



**INTERNAL CONTROL SYSTEMS IN THE
AGRICULTURAL BANKING SECTOR OF
BANGLADESH**

Master in Philosophy in Accounting and Information Systems

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DEDICATED

TO

MY BELOVED FATHER

late MD. ABDUR ROB

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DECLARATION

I do hereby declare that the M. Phil thesis entitled “**INTERNAL CONTROL SYSTEMS IN THE AGRICULTURAL BANKING SECTOR OF BANGLADESH**” for the partial fulfillment of degree of my Master of Philosophy (**M. Phil.**) is an original work.

I also confirm that this thesis is uniquely prepared by me and the thesis has not been submitted earlier either partly or wholly to any other University or Institution for any Degree, Diploma, Associate-ship, Studentship, Fellowship and others similar title or prizes.

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CERTIFICATE

This is to certify that this M. Phil thesis entitled “**INTERNAL CONTROL SYSTEMS IN THE AGRICULTURAL BANKING SECTOR OF BANGLADESH**” submitted to the Faculty of Business, University of Dhaka, in partial fulfillment of Master of Philosophy (M. Phil.) degree in Accounting & Information Systems is an original work. The research work was carried out by Mrs. Farhana Rob Shampa, Registration No. 122, M. Phil Roll No.7006 under my supervision and guidance. No part of the thesis has been submitted for any other degree or diploma.

I also further certify that any help or source of information, as has been availed of during the course of this investigation has been acknowledged.

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ABSTRACT

The work described in this thesis details the Internal Control Systems in the Agricultural Banking Sector of Bangladesh. Some works had been reported previously on the similar topic, but any work on the same topic of the present study has not been studied to date. This study gave effort to improve the Internal Control System of Bangladesh Krishi Bank (BKB). This research work was trying to relate farmers' access to institutional finance.

During this study data was collected from two sources, namely, from the primary source and the secondary source. For the primary source of data, this study developed two types of questionnaires. Sample size for the primary source of data was 135. This research is mainly based on primary data with a structured questionnaires consisting of Part-I and Part-II. Part-I has two demographic questions and 10 statements for **Yes** or **No** option related to audit process, audit committee, Board of Directors and top managements. Part-II has 16 questions related to the information of branch including the Internal Control System of banking and another 15 questions have only closed ended options designed in a Five point Likert scale to measure Internal Control System of branch.

This study also tried to point out the organizational overview of the Bangladesh Krishi Bank to link up the performance of the internal control system. A comparative analysis of credit performance, loan disbursement etc of BKB to other agricultural banking and non banking financial institutes were performed. Besides, the Internal Control Systems and its effectiveness have been evaluated. The evaluation of the scenario of the banking sector revealed the exploitation mechanism of farmers and its impact on the agricultural sector and the economy.

This study is also to determine the auditor's responsibility in the agricultural banking sector in Bangladesh. In fact, the key factor of enhancing credibility of the financial report is essential.

Auditors' responsibility is to judge the financial statements providing through the management.

In recent years banking sector corruption scandals were happened, so there is strong demand that audits should be standard as well as reliable. It is also expected that auditors

should detect fraud. The auditors view their role as bringing credibility to financial statements, but because of limitation they cannot detect all kinds of fraud. But most of the auditors thought their job to prepare the financial statements and, on the other hand, detection of fraud is the responsibility of the management. On other hand, Management's opinion regarding detection of fraud is the task of auditors. The findings of this study indicate that there are significant differences between auditors and bankers opinion in areas of detecting fraud and illegal acts. In this study, the authors came to conclusion that the bankers have reasonableness expectation than the auditors.

Based on the findings, it is suggested for future research on issues that could improve the usefulness of the unqualified auditor's report and the overall transparency of the financial reporting process. Finally, the present study concluded with recommendations to improve the Internal Control Systems of the agricultural banking sector to avoid the exploitation of the farmers for the development of the agricultural sector as well as the economy of Bangladesh.

CHAPTER 1

INTRODUCTION

1.1 PROBLEM OF THE STATEMENT

Agriculture still plays a significant role in the total economy of Bangladesh; it contributes for 30 percent of our national GDP and creates job around 60%. Development of this country is impossible without investment in the agricultural sector. It is necessary to develop and increase strength of the agricultural sector we need to increase finance. Access to finance is critical for the growth of the agricultural sector. Agricultural production requires funds. In Bangladesh commercial lending in the agricultural sector is still low. Most of the financial institutions are reluctant to accept the risks prevalent in the agricultural sector, such as floods, cyclone, pests and other problems (Chowdhury 2010).

This research is trying to relate farmer's access to institutional finance is one of the major problems in Bangladesh in the rural areas and internal control systems of the agricultural banking sector in Bangladesh. The present study likes to reveal the impact of internal control system of agricultural banking sector of Bangladesh. This thesis detailed the work on Bangladesh Krishi Bank (BKB). According to the Transparency International Bangladesh (TIB 2014) bribes related to agricultural loans are said to range between 10 to 20% of the total loan amount. No actual figure out in amount or numerical value has been not found yet. Although agricultural banking sector is an important sector for Government of Bangladesh, but no research report is available to find out the fraud or corruption which is epidemic in the banking sector of the country.

This study tried to identify whether effective and efficient internal control system is the best control measure for preventing and detecting fraud, especially in the agricultural banking sector in Bangladesh. Corruption in banking sector is well recognized in our country (Rahman P hD. thesis 2004). Most of the farmers are poor and illiterate. They suffer due to irregularities in agricultural loan. Irregularities in agricultural loan disbursement are nothing new. Farmers are sufferer from the British period to till now. Money lenders gave farmers loan and using benami (false name)

transaction or keeping two kinds of documents, one documents was kept for showing to the farmers and the another book kept for recording the real transactions for British official records. Farmers were rarely in a position to challenge the later set of papers (Bagchi 2014).

Farmers need financing for three stages firstly for inputs such as seeds, fertilizers then for machinery and equipment and marketing (such as processing, packing and transport). Thirdly, farmers need short term credit. Bribes and corruption took place every stage of loan payment (Nurul Islam 1996).

Now a day's banking sector under the close relationship which has been characterized as relationship banking, i.e., a setting involving repeated bilateral relations between banks and borrowers. Relationship banking helps to increases the banks profit and increases bank loan recovery performance. But in our country relationship banking is exit but it helps borrower to borrow big amount of loan from the bank. Relationship banking increases the loan default risk of the bank (Bagchi 2014).

This study was tried to find out the fundamental cause of the fraud in the agricultural loans by Bangladesh Krishi Bank and it is the inappropriate credit policies and corruption in management needs to improve internal control system. Government has immense effort and huge number of loan distributions by Bangladesh Krishi Bank but real poor farmers do not usually get sanction of bank loan without bribes. Farmer needs to pay bribes when they need to sanction the loan and supervisors visited them (Nurul Islam 1996).

Agricultural credit depends on highly seasonality and length of time. Farmers apply for loan in the month of April and they need it in the month of May. Loan was sanctions to the farmers but delay the payment, affect adversely the farmers. There are also lots of irregularities in distribution of loan among farmers and sometimes bank loan (written form) money were not paid to them and there were lot of irregularities in the loan distributing among the farmers. This is not only adversely affected the agricultural sector production, but also our economy as a whole. According to the media and different newspaper of Bangladesh agricultural Bank can reach only 5% of the rural farmers of the country. Bangladesh Krishi Bank has more than 952 branches (except Rajshahi Division) all over the country (Annual Report of BKB 2015). Government of Bangladesh must remove all the irregularities to ensure that the credit

goes to real hand of farmers. Now it is also a major concern for the Bangladesh Bank (Central Bank of Bangladesh). Effective internal control is the precondition for true foundation of safe and sound banking. A properly designed and consistently enforced system of operational and financial internal control helps Banks' Board of Directors and Management to safeguard the banks' resources. It helps auditors to process reliable financial reports and complies with laws and regulations of the bank. Effective internal controls also reduces the possibility of significant errors and irregularities of the bank and assist in their timely detection on when they occur.

Internal control is a system structured within the corporation whose goal is to raise efficiency and effectiveness of the bank activities. The system assures the conformity of activities within the laws and regulations and improves the reliability of financial reporting. Internal control system possesses vital importance for the institution to attain its ultimate objectives. Internal control system allows banks to foresee potential problems which may cause financial losses and thereby prevent or minimize any future losses.

1.2 OBJECTIVES OF THE STUDY

The main objective of this study is i)to determine the impact of internal control, on the overall management of Bangladesh Krishi Banks, to examine the efficiency of the internal control systems for fraud prevention and detection of Bangladesh Krishi Bank (BKB).

Effective internal control provides bankers and examiners reasonable assurance that bank operations are efficient and effective, recorded transactions are accurate. Financial reports are reliable. Risk management systems are effective and the bank complies with banking laws and regulations, internal policies, and internal procedures. Control systems can help bank managers to measure performance, make decisions, evaluate processes, and limit risks. Good internal control can help a bank to achieve its objectives and avoid irregularities. Effective control systems may detect mistakes caused by personal distraction, carelessness, fatigue, errors in judgment, or unclear instructions in addition to fraud or deliberate non-compliance with policies.

Specifically, the purpose of the research may be stated as follows:

- To assess the performance of the BKB
- To assess the accuracy of the recorded transactions
- To assess the reliability and standard of the Financial reporting of BKB
- To assess whether the bank (BKB) complies with, internal policies and procedures
- To give necessary recommendations to improve the internal control system of the BKB

1.3 IMPORTANCE OF THE STUDY

To ensure the survival and growth of the agricultural sector farmers need desperately institutional credit (cheaper in compare to the non formal sources). It is necessary to restore public confidence on Bangladesh Krishi Bank. The confidence of the farmers and public would depend on the financial and operational performance of the bank. Rural finance sector is dominated by Bangladesh Krishi Banks with huge debts burdens. There is corruption and inefficiency in loan sanctioning, has led to the slow recovery of credit extended by the banks. To restore efficiency and accountability in this sector, an effective internal control system of the bank's operations have become necessary. Partial fulfillment of the credit requirements of the farmers by the institutions cannot create confidence of the farmers on the institutional availability of credit, and thus, cannot break away their ties with local informal money lenders to whom they are economically, and socially dependent. To achieve this target, through research regarding the need of credit of a farmer, his repaying capacity and problems faced in receiving credit along with the efficiency and fraud and corruption problems of the operative and functional management level of the institutions is necessary to remove. But unfortunately no research has been done previously.

Internal Control systems can help bank managers measure their performance, make decisions, evaluate processes, and limit risks. Good internal controls can also help a bank to achieve its objectives and avoid surprises. Effective control Systems may detect mistakes caused by personal distraction, carelessness, fatigue, errors in judgment, or unclear instructions in addition to fraud or deliberate non-compliance with policies. Effective and well-designed control systems are still subject to execution risk. In other words, human beings still must execute most control systems

and even well trained personnel with the best of intentions can become distracted, careless, tired, or confused. Effective internal control provides bankers and examiners reasonable assurance that Bank operations are efficient and effective and so also recorded transactions are accurate. Financial reporting is reliable. Thus it was found that previously no researchers have emphasized the need of through and in-depth research on the internal control System of BKB. On the basis of above observations and keeping in mind the significance and relevance of the study, **“Internal Control System in Agricultural Banking Sector of Bangladesh”** has been planned. The present study was conducted on all the credit giving by Bangladesh Krishi Bank operating in rural and urban area in Bangladesh Their internal control system of management prospects and problems were focused by this study. Bangladesh has ranked for several years among the most corrupt nations in the world (Rahman 2014). All this reflects the extent and depth of corruption in Bangladesh and the urgency of the need to control and combat the menace if the objectives of economic growth and social justice are to be realized.

It is expected that finding of the study would be of great use to Policy Makers, the Planners, the Bankers, NGO’s and the Government at large regarding planning and formulating internal control policies and implementing them. It would also add some new ideas to the of existing knowledge. Here lies the justification of the present study.

1.4 JUSTIFICATION OF THE STUDY

Bangladesh is predominantly a rural country where a vast majority of the population depends on for loan from formal, semi-formal and informal sources. Informal and semi-formal sources provide the lion’s share of rural finance. Amongst the formal sources, the Bangladesh Krishi Bank provides about 60% of the total supply of rural finance to rural people (Chowdhury 2010).

The corruption problem arises when bank provides large loan to patron clients promoted by the government in power or through bribe payment by influential business to managers of banks without doing due diligence and on-enforcement of loan servicing provisions. The corruption problems typically emerge from public ownership of the country. It was found no such problem in case of foreign banks in

Bangladesh. No previous research has been done to find out the fraud and corruption or irregularities in the banking sector in Bangladesh. So also the agricultural banking sector is also ignored.

This studied was carried on Bangladesh Krishi Bank as attributable to weaknesses in the internal control systems. This study has clearly pointed out the picture of how fraud has been penetrated in the financial strength of Bangladesh Krishi Bank (BKB). In a nut-shell, the damage which this menace, called fraud has done to the banks is innumerable and needs urgent attention. Therefore, the attempt to put an end to this economic degradation, gave rise to the topic of this research study the impact of internal control in the BKB as taken a sample of study of internal control system of agricultural banking sector of Bangladesh. BKB distributes the highest number of institutional credit among the farmers in Bangladesh. However, this study is aimed at verifying the conception that an effective and efficient internal control system is the best control measure for preventing and detecting fraud, especially in the agricultural banking sector. Primary and secondary data were captured for this study, were analyzed through descriptive and inferential statistical methods. The descriptive analysis involves the use of percentages, tabulation and graphical presentation. The inferential statistical method involved the use of the mean and standard deviation. The functions of fraud prevention, detection and control are interrelated and this three works together to eliminate fraud and fraudulent tendencies. Therefore, internal control is highly significant in fraud detection and preventions in agricultural banking sector of Bangladesh.

The Auditors reported 2 fraud cases and they found 6 BKB personal were involved. They also found that loan corruption reported in the financial statements more than Tk. 600 million taka was missing from the different branches of BKB. But no alleged employees lost their job. The problem of the corruption problem arises when bank provides large loan or loan sanction for local political party pressure to patron clients promoted by the government in power or through bribe payment by influential business to managers of banks without doing due diligence and on-enforcement of loan servicing provisions (Nurul Islam Ph.D thesis 1996). 20 borrowers of BKB took the large amount of loan from the bank and that was 10% of bank's total capital and all of them are loan defaulter. In additional to that from the year 1983 to 2014 number of frauds was committed. The total amount involved in the fraud cases is 229 million

taka and only 19 million taka was realized (BKB, Annual Report 2015). BKB was owned by the GOB and most of the top to bottom employees were appointed by the government. Sometimes some people got appointed by political connection and they are very powerful. BKB was also appointed more employees than it was required. The corruption problems typically emerge from public ownership of the country. It was found no such problem in case of private or foreign banks in Bangladesh. No previous research has been done to find out the fraud and corruption or irregularities in the agricultural banking sector of Bangladesh. So, this study was done on this topic and it was thought that there is a strong justification to study this topic.

1.5 LIMITATIONS OF THE STUDY

Researcher needs time, money and other resources to make the research meaningful and manageable from the practical point of view. The present study did not get any research grant or financial assistant. It was difficult for her due to time and money. This study has some other limitations. These limitations are listed below:

- i) The study had covered five divisions and different regions in Bangladesh but this research avoided some regions where it was difficult to go.
- ii) Data was collected from the Auditors and Bankers (Top, middle and low) through direct interview method. But this study did not collect data through questionnaire method from farmers.
- iii) Lack of sincere co-operation from few branch managers of BKB had made difficult for the present study was carried out to collect some more information and in-depth investigation of internal control system of BKB. But the present study of the thesis try her level best and gave utmost effort to make the thesis and tried to minimize the data constrained.
- iv) It was not possible for writer of the report to collect primary data by questionnaire method from Board of Directors or Chairman of the BKB.
- v) The thesis loan disbursement of five divisions of Bangladesh Krishi Bank limited were collected and reported. But the Rajshai division and Rangpur division were excluded because these two divisions disbursed loan through by Rajshashi Krishi Unnayan Bank (RAKUB).

- vi) It was very difficult to get accurate information because the respondents do not want to disclose some information due to confidentiality of the bank.
- vii) Auditors and bank officers are very busy and it was very much time consuming to get information from them.
- viii) Internal control system of BKB very sensitive issue for auditors' of the bank and they showed reluctant to give some information.

Thus, it appears despite the of best possible effort to minimize the effect of the in-built limitations of the study, the present study was not successful in all respects. However, every possible effort had been made to counter check the data that were collected to make them more reliable and adequate through minimization of the probability of errors. As such, the limitations of this study have very little adverse impact on the finding of the thesis.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction:

There are many researches which emphasized the necessity and importance of internal control system in the banking system. An insufficient internal control system often causes an inability to detect fraudulent activities and a decrease in the performance of the bank (Adeyemi *et al.* 2011).

The Basel Committee (Basel 1998) along with banking supervision Act (Basel I,II & III) throughout the world, has focused increasingly on the importance of sound internal controls. Internal control is a process affected by the board of directors, senior management and all levels of employees. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank. The board of directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within a corporation must participate in the process.

Albrecht (Albrecht 1996) mentioned that the administration board and executive management promotes high standards of ethics and integrity, establish an institutional culture highlighting and demonstrating the importance of internal control on all organizational levels. All employees of the bank must be aware of the role they have in the internal control system and must be actively involved in this process.

Low (Low 1998) study on internal control system asserts that the system should be always kept under control and supervision since people tend to think about their interests more rather than the interests of the corporation. If there is a failure in the financial accounting system of a corporation, a decrease in assets and an increase in abuses will inevitably takes place in the absence of an effective internal control system.

Karagiorgos along with others (Karagiorgos et al. 2011) found a number of interactions between components of internal control system and effectiveness of internal auditing within Greek Banks.

Olatunji (Olatunji, 2009) examined the impact of internal control system in banking sector and according to the findings the lack of an effective internal control system is the major cause of bank frauds in Nigeria. It was then concluded that the management of every bank should create and establish a standard internal control system, strong enough to stand against the wiles of fraud in order to promote continuity of operations and to ensure the liquidity, solvency and going concern concept of the bank.

Amudo and Inanga (Amudo *et al.* 2009) identify the following six essential components of an effective internal control system; control environment, risk assessment, control activities, information & communications, monitoring and information technology in their study. The findings of the study under evaluation results were that measuring effectiveness of internal control is concerned with the existence and functioning of the six major control components identified by the model. One of the variables, perhaps the most prominent one, vital components of a bank's structure in modern banking system is internal control system in developed or developing countries. Because effective and efficient performance of the system indicated that the bank operates according to their desire. Consequently, investors and other customers in the market will prefer to use the services of that bank since they will have confidence and peace of mind about bank's financial stability (Yavuz, 2002).

2.2 Definition of fraud

Fraud has increased considerably over the recent years and professionals believe this trend is likely to continue. According to Brink and Witt (1982), fraud is an ever present threat to the effective utilization of resources and it will always be an important concern of management. The review of the literature showed that fraud has been broadly defined in ISA 240 that 'The Auditor's Responsibilities to Consider Fraud in an Audit of Financial Statement (Revised)' [refers fraud as "an *Annales Universitatis Apulensis Series Oeconomica*, 11(1), 2009 56 (para. 6)"].] intentional act

by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage. KPMG Forensic Malaysia; 2005:5, in their Fraud Survey 2004 defined fraud as “a deliberate deceit planned and executed with the intent to deprive another person of his property or rights directly or indirectly, regardless of whether the perpetrator benefits from his/her actions”.

Weirich and Reinstein (2000 cited in Allyne & Howard 2005:285), defined fraud is as “intentional deception, cheating and stealing”. Some common types of fraud include creating fictitious creditors, “ghosts” on the payroll, falsifying cash sales, undeclared stock, making unauthorized “write-offs”, and claiming excessive or never-incurred expenses. Pollick (2006) stated fraud as a “deliberate misrepresentation, which causes one to suffer damages, usually monetary losses”. According to Pollick, most people consider lying as fraud, but, in a legal sense, lying is only one small element of actual fraud. Albrecht *et. Al.* (1995 cited in Allyne & Howard, 2005:287) classified fraud into “employee embezzlement, management fraud, investment scams, vendor fraud, customer fraud, and miscellaneous fraud”. Fraud also involves complicated financial transactions conducted by white collar criminals, business professionals with specialized knowledge and criminal intent (Pollick 2006).

According to Black Law Dictionary (cited in Lawrence et al 2004), fraud also means “taking advantage over another person by providing false, misleading suggestions, or by suppression of the truth”. Therefore, fraud is not restricted to monetary or material benefits. It includes intangibles such as status and information. In the anti-fraud policy in Murdoch University (2001), fraud is described as “inducing a course of action by deceit or other dishonest conduct, involving acts or omissions or the making of false statements, orally or in writing, with the object of obtaining money or other benefits from or by evading a liability”.

According to MacDonald (1993), there are no actual definitions of fraud and error since the dividing line where error crosses into fraud is based on the psychological construct of intent. MacDonald argues that fraud is a legal term, which applies when intent can be proven in a court of law. However, Pollick (2006) claims that fraud is not easy to prove in a court of law as the accuser must be able to demonstrate that the

accused had prior knowledge and had voluntarily misrepresented the facts. According to the definition given by Mr. Alexandra Boroj in his Dictionary of Criminal Law”, fraud is defined as cheat, misguidance, and delusion for profit purposes by inducing damage. Mr. Mircea N. Costin, in his “Dictionary of Civil Law”, defined fraud as an intentional violation by the parties of the mandatory provisions of the legislation in force, often by using perfidious means, at the conclusion or execution of a legal act.

2.3 Auditors’ responsibilities in fraud detection

Fraud detection has been considered a major purpose of auditing for a very long time. Gupta and Ray (1992) cited that an internal auditing that shows fraud discovery to have been certain both medieval and early modern times. Flesher *et. al.* (2005), in their review of American auditing of the earliest colonial days and described an activity suffused with the intent to detect financial misconduct.

2.4 Conclusion

Thus it was found that previously no researchers have emphasized the need of thorough and in-depth research on the Internal Control System of management of BKB. On the basis of above observations and keeping in mind the significance and relevance of the study, “Internal Control System in Agricultural Banking Sector of Bangladesh.” has been planned. The present study was conducted on the credit given by Bangladesh Krishi Bank in rural and urban areas in Bangladesh. Their internal control system of management prospects and problems will be focused by this study. Bangladesh has ranked for several years now among most corrupt nations in the world (Rahmand Phd thesis 2004). All this reflects the extent and depth of corruption in Bangladesh and the urgency of the need to control and combat the menace if the objectives of economic growth and social justice are to be realized. Thus the financial reporting should be reliable.

CHAPTER 3

METHODOLOGY OF THE STUDY

3.1 INTRODUCTION

Methods and procedures of collecting and analysis of data are very important for research. It is necessary to design the research frame work and select the appropriate research methodology. A research design is simply a frame work or a plan for a study that may be used as a guide in collecting and analyzing data in an appropriate way. The research methodology is a way to systematically solve the research problem. Methodology means the underlying principles and rules of organization of a philosophical system or inquiry procedures. There are various methods of conducting social-economic research, particularly in the light of the set research design such as interview method, observations, case study method, historical method, statistical method and the so on. When necessary two or more methods may also be combined. In the case of the present study methodology is to be taken to indicate the underlying principles and methods of organization and the system of inquiry procedure leading to completion of the study. In fact, the chapter includes the operational format and comparative refection of some variables uses in the study. Also statistical methods and their use have been mentioned in the chapter.

3.2 SOURCES OF DATA

The data for the study were collected both from the primary and the secondary sources. The author of the thesis has always been careful about the objectives of the study and has, therefore, collected data accordingly to accomplish those objectives.

3.2.1 Primary Sources

Data were collected from a carefully designed sample survey. For collection of primary data, two interview schedules were prepared for target groups of the study. One for Board of Directors, Internal Auditors and another one for Branch Managers, Second Officers and Supervisors of the BKB. In designing the interview schedule some research work related to study was consulted. The schedules were reviewed by supervisor of the study. Population and Sampling: BKB has 822 rural branches and 37

urban branches in Bangladesh. The following types of data were collected in field survey;

3.2.2 Secondary Sources

The data collected from the secondary sources were required to fulfill one of the objectives of the study. Secondary data regarding organisational set-up of the Bangladesh Krishi Bank have been collected from different offices records, Annual reports of the BKB, Bangladesh Bank annual report.

Other necessary secondary data have been collected by consulting various documents such as different loan Manuals, Audit reports, Book-lets, periodicals, Circulars, Office orders and so on of the BKB. Furthermore, various publications of the BKB are available. Besides that, various publications of the various writers home and abroad were used where felt necessary.

- Annual Report of BKB (2004 to 2015) twelve years
- Office files and documents of BKB of different Branches and Corporate Branch
- Bangladesh Bank Report. 2005 to 2016
- Different text books
- Audit Reports
- Relevant books, Research papers, Newspapers and Journals
- Web sites

3.3 Selection of Sample

There are 952 branches are in the BKB and among them rural 822 and urban is 130 respectively. The selection of branches will made on the basis of the different divisions (4 divisions) in Bangladesh, in order to cover the agricultural banking sector as a whole, which has been divided into 5 divisions. From the 952 branches we have selected 54 branches randomly and proportionality.

3.4 Sample of the Study

Total sample size of the study is 174 employees (including Branch Manger) are working in the Bangladesh Krishi Bank are here considered as sample of the study.

This research is mainly based on primary data with a structured questionnaire consisting of 17 questions taking help from previous research. In the questionnaire, there was two parts. The first part was demographic and second part was only closed ended options have been considered. In the second part there 13 questions were designed in a Five point Likert scale to measure internal control system. Respondents were asked to indicate to what extent they agree that each met their internal control system of the organization on five –point Likert scale with “strongly agree” reflecting the highest level of internal control system and “strongly disagree” indicating the lowest level of internal control. The sample was selected in a simple random basis. Each form includes six dimensions to be measured. These are:

The original a questionnaire was pre-testing; the original questionnaire has been modified for the final and ultimate survey. The questionnaire was developed in English on the basis of insights from interviews with the officers of the BKB.

3.5 Data Collection

Data were collected personally by the researcher through face to face interview from the randomly selected respondents with the help of an interview schedule. The researcher made all possible efforts to collect accurate and authentic information. The coordination and cooperation of the respondents were nice. The data collection was done from (five districts and sample size covered 30% of the total branch). The researcher sought out and prepared it for analysis. The respondents were assured about confidentially of their information delivered to the researcher.

3.6 Data Analysis and Tabulation Techniques

Data were compiled, tabulated and analyzed accordance with the objectives of the study by using SPSS (6.1 version) program, Microsoft Excel. Qualitative data were

converted into quantitative form by means of suitable scoring techniques for the purpose of analysis.

3.7 Reliability Test

In order the internal reliability of the model used, the researchers used Cronbach's alpha Test of Reliability. Applying this test specifies whether the items pertaining to each dimension are internally consistent and whether they can used to measure the same construct same dimension of internal control system. Accordingly to Nunnaly (1978) and Cronbach's alpha should be .700 or above. But some researcher suggested .600 also considered acceptable (Gerrard, et al, 2006; Kenova and Jonasson, 2006).

CHAPTER 4

ORGANIZATIONAL SET-UP OF THE BANGLADESH KRISHI BANK (BKB)

4.1 INTRODUCTION:

The major occupation of the people of Bangladesh is "Krishi". Krishi is a Bengali word which means "Agriculture". About 85% of the population depends directly or indirectly on agriculture which contributes a significant portion to GDP. Bangladesh Krishi Bank (BKB) has been established under the Bangladesh Krishi Bank order 1973 (President's Order No 27 of 1973). The primary objective of BKB is to provide credit facilities to the farmers for the development of agriculture and entrepreneurs engaged in development of agro-based and cottage industries. The Bank is guided in accordance with the policies and principles of the Government of the Peoples Republic of Bangladesh. BKB has an authorized capital of Tk. 15,000 Million (Taka Fifteen thousand Million) only and paid up capital of Tk. 9000 Million (Taka Nine thousand Million) only which is fully paid by the government. The Bank started commercial functioning since 1977 to generate more loanable fund from the idle rural and urban savings and invest them for the betterment of our economy.

Banking is a very vital part of an economy and plays very significant contribution towards socio-economic development of a country. This sector is considered to be like the life blood the economy as well as one of the most important components of the financial system it forms the core of the money market and plays very essential role in mobilizing resources for productive investments in a country which in turn contributes to economic development. and efficient banking system is one of the most important preconditions to achieve economic development of the country. At present a total 47 banks (4 SCBs, 4 DFIs, 30 PCBs and 9 FCBs) having 7246 branches are operating in the country. It comprises land area of 1,48,393 square kilometers or 57,294 square miles more than 90% of which is rural.² In Bangladesh we have 85,650 villages and villages are grouped into 4,472 unions and whole

country is the rural economy of Bangladesh as 90 percent of rural with agriculture workers of the country is directly involved and the sector employs 48 percent of the total labor force of the country.

4.2 ORGANIZATION SET UP OF THE BKB

According to the BKB order, 1973 (Presidential order No. 27, 1973) the responsibility of the BKB affairs and overall business operation and administration were vested with the Board of Directors. Initially, the Board of Directors of the BKB consisted of 7 Directors -including the Managing Director as Chairman, four officials- one each from the Ministry of Agriculture and Forest, the Ministry of Fisheries and Livestock and the Bangladesh.

Bank and two non-officials nominated by the Ministry of Finance. In April, 1981, the Government of Bangladesh decided to separate office of the Chairman and Managing Director to appoint a non-official Director as Chairman of the Board whereas the Managing Director remained the Chief Executive of the bank. Accordingly the BKB order, 1973 was amended. Now Board of Directors of the BKB consists of eleven members including the Chairman. The present Board of Directors (22 January, 2016) was as follows:

1.	Mr. Mohammad Ismail	Chairman
2.	Mr. M. A. Yousoof Managing Director (MD), BKB.	Member
3.	Alhaz Mahabubar Rahman Bhuyan Director	Member
4.	Mr. Shabuddin Ahmed Director General (DG)	Member
5.	Mr. Mamataz-Ala-Shakoor Ahmed Director	Member
6.	Mr. Md. Abdul Jalil Mian Director	Member

7.	Krishibid Md. Moshiur Rahman (Humayun) Director	Member
8.	Mr. Khandaker Morad Hossain Director	Member
9.	Mr. Mohammad Shafiqul Azam Director	Member
10.	Mr. Md. Ali Noor Director	Member
11.	Mr. Md. Hamidur Rahman Director	Member

Sources: BKB Head Office

The BKB has adopted a three-tier organization for channeling credit at the rural area. The general outline of the system is described below.

- 1. Top level management (Head Office)**
- 2. Mid level management (Divisional, Chief Regional and Regional Offices) and**
- 3. Operative level management (Branch Offices)**

4.2.1. Top Level Management (Head Office)

The overall management of the top level is vested with the Board of Directors headed by a Chairman. Board of Directors makes the policy and gives the guidelines in keeping pace with national policy set by the Ministry of Finance, Government of Bangladesh and Bangladesh Bank (BB). The Board delegates authority for the day to day management to the Managing Director of the Bank. Managing Director is assisted by the Deputy Managing Director (DMD) and General Managers. For smooth operation of the activities in the Head Office separated one secretariat and three divisions have been set up, such as DMD secretariat, Planning and Operation division. Administration division and Audit and Accounts division. Each division is headed by a General Manager.

4.2.2 Mid Level Management (Divisional, Chief Regional and Regional offices)

The mid level, that is, Divisional offices, Chief Regional offices and Regional Offices which are headed by Divisional Manager, Chief Regional Manager and Regional Manager respectively. These offices are assisted by General Manager, Deputy General Manager and Assistant General Manager. They maintain and link between the Head Office and officers of the Branches and co-ordinate and monitor the activities of the branches under them.

4.3.3 Operative Level Management (Branch Offices)

The Branches are the operative level. The branch is headed by a Branch Manager whose designation varies with the size of the branch. In fact, branches are categorized depending on size, importance, deposit and advances. The branches are concerned with deposit collection, disbursement of loan, recovery of loan in line with the policies and decisions made by the top level management in the Head Office.

4.4 History of Establishment of Bangladesh Krishi Bank

The BKB was established under the BKB order 1973 (Presidential order no. 27 of 1973). It is in fact, the successor of the former ADBP which was established in 1961 by the merger of the ADFC established in 1952 and the ABP (Agricultural Bank of Pakistan) established in 1957. After liberation in December 16, 1972, the ADBP became Agricultural Development Bank of Bangladesh (ADBB) and subsequently renamed as the BKB in April, 1973.

Some of the important clauses of the BKB order are : The BKB order, 1973; whereas it is expedient to set up a Krishi Bank to provide credit facilities to agriculturists and persons engaged in cottage industries and to provide for the vesting in that bank of the undertakings of the ADDB and for matters connected therewith or incidental there to.

Now, therefore, in pursuance of paragraph three of the fourth schedule to the constitution of the People's Republic of Bangladesh and in exercise of al) powers enabling him in that behalf, the president is pleased to make the following order.

- a. i) this order may be called 'The Bangladesh Krishi Bank' Order, 1973.
- ii) It extends to the whole of Bangladesh.
- iii) It shall come into force at once and shall be deemed to have taken effect on the 16th December, 1971.
- i) On the commencement of this Order, there shall be established a bank to be called 'The Bangladesh Krishi Bank' to carry out the purposes of this order.
- (ii) The Bank shall be a body corporate by the name of the Bangladesh krishi Bank, having perpetual succession and a common seal with power to hold and dispose of property and shall by the said name sue and be sued.
- (iii) The bank shall be deemed to be a banking company for the purpose of the Banking Companies (Inspection) Ordinance, 1946 (Order No. IV of 1946), the Banking companies Act, 1948 (Act XXII of 1948; and the Bangladesh Bank order, 1972 (P.O. No. 127 of 1972) and any other law for the time being in force relating to banking Companies.
- (iv) Notwithstanding anything contained in any of the laws mentioned in clause three, the Bank may refer to the Bangladesh Bank for consideration of any directives issued under any of the said laws by the Bangladesh Bank and in the event of a difference of opinion between the hank and the Bangladesh Bank, the matter shall he referred to the Government whose decision there upon shall he final.
- c. The authorized capital of the Bank shall he twenty crore taka to he subscribed by the Government from time to time according to the requirements of the Bank and in such form and manner as may be prescribed. Provided that the Government may increase the authorized capital of the Bank from time to time.
- d. i. The Head Office of the Bank shall be at Dhaka and may he shifted to such other places as The Government may direct.
- ii. The Bank may open such other offices and branches at such places as it may consider necessary.

4.5 PERFORMANCE ANALYSIS OF AGRICULTURAL CREDIT

4.5.1 Loan Disbursement and Recovery Performance of Agricultural Credit in Bangladesh

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	Average
Program/Target(July-June)	43.8	55.4	55.4	63.5	83.1	93.8	115.1	126.2	138	141.3	146	156	101.42
Total Disbursement (in billion Taka)	40.7	48.9	55	52.9	85.8	92.8	111.2	121.8	131.3	146.67	160	160	100.6
Crop	18.4	20.9	22.3	22.9	25.8	30.8	38.2	43.7	53.6	64.34	71.3	76	40.691
Irrigation	0.08	0	0.1	0.09	0.14	1.02	0.43	0	0.8	0.3	0.68	0.4	0.3358
Agricultural Equipment	0.2	0.2	0.2	0.3	0.4	1.1	1.5	2.1	2.1	2.6	2.39	2.4	1.2892
Live-stock	2.5	2.8	2.8	2.7	4.5	4.6	6.9	7.6	12.5	18.03	20	21	8.7883
Fishers	1.2	1.3	2.2	2.4	3.9	4.8	6.3	7.9	10.2	13.21	13.8	17	6.9767
Grain Storage & marketing	4.2	5.6	7.6	0.5	1.4	3.1	2.5	2.8	2.8	2.26	1.67	1.5	2.9975
Poverty Alleviation	10.2	11.5	14	11.9	22.6	19.5	20.7	21.3	16.1	16.58	18.6	15	16.486
Others	3.9	6.6	8.7	12.2	27	27.9	34.7	36.2	33	29.46	32.6	28	23.349
Total Recovery (In billion Taka)	31.4	31.3	41.2	46.8	60	83.8	101.1	121.5	123.6	143.62	170	154	92.404
Total Overdue	62.6	57.8	66.5	66.4	58.9	60.8	64	61	60.5	60.2	76.1	67	63.509
Outstanding (In billion Taka)	127.1	140.3	161.8	145.8	178.2	196	225.9	254.9	259.7	310.58	346	329	223
Overdue as a percentage of Outstanding	49.3	41.2	41.1	45.5	33	31	28.4	23.9	23.3	16.77	22	67	35.228
Growth in percent													
Total Disbursement	24.5	20.1	12.4	-3.7	62.2	19.8	8.2	9.6	7.8	12.2	56.4	206	36.304
Total Recovery	-10.8	-10.8	31.6	13.5	28.4	39.5	20.7	20.1	1.8	4.4	15.8	-11	11.96

Source: Bangladesh Bank Annual report (2005-2016)

Table no IV I: Trends in Agricultural credit (billion Taka)

From the above table, it is seen that disbursement of agricultural credit by the sources from the fiscal year of 2004 to 2015 was Taka 159.8 billion, Taka 160.37, Taka 146.67, Taka 131.3, Taka 121.8, Taka 92.8, and Taka 85.8, Taka 52.9, Taka 55, Taka 48.9 and Taka 40.7 billion respectively. It is also seen that the actual disbursement is lower than the actual disbursement. The current fiscal year actual target was 155.55 billion taka and actual disbursement was 159.78 billion taka. Target of credit from the fiscal year 2013 to fiscal year were achieved by the government. Present government gave priority in agriculture sector and gave strong instruction for increasing more agricultural investment in rural areas. For that reason from last three years actual loan disbursement higher than the government target disbursement.

But before FY 2004 to FY 2012 the situation were opposite where the target of loan disbursement was not achieved for most of the financial year. The recovery performance of the government was good but some fiscal year 2004 and 2005 and 2015 was negative. Farmers faced flood during these year.

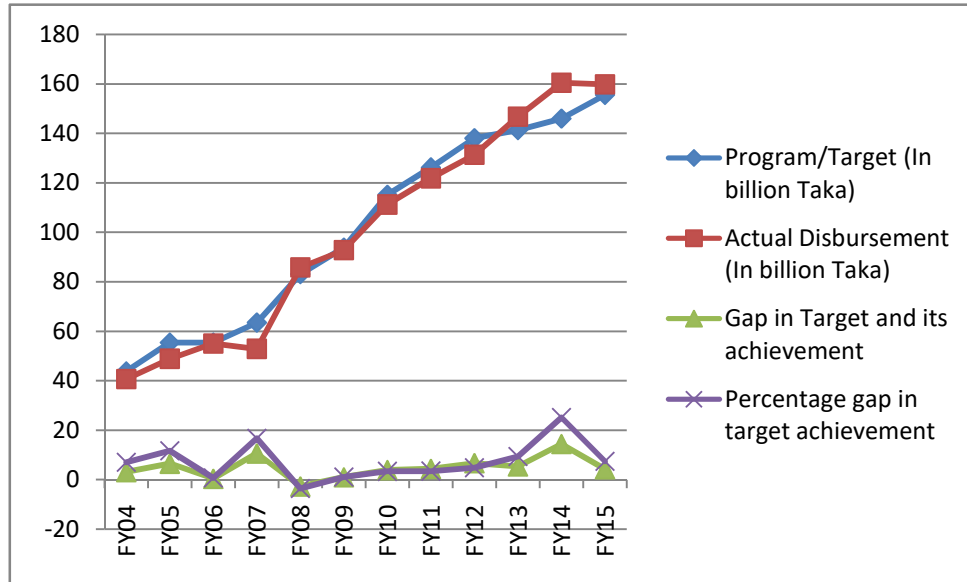
4.5.2 GAP IN AGRICULTURAL CREDIT DISBURSEMENT:

Table IV II: Gap in Agricultural Credit Disbursement Target and Actual Disbursement: (Billion Taka)

Fiscal Year	Program/Target (In billion Taka)	Actual Disbursement (In billion Taka)	Gap in Target and its achievement	Percentage gap in target achievement
FY04	43.8	40.7	3.1	7.08
FY05	55.4	48.9	6.5	11.73
FY06	55.4	55	0.4	0.72
FY07	63.5	52.9	10.6	16.69
FY08	83.1	85.8	-2.7	-3.52
FY09	93.8	92.8	1	1.07
FY10	115.1	111.2	3.9	3.39
FY11	126.2	121.8	4.4	3.49
FY12	138	131.3	6.7	4.86
FY13	141.3	146.67	5.37	9.36
FY14	145.95	160.37	14.42	25.13
FY15	155.5	159.78	4.28	7.46
Total	1217.05	1207.22	57.97	87.46
Average	187.2384615	185.7261538	8.918461538	13.45538462

Source: Bangladesh Bank Annual report (2005-2016)

Graph 01: Gap in Agricultural Credit Disbursement Target and Actual Disbursement



From above (table IV ii and graph IV i) it was observed that there were two types of gap. One was for target and actual disbursement of agricultural loan. Now-a day’s actual disbursement was higher than the target disbursement. To achieve sustainable development Present government more emphasis on agricultural loan disbursement. The average gap in agricultural sector was 8.9%. The percentage gap was 13.44%. It was also seen, the overall disbursement higher than the targeted disbursement. Table IV-II also showed that although in credit planning the credit **requirement** is considered to some extent satisfactory, yet the disbursement position falls short of credit requirement. In the last 12 years in amount 1,217.05 billion taka was (average 187.23 billion taka) 72.49% of the target was disbursed. Poor recovery among other factors may be reason for poor disbursement.

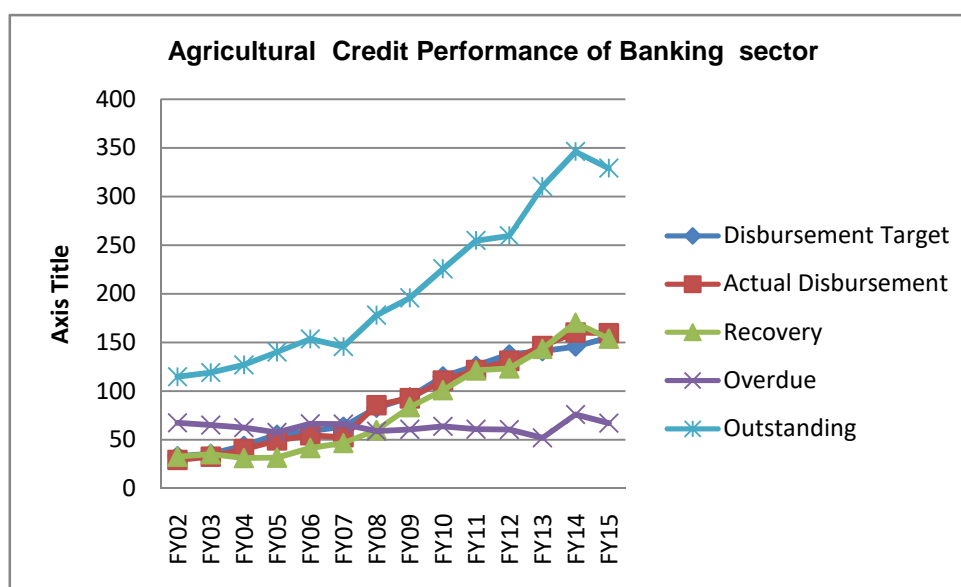
4.5.3 AGRICULTURAL CREDIT PERFORMANCE OF BANKING SECTOR:

Table No. IV-III: Agricultural Credit Performance of Banking Sector (billion Taka)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY02	33.27	29.54	32.6	67.55	114.98	58.75
FY03	35.61	32.78	35.16	65.26	119.13	54.78
FY04	43.79	40.48	31.35	62.65	127.06	49.31
FY05	55.38	49.57	31.71	57.81	140.4	41.18
FY06	58.92	54.96	41.64	66.53	153.77	43.27
FY07	63.51	52.93	46.76	66.35	145.82	45.5
FY08	83.09	85.81	60.04	58.87	178.23	33.03
FY09	93.79	92.85	83.77	60.8	195.98	31.02
FY10	115.12	111.17	101.12	64.04	225.88	28.55
FY11	126.17	121.84	121.48	60.97	254.92	23.92
FY12	138	131.32	123.59	60.52	259.75	23.3
FY13	141.3	146.67	143.62	52.09	310.58	16.77
FY14	145.95	160.37	170.46	76.12	346.33	21.98
FY15	155.5	159.78	154.07	67.29	329.37	20.43
Total	1289.4	1270.07	1177.4	886.85	2902.2	491.79
Average	171.92	169.3426667	156.98	67	386.96	65.572

Source: Bangladesh Bank Annual report (2005-2016)

Graph IV-II: Agricultural Credit Performance of Banking Sector (billion Taka)



From above table **IV-III** and graph **IV-II** it was seen that actual disbursement of the agricultural loan was lower than the targeted loan. The overdue in agricultural sector was higher (average overdue 118.24%). Credit access to agriculture is important. But high rate of undue loan de motivated the bank to invest in this sector. It is necessary to keep growth of the agricultural sector. Total bank credit was 155.5 billion taka in the year 2015. It was also observed that from the fiscal year 2004 to 2015 overall disbursement in this sector was increasing. Total disbursement target in last 12 years was 1,289.4 billion taka and actual disbursement was 1270.07 billion taka. On an average 169.34 billion taka was investment in last 12 years.

4.5.4 AGRICULTURAL CREDIT PERFORMANCE OF STATE OWNED COMMERCIAL BANKS:

Table No IV-IV: Agricultural Credit Performance of State Owned Commercial Banks (SCB's) (billion Taka)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY03	10.5	6.8	7.02	24.19	34.8	69.51
FY04	14.5	9.3	8	23.6	37.5	62.9
FY05	17.05	11.42	8.78	18.45	40.89	45.12
FY06	15.41	11.92	11.51	28.06	49.69	56.47
FY07	15.45	10.28	12.46	29.32	49.11	59.7
FY08	18	13.66	15.09	26.33	49.57	53.12
FY09	20.15	15.89	14.79	26.63	53.19	50.06
FY10	23.45	19.82	15.31	26.46	60.99	43.38
FY11	25.75	22.14	20.11	25.83	64.36	40.13
FY12	26.9	24.33	21.72	23.99	67.56	35.51
FY13	32.2	30.2	23.2	20.12	69.2	36.1
FY14	52.22	35.34	25.23	25.12	80.12	40.1
FY15	92.4	89.18	92.13	65.15	261.13	24.95

Source: Bangladesh Bank Annual report (2005-2016)

From above table no. **IV-IV** and graph **IV-III**, it was seen that actual disbursement of the agricultural loan was disbursement by state owned bank lower than the target disbursement. In the fiscal year 2015 the government owned bank disbursements target

were 92.4 billion taka and actual disbursements were 89.18 billion taka. The loan overdue was increasing trend and total outstanding loan was also showed upper trend. It means agricultural loan default risk was increasing trend.

4.5. 5 AGRICULTURAL CREDIT PERFORMANCE OF RAKUB

Table No IV-V: Agricultural Credit Performance of Rajshahi Krishi Unnayan Bank (RAKUB)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY03	5.25	5.75	5.43	6.69	15.68	42.67
FY04	7	6.8	6.3	7.3	17.4	41.7
FY05	7.75	8.7	6.83	7.65	20.4	37.5
2006	8.15	8.88	7.47	6.86	23.51	29.18
FY07	8	7.37	8.51	5.9	24.45	24.13
FY08	8	7.65	8.45	7.75	25.58	30.3
FY09	8.55	8.8	9.01	8.54	27.34	31.24
FY10	10	10.6	9.92	9.3	31.33	29.68
FY11	11.4	10.1	11.91	12.95	33.15	39.06
FY12	12.2	11.51	13.15	13.18	35.68	36.94
FY13	13.12	12.12	14.12	14.23	36.12	37.2
FY14	13.2	12.23	12.12	13.23	43.2	38.2
FY15	48	48.03	48.56	23.98	132.71	18.07

Source: Bangladesh Bank Annual report (2005-2016)

4.5. 6 AGRICULTURAL CREDIT PERFORMANCE OF BRDB

Table IV-VI: Agricultural Credit Performance of Bangladesh Rural Development Board (BRDB)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY07	8.42	7.8	6.9	2.58	8.34	30.94
2006	7.73	7.44	6.52	10.68	15.88	67.25
FY08	7.11	7.35	6.97	2.47	9.16	67.25
FY05	6.46	6.63	5.06	10.19	15.08	67.57
FY09	7.51	6.94	6.82	3.36	9.39	67.57
FY04	5.2	5	4	9.2	13.5	68.1
FY10	8.5	6.66	6.99	3.58	9.58	68.1

FY03	3.52	3.53	3.49	9.82	12.45	78.89
FY11	7.7	7.5	6.91	3.91	10.65	78.89

Source: Bangladesh Bank Annual Report (2005-2016)

4.5. 7 AGRICULTURAL CREDIT PERFORMANCE OF BSBL

Table No IV-VII: Agricultural Credit Performance of Bangladesh Samabay Limited (BSBL)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY03	0.34	0.01	0.02	2.85	2.92	97.6
FY04	0.1	0	0.1	2.7	2.8	96.4
FY05	0.12	0.02	0.04	2.7	2.73	98.2
2006	0.63	0.08	0.09	2.71	2.83	95.76
FY07	0.14	0.03	0.06	2.45	2.48	98.79
FY08	0.14	0.05	0.08	0.76	0.84	90.48
FY09	0.45	0.05	0.07	0.72	0.75	96
FY10	0.8	0.04	0.06	0.69	0.72	95.83
FY11	0.01	0.02	0.08	0.56	0.61	91.8

Source: Bangladesh Bank Annual Report (2005-2016)

4.5. 8 AGRICULTURAL CREDIT PERFORMANCE OF FBs

Table No. IV-VIII Agricultural Credit Performance of Foreign Banks (FBs)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY08	3.69	8.54	8.02	0	3.01	0
FY09	1.91	5.13	3.09	0	5.73	0
FY10	4.64	5.54	4.76	0	5.19	0
FY11	5.82	5.46	10.4	0	3.31	0
FY12	5.47	4.82	5.15	0	2.26	0
FY13	3.2	4.32	7.12	0	2.13	0
FY14	4.0	4.2	8.23	0	2.12	0
FY15	4.20	4.76	7.07	0	2.13	.17

Source: Bangladesh Bank Annual report (2005-2016)

4.5. 9 AGRICULTURAL CREDIT PERFORMANCE OF PCBs

Table No IV-ix: Agricultural Credit Performance of Domestic Private Commercial Banks (PCBs)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue % of outstanding
FY08	9.65	15.6	8.27	0.5	16.73	2.99
FY09	18.57	17.8	14.27	0.31	18.55	1.67
FY10	25.95	22.84	19.85	0.38	21.08	1.8
FY11	25.95	24.28	21.89	1.25	26.62	4.7
FY12	25.95	43.33	32.85	1.31	42.56	3.08
FY13	26.12	46.12	35.12	1.23	45.12	3.098
FY14	27.12	48.12	35.12	1.24	46.12	3.67
FY15	58.9	65.84	54.87	2.14	66.11	3.24

Source: Bangladesh Bank Annual report (2005-2016)

From above table and graph it gave a clear picture about the domestic private commercial bank performance. Private commercial banks agriculture loan disbursement was low but subsequently, they had gathered experience and increased their **disbursement**. During 2016, 148 branches of Uttara and Pubali Bank were merged with the BKB with their area of allocated unions. Subsequently, these two banks were privatized and from then, virtually they stopped lending in agriculture sector. Later on, Rupali Bank was privatized and it also became reluctant in disbursing agricultural credit. At present, Sonali, Janata and Agrani Banks are actively participating in agricultural credit and Rupali Bank gave loan in a very limited scale. It needs be mentioned here that now these banks are not only financing for crop production, but also for all other agro-related activities including poverty alleviation credit programmes in the rural area.

4.5.10 AGRICULTURAL CREDIT PERFORMANCE OF NGOS

Table No IV- X: Agricultural Credit Performance of NGOs

Year	Disbursement Target	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY04	72.4	63.2	1.9	46	3.8
FY05	91	78.6	3.1	59.4	5.3
2006	129	116.1	3.3	80.6	4.1
FY07	156.6	137.3	4.4	102.1	4.3
FY08	198	171.1	6.2	102.7	5.1
FY09	222	224.7	6.9	132.6	5.2
FY10	253.45	213.94	7.14	153.35	4.66
FY11	278.64	256.95	6.91	175.69	3.93
FY12	293.65	232.27	6	207.51	2.89
FY13	367.6	345.58	6.92	227.3	3.04
FY14	395.98	390.04	6.16	252.48	2.43
FY15	507.92	448.04	6.91	479.79	1.44

Source: Bangladesh Bank Annual report (2005-2016)

Table and graph showed the performance of Non government organization in distributing agricultural credit in rural areas. "**Swanirvar Bangladesh**" is the most widely known rural micro-credit programme where all the banks are involved. This is one of the oldest credit programmes and follows the same modality in respect of group formation and savings mobilization as government of Bangladesh. The programme covers an area of 1024 unions and more than 10,000 villages in 135 thanas of 39 districts throughout the country. (The bank's figures for loans disbursed and recovered are shown in (Appendix Table III-IV.) The Marginal and Small Farm System Crop Intensification Project (**MSFSCIP**) is another rural micro-credit poverty alleviation programme, where all banks are also involved in collaboration with **IFAD** and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) being implemented in Kurigram. The project ended in 1996 and the banks have accepted the outcome as a viable model replicable in other areas. Along with other micro-credit programmes **RKUIJ** has already started replicating this model in Rajshahi area (Appendix Table III-V). All the micro -credit programmes mentioned above are contributing in poverty alleviation and rural development and have good recovery rate. Most of these credit programmes have some common features. These are:

- i. loans are given without any collateral security;
- ii. loans are disbursed to the individual through homogeneous groups and also through the **Hiltahin Samahaya Samity**;
- iii. group members stand guarantee for one another's loans;
- iv. the borrower has to make some **mandatory** savings;
- v. the loans are intensively supervised and closely monitored;
- vi. the major beneficiaries include rural landless poor men and women with land up to maximum 0.4-0.5 acres and wage labour as their principal means of income;
- vii. each group comprises 5 to 20 members and the loan ceiling for an individual is Taka 5,000 to Taka 7,000; the mode of repayment is mostly in weekly installments;
- viii. loans are disbursed for any legal income-generating activity: farm and off-farm productive investment; small scale dairy (including beef fattening, milking cow); poultry and fishery project; crop production; and cottage industry etc.

In the background of the failure on the part of formal financial institutions for providing credit to poor people in 70s and till now, the Government of Bangladesh and a number of NGOs pioneered alternative credit delivery mechanisms for the rural poor that consisted of small amounts of collateral free affordable loans popularly known as micro-credit. The **Domestic Private Commercial Banks (PCBs)** was a success story around the world. It is considered to be a unique bank in solving the credit problems of the landless rural poor. The bank was initiated by Dr. Mohd. Yunus, then a professor of Chittagong University, as a project at Jobra Village near Chittagong University, in 1976. It became a bank in 1983 and it spread its activities rapidly. The bank organized groups of landless poor, and gave them credit mostly women, owning land less than 0.5 acres who are unable to obtain credit from any formal sources. The GB has some special features.

- (i) exclusive focus on the poor;
- (ii) priority for poor rural women;
- (iii) suitable loan conditions;

- (iv) individual, self-chosen, income-generating loan activities;
- (v) collective borrower responsibility and "mutual support through compulsory group savings;
- (vi) small loans, repayments and eligibility for subsequent loans;
- (vii) strict credit discipline and close supervision;
- (viii) compassion, but no charity;
- (ix) promotion of individual savings;
- (x) a social development mechanism;
- (xi) rigorous, practical management / staff training; and
- (xii) protection of the loan fund from inflation.

The main objectives of the GB are:

- (i) to provide banking facilities to poor men and women of rural Bangladesh;
- (ii) to save the poor rural people from the oppression of Grameen money lenders;
- (iii) to create self-employment opportunities for the vast rural unemployed and (iv) to make this bank as a flourishing process for "More Income, More Loan, More Investment, More Income."

Until 2016, the GB, the largest micro-credit institutions in tile world, has expanded its .operation to 40,225 villages through its 1160 branches. It has an outreach of 2378356 members of which 122657 are male and 2255699 are female. These members have mobilised savings amounting to Taka 1125.86 crores. So far (till Dec. 2016), the GB has disbursed Taka 13055.90 out of which Taka 1017.01 crores is outstanding The repayment of the GB is 92.21%. Other than the Government banks, there are many NGOs providing credit to the poor people. Some NGOs have organized around 6.6 million members of which 5.3 million are female. These members have mobilized a total savings of Taka 2843 million until June, 1997. So far (till June 1997), theses NGOs have disbursed Taka 35279.44 million as credit to 5.5 million **borrowers**. According to Dr. Atiur Rahman , Ex-Governor, BB, NGOs Provide 75% of the rural finance but their contribution to agricultural credit is small.

Besides these institutions, **Palli Karma Sahayak Foundation** (PKSF) and BRDB are also playing an important role. PKSF is widely treated as a "second tier" micro-finance organization primarily lending to the Micro-Credit Institutions (MCIs) for on-lending to final borrowers. It is mainly a Government initiated organization supported both by the Government and the donor agencies for its operation. Until December, 1996, PKSF disbursed loans of US \$ 31.6 million to 135 MQs. A total of 5,46,000 final borrowers obtained loans through these facilities. In addition to extending credit, the Foundation also provides institutional development support. BRDB Organized some landless people. BRDB organised some landless co-operatives on experimental basis (1976) and gave them credit. The initial success of those groups were followed by more innovative credit programme for the poor. However, at present four NCBs namely Sonali, Janata, Agrani and Rupali Bank and two Specialised Banks namely the BKB and the RKUB are directly involved in financing the rural sector of the economy.

One World Bank survey (2016) showed that the informal sector continues to be the main source of micro-credit for majority of the rural poor. Those having no access to, or those rationed (totally or partially) by other micro-lenders turn to informal sources to borrow. These informal micro-lenders are widely perceived to function efficiently with low defaults and low transaction costs. Informal lenders still dominate the rural finance sector where friends and relatives are the most important source followed by moneylenders. The basic characteristics of rural credit, however, from the supply side remained more or less unchanged (Table III-VIII).

**Table - Table No IV- XI:
Source of Rural Credit, 2016**

Sources of Credit	% of total requirements from the sources
a) Friends and relatives	20
b) Large landowners	40-50
c) Goldsmiths and Silversmiths	20-30
d) Traders	5
c) Formal Sources : Banks, Co-operative, others	10 - 15

Source : Rural Finance Experiment Project, Baseline Survey, (Islam 2006)

The BKB, the NCBs and the Co-operatives provide rural credit, the major portion of which goes to medium and large peasants because rural disadvantaged groups such as the landless and the women remained totally outside the banking system, although they constitute the largest segment of the society. Small peasants do not have adequate access to formal sources; they are forced to obtain credit from informal sources. Small farmer's access to loans from the BKB and the NCBs is limited due to many factors:

- i. These loans are given on the basis of land-ownership and collateral which the small peasants cannot provide,
- ii. Official procedures are cumbersome and time-consuming for such peasants.
- iii. The small peasants are not welcomed in the banks because they require small loans and come from humble origin.

The following table shows the rural credit disbursement by organizations.

Table No IV- XII Number of Banks and their Branches in Urban and Rural areas

Banks	Number	Branches	
		Urban	Rural
State-Owned	4	1238 (36.58%)	2146 (63.42%)
Specialized	5	155 (11.41%)	1203 (88.59%)
Private	30	1295 (72.55%)	490 (27.45%)
Foreign	9	49 (100%)	0 (0.00%)

Source: Bangladesh Bank Annual report (2005-2016)

Table No IV- XIII**Amount of Institutional (Formal) and Non-Institutional (Informal) Rural Credit
(Tk. in Crores)**

Year	Institutional (Formal)	Non-Institutional (Informal)	Total
2008	66.6 (35.0)	123.6 (65.0)	190.2 (100.0)
2009	136.7 (35.0)	253.9 (65.0)	390.6 (100.0)
2010	181.1 (35.0)	336.2 ^v (65.0)	517.3 (100.0)
2011	277.3 (35.0)	515.1 (65.0)	792.4 (100.0)
2012	412.6 (35.0)	766.2 (65.0)	1 178.8 (100.0)
2013	560.1 (35.0)	1040.2 (65.0)	1600.3 (100.0)
2014	934.1 (35.0)	1734.7 (65.0)	2668.8 (100.0)
2015	1691.2 (35.0)	3140.7 (65.0)	4831.9 (100.0)

Source : Annual Report 2015

(Note: Figures within parentheses represent percentages)

The constancy of 35:65 ratio of institutional and non-institutional credit reported by the BBS is obviously a suspect. Like the household expenditure no one really knows the quantum of non-institutional credit in the rural economy. The popular notion is that the institutional credit does not cover as yet more than 15 to 20 percent of the total credit needs of all kinds of rural borrowers.

The NCBs are collectively second in terms of size of rural finance. They provide direct loans to the peasants and their function in advancing short-term crop loans under SACP. Six Commercial Banks, namely Sonali, Janata, Agrani, Pubali, Rupali and Uttara participated in the SACP programmed and provided crop loans among the peasants under their allocated unions. They had rapidly expanded their branches over time mostly in rural areas. In the initial period, commercial banks were reluctant to provide credit to agriculturists because of risks and high cost of lending and also lack of experience.

The main function of the BSBL is to provide finance to the Central Co-operative Banks which in turn provide finance to the primary societies. The Central Co-operative Banks are spread all over the country. The primary function of these banks is to finance their members. Most of the resources of these banks are derived from the BSBL.

The position of allocation of rural branches and SACP unions to commercial banks can be seen from the table. The above table reveals that with 72% rural branches and 66% of allocated unions, the NCBs, failed to play desired role in disbursing agricultural credit. PCBs is the largest of the Commercial Banks in the country. It provides credit to boost up agricultural production and to help small potential entrepreneurs to undertake various income-generating activities. Sonali rural credit is being channeled through 1020 rural branches in 1140 allocated unions of the country. The bank's exclusive poverty alleviation credit programmes include the following:

- (i) The Rural Poor Co-Operative Project;
- (ii) The Bangladesh Academy for Rural Development (BARD) Sonali Bank Functional Research Project;
- (iii) The Bittahin Rin Prakalpa (Landless Credit Programme);
- (iv) The Rangpur Region Rural Development Project (RD-9); and
- (v) The Mahila Rin Karmashuchi (Women's Credit Programme).

The Agrani Bank's exclusive credit programme targeting poverty alleviation includes the following:

- i. Productive Employment Project (**PEP**) run in collaboration with Swedish International Development Authority (**SIDA**) & Norwegian Agency for International Development (**NORAD**).
- ii. Daridra Bimochon Karmashuchi (**DABIK**) run on the Bank's own initiative and resources

- iii. International Fund for Agricultural Development (**IFAD**) assisted Small Enterprises Development Project and
- iv. Agrani Bank- BRDB collaboration on Rural Poor Programme.

The Janata Bank's exclusive credit programmes include The Small Farmers And Landless Labourers Development Project (**SFDP**), the Diversified Credit Programme And Rural Poor Programme. The Janata Bank and the **BARD** have jointly been implementing **SFDP**.

4.5. 11 PERFORMANCE ANALYSIS OF BKB

4.5. 11.1 AGRICULTURAL CREDIT PERFORMANCE OF BKB

Loans Disbursement

In the year 2015 the BKB provided a total of Taka 63.1 billion taka of loan in different sectors in the form of short-term, mid-term and long-term programmed. The BKB provides credit facilities for all kinds of agricultural, small and cottage industry. Agricultural machinery and agro-based economic activities keeping in view the needs of the small and the marginal farmers. Year wise loan disbursement of the BKB for the period 2003 to 2015 is shown in Table III-V

On analysis of the table, it is found that the amount of loan disbursement of the BKB is increasing from year to year. In 2007, the BKB disbursed a total amount of Taka 31.5 billion taka of loan and it increased to Taka 63.1 billion taka in 2015 the BKB disbursed total of Taka 159.3 billion taka of loans. The trend of loan disbursement is higher in the latter years than that of the previous years. But in relative sense, the incremental amount is not up to the mark. Thus, to keep the bank in a self-sustainable condition, the loan disbursement must be intensified.

Table No Table No IV- IVX: Agricultural Credit Performance of Bangladesh Krishi Bank (BKB)

Year	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
FY03	16	16.69	19.2	21.71	53.28	40.75
FY04	17.1	19.6	13	19.8	55.8	35.5
FY05	24	22.8	11	18.79	61.25	30.68
2006	27	26.64	16.05	18.22	61.86	29.45
FY07	31.5	27.45	18.83	26.1	61.44	42.48
FY08	36.5	32.96	13.16	21.06	73.34	28.71
FY09	38	38.24	35.72	21.24	81.03	26.21
FY10	42.5	45.67	44.23	23.63	96.99	24.36
FY11	45	52.34	50.18	16.47	116.22	14.17
FY12	46	47.33	50.72	22.04	111.69	19.73
FY13	47	46.2	50.52	24.23	25	24.12
FY14	52	45.3	50.43	25.23	34	26
FY15	63.1	70.6	61.94	2.14	68.24	3.14

Source: Bangladesh Bank Annual report (2005-2016)

4.5.11.2 AGRICULTURAL CREDIT TYPES PERFORMANCE OF BKB

Table No. IV- XV Disbursement of Agricultural Credit by Types (billion taka)

Types of Credit	2011	2012	2013	2014	2015
1. Short-term loans			106.12	118.85	127.48
2. Long Term loans			40.55	41.52	32.30
Total	(100)	(100)	(100)		

Source: Annual Report of BB, 2011-15 Bangladesh Bank. (Note: The Figures within brackets indicate percentage of column total.)

According to the Bangladesh Bureau of Statistics (BBS) report on Socio-Economic Indicators 2015, the following is stated to be the balance between the institutional (formal) and non-institutional (informal) rural credit.

As the principal source of rural finance, the BKB provides credit support and guidance to the rural people. The BKB is acting as a pioneer rural finance institution in the rural sector of the country. It is acting on commercial consideration with primary-objectives of providing credit facilities to the agriculturists and persons engaged in cottage and other allied agro-related activities and agro-based industries. The BKB provides short-term, medium-term and long-term credit to individual borrowers for financing agriculture, pcculture, animal husbandry, dairy, poultry, processing and storage for agricultural produce.

The bank provides short-term credit for raising certain crops like Aus, Amon, Boro, Jute and Tea, medium-term credit for purchasing draft animals, agricultural implements and machineries and pcculture and long-term credit for horticulture, warehouse construction etc. To help the poor in poverty alleviation and awareness build up, the BKB has diversified its loan programmes. At present it has 16 micro-credit programmes for self-employment (Appendix Table III-III).

4.5.11.2 DIVISION WISE AGRICULTURAL CREDIT PERFORMANCE OF BKB

Recovery of Loan

Proper use of loan is the pre-condition of recovery of loan. The problem of loan recovery is a basic issue for effective performance of the BKB. It has become so acute that it is threatening the viability of the bank. The magnitude of loan recovery problems has been shown hi Table III-XV.

Table IV- XVI Loan Recovery Position of the BKB for the Period 2007-2011(Amount in billion Taka)

	2007	2008	2009	2010	2011
Loan recovery	51004	65563	74182	85276	103206
%	65.02	73.55%	75.46%	75.26%	74.29%
NPL	27439	23578	24124	28077	30883
%	34.98%	26.45%	24.54%	24.74%	25.71%

Source : Annual Report, 2007-2015, BKB

The **foregoing** table has depicted the very alarming picture of loan recovery position of the BKB. Though the trend of loan recovery is higher in the latter years than that of the

preceding years, yet the incremental amount is not upto the mark. The potential of growth in the availability of credit for rural lending depends critically on recovery performance. The poor recovery puts pressure on the bank's liquidity position and tends to prejudice the potential for expanded rural credit operations. Experiences show that the degree of supervision is a pre-requisite to good recovery performance. Better recovery is, therefore, indicative of the vigorous and strength of organization in an institution.

4.5.11.2 DEPOSITS PERFORMANCE OF BKB

(iii) Deposit Mobilization

Mobilization of domestic resources is a vital issue, which deeply concerns development planners of Bangladesh. Deposits held by banks and other financial institutions represent a major part of domestic financial resources of the country. Deposits help to contribute substantially towards financing investment in capital assets by providing working capital finance to trading and industrial concerns and, thus, facilitates economic activities leading to economic development. Banks in Bangladesh play an important role in mobilizing deposits.

In the present situation, the BKB has undertaken deposits mobilization programmed with a view to creating its own fund base for extending credit and to reduce its dependence on the refinance facilities of the Bangladesh Bank. To strengthen its financial position, the BKB accepts money in fixed, .current, savings and other deposit accounts from the general public. The year-wise deposit position of the BKB is shown in Table III-XIII for the period of 2007 to 2015.

**Table No IV- XVII Year-wise Deposits Position of the BKB for the Period 2008-2015
(Amount in Crore Taka)**

Year	Deposits Position	Increases	Rate of increase
2007	817.44		
2008	1,026.08	208.64	25.52
2009	1,284.02	257.94	25.14
2010	1,480.54	196.52	15.31
2011	1,639.58	159.04	10.74
2012	1,737.28	97.78	5.96
2013	1,835.99	98.71	5.68
2014	2,038.28	202.29	11.02
2015	2,393.41	355.13	17.42

Source : Annual Report, BKB 2007-2015.

On analysis of the table, it is found that the deposits of the BKB has increased much. The trend of increase is higher in the latter years than that of the preceding years. The total deposits was Taka 817.44 crores in 2008 and increased to Taka 2,393.41 crores in 2015. But in relative sense, the incremental amount of deposits is not proportionate to the desired level.

4.5.11.5 BRANCH EXPANSION

Branch Expansion

The BKB started with only 77 branches in 1972. As a growing institution, the BKB had been expanding its branches all over the country and the number of branches stood at 837 as on June 30, 1999. Expansion of branches shows the efficiency of management.

One of the important responsibilities of the BKB is to extend banking and credit facilities to backward areas, which is not a must for the private banks. The number of branches expanded in the rural and the urban areas is shown in Table III-XII

Table IV- XVIII Branch Expansion of the BKB for the Period 2007-2015

Year	Urban	Rural	Total
2007	92	765	857
2008	92	766	858
2009	107	753	860
2010	107	750	857
2011	116	720	836
2012	116	720	836
2013	116	720	836
2014	117	720	837
2015	117	720	837

Source: Annual Report, BKB 2007-2015

As could be seen from the table, in the year of 2007, the total number of branches was 857. After that in every year the BKB increased its branch number for business expansion. But in 2009 the increased number of branches could be due to structural changes. These years were exception with the decreasing number of branches. In the subsequent years of 2009 to 2015 there were increased in the number of branches.

4.5.11.6 JOB CREATION PERFORMANCE OF BKB

(ii) Staff Position and Training

As on 16th December, 1971 the BKB started with 2,052 officers and staff in the whole of the country. As on 30th June, 1999 the bank had 1 1,343 employees and 2016

For human resource development, the BKB has a Central Training Institute (CTI) at Dhaka. This institute organizes regular training courses for (i) new recruits under induction-cum-foundation training programmed, (ii) in service training to improve

skillsknowledge and attitude of all officers and field staff to raise job performance standard. In addition, short programmes for officers to undergo in depth training on specific areas, training programmes for Regional Managers/Senior executives etc. are conducted by the Central Training Institute. The institute reviews the old courses and design annual training programmes every year. Mobile short training courses in divisional as well as regional offices are also arranged with a view to achieving maximum output in training.

Table IV- XVI PROFIT PERFORMANCE OF BKB

Profit Performance

Year	2007	2008	2009	2010	2011
ROA	(1.140%)	(1.66%)	.24%	1.2%	(1.1%)
ROE	(4.31%)	(4.22%)	.25%	1.1%	(1.0%)

From the year 2013 to 2015 no ROA, ROE showed in the annual report.

From the above it is seen there were negative ROE and ROA from the year 2007 to 2011

CHAPTER 5

Internal Control System of the Bank and the Branch

5.1 Internal Control Department of BKB

It has 15 foreign exchange (Authorized dealer) branches. In the field level the Bank has 9 divisional, 21 Chief Regional and 30 Regional offices for close supervision of the branch activities. For smooth operation, as a part of internal control and compliance system, the bank has also 56 field level audit offices of which 4 at Divisional and 51 at Regional levels. In the Head Office the Bank has 4 Divisions headed by General Managers and 28 Departments including Local Principal Office and Training Institute headed by Deputy General Managers. The existing strength of Bank's manpower is 10275 against the approved strength of 13,680 as on 31 March, 2016. The Bank has a Board of Directors comprising of 8 members. The Board is headed by a Chairman. The Directors represent both public and private sectors and are appointed by the government. The Board Chairman is generally an experienced professional/ex-professional who has wide acceptability and rapport. The Managing Director is the Chief Executive of the Bank. He is appointed by the government. The Bank has two posts of Deputy Managing Directors and are appointed by the Government.

The Bank has 14 posts of General Manager. They are also appointed by the Government. In the Head Office there are 4 Divisions each headed by a General Manager. The divisions are:

- Administration Division
- Planning & Operation Division
- Accounts Division and
- Loan Recovery Division

Under the control and supervision of the above four divisions 28 departments are working in the head office headed by Deputy General Managers.

The BKB is expanding its branches very rapidly. Almost every year it continues its policy to open branches for supplying financial assistance and technical consultations to the rural farmers. Not only in the rural areas, the Bank also opens many branches in the urban areas too. These branches are creating employment opportunities to solve the unemployment problems of the country. Thus, the Bank has achieved its objectives of creating employment opportunities for the rural people. The total branches of the BKB stood at 1050 in 1986. But in 1987, the total No. of the branches came down. These branches came into the orbit of the RKUB. However, the branches of the BKB are increasing year after year. Thus, the total branches of the BKB stood at 872 in 2000-2001. The BKB was organized with an authorized capital of Taka 20 million and out of which the paid up capital was Taka 20 million (now authorized and paid up capital are taka 2,000 million and Tk. 1,000 million respectively) at present (2000-2001) total manpower of the BKB stands at 11991.

Table V-I: BKB at a Glance (2014- 2016)

1.	No. of Branches	872
2.	No. of Branches at District Level	75
3.	No. of Branches Under Municipality	55
4.	No. of Branches at Thana Level	248
5.	No. of Branches at Union Level	494
6.	Total Manpower	11,991
7.	No. of Divisional Office	07
8.	No. of Divisional Audit office	05
9.	No. of Chief Regional Office	09

10.	No. of Regional Office	40
11.	No. of Regional Audit Office	51
12.	No. of General Manager (H/O-3 & Field Level -7)	10
13.	Authorized Capital	(BDT) 2,000 million
14.	Paid up Capital	(BDT) 1,000 million

Source: Interview with AGM, Administration, BKB, Head Office, Dhaka.

The principal activities of the BKB were to provide credit to landless persons and persons having lands who were engaged in agricultural and other income-generating activities to help increase agricultural output and to remove poverty from the country, improving socio-economic conditions of the poor people of the country, and also accepting money on deposit, borrowing money for the purpose of bank's business from BB and providing professional counsel to landless persons regarding investment in small trade and cottage industries.

5.2 Credit Supervision Systems in Bangladesh

The recovery of credit is not so easy in developing country like Bangladesh. There is a proverb, "It is easy to lend, but difficult to recall". In this back-drop specialists express their views saying that recovery of credit in time is too hard like that of conquering the Himalayas. After independence, a significant rise of a vice i.e. ill-tendency of many borrowers not to repay the loan has dropped a black-shade on the overall banking structure. For tills reason, supervision of rural credit has become very significant. Supervision in its true context is rarely exercised by the credit institutions except the government owned Banks. As a whole, it is not their incapability of the banks. Much can lay attribute to numerous problems and requirements that can be met. It should be borne in mind that the borrowers should he kept in eye all along in the context of prevailing conditions in Bangladesh. If any opportunity is given to them, they will lag-behind from the eye. In this case, possibility of spending money in productive sectors may exist. This principle of supervising credit. Attribution cannot be followed by any institution

effectively. There lie some reasonable causes. For example, ensuring the utilization of credit as per terms and conditions, credit institutions need adequate skilled and trained manpower in the field level but that is not available to them.

In Bangladesh, most of the farmers need credit and they take it either from formal or informal. They are scattered far and near in the whole country. Many credit institutions do not have adequate field workers in spite of needs. Besides, many credit institutions could not reach the farmers in an effective way. The BKB claims that they have reached the door of the farmers. But - still now 47% branches of this bank are working as a unit covering more than three unions. Again, there are many branches whose numbers of loanees are more than three to seven thousands each. But these branches do not have adequate field workers more than two to three. This is reason why, it is not possible to supervise huge number of loanees by them. Quick communication and transportation are adversely affected by underdeveloped road and mode of transporting. So long as the proper utilization of credit of the loanees is not ensured, the financial institutions cannot expect any good result. From this view point, the Government Bank (GB) is performing the supervision work most effectively. It is observed that the GB is supervising the utilization of credit by the workers of the bank very effectively. A worker of this bank looks after some 250 loanees. The bank is also getting benefits in exchange of supervision. The glaring example is that the recovery rate of this bank is 92.2. 21%.

The big company took the major loan for farming from the BKB and they took loan nearly 10% total capital of the bank. Only 20 borrowers took lion share of the loan and all of them defaulters. BKB should take necessary steps to collect money from large borrower of the bank. On the other hand, the poor farmers of the country are very needy. They are in dearth of food and clothes. These two are the basic demand of a man. So, when they get opportunity to take loan, they avail themselves of it. Objectives of credit are not considerable factor to them. They buy food, clothes and other daily necessary articles with it. Moreover, most of the farmers spent the credit money on the occasion of their sons' and daughters' marriage. For this, supervision is essential for ensuring the utilization of credit.

No. Effective measures have yet been taken up for supervision of agricultural credit in Bangladesh. In the country the prospect of supervision of the agricultural credit is very bright. But supervision and control can increase the loan recovery of the bank.

5.2.1 Audit Accounts and Recovery Division

- Loan Recovery Department-I
- Loan Recovery Department-II
- Audit and Inspection Department
- Central Account Department-1
- Central Account Department-2
- Law Department
- Engineering, Procurement & Maintenance Department

5.2.2 Audit and Inspection

Internal audit and inspection plays an important role in establishing transparency and accountability of the bank's accounting system. Besides there are commercial audit, Bangladesh Bank inspection and external audit for detecting and checking repetition of irregularities frauds and forgeries, if any, in different levels.

The government appointed M/s Zoha Zaman Kabir Rashid & Company, Chartered Accountants and M/s Khan Wahab Shafiq Rahman & Company, Chartered Accountants for conducting audit for the financial year 2008-2009. The audit report submitted by them on 13-01-2010 was sent to the ministry of finance on 19-02-2010 after approval of the Board of Directors. But from the year 2013 to still now M. J Abedin & Co & Kazi Zahir Khan & Co. got appointed as an Accountants.

5.2.3 Management Information System of the BKB

Information needed for decision- making and performance evaluation need to be identified, collected, analysed and presented to (he different levels of management and

arc to be made available in time. The management information system is designed purposefully, mainly to serve at the different levels of the organisation. It may be defined as the total process through which raw data are collected, summarised, processed and reported to higher level management hierarchy.

The Management information system is a feedback information system. The decision-making and controlling authorities first determine what types of information are required to fulfil the desired goals, objectives and policies. At the operational level, it has been observed that the flow of data and the information to meet the normal requirements and responses to the management at lower strata are to feed the information from the operational track of the management information system.

With a view to formulating an overall plan and to make it successful, the management will have to relate different parts of the organization into a co-ordinate whole

For integrating separate parts of the organization into one, the management needs information feedback and this led to the evolution and growth of management information system. There is no consensus on the definition of the term "management information system." Some writers prefer alternative terminology such as "information processing system", "information and decision system" , "organisational information system" or simply "information system" to refer the computer-based information processing system which supports the operations, management, and decision making functions of an organization

A management information system is an integrated user-machine system further providing information to support operations, management analysis and decision-making functions of an organisation³⁰.

The management information system has been described as a pyramid structure in which the bottom layer consists of information for transaction processing, status inquires, etc; the next level consists of information resources in support of day-to-day operations,

5.3. Management information system

and control; the third level consists of information system resources to aid in tactical planning and decision making for management control; and the top level consists of information resources to support strategic planning and policy making by higher levels of management.

Management information systems serve the management level of the organization, providing managers with reports, and in some cases, with on-line access to the organisations current performance and historical records. Management information systems usually serve managers interested in weekly, monthly and yearly results—not day-to-day activities. Management information systems primarily serve the functions of planning, controlling, and decision making at the management level³². Some researchers use the term management information systems to include all of the information systems that support the functional areas of the organization. Management information systems have some features, such as³³

- i. Management information systems support structured and semi-structured decisions at the operational and management control levels. They are also useful for planning purposes of senior management staff.
- ii. Management information systems are generally reporting and control oriented. They are designed to report on existing operations and, therefore, to help provide day-to-day control of operations.
- iii. Management information systems rely on existing corporate data and data flows.
- iv. Management information systems have little analytical capability.
- v. Management information systems generally aid in decision-making using past and present data.
- vi. Management information systems are relatively inflexible,
- vii. Management information systems have an internal rather than an external
- viii. orientation.
- ix. Information requirements are known and stable
- x. Management information systems require a lengthy analysis and design process (on the order of one to two years.)

Management information system is a means of obtaining and processing only specially pre-designated elements of data for managers to use in implementing program and indicating where corrective action may be necessary. In other words, management information system is defined as a systematic, formal assemblage of components that performs data processing operations to provide information to management for support of planning, controlling and decision-making activities and to provide variety of reports as required to external constituents.

Management information system is indispensable in rural financial institutions like other organizations. It enables informed decision-making by management, sends warning signals to staff and external evaluators and contributes to the transparency of operations.

A good management information system provides information about---

- (i) The financial performance of the overall institution
- (ii) The performance of products, especially in loan collection and arrears
- (iii) Individual branch and staff performance
- (iv) Repayment performance of individual clients or groups

Information is a powerful tool by which management process is accomplished. All management information should be timely, relevant, accurate and objective. An effective management information system reduces transaction costs because it speeds and improves the quality of decision-making, enables staff to direct and immediately deal with potentially costly problems, and affords management greater oversight over decentralized activities. Collected data are used by the BKB for internal monitoring, reviewing activities, performance of the branches, to take appropriate policies and steps by the Branch Managers themselves, and the Chief Regional Managers, Regional Managers and high levels. Consolidated data are incorporated in reports, bulletins, selected indicators, books and 138 publications. Data are required for annual cash flow preparation, budget planning, annual lending, recovery and deposit forecasting and final

accounts preparation. Data are also required for the Government, the BB, World Bank, the ADB, the IFAD, FAO and other national and international agencies. From liberation, the BKB has undergone a series of organizational changes including diversification in loan portfolio with the objective of making its services more responsive to meet the needs of the rural people. To meet the requirements, the BKB has improved its management information system. Branches are the hub of all activities of the BKB - loan disbursement, loan recovery, loan supervision, deposit mobilization etc. The activities of the branch are, therefore, most important indicators for management. For monitoring the activities, supervision and follow-up, operational information are collected by the Head Office and the Chief Regional office / Regional Office from the branches.

The flow of management information from the Branches to the Chief Regional Office/Regional Office are shown below

Table V-II: Management Information System (From Branch to Chief Regional/Regional Office)

Level of communication	No. of statements sent	Frequency of reports
Branch to Chief Regional/Regional Office	65	Weekly - 07 Monthly - 23 Quarterly - 25 Half Yearly - 06 Yearly - 04
Total	65	

Source : Interview with Branch Managers

Branches are required to maintain Source Data Registers in the prescribed form for types of business wherein data are to be incorporated timely and regularly. The data may relate to loan releases by types and terms, loan recovery by current and past dues, loan overdue by age, deposit by types, etc. The main sources of data are vouchers, loan and deposit ledgers and other books of accounts. Data must be extracted from these sources which should be unquestionably authentic. Source of all information is the branch. But it is really very difficult for the Head Office to effectively collect information from the Branches. Branches are located within 15/20 miles radius of Regional Office / Chief

Regional Office and are in a better position to feed their Chief Regional / Regional Office promptly. The Chief Regional / Regional Managers are responsible for implementation of the BKB's programme- loan disbursement, recovery and general banking. It is essential for the Chief Regional / Regional Manager to know achievement and lag of his branches for follow-up and corrective steps. In most cases Chief Regional / Regional Managers are authorized to make internal adjustments of targets / allocations depending upon potential demand for and prospects of branches. Chief regional / Regional Managers are, therefore, entrusted with collection and compilation of some operational **information** and data from the branches. Consolidated compilations are forwarded to the Head Office as per prescribed form on due dates. The flow of various returns / statements from the Chief Regional / Regional Office to the Head Office is shown below:

Table V-III: Management Information System (Form Chief Regional/Regional Office to Head Office & Divisional Office)

Level of communication	No. of statements sent	Frequency of reports
1. Regional Office/Chief Regional office to Head Office.	71	Weekly - 07 Monthly - 25 Quarterly - 27 Half Yearly -08 Yearly - 04
		Total 71
2. Regional office/Chief Regional Office to Divisional office.	22	Weekly - 03 Monthly - 11 Quarterly - 08
Total	93	22

Source : BKB, Chief Regional Office.

Branch wise tabulated information and data are useful for the Chief Regional / Regional Office for clear understanding by themselves and area-wise study by the Mead Office.

Frequently, information are required to be passed on to the Government, to the BB and to other agencies.

Before tabulation of branch data, the Chief Regional / Regional Managers, Offices are supposed to scrutinise the data carefully with reference to their previous position.

The flow of various returns/statements from the Divisional Office to the Head Office are shown below:

Table III-XVIII

Management Information System

(From Divisional Office to Head Office)

Level of communication	No. of statements sent	Frequency of reports
Divisional office to Head Office	22	Weekly - 03 Monthly - 1 Quarterly - 08
		Total - 22
Total	22	

Source : 8KB, Divisional Office, Chittagong.

The above tables have showed that some of the reports are prepared by the 8KB on weekly and monthly basis and some others are prepared on quarterly, half yearly and yearly basis. A study over the statements and reports prepared by the BKB has also revealed that they are related to cash position, advances, deposits, incomes and expenditures, assets and liabilities. Besides internal management, external authorities Like BB and Ministry of Finance also require information and reports for monitoring, performance evaluation and controlling the activates of the BKB. The external authorities use the reports and information for performance evaluation relevant to future policy making and appraisal of 'past policy directives. Internal authorities use the management

information system reports for performance evaluation, controlling purpose and also for corrective actions as and when necessary.

5.4 Lending Policy of the BKB

The BKB is guided by the instructions of the BB. The BKB guides its business applying the lending policy prepared by the BB. The bank provides loan to the real agriculturists who are engaged in agriculture, development of agriculture or agricultural production, cottage industries or other allied industries and in storage, warehousing or processing and marketing of agricultural products. Under lending policy, loan target is determined in the light of real credit demand and loan is given in just time. While designing credit programme, the BKB's statutory responsibilities are over all development of agriculture, socio-economic development of the small and the marginal farmers i. e., rural poor by accelerating micro - credit delivery. For supplying money to the self-employment and to income generating-functions in rural area, supplying money

to the self employment and income generating functions is made through the bank branches and if possible, it is made to set up linkage with self-supported groups or the NGOs. Under the loan programme, the following principles are followed for giving short-term crop loan with a view to producing all crops excluding tea:

- (i) Minimum 60% of the total allocation for crop loan;
- (ii) For the production of crop, loan is given to the agriculturists at fixed rate for the cultivation of land, maximum 15 highas (5 acres) hut for the cultivation of sugar-cane and potato, the maximum limit is upto 2.5 acres. In lending, preference is given to the marginal, small and share crops cultivation;
- (iii) For cultivation of land upto 2.5 acres, loan is given only against crop-hypothecation. But for the cultivation of land more than 2.5 acres, collateral security is required;
- (iv) Crop loan and other loans are sanctioned to the loanee at a time; and
- (v) Defaulter loanees are not considered as eligible for receiving fresh loan.

The branches of die BKB provide crop and other loans to the unions which have been allotted to them under lead bank system. Pass Book is essential for providing all kinds of loan under krishi loan programme and all existing rules regarding this are followed properly. In case of new loanee, loan is disbursed through issuing pass book.

Besides, the following principles are also followed for implementation of the Annual Credit Programme (ACP):

- i. To encourage timely repayment of loan, the bank provides 2'7c rebate to the borrowers repaying loan as per schedule
- ii. Simple rate of interest for agricultural loan upto Taka 3 lakh and compound interest for those who fail to repay within six months from the date of recovery
- iii. Policy of charging no interest on agricultural loan upto Taka 3 lakh when it is double with interest; and
- iv. The bank considers 1% interest rebate for timely repayment of working capital loan taken for preservation of potatoes in cold storage.

5.5 Terms of Loan of the BKB

Rural finance can be broadly classified into two heads-Seasonal and Development. The seasonal loan is meant for meeting peasants' needs in a particular season and also for fulfilling the working capital need of non-farm activities. Development loan is meant for undertaking agricultural development and also for fixed capital finance of non-farm activities. Development loan can again be classified into medium and long-term loans. The BKB advances short-term, medium-term and long-term loans. These three types of loans are advanced with interest. The term of loans is determined on the basis of gestation period of a project and generation of income by the loans. The period of amortisation of short-term loan is 18 months, medium-term loans is over 18 months and upto 5 years and in case of long- term loans, the duration is beyond 5 years. Short-term loans are given to meet the seasonal needs of the farmers for agricultural operations, for alleviation of poverty of the rural landless and the marginal fanners and for carrying on small businesses. Medium term loans are given for the purchase of agricultural implements, draft animals (plough cattle), bullock/buffalo, carts, boat, dairy, poultry, pond fishery,

etc. Long term loans are given for the purpose, such as development of orchards/fruit garden, inland fisheries, acquisition of farm machinery, construction of warehouse, irrigation equipments, etc.

5.6 Security of Loan of the BKB

It has been recognised that financial institutions require securities for rural finance. This is because such credit facilities to agricultural sectors and other associated sectors having engaged in rural activities may sometime be considered to be a risky venture, particularly from the point of view of uncertainties involved there in²⁵. No collateral security is required for short-term BKB loan (other than cash credit). This loan is given by the BKB to any person who is a genuine farmer having land under his cultivating possession. The loans are given to individual or groups against crop hypothecation, personal surety or group surety. The landless and the marginal farmers are considered eligible for short-term loan if they can satisfy the 8KB about Ilie means ant! capacity to cultivate land for raising the crop. For cash credit, collateral security is required. Cash credit is given in two ways, such as cash credit against pledge and cash credit against hypothecation. In case of pledge, the possession of inventory remains in the hand of the bank. But cash credit against hypothecation is sanctioned against real estate, building, farm machinery, Fixed Deposit Receipt (FDR), Shanchya Pattra (SP), DPS, etc.

For medium and long-term loans, collateral security is required. The loans are sanctioned against real estate, building, farm machinery and other assets created out of the loans. In case of irrigation equipment 10%-20% of the market value of the respective equipment is taken down payment as deposit.

Table V-IV: Nature of Loan and Pattern of Securities

Nature of Loan	Securities Required
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1. Short-term Loan	1. Hypothecation of crop 2. Personal surety or (jump surely 3. Pledge of inventory (In case of cash credit) 4. Hypothecation of real estate, building, (arm machinery, fixed deposit receipt, slianchya pattra, etc. (In case of cash credit)
2. Medium-term Loan	Real estate, building, farm machinery, etc.
3. Long-term Loan	Real estate, building, farm machinery, etc.

Source: Field Survey

In investigation, the researcher found that in most cases crops were given as security

for short-term loan. But for medium and long-term loan usually mortgage of immovable properties like farm land or household properties were preferred. The researcher further found that the problems of accepting land as security arose due to the difficulty of getting land with clear title. But the requirement of the BKB in the matter of demand for securities appears to be harder and therefore it becomes a difficult **proposition** for the landless and marginal peasants' to avail medium and long-term loans from the BKB. Thus the security requirements, in fact, has virtually limited the lending areas of the BKB in the process of rural development relevant to the poverty stricken rural population.

5.7 Rate of Interest of the BKB

The BKB charges different interest rates ranging from 12% to 14%' for its lending (from December 1, 1999). But the rate of interest varies from time to time as the rate of interest depends on the bank rate.

Heads of loan and its rate of interest are mentioned below:

- (i) Working capital in loom industry - 14%
- (ii) Cereal loan / crop loan - 13%>
- (iii) Term loan in small and cottage industry:

- a. Small and cottage industry and hand loom industry (term loan) - 13.5%
- b. Tea garden (Factory development) Medium-term loan - 12%;
- c. Tea garden (Factory development) Long-term loan 12%
- d. Project loan (Long-term)- project loan without foreign aid accepting agriculture - 12.5%

5.8 Factors Considered for Measuring Credit Worthiness of a Loanee

Lending is the most risky function performed by the BKB than other financial institutions or banks. Therefore, it must be done carefully and efficiently. In the process of lending, the BKB investigates the credit worthiness of the loanees. This investigation is referred to as credit analysis. The banking literature referred to the seven C's of the credit as to the credit analysis of the borrowers and these are character, collateral, capital, capacity, conditions, coverage and capability, that is, credit analysis is the determination of these seven C's of an applicant to borrow from any bank with the terms of the contract.

The following factors are considered by the BKB at the time of measuring credit worthiness of a loanee:

- (i) Local reputation of the loanee
- (ii) Behaviour of transactions of the loanee
- (iii) Ability to repay the loan
- (iv) Capacity for giving collateral security
- (v) Character of the loanee
- (vi) Purpose of the utilisation of loan
- (vii) Eligibility of performing loan contract
- (viii) Size of cultivable land according to loan demand

- (ix) Ability to generate income by using loan
- (x) Whether the loanee is a real farmer
- (xi) Right name and right location of the loanee.

5.9 Measures Generally Taken to Recover Loan

The following measures are generally taken to recover loan by the BKB:

- i. Demand notice is served before the maturity date of the loan
- ii. Field Officer or Supervisor of the bank branch communicates with the loanee personally and sometimes he wants help from the Union Parishad (UP) members or chairman where felt necessary,
- iii. Legal/Ukil notice is issued
- iv. Regional Manager (RM) / Upazila Nirbahi Officer (UNO) and special notices are served
- v. Certificate case is submitted finally.

5.10 Other Lending Activities:

Working capital loan to fish freezing plants for processing, preservation and export of fish;

- i. Working capital loan to cold storage for preservation of potatoes
- ii. Loans to registered sugar cane growers of sugar mills area;
- iii. Loan to the contract growers of BADC for production of High Yielding Variety (HYV) seeds of potatoes; and
- iv. Loan for shrimp culture through Saudi Bangladesh Industrial & Agricultural Company Ltd. (SABINCO).

5.11 Lending Activities of the Sample Branches

The sample branches of the BKB provide loans for various activities. These activities are appropriate for enhancing the economic independence and the solvency of the rural people. The activities are mentioned below:

- (i) Crop loan: for **Aus, Aman, Boro** paddy, Potato, Ginger, Water melon,
- (ii) Agricultural equipment loan : for Power tiller, Plough Cattle
- (iii) Salt Growing Loan
- (iv) Loan for Working Capital of Small Business
- (v) Loan under Landless and Marginal Farmers Credit Programme,
- (vi) Loan for Beef Fattening
- (vii) Loan for Working Capital of Poultry Farm
- (viii) Loan for Slirimp Cultivation, Hatchery and

5.12 Constraints in Loan Disbursement

Factors constraining larger disbursement to peasants in general and the marginal and the small peasants in particular, can be grouped under two broad categories- {-actors internal and Factors external.

5.12.1 Internal Factors

- i. There is a lack of skilled, trained and committed manpower.
- ii. Large overdue loans reduce the scope for further disbursement as defaulters are not eligible for fresh loans,
- iii. Loans are disbursed by executive fiat and at times under pressure from rural power structure while the managers making disbursement are held personally accountable for recovery. This makes them overcautious which impede disbursement,
- iv. Effective disbursement is time-consuming and painstaking as it involves door to door operations which adds to the cost of disbursement,
- v. Lack of communication facilities for the rural staff acts as an obstacle to if effective disbursement,
- vi. Lack of effective monitoring, supervision and guidance by senior staff.

5.12.2 External Factors

- i. Places of the residence of the borrowers and location of lands owned by them are under different unions which create difficulties for appraisal and eventual sanction.
- ii. Introduction of the credit pass book system has affected disbursement in two ways:
 - a. some peasants are unwilling to take pass-books which require their photographs;
 - b. getting peasants photographed in rural areas is a difficult task.
- iii. Liberal trade union policy has led to indiscipline trade unionism in the public sector banks. These unions, supported by political elements, operate at all levels of the public sector organisations. This has not only eroded work ethics but also has compromised quality of personnel recruited. The unions, to add to their strength, get involved in recruitment, transfer and promotion matters.

5.12.3 Growth and Development of the BKB

The BKB's preferential heads of loan disbursement were

- i. Fish cultivation,
- ii. Development of livestock,
- iii. Irrigation equipments and agricultural instruments,
- iv. Setting up nursery
- v. Cotton cultivation
- vi. Cultivation of silk
- vii. Salt production project.

5.12.4 Other heads of loan disbursement of the BKB were:

- i. Micro-credit programmes for poverty alleviation

- ii. Ghare-Fera- the programme for return of rootless-slum dwellers to their own houses.

Heads of deposits of the BKB were:

- i. Savings deposit
- ii. Current deposit
- iii. Fixed deposit
- iv. Short-term deposit (S.T.D)
- v. Deposit pension scheme (D.P.S)
- vi. Khuddra shanchya scheme (K.S.S)

5.13 General Business of the BKB

The BKB is an agricultural development bank which finances the whole gamut of agricultural activities by providing short-term loans (mainly for seasonal crop production) and term loans (mainly for farm machinery including irrigation equipment, draft animals, horticultural development and agro-based and agro-support industrial units). The BKB's overall importance in the financial sector can be understood by the fact that it covers about 60% of the total institutional loans extended to agriculture and related activities of the country. In addition, the BKB is authorized to perform normal banking functions such as accepting deposits, borrowing money, issuing and selling bonds/debentures etc. The BKB is the second largest financial institution which has 837 branches and 11,343 employees up to now (June 30, 1999) throughout the country. There are about 12,55,000 loanees throughout Bangladesh under different loan portfolios of the BKB (June 30, 1999). The bank disburses loans for crops, live stocks, fisheries, fertilizer dealership, cottage industries, shrimp cultivation and fruit processing plant. The loan operation of the BKB has grown at a low base of Taka 9.64 crore in 1971-72 to Taka 1,590.23 crore in 1998-99 and loan recovery is only 29% against recoverable amount. The BKB has taken a number of programmes on poverty lending in association with the Government and the NGOs.

To attain the objectives the BKB has to perform a wide range of business including branch expansion, deposit mobilization, disbursing loans and advances, recovering loans and so on. Here the author will discuss them one by one.

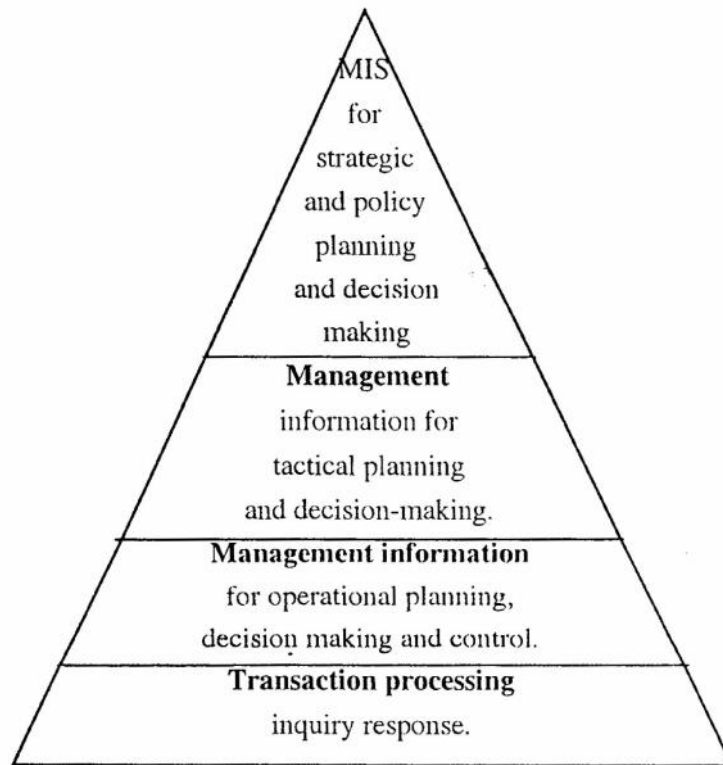


Fig: Management Information System

CHAPTER 6

BANKING SECTOR

6.1 PROBLEMS IN THE BANKING SECTOR IN BANGLADESH

Transparency International Bangladesh (TIB) said that Bangladesh is the 2nd most corrupted country in the South Asia. Loan default under political patronage Hall Mark, Destiny, Padma Bridge, railway recruitment and share market scams and Rana Plaza collapse also contributed to Bangladesh's poor ranking. "The highest deposit of ill-gotten money to the Swiss Bank was from Bangladesh last year while the second highest number of buyers of 'second home scheme' in Malaysia is also from Bangladesh, It also reported that the highest deposit of ill-gotten money transferred to the Swiss Bank from Bangladesh last year while the second highest number of buyers of 'second home scheme' in Malaysia is also from Bangladesh (Rahman P hd. thesis 2004).

The legacy of corruption and malpractice in the banking sector can be traced back to the pre-liberation (pre-1971) days. The Pakistan government, bent on rapid industrialization and modernization of agriculture, provided liberal refinance facilities to specialized development finance institutions, who were encouraged to dole out large amounts of money to budding industrialists and large agriculturists. There were reports of borrowers bribing bank officials in cash or kind for getting loans. Large industrial loans required political patronage, some of which was thought to have had a price tag attached to it. Insider lending was common in private banks, as was the use of bribes to mobilize scarce deposit funds from owners or controllers of that fund government. The incidence of fraud and forgery was however very limited and/or not made public (Rahman P hd. thesis 2004).

6.2 RECENT CORRUPTION IN THE BANKING SECTOR

The recent activities of banking sector in Bangladesh, are really threatening. Discipline in the banking sector is apparently under strain. At the same time criminal activities in banks have increased. In the absence of good governance, many banks have indulged in irregular activities and corruption. Bangladesh Bank is the responsible for making proper banking policies as our financial condition demand and monitoring if the others bank

obeying or violent the rule. Not only that if any try to violet the rules, Bangladesh Bank give punishment as soon as possible. But in our country Bangladesh Bank is corrupted by itself. How it controls the other, where there isn't proper security to protect nation's resource. Recent report says that in the hacking and money transfer crimes from Bangladesh bank, there are few officials of BB are involved. (<http://en.wikipedia.indecipline> in banking sector of Bangladesh)

Recently, Hall-Mark scandal of Sonali Bank Ltd, BASIC Bank Ltd, Janata Bank Ltd. (Government owned banks) is unprecedented and did have a negative impact on the banking sector. Hall-Mark Group and some other groups of businessmen have taken Tk. 35 billion (Tk. 3,500 crores) from Ruposhi Bangla Hotel branch of Sonali Bank by using local letters of credit (<http://en.wikipedia.loan> corruption_in_Bangladesh).

Bangladesh has detected irregularities in disbursement of loan by BASIC Bank Ltd. This bank has disbursed loans of Tk. 60 billion (Tk. 6,000 crores) in three years out of loans of which of 30 billion taka (Tk. 3,000 crores) was advanced in irregular manner. Loans of Tk. 25 billion (Tk. 2,500 crores) were given from three branches (Gulshan, Santinagar and Dilkusha). These loans were given without any proper system and these loans have a become a burden for the BASIC bank (<http://en.wikipedia.loan> corruption_in_Bangladesh).

Two deputy general managers of Janata Bank were arrested by The Anti Corruption Commission (ACC) in Dhaka in Bismillah cases. On November 3, 2013 Bismillah group took loan Tk. 1,175 crore from five commercial banks and 41 officials Prime Bank, Jumuna Bank, Shajalal Islami Bank and Premier Bank and including of Janata Bank were accused by ACC. Deputy general managers (DGMs) were involved in loan sanctioned to Bismillah group. Bismillah group mainly towel producer and they took loan from the help of bank officials Tk. 526.96 crore from three branches of Janata Bank, Tk. 326.51 crore from Motijheel branch of Prime Bank, Tk. 154.66 crore from Motijheel branch of Jumuna Bank, Tk. 104.04 crore from Eskaton branch of Shajalal Islami Bank and Tk. 62.53 crore from Motijheel branch of Premier Bank during June, 2011 and July 2012 (The Independent: 6 October,2014)

Anaanda Ship yard embezzled Tk. 1,00 crore from 12 banks and finance Companies. Anaanda Ship yard exported ship in the abroad. The company shoed fake documents, and took loan from Janata Bank . Five officials of Jananta Bank were involved in that Tk. 1,300 crore loan corruption (bd. news.com:5 Feb, 2015)

Bank provides more customer services to a customer, it creates a stronger relationship with the customer and the bank gains more profit. It enhances the profit of the organization. Normally relationship banking helps to reduce in monitoring the default risk of borrowers, providing the banks with a comparative advantage in lending. But in Bangladesh a SOG (state owned government) bank customer gets their big loan easier and it increases the default risk (AhmeD 2004) for the bank.

State –owned commercial banks gave loans and advances in the name of fake companies. Most of the big and fake loans were sanctions due to political pressure. There is little hope to recovering such loans. (http://en.wikipedia.loan_corruption_in_Bangladesh). The banking sector in Bangladesh makes progress to create client confidence. The central bank will have to be more careful so that public confidence on banking sector is not shaken. Political influence is making the banking sector risky. Government's management is also responsible for indiscipline in the banking sector. Rules of granting loans have been neglected. It is also reported that political influenced people transferred about Tk. 100 billion (Tk. 10,000 crores) from four state –owned commercials banks. There is clear evidence of lack of transparency in appointing the board members of the banks. Good governance in the commercials banks is needed and unfortunately alleged loan default is not being properly reflected in bank accounts.

In February 2016, hackers stolen \$ 951 million from the central bank of Bangladesh were issued the SWIFT network. Five transactions issued by hackers worth \$ 101 million and withdrawn from a Bangladesh bank account at the Federal Bank of New York which is now under investigation (http://en.wikipedia.central_bank_hackers). It is under investigation but more than three to four months already passed and 10 times report was

reviewed by the investigating team. But still this reported was not published (The Daily Star 15, 2016).

Recently corruption is spreading aggressively among the officers in this sector from top to bottom. Managing Board Directors sanctions big amount loan for the companies those are fake and politically powerful. In a consequence, there is some corrupted banking officers take away customer's money by cloning debit and credit card. Because of a non-transparent and weak financial system, we are not only losing foreign investment but so also we cannot invest our own resources in our development projects. Our surplus resources are being transferred abroad. Swiss bank money is mostly owned by the rich merchants and influential political leader of Africa and Asia. (TIB report 2015). The foundation of our economy is eroded for lack of transparency, accountability and absence of monitoring in our banking system. In this situation, general people are cheated by the banks regularly and lose the trust on the banking sector. Under the political uncertain condition people feel insecure to invest money; on the other hand they can't trust the banks to save their money. It's really an unexplained situation for the general people of our country. Government need take proper monitoring as well as take proper necessary action that is punishment against all types of corruption in the banking sector.

Corruption in the Banking sector in Bangladesh mainly done by the government owned banks particularly in terms of the services and customer care provided by the government run banks (http://en.wikipedia.org/wiki/Performance_of_government_owned_banks). Recently the private banks are also involved in corruption. They are trying to imitate the banking structure of the more developed countries, but this attempt is often foiled by inexperienced or politically motivated government policies executed by the central bank of Bangladesh. The outcome is a banking system fostering corruption and illegal monetary activities/launders etc. by the politically powerful and criminals, while at the same time making the attainment of services or the performance of international transactions difficult for the ordinary citizens, students studying abroad or through distance learning, general customers etc.

Some allegation against it the bank managers that loans have been given to fake companies because of political pressure and connivance of dishonest bank officials.

Directors of state-owned commercial banks appointed on political considerations have allegedly played an important role in this regard. Millions of Taka has been withdrawn in the name of fake companies by opening local letter of credit. Although many irregularities have been detected by the central bank, no punitive action has been taken against banks and bank officials. Letters have been issued to the chief executives of the banks several times (The Financial Express March 3, 2015).

After independence, all private banks, except the foreign banks, were nationalized and brought under the direct control of the bureaucrats. The government allowed the remission of interest and, in some cases, even the principal for borrowers who could claim that they had been adversely affected by the war of liberation.

The acute shortage of manpower in the banking sector forced the government to go for hasty, quota-based recruitment drives. The prolonged government bank on new recruitment of officers (forced upon by trade union pressure) even when the branch network was expanding rapidly created pressure for promotion from the clerical ranks. This resulted in a decline in the average quality of the work force. The government's policy of mandated credit for agriculture, to be disbursed through local level government officials and rural power brokers, practically institutionalized corruption in agricultural lending. Dishonest bank officials took a 10 to 20 percent cut of the loan amount, as a matter of routine. The new government inherited from its predecessor an enthusiasm for rapid industrialization. Government-owned development finance institutions (DFIs), using soft donor loans, financed numerous projects. However, a large proportion of such loans represented political patronage to party supporters, former and serving civil or military bureaucrats, and their relatives. In such cases, the lending decisions were obviously not based on sound banking principles. At the same time, commercial banks offered lines of credit indiscriminately without reference to the customers' bankability, safe in the knowledge that the bank's lending risk would be covered by Bangladesh Bank's credit guarantee. The free-wheeling banking operations came to a shuddering halt in the early eighties, following the hardly unexpected revelation that the DFIs were burdened with large non-performing loan portfolios. The flow of donor credit dried up soon afterwards.

Large borrowers willfully defaulted on the loan repayments to the DFIs and nationalized commercial banks (NCBs), emboldened by their close links with the corrupt civil-military bureaucracy. Subsequently, the defaulters extracted concessions in the form of interest waivers, segregation of loans into "blocked accounts", and repeated rescheduling. Some defaulters are alleged to have used the defaulted funds to start private banks and insurance companies. This gave them a further opportunity for insider lending and for diverting yet more funds to various pet ventures. Here in lays the origins of the 'default culture'.

A recent study on the bank loan default problem found that in the sample group out of 125 defaulters, 78% utilized political connections, including ministers' influence, to get loans sanctioned. Of the 37% directly involved with the ruling party, a large proportion had changed their political affiliation at least once.

Successive governments have made half-hearted attempts to tackle corruption in the banking sector. Recommendations made by various committees set up to investigate corruption never received the priority that they deserved. In some cases, the final report was not even published. The attitude of major donors was ambivalent. The Financial Sector Adjustment Credit programmed (World Bank) and the Financial Sector Reform Program (USAID), two major aid projects focusing on the financial sector, neglected the issue of combating corruption in banking sector.

The political patronage enjoyed by the defaulters and dishonest senior bankers was sufficiently strong to prevent the Anti-Corruption Bureau (ACB) from investigating suspected bank officials without the clearance of the Prime Minister's Office (PMO). Defaulters were allowed to contest the 1991 general election. In the 1996 elections, the caretaker government initially took a strong stance against the participation of defaulters. The government later reversed its position and allowed defaulters to contest, provided they got their default loans rescheduled on payment of only a single installment of 10% of the defaulted amount. After getting elected a Members of Parliament, their default status no longer mattered.

As for the default loan scenario, the entire focus has been on the borrowers. Bank officials have been very fortunate to escape blame for their role in many corrupt, or at best ill-judged, lending decisions. There appears to be a lack of awareness in the

government and the banking community that bank officials can be penalized by the law for willful or negligent conduct in disbursing loans.

The transformation of finance priorities has brought with it problems in administration. No sound project-appraisal system was in place to identify viable borrowers and projects. Lending institutions did not have adequate autonomy to choose borrowers and projects and were often instructed by the political authorities. In addition, the incentive system for the banks stressed disbursements rather than recoveries, and the accounting and debt collection systems were inadequate to deal with the problems of loan recovery. It became more common for borrowers to default on loans than to repay them; the lending system was simply disbursing grant assistance to private individuals who qualified for loans more for political than for economic reasons. The rate of recovery on agricultural loans was only 16.77 percent in FY 2014 and FY 2015, and the rate on industrial loans was even worse. As a result of this poor showing, major donors applied pressure to induce the government and banks to take firmer action to strengthen internal bank management and credit discipline.

6.3 LOAN CORRUPTION OF BKB

Moulavi Bazar branch a window and grill were broken around 10pm. on Tuesday and robbed the vault of BKB and looted Tk.621 million. Two bank officials under investigation for this incident (The Daily Star Dec 7, 2014).

6.4 AGRICULTURE SECTOR CONTRIBUTION IN OUR ECONOMY

Bangladesh economy draws its main strength from agriculture sector. The sector contributes 19.10% to GDP (at current prices) and employs 50.28% of the labour force. Despite increase in the shares of fisheries, livestock, and forestry, crop sub-sector alone accounts for 60.83% share of agricultural GDP Crop agriculture in Bangladesh is, however, constrained by a number of challenges every year. Major challenges include 1)

Loss of Arable Land, 2) Population Growth, 3) Climate Changes, 4-6) Inadequate Management Practices (Fertilizer, Water, and Pests & Diseases), 7) Lack of Quality Seeds, and 8-10) Inadequate Credit Support to Farmers, Unfair Price of Produces, and Insufficient Investment in Research. Bangladesh has lost about 1 million ha of arable land from 1983 to 1996. Virtually, no step has been taken by the government to arrest this loss. The land use policy prepared by the government several years back has not yet been implemented. Population growth poses another great threat to crop productivity. Besides, crop agriculture in Bangladesh has become regularly vulnerable to the hazards of climate change—flood, drought, and salinity in particular. In addition, poor management practices, especially those of pests and diseases, fertilizer, water and irrigation have largely contributed to significant decline in crop productivity. Small and marginal farmers that constitute majority of farm population are constrained by poor financial resources and cannot, therefore, afford high management costs of high input technology. (Ref; 1)

6.5 AGRICULTURAL FINANCE MARKET IN BANGLADESH

Agriculture in Bangladesh as in many South Asian countries is characterized by the following a low-land-man ratio with highly skewed distribution of land, subsistence farming and fragmented holdings, an excess supply of labor, low capital formation, low per acre yield, transitional technology and multiple modes of production. The informal credit systems in this environment are rich in variety and forms. Markets are differentiated and fragmented, and terms are varied and sometimes, interrelated to land and other means of production and exchange.

The Agricultural finance market in Bangladesh can technically be classified into three sectors: formal, semi-formal and informal. The formal sector includes formal financial institutions which are being regulated and supervised by the Bangladesh Bank (BB) for monetary management purposes. The semi-formal and informal sectors include transactions falling outside the regulated financial institutions like the Grameen Bank (GB), the NGOs, friends, relatives, money-lenders etc.

Formal sector banks are regulated by the *Banking Companies Act, 1991* and thus, have to follow directions and guidance given by the BB and the Government. At the same time,

these institutions get some special privileges and exemptions from the controlling authority. In the existing regulatory patterns, only GB is being regulated under its own ordinance The Grameen Bank Ordinance 1983.” The regulatory framework facing other NGOs is different. Most of the NGOs are registered under Societies Registration Act, 2860, administered by the Department of Social Welfare. Some are registered as non-profit companies under Companies Act, 19943. Moreover, all the NGOs which receive foreign donations are required to be registered with the NGO Affairs’ Bureau.

6.6 BACKGROUND OF THE AGRICULTUE IN BANGLADESH

Bangladesh is an Ago-based economy with one of the highest rural population densities in the world; The major occupation of the Bangladesh is Krishi” .Krishi is a Bengali word which means “Agriculture”. About 85% of the population depends directly or indirectly on agricultural which contributes a significant portion to GDP is about 30% and employs more than 60% of the total labour force. (Source: Bangladesh Govt. web sites). Rice is Bangladesh's principal crop. Jute was considering golden fibre of Bangladesh but now a day’s getting less importance to produce and wheat is assuming greater importance. Although rice and jute are the primary crops, maize and vegetables are also get importance to produce. Due to the expansion of irrigation networks, some wheat producers have switched to cultivation of maize which is used mostly as poultry feed. Rice was produced 28.8 million metric tons in 2005-2006 (July-June). By comparison, wheat output in 2005-2006 was 9 million metric tons. Bangladesh is the fourth largest rice producing country in the world.

6.7 HISTORY OF FARMERS EXPLOITATION IN SOUTH ASIA

In the Mughl times there were rich bankers. The rich bankers exploited the poor farmers. Post –Mughal regimes between Bahdur Sha and Tipu Sultan who run the major part of Bengal. At that time there was few rich money lender (bankers) and dominated the agricultural loan in Bengal. British regimes started by the defeated and kill the Tipu Sultan in this region. In the British regimes *zamindards* or *talukdar* got the lordship of a region. Zamindars act as a money lender to poor farmers. Poor farmers lost their lands when Money lenders maintained two types of documents one documents using benami

transaction and another book for keeping actual transactions. Poor and illiterate farmers rarely challenge to the officials and demand for real recording book. Besides this, British administration allowed money lenders to charge any rate of interest and to force take over the farmers land, farmers suffered dispossession of their own land all over the British India regime. Farmers were mostly illiterate, and it was quite difficult for them to justice or fights against the money lenders or files any case against money lenders. Farmers were lived in a village it was far from the town and cities, it was very difficult at that time for poor farmers to get at a long distance from the villages and file a case against the *zaminders*. Farmers showed inability to pay the debt. Huge debt burden to poor farmers lost their cultivated land then other land and gradually everything. Gradually many rich farmers themselves join the ranks of dispossession of land and joined as laborers. Some cases the poor farmers bound to migrate another village. The problem of farmers' indebtedness and eventual dispossession was so intense in areas of *zamindari* or *talukdari* areas The Bengal Agricultural Debtors (BAD) act was passed.

In the 18 Centuries new revenue system was imposed to the farmers. Farmers cultivated their land and rains destroyed the crops. The farmers were poor and found impossible to pay revenue to the government (Revenue Settlement were known as Ryotwari Settlement by Deccan). Farmers were poor at that time. Farmers need to borrow money from the money lenders. Farmers borrow money from money lenders but it was difficult for them to repay due to heavy interest burden. Debt was increasing but farmers were not able to repay their loan. Most of the farmers' loan remains unpaid and farmers' dependence on money lenders increased. Farmers need additional financing for cultivation but money lenders refuse to pay the additional loan to the farmers. Money lenders refused to give the loan to the farmers but demand for agricultural loan were increasing. Due to high demand for agricultural loan the money lenders charges very high for farmers. The interest charges on farmers were Rs. 2000 against only Rs. 100. Then the year of 1875 there was a Riot started between two large villages in Supa and another Village in Poona district. The Riot started between the farmers and the money lender. Farmers attacked the money lenders and looted their account books and debt bonds. The farmers burnt account books, looted grain shops and in some cases burnt the houses of shopkeepers and moneylenders. The conflict started at Poona and spread to Ahmednagar. Then it was continue two to

three months over an area of 6,500 square km. In that Riots fighting affected more than the thirty villages' people. Then Deccan Riots Commission was established to resolve that conflict between farmers and money lenders (Bagchi 2002).

Accordingly to the crime report of India reported that, in the year 2014, 5,640 farmers suicides due to huge debt burden. Farmers suicidal case in India was highest and range between 1.4 to 1.8 per 1,00,000 people. Farmers cannot bear excessive debt pressure from the lenders, family pressure for survival (National crime reports of India 2014)

A.K. Fazlul huq was a political leader, poet, journalists, educationists. He was the pioneer of the Bengali Muslim renaissance. On April 1, 1937, A K. Fazlul Huq as a leader of Bengal founded the Krishak Praja Party (KPP) in the year 1935. He established KPP for relationship and restoration of peasant (farmers) rights, relieving the peasants of the oppression of money lenders and Zamidars (The Daily Star ,March 14, 2016).

6.8 NECESSITY TO INVEST IN THE AGRICULTURAL SECTOR

Agriculture remains the main economic activity and employs the majority of the people in most low income countries. Globally, there are approximately 450 million households whose main activity is agriculture. Agricultural producers in developing countries, particularly those in low income countries, face a number of hurdles including low productivity, limited access to markets for their products, lack of adequate risk management products and services and limited access to finance. While agriculture remains a key economic activity in Africa employing about 55% of the population, only approximately 1% of bank lending goes to the agricultural sector. Furthermore, only 4.7% of adults in rural areas in developing countries globally have a loan from a formal financial institution and only 5.9% a bank account, (Financial Express: 15/2/2015)

The need for investing in agriculture is increasing due to a rising global population and changing dietary preferences of the growing middle class in emerging markets toward higher value foods (e.g. dairy, meats, fish, fruits, vegetables, etc.). According to estimates, demand for food will increase by 70% by 2050, and at least \$80 billion annually in investments will be needed to meet this demand, most of which is expected to come from the private sector. Banking sectors in developing countries lend a much

smaller share of their loan portfolios to agriculture compared to agriculture's share of GDP. This limits investment in agriculture by both farmers and agro-enterprises. It also demonstrates that the barrier to lending isn't due to a lack of liquidity in the banking sectors, but rather a lack of willingness to expand lending to agriculture. Even when available, much of the agriculture funding tends to be informal and short-term, precluding longer-term investments. This informal funding only partially covers the financial needs of farmers and small agribusinesses, and usually at a high cost.

To feed her 150 million people from 8.2 million hectares of cultivable land is a tough task (Hossain, 2009). Every year almost 0.20 million people are being added to the total population whereas the estimated annual shrinkage of agricultural land is about 0.08 million hectares due to various non-agricultural activities like constructions of houses, offices, roads, mills, factories etc. (BRRI, 2009). The contribution to GDP by agriculture is about 21.11% (Fig. 1) of which crops, fisheries, livestock and forestry account for 11.72, 4.73, 2.90 and 1.76%, respectively (BBS, 2007). The performance of this sector has an overwhelming impact on major macroeconomic objectives like employment generation, poverty alleviation, human resources development and food security. The country's food production has increased from 11.0 million tons in 1971 to about 30 million tons in 2007 (Hossain, 2009). The country is, at present, about to achieve self sufficiency in cereal production. This is due to irrigation development and partial mechanization in other agricultural operations. But to meet up the food requirements of the ever growing population of the country in 2015, an additional 5 million tons of food grain need to be produced from the continuously decreasing agricultural lands. To achieve this target, there is no other better option than to increase production per unit of land as well as cropping intensity. Thus, to increase production and cropping intensity, the most important gain will be the faster development of agricultural mechanization as well as variety development. Replacing the traditional inefficient agricultural tools, efficient mechanized cultivation must be introduced and extended.

Bangladesh is one of the most severely hit countries by natural disasters. Nearly seventy percent of the nation's rural land is a flood plain. Therefore, the country can offer little agricultural security. However, BKB agri-credit banks will allow some form of security

to subsistence farmers who have the opportunity to take loans of any size necessary to rebuild their losses.

Because of lack of finance, farmers have to cultivate crops with lower cost and lower return. After finishing their merger earning from the crop they cannot cultivate properly in the next season, or invest on cash crops. And the cycle of low investment and crop with low return starts once again. (The Daily Star: 20/4/2010) This is not enough to go through the loan period in the northern region and, since there is no other scope to find work in that area at that time, the farmers face monga (starvation). This vicious cycle cannot be broken unless the farmers get easy access to finance. Bangladesh Krishi Bank distributed agricultural credit among the farmers on behalf of the Bangladesh Government but bribes and corruption lies on the distribution agricultural loan by BKB. Millions go to sleep hungry due to some people's illegal benefit. (ref;) Fraud and corruption in loan distribution took the capital flies from the economy.

To address this issue, the government is trying to reach finance to the farmers through various organisations. The agriculture sector will get Tk.11,512.30 crore (EUR 128.0834 million)(credit from various public and private banking channels in this fiscal, which would be about Tk. 2,133 crore (EUR 23.7293 million) more than the previous year.

To improve the economic conditions of the rural people we need rural financing. Rural finance refers to raising and accumulating funds and providing them rural people, including farmers, to allow them to run their socio-economic activities in the rural areas. Rural finance also covers a wide array of micro-finance institutions (MFIS).

The growth of proper institutional structure is an essential pre requisite to any credit system which seeks to cater to the needs of the average farmers spread over the rural areas. the provision of the basic necessities of life, including food, clothing, shelter, education and medical care". However, like many other developing countries of the world, Bangladesh yet to fulfil the basic rights of the citizen .Food crisis and price escalation hits the poor and the vulnerable the hardest, as a large percentage of their income, in fact, is spent on food. Bangladesh has been experiencing rising trend of inflation since early 2007, particularly in case of food grain. Population pressure

continues to place a severe burden on productive capacity, creating a food deficits, Foreign assistance and commercial imports fill the gap. The many farmers are not aware of the bank facilities and most of them are afraid of the paperwork needed to receive a loan. Second, giving a loan depends upon the manager of those particular branches. Small or marginal farmers usually do not have any collateral papers like land deeds. Even if they have documents, most of them are not updated. Farmers need to pay bribes for loan sections and timely loan disbursement because agriculture dependents' highly on the seasonality of the country. Farmers need agricultural credit to purchase seed , fertilizer and better irrigation, pesticides etc.

The challenges financial institutions face when offering financial products to agriculture are threefold:

- The transaction costs of reaching remote rural populations
- Higher perceptions of non-repayment due to sector-specific risks, such as production, price and market risks
- Financial institutions' lack of knowledge in how to manage transaction costs, agriculture-specific risks and how to market financial services to an agricultural clients

Also, government policies often prove to be ineffective and could in fact create impediments to offering financial services to the agricultural sector. Policies like concessional lending practices, interest rate caps, and loan forgiveness programs create disincentives for private sector lending while creating problems for government lending to agriculture.

Agricultural finance needs to focus on the following four areas:

- Segment the smallholder farmers and identify their financial needs. Smallholder farmers are heterogeneous and have different needs. It is important to identify various smallholder sub-segments and assess their needs and constraints before designing solutions and products. Also, smallholder farmers don't just need credit for

- agricultural activities but they also need credit for other household needs/activities, savings, payment systems and insurance.
- Find ways to de-risk agricultural finance by addressing both idiosyncratic (or individual) risks as well as important systemic risks. Individual risks are often linked to credit risk assessment, and information and systems to help. Information can assist financial institutions in credit risk assessment by promoting credit bureaus and linkages with value chain companies, etc. Finding good collateral, for example, moveable collateral, and not just rely on titled land, could also help. On the systemic risk, agricultural insurance, catastrophic risk programs, price hedging through commodity exchanges or value chains, can also provide some solutions.
 - Identify appropriate institutions and delivery channels that would reduce the costs of serve agricultural clients. A variety of institutions can provide agricultural finance, depending on the types of clients they serve. MFIs and cooperatives can serve sub-segments of small holder farmers through their local presence and expertise. Commercial banks can also provide solutions through value chains and for better organized groups of smallholders. New technologies and advancements in mobile banking solutions as well as increasing integration of farmers into better organized value chains can promote solutions and delivery channels that reduce the cost of serving disperse populations in rural areas.
 - Address issues in the enabling environment and specific government policies that limit the flow of financial services to small holders. Government policies can restrict lending but also can crowd in private sector.

Future needs in agriculture finance include:

Longer-term agricultural financing is needed for longer-term investments such as better storage facilities, food/commodity processing facilities and equipment/mechanization. (Most of the current longer-term financing goes to trade and working capital.)

Financing agriculture-related infrastructure, such as rural roads, port facilities, loading terminals, etc., is needed in most of the poorest countries. Currently,

transportation costs are often too high, particularly for landlocked areas where moving food in and out becomes almost impossible because of poor logistics and high costs.

Climate change poses the biggest risk for agriculture and food security. We need to invest in agriculture (such as irrigation, drought-resistant technologies, controlling floods, etc.) to be able to adapt to climate change. We also need to use insurance and other mechanisms to mitigate the effects when climate events cause losses in agricultural production and assets. Investments in climate adaptation and development of insurance and other capital market products to compensate for losses are underdeveloped in emerging markets and need to be further developed.

Focus on **youth** and **women**. We need to make agriculture more attractive to young people and empower women so they can contribute more. The average age of farmers around the world is rising as agriculture isn't appealing to young people. Women in agriculture don't have the same access to technology, finance and extension as men do, which results in lower yields and income.

Advancements in technology could also lead lowering the cost of financial services to agricultural clients. Solutions involving information and communication technologies (ICT) could provide a key in reducing the costs of frequent small transactions by disperse populations in rural areas. The use of mobile phones, electronic payment platforms, mobile agents, etc. hold quite a promise and we are seeing an increase in such applications.

Instruments to support agricultural finance often involve:

- Lines of credit through both public and private financial institutions
- Appropriately structured partial credit guarantees
- Agricultural insurance for crop losses
- Development of leasing for agricultural equipment
- Setting up financial infrastructure (credit bureaus and collateral registries attending also to clients in the rural areas)
- Capacity building and technical assistance to both private and public banks/FIs

- Support of agricultural cooperatives
- Set up the right legal and regulatory environment to promote finance to the agricultural sector
- Assist in the development of innovative financing schemes such as warehouse receipt finance and value chain finance
- Assist in the development of commodity exchanges as a means in reducing market related risks

Since agricultural finance is a public-private partnership in most of the world, including in developed countries, our aim is to create an environment where the public sector crowds in the private sector to promote the delivery of financial services to agriculture.

6.9 NEED, SOURCE, UTILISATION AND COST OF RURAL FINANCE

The phenomenon of rural finance (rural credit) and indebtedness is not new concept in Bangladesh.

In the British period two-third of the rural people were indebted among which one-third were in deep debt. (Ref) Several studies conducted during the Pakistan and present Bangladesh period have shown that between 50% and 75% of the rural population have some debts at any one time. (ref). Historically , it has been wittiness that condition of rural people of Bangladesh has started deteriorating since the introduction of the colonial rule by the British East India Company. Most of farmers at that time had to depend on the landlords and the money lenders for loan. The need of rural finance varies from rural man to man. The researcher likes to highlight the need, source, utilization and cost of rural finance etc. These have been discussed below:

6.10 NEED TO RURAL FINANCE

Finance is the basic input for any development program, particularly in a developing country like Bangladesh. It plays a vital role in the improving the standard of living of rural people through increasing agricultural productivity and rural income. Credit is

urgently needed to be supplied to the weaker sections of the people, failing which the main goal of development to emancipate rural masses cannot be achieved. To feed her 150 million people from 8.2 million hectares of cultivable land is a tough task (Hossain, 2009). Every year almost 0.20 million people are being added to the total population whereas the estimated annual shrinkage of agricultural land is about 0.08 million hectares due to various non-agricultural activities like constructions of houses, offices, roads, mills, factories etc. (BRRI, 2009).

Agricultural productivity can only be increasing productivity of land(i.e. vertical expansion) through technological change. But the adoption of modern technologies requires extra capital which most of the farmers cannot afford especially their marginal land small farmers, who are also mainly gave the tenants, new technologies increased the cost of production. Capital formation in agriculture is either negative or negligible. Due to this paucity of capital, credit is needed by the farmers for production, processing and marketing. Due to extreme poverty, the majority of the farmers are continuously struggling to subsist between the famine and the poverty line. As such, majority of the farmers need credit not only for productive purpose but also for inter crop maintenance. It is very difficult for subsistence and survival for small and marginal farmers depend on farming only. Again, since production is seasonal and production period is long, and as well as very uncertain the need for working capital of of considerable importance. Agricultural production also depends on favourable climate condition. Farmers need working capital for long time for their necessary cultivation.

The farmers normally contract long term loan during the Bengali month Baishak to Poush. Farmers are transplanted Aus rice in the field and in this period of Chaitra to Jaistha. The farmers contract loan for paying wages and purchasing seeds, fertilizers, insecticides etc.

Amon paddy is the principal crop in our country. Asar and Sraban are the busiest months for the farmers. They are engaged during the period in preparation for and transplantation of Amon paddy. So, farmers contract loan monthly in this period.

The farmers are harvested Boro Paddy in the month of Bhadra and Aswin. In this period, they usually contract loan for buying food. A few farmers cultivated vegetables dry fish trading, betel leaf trading, beef fattening , milk cow raising, cane and bamboo worked, rice products (Cheera mori etc) making or pottery products making, mat making, handloom weaving, tailoringshopetc. Farmers also borrow for purchasing rural transport (boat, van and rickshaw) and sewing machine. The villagers also contract some occasional for ceremonies and unexpected happening like death, medical etc. which have no relationship with particular month or season.

A number of inquiring commissions were set up in Bangladesh to study the problem of rural indebtedness. The studies argued that the main reasons for short-term and medium – term credit needs of the farmers were: (Ref25)

- I. If natural calamity affecting agricultural output.
- II. High prices and markets of the agricultural output.
- III. Fails to pay previous loan instalments.
- IV. Land is disputes among the farmers.
- V. Inadequate financial advances coupled with interest lending to default in loan repayment and further indebtedness.
- VI. Farmers spend money for unproductive and wasteful expenditure for marriage and other purposes.

Poor farmers not able to create a significant amount of savings but the need credit because their income is very negligible. Not only this, most of the rural people is landless and marginal farmers. They live from hand to mouth. They need credit to live. Agricultural finance is required for investment purposes either in agricultural cultivation or in other activities.

CHAPTER-7

DATA ANALYSIS AND FINDINGS

DATA ANALYSIS (INTERNAL AUDITORS OIPNION)

7.1 DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Sample Size: 15

Table VII-I: DEMOGRAPHIC PROFILE OF THE RESPONDENTS

	Possible Options	Number of Respondents	Percentage
Gender	Male	15	100%
	Female		
	Total	15	100%
Education Level	Gradation	-	%
	Master	3	10%
	Others	13	90%
	Total	15	100%
Years of Experienced	5 years	2	30%
	10 years	9	60%
	Above 10 years	4	10%
	Total	15	100%

Source: Field Survey

7.2 DEMOGRAPHIC PROFILE OF THE RESPONDENTS

From the above table it is observed that that (Table VI-I) indicates the demographic information of the (N=15) respondents, consisting 100% auditors male and they are highly educated. Most of the Auditors have experienced more than 10 years.

TABLE VII-II: INTERNAL AUDIT RELATED RESPOBILITIES

Statements	Possible	Number of Respondents	Percentage
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	Options		
1 .Review and approve the appointment and dismissal of the head of internal audit done by the Board of Directors.	YES	15	100%
	No	-	-
	Total	15	100%
2. Internal auditors discuss the audit plan with BODs or Top Management.	YES	13	90%
	No	2	10%
	Total	15	100%
3. There is good cooperation between internal and external auditors.	YES	6	40%
	No	9	60%
	Total	15	100%
4. Internal auditors have an access to the external audit reports	YES	9	60%
	No	6	40%
	Total	15	100%

Source: Field Survey

7.3 ANALYSIS: SUMMARY OF THE FINDINGS IS GIVEN BELOW

- i. Most of auditors agreed that 100% they review and approve the appointment and dismissal of the head of internal audit done by the Board of Directors.
- ii. Internal auditors 90% discuss the audit plan with BODs or Top Management.
- iii. There is not enough cooperation between internal and external auditors.
- iv. Internal auditors 60% have an access to the external audit reports.

TABLE VII-III: RESPOBILITIES OF AUDIT COMMITTEE

Statements	Possible Options	Number of Respondents	Percentage
-------------------	-------------------------	------------------------------	-------------------

1. Review and approve the activities of the Head of internal authority.	YES	15	100%
	No	-	
	Total	15	100%
2. Internal auditors discuss the audit plan with BODs or Top Management.	YES	15	100%
	No	-	-
	Total	15	100%
3. Review whether or not the internal auditor has unrestricted access to the chair of the audit committee.	YES	9	60%
	No	6	40%
	Total	15	100%
4. Review the cooperation between internal and external auditors.	YES	12	80%
	No	3	20%
	Total	15	100%
5. Internal auditors have an access to the external audit	YES	12	80%
	No	3	20%
	Total	15	100%

Source: Field Survey

7.4 ANALYSIS: SUMMARY OF THE FINDINGS IS GIVEN BELOW

- i.** Most of auditors agreed that 100% the audit reports are reviewed and approved by the Head of the internal auditor.
- ii.** Details Audit plans are reviewed results are discussed with top management and Board of Directors.
- iii.** Internal auditors 60% agreed that they do not have access the audit committee.
- iv.** There is not enough cooperation between internal and external auditors.
- v.** Internal auditors 80% have agreed they have access to the external audit reports but 20% auditors are disagreed with that.

7.5 DATA ANALYSIS FROM THE SAMPLE BRANCH:

Sample Size: 120 (DIVISION:5, NUMBER OF BRANCH 54)

Table VII-IV: DEMOGRAPHIC PROFILE OF THE BRANCH DATA

	Possible Options	Number of Respondents	Percentage
Gender	Male	108	90%

	Female	12	10%
	Total	120	100%
Religion	Muslim	108	90%
	Hindu	12	10%
	Total	120	100%
Age	18-34	5	4%
	35- 49	61	51%
	Above 50	54	45%
	Total	120	100%
Designation	Branch Manager	45	37.5%
	Loan Officer	54	45%
	Junior Officer	21	17.5%
	Total	120	100%
Branch	Fully	40	33.33%
	Partially	80	66.67%
	Not at all	N/A	
	Total	120	100%
CC Camera	Yes	N/A	
	NO	100	100
Power of Loan Sanction	Branch Manager Alone	70	58.3%
	Loan officer	30	25%
	Both	20	16.67%
	Total	120	100%
Branch Loan	Average	2 -4 crore taka	
Average time for sanction loan	Short term Mid term Long term	6 months to 1 5 years No loan	

7.6 SUMMARY OF THE BRANCH DATA:

Most of the bankers are male and Muslim. Most of the respondents are age between 35 to 45. Most of the branches have no CC camera and automation. Loan sanction power hold by the Manager of the branch.

7.7 BANKERS' OPINION REGARDING INTERNAL CONTROL SYSTEMS OF BKB (Appendix-I)

Six variables were used in the analysis (six variables were: Variable one was maintain accounting standards and proper marinating the records in statements 1,2 & 3, Variable two automation of the branch and software used for journal and ledger in the statement no.4, variable three was internal control system the statement was 5,6 & 10.Variable four was work load of the employee was in the statements 8 ,9 & 11. Variable five was loan sanctioning power in the statement no 13. Variable six was segregation of the duties & job pressure in the statement no 14 & 15. The Eigen values represent a partition of the total variation in the multivariate sample. They sum to the number of variables when the principal components analysis is done on the correlation matrix. Eigen values for six factors (15 statements) were 41.93,16.91, 14.255, 8.37, 5.32 4.32, 2.85, 2.32, 1.76, 1.325, .58 respectively. The total cumulative variation explained by factor analysis was 41.93%. The first factor explained 16.91% of total variance; whereas the second factor 58.86%, the third factor 73.11%, the 4th factor 9.328% and the fifth factor 8.11% of total variance.

7.8 Reliability Test:

In order the internal reliability of the model used, the researchers used Cronbach's alpha Test of Reliability. Applying this test specifies whether the items pertaining to each dimension are internally consistent and whether they can used to measure the same construct or dimension of same construct or of dimension of service quality. It is known that Cronbach alpha is accepted in .700 or above. The study found indicates that the Cranach's alpha value of accuracy was .822 that wasmore than .700. Therefore, this item was eliminated from the factor analysis. However, Cronbach's alpha value of all items were acceptable, it means that present data suitable to factor analysis.

CHAPTER 8

CONCLUSIONS

8.1 CONCLUSIONS:

Profit and loss alone cannot measure the success of BKB. The success of BKB lies in its huge rural branch network through which it serves a large number of farmers and agribusiness. BKB serves in many areas where any other bank will not go due to lack of profitability. BKB proudly states it as “Gram bungler gonomanusher bank”. Now there is a popular slogan in Bangladesh that is used by Shopnoo super stoe “Bachale Krishk bachabe Banglash.” BKB is awfully state owned bank and established to finance agricultural activities including agribusiness. BKB disburses around 50% of total agricultural credit in the country. It brings villagers to the banking channel and helps them to create savings for future use. It also ensures payment of remittance through banking channel in rural areas. It helps government to disburse subsidies through banking channel in rural area such as subsidies on oil used for irrigation and fertilizer. Therefore, BKB is successful in attaining its objectives and Asian banking award is the recognition of its success. However, BKB should try to reduce its cost of fund, classified loan and come out of the circle of loss.

Credit is readily available for rich people who can save and may not require it, whereas it is beyond the reach of the poor who are in desperate need. Bangladesh has a large agrarian economy where living and live hood depends on agriculture with 76 percent of total population is living in the rural areas and 90 percent of the rural population directly related with agriculture. It's not possible to accelerate economic growth without agriculture and rural development," .Fraud are now a becoming a common phenomenon in banking sector in Bangladesh,Corruption in the agricultural banking sector affects everyone, the poor farmers are more vulnerable especially because they are easy victims of bribery, extortion and intimidation. (BIBM conference 2015: Atiur Rahman Ex Governor of Central Banks) expects that a transparent loan disbursement practice will also help the bank recover its loans easily. Food for above 150 million populations. The population growth rate is 2 million per year. According to this rate, the total population will become 233.2 million within 2050. However, she faces a tremendous challenge in the coming year. Agricultural sector depends highly on the seasonality and credit must ensure in the right time and in the

place. The growth of prosperity in the agricultural sector depends on the proper transparency and accountability in Agricultural banking sector in Bangladesh and it can ensure the progress in this sector. Conclusively the importance of the internal control department/ unit of agricultural banks is important. The prevention and detections of frauds are necessary to establishments to accountability and Transparency in the Agricultural Banking sector in Bangladesh that will encourage the farmers in receiving the banking services.

Popular slang word used by the various people “chasha”, that means in English farmer. This indicates the poor, literate and uncultured people in Bangladesh. We depend on agricultural sector we need food to eat that is our one of the basic need. Most of us we depend on farmer but end of the day we ignored them and very much neglected them. To achieve the vision 2021 we need to invest in the agricultural sector and by removing all sort of corruption in the loan disbursement and recovery process. By ensuring the good corporate governance we can reach our goal by 2021.

8.2 RECOMMENDATIONS

- BKB must go forward with the target to recover the classified loan which stands to 2357 core in financial year 2007-08. This huge amount of nonperforming loan reduces its profitability.
- BKB’s employee work in some such branches where communication is very poor. Moreover, they are not getting competitive remuneration. In these situation employees must be motivated for working in such conditions.
- BKB’s must go full ahead for automation. Banking industry is now very competitive and without automation, it will not be possible to sustaining future.
- Development of new attractive product and services
- Increase the percentage of low cost deposit in the deposit mix.
- Development of skilled workforce

Recruitment of new employee: To overcome the shortage of workforce BKB must recruit new employees. The existing strength of Bank's employee is 9430 against the approved strength of 13680 as on 31 December 2016.

8.3 POLICY IMPLICATIONS

Researcher of this thesis likes to propose some policy issues arising out of the study, make some specific recommendations and put forward some suggestions for future research are given below:

1. The recovery performance of the BKB is not satisfactory. It is suggested that loan recovery department should take necessary steps to collect the due loan. Loan collection officers can organize camps. Bank officers can take necessary help and cooperation from Chairman of the village, Upzila Officer, Inspector of the Police to collect due loans.
2. Head office of the bank given some indirect restriction and fixing sector-wise loan disbursement target without considering the demand in the area and demand of the farmers. This study suggested that the loan should be disbursed according to the demand of the farmer.
3. Lending procedures for BKB was very complex. It requires collateral security or mortgage. But most of the poor farmers are share owner of land or inadequate ownership of the land, it was very difficult for BKB loan officers to sanction of the loan. In case of joint-owners the bank needs joint-owners signatures in the loan agreement. Loan application farmers were present but another owner far from the village. This is a lengthy procedure. It is suggested that joint loan or group loan which was now offered by the Grameen Bank and other NGO's.
4. Profit performance of the banks is not satisfactory. BKB faces huge losses for couple of years. Profit performances like ROA, ROE, EPS were negative. This thesis suggested that the bank have improved its internal control system it will reduce its huge losses and improve its ROA, ROE and EPS.

5. Liquidity problem faced by the BKB. BKB is 100% government owned banks that why BKB did not maintain the capital adequacy ratio (CAR) which was recommend by Basel committee (Basel I,II & III). Government of Bangladesh provides necessary capital but this capital also public money. This study suggested that the BKB should use this money & with proper control system can ensure loan disburse to the real poor farmers.
6. BKB have more than 1037 employees and most of the employees in the administrative level. BKB has shortage in the field staff supervisors. Author of the thesis proposes that the close supervision of the loan sanctions and follow up is necessary to ensure adequate and timely loan for specific purposes and use of funds.
7. Job training for bankers is essential for their motivation and skill development. But exiting training facilities of the BKB are not adequate to motivate the efficiency of the bank officials at a satisfactory level. This study suggested that the bank must ensure proper training and overall development for its officers as well as for the staff.
8. Most of the employees are not getting promotion on time. Many of them had been working in the same post for more than 10 to 15 years. It is suggested that BKB should give promotion within reasonable time.
9. The BKB must ensure the accountability of its employees while discharging their duties. It is suggested that BKB can fully automation. It can introduce eye scan, CC camera in the office. Bank recently introduce ATM facilities but it is inadequate. Bank can increase the online transactions (only 64 branches are getting this facility). It will reduce the misappropriation of its assets.
10. Financial reports prepared by BKB the information's are insufficient.

CHAPTER 9

ABBREVIATIONS

9.1 Abbreviations

ABP	:	Agricultural Bank of Pakistan
ACP	:	Annual Credit Programme
AC	:	Assistant Commissioner
ADBB	:	Agricultural Development Bank of Bangladesh
ADBP	:	Agricultural Development Bank of Pakistan
ADFC	:	Agricultural Development Finance Corporation
ADB	:	Asian Development Bank
AGM	:	Assistant General Manager
ALA	:	Agriculturists Loans Act
APRACA	:	Asia Pacific Rural and Agricultural Credit Association
ASA	:	Association for Social Advancement
Av.	:	Average
BADC	:	Bangladesh Agricultural Development Corporation
BARD	:	Bangladesh Academy for Rural Development
BARC	:	Bangladesh Agricultural Research Council
BASIC	:	Bank of Small Industries and Commerce
BBS	:	Bangladesh Bureau of Statistics
BB	:	Bangladesh Bank
BIDS	:	Bangladesh Institute of Development Studies
BKB	:	Bangladesh Krisli Bank
BP	:	Bir Protik
BRDB	:	Bangladesh Rural Development Board
BRAC	:	Bangladesh Rural Advancement Committee
BSBL	:	Bangladesh Samabaya Bank Limited
BSCIC	:	Bangladesh Small and Cottage Industries Corporation
CRM	:	Chief Regional Manager
DAE	:	Directorate of Agricultural Extension

DGM	:	Deputy General Manager
DG	:	Director General
DMD	:	Deputy Managing Director
DPS	:	Deposit Pension Scheme
ESCAP	:	Economic and Social Commission for Asia and Pacific
FAO	:	Food and Agricultural Organization
FDR	:	Fixed Deposit Receipt
GB	:	Grameen Bank
GDP	:	Gross Domestic Product
GM	:	General Manager
GOB	:	Government of Bangladesh
GTZ	:	Deutsche Gesellschaft für Technische Zusammenarbeit
HSC	:	Higher Secondary Certificate
HYV	:	High Yielding Variety
IFAD	:	International Fund for Agricultural Development
ILO	:	International Labour Organization
KSS	:	Khaddar Shanchya Scheme
LDC	:	Least Developed Country
LILA	:	Land Improvement Loans Act
LLP	:	Low Lift Pump
LOS	:	Land Occupancy Survey
MCI	:	Micro-Credit Institutions
MD	:	Managing Director
MSFSCIP	:	Marginal Small Farm Systems Crop Intensification Project
NA	:	Not Applicable
NCBs	:	Nationalized Commercial Banks
NGOs	:	Non-Government Organizations
NORAD	:	Norwegian Agency for International Development
PCBs	:	Private Commercial Banks
PDR	:	Public Demand Recovery
PEP	:	Productive Employment Project
PKSP	:	Palli Karma Sahayak Foundation

PO	:	Principal Officer
RKUB	:	Rajshahi Krishi Unnayan Bank
RM	:	Regional Manager
SABINCO	:	Saudi Bangladesh Industrial & Agricultural Company Ltd.
SACP	:	Special Agricultural Credit Programme
SFDP	:	Small Farmers and Landless Laborers
	:	Development Project
SIDA		Swedish International Development Authority
SPO	:	Senior Principal Officer
SP	:	Shanchya Pattra
SSC	:	Secondary School Certificate
STD	:	Short Term Deposit
UNCDF	:	United Nations Capital Development Fund
UNO	:	Upazila Nirbahi Officer
WEDP	:	Women Entrepreneurship Development Programme
	:	

CHAPTER 10

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10.1 REFERENCES

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Appendix - A

Sample Questionnaire for Auditor

City in Bangladesh

Date: .../...../2013

Serial Number

Section A: Socio-demographic information [Q 1- Q 11]

1. Age.....years
2. Number of years in the audit committee

For each of items below, please show your remark marking () on an option.

Internal Audit- Related Responsibilities

No	Question	Yes	No
1.	Review and approve the appointment and dismissal of the head of internal audit done by the Board of Directors.		
2.	Internal auditors discuss the audit plan with BODs or Top Management.		
3.	Review and finding are discuss with BODs/ T. Mgt.		
4.	There is good cooperation between internal and external auditors.		
5	Internal auditors have an access to the external audit reports		

Responsibilities of the Audit Committee

No	Question	Yes	No
1.	Review and approve the activities of the head of internal audit done by the audit committee.		
2.	Review the findings of internal audit.		
3.	Review whether or not the internal auditor has unrestricted access to the chair of the audit committee.		
4.	Review the cooperation between internal and external auditors.		
5.	Internal auditors have an access to the external audit reports		

Appendix - B**Sample Questionnaire for Banker**

Area Code:**Interview Schedule: For Banks****Location / Area:** **District:** **Zila:** **Thana:****Name of the Branch**

[All the information will be strictly preserved for research purpose.]

Sample No: Date: / /

Section A: Demographic Information: [Q1. –Q 6]**1. Name of the study village:****2. Designation:****3. Religion:** [1] Muslim [2] Hindu [3] Christian [4] Buddhist [5] Others

4. [Specify]

5. Age: (i) 18-34 (ii) 35- 49 (iii) 50+**6. Gender: i. Male:** > **or ii. Female:** >**[Branch Related Information]**

7. Branch is Computerized: i. Fully ii. Partially iii. Not at a all

8. Branch has television monitors in the branch manager room./ Branch has CCT Camera. Yes /No

9. Branch has time clocks (automatic punching maching) for recording time worked by the employees. Yes /No

10. Loan is sanction by the Brach Manger Only / Loan Officer only / Both of them .

No	Question	SDA	DA	N	A	SA
1.	The bank's accounting systems properly manage and report bank transactions in accordance with the proper accounting standards.					
2.	The appropriate and sufficient reports produced by the bank for the proper management and control of the bank					
3.	Does the accounting system have any suspense accounts where differences are noted?					
4.	Accounting Systems are fully automated. (Journal , ledger etc)					
5.	There is monthly/ weekly reviews the branch performance.					
6.	Head office members have sudden visits to the branches.					
7.	Branch has adequate employees.					
8.	Bank rotated the employees in different branches.					
9.	Banks have a mandatory two –week leave policy.					
10.	There is some type of check in place to ensure that large expenses are verified as to accuracy.					
11.	Accountant only maintains the cash balances per books.					
12.	Cashier maintains the cash on hand.					
13.	More power need to decentralized (both administrative and laon sanctioning).					

14.	Sometimes loan sanction due to political pressure.					
15.	Branch Manager in mental pressure in fulfilling his loan disbursement.					

Appendix – C

Results from SPSS

Communalities

	Initial	Extraction
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Do you think bank's accounting system properly managed the trans	1.000	.822
Approproate documents	1.000	.743
Suden visits	1.000	.628
Job rotations	1.000	.730
Leave policy	1.000	.633
Large transaction checks	1.000	.771
Accountant resposibility to maintain balance per book	1.000	.870
Cashier maintain the cash on hand	1.000	.789
Decentralized the job authority	1.000	.638
Loan sanction on political pressure	1.000	.644
Adequate employees	1.000	.775

Extraction Method: Principal Component Analysis.

Total Variance Explained

Compo nent	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.613	41.937	41.937	4.613	41.937	41.937
2	1.861	16.919	58.856	1.861	16.919	58.856
3	1.568	14.255	73.110	1.568	14.255	73.110
4	.921	8.372	81.482			
5	.585	5.320	86.802			
6	.476	4.328	91.131			
7	.314	2.857	93.988			
8	.256	2.326	96.314			
9	.195	1.776	98.090			
10	.146	1.325	99.415			
11	.064	.585	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix^a

	Component		
	1	2	3
Do you think bank's accounting system properly managed the trans	-.210	.740	.480
Appropriate documents	-.295	.426	.689
Sudden visits	.206	.744	-.182
Job rotations	.647	.520	-.202
Leave policy	.786	-.035	.120
Large transaction checks	.732	-.107	.473
Accountant responsibility to maintain balance per book	.842	-.219	.335
Cashier maintain the cash on hand	.832	-.126	.284
Decentralized the job authority	.779	-.163	.069
Loan sanction on political pressure	.709	.065	-.371
Adequate employees	.598	.449	-.465

Extraction Method: Principal Component Analysis.

a. 3 components extracted.