

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.