

CHAPTER - SIX

Conclusions and Recommendations

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6.1 Conclusions

After the liberation war in 1971 East Pakistan got the status of an independent nation named Bangladesh. At that time the socio-economic condition of the country was the worst-almost 2/3rd of the total population lived below the poverty line with high illiteracy, massive unemployment and excessive inflation. During the pre-liberalisation regime it was believed that government could well manage the allocation of credit among different economic partners. Following government's directives the nationalised commercial banks (NCBs) along with some specialized development banks performed credit delivery activity but their performance was very poor in terms of the recovery of loan and cost of financial intermediation. The financial sector was very weak in all respects and banks were fully directed and controlled by the government. Nationalised commercial banks allowed and supplied credit to big clients only neglecting the prime sectors of the economy. Financial sector reform in Bangladesh was initiated in the early 1980s by allowing private sector commercial banks (PCBs) to operate. Since then the number of PCBs rose steadily. At present there are nearly thirty PCBs along with some foreign banks operating in Bangladesh. The PCBs are also experiencing overdue problem. Thus both NCBs and the PCBs are plaguing with mounting over-dues. The reason for mounting unrecovered loans in public sector banks in Bangladesh was due to huge amount of credit given to the loss-making state enterprises. Also the NCBs were burdened with politically broken loans. But the problems with the PCBs were completely different. The private sector commercial banks are suffering from insider lending to the sponsor directors of banks (Mahmud, 2004). In Bangladesh even after liberalization in the financial sector there has been a wide gap between lending rate and deposit rate of interest. A Bangladesh Bank data suggest that interest spread was 6.1 percent in 1986-87. It slightly went down to 5.8 percent and 5.9 percent in 1988-89 and 1990-91 respectively. It noticed a high rate in 1992-93, 1994-1995, 1996-97 and 1998-99 when the interest spread were 7.9, 7.4, 7.0 and 7.1 percents respectively. Interest spread slightly deteriorated in 2000-2001 and 2003 December (6.8% and 6.1% respectively).

The financial sector reforms have adversely affected the allocation of credit by the commercial banks to the agriculture and small-scale enterprises. Bangladesh Bank's data show that the ratio of commercial banks' credit advances as proportion of sectoral GDP went on declining to agriculture sector during 1986-87 to 1988-89, 1991-92 to 1993-94 and 1995-96 to 1997-98 when they were 0.96%, 0.90% and 0.77% respectively. In the case of small-scale and cottage industry the ratios are 1.05%, 0.60% and 0.51% respectively during the same periods of time. Gainer was the large and medium sized industry (2.85%, 3.17% and 3.27 respectively during the above-mentioned periods of time). Thus, in Bangladesh, the formal banking sector concentrates on supplying credit to the big clients only while the informal lending sector (Grameen Banks and other non-governmental organizations) only cater to the needs of the poor including the women. The salaried people and people engaged in small businesses were long being deprived of availing credit facilities. Since mid 1990s a number of innovative programmes have been introduced in Bangladesh for extending credit to the salaried people and those engaged in small enterprises. One such innovative programme is the consumer credit scheme for them.

The present study concisely evaluates the consumer credit programme introduced in Bangladesh since 1995-96. We have made an extensive study on the programme covering the Rajshahi Metropolitan area. We have collected primary-level data from four private commercial banks located in Rajshahi, namely, Islami Bank, Prime bank, National Bank and Mercantile Bank. We have carefully analysed the primary as well as secondary data according to the objectives of the study and hypotheses considered for testing. The banks provide consumer credit to the clients for the purchase of consumer durables like computer, colour television, refrigerator, furniture, motor cycle, micro-oven, air-cooler, washing machine etc. One exception is the Islami Bank which provides credit for the purpose of renovating house buildings. The analyses show that almost all the private sector commercial banks disburse credit to the consumers on the purchase of furniture, computer, refrigerator, and colour television. Stuck up advances under the scheme were highest in the IFIC Bank. But the outstanding amount of credit was highest in the Islami Bank during the period. The financial analysis of the banks shows that overall performances of the banks in regard to disbursement and recovery of consumer credit were satisfactory especially in the Rajshahi Metropolitan area (97% in the whole of Rajshahi and 87% in the survey area). But the performances of the banks were poor especially in the Dhaka

Metropolitan area. Deposit, advance, income, expenditure, profit and total asset indicate that the performance of the Islami Bank was highest during the study period followed by the Prime Bank, National Bank and the Mercantile Bank.

Data collected and compiled show that 38.7% borrowers opine that consumer durables purchased under the programme have helped save their time. 27.5% have the opinion that utilization of consumer credit programme has in fact reduced their physical labour in the household, 17.6% opine that the products have increased their entertainment and 16% have informed that the new scheme has helped improve their status in the society. Primary data suggest that 60.3% beneficiaries have the opinion that their standard of living has been increased due to purchasing consumer durables out of the bank loan. Not only this, 53.9% have the opinion that there is positive effect of goods purchased under the consumer credit scheme on their neighbours and colleagues. 66.7% have expressed that they have not faced any financial hardship for taking loans for this purpose.

In this study we have tested five hypotheses relying on the primary and the secondary data. Testing of the first hypothesis shows that there have not been any significant variations in age, amount of monthly instalment and repayment among the sample branches. On the other hand, borrowers' monthly income, amount of credit and amount of down payment have significant variations among the sample branches of the selected banks. According to second hypothesis, there is a positive correlation among the socio-economic background of the borrowers and the consumer credit schemes of the selected banks. It is found that the monthly income of the sample borrowers is correlated with the amount of consumer credit. It is also found that the age of the borrowers has negative effect on the amount of loan but monthly income of the borrowers have positive effect on the amount of loan. It has been found that there exists variations in managerial performances of the selected commercial banks and there exists significant variations among the variables like deposit, advance, income, expenses, assets, number of employees and the number of branches of the sample banks.

It has been seen (fourth hypothesis) that there exists a positive correlation between managerial efficiency and effectiveness of consumer credit scheme of the commercial banks. It is found that the outstanding of the consumer credit is positively correlated

with the income of the sample banks but the variables like disbursement and recovery of consumer credit do not have significant relation with profit, assets and income of the sample banks. But there exists positive relationship among the variables.

The managerial performances of the sample banks are satisfactory (fifth hypothesis). In all, the business performance of the sample banks during the study period is quite satisfactory. The study shows that consumer credit scheme has significant impact on the economy and society. The beneficiaries who have opted for this scheme and bought the consumer durables received benefits in the forms of saving times, reducing hours of labour, enjoying more entertainment and increasing social status. Due to its positive socio-economic impact on the beneficiaries the scheme has been becoming popular among the salaried people.

6.2 Problems

There are some problems associated with the consumer credit programme due to which beneficiaries cannot avail the credit facility. The main problems which a consumer may face are as follows : (i) The salaried person should complete full five years service. A newly appointed service holder cannot avail the benefit because of this constraint. (ii) A high margin money is applied (sometimes it is 2:80 and sometimes it is 40:60). (iii) A branch manager is not empowered to take any decision in relation to reducing margin money, changing credit limit, increasing the number of instalments etc. (iv) A third party guarantee is a must for this sort of credit which is very difficult to manage. (v) Every time limited funds are sanctioned by the head office of a branch. Naturally, branch manager cannot disburse credit as per the requirement of the borrowers. (vi) A borrower faces a problem while transferring from one place to another. This is due to the fact that there is no provision for transferring credit from the old service place of the borrower to his new service place. (vii) There is provision for monthly instalment repayment. Borrowers opine that there should be provisions for repayment on quarterly and half-yearly basis. (viii) Consumer credit is allowed only to the salaried people especially working in schools, colleges, universities, government offices, multinational companies. Consumer's well-being may be enlarged if the loans under this scheme are offered to the self-employed and the agriculturists. (ix) Personal guarantee from two important

persons are required while disbursing this credit to the consumers. This sometime poses problems to the genuine borrowers. (x) There is no loan-adjustment system under the consumer credit programme. This system is available in some other loan schemes. In the present case a borrower who wants to repay the credit before the due date can do so after repayment of interest upto the due date. This is indeed a burden to the service-holder borrower.

6.3 Recommendations

Bangladesh has achieved momentum in economic performance and its human development indicators especially since 1990s. At the time of its liberation it had almost two-third of its population living under abject poverty. By now the poverty has been reduced to 50%. Previously it heavily relied on foreign aid. It has now been noticed a declining dependence on foreign aid. One remarkable feature is that there has been tremendous growth in the literacy especially the women literacy. Improvement in the literacy rate and the growth of gross domestic product (from 3.7% in the 1980s to 4.4% in the early 1990s and 5.2% in the late 1990s) show an important impact upon the decrease in population growth. The population growth slowed down from 2.4% in 1980s to 1.5% in 1990s. This is indeed remarkable. For the further progress of the Bangladesh economy it is urgently required to carry out the institutional reforms. This is urgent not only for accelerating pace of future development of the economy but also for the sustainability of the growth of the economy already achieved. As a part of the financial sector reforms it needs revitalizing the commercial banking sector. The following recommendations are made for the increasing effectiveness of the consumer credit programme in Bangladesh : (i) It needs motivation of the borrowers towards consumer credit programme through publicity and advertisement in a broader way (ii) The benefits of the scheme must be highlighted in the media (radio, television and daily newspapers) to create public awareness. (iii) Rate of interest charged on this type of lending is very high (15 to 16 percent). This should not be above 10 percent. (iv) Terms and conditions for sanctioning the credit under this scheme should be made more simplified. (v) Grameen Bank experience of proper utilisation of credit and recovery procedure should be followed to make commercial banks more viable and effective in the economy. (vi) Monitoring and supervision should be more prompt and effective. (vii) It needs frequent evaluation of the scheme. (viii) We plead for

quick delivery of the credit not only to salaried people but also to the people engaged in business, cottage and small enterprises, and garment industry. (ix) The scheme should be covered to the consumers of rural areas (agriculturists) to improve the standard of living there. (x) There should be a system of reward and punishment in case of loan recovery. (xi) All the commercial banks should follow uniform lending policy especially in regard to equity, number of instalments, interest rate, collateral security, etc. (xii) It needs creation of regulatory body to oversee the functioning of the commercial banks in relation to consumer credit scheme. The regulatory body should be independent from the Bangladesh Bank, as Professor Muhammad Yunus opines, but with active cooperation of the Central Bank.

Bangladesh has achieved tremendous progress in social sector. As we have pointed out earlier that human poverty index (as calculated by the BIDS) has reduced from 61.3 in 1981-83 to 34.8 in 1998-2000. So also the case with head-count ratio (reduced from 70% in 1970s to 50% in 2000). There has also been sharp decline in the infant mortality rate, decrease in population growth, increase in literacy and enrolment, improvement in food security (due mainly to rapid increase in rice production), improvement in disaster management, improvement in health conditions and nutritional status. All these are due to the positive impact of integrating the economy with the global economy and its highly market orientation. But Bangladesh is weak in two major sectors i.e., in infrastructure and financial sectors. For the development of the entire economy it needs stability and sustainability. Stability in the economy can only be ensured when reforms in both infrastructure and financial sectors along with other sectors of the economy are appropriate and welfare-augmenting.