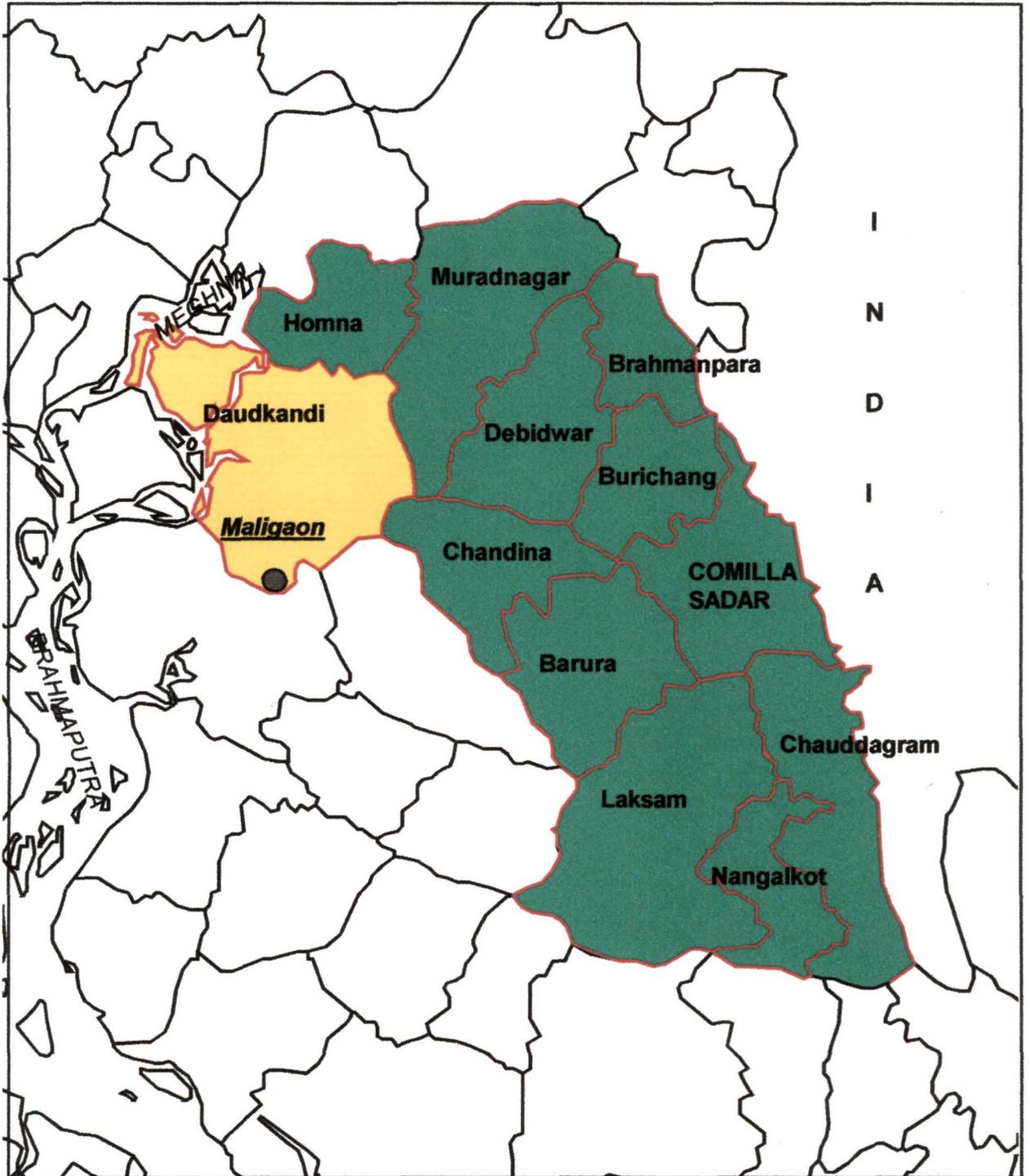
Chart 6.2: Daudkandi Upazila: Social & Economic Profile

<u>Upazila Boundaries</u>	<i>Western: Meghna and Gumti rivers Northern: Homna upazila, Comilla Sadar Eastern: Muradnagar and Chandina upazila Southern: Chandpur Zila</i>
<u>Administrative Structure</u>	
Upazila area:	366.44 sq.km.
Number of Unions:	26
Number of Villages:	467
<u>Population Statistics (1991)</u>	
Upazila Population:	Male: 2,48,305 Female: 2,39,221 Total: 4,87,526
Population Density:	1330 persons per sq.km
FMR:	963 females per thousand males
Average Family-size:	5.93 persons
Total Households:	82,226
Agricultural households:	60,016
Cattle Population:	31,601
<u>Land Statistics</u>	
Cultivable area:	71,970 acres
Area unavailable for cultivation:	16,797 acres
Submerged and other areas:	1707 acres
Cultivable land per Agricultural HH:	1.20 acres
<u>Cropping Statistics</u>	
Single-cropped area:	27,000 acres
Double-cropped area:	39,350 acres
Triple-cropped area:	5620 acres
Net cropped area [NCA]:	71,970 acres
Gross cropped area [GCA]:	1,22,560 acres
Cropping Intensity:	170 percent
Irrigated area	50,316 acres
% NCA irrigated:	69.91 percent
Deep Tubewells [DTWs]:	101
Shallow Tubewells [STWs]:	144
Annual Fertilizer Consumption:	72.27 thousand metric tonnes
<u>Production of Principal Crops in 1997</u>	
Rice:	49,629 metric tonnes
Wheat:	7,785 metric tonnes
Potato:	78,582 metric tonnes
Jute:	2,455 metric tonnes
NGOs operating in the Upazila:	98
Formal-sector Bank Branches:	14

Sources: Compiled from (i) BBS [1995-1998]: *Statistical Pocketbook(s) of Bangladesh*  
(ii) Upazila Agriculture Office, Daudkandi

As seen above, the area of Daudkandi upazila at 366 sq.km places it among the larger-sized upazilas in Bangladesh (national average upazila-size = 303 sq.km). Nevertheless, land pressure is high in the upazila and its 1991 population of 4,87,526 persons was more than double the national average upazila population of 2,20,000 persons.<sup>41</sup> Daudkandi upazila is predominantly an agricultural area. Except for the Dhaka-Chittagong highway which passes through the middle of the upazila, there is hardly any other high land in the upazila. Under the influence of alluvion on the Meghna and Gumti, cultivated land is very fertile. Thus the economic activity of residents depends mainly on agriculture, with the exception of three small local business centres or 'hats'.

**Map 2: COMILLA DISTRICT & DAUDKANDI UPAZILA**



Present cultivable lands in the upazila amount to around 72 thousand acres, as a result of which the present availability of agricultural land per agricultural household is only 1.20 acres. This leaves no alternative to intensive agriculture, reflected in the high coping intensity of 170 percent. Even so, only about 8 percent of cultivable lands are currently under triple-cropping, although cropping intensity could easily be raised with proper credit support. The principal agricultural crops of the Daudkandi region are rice and potato, with wheat, jute, oilseeds and pulses also being grown to a comparatively limited extent. Nearly 70 percent of cultivable lands in the upazila are irrigated. Relatively high levels of rice production are therefore noticeable in the upazila because of the reasonably adequate availability of irrigation that permits the cultivation of HYV paddy. It has already been noted by several studies cited in the literature that HYV rice cultivation proves to be quite expensive both in terms of inputs as well as irrigation costs. This also remains true in the case of potato cultivation, which is the major cashcrop of Daudkandi upazila. Thus both paddy and potato cultivation are capital-intensive and require considerable credit support from institutional or other sources. On the other hand, only 14 branches of the formal-sector banks serve the entire population of the upazila. Each branch thus has to extend credit cover to 33 villages, or around 35,000 people, on the average. The credit facilities presently provided through formal-sector banks in Daudkandi upazila may thus be deemed to be quite inadequate and warrant considerable expansion.

Chart 6.3: Social & Economic Characteristics of the Maligaon Population

Total Village population:	3,413
Males:	1,760 (52 percent)
Females:	1,653 (48 percent)
Total households:	516
Average Household-size:	6.61
Illiterate persons:	1293 (38 percent)
Male:	537 (42 percent)
Female:	756 (58 percent)
Literate persons:	2,120 (62 percent)
(incl. functionally literate)	
Adult earners:	1,837 (54 percent)
Elderly dependents:	74 (2 percent)
Minor dependents:	1,502 (44 percent)
(below 14 years)	
Farm-based households:	364 (70.5 percent)
Owner-cultivators:	282
Non-cultivating owners:	82
Landless households:	152 (29.5 percent)
(incl. non-farm households)	
Total Cultivator holdings:	389.5 acres
Homestead lands:	34.3 acres
Average homestead-size:	0.06 acres per holding
Net cultivable land:	329.2 acres (85 percent of total lands)
Lands in other uses:	25.9 acres

Source: Village Census Survey

## 6.2.2 The Sample-Village of Maligaon

The empirical study was conducted principally on the basis of information directly collected through fieldwork with various district and upazila-level bank offices and their officials. However, for identifying existing resources and needs among the target population of farmers, complete census survey was first made of the 516 households resident in the remote village of Maligaon, located in the extreme southeast of Daudkandi upazila. The broad socioeconomic characteristics of the Maligaon population are briefly summarised above. Since the present study is partially representative of the rural finance situation in Bangladesh, the study village was selected purposively from Daudkandi upazila on the basis of its remoteness. The two-stage sampling process then focused on all farmers residing in the village, ranging from submarginal to large-farmer categories.

In the first stage of sampling, the census survey included all village residents in order to develop a

better understanding of the social setting of the village and the demographic and occupational characteristics of its residents. Of the 364 landowning households identified during first-stage enumeration, 282 households were found to be directly involved in agriculture as owner-cultivators. A sample of 100 farmers was then drawn at random from among these households for the questionnaire-survey of farmers. The survey at this stage then focused comprehensively on the socioeconomic background of the Maligaon farmers and the nature of farming in the area, including present cropping patterns followed, agricultural costs and productivity and the farmers' consequent need for credit support. Further information was also collected on their present sources of credit and the difficulties they currently face in approaching formal-sector banks for loan-finance. The sample-study thus helped in studying the present nature of agricultural credit demand in the rural credit market in relation to present constraints and limitations in credit supply.

Maligaon is a large village situated in the Mohammadpur (East) union of Daudkandi upazila within Comilla Zila. It is the most southeasterly-located village in the upazila, standing virtually on the borders between Daudkandi and Chandina upazilas within Comilla district and the adjoining Kochua upazila of Chandpur district. It is thus located about 60 kilometres to the west from the district headquarters at Comilla town, and around 20 kilometres to the southeast of the upazila headquarters at Daudkandi town. The village belongs to Ward 3 of Mohammadpur Union Parishad and lies in Maligaon Mouza bearing JL No.268. The mouza occupies an area roughly around 1.5 kilometre in length from north to south and 0.75 kilometres in width from east to west, covering approximately 1.15 sq.km. It is neighboured by the villages of Bainagar to the north and Kalasona to the south. The agricultural lands belonging to the Maligaon farmers lie towards the eastern periphery of the village, while the Khirai rivulet defines its western periphery. The Union office is located around 2 kilometres from the village and is connected to it by a unmetalled road.

### 6.2.3 Village Characteristics & the Sampling Process

Census enumeration of Maligaon village was conducted between May 1999 and April 2000. The present village population presently amounted to 3413 persons, among whom 1760 (52 percent) were male and 1653 (48 percent) were female. The number of mouza households in Maligaon amounted to the highest among all mouzas included in the Mohammadpur (East) Union. Since the total population of the village as listed during the Population Census in 1991 had amounted to 2259 persons,<sup>42</sup> there had been an increase in village population by 1154 persons (51 percent) over the nine-year interval. While the adult workforce in the village numbered 1837 persons (54 percent), 1502 persons among the dependent population (44 percent) comprised children below the age of 14 years and 74 dependents (2 percent) belonged to the elderly category. Average household-sizes in the village at 6.6 members per household exceeded the national average of 5.6 persons recorded in 1991.<sup>43</sup>

The village was predominantly Muslim, with only two Hindu families comprising 14 members among its residents. Thus the Muslims accounted for about 99.5 percent of the households and 99 percent of the village population. The Muslims of Maligaon were followers of the Hanafi School belonging to the Sunni sect, but were divided into different khandans or kinship-groups. Common divisions found among the Muslim families in respect of their lineage kinship included Bepari, Munshi, Khan, Mollah, Kazi, Sikdar, etc.. The two Hindu families belonged to the common caste-group of Bhaumik. Villagers from both sexes closely followed their prescribed religious practices. For this, the Muslim community had founded a non-formal moktab where instruction was imparted in Arabic and several mosques. Nevertheless the conservative practice of pardah or wearing of the burkha (veil) by Muslim women was hardly observed in the village.

While a few brick-built houses existed in the village, the vast majority of dwellings comprised hutments with interlaced bamboo walls and roofs of thatching grass laid upon bamboo-frames and underlying wooden supports. Middle-class residents of the village were found to live in chouchala (four-roofed) tin sheds constructed on wooden posts with wooden frames and corrugated-iron (CI) sheet roofs. Poorer sections among the population lived in dochala (twin-roofed) huts built on bamboo posts and bamboo frames and thatched roofs. The houses of the well-to-do had walls of elaborate bamboo work or CI sheets. Over 70 percent of the houses consisted of a single room with a 'katcha' floor and veranda. The plinth of the typical house was made of raised earth plastered with mud. The typical homestead unit usually comprised 4 houses abutting on a common courtyard, with separate outhouses and cattle sheds. In low-lying areas, the cow shed units were attached to the main living rooms. While there were separate mud-built sheds for poultry in

certain homesteads, in most cases poultry fowls were kept in a corner of the main dwellings. Most houses in the village did not have much furniture. Only well-to-do households were found to use wooden beds or 'chaukis', while the members of a great majority of households slept on pati mats, and uses kantha (worn cotton material stitched together into a thick pill) as a substitute for quilts during winter. Household utensils and crockery were stored on sikka frames made from jute coil.

The study village had a free primary school run by the Government as well as a high school run by the local community. In addition to these two institutions, the villagers also had access to education at nearby facilities, including two other high schools, two dakhil madrasas (religious seminaries) and two primary schools located in adjacent villages. There was also a college and a high madrasa located within respective distances of 2 and 3 kilometres from Maligaon. As the city of Dhaka is located within striking distance from Maligaon, the residents also had the opportunity of sending their wards for enrolment at the higher educational institutions located in that city. Nevertheless, 38 percent of the village residents were found to be illiterate. While the remainder of the population was either formally or functionally literate, the women of the village were found to be lagging behind in education. It was also disappointing to note that the poorer classes still had very limited participation in education.

Till the 1980s, Maligaon and its neighbouring villages had been relatively backward and undeveloped in terms of communications and other infrastructure, which had also reflected on the overall pattern of economic activity among their residents. However, a narrow carpeted road has been built very recently between Sachar and Gouripur, which passes within 1 kilometre to the west of the village, thus connecting the locality to the main Dhaka-Chittagong highway. Another unmetalled road also connects the village to the Sachar-Gouripur road, which is widely used as a thoroughfare and for the transportation of goods by different modes of vehicular transport during the dry season. During the monsoon when the unmetalled road becomes unusable, the villagers use waterway passages to communicate with the highway. Thus the highway now remains within easy reach of the village throughout the year, enabling relatively easy communication between Maligaon and the upazila and the district headquarters as well as the capital city of Dhaka.

Thus in recent times, the economic status of the village as well as its residents had undergone satisfactory upgradation because of the development of multiple facilities provided by different agencies. Most village residents today were found to live in fairly comfortable conditions, and a large number of households were now using slab latrines. Because of the large number of tubewells in the village, almost every household had access to safe drinking water. Maligaon had also benefited from the rural electrification programme conducted by the Chandina Palli Bidyut Samity [PBS]. As possession of a domestic electricity connection was deemed to enhance the social status of a household, most well-to-do farmers and traders had taken electricity connections for their homes. The recent execution of several development schemes providing food-for-work, food-for-education, and pension-type allowances to aged people, etc., was observed to have brought tremendous change into the overall living standards of village residents. At grassroots-level, the villagers were simultaneously governed irrespective of religion, kinship and caste, by the lowest statutory rung of local government, namely the Union Parishad, and by the traditional council of village elders known as the Moy-Morobbi.

Maligaon is located on the alluvial plain of the Meghna which has a great influence on the entire Daudkandi upazila. The village soils hence consist primarily of sandy clay, graduating to sand along the main rivercourse and fine silt turning into clay in the flatter parts of the river plain. Since nearly all agricultural lands are regularly inundated by the river during the rainy season, the soils of the village are moist and fertile. The village is favourably located in geographical terms, with the Tropic of Cancer passing through the adjoining Chandina upazila. The climate of the region is hence characterised by warm temperatures and heavy rainfall, and conditions are suitable for the cultivation of several agricultural crops including paddy, wheat, jute, potato and vegetables.

Maligaon thus possesses a traditional agrarian background. The village residents revealed that till the recent past, nearly all people of the village were engaged directly in cultivation or in other agro-based occupations. At that time, paddy, wheat, jute, oilseeds, pulses and sweet potatoes were produced here in plenty. This diversified pattern of cultivation has now been declining, and the present trend appears to be strongly specialised in favour of HYV rice and potato cultivation. The preference for HYV rice arises because of its higher productivity, while the cultivation of potatoes offers quick cash returns. Total cultivable land in the study village was found to amount to 329.2 acres. Thus, current per capita availability of cultivable

land in the village was around 0.1 acres, against the national average of 0.15 acres per capita in 1991.<sup>44</sup> While 29.5 percent of the households in the village were landless, a good number of families were in possession of landholdings well below subsistence requirements. Nevertheless, around 55 percent of the village households still depended on agriculture, although the average landholding of the average family comprising 6.61 persons amounted to only 0.75 acres at present. In the absence of other viable economic avenues, economic activity in the village remains focused on agriculture and the primary needs for rural credit also arise in association with agriculture. No section with significant nonagricultural needs for credit thus exists within the non-farming section of the village population.

Around two-thirds of the 516 existing village households were found to possess agricultural landholdings of various sizes while the remainder either had submarginal holdings or no agricultural landholdings whatsoever. Households possessing only homestead land or agricultural lands that were less than 0.05 acres in size were treated as non-farm households for the purpose of the study. Of the 364 landholding households, 82 had the status of non-cultivating owners and were economically engaged in other occupations. Excluding such non-cultivating households and using classifying the cultivator-households on the basis of their operational holdings in line with the traditional land classification system commonly followed in Bangladesh,<sup>45</sup> 4 large-farmer households (1.5 percent) were found to be in possession of operational landholdings amounting in size to 7.5 acres or more per household, 30 medium-farmer households (10.5 percent) were found to possess operational holdings between 2.50-7.49 acres in size, while as many as 248 farming households held small operational holdings between 0.05-2.49 acres in size.

In respect of these characteristics, the village of Maligaon is thus closely representative of the common rural characteristics of Comilla Zila and of rural Bangladesh as well. The study of the agricultural credit situation in respect of Maligaon, and the extent to which present rural credit needs are being met by the formal-sector banking institutions may thus be considered as representative for Bangladesh.

### **6.3 The Structure of Rural Banking in the Daudkandi Region**

After describing the Daudkandi upazila region and its agricultural characteristics in detail, it becomes necessary to understand the relative positioning of the upazila in terms of rural credit operations by formal-sector banks. Although because of the larger sizes of their respective divisions, the NCB divisional offices simultaneously oversee several other districts besides Comilla, rural banking data specific to Comilla Zila are available from the Bangladesh Krishi Bank [BKB] regional office located at Comilla headquarters. In order to evaluate upazila-wise agricultural credit performance in Comilla Zila, such data for FY1997-98 were thus collected from the BKB regional office. Although these data do not provide parallel information on agricultural lending operations by the NCBs, it needs to be remembered that, as an institutional source of agricultural credit, BKB plays a vital role by providing almost 52 percent of all institutional credit received by the agricultural sector in Bangladesh.<sup>46</sup> According to the BKB charter, the principal objective of the BKB is to support the credit needs of the agriculturists for the purpose of crop production, purchase of fertilizers, seeds and agricultural implements. In addition, BKB may also provide credit for other general purposes. Hence, the credit performance of BKB in Comilla Zila may be closely examined as a good indicator of the overall agricultural credit situation in the district, and also helps in the identification of Daudkandi upazila as the principal centre for agricultural lending operations within the district. Data gathered for FY1997-98 are tabulated below.

Even though provision of credit to agriculturists for crop production is the principal objective of BKB, the table below reveals that the BKB branches in Comilla Zila collectively released only 39 percent of their total lending amount in crop loans in the year 1997-98. Thus the larger part of BKB credit amount was disbursed to other nonagricultural purposes. In the case of crop loans, average loan-sizes amounted to less than half of the average sizes of nonagricultural loans.

Another noticeable characteristic of BKB credit operations in Comilla Zila during the year pertained to the high current recovery rates on loans, as a result of which current recoveries on both crop loans as well as other loans considerably exceeded fresh loan sanctions in the year. Operational preferences for credit disbursement to mainly nonagricultural purposes is also seen to persist at the upazila level in the district. Thus when BKB credit operations in Daudkandi upazila are compared to aggregate BKB credit operations in the district, almost similar patterns are found to exist in the release of crop loans and their average sizes. In FY1997-98, total crop credit collectively disbursed by the BKB branches in Daudkandi upazila collectively

amounted to less than a third of total credit disbursement by BKB.

However, the comparatively developed nature of overall lending activity, and especially of agricultural lending, in Daudkandi upazila in comparison to other upazilas in Comilla Zila is also worth noting. In the table it is thus seen that Daudkandi upazila hold the highest position among all upazilas in terms of both crop-loan disbursements and recoveries. Similarly, while average crop loan-sizes tend to be higher in Daudkandi upazila, credit-recovery rates are also high. In contrast, while the performances of Chandina, Chauddagram and Muradnagar upazilas appears to be quite satisfactory in terms crop-loan disbursements, their associated recovery rates are poorer. Thus standing next to Daudkandi upazila in order of the scale of BKB credit operations, especially total loan disbursements, comes Comilla Sadar. The total number of loan accounts as well as total current loan outstandings is in fact highest in Comilla Sadar. However, this is probably due to higher disbursement of loans for nonagricultural purposes, because of the largely urban character of Comilla Sadar. Within Daudkandi upazila, the main branch of BKB at Daudkandi headquarters is found to be more involved with the disbursement of non-crop loans. However, current credit recovery rates at this BKB branch appear to be better since the proportion of current outstandings there is approximately half of the proportion in Comilla Sadar.

**Table 6.2: Rural Lending Operations of the Bangladesh Krishi Bank in Comilla Zila**

*[financial figures in the table pertain to FY1997-98]*

Upazila / Branch	Crop-loan Accounts	Crop-loan Release	Other Loan Accounts	Other Loan Release	Total Loan Accounts	Total Loan Release	Crop-loan Recovery	Other Loan Recovery	Total Loan Recovery	Current Outstandings
Barura Upazila	508	4734	492	6253	1000	10987	2590	9090	11680	67489
Brahmanpara Upazila	444	5220	225	9972	669	8939	2885	3759	6644	38153
Burichang Upazila	423	4996	171	3636	594	8632	3208	4375	7583	61022
Comilla Sadar	513	5533	686	27604	1199	33137	4413	28405	32818	376549
Chandina Upazila	968	11621	184	4349	1152	15970	8271	5720	13991	53707
Chauddagram Upazila	1143	11216	308	6581	1451	17797	6768	7967	14735	131896
Daudkandi Upazila	<b>1565</b>	<b>17971</b>	<b>429</b>	<b>36717</b>	<b>1994</b>	<b>54688</b>	<b>13630</b>	<b>30139</b>	<b>43769</b>	<b>218547</b>
<i>Daudkandi</i>	736	9418	204	33810	940	43228	8155	26561	34716	170122
<i>Nayerbazar</i>	288	2539	61	763	349	3302	2214	1061	3275	18746
<i>Masempur</i>	255	2878	115	1333	370	4211	1879	1450	3329	13480
<i>Juranpur</i>	286	3136	49	811	335	3947	1382	1067	2449	16199
Debidwar Upazila	669	6590	316	5558	985	12148	5787	5274	11061	52294
Homna Upazila	390	3912	207	2019	597	5931	3852	1909	5761	29998
Laksam Upazila	685	5854	839	8871	1524	14725	4951	10686	15637	199656
Muradnagar Upazila	1034	11292	906	11986	1940	23278	8600	10548	19148	59905
Nangalkot Upazila	497	5654	373	5276	870	10930	3285	6445	9730	110919
<b>Comilla Zila</b>	<b>8839</b>	<b>94593</b>	<b>5136</b>	<b>128822</b>	<b>80987</b>	<b>243637</b>	<b>103102</b>	<b>185654</b>	<b>645329</b>	<b>1400135</b>

*[percentages in the table pertain to FY1997-98]*

Upazila / Branch	Crop-loan Accounts	Crop-loan Release	Other Loan Accounts	Other Loan Release	Total Loan Accounts	Total Loan Release	Crop-loan Recovery	Other Loan Recovery	Total Loan Recovery	Total Current Outstandings
Barura Upazila	5.75	5.00	9.58	4.85	1.23	4.51	2.51	4.90	1.81	4.82
Brahmanpara Upazila	5.02	5.52	4.38	7.74	0.83	3.67	2.80	2.02	1.03	2.72
Burichang Upazila	4.79	5.28	3.33	2.82	0.73	3.54	3.11	2.36	1.18	4.36
Comilla Sadar	5.80	5.85	13.36	21.43	1.48	13.60	4.28	15.30	5.09	26.89
Chandina Upazila	10.95	12.29	3.58	3.38	1.42	6.55	8.02	3.08	2.17	3.84
Chauddagram Upazila	12.93	11.86	6.00	5.11	1.79	7.30	6.56	4.29	2.28	9.42
Daudkandi Upazila	17.71	19.00	8.35	28.50	2.46	22.45	13.22	16.23	6.78	15.61
<i>Daudkandi</i>	8.33	9.96	3.97	26.25	1.16	17.74	7.91	14.31	5.38	12.15
<i>Nayerbazar</i>	3.26	2.68	1.19	0.59	0.43	1.36	2.15	0.57	0.51	1.34
<i>Masempur</i>	2.88	3.04	2.24	1.03	0.46	1.73	1.82	0.78	0.52	0.96
<i>Juranpur</i>	3.24	3.32	0.95	0.63	0.41	1.62	1.34	0.57	0.38	1.16
Debidwar Upazila	7.57	6.97	6.15	4.31	1.22	4.99	5.61	2.84	1.71	3.73
Homna Upazila	4.41	4.14	4.03	1.57	0.74	2.43	3.74	1.03	0.89	2.14
Laksam Upazila	7.75	6.19	16.34	6.89	1.88	6.04	4.80	5.76	2.42	14.26
Muradnagar Upazila	11.70	11.94	17.64	9.30	2.40	9.55	8.34	5.68	2.97	4.28
Nangalkot Upazila	5.62	5.98	7.26	4.10	1.07	4.49	3.19	3.47	1.51	7.92
<b>Comilla Zila</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Bank Ledgers of the BKB Regional Office, Comilla

The discussion above positively indicates that agricultural credit and recovery activities in Daudkandi upazila are more developed, compared to other upazilas in Comilla district, justifying closer examination of total banking activity in Daudkandi upazila in some detail over the defined study period. Since under the banking directives applicable in Bangladesh, Nationalised Commercial Banks [NCBs] have an equally important theoretical role in rural credit markets, the present credit performance of the NCBs in Daudkandi upazila will also be investigated by the study.

**Table 6.3: Structure of Formal Banking in Daudkandi Upazila, Comilla District**

Branch Classifications	Agricultural Bank				NCBs			
	Bangladesh Krishi Bank	Est. Year	Sonali Bank	Est. Year	Janata Bank	Est. Year	Agrani Bank	Est. Year
Main Branches	Daudkandi	[1970]	Daudkandi	[1973]	Daudkandi	[1964]	Daudkandi	[1991]
Other Branches	Naiyair	na	Gouripur	na	Gouripur	[1964]	Jagatpur	[1990]
	Juranpur	[1987]	Elliotgonj	[1973]	Batakandi	[1977]		-
	Machimpur	na	Raipur	[1977]	Sundalpur	[1979]		-

Total Branches in the Daudkandi Thana = 14  
Bank Branches Studied = 14

### 6.3.1 Agricultural Credit Flows through the Banks

A breakdown of operations for the branches of all banks serving the Daudkandi region is provided in the table below. Evidently, four formal-sector banks, comprising three NCBs [Sonali, Janata and Agrani banks] and one specialized agricultural bank (BKB) operate in the upazila and also in Comilla district. The number of branches of these banks located within Daudkandi totals 14. Of these, the main branches of the 4 banks operate from the upazila headquarters at Daudkandi, while another 5 branches operate from outside semi-urban locations. These are namely, the Sonali bank branches at Gouripur, Elliotgonj and Raipur, and the Janata bank branches at Gouripur and Sundalpur branch, all located on the Dhaka-Chittagong highway. Thus, only 5 other branches scattered across the upazila serve the rural people of Daudkandi, indicating that the distribution of bank branches in the upazila is uneven and inadequate. Agrani Bank is a relatively new entrant in Daudkandi upazila, commencing operations after the lead bank role for the upazila had already been assigned to Sonali Bank. Although the three NCBs now have a fairly large branch network in Daudkandi upazila, their rural branch network is much weaker than the network of urban and semi-urban branches.

A large rural branch network is important both for the local mobilization of deposits and for providing general banking services to the public. It also enables people to maintain deposits conveniently at a branch located close to them. Although only two bank branches served the Daudkandi region in the pre-Liberation period, there has been considerable expansion in the network thereafter. Extension of the branch network has been an essential factor in the growth of banking operations in Daudkandi upazila.

An analysis of recent agricultural credit flows to the study region from the 14 formal-sector bank branches [NCBs and BKB] located in Daudkandi upazila is presented in Table 6.4 below. The main forms in which agricultural credit is available to the study region comprises short-term crop loans and livestock loans. Other agricultural credit categories such as medium-term irrigation and agricultural equipment loans are negligible in the region. While crop loans issued by the main bank branches located at the upazila headquarters tend to fluctuate in proportionate terms, their proportion is steadier in the case of the rural (non-Daudkandi) branches. Even so, average crop loan sizes are higher at the main branches, ranging between Tk.9060 to Tk.19196 in different years. The corresponding range for the rural branches is Tk.8185 to Tk.11008 in the same years.

As revealed by the succeeding table, crop loan operations in Daudkandi upazila have tended to increase in the long term, while showing considerable oscillation in given years. Unlike crop loans however, no consistent trends are shown by livestock loans in the upazila over the study period. The sudden increase in the number and quantum of livestock loan advances from both main and rural bank branches in the year 1998-99 was apparently a conscious step undertaken to compensate losses due to the devastating Bangladesh floods of 1998. Total crop advances from the main bank branches in Daudkandi upazila show a more oscillating trend, and have been steadier at the rural branches. Notable increase in the proportion of aggregate crop advances is noted in particular years such as 1997-98, mainly because of increased advances by the main branches. On the average, aggregate agricultural credit advances by all bank branches in Daudkandi

upazila show steadier proportionate trends than total loan issues. It is apparent therefore that considerable squeezing of average loan sizes is liable to occur in years where loan demands escalate faster than credit advances.

A number of hypotheses may be advanced in explanation of the above scenarios. Thus recent slackening of crop loans and advances in Daudkandi upazila, particularly since 1997, may partially reflect improvement in financial conditions among farmers due to the succession of bumper harvests in the country. The abrupt increases in credit advances noticed in certain years such as 1995-96 and 1997-98 may also be due to the political change in state power in 1995 and the launching of special post-flood credit programmes by the Bangladesh government in 1998. It may be mentioned in this connection that many rules and regulations applicable to agricultural credit were relaxed by the government in 1998 to compensate farmer for losses and damage incurred because of devastating floods in 1998, which also carried benefits to farmers in Daudkandi upazila. Similar reasons could also be assigned for the higher livestock advances in 1998.

Table 6.4 : Analysis of Rural Credit Flow in Daudkandi Upazila by Branch Location

ALL BANKS						
MAIN DAUDKANDI BRANCHES	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Crop Loans	1175	919	686	806	2034	593
Crop Advances	106.57	94.74	85.46	126.1	242.58	113.83
Irrigation Equipment Loans	-	-	-	-	-	-
Irrigation Equipment Advances	-	-	-	-	-	-
Agricultural Equipment Loans	-	-	-	-	-	-
Agricultural Equipment Advances	-	-	-	-	-	-
Livestock Loans	48	36	6	22	52	3
Livestock Advances	6.42	4.92	1.06	2.69	6.09	0.51
Total Agricultural Loans	1223	955	692	828	2086	596
Total Agricultural Advances	112.99	99.66	86.52	128.79	248.67	114.34
ALL BANKS						
NON-DAUDKANDI BRANCHES	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Crop Loans	2921	2018	2254	2384	7940	3305
Crop Advances	239.09	189.01	230.72	250.51	708.72	363.81
Irrigation Equipment Loans	12	12	11	10	9	9
Irrigation Equipment Advances	8.13	8.47	6.84	5.01	4.01	3.97
Agricultural Equipment Loans	5	5	4	4	4	4
Agricultural Equipment Advances	4.56	4.56	3.6	2.6	2.6	2.6
Livestock Loans	440	377	415	358	305	299
Livestock Advances	67.22	60.95	56.69	44.31	40.89	33.72
Total Agricultural Loans	3378	2412	2684	2756	8258	3617
Total Agricultural Advances	319	262.99	297.85	302.43	756.22	404.1
DAUDKANDI						
ALL BANKS MAIN BRANCHES	%	%	%	%	%	%
Crop Loans	28.7	31.3	23.3	25.3	20.4	15.2
Crop Advances	30.8	33.4	27.0	33.5	25.5	23.8
Irrigation Equipment Loans	-	-	-	-	-	-
Irrigation Equipment Advances	-	-	-	-	-	-
Agricultural Equipment Loans	-	-	-	-	-	-
Agricultural Equipment Advances	-	-	-	-	-	-
Livestock Loans	9.8	8.7	1.4	5.8	14.6	1.0
Livestock Advances	8.7	7.5	1.8	5.7	13.0	1.5
Total Agricultural Loans	26.6	28.4	20.5	23.1	20.2	14.1
Total Agricultural Advances	26.2	27.5	22.5	29.9	24.7	22.1

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

A particular weakness of the rural credit system in Daudkandi upazila relates to the low offtake on medium-term agricultural loans. Owing to widespread use of traditional agricultural technology, both farmers as well as bank authorities do not show any inclination towards the induction of new agricultural and irrigation equipment. In general, all bank branches operating in Daudkandi upazila appear to be conservative in their attitude to agricultural advances, and are possibly more interested in commercial banking operations that ensure higher profitability.

On the whole, it would appear that the patterns of agricultural credit advances made by formal-sector banks in Daudkandi upazila are not conducive to the longterm development of modern agriculture in the

region, even though they do take care of the current production loan needs among a section of cultivators. While this section mainly comprises farmers with larger landholdings, the institutional credit available is unable to support their adoption of improved agricultural technology.

Table 6.5: Analysis of Rural Credit Flow in Daudkandi Upazila by Nature of Banks

ALL BRANCHES	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Crop Loans	4096	2937	2940	3190	9974	3898
Crop Advances	345.66	283.75	316.18	376.61	951.3	477.64
Irrigation Equipment Loans	12	12	11	10	9	9
Irrigation Equipment Advances	8.13	8.47	6.84	5.01	4.01	3.97
Agricultural Equipment Loans	5	5	4	4	4	4
Agricultural Equipment Advances	4.56	4.56	3.6	2.6	2.6	2.6
Livestock Loans	488	413	421	380	357	302
Livestock Advances	73.64	65.87	57.75	47	46.98	34.23
Total Agricultural Loans	4601	3367	3376	3584	10344	4213
Total Agricultural Advances	431.99	362.65	384.37	431.22	1004.89	518.44
BKB BRANCHES	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Crop Loans	1941	1659	1750	2081	7186	2901
Crop Advances	201.28	170.5	183.49	243.23	737.58	345.51
Irrigation Equipment Loans	12	12	11	9	9	9
Irrigation Equipment Advances	8.13	8.47	6.84	4.67	4.01	3.97
Agricultural Equipment Loans	5	5	4	4	4	4
Agricultural Equipment Advances	4.56	4.56	3.6	2.6	2.6	2.6
Livestock Loans	488	413	421	380	357	302
Livestock Advances	73.64	65.87	57.75	47	46.98	34.23
Total Agricultural Loans	2446	2089	2186	2474	7556	3216
Total Agricultural Advances	287.61	249.4	251.68	297.5	791.17	386.31
BKB BRANCHES	%	%	%	%	%	%
PERCENTAGES	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Crop Loans	47.4	56.5	59.5	65.2	72.0	74.4
Crop Advances	58.2	60.1	58.0	64.6	77.5	72.3
Irrigation Equipment Loans	100.0	100.0	100.0	90.0	100.0	100.0
Irrigation Equipment Advances	100.0	100.0	100.0	93.2	100.0	100.0
Agricultural Equipment Loans	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural Equipment Advances	100.0	100.0	100.0	100.0	100.0	100.0
Livestock Loans	100.0	100.0	100.0	100.0	100.0	100.0
Livestock Advances	100.0	100.0	100.0	100.0	100.0	100.0
Total Agricultural Loans	59.72	71.13	74.35	77.55	75.76	82.50
Total Agricultural Advances	66.58	68.77	65.48	68.99	78.73	74.51
NCB BRANCHES	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Crop Loans	2155	1278	1190	1109	2788	997
Crop Advances	144.38	113.25	132.69	133.38	213.72	132.13
Irrigation Equipment Loans	-	-	-	1	-	-
Irrigation Equipment Advances	-	-	-	0.34	-	-
Agricultural Equipment Loans	-	-	-	-	-	-
Agricultural Equipment Advances	-	-	-	-	-	-
Livestock Loans	-	-	-	-	-	-
Livestock Advances	-	-	-	-	-	-
Total Agricultural Loans	2155	1278	1190	1109	2788	997
Total Agricultural Advances	144.38	113.25	132.69	133.72	213.72	132.13
NCB BRANCHES	%	%	%	%	%	%
PERCENTAGES	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000
Crop Loans	52.6	43.5	40.5	34.8	28.0	25.6
Crop Advances	41.8	39.9	42.0	35.4	22.5	27.7
Irrigation Equipment Loans	-	-	-	10.0	-	-
Irrigation Equipment Advances	-	-	-	6.8	-	-
Agricultural Equipment Loans	-	-	-	-	-	-
Agricultural Equipment Advances	-	-	-	-	-	-
Livestock Loans	-	-	-	-	-	-
Livestock Advances	-	-	-	-	-	-
Total Agricultural Loans	46.8	171.1	174.4	177.6	175.8	182.5
Total Agricultural Advances	33.42	31.23	34.52	31.01	21.27	25.49

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

Since both NCBs as well as specialised banking institutions operate in Daudkandi upazila, it is also useful to understand the influence that banking specialisations have on rural credit flows in the study region. The preceding table redistributes data on agricultural loans and advances in the upazila in terms of the banking institutions involved. Although both NCBs and BKB operate in Daudkandi upazila, the perceptions and credit priorities of the two differ because of the specialised operations of BKB. By their nature, the NCBs are more attuned towards general banking while BKB exclusively addresses agricultural credit. The distribution of agricultural loans and advances between BKB and the NCBs in the study region has been shown in the table.

It is seen that the four BKB branches located at Daudkandi, Naiyair, Juranpur and Machimpur dominate agricultural credit operations in the upazila. In contrast, the ten NCB branches show lower participation. The proportionate share of the BKB branches in agricultural loans and advances is seen to have increased strongly over the study period, rising from around 60 percent to higher than 80 percent. In case of crop loan operations, the proportionate increase in the number of loans is stronger than the corresponding proportionate increase in crop advances. Notably, the share of NCB branches in crop loans and advances reveals a declining trend, and it is this slack which is being taken up by BKB. Thus, increasing presence of BKB in crop loans and advances and aggregate agricultural credit does not reflect equivalent magnification of agricultural credit for Daudkandi farmers. In average terms, agricultural loans issued by BKB remain in the range Tk.10471 and Tk.12025 in various years. In contrast, the number of agricultural loans issued by NCBs have declined sharply relative to NCB agricultural advances, resulting in a strong increase in average NCB loan size from Tk.6700 and Tk.13253 over the study period. Evidently, while aggregate NCB advances to the agricultural sector have remained relatively steady over the study period, they cater to the credit needs of fewer farmers. An equivalent section of farmers having small credit needs has been displaced from the institutional credit market of Daudkandi.

### 6.3.2 Issues for Investigation

A number of issues are opened by the above findings. The BKB branches in Daudkandi upazila contribute more effectively in agricultural credit operations compared to the NCB branches, whose role in the agricultural credit sector has in fact declined over the period of the study. Although agricultural credit operations of the NCBs are confined to short-term crop financing, unlike the BKB which is also required to extent medium-term financing to the agricultural sector, the NCBs service a wider section of the rural population of Daudkandi upazila. Hence the decline in agricultural loan operations by the NCBs reduces the credit access of vulnerable sections of the farming population, with excessive impact on small and marginal farmers. Thus questions are raised about the purposiveness of banking operations by the NCBs' rural branches, since they appear unwilling to provide agricultural credit, in spite of the clear policy mandate from the Bangladesh government.

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## 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

<b>CROP LOANS</b>	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
<b>ALL BRANCHES</b>	<b>4096</b>	<b>2937</b>	<b>2940</b>	<b>3190</b>	<b>9974</b>	<b>3898</b>
BKB BRANCHES	1941	1659	1750	2081	7186	2901
NCB BRANCHES	2155	1278	1190	1109	2788	997
<b>EQUIPMENT LOANS</b>	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
<b>ALL BRANCHES</b>	<b>12</b>	<b>17</b>	<b>15</b>	<b>14</b>	<b>13</b>	<b>14</b>
BKB BRANCHES	12	17	15	13	13	13
NCB BRANCHES	-	-	-	1	-	1
<b>LIVESTOCK LOANS</b>	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
<b>ALL BRANCHES</b>	<b>488</b>	<b>413</b>	<b>421</b>	<b>380</b>	<b>357</b>	<b>302</b>
BKB BRANCHES	488	413	421	380	357	302
NCB BRANCHES	-	-	-	-	-	-
<b>LOANS BY LOCATION</b>	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

<b>CROP LOANS</b>	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
<b>ALL BRANCHES</b>	<b>345.66</b>	<b>283.75</b>	<b>316.18</b>	<b>376.61</b>	<b>951.3</b>	<b>477.64</b>
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
<b>EQUIPMENT LOANS</b>	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
<b>ALL BRANCHES</b>	<b>12.69</b>	<b>13.03</b>	<b>10.44</b>	<b>7.61</b>	<b>6.61</b>	<b>6.57</b>
BKB BRANCHES	12.69	13.03	10.44	7.27	6.61	6.57
NCB BRANCHES	-	-	-	0.34	-	-
<b>LIVESTOCK LOANS</b>	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
<b>ALL BRANCHES</b>	<b>73.64</b>	<b>65.87</b>	<b>57.75</b>	<b>47</b>	<b>46.98</b>	<b>34.23</b>
BKB BRANCHES	73.64	65.87	57.75	47	46.98	34.23
NCB BRANCHES	-	-	-	-	-	-
<b>LOANS BY LOCATION</b>	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**

<b>CROP LOANS</b>	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
<b>ALL BRANCHES</b>	<b>0.084</b>	<b>0.097</b>	<b>0.108</b>	<b>0.118</b>	<b>0.095</b>	<b>0.123</b>
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
<b>EQUIPMENT LOANS</b>	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
<b>ALL BRANCHES</b>	<b>1.058</b>	<b>0.766</b>	<b>0.696</b>	<b>0.544</b>	<b>0.508</b>	<b>0.469</b>
BKB BRANCHES	1.058	0.766	0.696	0.559	0.508	0.505
NCB BRANCHES	-	-	-	-	-	-
<b>LIVESTOCK LOANS</b>	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
<b>ALL BRANCHES</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>
BKB BRANCHES	0.100	0.100	0.100	0.100	0.100	0.100
NCB BRANCHES	-	-	-	-	-	-
<b>LOANS BY LOCATION</b>	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								
<b>ALL BANKS</b>	<b>4134</b>	<b>4241</b>	<b>4729</b>	<b>4567</b>	<b>4903</b>	<b>4.77</b>	<b>4.45</b>	<b>4.51</b>	<b>4.22</b>	<b>4.20</b>
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								
	<b>ALL BANKS</b>	<b>63190</b>	<b>71232</b>	<b>80878</b>	<b>81678</b>	<b>88498</b>	<b>72.95</b>	<b>74.75</b>	<b>77.17</b>	<b>75.45</b>
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
<b>ALL BANKS</b>	<b>0.21</b>	<b>0.25</b>	<b>0.18</b>	<b>0.19</b>	<b>0.28</b>	<b>1.58</b>	<b>1.67</b>	<b>1.05</b>	<b>1.56</b>	<b>1.88</b>
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	%
<b>ALL BANKS</b>										
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
<b>BKB Branches</b>										
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
<b>NCB Branches</b>										
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
<b>Daudkandi</b>										
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
<b>Outside Daudkandi</b>										
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
<b>BKB Branches</b>										
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
<b>NCB Branches</b>										
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
<b>ALL BANKS</b>	<b>516</b>	<b>554</b>	<b>582</b>	<b>619</b>	<b>659</b>	<b>7261.0</b>	<b>7517.1</b>	<b>7637.7</b>	<b>7872.2</b>	<b>7953.7</b>
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
<b>Branch Location</b>										
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
<b>BKB Branches</b>										
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
<b>NCB Branches</b>										
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
<b>ALL BANKS</b>	<b>37.44</b>	<b>41.65</b>	<b>44.47</b>	<b>48.69</b>	<b>52.45</b>	<b>7.83</b>	<b>10.47</b>	<b>8.07</b>	<b>9.29</b>	<b>14.86</b>
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
<b>Branch Location</b>										
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
<b>ALL BANKS</b>	<b>4.96</b>	<b>6.27</b>	<b>7.70</b>	<b>5.97</b>	<b>7.90</b>	<b>15.40</b>	<b>19.13</b>	<b>18.70</b>	<b>21.27</b>	<b>27.20</b>
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
<b>All Personnel</b>	<b>12</b>	<b>8</b>	<b>10</b>	<b>18</b>	<b>2</b>	<b>13</b>	<b>8</b>
% 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
<b>All Personnel</b>	<b>6</b>	<b>4</b>	<b>11</b>	<b>17</b>
% 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
<b>All Personnel</b>	<b>18</b>	<b>20</b>	<b>6</b>	<b>5</b>
% 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.

## Chapter - VIII

### **Agricultural Credit Demand in the Study Region: *Farmers' Surveys***

#### **8.1 Rural Credit Situations and the Farmers' Credit Survey**

The preceding chapter has already analysed the flow of institutional credit through the medium of formal-sector banks to the agricultural sector in Daudkandi upazila. However the impact of this credit flow would only become visible from supporting evidence drawn from resulting changes in socioeconomic and agricultural activity patterns in the area. A micro level survey on farmers in Daudkandi upazila was hence undertaken using a structured questionnaire [see Appendix-D] to elicit primary information on the social and economic situation of the Daudkandi farmers and their agricultural activities. The farmers interviewed during the sample survey were either potential or direct beneficiaries of agricultural credit. The survey collected a wide range of information relevant to the impact analysis, also yielding information which would be of considerable help to formal-sector banks in formulating future agricultural credit programmes in Bangladesh.

As described in Chapter 6, the sampling procedure followed while drawing the farmer's sample involved purposive selection of the sample village of Maligaon and complete census enumeration of its 516 resident households, followed by random selection of 100 farm households for intensive interviews after eliminating landless and non-cultivating households from the sampling universe. Comprehensive information was then collected on the socioeconomic structure of the sample, prevalent cropping patterns, agricultural costs and agricultural productivity and the consequent rural need for credit support, as well as the primary sources of credit and credit levels of the sample households. The qualitative part of the field survey covered the responses of sample farmers on the utility of rural credit as well as present difficulties faced in obtaining it from formal banking institutions.

For the purpose of data analysis, sample residents were grouped into separate landholding groups on the basis of the sizes of their operational holdings. Extending the standard three-part land classification widely used in Bangladesh land statistics, farmers in the small farmer group were reclassified into sub-marginal, marginal, very small farmers and small farmers, with the limiting land-sizes used by the analysis being defined by 0.05-0.49 acres (*sub-marginal*), 0.50-0.99 acres (*marginal*), 1.00-1.49 acres (*very small*), 1.50-2.49 acres (*small*), 2.50-7.49 acres (*medium*), and 7.50 acres or more (*large*), with the fractional sizes being expressed in decimals. While this splitting of the smallholder land category into the four separate subcategories used in the subsequent analysis is somewhat uncommon, it has been followed in the Bangladesh Agricultural Census of 1996,<sup>2</sup> and was further necessitated by extreme land pressure in Comilla Zila, as result of which more than 90 percent of all agricultural landholdings are small.<sup>3</sup> Use of multiple classification categories within the overall category of small holdings allows intra-group differences to be brought out more clearly. The names assigned to the smaller land categories have been adopted for the purposes of the present study. Detailed analysis of the small farmer category in terms of the subgroups also became necessary in terms of the context of the problem under study, namely the extension of institutional credit support to presently unsupported sections of the rural population in Bangladesh. Use of operational holdings instead of ownership holdings for sample classification was justified since the characteristics of farm operations in the study area are better reflected by the former.

#### **8.2 Key Characteristics of the Farmers' Sample**

Comprehensive tabulation and analysis was made of sample data obtained from 100 randomly-chosen farmer households in the village of Maligaon located within Daudkandi upazila in Comilla district. A review is made below of key socioeconomic characteristics of the sample farmers, including land and asset holdings.

general family profiles, living conditions, and equipment ownership, etc. This is followed by a review of agricultural operations conducted by these farmers including their crop production patterns, cropping costs, and crop productivity in the light of the income and credit distribution among them. All analyses are conducted on the grouping categories of farmers in terms of their operational landholdings, as described above.

### 8.2.1 Asset-holding Patterns of Farmers

Examination of land and asset-holding patterns among the Maligaon farmers is important not simply because it contributes to an understanding of the economics of scale in cropping operations, but also because several institutionalised forms of credit support and subsidies and program-assistance towards disaster relief, etc. are disbursed in direct relation to the asset-holdings of farm households. In studies on rural asset-holding found in the literature, six major asset forms, namely holdings of farmland, farm buildings such as cattlesheds, etc., holdings of livestock, farm implements and machinery, as well as other nonagricultural assets and financial assets are usually considered.<sup>4</sup> In the present study, the number of asset categories were reduced to three for more specific analysis, in keeping with the general patterns of asset holding among the Maligaon farmers. These related to holdings of lands under different forms of landuse, holdings of irrigation and other equipment, and the livestock-holding patterns of the sample farmers in Maligaon village.

**Table 8.1: Landholding and Landuse Patterns of Farmers in Maligaon Village, Bangladesh**  
Classification by Operational Holding-classes

Farmer Class	Ownership Holding	Leased -in	Leased -out	Operational Holding	Home -stead	Cultivated Land	Vegetable Garden	Orchard	Fish Tank	Fallow Land	
<i>[in decimals]</i>											
<b>SUB-MARGINAL (0.05-0.49ac)</b>											
n=8	Total	483	0	158	316	55	230	1	9	21	9
	Mean	57.56	0.00	17.56	39.00	6.89	28.67	0.11	1.00	2.33	1.00
	SD	52.20	0.00	52.25	3.64	2.62	4.55	0.33	2.09	2.12	1.96
	F-value	0.407	0.000	1.637	0.026	0.283	0.044	0.086	0.751	0.329	0.756
<b>MARGINAL (0.50-0.99ac)</b>											
n=20	Total	1225	230	0	1433	162	953	34	2	52	22
	Mean	61.25	11.50	0.00	71.65	8.10	47.65	1.70	0.10	2.60	1.10
	SD	24.23	15.56	0.00	15.24	8.37	22.88	4.63	0.44	1.93	2.45
	F-value	0.189	0.280	0.000	0.111	0.903	0.223	1.202	0.157	0.300	0.941
<b>VERY SMALL (1.00-1.49ac)</b>											
n=24	Total	2586	637	290	2902	212	1966	15	6	66	31
	Mean	107.75	26.54	12.08	120.92	8.83	81.92	0.63	0.25	2.75	1.29
	SD	40.06	31.22	16.78	14.33	4.69	30.73	1.84	1.20	3.96	2.88
	F-value	0.312	0.561	0.526	0.104	0.506	0.299	0.479	0.431	0.615	1.107
<b>SMALL (1.50-2.49ac)</b>											
n=35	Total	5597	1610	340	6823	345	4609	77	22	160	44
	Mean	159.91	46.00	9.71	194.94	9.86	131.69	2.20	0.63	4.57	1.26
	SD	59.68	60.05	17.42	25.82	6.67	53.95	4.46	1.91	3.95	2.74
	F-value	0.465	1.080	0.546	0.188	0.721	0.525	1.160	0.688	0.614	1.054
<b>MEDIUM (2.50-7.49ac)</b>											
n=11	Total	4293	450	610	4114	214	3295	37	22	96	19
	Mean	390.27	40.91	55.45	374.00	19.45	299.55	3.36	2.00	8.73	1.73
	SD	117.77	52.52	59.14	97.68	13.69	63.51	4.05	5.72	7.79	2.05
	F-value	0.918	0.944	1.853	0.710	1.478	0.618	1.052	2.058	1.210	0.788
<b>LARGE (7.50ac &amp; above)</b>											
n=2	Total	1177	500	0	1672	81	1020	0	14	57	5
	Mean	588.50	250.00	0.00	836.00	40.50	510.00	0.00	7.00	28.50	2.50
	SD	71.50	50.00	0.00	24.00	0.50	60.00	0.00	7.00	21.50	2.50
	F-value	0.557	0.899	0.000	0.174	0.054	0.584	0.000	2.518	3.339	0.962
<b>TOTAL SAMPLE</b>											
n=100	Total	15361	3427	1398	17260	1069	12073	164	75	452	130
	Mean	153.61	34.27	13.98	172.60	10.69	120.73	1.64	0.75	4.52	1.30
	SD	128.29	55.62	31.92	137.57	9.26	102.78	3.85	2.78	6.44	2.60

Source: *Farmers' Credit Survey*

#### 8.2.1a Landholding

With land as one of the most scarce resources in Bangladesh, the distribution of land assets among resident farmers plays a critical role in the dynamics of the village economy. As seen during the analysis of

bankers' opinions in the previous chapter, command over land is often found to influence the allocation of loans. In the agricultural credit policies followed in Bangladesh, formal-sector banks have been advised to pay more attention to farmers with landholdings of less than 2.50 acres, who are collectively classified as weak farmers. The distribution of agricultural land in Maligaon has been examined above for the operational size-categories of farmers defined earlier. The land categories considered include ownership holdings of land, leased land categories, including lands leased-in and leased-out and the resulting distribution of operational holdings in the farmers' sample. Further analysis of the operational holding distribution is made in terms of landuse, with the landuse categories considered being homesteads, cultivated lands, vegetable gardens and orchards, fish-tanks and other fallow land.

The table shows that the distribution of the landholdings across the size-classes of sample farmers differ in several aspects. Of the sample farmers, 8 percent belong to the class of sub-marginal farmers, 20 percent to the class of marginal farmers, 24 percent to the class of very small farmers, 35 percent to the class of small farmers, 11 percent to the class of medium farmers and only 2 percent to the class of large farmers. In terms of the aggregative definition of all farmers with landholding between 0.05-2.49 acres as *small farmers* in other sources in the Bangladesh literature, this places 87 percent of the farmers in the Maligaon village sample in the *small farmer* category, which reflects the corresponding proportion of small farmers for Comilla Zila as a whole (90.74 percent) fairly closely. In area terms, this combined class of farmers collectively operates around 67 percent of total operational holdings in the Maligaon sample and accounts for 72 percent of all leased-in lands against 56 percent of all lands leased-out, amounting to net combined lease-in of 16.9 acres (1689 decimals), which constitutes over 83 percent of net lands leased-in by the sample farmers in Maligaon. The extent of the net lands leased-in that farmers in this combined class are enterprising and supplement their own meagre ownership holdings of land by leasing in lands from other farmers and non-cultivating owners in order to run more efficient agricultural operations. A high level of tenancy consequently prevails in Maligaon village.

However, the bulk of lands are operated by the class of farmers operating agricultural holdings between 1.50-2.49 acres, who are classified as small farmers in the table. This class of farmers constitutes 35 percent of the sample and holds around 36 percent of total ownership holdings, but operates around 40 percent of total lands held as operational holdings. Net land lease-in by this class is thus significant and amounts to about 63 percent of net lands leased-in by the Maligaon farmers. In comparison, the farmers in the sub-marginal are unable to lease-in lands and thus experience net land lease-out. Farmers in the larger size-classes show less proneness to leasing-in agricultural lands and the medium farmer class in fact experiences a net lease-out of about 160 decimals. By far, the bulk of leased-in lands are drawn from owners outside the sample, many of whom have sub-marginal holdings or are non-cultivating owners.

As a result of such lease-in behaviour, the average operational holding-sizes of farmers in the very small and small farmer classes are sizably larger than those of farmers in the marginal and sub-marginal classes, indicating that lease-in behaviour is fairly widespread among very small and small farmers. Farmers in the medium class tend to have the largest homestead lands, and also the largest lands committed to vegetable gardens. However the largest orchards and fish tank belong to the large farmers, who are in a numerical minority in Maligaon village. Besides the fact that farmers in the larger land-size categories have more lands to spare for these forms of landuse, this may also be due to their comparatively well-off economic conditions which allow them to invest on rural activities like fishery and orchardry which offer easier financial returns than common agricultural operations in Bangladesh. All available land in Maligaon is intensively used, as a result of which little land remains fallow, no matter which class of farmers is being considered.

The analysis in the table also demonstrates the high degree of inequality in the land distribution of the village of Maligaon. However the intra-class land distributions vary considerably in the degree of inequality, depending on the class of farmers being considered, as can be seen from variance analysis based on computed values of the F-statistic. These show that while the leasing-in behaviour of the small farmers is markedly stronger than that of the general sample of farmers, the tendency to lease-out lands is more present among sub-marginal and medium farmers. As a consequence of leasing-in and leasing-out of lands, several farmers with medium operational holdings have smaller or larger homesteads than other farmers in the medium class. While farmers in the small and medium class who are able to make the necessary investment of labour and resources are more likely to resort to vegetable gardening, few marginal farmers are able to do the same.

Only farmers in the medium and large categories are able to make significant commitments of land to orchards and fisheries. Very small and small farmers show more variable behaviour in the utilisation of fallows. Those who can invest necessary resources and labour are more prone to fully utilise their lands.

### 8.2.1b *Livestock-holding Patterns*

Livestock are an important asset of farm families under peasant-farming systems such as those that exist in Bangladesh. Besides providing home-produced commodities like milk, butter, eggs, meat, etc., to rural households, the livestock-holdings of the farm family are also sources of tractive-power in agricultural operations such as land-preparation, ploughing and weeding, and in transporting commodities to and from the village. Livestock are also an important source of organic manure, as well as domestic fuel. Since the surplus tractive-power of livestock can be hired out to families having no livestock holdings of their own, and the surpluses of livestock-products find ready sale, livestock assets also supplement the incomes of farm families. After cultivating their own land they can plough the others land on hired basis. Thus the acquisition of livestock assets by the rural household represents an investment of past savings, and like landholdings, livestock holdings can be treated as a form of peasant capital. Although farm livestock holdings can exist in multiple forms, such as holdings of milch cattle and draught cattle (bovine livestock), goats and sheep (ovine livestock) and poultry, etc., most farm families hold livestock in some form or the other, depending on their necessities and their capacity to invest. While the more prosperous families with large landholdings tend to invest more in cattle, poor families may find it difficult to purchase and maintain cattle assets, because of shortages of capital as well as land, which makes it difficult for them to feed the animals. Thus the distribution of livestock assets and the forms in which livestock assets are held provide partial indication of the wealth distribution in the village.

Table 8.2: Livestock-holding Patterns of Farmers in Maligaon Village, Bangladesh  
Classification by Operational Holding-classes

Farmer Category	Total Cattle	Milch Cattle	Draught Cattle	Goats & Sheep	Ducks	Chickens
<b>SUB-MARGINAL (0.05-0.49ac)</b>						
n=8 Total	6	1	5	1	18	54
Mean	0.67	0.11	0.56	0.11	2.22	6.56
SD	1.30	0.33	0.99	0.33	1.48	3.31
F-value	0.813	0.421	0.910	0.531	0.504	0.879
<b>MARGINAL (0.50-0.99ac)</b>						
n=20 Total	9	5	4	3	44	64
Mean	0.45	0.25	0.20	0.15	2.20	3.20
SD	0.74	0.43	0.51	0.36	2.79	3.03
F-value	0.463	0.551	0.468	0.574	0.949	0.804
<b>VERY SMALL (1.00-1.49ac)</b>						
n=24 Total	22	12	10	5	70	131
Mean	0.92	0.50	0.42	0.21	2.92	5.46
SD	0.95	0.65	0.64	0.82	2.89	3.55
F-value	0.597	0.821	0.587	1.310	0.983	0.943
<b>SMALL (1.50-2.49ac)</b>						
n=35 Total	75	28	47	8	118	180
Mean	2.14	0.80	1.34	0.23	3.37	5.14
SD	1.40	0.79	1.12	0.72	2.90	3.12
F-value	0.874	1.000	1.028	1.157	0.987	0.829
<b>MEDIUM (2.50-7.49ac)</b>						
n=11 Total	43	18	25	1	35	74
Mean	3.91	1.64	2.27	0.09	3.18	6.73
SD	1.16	0.64	0.62	0.29	3.56	2.73
F-value	0.729	0.818	0.566	0.462	1.213	0.727
<b>LARGE (7.50ac &amp; above)</b>						
n=2 Total	8	4	4	0	8	34
Mean	4.00	2.00	2.00	0.00	4.00	17.00
SD	1.00	0.00	1.00	0.00	4.00	3.00
F-value	0.626	0.000	0.918	0.000	1.362	0.797
<b>TOTAL SAMPLE</b>						
n=100 Total	163	68	95	18	293	537
Mean	1.63	0.68	0.95	0.18	2.93	5.37
SD	1.60	0.79	1.09	0.62	2.94	3.76

Source: Farmers' Credit Survey

As shown by the table, cattle-holding among the Maligaon farmers is concentrated among the small, medium and large farmers, who hold from 2 to 4 animals on the average. More draught animals are held than milch animals. In contrast, the sub-marginal, marginal and very small classes of farmers have less than one animal per farm-family on the average and generally hold more milch animals than draught animals, except for the sub-marginal class. Farmers with larger landholdings need more cattle for ploughing their own lands and other associated agricultural work, and can also hire out the surplus draught-capacity of their animals to other farmers in return for hire-charges. They also have the investing and fodder capacity to purchase and maintain cattle. Farmers from weaker economic sections cannot maintain their own cattle and are more dependent on cattle-hire for draught operations, but keep some milch animals for personal needs and sale of dairy products. They are thus more inclined to keep minor livestock like goats, ducks and chickens, which are easier to maintain. Analysis of the computed F-values indicates that small farmers in Maligaon are most inclined to maintain livestock in multiple forms, while other farmers tend to concentrate on one form of livestock holding or the other. Sub-marginal farmers who tend to hold more draught animals than marginal farmers are more likely to maintain these in order to earn extra income from cattle-hire, since their own operational holdings are small.

### 8.2.1c Irrigation and Equipment-holding

Although the use of modern agricultural equipment such as power tillers, sprayers, pumpsets and so on can contribute significantly to increased agricultural production, the capital cost of such equipment is usually high. On the other hand, the extent of credit support extended by the banks for equipment purchase in the Daudkandi region has been seen to be meagre. Farmers in Maligaon thus have to depend on outside sources of finance and consequently possess limited agricultural and other equipment, as can be seen below.

Table 8.3: Irrigation and Equipment Assets of Farmers in Maligaon Village, Bangladesh  
Classification by Operational Holding-classes [brackets %]

Farmer Category	Cultivated Land (decimals)	Irrigated Land (decimals)	IRRIGATION METHOD				EQUIPMENT	OTHER ASSETS		
			Shallow Tubewell	Deep Tubewell	Hand Tubewell	Manual Methods	Sprayer	Rickshaw Van	Boat	
<b>SUB-MARGINAL (0.05-0.49ac)</b>										
n=8	Total	230	191	-	7	-	1	-	-	-
	Mean	28.67	26.38	(0.00)	(87.5)	(0.00)	(12.5)	(0.00)	(0.00)	(0.00)
	SD	4.55	5.62							
	F-value	0.044	0.143							
<b>MARGINAL (0.50-0.99ac)</b>										
n=20	Total	953	745	-	19	-	-	-	1	1
	Mean	47.65	39.21	(0.00)	(95.0)	(0.00)	(0.00)	(0.00)	(5.0)	(5.0)
	SD	22.88	10.19							
	F-value	0.223	0.259							
<b>VERY SMALL (1.00-1.49ac)</b>										
n=24	Total	1966	1078	-	23	-	1	2	1	4
	Mean	81.92	46.87	(0.00)	(95.8)	(0.00)	(4.2)	(8.3)	(4.2)	(16.7)
	SD	30.73	15.54							
	F-value	0.299	0.395							
<b>SMALL (1.50-2.49ac)</b>										
n=35	Total	4609	2570	-	35	-	-	4	-	11
	Mean	131.69	73.43	(0.00)	(100.0)	(0.00)	(0.00)	(11.4)	(0.00)	(31.4)
	SD	53.95	31.77							
	F-value	0.525	0.808							
<b>MEDIUM (2.50-7.49ac)</b>										
n=11	Total	3295	1305	-	11	-	-	6	-	7
	Mean	299.55	118.64	(0.00)	(100.0)	(0.00)	(0.00)	(54.5)	(0.00)	(63.6)
	SD	63.51	45.93							
	F-value	0.618	1.168							
<b>LARGE (7.50ac &amp; above)</b>										
n=2	Total	1020	300	-	2	-	-	2	-	1
	Mean	510.00	150.00	(0.00)	(100.0)	(0.00)	(0.00)	(100.0)	(0.00)	(50.0)
	SD	60.00	50.00							
	F-value	0.584	1.272							
<b>TOTAL SAMPLE</b>										
n=100	Total	12073	6189	-	97	-	2	14	2	24
	Mean	120.73	63.80	(0.00)	(97.0)	(0.00)	(2.0)	(14.0)	(2.0)	(24.0)
	SD	102.78	39.31							

Source: Farmers' Credit Survey

As seen from the table, farmers belonging to sub-marginal, marginal and very small classes have only limited cultivated land. Sizeable increments are visible thereafter in the average size of cultivated ownership holdings among small, medium and large farmers, leading to high size-variability for the entire sample as indicated by the corresponding standard deviation figure. On the other hand, the distribution of irrigated operational holdings shows less dispersion, indicating that the distribution of irrigation facilities among the Maligaon farmers is more equal. The reason seems to lie in the nature of irrigation in the village, which is still provided mainly by private deep tubewells [DTWs] which operate on a cluster principle. In the absence of credit support to finance individual irrigation facilities such pumpsets and shallow tubewells [STWs], farmers belonging to the medium and large classes still have large tracts of cultivated lands which are not covered by irrigation. In contrast, farmers in the smaller landholding classes receive better proportionate irrigation coverage. In the case of two of the smaller farmers, however, recourse is still being made to manual irrigation methods, because their lands lie beyond the reach of the cluster scheme. Computed F-values show that higher variability in the extent of irrigation coverage exists among the medium and large farmers, than for sample-farmers as a whole.

No farmers in the sample currently use mechanised means of cultivation, with the exception of one farmer who possesses a power tiller. Farmers in the sub-marginal and marginal categories do not possess sprayers or pumpsets. The use of private pumpsets is noticed among farmers cultivating from very small to large operational holdings. However all categories of farmers have access to deep tubewell [DTW] facilities for irrigation, because of the presence of two privately-owned cluster DTWs in Maligaon village. Because of this, traditional methods of irrigation are now hardly used by the Maligaon farmers. Farmers in the sub-marginal and marginal categories possess few other equipment assets such as rickshaw vans and boats, even though boat ownership is relatively high among very small, small and medium farmers. Because of the overall paucity of land, such assets often provide a supplemental source of income to their owners. In general, well-off farmers in Maligaon have better access to equipment and technology than the poorer farmers in the area, and can thus cultivate their lands more scientifically.

Table 8.4: Family Structures and Sizes among Farming Families in Maligaon Village, Bangladesh  
Classification by Operational Holding-classes

Farmer Class	Unitary Families	Joint Families	Total Males	Total Females	Avg. Family Size
<b>SUB-MARGINAL</b>	8	-	36	29	65
%	100.0	0.0	4.5	3.6	8.1
<b>MARGINAL</b>	17	3	66	67	133
%	85.0	15.0	3.3	3.4	6.7
<b>VERY SMALL</b>	20	4	92	94	186
%	83.3	16.7	3.8	3.9	7.8
<b>SMALL</b>	27	8	116	110	226
%	77.1	22.9	3.3	3.1	6.5
<b>MEDIUM</b>	8	3	44	48	92
%	72.7	27.3	4.0	4.4	8.4
<b>LARGE</b>	-	2	16	13	29
%	0.0	100.0	8.0	6.5	14.5
<b>ALL FARMERS</b>	80	20	370	361	731
%	80.0	20.0	3.7	3.6	7.3

Source: Farmers' Credit Survey

### 8.2.1d Socioeconomic Condition of Farm Families

The social and economic position of farm-families in the Maligaon sample also partially determines the nature of their participation in agricultural activity. As indicated by their respective average ages of 42.7 years and 44.3 years, farmers in the marginal and very small classes are the youngest in the sample. Farmers in the small and medium classes are older and have average ages of 51.6 years and 55.9 years. Compared to marginal farmers, sub-marginal farmers have a higher average age of 49.8 years, bringing them close in age terms to the small farmer group. The oldest farmers in the sample comprise large farmer (only 2) who have an average age of 75 years. Since the position of farmers in the smaller landholding classes is partially a result of inheritance and land fragmentation, the younger ages of marginal and very small farmers indicate that many farmers among them belong to families which have recently undergone land-division. This does

not however seem to be the case among sub-marginal farmers. Further evidence of these characteristics is also provided in the table above.

The joint or unitary status of the farm-family has some bearing on the overall participation of family members in agricultural activities, since each family member has some role in the process of subsistence production. As implied in the age-distribution, more undivided families are found among farm families in the higher landholding classes indicating that many of them have not yet undergone fragmentation and land division. Additional evidence of this is also carried in their higher average family-size. However, in spite of relatively lower average-age and the lower incidence of joint families among them, farmers in the sub-marginal class have larger family-sizes than most of the landholding classes above them, implying that dependency is higher among them. In contrast, the largest farm-families with an average size of 14 members have a joint-family structure and also have large landholdings that enable them to support their dependants more effectively. In most farmer-classes, the number of males and females in the family tends to be similar. Only among the smallest and largest landholding classes is an exception noticed.

Table 8.5: Earning and Dependency Structure among Farming Families in Maligaon Village, Bangladesh  
Classification by Operational Holding-classes

Farmer Class	Sole-earner Families	Joint-earner Families	Adult Male Earners	Adult Female Earners	Adult Earners	Earning Minors	Minor Dependents	Elderly Dependents	Dependency Ratio
<b>SUB-MARGINAL</b>	4	4	15	12	27	-	22	16	<b>1.41</b>
% / Avg	50.0	50.0	1.9	1.5	3.4	0.0	2.8	2.0	
<b>MARGINAL</b>	13	7	33	28	61	1	68	3	<b>1.16</b>
% / Avg	65.0	35.0	1.7	1.4	3.1	0.1	3.4	0.2	
<b>VERY SMALL</b>	11	13	46	39	85	1	88	12	<b>1.18</b>
% / Avg	45.8	54.2	1.9	1.6	3.5	0.0	3.7	0.5	
<b>SMALL</b>	14	21	76	62	138	3	66	19	<b>0.62</b>
% / Avg	40.0	60.0	2.2	1.8	3.9	0.1	1.9	0.5	
<b>MEDIUM</b>	3	8	24	22	46	1	39	6	<b>0.98</b>
% / Avg	27.3	72.7	2.2	2.0	4.2	0.1	3.5	0.5	
<b>LARGE</b>		2	10	8	18		10	1	<b>0.61</b>
% / Avg	0.0	1.0	5.0	4.0	9.0	0.0	5.0	0.5	
<b>ALL FARMERS</b>	45	55	204	171	375	6	293	57	<b>0.93</b>
% / Avg	45.0	55.0	2.0	1.7	3.8	0.1	2.9	0.6	

Source: *Farmers' Credit Survey*

Note: Adult earners includes earning adolescents.

The earlier table has shown that the fragmentation of farm-families in Maligaon village is relatively high, leading to a very high proportion of unitary families. In spite of this, most farm-families depend on the earning contributions from more than one family member. Because of high levels of land scarcity in the region, families with smaller landholdings supply labour services during seasons of high agricultural labour demand. Since the agricultural economy of Bangladesh depends predominantly on the cultivation of rice, exclusive labour demands also exist for female workers, allowing both male and female adolescents to make occasional contributions to family earnings. As seen in the above table, at least 3 family members contribute their earnings per family, irrespective of its joint or unitary family structure across all farming classes. The mean number of male and female earners also remains relatively steady among sub-marginal, marginal and very small farm-families, but the participation of female earners declines in the larger landholding classes. This is partially compensated by the higher incidence of joint families and the greater number of male earners found among these classes. Participation by earning minors is low across all farmer groups. As indicated by the dependency ratios in the table, the earning members of farm-families in the sub-marginal, marginal and very small classes have to support a larger number of dependents than the higher landholding classes. The latter have more than one earner per dependent. However, only sub-marginal farm-families have to support a large proportion of elderly dependents, while families in the other classes have few elderly dependents.

Education is usually considered to be an important determinant of the progressive nature of farmers, influencing both their occupational choices and economic activities. Education may thus also affect rural credit patterns and the ability of farmers to make intelligent use of credit. The educational and occupational backgrounds of respondent farmers in Maligaon are analysed in the table below.

Table 8.6: Educational Levels and Occupational Activities among Farmers in Maligaon Village, Bangladesh  
Classification by Operational Holding-classes

Farmer Class	EDUCATIONAL ATTAINMENTS					OCCUPATIONAL DISTRIBUTION						Total Families with second Occupations
	Total Families	Illiterate	Functionally Literate	Primary School	above Primary School	Main Activity Cultivation	Secondary Activity					
							Agri Labour	Artisan -ship	Small Trade	Service	Other	
<b>SUB-MARGINAL</b>	8	3	1	-	4	8	2	1	2	1	1	7
%		37.5	12.5	0.0	50.0	100.0	25.0	12.5	25.0	12.5	12.5	87.5
<b>MARGINAL</b>	20	8	6	2	4	20	5	1	2	3	1	12
%		40.0	30.0	10.0	20.0	100.0	25.0	5.0	10.0	15.0	5.0	60.0
<b>VERY SMALL</b>	24	10	6	1	7	24	2	-	1	3	2	8
%		41.7	25.0	4.2	29.2	100.0	8.3	0.0	4.2	12.5	8.3	33.3
<b>SMALL</b>	35	4	15	3	13	35	-	-	4	5	1	10
%		11.4	42.9	8.6	37.1	100.0	0.0	0.0	11.4	14.3	2.9	28.6
<b>MEDIUM</b>	11	2	3	-	6	11	-	-	5	2	-	7
%		18.2	27.3	-	54.5	100.0	0.0	0.0	45.5	18.2	0.0	63.6
<b>LARGE</b>	2	1	-	1	-	2	-	-	-	-	-	-
%		50.0	0.0	50.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>ALL FARMERS</b>	100	28	31	7	34	100	9	2	14	14	5	44
%		28.0	31.0	7.0	34.0	100.0	9.0	2.0	14.0	14.0	5.0	44.0

Source: *Farmers' Credit Survey*

The table shows that 59 percent of the sample farmers in Maligaon have not received any formal education, although 31 farmers are now functionally literate. Only 41 farmers are formally literate, with education levels ranging from primary school to the degree level. The distribution in the table also shows that the concentration of illiterate farmers is higher in the sub-marginal, marginal and very small classes. Though 50 percent of the farmers belonging to the large class is found to be illiterate, this may not be considered significant because this class contains only 2 farmers. The literacy rate is relatively higher among the small farmer class. Another noteworthy feature is that more farmers belonging to the sub-marginal and medium classes have educational attainments above primary school. It may be noted also that farmers in the sub-marginal, marginal and very small classes are more illiterate because of their poor economic condition. The relatively higher educational attainments of sample farmers in the sub-marginal class would imply that they are more dependent on their education for their occupational needs. In strong contrast, higher educational levels among the medium class of farmers is more likely to be due to their well-off economic status, rather than being the basis of their economic activity.

Because of the nature of the sampling process and its focus on the farm population of Maligaon, all sample farmers had cultivation as their primary occupation. Although in 66 percent of the farm families, the survey respondents had no other occupation, 44 survey respondents reported having secondary occupations. The proportion of farmers with second occupations decreased steadily between the sub-marginal to small farmer class, but again rose among medium farmers. This would imply that while farmers in the lower size-groups engaged themselves in second occupations out of economic necessity, farmers in the larger size-groups engaged in second occupations to supplement their incomes. Thus while small trade and service were the principal activities undertaken as second occupations in Maligaon, the involvement of farmers in the small size-groups in small trade increased in inverse proportion to their operational holding of land. In contrast, farmers in the medium class who showed the highest involvement in small trade were so involved because of the potential gain in income. In the case of service occupations, no notable class concentration was observed. Agricultural labour was more prominent as a second occupation among farmers in the smaller landholding class, and represented the work performed against wages on lands belonging to other farmers. On the whole, while the poorest farm families were more involved in secondary occupations, the larger farm families were more dependent on agricultural activity as their principal mainstay.

All farm families in Maligaon sample lived in self-owned *kaccha* (mud-built) houses, except for the largest farmers who had *pucca* or semi-*pucca* homes. Average ages of the dwellings varied according to farmer-class, with the houses of small, medium and large farmers being the oldest with average ages ranging from 16-17 years. Most of the joint-families in the sample were found among these classes. On the other hand, farm-families in the smaller landholding classes resided in dwelling with an average age of 12 years, indicating in many cases that they were new households that had resulted from the nucleation of older joint-

families. Sharp distinctions were observed in the construction costs of the houses of poor and rich farmers. While the houses of sub-marginal, marginal and very small farmers had an average construction value ranging from Tk.24000-28000, indicating that their living conditions were similar, the average construction values of the houses of small, medium and large farmers doubled with every step occupying a range between Tk.45000-175000. For farmers with kaccha dwellings, maintenance costs remained similar, irrespective of dwelling size, since mostly local materials were used. The houses of large farmers required more maintenance expenditure. Since electricity had entered Maligaon only recently, only 23 percent of the families had access to domestic electricity. 12 families, mostly from small landholding classes, were still dependent on local ponds for drinking water. The rest drew drinking water from tubewells.

Table 8.7: Sources of Rural Energy among Farming Families in Maligaon Village, Bangladesh  
Classification by Operational Holding-classes

	ENERGY SOURCE			
	Cowdung	Agro Waste	Firewood	Kerosene
<b>SUB-MARGINAL (0.05-0.49ac)</b>				
Total	102	353	93	7
Mean	12.75	44.13	11.63	0.88
SD	17.12	29.86	10.48	0.33
F-value	1.281	1.490	0.515	0.443
<b>MARGINAL (0.50-0.99ac)</b>				
Total	186	592	410	22
Mean	9.30	29.60	20.50	1.10
SD	12.02	11.01	35.83	0.54
F-value	0.899	0.549	1.763	0.721
<b>VERY SMALL (1.00-1.49ac)</b>				
Total	274	917	299	26
Mean	11.42	38.21	12.46	1.08
SD	10.87	19.81	8.72	0.64
F-value	0.814	0.988	0.429	0.857
<b>SMALL (1.50-2.49ac)</b>				
Total	500	1359	604	54
Mean	14.29	38.83	17.26	1.54
SD	14.20	13.36	13.59	0.60
F-value	1.063	0.667	0.669	0.806
<b>MEDIUM (2.50-7.49ac)</b>				
Total	193	425	190	18
Mean	17.55	38.64	17.27	1.64
SD	10.58	12.81	18.21	1.23
F-value	0.792	0.639	0.896	1.642
<b>LARGE (7.50ac &amp; above)</b>				
Total	65	210	75	5
Mean	32.50	105.00	37.50	2.50
SD	7.50	35.00	22.50	0.50
F-value	0.561	1.746	1.107	0.670
<b>ALL FAMILIES</b>				
Total	1320	3856	1671	132
Mean	13.2	38.56	16.71	1.32
SD	13.36	20.04	20.33	0.75

Source: Farmers' Credit Survey

Agro-wastes and firewood are the two most common sources of rural energy in Maligaon. In keeping with the distribution of livestock assets among farm families, the use of cowdung as an energy source tends to be limited, except among farmers with larger land and livestock holdings. Kerosene use is negligible and is confined mainly to lighting. It is evident from the table that the average quantities of energy used in different forms remain roughly similar between all farm households, except joint households and large farmers. However, the patterns of energy dependence vary in accordance with the relative access of the farm family to the energy source. Since both cowdung and agro-wastes are available in greater quantities to farmers in the larger landholding classes, their dependence on these sources is greater. Higher variability in the use of cowdung is seen among sub-marginal and small farmers, and the poorer families with less direct access to cowdung depend to a greater extent on agro-wastes and firewood collected from different sources. Some of these families also collect and sell firewood to other households as a source of income. Except among large farmers, the use of cowdung as an energy source is low, showing that farmers having a limited number of cattle-holdings attach more importance to the use of cowdung as organic manure. Hence their relative dependence on agro-wastes and firewood is greater. However, considerable variability in firewood-use is seen among marginal farmers, which appears to depend on their ability to commit family labour to the

collection of firewood. Since more unitary families are found among the marginal and very small landholding households, their dependence on firewood sources ranges from low to high.

### 8.3 Income and Credit Availability among the Maligaon Farmers

Besides the monetary returns directly obtained from farming activity by each farmer-class, the rural income distribution among farm-families in the study area was determined by their supplementary earnings obtained from livestock and other related subsidiary activities; alternative wage-employment opportunities available to members of the family, members in agricultural and nonagricultural activities; earnings of salaried members, if any; direct earnings from nonagricultural activities, e.g. artisanship and trading profits, etc.; as well as remittances received from family members employed elsewhere. While the extent of landholding by the family is the primary determinant of the income position of the family, families with multiple sources of income may occupy a better economic position in certain cases.

Table 8.8: Income-sources & Income Distribution of Farmers in Maligaon Village, Bangladesh  
Classification by Operational Holding-classes

Farmer Class		Income from Cultivation	Income from Agri Labour	Income from Artisanship	Income from Trade	Other Income	Total Family Income
<i>[in Taka]</i>							
<b>SUB-MARGINAL (0.05-0.49ac)</b>							
n=8	Sum	24260.00	16000.00	48000.00	42000.00	102000.00	232260.00
	Avg	3032.50	8000.00	24000.00	21000.00	25500.00	29032.50
	STD	810.49	0.00	0.00	9000.00	17168.28	13473.38
	F-value	0.061	0.000	0.000	0.909	0.832	0.496
<b>MARGINAL (0.50-0.99ac)</b>							
n=20	Sum	158150.00	62000.00	0.00	24000.00	255000.00	499150.00
	Avg	7907.50	7750.00	-	12000.00	21250.00	24957.50
	STD	3782.30	3699.66	-	12000.00	13899.19	15963.95
	F-value	0.284	0.797	-	1.212	0.674	0.587
<b>VERY SMALL (1.00-1.49ac)</b>							
n=24	Sum	315850.00	53000.00	0.00	96000.00	326000.00	790850.00
	Avg	13160.42	8833.33	-	24000.00	27166.67	32952.08
	STD	5129.37	7357.91	-	14696.94	29373.55	26225.55
	F-value	0.385	1.586	-	1.484	1.424	0.965
<b>SMALL (1.50-2.49ac)</b>							
n=35	Sum	793110.00	52500.00	0.00	200000.00	464000.00	1509610.00
	Avg	22660.29	8750.00	-	20000.00	30933.33	43131.71
	STD	7872.95	2376.10	-	8613.94	17295.34	21047.16
	F-value	0.590	0.512	-	0.870	0.838	0.774
<b>MEDIUM (2.50-7.49ac)</b>							
n=11	Sum	401750.00	0.00	18000.00	91000.00	225000.00	735750.00
	Avg	36522.73	-	18000.00	18200.00	25000.00	66886.36
	STD	9105.53	-	0.00	4214.26	8993.83	20490.53
	F-value	0.683	-	0.000	0.426	0.436	0.754
<b>LARGE (7.50ac &amp; above)</b>							
n=2	Sum	129200.00	0.00	0.00	20000.00	108000.00	257200.00
	Avg	64600.00	-	-	20000.00	54000.00	128600.00
	STD	16150.00	-	-	0.00	30000.00	3850.00
	F-value	0.826	-	-	-	0.688	7.060
<b>ALL FARMERS</b>							
n=100	Sum	1822320.00	183500.00	66000.00	473000.00	1480000.00	4024820.00
	Avg	18223.20	8340.91	13200.00	19708.33	27407.41	40248.20
	STD	13337.80	4640.21	10998.18	9901.51	20633.05	27180.34

Source: Farmers' Credit Survey

#### 8.3.1 Income Distribution among Farmers

In order to the income situation of the study village, information was gathered during the survey on the extent of land under cultivation, the prevailing labour situation, the income directly derived from cultivation, and income from other sources. These sources included subsidiary or off-season occupational incomes earned from rendering agricultural labour services, artisanship, trade and so on. Because of the critical land situation in Bangladesh, it is usual for most farm families to have one or two members who have left the village for employment in Bangladesh or in areas like West Asia which receive a large contingent of expatriate

labour from outside. All remittances received by the Maligaon families from such educated members of the family working elsewhere within or without the country were included under other income sources. The annual income of the Maligaon farmers was then computed as the total of gross agricultural income and income received from other sources. The pricing factor used while converting home-production and other crop outputs into monetary units was the average of prices quoted by individual farmer-respondents.

**Table 8.9: Income-sources & Income Distribution of Farmers in Maligaon Village, Bangladesh**  
Classification by Operational Holding-classes

Farmer Class		Income from Cultivation	Income from Agri Labour	Income from Artisanship	Income from Trade	Other Income	Total Family Income
<i>[in Taka]</i>							
<b>SUB-MARGINAL (0.05-0.49ac)</b>							
n=8	Sum	24260.00	16000.00	48000.00	42000.00	102000.00	232260.00
	Avg	3032.50	8000.00	24000.00	21000.00	25500.00	29032.50
	STD	810.49	0.00	0.00	9000.00	17168.28	13473.38
	F-value	0.061	0.000	0.000	0.909	0.832	0.496
<b>MARGINAL (0.50-0.99ac)</b>							
n=20	Sum	158150.00	62000.00	0.00	24000.00	255000.00	499150.00
	Avg	7907.50	7750.00	-	12000.00	21250.00	24957.50
	STD	3782.30	3699.66	-	12000.00	13899.19	15963.95
	F-value	0.284	0.797	-	1.212	0.674	0.587
<b>VERY SMALL (1.00-1.49ac)</b>							
n=24	Sum	315850.00	53000.00	0.00	96000.00	326000.00	790850.00
	Avg	13160.42	8833.33	-	24000.00	27166.67	32952.08
	STD	5129.37	7357.91	-	14696.94	29373.55	26225.55
	F-value	0.385	1.586	-	1.484	1.424	0.965
<b>SMALL (1.50-2.49ac)</b>							
n=35	Sum	793110.00	52500.00	0.00	200000.00	464000.00	1509610.00
	Avg	22660.29	8750.00	-	20000.00	30933.33	43131.71
	STD	7872.95	2376.10	-	8613.94	17295.34	21047.16
	F-value	0.590	0.512	-	0.870	0.838	0.774
<b>MEDIUM (2.50-7.49ac)</b>							
n=11	Sum	401750.00	0.00	18000.00	91000.00	225000.00	735750.00
	Avg	36522.73	-	18000.00	18200.00	25000.00	66886.36
	STD	9105.53	-	0.00	4214.26	8993.83	20490.53
	F-value	0.683	-	0.000	0.426	0.436	0.754
<b>LARGE (7.50ac &amp; above)</b>							
n=2	Sum	129200.00	0.00	0.00	20000.00	108000.00	257200.00
	Avg	64600.00	-	-	20000.00	54000.00	128600.00
	STD	16150.00	-	-	0.00	30000.00	3850.00
	F-value	0.826	-	-	-	0.688	7.060
<b>ALL FARMERS</b>							
n=100	Sum	4024820.00	1822320.00	183500.00	66000.00	473000.00	1480000.00
	Avg	40248.20	18223.20	8340.91	13200.00	19708.33	27407.41
	STD	27180.34	13337.80	4640.21	10998.18	9901.51	20633.05

Source: Farmers' Credit Survey

Average family income across size-groups was observed to be lowest among the marginal rather than the sub-marginal class of farmers and maximum for large farmers, indicating a difference of 5 times between the lowest and highest average incomes. This appears to be so because the marginal farmers do not earn any income from artisanship, and their average income from trade is lower than sub-marginal class. In terms of aggregate family income, only the class of very small farmers show closeness in the average family income earned within the group, while the variation of income in the other farmer groups tends to be high.

Income from cultivation is common to all respondent classes in the study village since all of them are active farmers. Most farmers belonging to the sub-marginal, marginal and small farmer class depend on additional earnings from agricultural labour. A few farmers have some earnings from artisanship. However, although crop income constitutes the major income source for all classes, wide variation exists in the range of average incomes for the different farmer categories in the sample. As expected, average income from cultivation is lowest for sub-marginal farmers and largest for large farmers. The scale of difference between lowest and highest earnings from cultivation widens considerably and the average earnings of the large farmers from cultivation sources is 21 times higher than that of sub-marginal farmers. For each of the farmer classes ranging from marginal to small farmers, average income from cultivation are nearly double

compared to the immediately higher class. Even though the differences in landholding are much greater among the medium and large class, their income differentials narrow down considerably.

Meaningful inferences regarding the relationship between holding size-classes and the benefits from cultivation can be drawn from the above observations. Although the differences in holding-size between them amount to 0.50 acres only, income from cultivation among sub-marginal, marginal and very small farmers more than doubles with each step. In marked contrast, despite a size-difference of 5 acres or more between their operational holdings, the incomes from cultivation drawn by medium and large farmers do not show a similar order of variation. Besides providing corroborating evidence of small-farmer efficiency in Bangladesh, this clearly indicates that the sub-marginal, marginal and very small farmer-classes offer more potential gains from the proper application of agricultural credit, and should thus form the focus of the formal credit institutions. Their potential in this respect should also be considered from the point of view of development of agricultural sector and welfare of poorer sections of the population in Bangladesh as a whole.

Table 8.10: Credit-Accessibility among Farmers in Maligaon Village: Sources of Finance  
Classification by Operational Holding-classes

Farmer Class	<u>Bank Loans Taken</u>		NGO Loans	Personal Loans	Mahajan Loans	Other Loans	Borrower Families	Non-Borrower Families
	BKB	Other Banks						
SUB-MARGINAL	—	nil	1	3	-	-	4	4
MARGINAL	—	nil	3	12	2	2	16	4
VERY SMALL	2	nil	1	13	5	2	19	5
SMALL	4	nil	3	17	7	1	25	10
MEDIUM	7	nil	—	6	-	-	10	1
LARGE	1	nil	—	1	-	-	1	1
ALL FARMERS	14	nil	8	52	14	5	75	

Source: Farmers' Credit Survey

### 8.3.2 Sources of Credit and Credit Accessibility

Increased access to agricultural credit is an important means of ensuring rural development. Agricultural credit to villages in Bangladesh is provided through multiple credit agencies, which include *formal-sector* banks [NCBs, BKB, BSBL, etc.], *semi-formal* agencies [GB and NGOs] and *informal* sources [including friends and relatives, etc., as well as traders and professional moneylenders]. The effectiveness of their participation in RFMs can be assessed in terms of the loan purpose and coverage they presently provide to the farmers, and the actual amount of agricultural credit disbursed and recovered. An idea of the extent to which local financial resources are being circulated within the local banking and non-banking systems can be gathered from information collected during the Maligaon farmers survey.

Information on the current patterns of borrowing among the Maligaon farmers are provided in the above table. As seen in the table, most farmers who resort to borrowing have to borrow from multiple credit sources, indicating that the present levels of access to bank credit in the village are inadequate. Greater dependence on informal instead of institutional sources is also seen among the households. Since formal credit institutions provide loans for specific purposes under specific conditionalities, the farmers have to draw upon other credit sources to meet non-specific credit needs. A fourth of the sample farmers do not borrow at all, either because they do not need to or because they are unable to obtain credit from any source. More non-borrowing families are found among the sub-marginal, marginal and very small farm-families, who have less cultivated land and more limited needs for production loans. However, nearly a third of the small farmers do not borrow, indicating that credit access within this class is unequal. Most other farmers have obtained credit from at least some source.

Despite being assigned the responsibility of catering to the agricultural credit needs of farmers, formal-sector banks still have a limited credit role in Maligaon village. Only 14 percent of the farmers in the village have received institutional credit through the BKB, which is the lead bank covering the Mohammadpur East Union where Maligaon village is located. None of these farmers belong to the sub-marginal and marginal farmer groups. Even among the very small and small farmer groups, only 8 percent and 11 percent respectively have been able to draw institutional credit from BKB loans. Much larger percentages of farmer in the

medium and large farmer groups have drawn upon BKB credit, as a consequence of which their dependence on other credit sources has also been minimal. Since the BKB loans are allotted specifically for agricultural purposes, these farmers have thus been able to draw credit assistance for their cropping operations at low interest rates. Farmers who have not been able to draw upon BKB credit have had to depend on other non-institutional credit for loan-support, and accordingly face more financial difficulties in expanding crop operations.

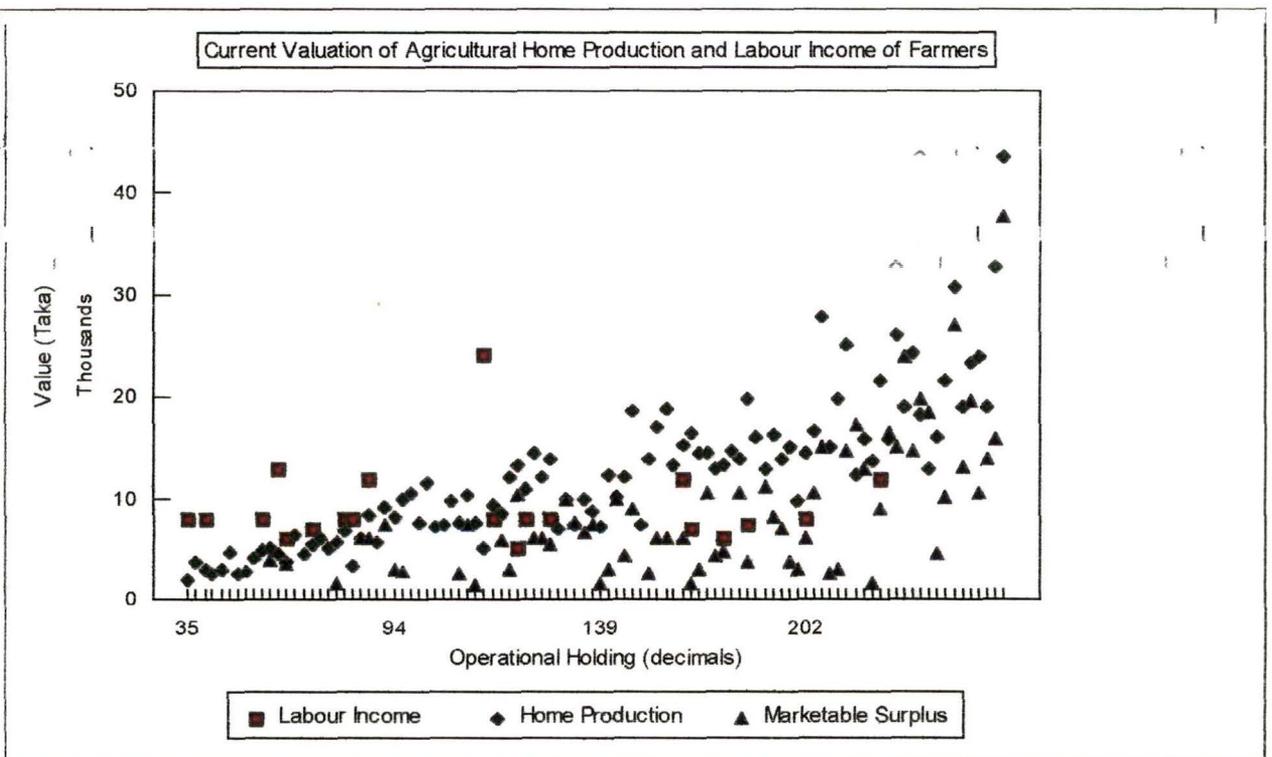
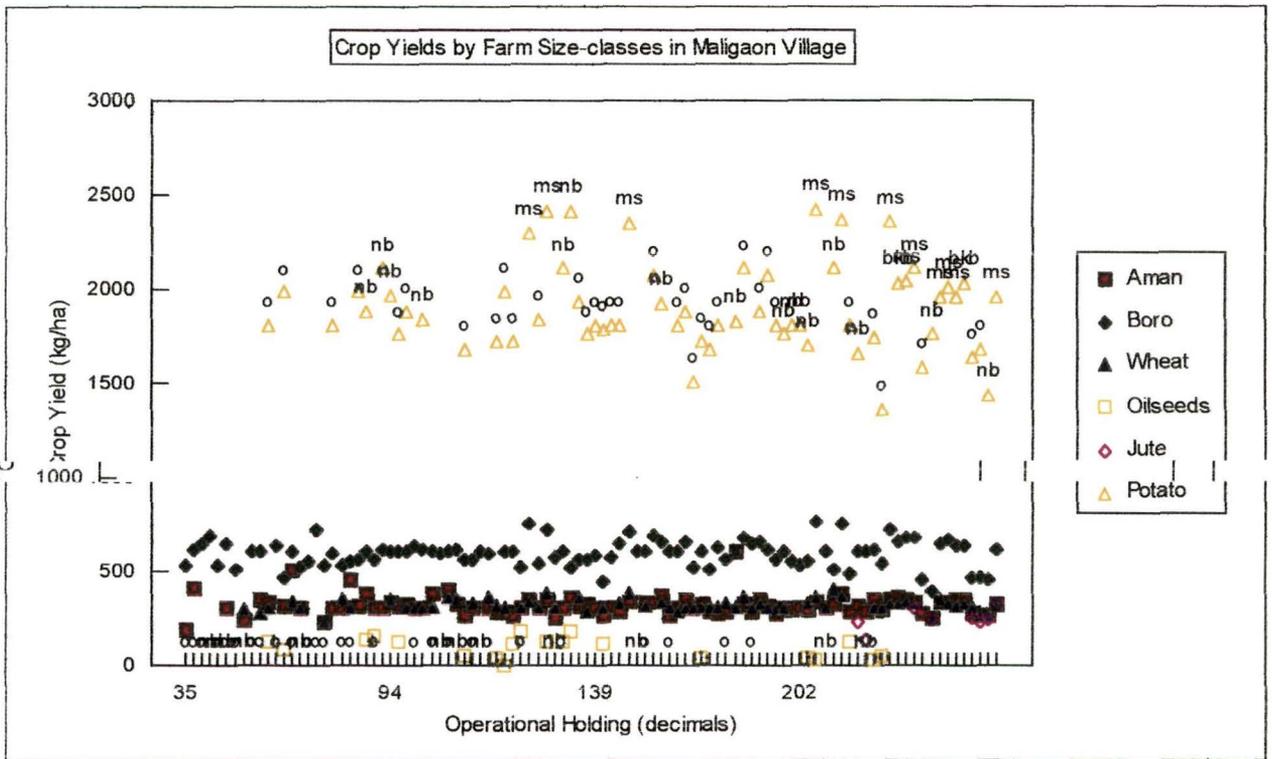
**Table 8.11: Credit-Accessibility among Farmers in Maligaon Village: Levels of Borrowing**  
Classification by Operational Holding-classes

Farmer Class	BKB Loan Amount	Other Bank Loan Amount	NGO Loan Amount	Personal Loan Amount	Mahajan Loan Amount	Other Loan Amount	Aggregate Loan Amount	
<b>SUB-MARGINAL (0.05-0.49ac)</b>								
n=8	Sum	0.00	0.00	5000.00	30500.00	0.00	0.00	35500.00
	Avg	-	-	5000.00	10166.67	-	-	4437.50
	STD	-	-	0.00	7306.77	-	-	6497.30
	F-value	-	-	0.000	0.993	-	-	0.538
<b>MARGINAL (0.50-0.99ac)</b>								
n=20	Sum	0.00	0.00	8000.00	84500.00	38000.00	65000.00	195500.00
	Avg	-	-	2666.67	7041.67	19000.00	32500.00	9775.00
	STD	-	-	471.40	8636.69	1000.00	17500.00	14106.94
	F-value	-	-	0.385	1.173	0.085	1.114	1.168
<b>VERY SMALL (1.00-1.49ac)</b>								
n=24	Sum	15000.00	0.00	3000.00	83000.00	76500.00	22000.00	199500.00
	Avg	7500.00	-	3000.00	6384.62	15300.00	11000.00	8312.50
	STD	2500.00	-	0.00	1933.05	8553.36	2000.00	7773.90
	F-value	0.506	-	0.000	0.263	0.730	0.127	0.644
<b>SMALL (1.50-2.49ac)</b>								
n=35	Sum	29500.00	0.00	12000.00	155000.00	128000.00	8000.00	332500.00
	Avg	7375.00	-	4000.00	9117.65	18285.71	8000.00	9500.00
	STD	2769.81	-	1414.21	3341.05	10911.52	0.00	9295.93
	F-value	0.561	-	1.155	0.454	0.932	0.000	0.770
<b>MEDIUM (2.50-7.49ac)</b>								
n=11	Sum	74000.00	0.00	0.00	120000.00	48000.00	0.00	242000.00
	Avg	10571.43	-	-	20000.00	24000.00	-	22000.00
	STD	2128.52	-	-	9574.27	21000.00	-	15326.74
	F-value	0.431	-	-	1.301	1.793	-	1.269
<b>LARGE (7.50ac &amp; above)</b>								
n=2	Sum	25000.00	0.00	0.00	20000.00	0.00	0.00	45000.00
	Avg	25000.00	-	-	20000.00	-	-	22500.00
	STD	0.00	-	-	0.00	-	-	22500.00
	F-value	-	-	-	-	-	-	0.537
<b>ALL FARMERS</b>								
n=100	Sum	143500.00	0.00	28000.00	493000.00	290500.00		95000.00
1050000.00	Avg	10250.00	-	3500.00	9480.77	18156.25		19000.00
10500.00	STD	4938.01	-	1224.74	7361.36	11709.66		15709.87
12077.41								

Source: *Farmers' Credit Survey*

While the sub-marginal farmers show the least amount of indebtedness with average loan-size of under Tk.4500 as well as high standard deviation within the sub-sample, average borrowing by marginal, very small and small farmers are around the same level ranging between Tk.8300-9800. However, the dispersion in loan-size is greater for marginal farmers and is much less for very small and small farmers. Many sub-marginal and marginal farm-families do not borrow. Sub-marginal families have to depend entirely from personal sources of credit and NGO loans, since they do not have access to other sectors of the RFM. Very small and small farmers are more prone to depend on small loans from multiple sources. While some of them have been able to draw upon BKB credit, their dependence on loans from mahajans (moneylenders) is high. Farmers in the upper land-categories draw much higher levels of credit averaging more than Tk.22000, but are able to focus their borrowing on two or three sources, since most of them derive credit support from BKB. In overall terms, the highest average borrowings by the Maligaon farmers are drawn from mahajans and other non-personalised credit-sources against the pledging of their fixed assets. These are followed in scale by borrowings from BKB and personal sources. NGO credit only provides minor loan support and is limited to farmers in the lower land-categories.

Figures 1 & 2: Agricultural Credit Impact on Productivity of Farms in Maligaon Village  
Graphical Analysis



It is seen therefore that the present participation of formal credit institutions in the RFM at Maligaon village is limited, although the demand for rural credit in the village is quite high. Since the amount of formal banking resources committed to the RFM is not at adequate levels, most farm-families have to depend on sources of credit other than the banks. Rural credit in Maligaon is dominated by medium and large farmers. On the other hand, the access of sub-marginal and marginal farmers to formal credit is nil, and is still insignificant among the very small and small farmers. On the basis of this credit study, it would appear that formal-sector banks in Bangladesh have deliberately followed a selective credit approach, thereby excluding farmers in the lower landholding classes from obtaining access to finance from these banks. Since farmers in these categories are by far the largest farming segment in Bangladesh, denial of cheap credit to them raises their cost of borrowing and limits the degree of agricultural progress they can make.

#### 8.4 Agricultural Performance of Maligaon Farmers

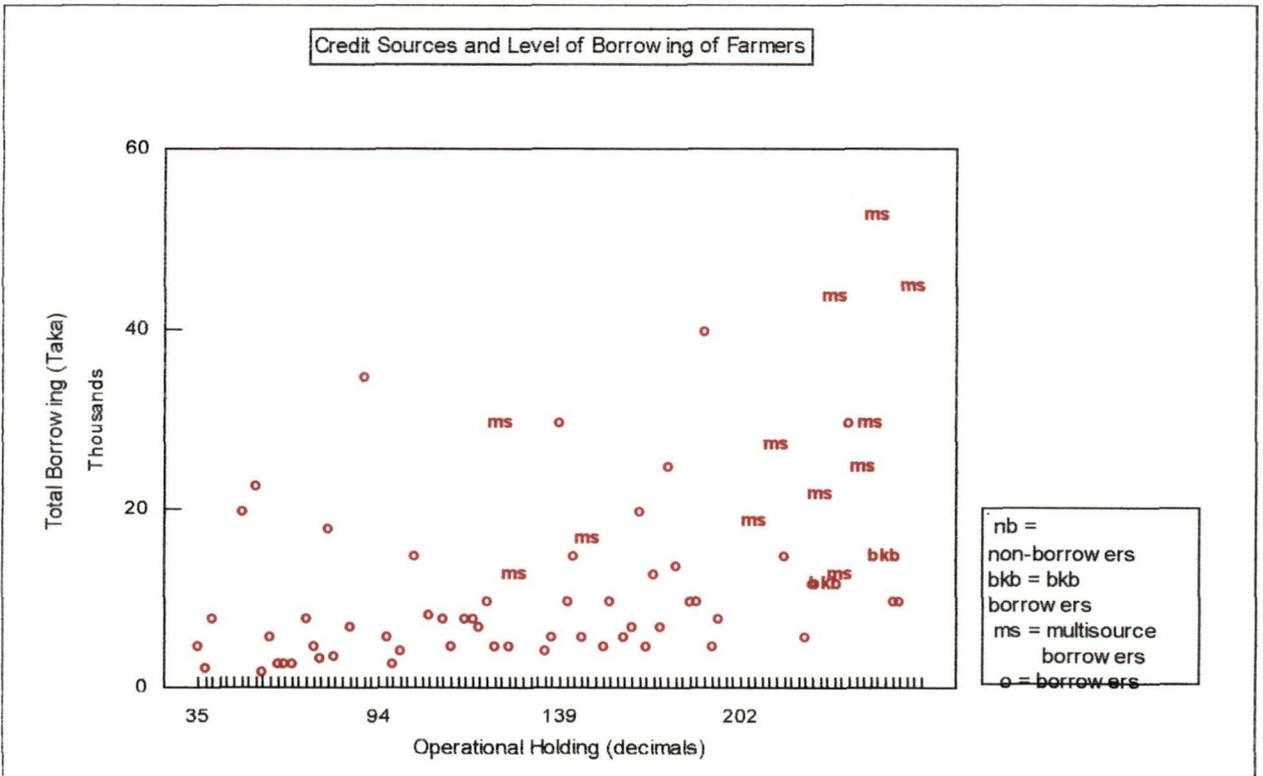
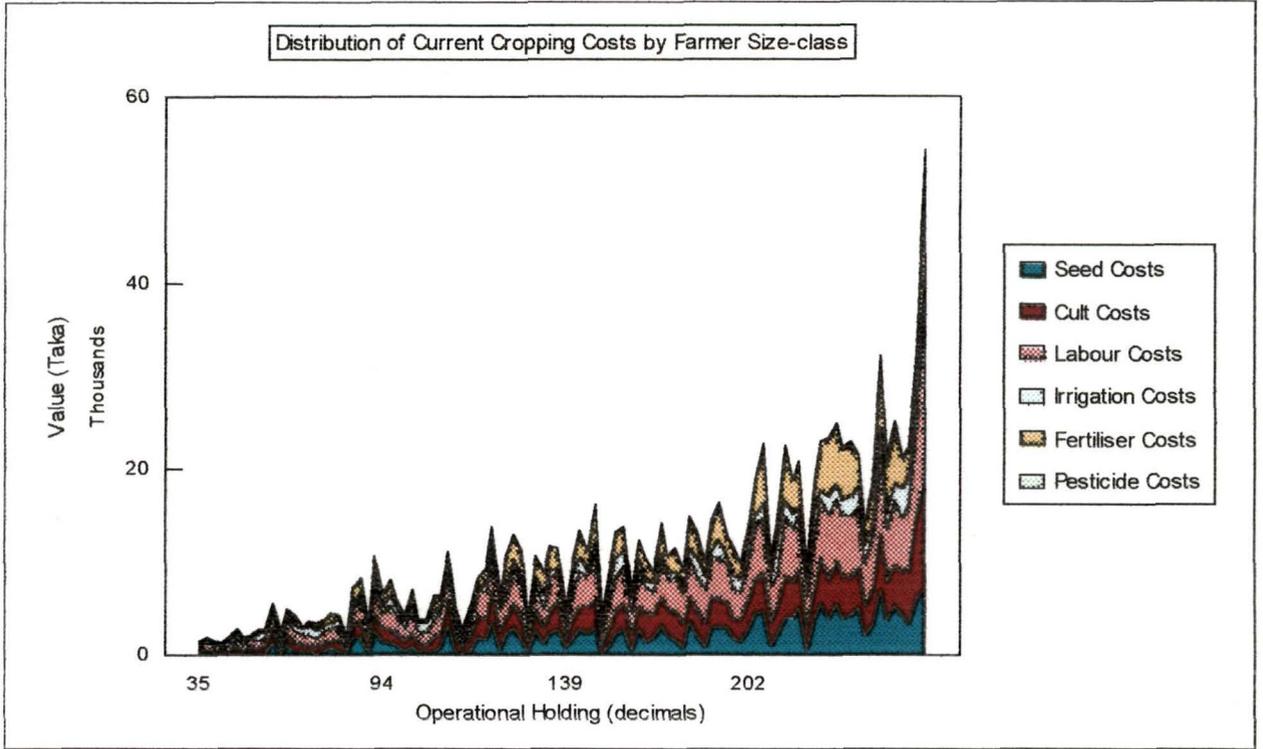
It thus becomes interesting to explore the relation between the credit position of the farmers, especially in terms of their relative access to formal credit, with their overall agricultural performance. This is accomplished through the graphical analysis below for the entire farmers' sample drawn from the village of Maligaon. The relations explored look at the average crop-yields realised by farmers in different landholding and credit categories, the current valuation of home production and marketable surplus obtained by the farmers from agricultural activities, the crop-specific cost increments involved in raising their level of production and the incremental cropping increases in aman rice, boro rice and potato cultivation reported by individual farmers as their response to the availability of agricultural credit. This enables the evaluation of how agricultural credit has contributed to agricultural development in Maligaon, and how the recipients of cheaper bank credit have had more advantage in this. Evaluation can also be made of the potential agricultural progress that can be made by the village if formal-sector credit is expanded and is distributed more equitably.

##### 8.4.1 Crop Yield by Farm Size

Current cropping patterns in the sample-village reflect the current land-allocation decisions of the Maligaon farmers regarding the production of various subsistence and cashcrops during the different crop-seasons of the year. Factors such as the regional topography and marketing facilities, etc., as well as the size of the farm-family and its capacity to mobilise agricultural inputs in the quantities required influence the cropping decisions of the farmers. Farmers in Maligaon produce a combination of aman and boro rice during the principal crop-seasons, along with potato, wheat, oilseeds, etc., as winter crops. The aman and wheat crops and minor quantities of potatoes are subsistence crops for most farm families. Farmers in better economic situations are more inclined to produce potato and HYV rice as cashcrops, since these have good market potential. Current crop yields obtained by farmers in different land-size categories have been plotted for the entire Maligaon sample of 100 farmers in Fig. 1 opposite. The plot also indicates the current borrowing status of farmers in terms of alphabetical codes, so that 'nb' indicates non-borrowers, 'bkb' indicates farmers who have received institutional credit from the formal-sector i.e., BKB, 'ms' indicates farmers who have fulfilled their credit needs by borrowing from multiple sources including both formal and informal sectors, and 'o' indicates farmers who have drawn credit from informal credit sources only. As can be seen, many farmers in the village, ranging from marginal farmers and above borrow for agricultural purposes, with proportionately more borrowers being found in the larger categories.

Certain distinctive features relating to crop yields in Maligaon can be identified from the graphical plot. It is noticed that yields for staple crops tend to be similar, regardless of the borrowing status of the cultivator, while the yields for cashcrops are more influenced by the access to credit. For instance, although the yield rates for aman rice range between 189-604 kg/ha, most farmers realised the mean yield 319 kg/ha, irrespective of farm-size and borrowing status. In the case of boro rice, yield rates are in the range 387-765 kg/ha with mean yield of 594 kg/ha, the standard deviation in yields increases from 54 to 71. Highest physical yields are found in the case of potato in the range 1359-2431 kg/ha with mean yield of 1905 kg/ha. However, the standard deviation in potato yields is much greater at 230. It is apparent that farmers with low access to crop finance can only undertake staple production. Other farmers who have private means or have wider access to credit are better placed to take advantage of cash cropping. Surprisingly, crop productivity is not necessarily low among sub-marginal, marginal and very small farmers, indicating that these farmers do not lack initiative and personal productive efficiency. The lack of adequate crop finance thus appears to

Figures 3 & 4: Agricultural Credit Impact on Productivity of Farms in Maligaon Village  
Graphical Analysis



be the main hindrance to increased agricultural production by farmers in these classes.

It is obvious that the adoption of new agricultural technology has been crucial to the performance of the progressive farmers in Maligaon. Since cheap institutional credit is mostly available to medium and large farmers in the village, it is only they who have drawn benefits from the present credit policy of banks. However, the fact that many farmers still have to borrow from multiple sources indicates that the quantum of credit available from BKB is not adequate. Enterprising farmers in the smaller landholding classes do not receive BKB credit and thus have to borrow at higher interest cost. The fact that they still manage to generate high crop yields indicates that they produce more efficiently than larger farmers.

#### 8.4.2 Agricultural Production and Labour Income

Most farm-families in Maligaon are subsistence producers and only market a small proportion of their crop. The poorest farmers have to supplement home production with the wages they receive from agricultural labour. The graphical plot in Fig.2 describes the dependence of each farm family in the sample on agriculture in terms of the value of home production and marketable surplus and the labour income from agricultural operations. Valuation of agricultural produce has been made in terms of the local prices prevailing between November 1998 to May 1999, when the fieldwork was conducted.

As seen in the graph, the value of home production is related fairly closely to operational holding size, while the marketable surplus shows wide variability in all farm-classes. Although only around 20 percent of the farm-families depend on supplementary labour income, such families are widely scattered in all farmer-classes ranging from sub-marginal to small. Marketable surplus on the whole tends to increase among medium and large farmers, but shows high variability among small farmers. With more than 50 percent of the Maligaon farmers belonging to the sub-marginal, marginal and very small classes, home production continues to constitute the bulk of agricultural production. This pattern is typical of Bangladesh. Low and expensive credit access is the major limitation faced by farmers in these classes in expanding production for the market. Among small farmers, many of whom do draw upon credit from formal or informal sources, the variability in marketable surpluses shows fairly close correspondence with the source and relative interest-cost of credit. Small farmers fortunate enough to draw upon BKB credit are placed at an advantage in generating income through the market-sale of agricultural produce.

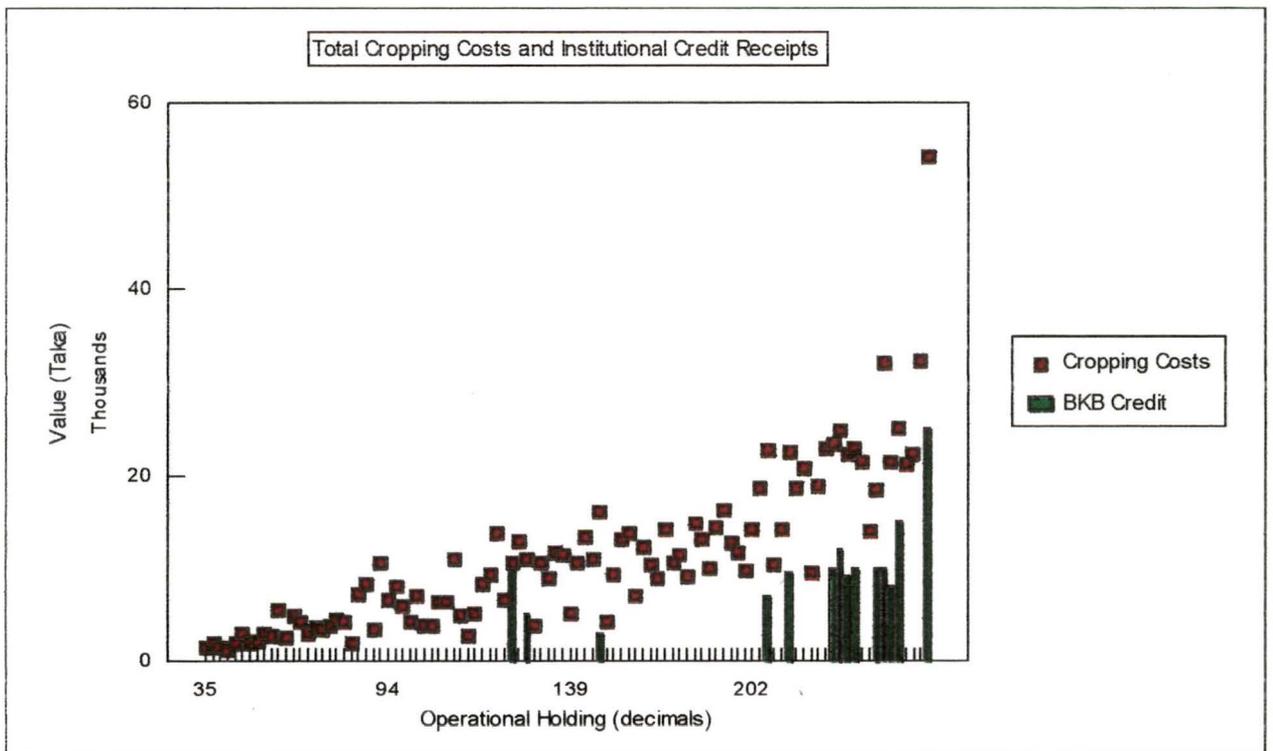
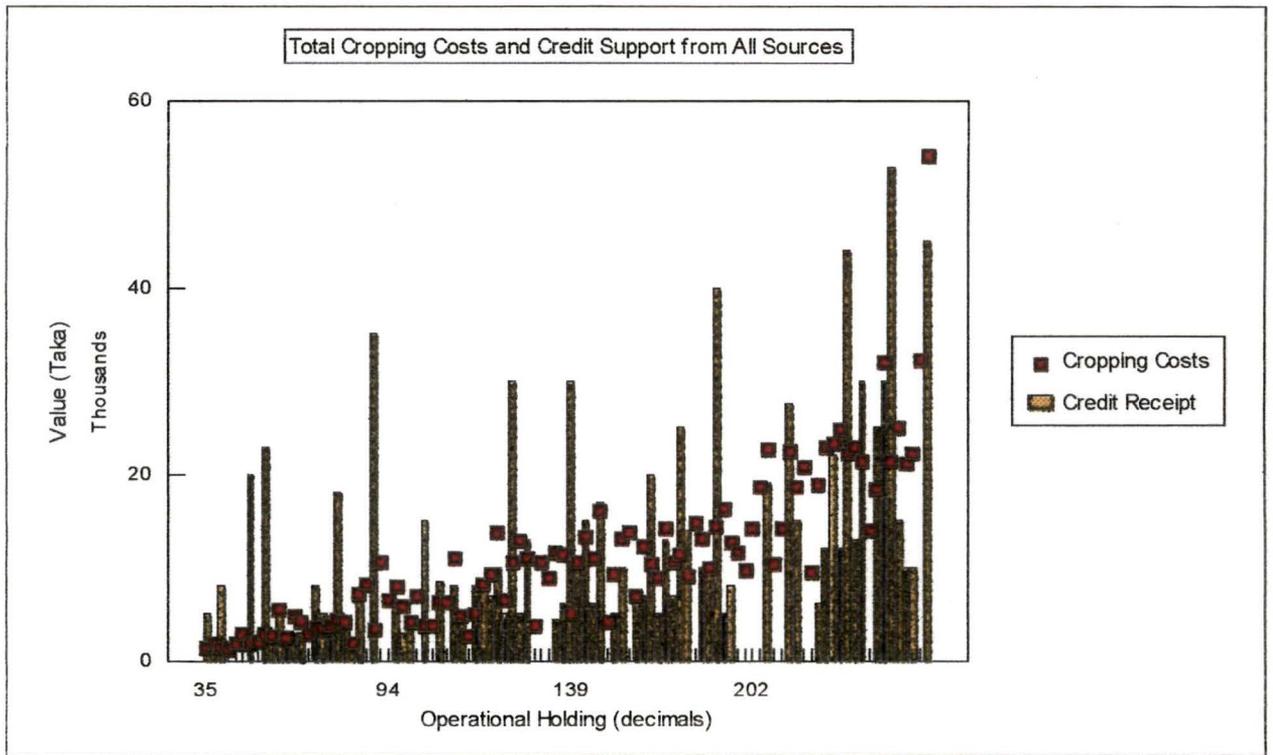
#### 8.4.3 Crop Production and Incremental Costs

An increase in the level of agricultural production will involve concomitant increase in the costs of agricultural production. Variation in the production costs of aman, aus, oilseeds and jute crops among different classes of farmers in Maligaon was found to be small. This is because the modes and methods of cultivation of these crops are traditional and hence are similar among all farmer-groups. Increasing incremental costs with farm-size was observed however in case of HYV and other cash crops. This is most true in the case of potato cultivation. There is also some demonstration of diseconomies of scale, since on farms in the larger size-groups, average production cost tends to increase in the long run as outputs increase. Accordingly, increases in the scale of cropping costs with farm-size reflect the increases in the size of agricultural operations as well as the inefficiencies of large-scale production.

Although little variation in incremental seed costs occurs between small, medium and large farmers, the associated graph (*see Fig.3*) shows that the ability of farmers to incur additional labour costs, irrigation costs and fertiliser costs increases sharply in the larger farm sizes. It is seen in the associated graph (*see Fig.4*) that a close association exists between the credit availed by the farmers and the level of incremental cropping costs they can bear. Since the sources of formal agricultural credit in Daudkandi upazila are limited, farmers who incur the highest cropping costs frequently resort to multi-source borrowing. This behaviour appears to spread evenly into farmers in the lower size-classes also, where the farmers who resort to multi-source borrowing are also able to incur the highest incremental production costs.

Several notable findings emerge from the cost analysis. The need to borrow from multiple sources clearly indicates the inadequacy of institutional credit in the Daudkandi RFMs. Another qualitative difference exists between borrowers in the larger and smaller size classes. While the latter have to depend more on their borrowings from informal credit sources, many of the latter are able to tap the formal credit supplied by banking institutions like BKB. Since the interest costs are smaller in the case of credit from formal-sector banks, farmers in the medium and large size-classes have to bear lower interest charges on their

Figures 5 & 6: Agricultural Credit Impact on Productivity of Farms in Maligaon Village  
Graphical Analysis



borrowing. Nevertheless, the difference in their farm-size productivity is not remarkable when compared to that of the smaller-sized farms, where the corresponding interest charges on informal credit are much larger. It might therefore be said that farmers in the very small and small size-segments show greater credit-efficiency than the medium and large farmers of Maligaon village.

#### 8.4.4 Credit Impact on Agriculture

Analysis of the relation of total cropping costs and credit support (*see Fig. 5*) shows that credit needs distributed fairly evenly among farmers in all operational holding-sizes, even though total cropping costs tend to rise with farm-size. While few farmers in the sub-marginal and marginal sizes have the capacity to bear heavy cropping costs, several exceptions are noticed where individual farmers resort to informal borrowing in their effort to increase agricultural production. The association between cropping costs and credit support becomes more correlated for farmers in the very-small, small, medium and large sizes. The very high cropping costs incurred by medium and large farmers are supported by high levels of borrowing, which allow them to diversify into input-intensive production of boro, potato and the like. Their ability to bear such costs is of course related to their better access to cheap institutional credit.

This is borne out in the lower plot (*see Fig. 6*) where the cropping costs are plotted against BKB institutional credit receipts. Since BKB credit disbursements are concentrated among farmers in the medium and large size-classes, they have considerable credit advantage over the other Maligaon farmers. However, this credit advantage is translated into higher production of cashcrops rather than foodcrops. The extremely limited role played by formal-sector banking institutions in supporting the agricultural credit needs of the farmers in Maligaon village are also highlighted by the plot. Only three farmers in the very small and small size-groups have been able to avail of BKB credit. However, it is also clear from the plot that the potential of other farmers in the marginal, very small and small size-groups to absorb institutional credit and raise agricultural productivity is immense. At present, these farmers have to support production costs by borrowing from semi-formal and informal sources at exploitative rates of interest. A strong effort on the part of formal sector banks to expand the credit access of these farmers can thus lead to an agricultural breakthrough in Bangladesh.

### 8.5 Institutional Credit Needs among Farmers

The principal role of agricultural credit is to raise agricultural production and farm productivity. The credit needs of farmers include production credit needs as well as credit needs for subsistence. Land situations and socioeconomic conditions in Bangladesh, have become so pressing that the resource-poor small and marginal farmers are hardly able to undertake capital formation on their own to meet agricultural investment needs. Thus the farmers of the country have to meet most of their capital requirements through rural credit. In this country-scenario, the institutional credit needs among the Maligaon farmers are still largely unmet, increasing their dependence on informal credit sources. Because of the declared credit policies of Bangladesh, which emphasise the social banking needs of the rural economy, the limited institutional credit access shown by the Maligaon farmers pointed to the glaring failure of the formal-sector banks to fulfil such these national policies. The farmers were therefore also surveyed for their opinions on the general need for agricultural credit, the difficulties they encountered during the credit delivery stage, and their frustration in dealing with the formal-sector credit institutions. The results of this survey are briefly discussed below.

#### 8.5.1 Survey Results

While a high percentage of farmers in all size-categories reported that their main credit needs arose because of their need to meet the purchase costs of agro inputs, the agricultural credit needs appeared less pressing among farmers in the sub-marginal class whose land units were too small to support intensive agriculture. However, the need for credit to support the purchase of agro equipment was only reported by medium and large farmers. This would tally with the findings noted above, where it was observed that the labour costs on medium and large farms are particularly high and warrant the induction of labour-substituting agricultural technologies. Conversely, the need for credit to meet subsistence needs of farm families was confined to farmers in the size-classes ranging from sub-marginal to small. The need was most pressing among the marginal and very small farmer class, where close to half the families reported the existence of subsistence needs. While families in the small farmer class were engaged in more viable farming operations.

families in the marginal and sub-marginal classes were also able to depend partially on their earnings from wage labour. Hence their dependence on agricultural credit for meeting subsistence needs was less. Few farmers reported a need for credit for making fixed asset purchases. A fairly sizeable number of farmers spread over all categories reported the existence of other reasons for seeking institutional credit.

**Table 8.12: Institutional Credit Needs and Credit Difficulties of Farmers in Maligaon Village**  
Classification by Operational Holding-classes

<b>RURAL NEED FOR CREDIT</b>					
Farmer Class	Purchase of Agro Inputs	Purchase of Agro Equipment	Family Needs	Purchase of Fixed Assets	Other Reasons
<b>SUB-MARGINAL</b>	5	-	3	-	5
%	62.5	0.0	37.5	0.0	62.5
<b>MARGINAL</b>	20	-	8	-	5
%	100.0	0.0	40.0	0.0	25.0
<b>VERY SMALL</b>	23	-	12	-	5
%	95.8	0.0	50.0	0.0	20.8
<b>SMALL</b>	35	2	10	-	11
%	100.0	5.7	28.6	0.0	31.4
<b>MEDIUM</b>	11	5	-	1	6
%	100.0	45.5	0.0	9.1	54.5
<b>LARGE</b>	2	2	-	-	1
%	100.0	100.0	0.0	0.0	50.0
<b>ALL FARMERS</b>	96	9	33	1	33
%	96.0	9.0	33.0	1.0	33.0
<b>DIFFICULTIES IN ACCESSING BANK CREDIT</b>					
Farmer Class	Lack of Information	Lack of Cooperation	Long Procedure	Insufficient Loan Amount	Other Difficulties
<b>SUB-MARGINAL</b>	6	2	6	1	1
%	75.0	25.0	75.0	12.5	12.5
<b>MARGINAL</b>	14	11	17	5	6
%	70.0	55.0	85.0	25.0	30.0
<b>VERY SMALL</b>	18	13	21	8	12
%	75.0	54.2	87.5	33.3	50.0
<b>SMALL</b>	20	26	33	14	15
%	57.1	74.3	94.3	40.0	42.9
<b>MEDIUM</b>	2	8	11	9	11
%	18.2	72.7	100.0	81.8	100.0
<b>LARGE</b>	-	1	2	2	1
%	0.0	50.0	100.0	100.0	50.0
<b>ALL FARMERS</b>	60	61	90	39	46
%	60.0	61.0	90.0	39.0	46.0
<b>REASONS FOR NOT AVAILING BANK CREDIT</b>					
Farmer Class	Distance of Branch	Difficult Credit Rules	Lack of Collateral	Lack of Timely Loan Assistance	
<b>SUB-MARGINAL</b>	3	5	7	2	
%	37.5	62.5	87.5	25.0	
<b>MARGINAL</b>	8	20	16	8	
%	40.0	100.0	80.0	40.0	
<b>VERY SMALL</b>	12	19	6	14	
%	50.0	79.2	25.0	58.3	
<b>SMALL</b>	14	29	7	25	
%	40.0	82.9	20.0	71.4	
<b>MEDIUM</b>	3	4	-	4	
%	27.3	36.4	0.0	36.4	
<b>LARGE</b>	-	1	-	1	
%	0.0	50.0	0.0	50.0	
<b>ALL FARMERS</b>	40	78	36	54	
%	40.0	78.0	36.0	54.0	

Source: Farmers' Credit Survey

The main difficulties faced by farmers in securing agricultural credit from the formal-sector banks were the long institutional procedures that had to be followed by loan applicants. This perception was shared by farmers in all size-classes, regardless of whether they had been successful or unsuccessful in securing institutional loan. However, the strength of the response increased with the size-class of farmers, indicating that the medium and large farmers who were more successful in securing institutional loans, felt the procedural difficulties directly and therefore more acutely. Unsuccessful loan applicants among the smaller farming classes probably gave up their quest after encountering difficult loan procedures. Lack of information about institutional loans and the lack of cooperation from bank personnel were also major difficulties encountered by farmers while seeking agricultural loans. The level of information improved with size-class and was consequently better among the medium and large farmers who were the preferred clients of banking institutions. Lack of institutional cooperation was felt uniformly by farmers in the small and medium classes and again in the marginal and very small classes. Most farmers in the larger size-classes felt that the loan amounts released to them were insufficient. Many of these farmers had been successful in securing loans, but had to resort to multi-source borrowing as noted above.

Since a very large section among the Maligaon farmers had not been successful in securing institutional loans, farmers were also asked about their main reasons for not availing of bank credit. The two principal reasons they cited were the difficult credit rules and the lack of timely loan assistance. Proportionately more farmers in the smaller size-classes felt that the difficult credit rules of banking institutions obstructed their access to credit, and fewer of them cited the delays in processing loans as their main reason for not availing bank credit. Farmers in the medium and large classes gave equal weightage to difficulties in credit rules and lengthy loan-processing procedures, both of which delayed the receipt of loans. Factors like the distance of the bank branch posed less hindrance. The lack of collateral to offer was cited as a principal reason by sub-marginal and marginal farmers, but was less of a hindrance for farmers in the very small and small classes. None of the farmers in the medium and large classes reported the lack of collateral. As was seen above, it was these farmers who had received the bulk of the institutional loans.

The findings from the farmers' opinion survey also strongly suggest that the formal-sector credit institutions do not put in adequate effort into clearing the apprehensions and difficulties of potential borrowers. No procedure exists within normal banking channels to apprise or advise farmers about institutional credit programmes. The lending procedures of the credit institutions are complicated and can intimidate the uneducated borrower.

### 8.5.2 Problems of RFMs: Farmers' Perceptions

The credit survey of farmers has revealed that adoption of new agricultural technology has been crucial to the success of progressive farmers in Maligaon. Since land quality is uniform, except for differences in unit size, and the existence of cluster irrigation has given equitable access to water, intensive cultivation has brought dividends to all classes of farmers, irrespective of land size. The ability of farm families in the smaller classes to apply family labour in very high doses makes smaller farms highly labour-efficient. When similar agricultural technology is used, for instance during the cultivation of the rainfed aman rice crop, the smaller-sized holdings display higher agricultural yields and higher average returns compared to larger farms which have to depend on hired labour. Hence, even small and marginal farmers in Maligaon village are not reluctant to borrow in order to finance their needs for productive inputs..

Although land is not the constraining factor to the productivity of the Maligaon farmers, land nevertheless becomes a constraining factor to their access to institutional credit. Despite the fact that short term crop loans in Bangladesh do not require the prior provision of collateral, disbursements of bank credit are directed primarily to those farmers who hold the largest units of land. These farmers constitute the rural elite for whom the possession of land becomes a source of economic as well as political power. Although agriculture depends on the combination of human labour and capital with the productive powers of land, the access to financial capital through institutional credit becomes interlinked to the possession or non-possession of land. Farmers with larger landholdings also have access to cheaper sources of capital in the RFM. Their greater access to institutional credit helps them to consolidate their economic hold on rural society. The lending procedures of formal-sector banks mutely accept the rural *status quo*. Institutional credit is not allocated according to the relative efficiency of the cultivator, but according to the economic and political

power of credit recipients. Thus formal-sector credit becomes the instrument for the consolidation of rural power equations, rather than an instrument for rural development.

In this equation, the small and marginal farmers who form the bulk of the farming population and are therefore the main borrowers in RFMs, are given almost no access to the cheap credit provided by the formal-sector banks. They rely on non-institutional borrowings at exorbitant interest rates. Since cheap institutional credit against land title and collateral is mostly available to medium and large farmers in the RFM, it is only they who draw benefits from the present institutional credit policies followed by the banks in Bangladesh. However, the fact that many farmers still have to borrow from multiple sources indicate that the quantum of credit available from the formal sector banks is not adequate. Enterprising farmers in the smaller landholding classes do not receive formal sector credit and thus have to borrow at higher interest cost. The fact that they still manage to generate high crop yields indicates that they produce more efficiently than the medium and large farmers.

### **References**

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2. Census of Agriculture, *op.cit.* [1996:16]
3. *ibid.*, p.37
- 4 Singh [1986:59]

## Credit Strategy for Agricultural Development

### 9.1 Rural Credit in Bangladesh

As the oldest and most widely practised occupation in human society, agriculture has been the backbone of economic development since the dawn of civilization. Development of the agricultural sector is of paramount importance, not merely because it provides food, fodder and other agro-products to a growing population, but also because it ensures a strong raw material base for industry. This is true also in Bangladesh, which is predominantly a rural nation with a large rural population that is mostly dependent on agriculture. Agriculture contributes around a third of the GDP and 30 percent of exports, employing 6 out of every 10 workers in Bangladesh, and also meets the food requirements of the country. As a result of this, agricultural programmes have been accorded the highest priority by the Government of Bangladesh, since no other development programme can succeed without assured food supplies for the nation.

The scope for further extension of the area under agriculture in Bangladesh is negligible since nearly all cultivable land is already under cultivation. Introduction of modern scientific methods of agriculture on a wider scale is the only way to increase agricultural production. However, the adoption of modern agricultural technology involves huge capital investments. Improved cropping practices such as multiple cropping and crop rotation that can multiply agricultural yields, also require credit outlays. Thus the provision of technical extension services alone cannot attract farmers to modern agricultural methods. The shift from low-technology traditional agriculture to more expensive but highly productive modern agriculture requires a large amount of financial support for purchase of the package of HYV seeds, chemical fertilizers and pesticides, irrigation water and energy.

It is in this context that the agricultural credit situation in Bangladesh and the present role of credit institutions like the formal-sector banks has to be examined. No credible attempt has yet been made to study the particular credit problems of small and marginal farmers, who constitute nearly 80 percent of the farming population of the country. In view of these critical factors, the present study acquires topical relevance.

The broad objective behind the study has been to critically examine the agricultural credit performance of formal-sector banks in Bangladesh with particular reference to the credit flow to small and marginal farmers. In meeting this objective, the study has reviewed the structure of the rural economy and rural financial markets in Bangladesh. It has analysed the agricultural credit situation prevailing in Bangladesh, in the light of the failures of formal-sector banks to meet agricultural credit needs in the country. It has highlighted the need for incorporating small and marginal farmers into special programmes for agricultural credit. It has also sought to identify the problems currently encountered by the banks and their rural borrowers during the disbursement of agricultural credit. From the insights gained through this study, several policy measures are suggested that will improve the present agricultural credit situation in Bangladesh.

The secondary data used in assessing the broad issues pertaining to banking and agricultural credit in Bangladesh were collected from official publications of the Government of Bangladesh and various institutional reports, bank manuals and guidelines and documents provided by different bank branches, in addition to the sources found in the literature. Primary data for the study were collected from ledger information on credit disbursements and recoveries at the formal banking branches and from micro level field surveys of banking personnel and farmers in the study area. The area chosen for intensive micro study as a typical representative of the agricultural areas of the country was the upazila of Daudkandi in Comilla district in eastern Bangladesh.

The micro study included branch surveys of formal-sector bank operations, personnel interviews with branch and divisional bank officials, and village census and sample surveys of farmers living in the area to identify agricultural credit problems from both the supply side and the demand side. The two-stage sampling process during the village surveys brought focus to bear on the credit difficulties of small and marginal farmers, who constitute the most critical segment in the farm population and in the RFMs of Bangladesh.

The surveys generated rich information on the socioeconomic background farmers and the nature of farming in the study region, including present cropping patterns followed, agricultural costs and productivity and the farmers' consequent need for credit support. Perceptual differences between bankers and borrowers about the current difficulties faced in agricultural credit transactions were strongly brought out by the empirical study.

Institutional credit to the agricultural sector in Bangladesh has been increasing since the mid-1970s. Three principal credit sources, namely *formal* and *semi-formal* institutions and *informal* credit agents presently provide the Bangladesh farmers with agricultural credit. The formal credit sector includes the government-owned and specialized banks, commercial banks, credit bureaus and so on. The semi-formal sector includes autonomous credit institutions like the Grameen Bank and NGO micro credit programmes which cater to the special credit needs of the rural areas. The informal credit agents are a mix of professional and personal sources including moneylenders and traders, village shopkeepers, landlords and rich farmers, as well as the relatives and friends of the borrowers.

The overall performance of RFMs in Bangladesh till today has not been impressive. The outreach of the formal credit sector to rural areas has been found to be very poor. It is also seen that formal-sector banking institutions generally cater only to rich and 'bankable' borrowers who possess collateral and other tangible assets and are consequently deemed to be better credit risks. Although on the other hand, the semi-formal credit agencies and institutions have been relatively successful in reaching the rural poor, they offer a limited range of credit services and do not generally address the problem of financing agriculture. Moreover, the investment patterns of the semi-formal credit programmes are directed more towards sectoral activities than towards individual credit needs and are hence mainly disbursed in financing nonagricultural activities. Though, for these reasons, the informal credit market continues to play an important part of the financial system in Bangladesh, it remains unorganised, fragmented and exploitative. Informal credit support is generally inadequate and is only available at excessive interest rates. Thus while normal rates of interest charged in formal credit markets in the country do not exceed 17.5 percent p.a., the rates on credit drawn from informal sources range between 50-100 percent p.a., and may occasionally go up to 150 percent or even more.

Thus an urgent need exists to provide agricultural credit to the Bangladesh farmers on level terms, which can only be accomplished by revamping the agricultural credit programs of the formal sector banks. This has been the main justification for conducting this evaluative study of the performance of formal-sector banks in the agricultural credit markets of the country, with the aim of identifying the reasons behind their poor performance and suggesting ways to improve the present agricultural credit situation. As a poor country with rich agroclimatic resources, Bangladesh has the potential to develop around a strong agricultural economy if the credit needs of its farming sector can be met fairly and equitably. The social benefits that this will extend to the rural people by removing poverty from their midst and giving them a decent quality of life are enough of a reason for a policy review to be made.

The main consequence of the Government policies instituted after the liberation of Bangladesh in 1971 for the aggressive expansion of rural banking in the country has been a quantum expansion in the banking network of the nationalised commercial banks [NCBs]. Thus over the 20-year period between 1978-79 and 1998-99, the number of branches of the formal-sector banks has risen from 3261 to 5973, with more than 8 new branches being added for every 10 branches that had existed in 1978-79. The primary impact of the expansion of banking has been the progressive monetisation of the Bangladesh economy, with broad money [ $M_2$ ] expanding by Tk.54735 crore between 1972-73 and 1997-98, accompanying the increase in scheduled bank deposits by Tk.51033 crore. Total credit issues by the scheduled banks increased by Tk.43533.55 crore over the period, indicating that these deposits were being underutilised. In 1972-73, the overall credit-deposit ratio [CDR] for the Bangladesh economy was just over 76 percent. While it stood at around 85 percent in 1997-98, indicating that the rate of credit issues by the Bangladesh banking system had improved over the period, the CDR had consistently exceeded 90 percent during the 1980s, indicating that the efficiency of the formal credit sector has actually declined after 1991. Since 1994, the amount of undisbursed deposits in the hands of the banks has exceeded Tk.7100 crore each year.

The main source of increase in bank deposits has been the growth of term deposits which multiplied more than fifteen-fold between 1980-81 and 1996-97. However, there has also been sharp growth in savings deposits during the 1990s at levels that have consistently exceeded 12 percent p.a. indicating that the small

savings of ordinary rural depositors have also contributed significantly to the overall liquidity of the financial system in Bangladesh. Evidently, this has not been matched by an equivalent flow of formal credit to the rural sector.

## 9.2 Present Problems of Agricultural Credit

The economy of Bangladesh has witnessed a mismatch between bank lending and deposit programmes. In ratio-terms, the overall flow of institutional credit advances to rural areas has significantly decreased although the rates of deposit collection have increased considerably. The divisional allocations of financial resources by the banking system between 1993-95 show that the growth of bank deposits has outstripped the growth in bank advances in most regions of the country. The two administrative regions that absorb most of the institutional credit advances in terms of volume are Dhaka Division and Chittagong Division. Thus while these regions also make significant contributions to bank deposits, they absorb the lion's share of the credit advances disbursed by the formal credit sector. In both divisions, the greatest magnitude of bank transactions occurs in urban areas, where potential commercial opportunities abound.

Credit-deposit ratios in the urban areas of Bangladesh thus consistently exceed 85 percent. The corresponding CDR ratios for rural areas in the country as a whole are barely over 75 percent. In the rural areas of Chittagong Division, which include most of Comilla district, the rural CDR ratios are well below 40 percent. This points strongly to the urban bias of formal credit operations in Bangladesh, as a consequence of which banking deposits mobilised from rural areas are constantly funneled into institutional credit operations in the divisional headquarters and ultimately to the country's major urban centres. While these urban centres are a good source of institutional credit demand because of the diversity in their economic activities, the fact remains that the rural savings which are mobilised from minor capital formation by the nation's farmers are used to subsidise nonagricultural credit in the urban centres. At the same time, the farmers constantly experience a capital shortage and have to seek expensive credit solutions in the informal credit market.

Wide variations are noticed in the estimation of agricultural credit needs in Bangladesh. In 1977-78, the Government of Bangladesh had estimated the agricultural credit needs at around Tk.375 crore p.a., of which only 46 percent was being supplied from institutional sources. Another calculation in 1979-80, which was based on the area under cultivation in the country estimated the agricultural credit need at around Tk.1118 crore. Under this calculation, only about 24 percent of the annual agricultural credit needs were being met from institutional sources. The joint review of the agricultural credit situation conducted by the World Bank and the Government of Bangladesh and the World Bank in 1990 estimated the agricultural credit needs at Tk.1650 crore. The actual disbursement of institutional credit of around Tk.596 crore that year amounted to 36 percent of estimated need.

Studies of RFMs in Bangladesh have found that institutional sources meet between 8-28 percent of the credit needs of the rural population. The share of the institutional sources in agricultural credit has not shown a spectacular increase either over the last two decades. It is seen on the other hand, that urban industry and commerce absorb around 57 percent of all institutional credit advances while contributing only 21 percent to GDP. In spite of increased institutional allocations under the special agricultural credit programmes, the disbursement of agricultural credit has been low because the formal sector banks have proved unable to meet their allocated agricultural credit targets. The most important reasons behind the poor disbursements of agricultural credit are lengthy procedures and paperwork involved in processing institutional loans, which prove prejudicial to the credit needs of a time-bound activity like agriculture. Other institutional formalities add to complexities of the formal credit sector.

It is often argued that formal banking institutions which function within a framework of financial regulations are dissuaded from participating effectively in RFMs because of the high rates of loan-default that occur in rural areas. In Bangladesh, it was seen during 1974-75 and 1975-76, when the programme of institutional credit to support was just commencing, that the recovery rate on agricultural credit stood at around 100 percent. After declining to around 50 percent during the early 1980s, the recovery rates climbed again to 75 percent or more during the 1990s. Although the amount of agricultural credit outstanding has increased in physical terms, the proportion of loans outstanding has declined steadily through recent years, while current recoveries have also improved. Rather than the unreliability of borrowers, it is often the

human inefficiencies of banking personnel as well as the frequent rescheduling or outright waiver of outstanding agricultural loans that lies at the genesis of the rural loan-default problem.

The credit needs of small and marginal farmers who constitute 80 percent of the farming population in Bangladesh are not being served presently by the formal banking system. These farmers live at bare subsistence or marginal levels. They lack enough land to pledge as collateral, and either have limited education or are illiterate. The formal credit institutions therefore, do not perceive them as creditworthy borrowers. The credit performance of the formal sector banks therefore remains poor in terms of its rural outreach, while only 17 percent of the small farmers in Bangladesh have direct access to institutional agricultural credit.

As the Government of Bangladesh continues to strive towards providing adequate agricultural credit to farmers, the formal sector banks including the NCBs, BKB, BSBL and RAKUB are directly involved in the provision of agricultural credit under policy guidelines from the Bangladesh Bank. While all banks participate in these special agricultural credit programmes, the disbursement made under different subsectors in 1997-98 show that the bulk of institutional credit disbursements are made for crop loans and nonagricultural purposes. The proportion allocated to medium term credit for the purchase of agricultural machinery and irrigation equipment is almost negligible by comparison. Even then the overall disbursement targets are not being met. Policy changes at the level of the Bangladesh Bank encourage such tendencies. The policy switch from the refinancing of agricultural credit to the rediscounting of agricultural loans issued by the general banking institutions has reduced the social obligations on the NCBs to participate actively in agricultural lending. Instead, their participation has become more voluntary in nature and has resulted in a sharp decline in agricultural credit refinancing from the level of Tk.631.23 crore in 1983-84 to Tk.287.36 crore in 1988-89 and to only Tk.165.1 crore in 1997-98. While the refinancing facility remains in place for specialised agricultural credit institutions like BKB and RAKUB, the fact of the matter is that the financial breadth of the NCBs can hardly be matched by the limited credit operations of these specialised institutions.

Following the liberalisation of credit policies in 1984, the trends in agricultural credit disbursements by the NCBs, including Sonali Bank, Agrani Bank and Janata Bank, have been rather disappointing. While disbursements have grown in absolute terms with the spread of the branch network and growth in the overall volume of banking transactions in Bangladesh, they constitute a relatively minor part of the NCB lending portfolios. The credit targets set for agricultural credit disbursements by the NCBs have also consistently remained unmet. As a result the specialised agricultural banks, namely BKB and RAKUB, continue to be the main sources for agricultural credit, while the credit disbursements of the NCBs are focused on trade and industry. Three continuing problems are observed in the prevailing agricultural situation in Bangladesh:

- (a) the huge volume of deposits mobilised by formal-sector banks from rural areas are not matched by equivalent flows of credit to these regions
- (b) the capacity of the specialised banking institutions to lend to agriculture is circumscribed by their smaller branch networks and limited deposit base
- (c) the large lending capacity of the NCBs does not benefit agricultural activity, primarily because of the unwillingness of the NCBs to lend to the farmers

Although loan outstandings have been mounting, because of the past burden of bad debt carried by the NCBs, little evidence of poor recovery rates is found in the case of direct current lending to agriculture, since BKB and RAKUB report fairly creditable loan recovery rates. Hence the reluctance of the NCBs to lend to agriculture cannot merely be explained by potential debt default and lender's risks. To understand the agricultural credit situation more closely, an intensive empirical study was undertaken in the upazila of Daudkandi in Comilla district. The purposes of this study were

- (a) to identify the strengths and weaknesses of the RFMs in the study region
- (b) to assess the relative agricultural credit performance of formal-sector banks at branch-level, and
- (c) to identify the prudential and procedural reasons that underlie the poor agricultural credit performance of formal-sector NCBs

### 9.3 Efficiency of RFMs

Four formal-sector banks, including BKB and the three NCBs serve Daudkandi upazila, through a combined network of 14 branches. Each branch thus serves an average of 33 villages. The three NCBs had the highest number of branches as a whole and their rural branch network was stronger than their urban and semi-urban branch network. The principal form in which agricultural credit was being provided in Daudkandi upazila comprised short-term agricultural loans. Livestock loans were also being sanctioned to a limited extent, while medium term credit for irrigation and equipment purchases was negligible. Medium-term credit assistance is still being channelled through BKB, without any involvement from the NCBs. As the only specialised bank serving Daudkandi upazila, BKB also displayed the highest CDR ratios. Credit issue by the NCBs were rather poor, with more funds being mobilised than were being disbursed. Although the rural branch networks of the NCBs were larger, a large proportion of transactions occurred through their main branches located at Daudkandi. Thus more credit was released by the bank branches located the upazila headquarters, than at the rural branches. These higher credit releases usually matched better recovery rates on loans.

The BKB branches functioned with lower staffing than the NCBs. Consequently, customer loads on BKB branch staff were higher. But although more small depositor accounts were being maintained at the rural branches of the NCBs, more bank staff were posted at their Daudkandi branches. With much smaller postings of branch staff, BKB was able to generate better rates of loan recovery. Consequently, its ability to recycle and disburse new credit was high. A considerable part of staff activity at the Daudkandi NCB branches also went into accounting and inter-bank transactions, as a result of which NCB staffing patterns bore little relation to small deposits or advances. The deployment of more staff at semi-urban branches bore some relation to the higher handling of current deposits at these branches. NCB staffing bore little relation to the number of customer accounts or term deposits handled at the branch, but was related quite closely to the number of savings accounts held by the branch.

The bankers' opinion surveys revealed that the social and economic position held by the borrower was usually the single most important criterion for the approval of loans. Collateral sufficiency occupied second place, implying that the identification of the loan applicant as a member of the rural elite was sufficient to outweigh all collateral considerations. As far as the bankers were concerned, social or political position thus became the best guarantor of creditworthiness. The principal reason for loan rejection was usually the prior default record of the client. However, lack of collateral on the part of the applicants as well as general banker dissatisfaction with them was also sufficient to rule out their receipt of credit.

The inability of formal-sector banks to supply credit to the agricultural sector in adequate amounts ensured that more credit was available for the use of the industrial and commercial sectors of the economy. While the potential for easy supervision of loans was the most important reason cited by bankers for preferring industrial credit, political pressure for sanctioning industrial loans was also acknowledged to exist in many cases. The weaknesses of institutional RFMs were ascribed by the bankers to the lack of information and collateral among rural borrowers, and their anticipation of poor debt repayment by rural borrowers. The reluctance of formal-sector banks to lend to the agricultural sector was mainly attributed to the failure of rural borrowers to adhere to repayment schedules.

Most bankers believed that institutional improvements which could be implemented administratively were the best means for improving the working of RFMs. The need for operational autonomy and loan supervision through better human resource deployment at branch level was acknowledged by the bankers. However, divisional and regional officers who presently determine the fund allocation to rural credit did not support the idea of branch autonomy. This points to a curious dichotomy between the perceptions of bank personnel at field and divisional levels. While the former, who are better acquainted with the credit needs of their area, believe that the working of RFMs can be improved if the branches are allowed local discretion on agricultural credit matters, the mindset of the latter is preoccupied with the need for coordinating credit operations over many branches. In this situation, it is only inevitable that the creditworthiness of borrowers is being judged from a distance on 'security' considerations, rather than from personal information about the creditworthiness of the borrower obtained from the field. As a result, many loan applicants from among the smaller farmers who possess the ability to employ agricultural credit effectively and efficiently, find their applications rejected by the banks.

It was also observed that the shortcomings of RFMs are common to all participating institutions. While differences exist between institutions in interest rates and loan charges, and also in their lending capacity, terms and conditions and procedures followed, problems relating to limited fund allocations, poor loan supervision and lack of general institutional coordination are common among all formal-sector banks. Consequently, there is reluctance among NCBs to increase their commitments to the agricultural credit sector which presently amount to much less than 10 percent of their loanable funds. Specialised banking institutions like BKB and BSBL have limited internal resources and cannot undertake lending operations without borrowed funds from the Bangladesh Bank. The launching of special agricultural credit programmes for political gain, without proper advance planning and implementation has not been the right way to increase the volume of agricultural credit, since it can also encourages delinquency among the borrowers.

#### 9.4 Inferences from the Study

Rural finance programmes cover two distinct segments within the rural population. Agricultural finance is needed by the farm population for increasing agricultural production, which has been accorded high priority in Bangladesh. Nonagricultural finance is needed to increase incomes, savings and self-employment opportunities among the rural poor. In Bangladesh, the latter need is being adequately served by semi-formal and informal credit sources. However, agricultural finance cannot be taken care of appropriately by semi-formal credit sources and the NGOs, since its funding requirements are huge. Informal credit is easily accessible to farmers. It is provided at their doorstep and is free of procedural formalities. However, informal credit is highly disorganised and carries exorbitant interest charges, which impose intolerable debt burdens on poorer farmers. Thus credit from the informal sector does not offer a viable solution for small and marginal farmers of Bangladesh. While cheaper institutional credit is available from formal-sector banks, its volume is still limited and carries statutory conditions. Even so, greater involvement of formal banking institutions in the RFMs of Bangladesh will be essential to release the nation's farmers from the clutches of the professional moneylending trade.

The growth of the banking system in Bangladesh has not brought about substantial improvement in rural credit over the past 30 years. Although nationalisation of commercial banks and branch expansion into rural areas has been achieved, and the banks consequently show better deposit mobilisation and credit disbursement, the banking system in Bangladesh is still underdeveloped. Problems like unrecoverable loans, inadequate regulation, political interference and bad management persist within the system, while a large amount of funds collected from the depositors remain idle in the banks. The tendency has therefore grown to shift institutional funds from rural areas where credit demand is low to the urban areas where credit demand is high. This goes against the interests of agricultural credit development in Bangladesh.

Efficient administration of agricultural credit depends on correct assessment of actual credit requirements. The present share of agricultural credit in total credit disbursement through banking institutions is poor, and the banks do not fulfil their annual agricultural credit targets. Perversely, this also implies that the flow of institutional funds into agricultural finance is not adequate, pointing to deficiencies in the credit norms practised by the formal-sector banks. The credit policy norms set by the Government and Bangladesh Bank are not properly implemented when disbursing agricultural credit. More credit in fact flows into the commercial sectors than to agriculture, which is not conducive to development in a poor rural country like Bangladesh.

The appropriate interest rate policy for the development of rural areas has been a widely debated issue in Bangladesh. The formulation of interest policy rests on economic criteria as well as social and political factors. From the lenders' point of view, interest rates must be adequate to cover the costs of credit, including the costs of credit administration, the margin of bad debt and a profit markup. For the rural borrowers, credit is used as the means for generating agricultural income. Hence, if a large part of their incremental income has to be expended in servicing debt, their incentive to borrow and invest on agricultural improvement vanishes. A valid argument thus appears for credit subsidies and differential interest rates according to the loan-size or the socioeconomic status of borrowers. Such an interest policy can realise much larger goals for the economic development of Bangladesh, by facilitating rapid growth in the agricultural sector.

As revealed by the bankers' survey, credit-eligibility norms and various procedural factors are critical to the approval or rejection of rural loan-applications by the banking institutions. Such problems commonly

occur in the NCBs as well as the specialised agricultural banks. Bankers tend to 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 determining the extension of rural credit. Identification of creditworthiness with the social position of the borrower is particularly common among field-level banking personnel. Because of inconsistent treatment of loan applications by bank personnel, the major benefits of agricultural credit programmes accrue solely to elite and affluent sections in the rural population. Small and marginal farmers do not get easy credit access to the formal-sector banks because of rigid attitudes among bank officials. Operational difficulties arising from political interference, pressure for meeting credit targets, legal weaknesses and frequent debt-writeoffs are also commonly encountered by the banks.

A summary look can thus be taken at the two sides of the RFM that has been studied during empirical investigation. It has been seen that agricultural credit flows on the supply side of the RFM are not hindered by the paucity of loanable funds. The secondary study had revealed earlier that the banks, particularly the NCBs, maintain large undistributed fund balances, while not meeting their targets for agricultural credit disbursement. The problems on the supply side of the RFM are therefore procedural and reflect the general aversion of formal-sector banks, particularly the NCBs, towards the credit needs of rural borrowers in Bangladesh. Secondary information has shown earlier that the recovery rates on current agricultural borrowing are not poor. Hence the aversion to rural lending cannot be related to risk. The principal reasons cited by bankers for their aversion to agricultural credit are

- (a) lack of borrower awareness [NCBs]
- (b) lack of borrower collateral [Specialised Banks]

No evidence has emerged that strongly links low institutional preferences for agricultural credit to fund insufficiency or high service costs. The response pattern of the institutional lenders is interesting. Specialised institutions like BKB do see a large offtake on their loans. Their inability to provide credit services to farmers in greater number is ascribed to the lack of collateral. Even though collateral is not required on short term loans, the institutional decisions on the creditworthiness of rural borrowers are still influenced by the possession of collateral security. Conversely, the NCBs hold large balances of funds which they are unwilling to lend through RFMs. They therefore cite the absence of credit awareness and credit demand from borrowers as the reason for their failure to meet the agricultural credit needs of farmers. In the case of medium and longterm credit to the agricultural sector, where collateral is legally needed, the failure of the formal-sector banks to lend is safely ascribed to the inability of farmers to fulfil the legal norms for loans.

The formal credit institutions cite poor rural debt recoveries as one of the principal causes of their aversion to lending on RFMs. The reasons they ascribe for this are

- (a) inability of borrowers to meet repayment schedules
- (b) legal weaknesses in the system for debt recovery

They thus place rural and urban financial markets on the same footing while deciding to lend. Since debt default is as likely to occur among urban borrowers as among rural borrowers, and the legal frameworks for debt recovery are the same, more stress has to be given to the first reason. The inability of rural borrowers to meet repayment schedules is tied up with the nature of agricultural activity. Income from agricultural does not flow in a steady stream, but is generated in discrete amounts at the end of the crop season. Formal credit institutions like the NCBs lend to both the urban and rural sectors. Hence it is obvious that lending to rural financial markets would lock in funds for specified periods of upto three months, which they can lend more easily to the urban sector to generate a steady stream of banking profits. It is thus very difficult for the same formal credit institution to lend equitably on both rural and urban financial markets, unless some mode for refinancing rural credit exists. The specialised agricultural banks fare better in this respect, although their sources of funds are limited. An arrangement could be potentially worked out whereby the NCBs could lend in bulk amounts to institutions like BKB, and leave the actual disbursement of rural credit to individual farmers to the specialised institutions.

In any case, the main causes for poor debt recovery are rooted outside direct banking activities, and lie in the weaknesses of the legal system and in frequent political intervention. The high frequency of loan default is the only major operational problem faced by the formal credit institutions in RFMs. The other

problems cited by bankers are either procedural or institutional, and include internal problems like poor personnel motivation. No banker believes that operational problems like low fund availability or low loan demand are reasons for the poor performance of RFMs.

The major policy changes that need to be made to remove institutional weaknesses from the agricultural credit system include the redefinition of borrower creditworthiness in unambiguous terms that the banks are legally committed to follow. As seen in the colonial history of banking in Bangladesh, the origins of the collateral system lay in the need of agricultural lending institutions for loan security when the value of the agricultural land held under title was deemed insufficient. Banking at the time had no development goals, and limited attention was thus given to the proper definition of creditworthiness. Pledging of the land held under title was held to be proof of the borrower's ability to repay, and the threat of seizure of land was a sufficiently strong inducement of ensuring repayment.

Institutional rethinking on the definition of creditworthiness commenced when national credit policies were being formulated for independent Bangladesh. Hence the need for collateral was replaced by provision of personal surety by the borrower in the case of short-term agricultural credit. As such, the sufficiency or insufficiency of collateral now has no legal bearing on short-term lending to the agricultural sector. Hence, continued insistence on borrower collateral in this changed context results from the inability of the agricultural credit institutions to find a satisfactory criterion for redefining borrower credit worthiness. The economic literature on rural credit markets suggests that this continuing arrangement results from incomplete information to the lender institutions about their lending risks. In the semi-formal and informal credit sectors, such lender risks are offset by charging a risk premium as a markup on the normal interest charges on loans. Such a method is counterproductive in the case of agriculture, since it drives efficient borrowers away from the RFMs.

Under development banking, the onus on lenders is to inform themselves adequately about the creditworthiness of their borrowers. Collateral arrangements are not a proof of creditworthiness, but a proof of asset-holding among farm families. Since the objective of Government policies in Bangladesh is to uplift the rural poor through agricultural development, credit has to be allocated efficiently rather than securely. In this light, it becomes obvious that the nation's small and marginal farmers, who provide striking evidence of small-farm efficiency because of their hard work and remarkable agricultural skills, constitute the most valuable human resource for Bangladesh. Just as Grameen Bank and the NGOs have done through their micro credit programmes in the non-farm sector, the formal-sector banks must learn to put faith in the rural poor and liberalise their credit support to small and marginal farmers. Creditworthiness needs to be redefined as the ability of a borrower to utilise credit efficiently, which will ultimately also give him the ability to repay. Creditworthiness in these terms can easily be assessed from the repayment-records of borrowers and the uses to which credit received is committed.

The empirical study has also shown that rural borrowers from villages like Maligaon encounter number of problems in obtaining agricultural credit from the formal sector banks. Complicated loan disbursement procedures, disparities between the actual input costs and those stipulated by the credit norms, inadequacy in the amount of credit sanctioned and delay in its disbursement, as well as the high collateral security demands and unfair practices of the bank functionaries or intermediary credit agents are among the principal problems faced by farmers in obtaining agricultural credit from the banks.

The main credit needs of rural borrowers in Bangladesh arise because of their need to finance purchases of agro inputs. Such credit needs are common among all farmers whose land units can support intensive agriculture, whether through applications of technology or high labour inputs. Thus crop credit needs are equally high among smaller as well as larger farmers in Bangladesh. While the need for supporting capital equipment is confined to medium and large farmers, credit support is also needed by small and marginal farmers to meet subsistence needs.

The main difficulties presently faced by farmers in securing agricultural credit from formal-sector banks relate to

- (a) the long institutional procedures to be followed by loan applicants.
- (b) the lack of information about institutional credit schemes

While these difficulties could be easily resolved if the banking institutions adopted a helpful attitude

while dealing with rural borrowers, most farmers face a lack of cooperation from bank personnel when seeking agricultural loans. Since the loan-amounts are also limited and do not cover the actual credit needs of the borrowers adequately, the rural loan applicants often give up the chase and resort instead to multi-source borrowing to cover their credit needs.

Many applicants from the small and marginal farmer group are unable to obtain cheap institutional credit. Lack of collateral is usually cited as the principal reason. These farmers feel that

- (a) the difficult credit rules are designed to block their access to credit
- (b) procedural delays in processing agricultural loans render the credit assistance infructuous

Such problems are not encountered by farmers belonging to the medium and large groups, who draw the bulk of institutional credit. Agriculture, in the ultimate analysis, is based on the classic union between land, labour and capital for the purpose of production. In the present RFMs of Bangladesh, tying of capital and land occurs when farmers holding medium and large holdings corner the main benefits from institutional credit. Their possession of land does not reflect greater productive efficiency but becomes an instrument of power in the RFMs of Bangladesh.

### 9.5 Suggestions from the Study

Bangladesh has the potential to develop in a manner that can bring sustained economic benefit to its farm population. Its land is fertile and its water and manpower resources are abundant. Donor support is also readily available in the form of loans and grants, as well as technical assistance. Even then, the full potential for agricultural development is not being realised.

Agricultural development through institutional credit disbursement depends on careful selection of borrowers on the basis of their technical efficiency, honesty and integrity. This requires that bank officials should have adequate motivation to closely supervise the process of lending and borrower selection. Besides strict enforcement of repayment discipline, efficient RFMs also require uniformity in the lending procedures, interest charges and institutional coordination. Credit preferences should extend to small and marginal farmers who constitute the majority of the farm population. While suitable legal provisions should be made by the Government to minimise delinquency and debt default, the mass of the rural population needs to be educated about the institutional credit system. Policy planners in Bangladesh should thus evaluate the agricultural credit situation continuously and provide the nation with a sound credit system and sound credit institutions to accelerate agricultural development.

Based on the findings and personal experiences gained during the present study, certain suggestions may be made towards improving the institutional working of RFMs in Bangladesh.

Increased Credit Allocation: Present allocations of institutional credit are hardly adequate to meet agricultural credit needs. Institutional investment targets for agriculture should be raised, with the Bangladesh Bank returning to its earlier practice of refinancing all agricultural loans made by the formal-sector banks. No grounds exist for discriminating between specialised and general banking institutions in this respect.

Earmarked Credit: The formal sector banks need to raise credit-deposit ratios in all rural areas substantially by earmarking credit. This simple measure will ensure that financial resources mobilised from rural areas are ploughed back into the development of the rural economy.

Mobile Banking: Continuing need exists to expand the rural banking network of the NCBs, since each rural branch presently serves between 30-50 villages on the average. In areas where low financial turnover and mounting personnel costs discourage such expansion, outstation credit services may be provided by mobile branches of formal credit institutions. Such rural banking services have already been launched by BKB, and their impact on the rural economy can be magnified through emulation by other banks.

*Procedural Assistance:* The loan disbursement procedures followed by formal banking institutions are too cumbersome to meet the spot credit needs of agriculture, and need simplification. Most farmers in Bangladesh are illiterate and need to be assisted while filling-in application forms and complying with other bank procedures. An 'open window' may be opened at banking institutions (particularly BKB) to assist farmers in resolving credit-related problems in a friendly environment, that minimises the unfair exploitation of borrowers by middlemen.

*Professionalism in Banks:* The power of political personalities and government functionaries to influence loan disbursements and recoveries should be curbed. Political considerations should not enter the decision to write-off loans, and distress relief decisions should be separated from credit operations. While agricultural credit should flow in required amounts, hastily planned credit programmes should be terminated to prevent misallocation of institutional funds.

*Decentralised Credit Planning:* Close coordination between all rural lending institutions is necessary to promote efficient utilisation of credit. As a first step, a realistic and objective credit plan needs to be drawn up by the District Lead Bank. Necessary administrative help for this should be sought and made available at the direction of Government, from the Deputy Commissioner [DC] of each Zila and the Upazila Nirbahi Officer [UNO] of each upazila.

*Personnel Monitoring:* The rural branches of the NCBs and BKB should be staffed by experienced personnel with special training in agricultural credit operations. The number of loan applicants, borrowers and loan transactions to be handled at each branch should be related to the personnel strength at the branch, so that each loan transaction can be closely supervised and monitored. The deployment of supervisory personnel should be increased at the branch level. Arrangements should be made through means such as surprise inspections, etc., for proper monitoring of field activities and verification of the records maintained at the bank branches. Bank officials should not be assigned to a specific area for a long duration of time. Their deployment should be on a rotational basis that ensure checks and balances in credit administration. Adequate conveyance facilities should also be provided to every branch for establishing direct contact with borrowers and proper followup.

*Personnel Motivation:* Bank officials need to stop considering their deployment at rural branches as punishment postings. Selection of personnel with the right calibre, from the existing official cadre can bring about tremendous change in rural banking in Bangladesh. Rural branch managers should be pragmatic, humane and free from all complexes, and should embody the abilities necessary to interpret the real objectives of rural banking programmes. Above all, they should be capable of understanding the local problems.

*Differential Interest Charges:* The present scale of agricultural credit is tilted heavily in favour of large and medium farmers. Formal-sector banks should correct this imbalance by earmarking at least 40 percent of their agricultural lending for meeting the specific needs of small and marginal farmers. The lending institutions should also charge differential interest rates to improve the credit access of these farmers. A shift from security-oriented lending to credit-efficient lending should be made on the principle of the creditworthiness of borrowers to ensure that adequate credit is available to support viable agricultural activities, irrespective of the class of farmers involved.

*Functional Autonomy:* Branch officials should be given due autonomy so that they can work freely and can achieve credit targets. They should simultaneously be held responsible for the recovery of overdues. Suitable legal provisions should applied against delinquent borrowers, while provisions for strict disciplinary action should exist against delinquency on the part of bank personnel who are found to be engaged in bribery, corruption and other malpractices, or general misconduct. Bank officials at all levels should also be adequately rewarded and provided with incentives for good work. This would make bank personnel more professional and would improve loan recovery.

Legal Support: The Government should make a quick survey of the laws and procedures relating to the agricultural credit and revise those where updating is necessary. Bangladesh Bank, along with the NCBs and BKB, should jointly identify the problems encountered during agricultural credit operations and offer the Government a set of constructive proposals for remedial action.

Borrower Education: Educating the mass of illiterate farmers through adult education programmes will be essential for popularising rural institutional credit in Bangladesh. Within their existing framework of rural credit operations, banks should organise frequent awareness camps in consultation with the Union Parishads to educate farmers on the advantages and the steps to be taken in the process of availing of institutional loans from formal-sector banks.

The suggestions that have resulted from the present study need proper evaluation and attention from those concerned.

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Department of Economics  
North Bengal University  
INDIA

A STUDY OF RURAL FINANCE IN THE AGRICULTURAL SECTOR OF BANGLADESH

SCHEDULE "A"  
[for Bank Branches]

SAMPLE No.

[a] Name of the Bank: .....  
[b] Name of the Branch: .....  
[c] Name of the upazila: ..... [d] Name of the District: .....  
[e] Date of Opening of the Branch: .....

[Fig. In lakh Tk.]

STAFF AND OFFICERS:	1994 - 95	1995 - 96	1996 - 97	1997 - 98	1998 - 99
[a] Officer					
[b] Supervisor					
[c] Clerk/Cashier					
[d] Others					
ACCOUNTS:					
[a] Current Accounts					
[b] Savings Accounts					
[c] Others					
DEPOSITS:					
[a] Demand Deposits					
[b] Time Deposits					
ADVANCES:					
[a] Agricultural Credit:					
[i] Crop Loans					
[ii] Non-Crop Loans					
[b] Industrial Loans					
[c] Special Loans - if any					
[d] Other Loans					
RECOVERY:					
[a] Agricultural Credit:					
[i] Crop Loans					
[ii] Non-Crop Loans					
[b] Industrial Loans					
[c] Special Loans					
[d] Other Loans					
OUTSTANDING:					
[a] Agricultural Credit:					
[i] Crop Loans					
[ii] Non-Crop Loans					
[b] Industrial Loans					
[c] Special Loans					
[d] Other Loans					



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North Bengal University  
INDIA

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A STUDY OF RURAL FINANCE IN THE AGRICULTURAL SECTOR OF BANGLADESH

INTERVIEW SCHEDULE "B"  
*[ for Bank Officials ]*

SAMPLE No.

IDNUM

DATE

GENERAL INFORMATION

- [a] Name : .....
- [b] Father's Name : .....
- [c] Place of Birth [Thana] : .....
- [d] Designation : .....
- [e] Official Address : .....
- .....
- .....
- [f] Length of Service : .....years

INFORMATION ON BANK PROCEDURES & NORMS

601 Would you please outline the general sequence of procedures followed by your bank / branch while disbursing agricultural credit ?

- (a) .....
- .....
- .....
- (b) .....
- .....
- .....
- (c) .....
- .....
- .....
- (d) .....
- .....
- .....
- (e) .....
- .....
- .....

- 602 What characteristics, according to your bank, identify a *reliable* rural borrower ?
- (a) A person from the rural elite, whose borrowing needs and repayment behaviour are well-known to the branch :
  - (b) A person who is able to offer enough collateral against the loan :
  - (c) A rich and solvent farmer :
  - (d) A person who has a personal relationship with the bank / branch :
  - (e) Any other characteristic (*Please specify nature*) :
- .....
- .....

- 603 What are the usual grounds for rejecting a loan application ?
- (a) Collateral offered is either insufficient enough or not in acceptable form :
  - (b) Clear title [*e.g. rent receipts, mutations, etc.*]to collateral assets are lacking :
  - (c) Loan application is procedurally deficient :
  - (d) The applicant is a known loan defaulter :
  - (e) The applicant and his or her intentions are unknown to the branch :
  - (f) The bank officials are not satisfied with the applicant :
  - (d) The applicant is a known loan defaulter :
  - (e) Any other grounds for rejection (*Please specify nature*) :
- .....
- .....

604 What, in your opinion, is the relative importance of the following factors in disqualifying an applicant who has sought a loan ?

	<u>IMPORTANCE RATING</u>		
	High	Medium	Low
(a) Inability to comply with the bank's lending formalities	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Lack of clear title [ <i>receipts, mutations, etc.</i> ]to collateral assets	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) Procedural deficiency in the loan application	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) Applicant's lack of education	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Baseless charges made by the applicant against by the bank	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) The applicant appears unsatisfactory on the bank officials discretion	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) The applicant being known to be a loan defaulter	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Any other factors ( <i>Please specify nature</i> )	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
.....	: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

INFORMATION RELATING TO CREDIT DISBURSEMENT

- 701 For which reasons do formal banks prefer to disburse industrial and business loans ?
- (a) Because they are less risky than agricultural loans :
  - (b) Because the transactions costs on large loans are lower :
  - (c) Because of political pressure and interference :
  - (d) Because loan supervision is easier than in case of agricultural loans :
  - (e) Any other reasons (*Please specify nature*) :
- .....
- .....

702 What, in your opinion, are the main reasons why small and marginal farmers avail less agricultural credit than large farmers ?

- (a) Because of their lack of information about loans :
- (b) Because of their inability to offer collateral :
- (c) Because allocations of loanable funds for the agricultural sector are inadequate and are mostly absorbed by rich farmers :
- (d) Because small credit disbursements are not cost-effective for the bank :
- (e) Any other reasons (*Please specify nature*) :

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 .....  
 .....

INFORMATION RELATING TO LOAN RECOVERY

801 What are the main reasons which hamper loan recoveries ?

- (a) Frequent and blanket loan-writeoff programmes :
- (b) The pressure to meet credit disbursement targets :
- (c) The ineffectiveness of the legal framework to enforce recoveries :
- (d) Inadequacy of incentives offered for prompt repayment :
- (e) Any other reasons (*Please specify nature*) :

.....  
 .....  
 .....

802 Because of what obligations do the majority of loans which fall overdue have to be sanctioned ?

- (a) Under interference from the Government or the Board of Directors :
- (b) Under political pressure :
- (c) Under the pressure to meet disbursement targets :
- (d) Because of the personal acquaintance and intimacy of the borrower :
- (e) Any other reasons (*Please specify nature*) :

.....  
 .....  
 .....

INFORMATION RELATING TO THE MANAGEMENT OF AGRICULTURAL CREDIT

901 What do you consider to be the main problems faced by the bank in handling agricultural credit ?

- (a) Difficulty in determining the requirement of agricultural credit :
- (b) Lack of adequate loanable funds to disburse agricultural credit :
- (c) Lack of trained and strongly-motivated personnel willing to work in rural areas :
- (d) Complex structure of interest rates :
- (e) Frequent political or Government interference :
- (f) Frequent loan defaults :
- (g) Lack of adequate personal information and statistics about the rural areas :
- (h) Any other reasons (*Please specify nature*) :

.....  
 .....  
 .....

902 What steps, in your opinion, would improve the management of agricultural credit ?

- (a) Bank credit activity should be freed from Government and political interference :
- (b) The legal and regulatory system for bank credit should be updated :
- (c) There should be increased staffing of the rural branches with trained manpower :
- (d) Bank credit should be closely supervised :
- (e) A credit monitoring and evaluation system should be introduced in the bank :
- (f) Any other steps that may be suggested (*Please specify nature*) :

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**THANK YOU**

## HOUSEHOLD CENSUS

(Data will be used in research work only)

Sl. No. : .....

Name of the Household Head : ..... Father's name : .....

Village : ..... Union : ..... Thana : Daudkandi District : Comilla Country : Bangladesh

Land Holding: 1. Homestead..... (decimals) 2. Cultivable Land ..... (decimals) 4. Others ..... (decimals) 3. Total..... (decimals)

### Primary Information & Agricultural Category of the Household

FAMILY MEMBERS			EDUCATION			OCCUPATION		LOAN RECEIVED (IF ANY)		
	Male	Female		Male	Female	Primary	Secondary	Purpose	Amount	Source
Adult			Uneducated			<input type="checkbox"/> Owner cultivator	<input type="checkbox"/> Owner cultivator			
Dependent adult			Functional educated			<input type="checkbox"/> Non-cultivating owner	<input type="checkbox"/> Non-cultivating owner			
Minor (age 14 - )			Can read & write only			<input type="checkbox"/> Share-cropper	<input type="checkbox"/> Share-cropper			
Sub-total			Educated (read above class-vi)			<input type="checkbox"/> Agricultural Labourer	<input type="checkbox"/> Agricultural Labourer			
Total =			Total =			<input type="checkbox"/> Others	<input type="checkbox"/> Others			



Department of Economics  
North Bengal University  
INDIA

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A STUDY OF RURAL FINANCE IN THE AGRICULTURAL SECTOR OF BANGLADESH

INTERVIEW SCHEDULE "D"  
*[for Farmers / Borrowers]*

SAMPLE No.

IDNUM

DATE

GENERAL INFORMATION

[a] Name of the Farmer / Borrower : .....

[b] Father's Name : .....

[c] Place of Residence :

[c.1] Village: .....

[c.2] Union : .....

[c.3] Thana: .....

[c.4] Zila : .....

[d] Nearest Town / Thana HQ : .....

[e] Approximate Distance from Village : .....kilometres

SECTION A

1. Demographic & Socioeconomic Information

101 Age of the Respondent : ..... years (*Completed years*)

102 Sex of the Respondent : M / F (*Male / Female*)

103 Education Level of the Respondent: 0 / FL / .....  
(0 = Illiterate / FL = Functionally Literate / .....Class & completed years of schooling)

104 Earning Status of Respondent : S / J (*Sole Earner / Joint Earner*)

105 Family Type: U / J / S (*Unitary / Joint / Extended*)

106 Family Composition :

[a] Earning Adults: Males.....Females.....Total.....

[b] Earning Minors: Males.....Females.....Total.....

[c] Dependent Minors: Males.....Females.....Total.....

[d] Elderly Dependents: Males.....Females.....Total.....

[e] FAMILY SIZE: Males.....Females.....Total.....

## 107 Occupation of the Respondent :

PRIMARY OCCUPATION	SECONDARY OCCUPATION
[1] Owner-cultivator:	[1] Owner-cultivator:
[2] Owner-cum-tenant:	[2] Owner-cum-tenant:
[3] Fixed-rent tenant:	[3] Fixed-rent tenant:
[4] Sharecropper:	[4] Sharecropper:
[5] Agricultural labourer:	[5] Agricultural labourer:
[6] Non-agricultural labourer:	[6] Non-agricultural labourer:
[7] Artisan :	[7] Artisan :
[8] Petty Trade:	[8] Petty Trade:
[9] Business:	[9] Business:
[10] Service:	[10] Service:
[11] Other:	[11] Other:

**2. Living Conditions of Respondent Household:**

## 201 Residential conditions:

- [a] House-type: K / SP / P (Kachha / Semi-pucca / Pucca)  
 [b] House-status : S / R / O (Self-owned / Rented / Other)  
 [c] Age of House : .....years  
 [d] House-construction cost : .....Tk  
 [e] Annual House-maintenance cost: .....Tk

## 202 Amenities:

- [a] Household Electricity: Y / N (Yes / No)  
 [b] Potable Water-source: PW / CW / P / R / TW  
 (Private well / Community well / Pond / River / Tubewell)  
 [c] Household Fuel-requirements:  
 [c.1] Cowdung .....(weekly quantity & units)  
 [c.2] Crop residues .....(weekly quantity & units)  
 [c.3] Firewood .....(weekly quantity & units)  
 [c.4] Kerosene .....(weekly quantity & units)  
 [c.5] Gas, etc .....(weekly quantity & units)

**3. Asset-Holding Information**

## 301 Land Asset-holding ( in decimals):

- [a] Homestead : .....decimals [b] Homegarden : .....decimals  
 [c] Orchards : .....decimals [d] Fish pond : .....decimals  
 [e] Cultivated land : .....decimals [f] Current Fallows : .....decimals  
 [g] Leased-in land : .....decimals [h] Leased-out land : .....decimals

## 302 Size of landholding :

- [a] Size of Ownership holding: .....decimals  
 (computed from 301[a] + [b] + [c] + [d] + [e] + [f] + [h] )  
 [b] Size of Operational holding : .....decimals  
 (computed from 302 [a] + 301[g] - 301[h] )

## 303 Irrigated Landholding : .....decimals

## 304 Agricultural Equipment :

- [a] Power tillers : .....(number) [b] Tractors : .....(number)  
 [c] Sprayers : .....(number) [d] Pumpssets : .....(number)



## 404 Current Annual Income of the Family : (Earnings in Taka)

Sl.No.	Member	Age	Relation	Income from Farming	Earnings from Agricultural Labour	Earnings from Artisan Activity	Income from Trade	Other Earnings	Total Earnings
TOTAL HOUSEHOLD INCOME									

SECTION B**5. Credit-related Information**

501 Has the respondent ever drawn institutional credit : Y/N (Yes / No)

502 If Yes, what were the loan modalities involved ? :

[a] Borrowing modalities:

Purpose	Loan Amount Applied for [Tk]	Month & Year of Application	Loan Amount Received [Tk]	Month & Year of Receipt
1st Loan.....	.....	.....	.....	.....
2nd Loan.....	.....	.....	.....	.....
3rd Loan.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

[b] Repayment modalities:

	Duration of Repayment [months]	Amount Repaid [Taka]	Interest Charges [Taka]	Repayment Instalments [Number]	Outstanding Amount [Taka]
1st Loan.....	.....	.....	.....	.....	.....
2nd Loan.....	.....	.....	.....	.....	.....
3rd Loan.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

503 Information pertaining to the loan(s) :

- (a) Application fee (including filling-up expenses) : .....Taka
- (b) Expenses relating to land mortgage : .....Taka
- (c) Expenses on conveyance : .....Taka
- (d) Expenses on bank officials / staff : .....Taka
- (e) Other expenses (Specify) : .....Taka
- .....Nautre

504 Principal difficulties faced in securing loans : (put tick-marks)

- (a) Loan information was not easily available :
- (b) Attitudes of bank personnel were unhelpful :
- (c) Loan procedures were complex and time-consuming :
- (d) Loanable funds were insufficient :
- (e) Other difficulties (Specify) : .....Nature
- .....

505 Principal purposes for which the loans were taken : (put tick-marks)

- (a) For agricultural inputs :
- (b) For agricultural equipment :
- (c) For family consumption :
- (d) For acquisition of fixed capital assets :
- (e) Other purposes (Specify) : .....Nature
- .....

506 If institutional credit has never been drawn, the principal reasons for not doing so: (put tick-marks)

- (a) Credit institutions are located too far :
- (b) Formalities for availing loans are too complex :
- (c) Inability to offer collateral against loans :
- (d) Loans are unavailable at the time required :
- (e) Other reasons (Specify) : .....Nature
- .....

507 Sources & Pattern of Utilisation of Credit :

Credit Source	Purpose of Credit	Amount of Credit	Amount spent on Stated Purpose	Amount spent on Unstated Purposes
Bangladesh Krishi Bank [BKB]				
.....Bank [NCB]				
Credit Cooperatives				
NGOs				
Relatives & friends				
Mahajans, moneylenders & traders				
Other sources (Specify)				

Justifications for Selection of Comilla District  
as Survey Area

Some Important Indicators of Major Selected Districts in Bangladesh

Sl.	Name of the District	Population (in lac)	Density (sq.km)	Percentage of small farmers	Cropped area (000 acres)	No. of formal bank br.	Bank deposits (Tk. Million) (Rural)	Bank advances (Tk. Million) (Rural)	% of outstanding (Rural)
1.	Comilla	42.63	1381	90.74	2278	139	5633	2517	56.97
2.	Noakhali	23.47	651	86.45	1415	84	2589	766	49.03
3.	Sylhet	22.81	653	74.80	2478	120	7644	799	27.40
4.	Mymensing	40.96	938	81.78	1363	96	1635	2597	41.04
5.	Faridpur	15.58	751	76.13	2133	68	1258	1155	44.39
6.	Jessore	21.92	850	79.30	2219	96	2238	2053	32.71
7.	Barisal	22.99	823	86.08	1827	84	1772	760	34.66
8.	Rajshahi	19.88	825	79.79	2410	99	2165	977	31.67
9.	Rangpur	22.69	983	81.02	2981	75	1008	2291	55.65
10.	Dinajpur	23.71	689	68.14	1990	107	1692	2445	68.35

Source: Statistical Yearbook of Bangladesh, 1995-1998, BBS.

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