

INSTITUTIONAL CREDIT FOR RURAL
DEVELOPMENT IN BANGLADESH

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Ph.D.

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INSTITUTIONAL CREDIT FOR RURAL DEVELOPMENT IN BANGLADESH

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In Fulfillment of the Requirements of the Degree of
Doctor of Philosophy

By

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বিশ্ববিদ্যালয়
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DEPARTMENT OF MANAGEMENT

UNIVERSITY OF DHAKA

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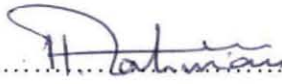
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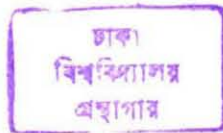
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Declaration

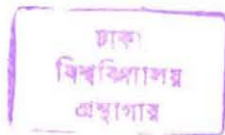
Except where otherwise indicated, this thesis is my own work.

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(M. A. Kamal)

Dhaka, August 1998

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DEDICATION

To my son
Shahriar Kamal Snigdha

Who, at the age of ten,
Left me forever.

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TABLE OF CONTENTS

<i>Acknowledgment</i>	iv
<i>List of Figures</i>	xi
<i>List of Tables</i>	xii
<i>List of Measurements</i>	xiv
<i>List of Abbreviations</i>	xv
<i>Abstract</i>	xvi
CHAPTER I: INTRODUCTION	1
A. STATEMENT OF THE PROBLEM	1
A.1 <i>The Challenge of Poverty Alleviation</i>	1
A.2 <i>Role of Credit in Poverty Alleviation</i>	1
A.3 <i>Focusing on Institutional Credit Delivery Mechanism</i>	2
A.4 <i>The Nature of the Problem:</i>	2
B. OBJECTIVES, SCOPE AND LIMITATIONS OF THE STUDY	5
B1. <i>Objectives</i>	5
B2. <i>Scope</i>	6
B3. <i>Limitations</i>	6
C. METHODOLOGY	7
C.1 <i>Sampling Plan for Primary Data</i>	7
C.2 <i>Use of Secondary Data</i>	8
C.3 <i>Tools and Techniques</i>	8
D. PRESENTATION PLAN	9
NOTES FOR CHAPTER I	10
CHAPTER II: A REVIEW OF INSTITUTIONAL CREDIT DELIVERY IN RURAL BANGLADESH	11
A. ECONOMIC AND SOCIAL BACKGROUND OF BANGLADESH	11
A.1 <i>Geographic Base of Economy:</i>	11
A.2 <i>Political and Social Landscape:</i>	11
A.3 <i>The Current Scenario:</i>	13
A.4 <i>The Relevance of Capital and Credit:</i>	14
B. LITERATURE REVIEW	15
B1 <i>General Overview</i>	15
B.2 <i>Sustainability of Credit Institutions</i>	15

B.3	<i>Informal Financial Markets</i>	16
B.4	<i>Estimation of Credit Needs</i>	18
B.5	<i>Credit and Technological Progress</i>	19
B.6	<i>Credit for Rural Development</i>	20
B.7	<i>Credit for Urban Poor</i>	21
C.	EVOLUTION OF INSTITUTIONAL CREDIT IN BANGLADESH	22
C.1	<i>Bangladesh Bank (BB)</i>	22
C.2	<i>Bangladesh Krishi Bank</i>	26
C.3	<i>Rajshahi Krishi Unnayan Bank</i>	29
C.4	<i>Nationalised Commercial Banks and Rural Credit</i>	31
C.5	<i>Co-operative Credit System</i>	35
C.6	<i>Bangladesh Rural Development Board</i>	38
C.7	<i>Grameen Bank</i>	43
C.8	<i>NGOs</i>	47
D.	CONCLUSIONS	50
	Notes to Chapter II	51
CHAPTER III: INSTITUTIONAL CREDIT DELIVERY		
IN RURAL NOAKHALI		53
A.	DESCRIPTION OF THE STUDY AREA	53
A.1	<i>Topography:</i>	53
A.2	<i>Demography:</i>	54
A.3	<i>Education:</i>	54
A.4	<i>Occupation:</i>	55
A.5	<i>Land holding Pattern:</i>	56
A.6	<i>Cropping Pattern and Irrigation</i>	56
A.7	<i>Other Characteristics</i>	57

B. SOCIO-ECONOMIC CHARACTERISTICS OF RESPONDENTS	57
<i>B.1 Size of the Family</i>	58
<i>B.2 Education Level:</i>	58
<i>B.3 Main Occupation-wise Distribution of Respondents</i>	60
<i>B.4 Respondents' Secondary Occupations</i>	60
<i>B.5 Distribution of Respondents by Land Holdings</i>	61
<i>B.6 Pattern of Share Cropping</i>	62
<i>B.7 Distribution of Respondents by Income Ranges</i>	62
<i>B.8 Structure of Dwelling Units</i>	64
<i>B.9 Income and Household Expenditure</i>	64
<i>B.10 Dependence on other Earning Members</i>	65
C. Development Activities in the Study Area	65
D. Disbursement of Institutional Credit	69
<i>D.1 Commercial Banks:</i>	69
<i>D.2 Bangladesh Krishi Bank</i>	69
<i>D.3 Co-operatives</i>	71
<i>D.4 Grameen Bank (GB)</i>	74
<i>D.5 Non-government Organisation (NGO)</i>	75
<i>D.6 Development Schemes and Co-ordination of Credit Flow</i>	76
E. Credit Accessibility	78
E.1. Accessibility of Credit	78
F. Impact of Institutional Credit	85
<i>F.1. Impact of Credit on Earnings</i>	85
G. Conclusion	87
Notes to Chapter III	87

CHAPTER IV: CREDIT RECOVERY IN NOAKHALI	88
A. Repayment Performance of Borrowers	88
A.1. <i>Source-wise Overdue</i>	89
A.2. <i>Position of Overdue by Occupations</i>	91
A.3. <i>Position of Overdue by Income Level of the Borrowers.</i>	92
A.4. <i>Position of Overdue by Land Ownership.</i>	93
A.5. <i>Position of Overdue by Purpose of Borrowings</i>	94
B. Analysis of Repayment Behaviour	95
B.1 <i>The Analytical Issue</i>	95
B.2 <i>Methodology:</i>	95
B.3 <i>The Analysis:</i>	96
B.4 <i>Findings:</i>	98
C. Comments Repayment Behaviour	102
C.1. <i>Problems Faced by the Respondents in receiving credit.</i>	102
C.2 <i>Problems Faced by Rural institutional Credit Agencies:</i>	108
C.3 <i>Ancillary problems Noticed in the system:</i>	110
Notes to Chapter IV	111
CHAPTER V: SUMMARY & POLICY RECOMMENDATIONS	112
A. General Observations	112
A.1 <i>Improved Credit Accessibility</i>	112
A.2. <i>Impact on Income:</i>	112
A.3. <i>Systemic Problems:</i>	113
B. SUMMARY OF FINDINGS	113
B.1 <i>Elite Bias</i>	113
B.2 <i>Lenders under Siege</i>	114
B.3 <i>Repayment Behaviour of the Poor</i>	114
B.4 <i>Lack of Awareness among the Poor Borrowers</i>	114
C. SUMMARY OF CONCLUSIONS	114
C.1 <i>Credit for the Poor is Feasible</i>	114
C.2 <i>The Elite Bias is Unsustainable</i>	115

D. Observations on Problems of Borrowers	115
<i>D.1 Need for Consumer Credit</i>	115
<i>D.2 Burden of Interest</i>	115
<i>D.3 Help with Marketing</i>	116
E. Observations on Problems of Lenders	116
<i>E.1 Liquidity Crisis</i>	116
<i>E.2 Lending Under Pressure</i>	116
<i>E.3 Need for Data</i>	116
<i>E.4 The Need for Peoples' Participation and Co-ordination</i>	117
<i>E.5 Development, Not Just Credit</i>	119
<i>E.6 General Considerations</i>	119
F. Policy Recommendations	119
<i>F.1 Increase Volume of Credit for the Poor</i>	119
<i>F.2 Generate Awareness among the Poor</i>	120
<i>F.3 Establish a Credit Information Bureau</i>	120
G. Concluding Comment:	120
SELECTED BIBLIOGRAPHY	121
APPENDIX-1 DISCRIMINANT ANALYSIS OF DEFAULT	127
A. Selection and Quantification of Variables:	127
B. Overall Analysis of Default and Non-default Behavior:	132
C. Overall Analysis of Willful versus Non-willful Default	133
APPENDIX- 2: IDENTIFICATION OF BENEFICIARIES	134
APPENDIX- 3: LIST OF UNIONS COVERED BY STUDY	137
APPENDIX- 4: QUESTIONNAIRE FOR THE DEBTORS	138
APPENDIX-5 QUESTIONNAIRE FOR THE LENDERS	142
APPENDIX-6 NGOs in Noakhali	145

LIST OF FIGURES

Figure-1	Credit Given and Recovered by NCBs	33
Figure-2	Occupational Distribution in Rural Noakhali	55
Figure-3	Land Distribution among Respondents	63
Figure-4	Debtors with Overdues	88

LIST OF TABLES

Table- 2.1	Agricultural credit refinanced by Bangladesh Bank from 1972-96	25
Table- 2.2	Year-wise Performance of BKB, 1971-72 to 1995-96	28
Table- 2.3	Year-wise Performance of RKUB 1986-87 to 1995-96 in Crore Taka	30
Table- 2.4	Year-wise Performance of NCBs from 1973-74 to 1995-96	34
Table- 2.5	Year-wise performance of BSBL from 1972-73 to 1995-96	37
Table- 2.6	Year-wise Performance of BRDB from 1981-82 to 1995-96	41
Table- 2.7	Present Position of the Projects of BRDB	42
Table- 3.1	Literacy Rate in the Thanas of Noakhali District, 1995	54
Table- 3.2	Main Occupation of People in Noakhali, 1995.....	55
Table- 3.3	Distribution of Land by Size of Holding in Noakhali, 1995.....	56
Table- 3.4	Distribution of Sample Households/ Respondents	57
Table- 3.5	Educational Level of Heads of Families	58
Table- 3.6	Education of the Members of Families of Respondents.....	59
Table- 3.7	Distribution of Respondents by Main Occupation.....	60
Table- 3.8	Secondary Occupations of Respondents	61
Table- 3.9	Distribution of Respondents by Size of Land-ownership.....	62
Table- 3.10	Distribution of Respondents by Sharecropping	62
Table- 3.11	Distribution of Borrowers by Level of Income and Source of Debt.....	63
Table- 3.12	Distribution of Respondents by Economic Solvency	64
Table- 3.13	Targets and Achievements of NRDP.....	68
Table- 3.14	Distribution of Commercial Banks in Noakhali.....	69
Table- 3.15	Disbursement and Recovery of Loan by NCBs in Rural Noakhali	70
Table- 3.16	Disbursement and Recovery of BKB Loan in Rural Noakhali	72
Table- 3.17	Distribution of Co-operative Societies in Noakhali.....	73
Table- 3.18	Grameen Bank information, 1991-92 to 1995-96	74
Table- 3.19	Distribution of Debt and Debtors by Purpose of Debt.....	79
Table- 3.20	Distribution of Debt by Debtors Occupation and Source of Credit	80
Table- 3.21	Trend in Percentage Distribution of Credit in Rural Bangladesh.....	80
Table- 3.22	Distribution of Borrowers by Level of Income	81
Table- 3.23	Distribution of Debt by Borrower's Income Level.....	82
Table- 3.24	Distribution of Debtors by Occupation and Source of Credit.....	82
Table- 3.25	Percentage Distribution of Borrowers by Occupation.....	83
Table- 3.26	Percentage Distribution of Debt by Borrowers Occupation	83
Table- 3.27	Distribution of Debt by Size of Landholdings.....	84
Table- 3.28	Impact of Credit on Earnings	85
Table- 4.1	Number and Percentage of Borrowers with Overdue.....	89

Table- 4.2	Distribution of Borrowers with Overdues by Source.....	90
Table- 4.3	Percentage of Borrowers by Extent of Overdue.....	90
Table- 4.4	Occupational Distribution of All Borrowers.....	91
Table- 4.5	Occupational Distribution of Borrowers with Overdue.....	91
Table- 4.6	Distribution of Borrowers by Relationship with Lenders.....	92
Table- 4.7	Percentage Distribution of Borrowers with Overdue by Income Level.....	93
Table- 4.8	Distribution of Debt and Overdue by Size of Landholdings.....	94
Table- 4.9	Focal Analysis of Default.....	99
Table- 4.10	Focal Analysis of Wilful Default.....	101
Table- 4.11	Number and Percent of Respondents by Problem of Access to Credit.....	103
Table- 4.12	Number of Months Taken to Process Loan Applications.....	106
Table- App-1	Overall Discriminant Analysis of Default Behaviour.....	132
Table-App-2	Overall Discriminant Analysis of Wilful Default Behaviour.....	133

LIST OF MEASUREMENTS

Hectare= ha = 2.48 acres

Kilometre = km.= 1000 meters= 0.61 mile

Square Kilometre= sq. km. =

Lakh =100,000

Million =m= 1,000,000= 10 lakhs

Crore = 10,000,000= 100 lakhs= 10 millions

LIST OF ABBREVIATIONS

Bangladesh Bank	BB
Bangladesh Institute of Development Studies	BIDS
Bangladesh Krishi Bank	BKB
Bangladesh Rural Development Board	BRDB
Bangladesh Samabay Bank Limited	BSBL
Bengal Co-operative Societies	BCS
Central co-operatives bank	CCB
Centre on Integrated Rural Development for Asia and the Pacific	CIRDAP
District Development Co-ordination Committee	DDCC
Economic and Social Council (United Nations)	ECOSOC
Financial Year	FY
Government of Bangladesh	GOB
Grameen Bank	GB
Grameen Bank Project	GBP
Gross Domestic Product	GDP
High Yielding Variety	HYV
Informal financial market	IFM
Integrated Rural Development	IRD
International Development Assoc. (World Bank)	IDA
International Fund for Agricultural Development	IFAD
International Monetary Fund	IMF
Krishi Samabay Samity	KSS
Local Government and Rural Development	LGRD
Nationalised Commercial Bank	NCB
Noakhali Rural Development Project	NRDP
Non-Government Organisations	NGO
Rajshahi Krishi Unnayan Bank	RKUB
Rural Economics programme	REP
Special Agricultural Credit Programme	SACP
Thana Co-operative Associations	TCCA
Thana Development Co-ordination Committee	TDCC
Thana Nirbahi Officer	TNO
Thana Special Agricultural Credit Committee	TSACC
Union Special Agricultural Credit Committee	USACC

ABSTRACT

Poverty alleviation is the toughest challenge facing policy makers in Bangladesh. This is one of the poorest countries on earth. The majority of the rural people are desperately poor. The landless peasants and the marginal farmers live in grinding poverty. They are hungry, nearly naked and virtually homeless. They are illiterate and suffer from high morbidity and mortality. They have short expectations of life. They are socially degraded and politically powerless. They deserve the nation's full attention and help.

National and international development agencies have already dedicated much effort to develop the economy of Bangladesh. After nearly three decades of development activity, Bangladesh has shown remarkable ability to make use of the scant resources. Compared to the situation in 1965, Bangladesh has tripled food production. The fertility rate has fallen by half; the literacy rate has gone up by more than 200 percent and the school enrollment has picked up dramatically. The death rate has declined by more than half and the expectancy of life has improved significantly. Despite all these, there are still a very large number of people living in abject poverty.

The fruits of development did not reach the poor. Early emphasis on agricultural development did increase food production, but the benefit of this so-called green revolution mainly accrued to the rich landlords. The infusion of capital in the rural areas through rural development programmes also increased wealth and income. Again, this mainly went to the rich and influential rural elite.

An emerging theme in development literature is that poverty alleviation is not the same as agricultural or rural development in the face of structural bias in favour of the rich and the powerful. Resources that are meant to go to the poor end up in the hands of the relatively rich. A new set of institutions must be designed to address the poor exclusively.

This research began with the above theme. We conducted fieldwork in rural Noakhali. But as we began to gather primary data, many of our presuppositions began to crumble. As we began to analyse the data, our

presuppositions broke down more thoroughly. We are now in a race to catch up with reality.

We are now convinced that the institutional framework to deliver and recover credit in the rural areas is not able to accomplish the job of poverty alleviation. The biggest crisis is that the institutional credit agencies are unable to recover the credit and hence can not continue to infuse fresh capital. This occurs because a class of powerful rural elite, with an '*entente cordial*' with some executives of credit agencies, manages to take the capital and to keep it forever. It is capital transfer in the guise of credit. The institutional bias in favour of this unintended transfer of wealth can not be removed without reforming the very structure of institutions.

There are proven ways to escape the current predicament and make progress. The goals, approaches and orientations of the institutional agencies must undergo a fundamental change. Grameen Bank rightfully deserves recognition for having discovered a formula to reach the poor without taking the risk of unintended accumulation of overdue. The institutions must design poverty alleviation programmes exclusively meant for the poor.

There must be some tool to keep the plunderers out. For this purpose, we strongly recommend the introduction and use of an **Identity-cum-Monitoring Card**. This will be a device to identify any applicant for credit. It will ensure that the applicant has a clean record of repayment and is eligible for special purpose credit. We then suggest that the institutions take up a new orientation by training the employees for customer service. The employees must recognise that the sole rationale for the existence of the institutions is to serve the needs of the customers.

The government is facing a really dilemma. On the one hand, it must strive to deliver the badly needed capital by pushing the credit. This push is inconsistent with a drive to recover credit. On the other hand, it must seek to recover the credit unless it wants to permanently bear the huge burden of unintended transfer of wealth. We think that a serious research is needed to identify options to separate the credit from the subsidy. On the one hand, the

government needs to provide subsidies to certain deserving candidates. It is necessary to determine the exact form of the subsidy as well as the reasonable extent of it. On the other hand, the government must also devise a programme to develop a healthy credit market. That credit market would deliver credit as needed but it will also recover it duly. It should be healthy enough for the private sector to undertake the job of offering and recovering credit on sound commercial principles.

We hope that the findings of this research will induce the policy makers to take a fresh look at the prevailing structure of institutional credit delivery in the rural areas of Bangladesh. The poor are in desperate conditions. The nation can not wait too long to find an effective way to reach them. Nor is it possible to continue the present burden of unintended wealth transfer. With a reform of the institutional credit, we can hope to see the end of poverty as well as an end of unintended wealth transfer.

CHAPTER I

INTRODUCTION

A. STATEMENT OF THE PROBLEM

A.1 The Challenge of Poverty Alleviation

The persistence of abject poverty among the majority of the rural people in Bangladesh remains the biggest challenge for the nation. The misery, indignity and hopelessness of the poor call for urgent and dedicated efforts to understand the nature of the problem and to undertake helpful actions.

After the devastation of the war of independence in 1971, much work has been done for the development of the economy. Rural development programmes did bring about noticeable development in agricultural production as well as rural infrastructure. Bangladesh did achieve what is known as Green Revolution. But the benefit mainly went to the class of landlords. This means that rural development was not the same as poverty alleviation.

Poverty alleviation remained a top priority in development policy. Sadly, the benefit of development did not reach the rural poor in any significant degree. Poverty remains with us. The challenge of poverty alleviation remains as daunting as ever despite the dedicated work of development agencies over the quarter century after independence.

A.2 Role of Credit in Poverty Alleviation

The role of credit as a critically important tool in poverty alleviation has not been fully recognised in the development literature. Exemplary work done by Grameen Bank and several other agencies have shown the importance of credit in poverty alleviation. But much remains to be learned and done in this respect. The literature review in the next chapter shows that the current understanding of the nature of credit and its impact on poverty alleviation remains unclear and incomplete.

A.3. Focusing on Institutional Credit Delivery Mechanism

This study begins with the assumption that poverty alleviation is a major goal of development policy and that institutional credit must play a decisive role in reaching the goal. We focus on the details of the mechanism to deliver institutional credit to the rural poor. The government and development agencies can bring about many desired changes to improve the situation greatly. However, significant gaps in knowledge regarding the linkage between credit and poverty alleviation and the institutional capacity to deliver and recover credit impede the progress towards poverty alleviation.

A.4. The Nature of the Problem:

Traditional agriculture dominates the rural economy of Bangladesh. Over 80 percent of the people live in the rural areas. The factors responsible for rural poverty are the widespread under and unemployment and the low wage prevalent in the rural areas. Creation of employment opportunities remains a major tool to attack the root of poverty.

Half of the rural people are landless and a quarter of them finds it hard to live from the produce of their marginal farms. This implies that three-fourths of the rural people are desperately poor.

Among all the sectors, agriculture is the largest one occupying three-fifths of the employed labour force. Nearly half of the country's out-put is derived from this sector. It includes the production activities of four sub-sectors, viz., Crops, Livestock, Forestry and Fishery. In fact, agriculture means the traditional mode of rural life. Land is the main productive asset as well as the source of power and prestige. Nevertheless, land distribution is highly skewed. This lies at the root of severe inequality in economic, political and social resources of the rural people.

"Between 1960 to 1984, the average farm size declined from 1.34 ha to 0.91 ha. The proportion of small farmers (under one ha) increased from 52 percent in 1960 to 70 percent in 1984. Many of these farmers now have to supplement their income through wage labour."^(1.1)

According to the Agricultural census 1983/84, about 56.6 percent of the rural households are effectively landless, 8.7 percent owning neither homesteads nor cultivable land, 19.6 percent

having homesteads but not cultivable land and 28.2 percent owing homesteads and upto 0.2 ha of land. ^(1,2) Landlessness is rapidly increasing due to population growth, river erosion, socio-economic factor and political reasons.

The inegalitarian distribution of land allows the large farmers to dominate over the poor small farmers. Since the poor are unorganised, the rich exploit them through below subsistence wages for labour and below-cost prices for their products. The result is that the poor become poorer. According to 1985-86 Household Expenditure Survey, 51 percent of the rural population live below the poverty line. Their income is insufficient to meet the minimum nutrition need (2212 calories/day/person). ^(1,3)

To alleviate poverty, the rural poor must have access to capital, both physical and human. Land is the principal physical capital and the poor do not have enough of it. Given the high density of population, there is no option available to increase the amount of land. Land reform is not politically feasible. Then the alternative is to look for physical capital outside traditional agriculture. The poor must be able to acquire the tools of non-farm trade. They must also gain the skill needed to operate in new professions in the non-farm sectors. Access to credit is critical for that purpose, since they do not have it from their own savings.

The two main sources of credit in the rural areas are institutional and non-institutional. Non-institutional credit is a euphemism for usury practised by moneylenders and loan sharks, except that friends and relatives may offer a small fraction of badly needed loans for short periods, usually without interest. Still now, many rural people are dependent on non-institutional source of credit despite the very high cost. Therefore, the informal credit instead of being a help to the poor becomes a burden on them. They need institutional credit at reasonable interest. Though this problem was identified, no effective plan of action has been devised to restructure the banking and credit policies for safeguarding the interest of the poor.

In the past, the decision-makers equated rural credit with agricultural credit. The result was the effective exclusion of the landless and the marginal farmers. It is known that the benefit of green revolution mainly went to the richer farmers. This was bolstered by institutional credit to

finance agricultural development. Therefore, the policies did not serve the interest of the poor who must rely on non-land resources.

The government found it difficult to quantify the volume of credit needs. That is why the Second Five-Year Plan did not specify the quantity of credit need. The credit target was shown as a share of agricultural credit in total advances.

In 1979/80, the total agricultural credit provided by the scheduled banks was Tk 318 crores. Actual disbursement was far lower at Tk. 272 crores which was only 12.4 percent of the total volume of Tk. 2564 crores. ^(1.4) However, the First Five year Plan (FFYP) estimated the credit need for the rural poor at Tk. 365 crores. Of this amount, 70 percent was shown as short-term and the rest as medium and long-term credit. The Planning Commission's documents further revealed that in the Two Year Plan period (TYP), the estimated credit was Tk. 921 crores. From that amount, Tk. 491 crores were earmarked for the year 1979/80 only. Out of this amount, over 83 percent were specified as short-term loan and the rest for the medium and long-term loans.

"The joint review of agricultural credit made by the Government of Bangladesh and the World Bank (GOB/IDA) estimated credit requirement to be Tk. 1650 crores by the end of TFYP (1990). ^(1.5) The TFYP set the requirement of credit to Tk. 2483 crores by the end of 1990. It was 50 percent higher than the estimate made in the Joint Review.

Usually the estimates of the rural credit needs were of *ad hoc* nature. The Government generally considered the targeted production for a particular period of time in estimating the credit requirement. On the other hand, a borrower's decision to receive loans depends on his personal assessment of the probable return from the future investment. He considers timely availability of loan, its direct and indirect costs and the procedural readiness of document. Government estimates of credit need do not take account of these factors.

From supply side, it appeared from government document that the flow of institutional credit increased more than 35 times from Tk 32.5 crores in 1970-71 to Tk. 1150 crores in 1984-85. The volume of credit increased about eleven times from 1976-77 to 1984-85. In 1976-77, the amount was Tk. 1060.3 million. However, in 1984-85, it rose to Tk. 11498.4 million. The credit amount disbursed during 1986 to 1990 were Tk. 1024.85, Tk. 113.05, Tk. 686.46 and Tk. 686.78

million respectively. Supply of credit decreased sharply in 1989 and 1990 compared to 1987 and 1988 respectively ⁽¹⁶⁾

The slow recovery of outstanding loans squeezed the recycling capacity of the lending agencies. The situation has reached a state of crisis. There is an urgent need to examine the cause of this situation and to search for rescue options.

B. OBJECTIVE, SCOPE AND LIMITATIONS OF THE STUDY

B.1 Objectives

The objective of the present study is to examine the operational efficiency of the institutional credit agencies in contrast to the role of informal credit market in rural Bangladesh. There is a good number of credit institutions in the government or non-government sectors in the country. The government agencies have not shown substantial achievement in the overall socio-economic development of the poor. Indeed, government agencies have transferred resources to the rich and the powerful. The borrowers from that class have largely failed to repay the loans. There is a serious gap in objectively documented knowledge about this situation.

In view of the above, the main objective of the study is to critically examine the prevailing credit delivery mechanism of different institutional agencies, *vis a vis* rural development programmes and to suggest means of efficient management for both credit delivery and rural development agencies. The specific objectives of the study are:

1. To examine the evolution of institutional credit;
2. To assess the accessibility and impact of institutional credit;
3. To identify factors underlying the repayment performance of the borrowers;
4. To discover options to improve the credit delivery and recovery performance.
5. To suggest modifications in the rural credit delivery and recovery mechanism to strengthen poverty alleviation programmes.

B.2 Scope

A full and thorough implementation of the objectives of the study would entail a very wide scope. Practical considerations of time and resource compelled us to restrict the scope of the study.

The issues related to institutional credit are wide, but we delimited the scope of the study in order to focus only on a selected set of major issues. Our central concern is with the repayment behaviour of debtors. Though we covered the evolution of credit institutions and examined the accessibility and impact of institutional credit, these issues were not central to our study.

We delimited the study geographically by focusing only on the rural areas of Noakhali district. In relevant respects, the study area is representative of rural Bangladesh.

No attempt was made to isolate the urban character of certain parts of the study area such as Noakhali Pourashava since we focused only on the rural aspect.

The issues of economic development in general and rural development in particular were touched upon to set the perspective only. A greater detail would surely help in many areas of exposition, but we had to leave them out.

B.3 Limitations

The two major limitations of the study are as follows: First, the study sample was not designed to be representative of the borrower population at large, but to concentrate on the institutional borrowers. Though we found general evidence of the wide accessibility of institutional credit, we recognise that it is possibly upwardly biased. We have also skipped in-depth analysis of non-institutional credit because it is no longer critical.

The second major limitation of the study is that we did not spell out the full range of implications of the discriminant analysis of repayment behaviour. In particular, we did not undertake a detailed examination of the factors that enhance repayment performance. Hopefully, these factors will continue to keep a base level of credit repayment. Our concern was with the factors that impeded repayment, because we wanted to see if something could be done to remove the obstacles to prompt and full repayment.

C. METHODOLOGY

To achieve the objectives of the study, relevant data and information were collected both from primary and secondary sources. The data so collected were tabulated, analysed and interpreted with the use of standard statistical tools. Discriminant analysis was applied to study the repayment behaviour of the loanees.

C.1 Sampling Plan for Primary Data

The study was conducted in all rural thanas of Noakhali district. This district consists of 6 thanas, 79 union Parishads and 1,019 villages. Out of all the thanas, 50 unions were selected. From 50 unions, 250 respondents were selected randomly for the study. They were carefully interviewed. Their responses were examined for further verification.

Apart from that, the Chairmen and Members of the Union Parishad, Managers and Field Assistants of the respective local banks, officials of Co-operative Department and BRDB office, Block Supervisors of Agricultural Extension Department, local leaders and activists of NGOs were interviewed in depth.

Realising that a sizeable number of respondents may be illiterate, the interview schedule was carefully planned and employed to collect information from them. Based on information gathered from the secondary source, discussion with the field level officials and villagers were used to design a draft questionnaire. Then it was pretested with 50 villagers spread over 30 villages of six thanas of the district. Next, it was edited, modified and finalised. Appendix –3 presents the final questionnaire.

The questionnaire contained three major parts. Part I consists of basic information relating to name, address, religion, educational qualification, number of family members, their occupations, size of land holdings and their ownership pattern, annual income and expenditure, etc. to identify the socio-economic characteristics of the respondents.

Part II covered information on credit, its source, purpose, requirement, total earnings, total debt, repayment *et cetera* in order to examine the nature of credit delivery and repayment.

In Part III respondents furnished information on social status, educational and health facilities, availability of credit both in formal and informal sources and respondents' awareness of rural development programs. In this part, the type of relation the respondents maintained with the lending agencies and the government officials was also examined to ascertain the pattern of influence.

The author administered all the schedules personally. We examined the information collected from the respondents for completeness and internal consistency. After that, discussions were held in group-meetings to check the perceptions of the respondents. In a number of cases, the concerned official agencies were asked to verify the facts relating to credit disbursement, outstanding indebtedness and repayment. The officials were asked to offer their own views. As a test case, some of the respondents and officials were revisited after a gap of about three months to understand the impact of credit delivered to the borrowers.

C.2 Use of Secondary Data

In order to supplement the study, information were collected from secondary sources. These include Ministry of Finance, Planning Commission, Ministry of Local Government and Rural Development (LGRD) and Co-operatives, B.B, BKB, RKUB, NCBs, BRDB, DANIDA, GB, NGOs, co-operative societies, etc. Apart from that, relevant references were taken from relevant journals, study reports (published and unpublished), official circulars and printed materials of different government and non-government establishments.

C.3 Tools and Techniques

The tools and techniques used for data collection from selected organisations and institutions include structured questionnaires, interview schedules and other instruments. In addition, opinions and observations of experts, academicians, political leaders and top policy planners of relevant fields were taken into consideration to supplement the study.

D. PRESENTATION PLAN

After introducing the study in Chapter I, we trace the historical background of economy and society in rural Bangladesh in Chapter II. We review the relevant literature to assess the current level of knowledge about institutional credit in the rural economy. We then study the historical evolution of institutional credit.

Chapter III is the main body of this study. It describes the study area, looks at the socio-economic characteristics of the people and the development activities going on around them. We present our findings on the availability and disbursement of institutional credit in the study area and present an assessment of the impact of institutional credit.

In Chapter IV, we apply an econometric method to analyse the observed non-repayment behaviour of the study sample. We examine the failure of credit recovery in the study area.

Chapter V presents the conclusions and spells out the policy implications.

NOTES FOR CHAPTER I

- 1.1 Fourth Five Year Plan 1990-95, Government of Bangladesh, Planning Commission.
Dhaka. p. X-6.1
- 1.2 *ibid.*
- 1.3 *ibid.*
- 1.4 Rushdi, Ahmed A: Credit Policy. United Nations Development Programme, Bangladesh
Agricultural Sector Review, C G D 1871/023, Dhaka: Sept. 1988, p.153.
- 1.5 *ibid*, p.154.
- 1.6 Statistical Year Book 1991. Government of Bangladesh, Bureau of Statistics, Dhaka,
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CHAPTER II

A REVIEW OF INSTITUTIONAL CREDIT DELIVERY IN RURAL BANGLADESH

A. ECONOMIC AND SOCIAL BACKGROUND OF BANGLADESH

A.1 Geographic Base of Economy:

Bangladesh is located in the Gangetic delta on the mouth of the Bay of Bengal. Much of the territory is a floodplain. It is one of the most naturally fertile tracts of land in the world. It is also the most densely populated rural habitat in the world, except for the Island of Java. The area of the country is 147,570 sq. kms. The population is about 114 million (Mid 1991). It ranks as the world's eighth and Asia's fifth most populous country with a density of 793 persons per sq. km. ^(2.1). It has 4,401 unions and 119 municipalities. ^(2.2).

A.2 Political and Social Landscape:

The fertile land provided easy living for the people until the onset of industrial revolution in Europe in the mid-eighteenth century. Bangladesh was one of the most prosperous countries in the era of traditional agriculture. Foreigners lusting after her stores of grain repeatedly invaded her. But Bangladesh is now one of the poorest countries in the world. At present, the per capita income is \$ 283 in the country. According to national income estimates, the per capita income grew at an annual average rate of 1.8 percent over 1974-1990.

There is an acute income disparity. Roughly, 80 percent of total population earned below the national average of which 40 percent earned less than taka 350 per month. Most of those are unemployed and insolvent. ^(2.3).

Why has Bangladesh fallen behind others in economic development? On the one hand, much of the rest of the world took advantage of industrialisation while Bangladesh remained essentially captives to an era of traditional agriculture. Agrarian people lacked both the

experience and the spirit of industrial and commercial enterprise. Except for traditional cottage industries that have long become obsolete, industrial technology was slow to arrive. When it came, it did so at the behest of foreigners.

On the other hand, there has been a population explosion in Bangladesh since the end of the Second World War, with a sudden decline in the death rate. The vast increase in population simply could not be absorbed in traditional agriculture. As has been demonstrated around the world, economic development based on industrialisation means that the population at large moves out of agriculture into urbanised industrial and service sectors. The growth occurs primarily in the non-farm sector. Bangladesh has only recently embarked on industrialisation. It has yet to create jobs for all adult people.

To understand why rural Bangladesh remains so poor, we need to consider two major aspects of the rural life. Traditional agrarian societies are stratified. Some people have more power, prestige, and wealth by virtue of military connections, because such societies are inevitably ruled by the power of musclemen. However, Bangladesh was remarkably free from extreme forms of rural inequity until the British rulers introduced the system of Permanent Settlement in 1793. Before that time, a committee of rural elite allocated the cultivable land periodically for a short term, while the land belonged to the sovereign (or the nation). The right to use land was periodically changed in view of the needs of the people, the size of the family and ability to make use of the land. However, permanent settlement permanently settled the current occupants and privatised land ownership. Tax collectors were given enormous powers, which they abused to evict families from their only source of income. It also resulted in sharp inequality in terms of landholdings. The process of landlessness and inequality that began in 1793 continued for more than two centuries. By now, most rural families are landless or have only marginal amounts of land. Those are the most desperately poor.

The sharp inequality in political power, economic wealth and social prestige increased with the onset of a green revolution that began with the arrival of international aid in the 1970's. The rural elite, which also took advantage of opportunities to migrate to the cities, established an 'entente cordial' with development agencies and lending institutions. Resources for development

fell into the hands of the rural elite with the strong support of their urban-based policy makers and project administrators. Food production has increased quite dramatically, so much so that despite one of the most rapid bursts of population growth in world history, per capita food supply has actually increased between 1960-1995. However, the benefit went mainly to the rural elite. The people that were denied access to land swelled in number and created a growing class of the poor. Their descendants are still being denied the resources for development.

One of the major themes for the development agencies was to promote agricultural development rather than to alleviate poverty. Total food-grain production has tripled in 38 years, but it has not eradicated poverty. The concentration of land-ownership means that rural development is not the same as poverty alleviation. The perception is slowly changing now. Poverty alleviation for the landless and the marginal peasants require non-farm employment. It is the expansion of the service and industrial sectors that must bear the burden of poverty alleviation of the masses. This is a newly emerging theme. Our research verifies it.

A.3 The Current Scenario:

Agriculture is the dominant sector in the economy. It contributed about 31.89 percent of the GDP in 1995. About 62 percent of total labourforce is engaged in agricultural activities, 8 percent engaged in industrial sector and other 30 percent is engaged in rest of the sectors^(2.4).

Bangladesh is still an overwhelmingly rural country. In 1961, only 5.1 percent of the total population of the country lived in the urban areas. In 1981, the figure shot up to 15.2 percent. The increase in urban population occurred mainly due to emigration of rural people to the cities because of acute poverty. Centre for Urban Studies in its report (1976) said that 61.3 percent of the total population of Dhaka City in 1974 came from the rural areas. Another survey (BIDS-1988) revealed that 93 percent of the dwellers in the slums of Dhaka City came from the villages. Among them, 74 percent migrated only because of poverty. Currently, about 80 percent of the population live in the countryside and the rest live in urban area^(2.5). The rate of urbanisation is rapid by any historical standard, but not rapid enough to rescue those huge numbers left in the villages with little prospect of occasional work at low wages.

Land is the major asset in rural Bangladesh. There exists a high inequality in land ownership. The top decile owned 49 percent of total land whereas bottom decile owned only 2 percent of total land. Nearly 5 percent of the households are functionally landless. The proportion of the landless has gone up ^(2.6). It essentially implies that programmes to benefit landowners will not help the rural poor.

A.4. The Relevance of Capital and Credit:

To come out of the shackles of poverty, the poor must have access to capital. This is because labour can not employ itself without the companionship of capital. Since, land, the principal form of capital in rural Bangladesh, is out of reach of the poor, some other form of capital must be found. Capital is scarce in Bangladesh. The supply of capital from domestic source is very limited due to low income. Credit is needed to provide the capital to the poor.

One of the main reasons for the rural poverty is lack of credit to the poor. Mainly there are two sources of credit, namely, institutional and non-institutional. The non-institutional sources used to supply major portion of the rural credit. The recently completed Rural Credit Survey of Bangladesh for the year 1987 (made available in 1989), the first such attempt in the country, estimated that about 63.7 percent of total credit (i.e. 14.1 billion taka) was transacted in the informal financial sector ^(2.7). The non-institutional sources charge usurious interest rates. People borrow under duress and become perpetually indebted owing to excessive interest burden. The institutional sources charge tolerable interest rates and may contribute to income growth.

On realising the gravity of the rural credit problem, the Government of Bangladesh wants to promote institutional credit and reduce the role of non-institutional credit. To translate this objective into action, the Government provided a reasonable amount for agricultural credit in various Five-Year Plans. It made efforts to create an institutional structure of rural credit. The Government also launched a large number of programmes for rural development. Sadly, no substantial progress occurred for the poor. The task now is to find the secret of success in poverty alleviation.

B. LITERATURE REVIEW

B.1 General Overview:

This is a pioneering study on the repayment behaviour of rural institutional borrowers. We did not come across published studies on the same subject either for the study area or for any other rural segment of Bangladesh. Consequently, it is not possible to compare our own findings with that of others.

Nevertheless, we studied the broad range of literature on rural credit and rural development and came across a number of interesting observations. We mention them here to show that in many crucial areas, there is a serious gap of knowledge. We also want to highlight the problem of intuitive pronouncements made by many authors without due support of data.

B.2 Sustainability of Credit Institutions:

The issue of sustainability of credit providers is important in our study. According to our finding, roughly four-fifths of the outstanding credit given by government agencies remains unrecovered and hence the credit providers are unable to recycle the same. This makes the credit agencies unsustainable. However, this applies primarily to credit agencies sponsored by the government. As far as we know, no previous study has tried to address this issue from the perspective of borrowers.

However, the sustainability of credit agencies has been studied for NGOs. In Bangladesh Grameen Bank, BRAC, Proshika, ASA and several other NGOs have provided microcredit. All of them have shown a high rate of recovery. As such, high loan recovery implies good lender sustainability. However, there is concern with the cost of providing microcredit in order to maintain the high recovery rate. University Press Limited published a collection of articles in preparation for the 1997 Micro Credit Summit under the title: "Who Needs Credit? Poverty and Finance in Bangladesh". Geoffrey Wood and Iffath Sharif have edited this volume. ^(2.8) The main point from this collection of essays is that NGOs are an alternative form of institutions to offer credit with lender sustainability.

B.3 Informal Financial Markets:

The much-maligned traditional villain of rural society is the moneylender. Many authors continue to chase the ghost of the moneylender even though our own study finds that they are no longer of much importance at all.

Razia S. Ahmed ^(2.9) presented a comparative analysis of credit sources in her study. She found that for the last two decades, the services to the poor seemed apparently to benefit them. But the poor were not really party to the benefit of it. She thought that something was wrong with either the rural credit system or the poor or both. Her analysis did not pinpoint either the problem or the solution. She could not deliver a package for solution of problems of the rural credit system.

Murshid and Raman ^(2.10) tried to highlight the role and significance of informal financial market (IFMs) in rural Bangladesh. In the absence of confirmed estimates, partial evidence based on various micro-surveys conducted during the last two decades found that IFMs supplied as much as two-thirds of the rural credit needs. This study contains two parts:

1. a village level household survey to gather primary data on IFMs and
2. a series of case studies on related aspects of the rural economy.

The main objectives of the study are:

- (a) To examine the overall size and role of IFMs, its structure and degree of segmentation,
- (b) To examine the issues relating to the savings mobilisation role of IFMs, efficiency, equity and interactions with the formal credit market,
- (c) To prove issues relating to interest rate, the extent and nature of market power and the validation of inter-linkages among markers and
- (d) To focus on policy issues

The authors believe that the NCBs and the 'specialised' banks disburse loans according to conventional banking procedures. They do not reach the rural poor. The causes of failure of the traditional approach are: staff are inadequately trained, they are unsympathetic towards

clients, they show apathy and blunt ignorance about rural economy, they have bureaucratic attitudes, they adhere to procedures that delay disposal of the real business, et cetera.

They have identified the positive causes of IFMs, as follows:

- (i) A more equitable distribution of loan,
- (ii) Absence of restrictions on use of funds,
- (iii) Mere verbal contracts without documents,
- (iv) Minimum supervision, risk and transaction costs and
- (v) The low propensity to default, etc.

They concluded that formal credit is always entering the informal market. Consequently, the informal market is expanding and it is dampening interest rates of informal markets. If this flow of formal credit continues to enter the informal market and it is formalised, then it may reduce the hidden costs of formal credit. More so, the benefit will reach the informal borrowers. This argument may stand if the demand for informal credit continues to grow and if the moneylenders retain the monopoly power over it. They said that the supply of informal credit would be determined not only by access of the informal sector to funds but also by the investment opportunities and their rate of return in the economy.

Nevertheless, this study has not properly examined the overall credit structure of the country. The share of informal credit has actually declined as per our own detailed survey. Blaming moneylenders and the staff of NCBs will not do much good under the current situation.

M. Hossain^(2.11) analysed the rural financial market. He studied savings, deposits and the operational mechanism of rural banking. He argued that the informal credit sector rendered services to the poorer households who were deemed unworthy of credit by the formal credit sector. His study was mainly based on secondary data and personal assumptions gathered from experience. This was chasing the ghost of the moneylender. Grameen Bank and various NGOs have effectively displaced the moneylender by offering credit to the poor.

B.4 Estimation of Credit Needs:

Atiur Rahman^(2.12) attempted to assess the need for credit among the poor. The number of rural poor has been increasing in the last two decades. Further, the degree of unemployment and underemployment is simultaneously increasing. He put special emphasis on the linkage between the provision of capital to the poor and its impact on the growth of agriculture and its related activities. He evaluated the success of institutional credit in reaching the rural poor. He examined different approaches to the availability of credit to the poor. He reviewed unconventional approaches such as the operations of the GB and NGOs. He assessed the impact of various credit programmes on agricultural production as well as non-agricultural employment opportunities.

He stated that the poor have a fragile material base. Consequently, it is very difficult for them to save. Therefore, if institutional arrangements are so developed that loans with low rate of interest can be recovered in small different instalments, the poor may find some scope for regular savings. Otherwise, whatever savings they have would have been consumed on non-productive purposes. In the absence of institutional loans, the poor fall before moneylenders who charge high rate of interest. If the poor are rescued from the clutches of the moneylenders with an alternate source of formal credit, they can increase their income. When income increases, savings goes upwards and ultimately leads to investment. Then, the poor may afford to invest on petty trading, livestock, vegetable cultivation, processing of agricultural products and other similar activities.

To satisfy the demand for credit, there must be a sufficient supply of credit for the rural poor. Although the supply of institutional credit has increased since mid 1970s, the access of the rural poor to the expanded supply of credit is not recognisable. The local elite grabs the major part of the credit. The poor must go to the informal sources for their needs as before.

According to him, the credit programme for the poor has to be exclusive. It should not mix-up with other programmes. To set up an example, he has referred to BKB with a suggestion that the bank can recruit fresh graduates and train them in GB style. This may help start a sub-

agency to run a credit scheme exclusively for the poor. Later, the NCBs may follow the similar pursuit.

His study calls for experimentation on policy options. Until and unless these suggestions are tested in the field, it is very difficult to substantiate the views.

B.5 Credit and Technological Progress:

Ahmed Rushdi^(2.13) identified the extent to which lack of credit constrains the adoption of the new technology. He reviewed government and non-government efforts to minimise this constraint. He examined the extent of the linkage between formal and informal credit market. He underscored the need for proper estimates of the demand for credit. He stated that current estimates are ad hoc in nature and lack quantification of factors to determine credit needs.

Although the volume of credit has increased over the years, it is inadequate as compared to its demand. He explained why the disbursement of agricultural credit dropped so sharply. He suggested that with the rising overdue and falling recovery of loans, the banks have to adopt measures to streamline credit disbursement policy. He has pointed out that the International Monetary Fund (IMF) and the donor agencies always press for adopting some regulatory measures to stop the falling standard of credit discipline. However, the fact is - when the farmers realise that it will be difficult to obtain fresh loans, they decide not to pay back the money already borrowed. Therefore, loan recovery has gone down. The bank managers, on the other hand, feel it more rewarding for them to lend in non-farm sectors at the cost of the farming sector. Their reluctance to grant loan leads to an increased cost to the loanees in the form of an opportunity cost of days without credit and payment with gratification. This treatment discourages the borrowers to receive loans from the institutional sources.

This study has incorporated the elements of demand for and supply of credit. However, a clear direction to improve the present credit structure in the country is absent here.

B.6 Credit for Rural Development:

B.6 Credit for Rural Development:

Abdul Hye^(2.14) in his study to the 'State of the Art Series' of the Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP) offered an understanding of what had been done on rural development in Bangladesh in the past. What is going on in the field at present under integrated rural development (IRD) approach is also considered. IRD has two main facets, namely, IRD as an 'objective' and as 'method'. As an objective, it emphasises the integrative character of the rural development. It tries to unite multiple activities to accomplish comprehensive development of the rural or a sub-system of rural development such as production or employment.

This is a departure from the traditional sectoral approach to rural development. As a 'method', it wants integration at the operational level in order to achieve maximum benefits from the mutually reinforcing activities. It is also concerned with the co-ordination of different agencies. From both perspectives, IRD includes programme identification, project formulation, resource allocation, implementation procedures and co-ordination for rural development. In our country three types of IRD models have been in operation. They are:

- (i) Production oriented model by which agricultural production increases through the introduction of new technologies,
- (ii) Target-group model which promotes socio-economic conditions of a particular group of rural poor, and
- (iii) Area development model which seeks to integrate socio-economic development of a geographic location or an administrative unit.

He has recognised that if rural development consists of a number of sub-systems, than each sub-system may fit in the mould of IRD activities. In his ultimate analysis he has stated that production oriented programmes are cost effective but fail to ensure equity. But the target group programmes satisfy the criteria of equity and to some extent, productivity, too. He has further admitted that area based model tend to be less successful both in cost effectiveness and equity.

Hye believes that if the commitment of the government to this approach of rural development is not firm and continuous, the sectoral approach may overpower the IRD strategy.

Government commitment is found strong when the donor's supports seem certain. This study is descriptive in nature instead of being an analytical one. It may be treated as one among many approaches of rural development.

Report of the Task Force^(2.15) says that the primary objectives of the process of development is to alleviate poverty. Growth in income is a necessary but not a sufficient condition for alleviation of poverty. For this, development projects must reach the poor and the socially disadvantaged groups. The Task Force believes that for sustainable growth, the existing poverty must be reduced by 50 percent within this decade. For that, appropriate institutions must be built, developed and strengthened. Undoubtedly, it sounds good. But it is not easy. It will take time.

We think that the existing literature suffers from limitations and does not address the crux of the real problem in its proper perspective. There is a need to look at the failure of the institutional credit agencies to recover and recycle the funds. There is little need to worry about the moneylenders now. This study intends to bring an in-depth comprehension of the current credit system. Further, it seeks to scrutinise in detail the major strengths and weaknesses of the present system. Finally, we want to see the system from the perspective of the poor people.

B.7 Credit for Urban Poor:

While our study is concerned with the rural poor, it is important to recognise that economic development does involve a fundamental structural transformation of the economy in which the traditional rural economy shrinks in importance while the urban economy swells. There are fundamental structural reasons why the rural poor migrate to the urban areas. In this regard, a collection of essays titled "Addressing the Urban Poverty Agenda in Bangladesh: Critical Issues and the 1995 Survey Findings" edited by Islam, Huda, Narayan and Rana^(2.16) and published by University Press Limited in 1997 is a timely publication. The findings of this study will supplement our findings. However, that study recognises the presence of urban poverty and the need for providing credit to the urban poor. It does not address our issue of repayment behaviour or its policy implications.

C. EVOLUTION OF INSTITUTIONAL CREDIT IN BANGLADESH

This section discusses the emergence and growth of the rural credit network. A large number of credit agencies are now engaged in multiple functions at multilevel. We consider the government agencies first. Then we consider the semi-government, autonomous and private agencies.

Let us begin with the emergence of (a) the Bangladesh Bank (BB), (b) the Bangladesh Krishi Bank (BKB), (c) Rajshahi Krishi Unnayan Bank (RKUB) and (d) Nationalised Commercial Banks (NCBs). Next, we will consider the emergence and the development of co-operatives and Bangladesh Samabay Bank (BSBL), (b) Bangladesh Rural Development Board (BRDB), (c) Grameen Bank (GB) and (d) Non- Government Organisations (NGOs).

C.1 Bangladesh Bank (BB)

C.1.1 Organisation:

Bangladesh Bank is the central bank of the country. It came into being after the liberation war. It replaced the erstwhile State Bank of Pakistan. The Bangladesh Bank Order 1972, published in the Bangladesh Gazette Extraordinary on October 31, 1972, regularised the establishment of BB.

BB is the highest financial body to look after development finance. It acts as a banker to all banks in the country. It is the banker and financial advisor of the government. It is responsible to meet the cash requirement of the government and to manage public debts. This bank finances the government deficit and absorbs the surplus.

C.1.2 Rural Credit and Bangladesh Bank

From the very inception, BB has been supporting credit programmes. Section 60 of the presidential order is concerned with ' Rural Credit Fund '. To quote ^(2.17):

"(I) The Bank may establish and maintain a Fund to be called the Rural Credit Fund to which shall be credited -

(a) An initial sum of Tk. 5 million to be subscribed by the Government; and

(b) The Bank in consultations with the Government may determine appropriations of such amount from the surplus profits of the Bank

(2) The Bank may apply the Rural Credit Fund for the following objects namely:

(a) The making of medium - term loans and advances to co-operative banks, repayable on the expiry of fixed period, not exceeding five years from the date of the making thereof, against such security as the bank may, from time to time, specify in this behalf;

(b) The making of medium-term and long-term loans and advances to rural credit agencies created or established by under any law for the time being in force including scheduled banks on such terms and conditions as the Bank may, from time to time, specify in this behalf:

(c) Where the bank is satisfied that any co-operative bank or any scheduled bank to which a loan or advance as is referred to in clause (4) of Article 16 has been made is unable to repay the same in time, the converting of such loan or advance, into a medium-term loan or advance, as the case may be, in accordance with the provisions of sub-clause (a):

(d) The making of short-term and medium-term loans and advances to scheduled banks as refinance against their loans and advances to co-operative societies or farmers or dealers supplying seed, machinery, fertiliser and other requisites of agriculture to farmers on credit, provided that such credit is granted on such terms and conditions as to security and otherwise; as may be laid down by the Bank; and

(e) The financing of a system of guarantees in accordance with rules to be made by the Bank to cover a portion of the bona fide loss that a scheduled bank is provided to the satisfaction of the Bank to have incurred in any transaction of loan or advance made under sub-clause (d)

(2.16)

BB is further concerned with Agricultural Credit Stabilisation Fund. "The Bank may establish and maintain a fund to be called 'Agricultural Credit Stabilisation Fund' to which shall be credited: -

(a) An initial sum of Tk. 25 lakhs to be subscribed by the Government; and

(b) The Bank in consultations with the government may determine appropriation of such amount from the surplus profits of the Bank.

(c) The amount in the said Fund shall be applied by the Bank only to the making of loans and advances to apex co-operative bank repayable on the expiry of a fixed period of not less than fifteen months and not exceeding five years from the date of making such loan or advance and on such terms and conditions as may be specified in this behalf by the Bank.

Provided that on such loans or advances or advances shall be made

(i) Except for the purpose of enabling the apex co-operative Bank to pay and dues in respect of bills of exchange and promissory notes, purchased or rediscounted by the Bank under sub-clause (f) of clause (2) of Article 16 or loans and advances made to it by the Bank under clause (6) of Article 16 and unless, in the opinion of the Bank the apex co-operative Bank is unable to pay such dues in time due to drought, famine or natural calamities; and

(ii) Unless such loans and advances are fully guaranteed as to the repayment of the principal and payment of interest by the Government” (2.19).

The statement of the agricultural credit for the year 1972 to 1996 is shown in table 2.1. overleaf. Table 2.1 shows the total agricultural credit, loan recovery and overdues of NCBs and other lending agencies from 1972-73 to 1995-96. The table shows that the amount disbursed increased steadily. In 1983-84 there was a large increase of Tk. 325.75 crores from Tk. 678.55 crores. But in the very next year there was a decrease of Tk. 521.12 crores of about 54 percent. On average, about Tk. 650 crores was distributed each year from 1985-8 to 1992-93. Only in the last three years it has gone above the Tk. 1000 crores mark.

The respective columns show the amount due for recovery, the actual amount recovered, and the recovery expressed in percentage. It can be seen from these columns that the rate of recovery is well below expectation, and is not viable for survival of lending agencies.

The average rate of recovery for the last eight years is only 17.66 percent. The only period when the recovery rate was equal to or more than the expected rate was from 1976-77 to 1979-80. The average for this period was 108.45 percent. Overdues and outstanding loans have increased greatly over the last few years. This large amount of overdue loans might be responsible for the decrease in new loan disbursement.

Table- 2.1
Agricultural Credit Refinanced by Bangladesh Bank, 1972-73 to 1995-96,
In Crore Taka

FINANCIAL YEAR	DISBURSEMENT	DUE FOR RECOVERY	RECOVERY	% OF RECOVERY	OVER DUE	OUT STANDING
1972-73	32.15	32.56	13.44	41.28	52.59	102.51
1973-74	30.09	41.96	25.36	60.44	60.75	109.74
1974-75	37.70	52.89	33.67	69.33	65.31	117.61
1975-76	46.09	60.92	49.55	81.34	64.81	118.01
1976-77	86.39	61.5	57.1	92.85	66.9	135.24
1977-78	156.94	81.34	93.59	115.06	80.5	171.25
1978-79	163.17	99.12	116.00	117.03	91.09	336.3
1979-80	282.09	135.15	147.52	108.86	111.60	484.86
1980-81	373.421	452.36	220.91	48.83	129.45	678.51
1981-82	423.84			48.49	322.30	839.86
1982-83	678.55	817.27	342.33	41.89	456.69	1351.51
1983-84	1005.30	1238.22	517.57	41.80	755.67	2077.35
1984-85	1152.84	1515.00	583.90	38.54	1158.89	3034.24
1985-86	631.72	2375.19	607.15	25.56	1778.77	3514.25
1986-87	667.28	2683.54	1107.56	41.27	1557.98	3294.41
1987-88	656.31	2528.16	596.78	23.57	1932.38	3863.49
1988-89	807.62	3044.66	577.96	18.98	2355.68	4711.66
1989-90	686.78	3986.27	701.94	17.61	3284.33	5381.29
1990-91	596.60	4556.65	652.32	13.72	3933.75	5703.45
1991-92	794.59	4170.15	662.11	15.88	3572.30	5369.56
1992-93	591.90	4087.17	631.69	15.46	3458.31	5567.52
1993-94	1100.79	5141.86	979.12	19.04	4203.72	6222.00
1994-95	1490.38	5613.25	1124.11	20.03	4490.53	7045.22
1995-96	1481.63	6191.50	1273.09	20.56	4920.42	7768.07

Source: Compiled from the annual statements of the Bangladesh Bank.

In view of the increasing demand for credit in the priority sector, requirement of seasonal credit expansion and liquidity position of NCBs, BB has been providing refinance facility to NCBs.

To meet the increasing food requirement, the government wants to promote the use of irrigation equipment, High Yielding Variety (HYV) seeds, fertiliser and pesticides, all of which need credit support. To push credit for food production, the government cannot pursue a determination to recover credit. The inevitable consequence is that the bulk of the credit remains unpaid.

The poor recovery indicates a serious sickness of the financial sector. The banks are really bankrupt save for continuous infusion of fresh funds. The fundamental problem is that BB pursues two conflicting goals. As a regulatory body, it is obliged to impose financial discipline in the financial market. But as a development agency, it is also under pressure to make new funds available. It is really the government that must decide if it wants to push credit and recover credit at the same time.

C.2. Bangladesh Krishi Bank

C.2.1 Organisation:

Bangladesh Krishi Bank (BKB) is one of the major financial institutions supplying credit for agricultural and rural development. BKB was established under BKB order in April 1973. It is the successor to the former Agricultural Development Bank of Pakistan (ADBP) which was established in 1961 through the merger of Agricultural Development Finance corporation (ADFC) established in 1952 and Agricultural Bank of Pakistan (ABP) established in 1957. The authorised capital of the Bank was Tk. 30.00 crores of which Tk. 25.00 crores were paid in by the government.

It is the premier credit source for development of agriculture and agro-based industries. The range of its activities covers a large area of rural development from financing crop to agro-based industries, marketing and export facilities. Its charter requires the bank to act on commercial consideration but with due regard to the development of agricultural, agro-based and other industries. Under the provisions of its charter, BKB should, as far as possible, give

preference to the credit needs of the small farmers and other disadvantaged groups. It has to fulfil both social and economic objectives. Apart for its loan giving activities, the bank also performs other ancillary functions.

C.2.2 Performance Evaluation

The BKB undertook a policy change from merely crop loans to credit for storage, distribution, processing and marketing including export of fish and agricultural production in package deals. It encompasses crop input project, programmes for self employment for landless and marginal farmers, irrigation, fisheries, agricultural, forestry, command area development, small and cottage industries, storage and marketing facilities, etc. It offers short-term credit for seasonal requirements such as seeds, fertiliser, plant protection and wages. The period of amortisation is 18 months. Medium term loans are given for acquisition of farm machinery, low lift pumps, hand pumps, agricultural implements, bullock carts, boats, dairy, poultry, draft animals, transport facilities for agricultural produces and development of diary and poultry, etc. The period of amortisation is over 18 months, and up to 5 years for medium term loans. Long term loans are advanced for heavy capital investment and project having long gestation period, e.g., tractors, power tillers, shallow tube-wells, construction of plants, agro-based industries, extension of tea gardens and development of horticulture, fisheries, etc. The amortisation period is over 5 years.

BKB had to take special measures after liberation to simplify loan procedures in order to rehabilitate the agriculturists. Many farmers lost their documents of title of land, which were their main securities for loans. Under the simplified procedure, the requirements of producing nationality certificate, affidavits and photographs were eliminated. The bank evolved procedure for crop hypothecation loans that did not require mortgage of property or productions of surety except in case of sharecroppers.

In February 1977, the government introduced the Tk. Hundred Crore Special Agricultural Credit Programme (SACP) which added a new dimension to agricultural credit in Bangladesh. It was involved in short-term seasonal credit to small farmers under the SACP. This was made by

BB to each of the BKB and NCBs that were, in turn, responsible for lending to borrowers in a selected geographical area of operation.

Table 2.2 shows the loan disbursement and recovery of BKB, together with the amount and percentage change from year to year. The loan disbursement and recovery of BKB is very closely related with the political and climatic situation of the country. As a rule, more money is distributed than is collected, but the changes are very significant after major natural disasters or change in government. The rare instances when credit recovery surpasses disbursement happen usually after bumper harvests or after general remission is declared for loan defaulters.

Table- 2.2

Performance of BKB, 1971-72 to 1995-96, in Crore Tk.

FINANCIAL YEAR	DISBURSEMENT	RECOVERY	DEPOSIT	LOAN OVERDUE	LOAN OUTSTANDING
1971-72	9.64	2.92	6.91	22.62	46.05
1972-73	17.90	6.72	7.34	25.84	61.70
1973-74	13.57	11.90	7.99	30.06	68.22
1974-75	17.63	20.00	13.42	32.90	73.92
1975-76	18.51	27.48	15.58	32.61	74.21
1976-77	38.84	29.74	25.79	30.11	88.66
1977-78	55.30	38.18	33.20	39.89	119.40
1978-79	74.66	52.17	46.70	43.78	156.11
1979-80	141.49	74.73	75.16	57.51	247.02
1980-81	209.74	131.08	122.59	62.19	368.32
1981-82	271.04	197.03	176.94	93.49	497.28
1982-83	400.81	202.24	258.92	153.64	785.54
1983-84	592.43	307.96	359.06	308.25	1253.38
1984-85	614.73	364.72	376.52	506.13	1735.67
1985-86	365.06	350.60	433.98	806.76	2057.59
1986-87	419.24	497.44	481.81	637.41	1531.10
1987-88	336.23	350.84	524.71	760.72	1778.59
1988-89	445.09	334.68	601.93	652.27	2185.16
1989-90	376.93	414.56	713.61	1271.77	2493.41
1990-91	323.84	377.59	817.33	1256.77	2180.22
1991-92	441.78	423.62	1026.00	1601.39	2622.20
1992-93	463.42	536.28	1283.96	1559.73	2627.50
1993-94	598.55	569.24	1479.28	1554.69	2745.59
1994-95	765.63	594.34	1639.58	1605.92	3010.98
1995-96	778.91	665.54	1737.28	1747.00	3276.73

Source: Compiled from the annual statements of BKB.

The table shows that the amount of loan disbursed has increased steadily from 1972-73 to 1995-96 (an average increase of Tk. 30.79 crores each year). The largest increase was in the year 1983-84, an increase of Tk. 191.62 crores from Tk. 400.81 crores in 1982-83. But the largest

percentage increase occurred in 1976-77. It was a 110 percent increase, from Tk. 181.51 crores to Tk. 38.84 crores. A notable exception happened because of Special Agricultural Credit Programme of 1977. It increased loan disbursement for six successive years.

Loan recovery follows the same trend as that of loan disbursement, but in a smaller scale. On an average, loan recovery has increased by Tk. 26.50 crores every year. Therefore, there is an average deficit of Tk. 4.29 crores each year between loan disbursed and loan recovered. The largest increase in loan recovery occurred in 1986-87, when Tk. 128.84 crores more was recovered than in previous year. From 1985-86 to 1990-91, loan recovery and loan disbursement both fell. This decline was probably a result of the nation-wide flood in 1988, the change in government in 1990-91 and the cyclone in 1991.

The overall loan recovery of BKB is not as satisfactory as that of Grameen Bank and other NGOs. But BKB serves a major national and social goal that overrides loan recovery. The loans provided by BKB has helped many farmers keep working in agriculture rather than become unemployed. In effect, it is an organ to provide subsidy to favourite customers.

C.3. Rajshahi Krishi Unnayan Bank

C.3.1 Organisation:

The Rajshahi Krishi Unnayan Bank came into being as per Ordinance No. 58 of 1986. The bank started functioning on March 15, 1987 with the aim of financial assistance to the small and marginal farmers.

Almost all the agricultural activities of the area have been brought under the purview of RKUB's financing. The bank advances credit to increase crop production, to use improved technology, to develop livestock and fishery, and to process and market agricultural produces. The bank searches for innovative projects and areas of lending to cope with changing circumstances. It has been widening its loan portfolio to cover more and more off-farm projects. The unconventional items include the following:

- (a) Nursing of mango trees,
- (b) Crop Diversification programme and

(c) Crop intensification programme.

Fortunately, Rajshahi division contributes about 50 percent of the total mango production in the country. This area is pioneering in quality mango production. RKUB credit helped increase mango production. It helped generate incremental income at the grower's level. Under the 'Crop Diversification' programme, the Bank has extended enhanced credit facilities for production of potato, pulses and oilseeds. It helped increase the food grain production in the country. Under the crop intensification programme, the bank has participated with a NGO, namely, the Rangpur Dinajpur Rural Service (RDRS) for on-farm and off-farm activities. The programme does not ask for any collateral security against the loan. German Agency for Technical Co-operation (GTZ) has provided assistance to the programme.

In compliance with the government instructions, the Bank undertook a good number of loan disbursement as well as loan recovery initiatives. The overall activities of the Bank are shown in the table 2.3.

Table- 2.3**Performance of RKUB 1986-87 to 1995-96 in Crore Tk.**

FINANCIAL YEAR	DISBURSEMENT	DUE FOR RECOVERY	RECOVERY	% OF RECOVERY	OVER DUE	OUT STANDING
1986-87	2.67	234.12	19.03	8.13	215.09	610.27
1987-88	42.99	367.96	51.55	14.01	316.41	707.46
1988-89	46.47	459.21	45.21	9.85	414.01	828.88
1989-90	46.08	58.33	65.31	11.25	515.02	944.31
1990-91	37.06	880.42	43.88	4.98	835.54	1195.22
1991-92	61.71	708.23	61.06	8.62	647.17	987.64
1992-93	70.96	687.90	70.44	10.24	617.46	963.29
1993-94	143.79	895.22	142.54	15.92	752.68	1126.06
1994-95	192.46	1053.12	178.83	16.88	874.29	1294.11
1995-96	172.10	1172.45	167.97	14.33	1004.48	1445.65

Source: Compiled from the annual statements of BB.

The loan disbursement and recovery of RKUB is closely related with the natural climate and political change in the country. As a common norm, more money is disbursed than is collected, but the changes are quite significant. In 1986-87, RKUB started its programme with Tk. 140.00 crores along with its previous balance of Tk. 19.03 crores. This was only 8.13 percent of the amount due for recovery. In 1987-88, the amount due for recovery stood at Tk. 367.96 crores. RKUB got back Tk. 15.55 crores which was 4.23 percent in real terms. In the same year, outstanding amount stood at Tk. 707.46 crores. But in 1988-89, the amount under the headings, due for recovery, recovery, overdue and outstanding stood at Tk. 459.21 crores, Tk. 45.21 crores, Tk. 414.01 crores and Tk. 828.88 crores respectively. The rate of recovery was only 9.85 percent. It occurred because of nation-wide flood in that year. In 1989-90, the recovery went up to 11.25 percent. But a dramatic turn took place in the year 1990-91. The rate of recovery crashed down to a pitiful 4.98 percent. Such a major change occurred because the newly elected government declared remission of agricultural loan including interest up to Tk. 5,000. As a result, out of 850 thousand loans of the bank, about 473 thousand loanees got remission benefit. For this, the total amount of remission stood at Tk. 3350.00 m of which net amount stood at Tk. 2270 million. In 1993-94, situation improved a little bit, percentage of recovery stood at 15.92.

The situation is slightly better than BKB but not as satisfactory as that of Grameen Bank. However, the loans provided by RKUB have kept the jobs for the loanees.

C.4 Nationalised Commercial Banks and Rural Credit

C.4.1 The Emergence of NCBs

The commercial Banks in rural areas mobilise deposits and make loans to creditworthy borrowers. They are actively involved in the traditional banking operation. To ensure increased flow of credit to farmers and rural co-operators, the government inducted the NCBs in agricultural credit in 1977. The new programme called Special Agricultural Credit Programme (SACP) was designed to cater for all seasonal crop loans. The SACP brought all the nationalised commercial banks (NCBs) into agricultural lending. The NCBs included in the programme were Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, Pubali Bank and Uttara Bank. NCBs were encouraged to

open their branches in the rural areas to facilitate distribution of credit to the rural poor. The special feature of this new programme and NCBs relation with it were as follows:

1. Each of the NCBs and BKB were allocated one or more unions for servicing agricultural credit needs of the area so that NCBs together with BKB could cover the entire economy.
2. The NCBs assigned to provide seasonal credit only and
3. The NCBs were encouraged to open branches at the union levels for strengthening their institutional base in the rural area for facilitating their operation in agricultural credit.

C.4.2 Performance Evaluation

NCBs started opening rural branches from 1975. These branches took two to three years to come into full operation. The effect of expansion of rural branches began to show up from 1978 onwards.

Under the SACP the government allocated district-wise and crop-wise credit targets and fixed the credit norms. The allocation was again subdivided union-wise and Crop-wise. The unions were allocated among the participating banks so that no union was served by more than one bank. A lead bank system was introduced for the purpose of co-ordination. A commercial bank was designated as the lead bank for every district. The main functions of lead bank are as follows:

- 1) To conduct surveys on credit needs and absorption capacity and help implementation of various development schemes.
- 2) To identify the potential commercial and business centres and chalk out programmes for opening branches of the Bank.
- 3) To conduct a survey of the agro-based industries and provide essential credit support to them.
- 4) To identify the self employed persons and to asses their credit needs and potential credit support to them.

5) To maintain liaison with the local development committees, government and semi-government agencies to extend financial expertise and credit support from the banking system.

Under the SACP, the NCBs responded positively. The performance of NCBs is shown in the Table 2.4 overleaf. The figure below shows visually that disbursement of credit by the NCBs increased steadily from 1986-87 except for a sharp decline in 1988-89. Recovery has remained extremely low and it has declined in percentage.

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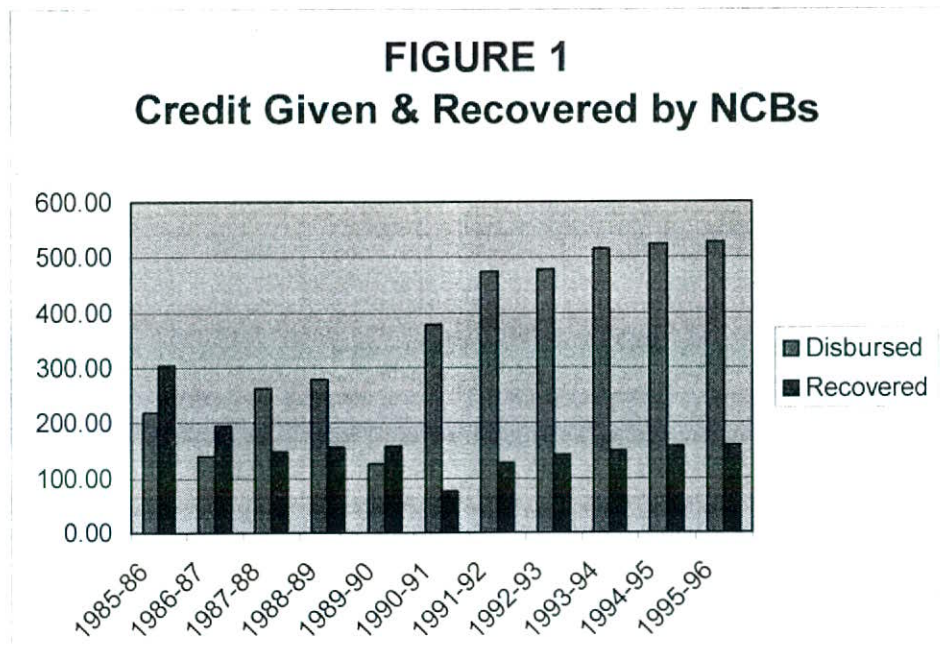


Table- 2.4

Performance of NCBs, 1973-74 to 1995-96 in Crore Taka

FINANCIAL YEAR	DISBURSEMENT	DUE FOR RECOVERY	RECOVERY	PERCENT OF RECOVERY	OVERDUE	OUT STANDING
1	2	3	4	5	6	7
1973-74	10.37	-	6.20	-	-	-
1974-75	10.67	-	8.25	-	-	-
1975-76	16.96	-	9.98	-	-	-
1976-77	36.22	-	16.14	-	-	-
1977-78	85.81	-	43.18	-	-	-
1978-79	68.4	-	51.94	-	-	117.4
1979-80	113.55	-	55.85	-	-	161.6
1980-81	136.04	204.35	73.7	36.07	-	218.51
1981-82	106.19	253.82	79.44	31.30	132.53	211.91
1982-83	218.46	297.85	89.40	30.02	209.18	398.45
1983-84	324.05	460.74	149.13	32.37	312.60	634.22
1984-85	386.20	514.97	154.61	30.02	496.77	954.26
1985-86	156.67	948.43	196.27	20.69	752.17	1054.59
1986-87	134.10	905.49	380.24	41.99	525.25	773.26
1987-88	177.54	770.57	133.64	17.34	636.93	923.04
1988-89	240.87	1007.03	137.50	13.65	758.50	1174.70
1989-90	207.04	1260.30	157.81	12.52	1102.49	1373.04
1990-91	182.16	1481.11	170.07	11.48	1313.45	1616.84
1991-92	270.69	87.57	163.96	18.47	708.81	1029.90
1992-93	199.43	836.89	151.97	18.16	6878.75	1219.91
1993-94	345.26	1261.79	244.43	19.37	1058.34	1455.87
1994-95	457.13	1482.60	298.99	20.17	1185.00	1732.13
1995-96	437.84	1680.83	363.34	21.62	131.49	1953.92
Total	4321.65					

Source: Compiled from Bangladesh Bank.

C.5 Co-operative Credit System:

C.5.1 Background of Credit Co-operatives:

Co-operation in different activities is as old as the history of civilisation in India. Modern co-operatives existed as far back as the latter part of the nineteenth century ^(2.20).

In 1940, Bengal Legislative Assembly passed the Bengal Co-operative Societies (BCS) Act, 1940 and repealed the earlier Act of 1912. The BCS Act of 1940 empowered the Government of Bengal to frame rules on some specified matters to supplement the provisions of the Act. The Government of Bengal framed the 'Bengal Co-operative Societies Rules' 1942.

The co-operatives of Bengal faced bottlenecks in their growth. These included world war-I, the Great Depression of the Thirties, impact of the Debt Settlement Act of the Government of Bengal, political disturbances for the freedom from British rule, world war-II, the Great Famine of 1943 and the partition of the subcontinent. At the time of partition, there were 320,00 co-operative societies in erstwhile East Pakistan, of which 2 percent could be classified as 'good' and the rest were on the brink of liquidation.

In Bangladesh, co-operatives are not always formed on the basis of genuine need for services. Sound business prospects were not always considered before organising co-operatives. The foundation of the movement was weak. There was no effective participation of the members in the administration of the co-operatives.

If they work, then the local co-operative societies can act in a dual capacity. They can educate the public about development activities. They can inform the state authorities of the views, aspirations and reactions of local area.

The government formulated the National Co-operative Policy 1989. This policy sought to improve the structural mechanism of co-operative societies. There is institutional provision for the following:

- i) extension works for formation of co-operatives,
- ii) proper application of co-operative laws after formation,
- iii) management of co-operatives for self-help and income generation, and
- iv) budgetary and financial management of co-operatives.

It promotes co-operatives for economic development, poverty alleviation and development of human resource.

C.5.2 Bangladesh Samabay Bank Limited

After the emergence of Pakistan in 1947, the co-operators of the country felt the need for an apex Co-operative Bank. This was meant to avoid the crisis caused by the partition of India that left co-operatives without an apex body. The East Pakistan Provincial Co-operative Bank Ltd. was established in March 1948. After independence, it was renamed as Bangladesh Jatiya Samabay Bank, and later, in 1977, as Bangladesh Samabay Bank Ltd. (BSBL).

C.5.3 Performance Evaluation:

BSBL plays an important role in the credit sector. The disbursement of agricultural credits through co-operative is the main business of the Bank. The Bank issued three types of agricultural credit, i.e., short term, medium term and long-term credits. The short-term credit is issued mainly for buying seeds, fertilisers, etc., and for cultivation of crops. Medium term loans finance purchase of draft animals, small agricultural implements, pond fishery, etc. The long-term loans are generally provided through the land mortgage bank (LMB) for redemption of old debts, purchase of agricultural machinery and improvement and purchase of farm land.

The performance of BSBL may be seen from the following table. The bank started its operation in 1972-73 with Tk. 14.25 crores. It recovered Tk. 6.72 crores, almost 50 percent of the disbursement. But the cumulative overdue for the year stood at Tk. 26.75 crores and the amount outstanding at Tk. 40.81 crores. This trend continued from 1973-74 through 1976-77. But in 1977-78, the share of agricultural credit increased and the disbursement was Tk. 15.82 crores and recovery was 12.23 percent. In 1982-83, the recovery rose to 39.37 percent but in 1983-84, it fell to 25.39 percent.

In 1985-86, the recovery fell to 15.39 percent. In 1987-88 and 1988-89, the recovery dropped down to 8.82 percent and 9.13 percent respectively. The nation-wide flood of 1988 became a prominent factor of non-repayment of loan in for BSBL. In 1989-90, the recovery stood at 3.79 percent. 1990-91, recovery became 1.83 percent. Then a newly elected government

came to power. In 1991-92, only Tk. 3.06 crores were disbursed. But disbursement fell below Tk. 2 crores annually. The recovery in 1993-94 fell even below 1 percent.

BSBL is an old organisation. Because of its traditional management style, the bank has been doing its old works only. The issue of its efficacy as a rural credit institution has become a subject for further study.

Table- 2.5

Performance of BSBL, 1972-73 to 1995-96, in Crore Taka

FINANCIAL YEAR	DISBURSEMENT	DUE FOR RECOVERY	RECOVERY	% OF RECOVERY	OVER DUE	OUT STANDING
1972-73	14.25	-	6.72	-	26.75	40.81
1973-74	6.15	-	7.26	-	30.51	41.52
1974-75	9.40	-	9.22	-	23.41	43.69
1975-76	10.62	-	12.09	-	31.37	43.80
1976-77	11.33	-	11.22	-	35.14	46.58
1977-78	15.82	-	12.23	-	37.34	51.85
1978-79	20.11	-	11.89	-	44.14	62.79
1979-80	27.04	-	16.94	-	50.82	76.24
1980-81	27.64	54.74	16.13	29.47	63.99	91.68
1981-82	18.58	62.14	18.02	29.00	74.25	96.40
1982-83	22.95	63.43	24.97	39.37	70.99	101.15
1983-84	21.98	74.44	19.30	25.93	89.17	112.60
1984-85	28.30	65.00	22.27	34.26	88.17	129.66
1985-86	13.99	131.77	20.28	15.39	112.46	134.28
1986-87	17.05	120.03	22.83	19.02	97.20	124.64
1987-88	13.97	109.83	9.69	8.82	100.14	138.74
1988-89	17.65	117.08	10.69	9.13	106.39	156.55
1989-90	1.90	157.05	5.95	3.79	151.10	163.98
1990-91	2.27	1621.44	2.95	1.83	158.50	168.43
1991-92	3.06	163.38	2.23	1.36	161.15	169.94
1992-93	1.93	165.05	2.51	1.52	162.54	169.77
1993-94	1.16	180.36	0.93	0.52	179.43	183.60
1994-95	1.93	183.49	1.57	0.86	181.92	186.75
1995-96	1.78	182.82	1.42	0.78	181.40	178.40

Source: Compiled from the annual statement of BB.

C.6 Bangladesh Rural Development Board

C.6.1 Emergence:

The integrated Rural Development Programme (IRDP) was intended to replicate the Comilla Model of co-operative system. The process of trials and errors of co-operative system gave birth to the Comilla Model of two-tier co-operative structure. The village co-operatives at the base federated into central Association at the Thana. Experiments were conducted under the able leadership of Dr. Akhter Hamid Khan. The Comilla Co-operative Model took interest in the integration of local co-operatives for the promotion of major socio-economic services. It cared about the needs of capital for production and marketing. The model focused on management efficiency and local leaderships.

As a new and attractive system, the Comilla approach was approved by the then Government in the face of severe shortage of manpower required to run the same. For this reason, an administrative set-up of the IRDP comprising sufficient officials, staff and physical facilities at the national, district and Thana levels was established under a Director General. Simultaneously, a parallel two-tier organisational structure of Thana Co-operative Associations (TCCAs) and Krishi Samabay Samity (KSS) were separately created. But the formation of co-operatives under the existing system posed a critical problem, because IRDP which was functioning without a defined status since its inception in 1971. It was facing many administrative, financial and functional difficulties. Then it was converted into the BRDB by Ordinance.

C.6.2 Performance Evaluation:

The Bangladesh Rural Development Board (BRDB) was established in December 1982. The Ordinance of BRDB clearly defined the purpose, scope and activities of the Board and determined its administrative status. This was done to remove the difficulties experienced by its predecessor IRDP.

The functions of the Board are as follows:

1. To promote rural primary co-operative societies and TCCAs to enable them to become self-managed and financially viable vehicles for rural development;

2. To encourage functional co-operatives to generate income and employment opportunities for the rural poor;
3. To promote co-operative development of irrigation facilities based on ground and surface water;
4. To promote institutional credit through the village co-operatives and the TCCAs and promote member's accumulation of shares and savings;
5. To encourage financially viable TCCAs to diversify activities especially in the marketing of agricultural inputs and produce;
6. To organise training in agricultural and rural development for members of the managing committees of primary co-operative societies and TCCAs and model farmers; and
7. To liaison with concerned Ministries, Departments and Agencies to mobilise supplies, services and supports for the TCCAs and village co-operatives.

The original design of the two-tier co-operative system did not envisage poverty amelioration. Available evidence indicated that till FY 1981, 8 percent of the KSS members were landless or marginal peasants. With the constitution of BRDB in 1982, poverty alleviation became one of its major goals. From FY 1981 to FY 1982, the annual compound growth rate of TCCAs was 26 percent, that of KSS 18.9 percent and KSS membership 23 percent. The growth rate of shares and savings was 26 percent, disbursement 34 percent and recovery 41 percent. In contrast with the continuing decline of the traditional co-operatives, BRDB co-operatives during the period from FY 1982 to FY 1996 showed progress. During the period FY 1982 to FY 1996, membership per KSS, the total amount of shares and savings has increased. The per capita shares and savings also increased

BRDB showed remarkable progress since its inception. It appears from the table that in 1981-82, the recovery was 47.47 percent. 1982-83, the performance improved. The recovery became 52.91 percent. But in 1983-84, recovery dropped down to 41.68 percent.

But in 1989-90 and 1990-91, disbursement increased and recovery declined to 19.32 percent and 8.60 percent respectively. Nation-wide flood caused this change. In 1991-92, the cyclone produced adverse affects on BRDBS performance. The recovery went down to 2.43

percent. In 1992-93, 1993-94, 1994-95 and 1995-96 the recovery stood at 3.02 percent, 3.27 percent, 7.31 percent and 10.10 percent. As a credit institution BRDB has been pushing funds. However, its recovery performance has not been satisfactory compared to private sector credit institutions. Arguably, BRDB has been rendering positive service to the poor.

At present, the Board operates in 460 thanas. As the prime governmental organisation for rural development in Bangladesh, the BRDB is implementing 15 socio-economic development projects through out the country. The picture is given below in Table 2.7.

Most of these 15 projects are related to rural development and poverty alleviation. GB and NGOs have been implementing their micro credit programmes throughout Bangladesh. BRDB has shown almost equal zeal and vigour in harnessing they potentials of the poor for the upliftment of their status in the society.

Table- 2.6

Year-wise Performance of BRDB from 1981-82 to 1995-96

FINANCIAL YEAR	DISBURSE MENT	DUE FOR RECOVERY	RECOVERY	% OF RECOVERY	OVER DUE	OUT STANDING
1981-82	28.03	41.82	19.85	47.47	22.03	39.27
1982-83	36.33	48.61	25.72	52.91	22.88	50.37
1983-84	66.84	87.33	41.68	47.73	45.65	77.15
1984-85	123.61	110.03	42.30	38.44	67.82	214.65
1985-86	96.00	148.00	40.00	27.03	108.00	267.00
1986-87	74.22	203.59	102.56	50.38	101.03	255.14
1987-88	85.58	168.24	50.06	29.76	118.18	315.66
1988-89	62.26	174.39	49.88	28.60	124.51	366.37
1989-90	54.83	301.78	58.31	39.32	243.47	408.47
1990-91	49.94	358.49	30.83	8.60	327.66	495.41
1991-92	17.35	462.56	11.24	2.43	451.32	587.30
1992-93	6.17	366.16	11.06	3.02	355.10	680.00
1993-94	12.03	672.72	21.98	3.27	650.74	741.62
1994-95	73.23	689.35	50.38	7.31	638.97	584.49
1995-96	91.00	740.90	74.81	10.10	666.09	993.08

Source: Compiled from the annual statements of the BB.

Table- 2.7

Present Position of the Projects of BRDB

Name of the project	District=Thana=Taluk no.	Tenure of the project	Name of donors	Estimated cost	Annual Allotment	Annual Release of Fund	Cumulative Expenditure	% of progress
Rural Development-9,	D-4, T-26	1987-97	EEC	5958.83	1125.00	632.29	4630.35	87
Model Rural Development	D-1, T-2	1991-99	JAPAN	196.95	86.00	48.50	1540.96	77
Rural poverty alleviation	D-3, T-82	1993-97	ADP	10217.48	1200.00	653.67	3940.05	45
Tangail Agricultural & irrigation project,	D-1, T-11	1993-99	GOB	18.00	90.00	45.00	157.78	65
Palli Daridra Bimochan	D-23, T-145	1993-98	GOB	6867.00	1500.00	1250.00	3919.55	59
Greater Noakhali RPCSP,	D-3, T-16	1995-99	GOB	2500.00	300.00	200.00	484.45	27
Sharisha Bari Rural Dev.	D-3 T-1	1995-99	GOB	90.33	10.00	4.00	5.00	11
2nd Bhola Irrigation project,	D-1 T-6	1992-97	ADB	744.80	160.00	80.00	430.12	88
RD-5,	D-5, T-27	1996-2000	CIDA NORAD	3871.00	1095.00	687.72	638.62	14
PB, Kurigram,	D-1, T-5	1996-97	DO	106.00	106.00	95.92	66.10	55
RD-12,	D-17, T-139	1996-2000	CIDA	9102.91	1300.00	688.23	479.30	7
Women project-5,	D-64, T-130	1990-2000	IDA	3171.00	152.00	0.00	0.00	0
Family welfare project,	D-43, T-150	1991-96	UNFPA	202.55	30.00	15.00	196.46	98
RPP Task Force ,	Tech-8	1993-2000	CIDA	820.00	210.00	126.97	122.65	18
Rural Livelihood		1996-97	ADP	119.29	78.00	0.00	0.30	2

C.7 Grameen Bank

C.7.1 Background:

Indigenous private commercial banks of Bangladesh were nationalised in 1972. Before 1972, these banks were privately owned. They operated mostly in urban areas and financed urban traders and industrialists. After independence, the nationalised commercial banks (NCBs) expanded the number of branches in rural areas. They however did practically nothing to safeguard the interests of the rural poor. In 1977, the rural branches were compelled to offer services to villagers, because the government inaugurated a 100 crore taka Special Agricultural Credit Programme (SACP). Since this programme granted credit to those who could offer land as collateral or crops for hypothecation, it excluded rural poor who worked outside farming. The collateral requirement jeered the poor in the face.

Prof. Muhammad Yunus was Director of the Rural Economics programme (REP), Department of Economics, the University of Chittagong. He tried to design an organisational framework to meet the needs of all categories of rural poor. In December 1976, he launched a project called the Grameen Bank Project (GBP) at Jobra village adjacent to the campus of the University of Chittagong. The REP was responsible for conducting the operations. The local Janata Bank agreed to extend loans to the landless without conventional collateral. In March 1978, the BKB began to participate in the GBP. This was possible because of tremendous efforts invested by Prof. Yunus. The GBP quickly demonstrated its success. By 1978, it started its operations in two other villages in addition to Jobra. Sonali Bank came forward in 1978 to participate in the Grameen Bank Project. Bangladesh Bank took interest in the project and in June 1979, the GBP launched large-scale operations in the districts of Tangail and Chittagong. Later, GBP extended to ten Swanirvar thanas by implementing agencies themselves through an institutional framework without the supervision of Bangladesh Bank. To develop the rural poor through appropriate institutions, the project aimed at:

- (I) extending organisational support to the weaker section of the rural community to form groups and extend credit without collateral;

- (II) providing minimum subsistence income to a vast majority of rural mass through quick income raising activities in both agricultural and non-agricultural sectors;
- (III) creating part-time employment opportunities for the women and landless and other poor rural families;
- (IV) Designing and developing an appropriate co-operative credit structures for the landless and other weaker sections of the community.

By 1979, the experiment had identified what was believed to be a viable model for credit delivery. The project was expanded with loans from the Bangladesh Bank by the end of 1980. Seven nationalised banks participated in running 25 branches of the GBP in two districts: Tangail and Chittagong. The extended loans reached the total of Tk. 15 million to nearly 10,000 men and women in about 300 villages. In June 1981, the Government of Bangladesh signed a credit agreement with International Fund for Agricultural Development (IFAD) for a loan of needs for Tk. 100 million for expanding the GBP's operation in Tangail, Chittagong, Rangpur and Patuakhali during 1981-84 period. IFAD provided an interest free loan of Tk. 45.7 million up to June 30, 1984 on matching fund basis. Out of the loan amount of Tk. 100 million, the Bangladesh Bank provided the other half. The GBP operation was also extended to Dhaka district and so it gradually became a countrywide name in the banking sector. By the end of 1982, the number of branches rose to 54 in 714 villages having loanees to 30,000 and the total amount of loan to Tk. 95 million. In another year, the number of branches stood at 86, villages at 1,249, borrowers at 58,000 and the total amount of Tk. 195 million. On 4th September 1983, the Government of Bangladesh (GOB) passed Grameen Bank Ordinance 1983. It gave Grameen Bank formal status as a banking company with an initial paid up share capital of Tk. 30 million, 60 percent of which was subscribed by the borrowers of Grameen Bank of which 20 percent preferably by women borrowers. The formal inauguration of the Grameen Bank took place on October 2, 1983.

C.7.2 Analysis of Grameen Bank's Performance:

The Grameen Bank evolved out of an explicit action research project in which Prof. Yunus experimented with organisational structures and procedures to overcome the challenge of

lending without collateral to the poor. By trial and error, GBP found a group-within-group structure. A Group of five members within a Centre of 30 member formed the organisational structure of memberships. Groups organised on the basis of propinquity rather than loan use. It developed a concentration of female borrowers, who currently hold about 90 percent of GB memberships.

At first, Bank Assistants (BA) visit a village, hold informal discussions and explain to village poor the mode of GB. A member who owns less than half an acre of land and whose assets do not exceed the value of an acre of medium land is eligible to borrow from the GB. He must ensure GB that he uses the loan for an activity that will generate sufficient income to enable him to pay off the loan in weekly instalments. Moreover, the eligible poor have to form groups of five. They may form a group only when they have satisfied one another about their trustworthiness and reliability. The BA gives training to a group for one week so that members can acquire a thorough knowledge of the rules and regulations of the GB and the rights and duties of borrowers. After training, the Bank Manager (BM) tests the knowledge of the members of the groups. If they pass, they secure recognition as a group from the GB. The groups provide the unconventional collateral and security in the shape of reciprocally exercised discipline, pressure and vigilance for all GB loans. Therefore, the formation of a group does not at once lead to the grant of loans to all its members. A one-month observation period follows the one-week training period. At the end of it, only one or two members of a group receive loans. If the recipients utilise and repay loans properly for a month or two, the third and the fourth members can secure loans. The fifth member obtains the loans when four of his group members succeed in inspiring the GB with regularity in carrying on his work and repaying weekly instalments to GB.

Two percent of the total loans represent weekly instalments. Some borrowers, however, may be permitted to pay token sums each week because the activity for which they have obtained the loan (e.g. cow fattening) cannot generate an adequate income immediately.

A number of groups, not usually exceeding ten, form a centre. Each group has a Chairman and a Secretary. The centre chief conducts weekly meetings where the BA collects

weekly repayments by issuing proper receipts. Subsequently, the chief has to consult the members to prepare new loan proposals. Afterward, the proposals are passed from the BA to GB.

All members of a group are the collective custodians of the group fund. A borrower pays 5 percent group tax at the time of taking a loan. A borrower pays interest of 16 percent on GB loan. In contrast, loans from the village moneylender normally carry an interest of 120 percent and may sometimes be as high as 360 percent.

The GB has set up a comprehensive insurance fund called the 'Emergency Fund'. A debtor is to contribute an additional 25 percent of the interests of the GB loan to this fund. The scheme would enable the borrower and his dependants to use this fund as an insurance against his own liability, death or unforeseen circumstance compelling him to default. He would also be able to use it to insure against destruction of crops by pests, flood or drought or of livestock by accident or disease. GB has taken a new initiative to provide house-building loan. It has created a sensation among the clients. A large number of houses have already been built in rural areas of Bangladesh. Performance in this sector is very encouraging.

Its overall performance is quite satisfactory. From 1984 to 1996, the Bank maintained almost a similar range of performance in case of general as well as house loan sectors. But from 1991, GB has been following a conservative attitude towards extension of branches. In 1991, the number of branches was 915, in 1992 it rose to 1015, in 1993 to 1040, in 1994 only 05 more branches. In 1996, the total number of branches became 1079. During the same period, the general loan and house loan disbursed stood at Tk. 6550.93 and Tk. 555.30 crores respectively. The amounts repaid in both the heads were Tk. 5694.94 and Tk. 241.87 crores respectively.

GB has directly attacked poverty by targeting credit and organisational assistance directly to the poorest people. It offers credit at terms the poor find acceptable. The member drop out rate is low (15 percent), while the loan repayment rate has been consistently high (above 90 percent). The performance is undoubtedly remarkable. But the Bank is now considering the consolidation of the present position instead of increasing its expansion. GB model is being replicated in many developing countries of the world. It is now a symbol of glory for Bangladesh.

C.8 NGOs

The term non-governmental organisation first appeared in the Economic and Social Council of the United Nations (ECOSOC) Resolution 288 (x) of 27 February-1950. It stated that any international organisation which is not established by inter governmental agreement is an international non-governmental organisation. By popular usage, the term has come to mean any organisation not established by government. Now, the terminology includes all organisations involved in various development activities with the objective of alleviating poverty. In Bangladesh, this terminology is used to refer to all such organisations and institutions that are registered with the Government under the Voluntary Social Welfare Agencies (Registration and Control) Ordinance of 1961 and the Foreign Donation (Voluntary Activities) Regulation Ordinance of 1978. There are as many as 13,000 organisations registered under the Voluntary Social Welfare Agencies Act. There are 838 organisations registered under the 1978 Foreign Donation Ordinance. Among these organisations, roughly 600 are engaged in development activities.

C.8.1 Emergence and Achievements of NGOs in Bangladesh

Prior to Independence in 1971, only a few NGOs operated in erstwhile East Pakistan. After the liberation war, the NGOs emerged on a large scale in Bangladesh to undertake relief and rehabilitation activities to mitigate the sufferings of the war torn people. This charity and welfare orientation in NGOs continued till 1974. Thereafter they undertook integrated community development programmes. But such development efforts failed to achieve the goals owing to structural constraints imposed by the existing social, economic and political systems. The NGOs adopted a new orientation in favour of participatory development. With the new orientation, some NGOs began to mobilise the poor to develop their own institutions. They provided various support services ranging from training, credit, health care, et cetera to develop the competence of the poor and their economic empowerment. A review of the NGO activities over the past decades shows that NGOs have concentrated their efforts in certain specific areas. The following is a brief discussion on these activities.

Establishment of Effective Democratic Processes at the Grassroots

The development of existing democratic institutions demands re-organisation of the economic, social and political power structures at the grass root levels. The rural poor organised through NGOs undertake social and economic actions against various forms of injustice. They create demand for government resources, services and necessary policy changes as envisaged in the ILO convention 141, which provides for legal right to agricultural labourers to form unions.

Poverty Alleviation

The NGOs have directed much of their efforts to mobilise the poor to develop their own organisational abilities to alleviate their poverty. The NGOs have been funding the poor with credit and other needed inputs and services. The sectors in which NGOs supplied inputs and services encompass agriculture, livestock, poultry, horticulture, bee-keeping, nursery development, irrigation and water management and non-farm activities.

Women's Rights

Women in Bangladesh are generally economically exploited, socially disparaged and politically neglected. They are discriminated in the eyes of law, too. The inheritance and family law degrades women's status and deprives them of equal rights with the men. The NGOs have stressed the need for establishing equal rights of women in all spheres of life. They emphasised the imperative of women's participation in the development process. They have equipped their women clients with credit, training and other required supports to help them generate incomes, to ensure the economic security of their families and to enhance their status.

Education

The level of literacy in Bangladesh is quite low. Moreover, the system is prohibitively expensive for the poor. The NGOs have devoted their efforts to provide functional education for adults. Now NGOs have initiated a movement with the objective of accelerating literacy rate within the next decade.

Health and Family Planning

In Bangladesh, health facilities are concentrated in the urban areas and are somewhat inaccessible to the poor. The NGOs are developing a maintainable health care system in family planning. They consider it as an integrated part of health service.

Environment

Bangladesh is an environmentally endangered region. The major problems are deforestation and damage to the aquatic environment. The programmatic foci of NGOs have been laid on prevention of deforestation, water pollution, sanitation and land sliding.

C.8.2 Present Position of NGOs in Rural Bangladesh

NGOs have extended rural development activities to 355 thanas, implying that about 84 percent of the thanas have been brought under NGOs programmes.

Flow of Foreign Grant Fund through NGO Affairs Bureau.

The number of NGOs - both local and foreign - has increased steadily over the years. Each year on average, 102 new NGOs have been registered (from FY 1990-91 to FY 1995-96). Of them, 35 have been cancelled (33 alone in 1993-94), and 1014 remain active at present.

On an average, 583 new projects have been approved in each year. The total of approved projects is now 3509. As the number of approved projects increased throughout the years, so did the amount approved (except in 1993-94 and 1995-96). However the amount released did not increase at the same rate. The most surprising fact is that the amount released never been more than 70 percent of the amount approved. At times it has been as low as 47 percent which means that more than half of the grants have not been used. Further analysis shows that at the end of 1995-96 only about 54 percent of the total amount approved have been finally released (Cumulative amount approved by 1995-96 was taka 78,73.17 million; cumulative amount released by 1995-96 was taka 42,767.63 million or only 54.31 percent). As nearly half the funds remained unutilised, many projects have not been able to achieve their desired goals.

NGOs have played a major role in rural development for the poor in Bangladesh. They are providing easier credit, education and basic health facilities and house building loan to the village poor. With better co-ordination between the government agencies and NGOs, effective

and proper utilisation of the available funds, and mutual trust among the government, the NGOs and the people will help the NGOs achieve more of their targeted goals.

D. Conclusion:

The study of the emergence and growth of the rural credit network in the earlier two parts indicated certain tendencies. The most striking one is the structural transformation of rural credit network in both quantitative and qualitative forms. The moneylenders with their inherent exploitative instincts have been doing their business among the poor. But they have been cut to size by the institutional sources.

To improve the overall situation, the government has launched a number of programmes. In 1977, BB started the SACP with one billion taka. The volume and accessibility of the credit increased over the years. From the government side, BKB, RKUB, NCBs, BSBL and BRDB are involved in rural credit. From the private sector, GB is a major player. It has completed its more than one decade of service to the rural poor since it became a bank. The bank recovery position z-remained excellent as before. It has trust in the ability of the poor. The staff members are eager to shoulder any responsibility benefiting the poor. By this time, NGOs of Bangladesh, as elsewhere in the developing world, have been recognised as an active partner in development. NGOs have diverse transnational sources of funding and assistance but obviously they have to abide by the rules of the land. Both the government sponsored credit agencies and NGOs have been suffering from limitations to various types. The biggest problem is the poor recovery of credit plaguing the government agencies.

Notes to Chapter II

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CHAPTER III

INSTITUTIONAL CREDIT DELIVERY

IN RURAL NOAKHALI

A. DESCRIPTION OF THE STUDY AREA

This study wanted to look at the effectiveness of the institutional network of rural credit. Noakhali district was selected as the area for in-depth study. In this chapter, we analyse the nature of institutional credit in the study area on the basis of the primary data gathered by the author. We begin with a presentation on the characteristics of the area and the principal characteristics of the survey respondents. Then we analyse information relating to resource inventory of the area, the projects and programmes of rural development operating therein, agencies involved in the delivery of credit and implementation of various development activities. We look at how the respondents took part in credit and development activities. Then we examine the efficacy of the institutional structure of rural credit.

A.1 Topography:

Noakhali district is located between 22°-07" and 23°-08" North latitudes and 90°-53" and 91°-27" East longitudes. Comilla bound it on the north while Feni bound it on the east. Lakshimpur lies on the west while the Bay of Bengal is in the south. It has an area of 5,054 sq. kms, covering 2.12 percent of total area of the country. In respect of area, this district ranks 8th among the 15 districts of Chittagong Division and 16th among the 64 districts of the country. This district comprises of 6 thanas: Sudharam (Sadar), Hatiya, Begumganj, Companyganj, Senbag and Chatkhil arranged in descending order of their sizes.

The soil of the district has alluvial sediments of recent origin with admixture of sands and clay in varying proportions. It is lying in the regions of low parts of the Meghna floodplain. It has mainly light shifts on ridges. The soils on the south are slightly calcareous and some are saline in varying degrees. The depth of water is mainly shallow and it is fluctuating in different places.

The main rivers flowing through the district are the Meghna, the Little Feni, the Hatiya and the Shabajpur and the Burirchar. The rivers are navigable round the year. Total flowing length of the rivers is about 225 kms. The rivers occupy an area of 723 sq. kms, covering 14.30 percent of total area of the district.

A.2. Demography:

According to the population census of 1991 (Adjusted) the total number of households in Noakhali district is 3,99,284 which is 2.9 percent of total households in the country. Total population of the district, according to the same source, is 23,47,010, which is 2.10 percent of total population of the country. The density of population per square kilometre is 766 as against the national figure of 755. Out of the 64 districts, Noakhali ranks 11th in respect of population. Males consist of 49.45 percent and females 50.56 percent of total population. Out of the total population, 92.84 percent live in non-municipal (rural and other urban) area and the remaining 7.46 percent in municipal (urban) area.

Among the six thanas, Companyganj has the lowest population of about 1,37,000 which is 7.62 percent of the district population. On the other hand, Begumganj has the highest population of about 5,83,000. The lowest density of population per sq. km. is 229 in Hatiya. On the other hand, Begumganj has the highest density of 1,441 persons per sq. km. Total population in the municipal areas of Begumganj and Sudharam is about 1,29,000. Growth rate of population of the districts was 2.36 percent (during 1981–1991).

A.3 Education:

According to 1991 population census, the literacy rate of Noakhali district was 32.4 percent. As compared to the overall position in Bangladesh, the degree of literacy in Noakhali is fairly high. Table 3.1 presents the Thana-wise literacy rate of the Noakhali district.

Table- 3.1
Literacy Rate in the Thanas of Noakhali District, 1995

SADAR	BEGUMGANJ	CHATKHIL	SENBAG	COMPANYGANJ	HATIYA	DISTRICT
23.50	30.70	40.20	25.60	24.00	17.00	36.90

Source: Statistical Yearbook of Bangladesh, 1995

There are 923 primary schools, 31 junior high schools, 186 high schools, 115 madrasa and 15 colleges in the Noakhali district. These numbers are higher per thousand people than in many other districts of Bangladesh.

A.4 Occupation:

Like other districts of Bangladesh, Noakhali is predominantly agrarian. 60 percent of the people are directly related with agricultural activities. The labour force in manufacturing, business and other activities are 1.83 percent, 4.40 percent and 9.28 percent respectively.

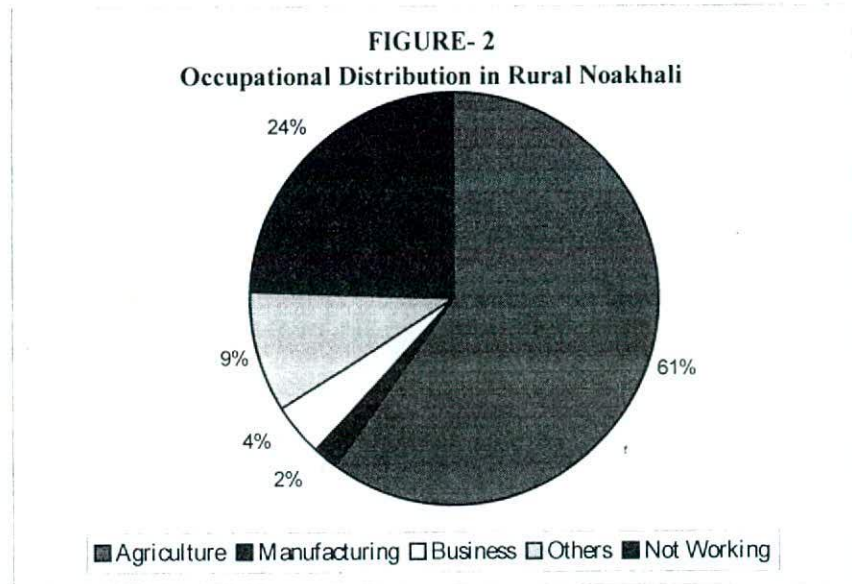


Table- 3.2
Main Occupation of People in Noakhali, 1995
(Figures in Percentage of Labour Force)

	Sadar	Begum Ganj	Chatkhil	Senbag	Company Ganj	Hatiya	District
Agriculture	63.72	54.75	57.02	59.79	64.13	65.50	60.00
Manufacturing	1.00	3.00	1.18	1.86	1.93	1.04	1.83
Business	4.58	5.26	3.66	3.59	3.89	3.39	4.40
Others	9.18	9.21	8.33	9.90	8.64	10.36	9.28
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Author's Field Survey

A.5 Land holding Pattern:

The size of land holding is very relevant to this study. Agricultural incomes are directly related to the size of landholding. The various schemes of rural development are aimed at small and marginal farmers holding smaller size of land. Table 3.3 indicates the pattern of land holdings in rural areas of the Noakhali district.

Table- 3.3

Distribution of Land by Size of Holding in Noakhali, 1995

	SADAR	BEGUM GANJ	CHATKHIL	SENBAG	COMPANY GANJ	HATIYA	DISTRICT
Over 3 hectares	4077	379	127	169	566	2446	7764
1-3 Hectares	12962	6478	2351	3220	3067	6954	35032
Less than 1 Hectare	46873	73239	23662	23305	14266	18387	199732
Total No of Holdings	63912	80096	26140	26694	17899	27787	242528

Source: Author's Field Survey

The small and marginal farmers, i.e., those holding land up to 1 hectare (or 2.471 acres) constitutes over 80 percent of the total number of holdings. But the land owned by them is less than 10 percent of the total. This shows the gross inequality in the ownership of land.

A.6. Cropping Pattern and Irrigation

According to the 1992-93 agricultural census, gross cropped area in Noakhali district was 2,38,166 hectares. The net area under temporary crops was 1,32,366 hectares. The intensity of cropping was 177.37 percent. Rice, wheat pulses, oilseeds, vegetables and spices are the major crops in the district. Rice occupies 77.58 percent of the gross cropped area.

According to the same census, 17.28 percent of the farm holdings used irrigation in an area of 16,963 hectares. This constitutes 10.43 percent of the farm area and 11.80 percent of the cultivated area. About 31.1 percent of smallholdings, 30.8 percent of medium holdings and 15.0 percent of the large holdings used irrigation.

A.7 Other Characteristics

Health Care: Medical facilities include 2 hospitals with 260 beds, 6 Thana Health Centres, 25 subcentres and 4 Union Health & Family Planning Centres. Here, only one doctor is available per 31,728 persons.

Transport: There are altogether 4,081 kilometres of road in the district of which only 151 kilometres are paved.

B. SOCIO-ECONOMIC CHARACTERISTICS OF THE RESPONDENTS

Noakhali has 79 Unions out of which 50 were visited for the study. Following a random sampling plan, 250 respondents from 50 unions spread over all six thanas of Noakhali were interviewed with a structured questionnaire. A summarised view of the respondents is presented in Table 3.4.

Table 3.4

Distribution of Sample Households/ Respondents

	SADAR	BEGUM GANJ	CHAT KHIL	SENBAG	COMPANY GANJ	HATIYA
Total no. of Households	54	76	37	29	25	29
Total no. of Members	441	578	307	209	217	207
Average Family Size	8.17	7.61	8.30	7.21	8.68	7.14
Percentage Educated	14.97	21.46	21.17	22.97	18.89	17.88
Percentage Studying	34.92	28.37	31.60	33.49	32.26	34.78
Percent in Family Farms	79.63	68.42	54.05	65.52	76.00	62.08
Percent as Agriculture Labourer	5.56	5.26	5.41	3.44	4.00	10.34

Source: Field Survey

B.1 Size of the Family

The family size of the respondents is comparatively big. Families with 7 and more members comprise 64 percent of the respondents. Only 10 percent of the respondents have up to 4 members. The respondents in Chatkhil Thana have large family size as 25 percent of them have a family of more than 11 members. In other Thana, these percentages are 22, 20, 16, 14 and 4 in Sadar, Begumganj, Companyganj, Senbag and Hatiya respectively. This situation may provide a signal to the family welfare the agencies to intensify the motivational efforts towards small family.

B.2 Education Level:

Education is an important precondition for socio-economic development of a country. An educated man can make better use of credit. Table 3.5 shows the data regarding the respondent's educational bearing.

Table- 3.5

Educational Level of Heads of Families

	SADAR	BEGUM GANJ	CHATKHIL	SENBAG	COMPANY GANJ	HATIYA	DISTRICT
Educated	41	56	34	22	22	24	199
Uneducated	13	20	3	7	3	5	51
Total	54	76	37	29	25	29	250
Percentage Educated	75.93	73.68	91.89	75.86	88.00	82.76	79.60

Source: Field Survey

It is clear from the data given in the Table 3.5 that the overall literacy rate among the respondents is around 80 percent. Comparatively, the literacy rate is highest in Chatkhil Thana (92 percent) followed by Companyganj (88.00 percent), Hatiya (83 percent), Sadar (75.9 percent), Senbag (75.8 percent) and Begumganj (74 percent) respectively.

To see the level of education among the family members of respondents, we may look at the data in table 3.6. It shows that a considerable degree of eagerness to get education exists in the study population. About 51.54 percent of the total members of respondent families are either educated or are in the process of receiving it. The proportion of these was the highest in Senbag Thana (56.54 percent) followed by Chatkhil (52.76 percent), Hatiya (52.65 percent), Companyganj (51.15 percent), Sadar (49.88 percent), and Begumganj (49.83 percent), respectively.

Table- 3.6**Education of the Members of Families of Respondents**

	SADAR	BEGUM GANJ	CHAT KHIL	SENBAG	COMPANY GANJ	HATIYA	DISTRICT
UNEDUCATED	221	290	145	91	106	98	951
Studying	154	164	97	70	70	72	627
Educated	66	124	65	48	41	37	381
Total	441	578	307	209	217	207	1959
Upto X	18	49	31	22	16	8	144
Upto XII	11	22	13	6	7	9	68
Graduate and Above	5	14	5	7	2	4	37
Total Post- Secondary	34	85	49	35	25	21	249

Source: Field Survey

Senbag Thana has the highest proportion (20 percent) of educated members with graduation and higher qualifications followed by Hatiya (19.05 percent), Begumganj (16.47 percent), Sadar (14.71 percent), Chatkhil (10.20 percent) and Companyganj (8.0 percent) respectively.

Compared to the national average for rural districts, the study population has both a higher level of education and a greater rate of literacy. They also have greater access to credit. We may hypothesise that the respondents have better access to credit because they are better educated than the general mass.

B. 3 Main Occupation-wise Distribution of Respondents

Table 3.7 shows distribution of respondents by main occupations. The occupation is considered as main if it contributes more than 50 percent of family income of the respondents. Otherwise, it is regarded as a secondary occupation.

Table- 3.7

Distribution of Respondents by Main Occupation

	SADAR	BEGUMGANJ	CHATKHIL	SENBAG	COMPANYGAN J	HATIYA	DISTRICT
Agriculture	43	52	20	19	19	18	171
Businesses	3	14	9	5	4	4	39
Agricultural Labour	3	4	2	1	1	3	14
Service	2	6	4	2	1	4	19
Fishing/Poultry	1	0	0	2	0	0	3
Masonry	2	0	0	0	0	0	2
Tailoring	0	0	2	0	0	0	2
Total	54	76	37	29	25	29	250

Table 3.7 shows that agriculture is the mainstay as 74 percent of the respondents are engaged in it. The proportion of peasantry range from a high of 85 percent in Sadar Thana to a low of 59 percent in Chatkhil Thana. Many respondents earn from business (16 percent) and service (8 percent). A few are engaged fishing and poultry farming, tailoring or masonry. In case of business, Chatkhil is the highest (24.32 percent) followed by Begumganj (18.42 percent), Hatiya (13.79 percent) and Sadar (5.59 percent) respectively.

B. 4 Respondents' Secondary Occupations

Table 3.8 presents secondary occupations of the respondents. A significant number of respondents have no extra occupation (53.20 percent). The percentage of respondents having extra occupation was the highest (60 percent) in Companyganj Thana followed by Begumganj (58 percent), Chatkhil (57 percent), Senbag (52 percent), Sadar (50 percent) and Hatiya (38 percent).

Table- 3.8

Secondary Occupations of Respondents

	SADAR	BEGUM GANJ	CHATKHIL	SENBAG	COMPANY GANJ	HATIYA	DISTRICT
Agriculture	5	6	6	4	2	6	29
Businesses	16	11	9	8	6	10	60
Agricultural Labour	0	0	0	0		0	0
Service	6	11	1	2	2	2	24
Poultry	0	4	0	0	0	0	4
Total	27	32	16	14	10	18	117

Source: Field Survey

B. 5 Distribution of Respondents by Land Holdings

In the rural areas, land holding plays a very significant role. The landowners not only have higher income, power and prestige than those of the landless, but also have control over the lives of the latter in a number of ways. For this, the land holdings units of the respondents were studied. Table 3.9 overleaf shows information in this respect. From the table, we see that 14 percent of respondents have no land at all. Marginal farmers holding less than one hectare of land account for another 42.41 percent. About 43 percent of the respondents own more than 1 hectare. That is, an overwhelming proportion of respondents is either landless or marginal farmer or small farmer.

Table- 3.9**Distribution of Respondents by Size of Land-ownership**

	SADAR	BEGUM GANJ	CHATKHIL	SENBAG	COMPANY GANJ	HATIYA	DISTRICT
Landless	2	19	5	5	0	1	32
Less than 1 Hectare	25	35	20	11	8	6	105
1-2 Hectares	16	19	11	12	7	10	75
2-4 Hectares	6	1	1	0	7	10	25
4-6 hectares	2	0	0	0	3	1	6
6-10 Hectares	2	0	0	0	1	1	4
10 Hectares or more	2	0	0	0	0	1	3
Total	55	74	37	28	26	30	250

Source: Field Survey

B. 6 Pattern of Share Cropping

Sharecropping is an important feature in rural Bangladesh. Table 3.10 presents the share cropping system among the respondents. About 47.6 percent of the respondents are associated with sharecropping. According to Thana-wise break down, Hatiya thana occupies the highest position (72.41 percent) followed by Begumganj (52.63 percent), Chatkhil (51.35 percent), Sadar (48.15 percent), Companyganj (36 percent), and Senbag (13.79 percent) respectively.

Table- 3.10
Distribution of Respondents by Sharecropping

	Sadar	Begum ganj	Chatk hil	Senbag	Company ganj	Hatiya	District
Upto 0.50 Hectares	9	29	14	2	4	2	60
0.51 to 1.50 Hectares	13	11	5	2	5	10	46
1.51 to 2.50 Hectares	1	0	0	0	0	6	7
2.51 to 3.50 Hectares	2	0	0	0	0	1	3
3.51 Hectares and above	1	0	0	0	0	2	3
Total Sharecroppers	26	40	19	4	9	21	119
No Sharecropping	28	36	18	25	16	8	131
Total Respondents	54	76	37	29	25	29	250
Percent Sharecropper	48.15	52.63	51.35	13.79	36.00	72.41	47.60

Source: Field Survey

B. 7 Distribution of Respondents by Income Ranges

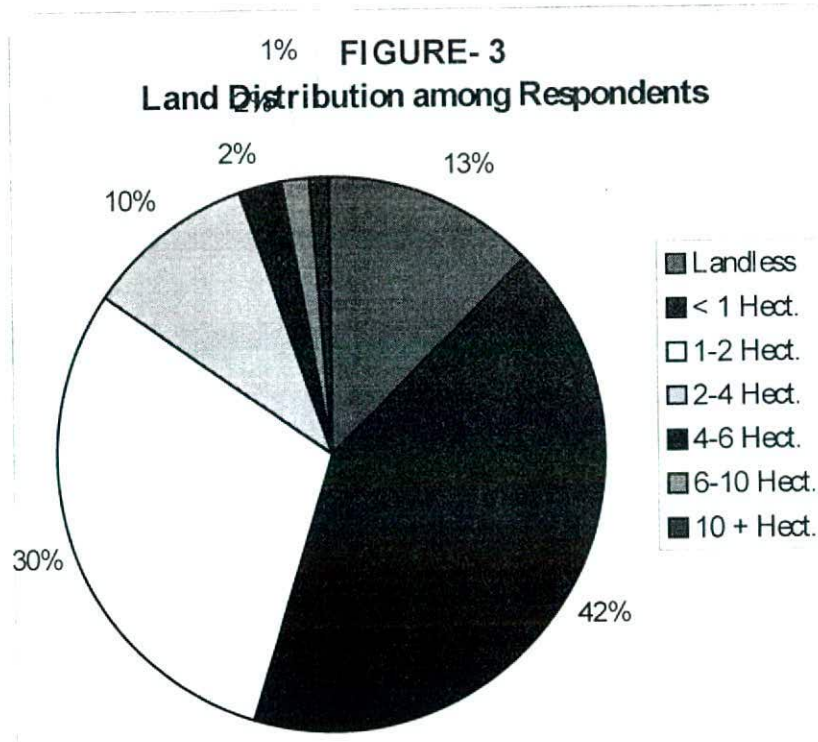
Income range is an important element to assess the economic condition of an individual. Table 3.11 presents information for all borrowers.

Table- 3.11

Distribution of Borrowers by Level of Income and Source of Debt

RANGE OF INCOME	INSTITUTIONAL	NON- INSTITUTIONAL	TOTAL
Upto 6000	3	10	9
6001-12000	22	12	29
12001-20000	40	11	49
20001-30000	40	7	46
30001-40000	27	4	31
40001-50000	25	3	28
50001-60000	10	2	12
60001 and over	25	1	26
Total	192	50	230

Source: Field Survey



The proportion of the borrowers with annual income at or below Tk. 6,000 is 6 percent. This is greater than the national figure. The percentage of the borrowers with an annual income of

Tk. 6,001 to 12,000 is 12.40 percent while the national figure is 11.19 percent. The percentage of borrowers within the income range of Tk. 12,001 to 30,000 is 54.74 percent.

These percentages for groups Tk. 30,001 to 60,000 and Tk. 60,001 and above are 11.20 percent and 8.16 percent respectively. It is clear that income disparity is greater in Noakhali than in Bangladesh as a whole. This is due to the predominance of the landlords in the study area.

B. 8 Structure of Dwelling Units

Dwellings are one the basic needs for human beings. During the pre-testing of questionnaire, we found that the people's most pressing need was to own a pucca or semipucca house. Only 5 percent of the respondents had pucca house, while 8 percent owned partly pucca and kuccha dwellings. 17 percent owned a house made of corrugated iron sheets (fence and roof) and the rest (70 percent) had kuccha (mud huts) houses. That is, our respondents have no satisfactory housing.

B. 9 Income and Household Expenditure

One of the major reasons for rural indebtedness is the insufficiency of household income to meet its expenditure. Out of 250 respondents, 216 (86.4 percent) admitted that their income was not sufficient to meet their normal household expenditure. Table 3.12 shows Thana-wise solvency of the respondents.

Table- 3.12

Distribution of Respondents by Economic Solvency

	SADAR	BEGUM GANJ	CHAT KHIL	SENBAG	COMPANY GANJ	HATIYA	DISTRICT
Solvent	6	4	7	7	6	4	34
Insolvent	48	72	30	22	19	25	216
Total	54	76	37	29	25	29	250
Dependent on Other Members	12	13	8	4	7	5	49
Percentage Dependent	22.22	17.11	21.62	13.79	28.00	17.24	19.60
Percentage Solvent	11.11	5.26	18.92	24.14	24.00	13.79	13.60
Percentage Insolvent	88.89	94.74	81.08	75.86	76.00	86.21	86.40

Source: Field Survey

The respondents of Senbag thana have better solvency, as 24.14 percent of them are solvent. In Companyganj, Chatkhil, Hatiya, Sadar and Begumganj, these percentages are 24.00, 18.92, 13.79, 11.11 and 5.26 respectively.

B.10 Dependence on other Earning Members

Due to insufficiency of income to meet the household expenditure, a person may depend on others. Since a big number of the respondents are insolvent, they have to depend on other earning members of their families to meet the cost of living. This dependency has been shown in the table 3.12. It is seen from the table that a considerable number of family heads depend on the earning of family members, i.e., 48 out of 250 respondents (i.e., 20 percent). According to Thana-wise break down, the rate of dependence is highest in Begumganj Thana (26.53 percent) followed by Sadar (24.53), Chatkhil (16.32 percent), Companyganj (14.28 percent), Hatiya (10.2 percent) and Senbag (8.16 percent) respectively.

C. DEVELOPMENT ACTIVITIES IN THE STUDY AREA

The analysis of rural development activities in study area is very important. This would help in assessing the efficiency of rural credit institutions of the area. Though the poverty alleviation programmes implemented all over the country are more or less the same, yet the emphasis varies according to the peculiarities of the area and the people. Since cyclonic storms and tidal bores frequently affect Noakhali, special programmes to help victims of natural disasters have been taken. There are various schemes for poverty alleviation.

Bangladesh Rural Development Board is the principal government agency involved in development activities in Noakhali. It is involved in improving the socio-economic conditions of the rural masses mainly through two-tier co-operatives. These are aimed at helping the small and marginal farmers and insolvent men and women. The Board organises rural co-operatives. It takes part in human resource and skill development through training. It offers adult and family welfare education. It seeks to promote accumulation of members' own savings, credit for production, collection and distribution of inputs, and marketing of products. It takes part in

implementation of family planning, immunisation, etc. It is creating income-generating activities in non-agricultural sector.

BRDB is a multi-level, multi-sectoral and multi-section concept of rural development. As a multilevel concept, it encompasses rural development at various levels in the spatial hierarchy such as viable co-operative societies at village, Thana and district level. As a multi-sector concept, it embraces development in various sectors and sub-sectors of the rural economy such as agriculture, cottage industry, education, health, family planning and infrastructure, etc. As a multi-section concept, it encompasses socio-economic development of various poorer sections or sub sections of rural population such as landless labourers, artisans, small farmers, marginal farmers, etc. BRDB has been working to integrate the low-income segments with the rest of the rural community. It wants to give them a better participation in the production process and a more equitable share of the benefits of development.

In the face of tremendous increase in the proportion of the insolvent population in Bangladesh, BRDB launched the Rural Poor Programme (RPP). The most important goals of the programme are:

- (i) To develop and strengthen the rural institutional infrastructure.
- (ii) To motivate and inform the target group members through continuous training and effective supervision.
- (iii) To expedite the diffusion of appropriate technology and
- (iv) To streamline the supply of credit for self-employment;

BRDB has been implementing various development projects in the different parts of Bangladesh. Noakhali Rural Development Project (NRDP)-II is one of them. Under NRDP, selected poor families are assisted through viable and bankable projects. Janata Bank and Agrani Bank are associated with the credit system of the projects. Noakhali Rural Development Project-I was not taken up for discussion in the study because of the fact that the project came into being in August, 1978 and ended up June, 1984, covering its activities at Lakshmipur, Raipur and Chhagalnaiya thanas. Any of the said thanas did not come within the purview of the present Noakhali district.

Noakhali Rural Development Project-II is a multi-sectoral project of BRDB. This was assisted by DANIDA for special credit schemes for rural poor.

Initially, the total cost of the project was set at 10,595.56 lakh Tk. for 1984-85 to 1989-90. The revised project extended the time up to June 1991 and the cost stood at 11,404.31 lakh taka. But the activities of some components, e.g., Mass Education programmes were closed in December 1991. Out of Tk. 11,401.31 lakhs, DANIDA paid taka 11,139.47 lakhs (97.70 percent) as project aid (on grant basis). The Government of Bangladesh provided taka 221.00 lakhs (2.30 percent) for payment of CDST and purchase of land. The project was scheduled to start from June 1984 but actually started from 1st March 1985 due to delay in signing and agreement between Govt. of Bangladesh and Govt. of Denmark^(3.1).

The objectives of the project are to promote economic growth and social progress for the poorer segments of the population including women.

Project targets and achievements of the main activities up to 1989-90 since its inception are given in the Table 3.13 below. It is evident from the table that in most cases, achievements of NRDP-II in the study area is satisfactory. Especially in the cases of formation of co-operatives, disbursement of credit and construction work, the achievements are significant.

Table- 3.13
Targets and Achievements of NRDP
(Last column shows achievement as percentage of target)

Names of activities	Unit	Targets	Achievements	Percentage
Construction of sluice gates	Nos.	24	13	54.17
Irrigation drains	RET	160000	99943	62.46
Demonstration plots	Nos.	11527	7523	65.26
Formation of co-operatives	Nos.	460	451	98.04
Enrolment of members	Nos.	19400	15459	79.69
Share and saving deposits	Lakh Tk.	242.42	145.2	59.90
Distribution of agricultural credits	Lakh Tk.	900	1250.3	138.92
Realisation of Agricultural credits	Lakh Tk.	900	825.5	91.72
Formation of KSS.	Nos.	15200	20129	132.43
Formation of BSS.	Nos.	825	621	75.27
Formation of MBSS.	Nos.	610	502	82.30
Enrolment of members in BSS.	Nos.	1750	16022	915.54
Enrolment of member in MBSS.	Nos.	610	502	82.30
Construction of mass education centres	Nos.	3	3	100.00
Training of teachers	Nos.	35250	15122	42.90
Formation of shishu centres	Nos.	25110	20012	79.70
Formation of male and female centre	Nos.	3550	402	11.32
Distribution of credit to BSS. MBSS.	Lakh Tk.	525	629	119.81
Relegation of credit from BSS. MBSS.	Lakh Tk.	525	307	58.48

Source: Department of Co-operatives, Noakhali

D. DISBURSEMENT OF INSTITUTIONAL CREDIT

Let us now look at the credit supply situation. The institutional sources of credit in rural Noakhali include commercial banks, co-operatives and Non-government Organisations (NGOs).

D.1 Commercial Banks:

Commercial banks, especially nationalised commercial banks (NCBs), play a vital role in the rural development of our country. In the study area, NCBs include Sonali, Janata, Agrani and Rupali Banks. Thana-wise branches of various NCBs are presented in the Table 3.14. The disbursement of credit by them is shown in Table 3.15 overleaf.

Table- 3.14
Distribution of Commercial Banks in Noakhali

	SADA R	BEGUM GANJ	CHATKHIL	SENBAG	COMPANY GANJ	HATIYA	DISTRICT
Sonali	7	3	2	3	1	3	19
Janata	2	1	1	1	0	0	5
Agrani	2	7	2	0	1	0	12
Rupali	3	6	3	0	3	0	15
Krishi	3	5	1	3	1	4	17
Grameen	0	1	0	1	0	0	2
Total	17	23	9	8	6	7	70

D.2 Bangladesh Krishi Bank

Bangladesh Krishi Bank (BKB) is one of the pioneer financial institutions in the rural areas of the country. It offers credit for crop production, agricultural implements, processing and marketing of agricultural products, etc. It also plays a significant role in implementing socio-economic development programmes, agro- industries and projects.^(3,2) Presently, there are 17 branches of BKB in Noakhali including 2 branches in Pourashava areas of Noakhali and Chaumohani. The total number of branches of BKB in Bangladesh is 864.

Table-3.15

Disbursement and Recovery of Loan by NCBs in Rural Noakhali
(1985-86 to 1994-95, in Million Tk.)

Year	Disbursement and Recovery	Sonali Bank	Janata Bank	Agrani Bank	Rupali Bank	Total
1985-86	Disbursement	124.96	6.71	89.42	65.12	304.20
	Recovery	125.15	4.91	38.58	50.70	219.34
1986-87	Disbursement	37.49	12.12	100.81	52.15	194.86
	Recovery	29.78	9.31	50.50	40.08	138.10
1987-88	Disbursement	121.69	26.63	75.89	45.43	261.60
	Recovery	60.61	19.59	54.33	4.80	146.09
1988-89	Disbursement	120.59	38.73	52.78	65.88	277.98
	Recovery	55.03	43.11	39.43	16.41	153.98
1989-90	Disbursement	206.51	55.24	73.67	90.13	425.55
	Recovery	39.95	46.94	38.12	31.52	156.53
1990-91	Disbursement	189.11	91.76	27.01	69.04	376.92
	Recovery	6.39	29.09	22.18	16.92	74.58
1991-92	Disbursement	227.60	95.11	75.09	74.32	472.12
	Recovery	42.42	32.51	29.35	22.56	126.84
1992-93	Disbursement	235.45	78.43	82.23	80.15	476.26
	Recovery	45.72	31.56	36.65	26.42	140.35
1993-94	Disbursement	246.73	85.78	90.53	91.11	514.15
	Recovery	47.19	33.81	32.72	35.22	148.94
1994-95	Disbursement	256.21	93.13	87.94	85.36	522.64
	Recovery	53.13	36.11	35.43	32.07	156.72
1995-96	Disbursement	258.92	95.25	89.23	89.52	526.92
	Recovery	54.52	37.13	36.54	30.75	158.94

Source : Concerned Banks

This number is quite insufficient to meet the necessity of the rural areas. The number of branches of BKB in Sadar, Begumganj, Senbag, Hatiya, Chatkhil and Companyganj are 3, 5, 34, 1 and 1 respectively.

Loan disbursement by BKB in the study area during the last five years is presented in the table 3.16 in page 71. Loan disbursement by BKB in the study area during 1986-87 financial year was Tk. 50.25 million, whereas during 1989-90 financial year it was Tk 30.535 million. The total amount of outstanding loan during 1986-87 was Tk. 207.891, but it rose to Tk. 635.16 million by 1994-95. Hence, it is evident that the efficiency of BKB in the study area has decreased to some extent.

D.3 Co-operatives

Two types of co-operative systems are present in the area. One is under the control of the Co-operative Department in the area and the other is under the control of BRDB.

The total number of co-operative societies under the Co-operative Department is 660. The categories of co-operative societies are given in the table 3.17 on page 72. This table includes only the co-operative societies under the control of co-operative department. The central co-operatives bank (CCB) performs the credit disbursement function of co-operative societies. There are altogether 7 CCBs in the study area. The co-operative societies advanced credit of Tk. 95.52 million.

It seems that the co-operative movement has made considerable progress in the study area. However, the recovery performance of these co-operatives is poor. Most of these have been suffering from the non-recovery of overdue.

Table- 3.16
Disbursement and Recovery of BKB Loan in Rural Noakhali
[1986-87 to 1994-95, in Million Taka)

Year	TYPE	Distribution	Recovery	Total outstanding
1986-87	Crops	7.96	2.17	207.89
1986-87	Others	42.29	41.25	
1986-87	Total	50.25	43.42	245.45
1987-88	Crops	9.26	3.45	
1987-88	Others	37.35	46.97	
1987-88	Total	46.60	50.42	281.16
1988-89	Crops	15.60	6.30	
1988-89	Others	29.13	44.52	
1988-89	Total	44.73	50.82	313.29
1989-90	Crops	10.37	9.31	
1989-90	Other	28.12	44.79	
1989-90	Total	38.49	54.10	400.78
1990-91	Crops	14.83	4.82	
1990-91	Others	15.71	20.99	
1990-91	Total	30.54	25.81	443.29
1991-92	Crops	15.26	6.02	
1991-92	Others	17.20	19.18	
1991-92	Total	32.46	25.20	475.56
1992-93	Crops	18.14	7.52	
1992-93	Others	21.45	16.96	
1992-93	Total	39.59	24.48	540.25
1993-94	Crops	22.25	6.96	
1993-94	Others	26.53	18.34	
1993-94	Total	48.78	25.30	593.84
1994-95	Crops	23.52	8.53	
1994-95	Others	28.98	19.35	
1994-95	Total	52.50	27.88	625.16
1995-96	Crops	25.73	9.73	
1995-96	Others	30.16	21.28	
1995-96	Total	55.88	31.01	not available

Table- 3.17

Distribution of Co-operative Societies in Noakhali

	SADAR	BEGUM GANJ	CHAT KHIL	SEN BAG	COMPANY GANJ	HATIYA	DISTRICT
Central Co-operative Bank	3	2	0	0	0	2	7
Union Multilateral Co-operative Society	20	28	9	10	6	11	84
Krishi Samabay Samity	20	260	2	29	13	26	350
Savings and Loan Co-operative Society	13	7	1	2	3	0	26
Fishermen Co-operative Society	18	3	1	2	0	20	44
Weavers Co-operative Society	0	3	0	0	1	0	4
Auto Rickshaw Co-operative Society	6	0	1	1	0	0	8
Deep Tubewell Co-operative Society	0	0	6	0	0	0	6
Ansar and VDP Co-operative Society	0	0	1	1	1	0	3
Businessmen Co-operative Society	5	0	2	2	2	0	11
Mahila Co-operative Society	4	0	0	0	0	0	4
Senakallyan Co-operative Society	0	0	1	0	0	0	1
Special Co-operative Society	18	30	0	0	0	15	63
Landless Co-operative Society	36	0	0	0	3	0	39
Others	10	0	0	0	0	0	10
Total Co-operative Societies	153	333	24	47	29	74	660

D.4. Grameen Bank (GB)

GB today is a well-known credit institution for the poor in Bangladesh. No collateral is required for taking loans from Grameen Bank. It cares for women, and hence 75 percent of its borrowers are women. GB extends credit for housing in addition to general loan. Table 3.12 shows the performance of GB in the study area. Its recovery rate is 98 percent.

Table- 3.18
Performance of Grameen Bank, 1991-92 to 1995-96, lakh taka

Thana	Branch	Number of				General Loan		Housing Loan		Group Fund
		Memb ers	Groups	Cen tres	Vill Ages	Disbur sed	Repaid	Disbu rased	Repaid	
Senbag	Keshpara	1723	390	53	38	71.29	62.91	2.16	0.86	4.99
Senbag	Bijbag	1512	367	50	50	61.20	54.56	3.18	1.19	4.41
Companyganj	Charfakira	1407	361	52	18	63.96	57.56	2.29	0.92	4.51
Companyganj	Charkakra	1552	372	54	10	62.32	55.55	1.74	0.85	4.44
Sadar	Ghosbag	1318	329	43	22	54.10	48.47	4.52	0.91	3.91
Senbag	Kadra	1572	348	50	23	57.32	50.27	2.19	0.71	4.03
Companyganj	Musapur	1194	322	43	43	51.52	46.41	1.23	0.43	3.60
Begumganj	Bazaar	1445	309	42	25	39.23	0.00	0.07	0.07	2.54
Chatkhil	Khilpara	1402	288	40	32	33.07	26.01	0.15	0.15	2.12
Begumganj	Kutubpur	1756	392	52	30	59.62	50.88	1.26	0.54	4.05
Begumganj	Zirtoli	1463	300	42	41	40.74	0.00	0.06	0.06	2.67
Sadar	Neajpur	1350	298	40	39	39.77	36.01	0.02	0.10	2.63
Begumganj	Joyag	1701	355	48	33	47.00	39.36	0.30	0.28	3.15
Begumganj	Amishapara	1292	297	44	40	39.88	33.85	0.16	0.16	2.63
Sadar	Dadpur	1557	318	42	30	42.76	36.21	0.24	0.14	2.82
Chatkhil	Porcoat	1483	309	42	32	43.66	36.09	0.11	1.08	2.81
Total		23731	5360	743	506	815.45	643.13	29.68	19.46	67.32

Source: Grameen Bank

D.5 Non-government Organisation (NGO)

To alleviate poverty and to contribute to integrated rural development, NGOs have adopted several approaches and strategies. Mainly these are: (1) the strategies of awareness building, community organising, community development and service delivery; (2) the strategy of networking and policy advocacy.

They have occupied a distinct place in the development scenario of the study area. The number of NGOs of various types in this study area is 22. Their locations and nature of activities have been presented in the Appendix-6. NGO activities in the study area mainly are:

- a) relief and rehabilitation,
- b) organising the rural poor through awareness programmes,
- c) mass education and eradication of illiteracy,
- d) small trade and skill training,
- e) credit and capital and capital formation,
- f) income generating activities and employment,
- g) health, nutrition and family planning,
- h) development of physical infrastructure,
- i) Research and publication, etc.

Since the NGOs compete with government agencies, their own innovative development strategies and methods are creating some opposition within Government agencies. In spite of all these, the greatest strength of NGOs lies in the fact that they work intensively with the villages groups by direct involvement. This is uncommon with the Government agencies in Bangladesh. Government agencies are now under pressure to measure up with the NGOs in terms of customer service.

D.6 Development Schemes and Co-ordination of Credit Flow

Various committees co-ordinated the development schemes and the flow of credit in the study area. These are discussed below:

D.6.1 District Development Co-ordination Committee (DDCC).

The Government formed District Development Co-ordination Committee in 1982 by order No. CD/DA/1(3) 176-154(1000) dated Dhaka April 13, 1982. The goal was to ensure efficient and speedy implementation of development programmes by establishing proper co-ordination among the officials of various agencies. The Deputy Commissioner of the concerned district is the ex-officio chairman of the committee. All the departmental heads of the district are its ex-officio members.

The DDCC is the principal forum to resolve inter-agency co-ordination issues in a district. The committee has, amongst others, the following functions:

- (i) Overall co-ordination and monitoring of all development programmes and projects under implementation.
- (ii) Resolution of all inter-departmental or inter-agency conflicts which may impede the pace of execution of projects and programmes
 - (i) Inspection of projects and suggestions of measures for removal of bottlenecks to accelerate their execution.
 - (ii) Review progress of financial and physical implementation and evaluate the socio-economic effects of all development projects and programmes.

D.6.2 Thana Development Co-ordination Committee (TDCC)

Thana development co-ordination committee is headed by concerned Thana Nirbahi Officer (TNO). The senior officers of all departments, development agencies and other organisations involved in the government development activities at the thana level are members of the committee. This committee performs the following functions:

1. The function like DDCC at thana level and
2. Preparation and execution of development plans for the thana.

D.6.3 District Special Agricultural Credit Committee (DSACC)

The district special agricultural credit committee was formed under "Special Agricultural Credit Programme (SACP) of 1997" to ensure increased flow of credit for agriculture. The Deputy Commissioner of the concerned district is the Chairman of the committee. All higher officers of NCBs, BKB and specialised agricultural banks and heads of the departments of agriculture sectors at district level are members of the committee. Evaluation of disbursement and recovery of agricultural credits and supervision and monitoring of the credits are the main functions of this committee. This committee reviews the activities of the Thana special agricultural credit committees also. But the meeting at Thana level is infrequent.

D.6.4 Thana Special Agricultural Credit Committee (TSACC)

The Thana special agriculture credit committee is headed by the TNO. The bank managers and departmental heads of the agriculture sector in the Thana level are members. This committee carries out the functions like DSACC at Thana level. Again, this committee suffers from the lack of feedback from the proceedings of the union Special Agricultural credit Committee meetings.

D.6.5 Union Special Agricultural Credit Committee (USACC)

The Union special agricultural committee is the grassroots level committee. The Chairman of the union chairs the committee. All bank managers of the banks within the union and the staff of the various agricultural departments of that union are members of the committee. The committee might perform a vital role in disbursement and recovery of credit in the union. But due to the negligence and lack of accountability of the Chairman and members, it does not work satisfactorily.

E. CREDIT ACCESSIBILITY

Let us now look at the access to credit and its effective use. Our goal here is to

1. Identify the types of needs for which borrowers require credit,
2. Understand the extent to which borrowers have an access to institutional credit,
3. Measure the extent of relationship that may exist between accessibility of credit and characteristics of the borrowers such as occupation, educational level, income range, propose of using credit and land ownership patters, etc.
4. Assess the impact of credit on earnings of the beneficiaries and identify the activities that produce positive contribution in terms of incremental income of the borrowers.

E.1. Accessibility of Credit

The evaluation of accessibility of credit has been done in terms of the extent to which the rural people have been successful in obtaining credit. The extension of credit depends on two elements:

- (i) The manner in which lending agencies provide credit and
- (ii) The priority of needs for which credit is required by borrowers

E.1.1 Types and Uses of Credit:

The survey results presented in Table 3.19 indicate 92 percent of households borrowed money either from the institutional source, such as the banks, co-operatives, NGOs, GB or from the non-institutional source like friends, relatives, money lenders, jotdars, etc.

The author's in-depth discussions with the villagers revealed that the rural people had various needs. But the means to satisfy these needs were inadequate. Table 3.19 shows the variety of needs for which the rural people took credit. The needs are mainly of two types, i.e., recurring and non-recurring. They cover both occupational and non-occupational needs. The recurring occupational needs include the purchase of agricultural inputs, payment of wages, rents for agricultural machinery, and purchase of business commodity. The recurring non-occupational

needs include food, clothes, utensils, medical and educational services. The non-recurring occupational needs require credit to purchase land, farm implements, their repairs, maintenance, construction and repairs of irrigation facilities and so forth. The non-recurring non-occupational needs are for social ceremony, purchase of ornaments, purchase, construction or repairs of houses, etc.

Table- 3.19

Distribution of Debt and Debtors by Purpose of Debt

purpose	no or borrowers			Amount of Debt (taka)		
	Institutio nal	non instituti onal	total	Institutional	Non- institution al	Total
Buy farm inputs	117	3	115	7979000	7600	805500
industry & business	51	5	52	469300	6500	475800
Construct/ repair house	4	4	8	6700	42100	4880
Food/ social functions	0	22	22	0	113700	113700
Buy boat, nets, rickshaw	20	6	23	0	284400	284400
Buy land	0	10	10	212200	14100	226300
Total	192	50	230	1486100	468400	1954500

Source: Field Survey

The period for which credit is needed has a wide range. It may be as long as 10 years or as short as a week. Sometimes, the recurring needs are so urgent that credit is needed even for a day.

E.1.2 Credit Distribution by Sources:

The pattern of distribution of credit by institutional and non-institutional agencies has been presented in Table- 3.20 below.

Table- 3.20**Distribution of Debt by Debtors Occupation and Source of Credit**

Occupation/ Source	Institutional	Non-institutional	Total
Farmer	926400	285500	1211900
Farm labour	22850	23400	46250
Business	358550	119200	477750
Service	157800	32800	190600
Others	20500	7500	28000
Total	1486100	468400	1954500

Source: Field Survey

Out of total credit of Tk. 1954500, the institutional credit account for Tk. 1486100 i.e., 76 percent of the total credit has been given by lending agencies like BKB, NCBs, BRDB co-operatives, GB and NGOs.

This is a very encouraging situation. Until about 1979, a majority of the borrowers were dependent on the non-institutional sector for credit^(3.3).

Table- 3.21**Percentage Distribution of Credit by Source in Rural Bangladesh**

SOURCE/ YEAR	1956	1966	1974	1979
Institutional	4.53	13.89	14.00	23.04
Non-Institutional	95.47	86.11	86.00	76.96

Source:

In the study area, the overwhelming ratio of institutional finance (79 percent of total borrowers and 76 percent of total finance) shows that the institutional structure has been able to reach the grassroots levels. The rural households of the study area have a greater access to the institutions. This is a new reality. It means that institutional sources now effectively dominate credit in the rural area. The nation must rely on their ability to perform well to alleviate rural poverty.

E.1.3 Credit Distribution by Borrower's Income:

The study wanted to identify the actual beneficiaries of the credit in the study area. Table 3.22 shows the distribution of borrowers by level of income.

Table- 3.22
Distribution of Borrowers by Level of Income

Level of Income (Tk./Year)	Institutional	Non-institutional	Total
Upto 6000	3	10	9
6001-12000	22	12	29
12001-20000	40	11	49
20001-30000	40	7	46
30001-40000	27	4	31
40001-50000	25	3	28
50001-60000	10	2	12
60001 and over	25	1	26
Total	192	50	230

Source: Field Survey

About 54.68 percent of borrowers come from lower income groups. However, the total credit from all sources secured by the lower income group constitutes only 40 percent of the total debt of all households. Table-3.23 below shows the distribution of debt by level of income.

A larger percentage of borrowers account for a smaller proportion of debt. This happens because the size of debt for low-income groups is small compared to that of high-income groups. The average debt per household at lower income brackets stood at only Tk. 5,521, as against Tk. 13,481 for the higher income groups. This happens because of collateral requirement.

Table- 3.23
Distribution of Debt by Borrower's Income Level

Borrowers Income Level	Total Amount of Debt in Taka		
	Institutional	Non-institutional	Total
Upto 6000	26500	55200	81700
6001-12000	55200	82000	137200
12001-20000	175200	121000	296200
20001-30000	190000	90000	280000
30001-40000	126500	60500	187000
40001-50000	110500	30300	140800
50001-60000	200100	19200	219300
60001 and over	602100	10200	612300
Total	1486100	468400	1954500

Source: Author's Field Survey

E.1.4 Credit Disbursement by Occupation:

Tables 3.24 through 3.26 indicate the pattern of distribution of credit by occupation.

Table- 3.24
Distribution of Debtors by Occupation and Source of Credit

Occupation / Source	Institutional	Non-institutional	Total
Farmer	133	22	148
Farm labour	7	4	8
Business	35	16	50
Service	15	5	20
Others	2	3	4
Total	192	50	230

Source: Field Survey

Table- 3.25**Percentage Distribution of Borrowers by Occupation**

	INSTITUTIONAL	NON- INSTITUTIONAL	TOTAL
Farmer	69.27 %	44.00 %	64.35 %
Farm labour	3.65 %	8.00 %	3.48 %
Business	18.23 %	32.00 %	21.74 %
Service	7.81 %	10.00 %	8.70 %
Others	1.04 %	6.00 %	1.74 %
Total	100.00 %	100.00 %	100.00 %

Source: Field Survey

Table- 3.26**Percentage Distribution of Debt by Borrowers Occupation**

	INSTITUTIONAL	NON-INSTITUTIONAL	TOTAL
Farmer	62.34 %	60.95 %	62.01 %
Farm labour	1.54 %	5.00 %	2.37 %
Business	24.13 %	25.45 %	24.44 %
Service	10.62 %	7.00 %	9.75 %
Others	1.38 %	1.60 %	1.43 %
Total	100.00 %	100.00 %	100.00 %

Source: Field Survey

Among the institutional borrowers, the farmers are dominant (69.27 percent of total respondents). They get 62.34 percent of the total institutional credit. This is Tk. 6,964 per borrower. In case of institutional credit, businessmen constitute 18.23 percent of borrowers, but obtained 24.12 percent of credit. The average amount of institutional credit per businessman household is Tk. 10,244. This occurs because of the commercial mentality of the credit institutions, and because of the greater need for loan of this group.

A considerable number of service holders (7.8 percent of the institutional borrowers) take loan from institutional sources. The institutional agencies provide 10.62 percent of its loan for the people of this occupation. The average of institutional credit for this group is Tk. 10,520 as against Tk. 6,964 for a farmer.

Agricultural labourers are still deprived of institutional credit. The amount of credit for this group of people is very negligible (1.54 percent) and per labourer this is only Tk. 3,264.

In case of non-institutional credit, the farmer again obtains the highest proportion (61 percent), followed by businessman (25.45 percent), service holder (7 percent), agricultural labourer (5 percent) and other workers (1.6 percent). The proportion of non-institutional credit for agricultural labourer is 5 percent as against 1.54 percent of institutional credit. This is mainly due to the collateral problem for getting institutional credit.

E. 1.5 Credit Distribution by Landholdings:

Table 3.27 below shows the distribution of debt by size of landholdings.

Table- 3.27

Distribution of Debt in taka by Size of landholdings

Landholdings	Institutional	Non-institutional	Total
Landless	27100	53500	80600
Less than 1 hectare	265000	152700	417700
1-2 hectare	612200	140400	752600
2-4 hectare	275400	80500	355900
4-6 hectares	125700	35800	161500
6-10 hectares	80500	15500	96000
Over 10 Hectares	100200	0	100200
Total	1486100	478400	1964500

Source: Field Survey

This table indicates that 9.13 percent of borrowers are landless. In-depth analysis reveals that most of them are rural small traders and labourers. The small and marginal farmers constitute 71.21 percent of the total households in this study. A majority (97.21 percent) of this group borrowed from the institutions. They took a major share (59.03 percent) of the institutional credit. It is remarkable that the poor have such good access to credit.

F. IMPACT OF INSTITUTIONAL CREDIT IN THE STUDY AREA

F.1. Impact of Credit on Earnings

The use of credit can be viewed as rational provided it leads to an increase in the income of the borrowers over the previous level. Institutional credit agencies advance credit to the rural poor on easy terms with an intention to achieve development through credit. These agencies naturally wish that the borrowers made good use of funds. As a result, they become economically better off than before and repay the borrowed funds. Table 3.28 exhibits the impact of credit on earnings of the borrowing households.

Table- 3.28
Impact of Credit on Earnings

PERCENT AGE INCREASES IN INCOME	NO OF BORROWER S	BUYING AGRI. INPUTS	COTTAGE INDUSTRY BUSINESS	CONSTRUCTI ON EXT. REPAIR OF HOUSE	ACQUISITI ON OF LAND	SOCIAL FUNCTION CONSUMPTI ON	BOAT NETS. RICKSHA W POULTRY FARM	TOTAL
Nil	102	71	1	6	2	22	2	104
Upto 20	42	26	3	0	0	0	5	34
20-40	21	9	6	0	0	0	7	22
40-80	13	5	10	0	1	0	2	18
80-100	34	7	25	2	3	0	6	43
100 +	18	2	11	0	4	0	4	21
Total	230	120	56	8	10	22	26	242

Source: Field Survey

It is seen that 44.35 percent of borrowers could not increase their earnings after the use of credit. Another group of households (18.26 percent) could get just a marginal increase (around 20 percent) in their income. Only 5.65 percent of the borrowers attained an increase in their earnings ranging between 40 to 80 percent over their previous levels of income. Households registering more than 100 percent increase in their yearly income constituted no more than 7.83 percent.

We tried to identify the possible reasons for such a poor impact. Among those who could not get any increase in their earnings, 22 percent used credit for financing social functions such as marriage, death, birth and festival ceremonies. A few others (5.88 percent) used credit for repairs, extension and construction of dwellings. But these funds usually came from non-institutional sources.

A comparative analysis of the results from different economic activities proves that incomes rose by 20-40 percent for 9.13 percent of the respondents (21 debtors). They borrowed for agricultural inputs (9), buying boat, nets, establishing poultry farm, etc. (7) and for business (6). Again, income rose by 40-80 percent for 5.65 percent of the borrowers (13) borrowing for agricultural inputs (5), acquisition of land (1) buying boats, and nets (2) and business (10). In some cases, it has been more than doubled.

The data were further examined to see if the educational background of the borrowers had any impact on earnings. Most of the borrowers who failed to achieve any increase in their incomes or could get only a nominal increase, were either illiterate (42 percent) or had a very low level of education (35 percent). Further, the average family size of these borrowers was relatively large as 75 percent of these households have an average family size of 8. Those who could increase their income by considerable margin had higher education and a smaller family than those who could not do.

G. CONCLUSION

An encouraging finding here is that institutional credit has become widely accessible to the general public, including the poorest sections of society. A distressing finding is that as large as 44 percent of the borrowing households totally failed to increase their earnings with the use of credit. The source of credit did not matter. This failure to properly use the credit might be the result of two factors. First, putting the funds to non-productive or not so productive use. Second, illiteracy and large family size of the borrowers. As feared, the funds have been used for the high priority in non-productive needs and social demands.

Notes to Chapter III

- 3.1 a. Annual Report, 1984-85, BRDB.
- b. Annual Report, 1984-85 to 1989-90 BRDB.
- c. Information collected from BRDB Noakhali.

- 3.2 Annual reports 1994-95, BKB.

- 3.3 Murshid, K. A. S. and Rahman, A. Rural Informal Financial Markets in Bangladesh: An Overview. Bangladesh Institute of Development Studies, Dhaka, December 1990.

CHAPTER IV

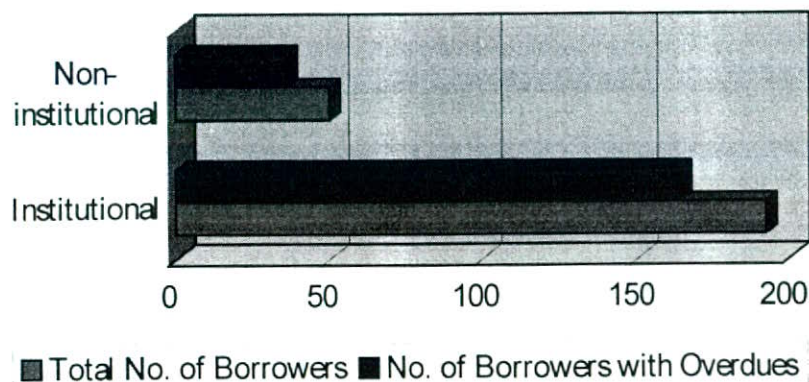
CREDIT RECOVERY IN THE STUDY AREA

A. REPAYMENT PERFORMANCE OF BORROWERS

The good extent of accessibility indicates a positive development but the poor impact on earnings remains a serious challenge. The ineffective utilisation of credit creeps *inter alia* on repayment performance. It is an important factor in regular recycling of funds. Experience in this field as found by various studies is quite discouraging¹. It is observed that repayment ratio of the credit institutions is going down in different areas across the country. With this background in mind we want to evaluate the repayment performance of the borrowers of our sample.

Low recovery performance retards the expansion of credit institutions because of their inability to obtain new fund. Therefore, the high level of overdue blockades the flow of credit. Let us examine the nature of overdue by source, occupation, income, landholdings and purpose of borrowings, etc. The goal is to identify the factors accountable for the poor repayment

FIGURE- 4
Debtors with Overdues



performance of the borrowers. The figure here tells quite clearly that most debtors fail to repay the loans as per agreed schedule of repayment. It also shows that most borrowers rely on institutional sources for credit.

A.1. Source-wise Overdue

Source-wise overdue has been presented in the Table 4.1.

Table- 4.1
Number and Percentage of Borrowers with Overdue

	INSTITUTIONAL	NON-INSTITUTIONAL	TOTAL
Total No. of Borrowers	192	50	230
No. of Borrowers with Overdues	164	36	188
Percentage of Borrowers with Overdues	85.42 %	72.00 %	82.64 %
Total Amount of Debt in taka	1486100	468400	1954500
Amount of Overdue in taka	1175400	257100	1432500
Overdue as Percentage of Debt	79.09 %	54.89 %	73.29 %

Source: Field Survey

Note: 12 households borrowed from both sources.

They also have overdues to both sources.

The above table shows that only 17.35 percent of all borrowers repaid their loans in full, while the majority (82.64 percent) were defaulters. The overdue was 73.29 percent of total credit. According to the distribution of overdue by the source, the table reveals that 85.42 percent of institutional borrowers are defaulters. Only 14.58 percent of institutional borrowers repaid in full. The institutional loan remaining unpaid is 79.09 percent. It means that the recovery rate is only 20.91 percent.

For the non-institutional agencies is different the overdue is 54.89 percent as against 79.29 percent for institutional sources. The percentage distribution of borrowers with overdue is shown in table 4.2

Table- 4.2**Percentage Distribution of Borrowers with Overdues by Source**

	INSTITUTIONAL	NON-INSTITUTIONAL	TOTAL
Total No. of Borrowers	79.34	20.66	100.00
Borrowers with Overdues	82.00	18.00	100.00
Total Amount of Debt	76.04	23.79	99.83
Amount of Overdue	82.05	17.75	99.80

Source: Field Survey

Table-4.3 below reveals that quite a large number (30.74 percent) of borrowers has not repaid at all a small portion of their total borrowings. At the same time, 17 percent of the borrowers have more than 70 percent of their loans remaining overdue. That is, 15 percent of borrowers have repaid loans in full, while 37 percent of borrowers have repaid about 70 percent or more of their borrowed amount.

Table- 4.3**Percentage of Borrowers by Extent of Overdue**

OVERDUE AS % OF DEBT	BORROWERS WITH OVERDUE AS PERCENT OF DEBTORS
100.00	30.74
90.00	5.70
80.00	4.95
70.00	6.20
60.00	8.28
50.00	12.56
40.00	2.12
30.00	2.56
20.00	3.62
10.00	8.17
0.00	15.10

Source: Field Survey

A.2 Position of Overdue by Occupations

An analysis of the data presented in Tables 4.4, 4.5 and 4.6 below reflects that the borrowers with better education, awareness, social status, income and contacts with the high-ups in the government have higher overdue to institutional agencies. The borrowers of the lower segment of society have shown a better repayment performance for institutional credit. The percentage of overdue to institutional agencies was considerably lower in their case. It appears paradoxical that one who earns better repays less and one who is struggling to move away from vicious cycle of poverty repays better.

Table- 4.4

Occupational Distribution of All Borrowers

BORROWERS OCCUPATION	INSTITUTIONAL	NON-INSTITUTIONAL	TOTAL	PERCENT INSTITUTIONAL	PERCENT NON-INSTITUTIONAL	PERCENT ALL SOURCES
Farmer	133	22	148	69.27 %	44.00 %	64.35 %
Farm labour	7	4	8	3.65 %	8.00 %	3.48 %
Business	35	16	50	18.23 %	32.00 %	21.74 %
Service	15	5	20	7.81 %	10.00 %	8.70 %
Others	2	3	4	1.04 %	6.00 %	1.74 %
Total	192	50	230	100.00 %	100.00 %	100.00 %

Table- 4.5

Occupational Distribution of Borrowers with Overdue

BORROWERS OCCUPATION	INSTITUTIONAL	NON-INSTITUTIONAL	TOTAL	PERCENT INSTITUTIONAL	PERCENT NON-INSTITUTIONAL	PERCENT ALL SOURCES
Farmer	115	12	120	70.12 %	33.33 %	66.67 %
Farm labour	4	3	4	2.44 %	8.33 %	2.22 %
Business	31	15	45	18.90 %	41.67 %	25.00 %
Service	13	4	17	7.93 %	11.11 %	9.44 %
Others	1	2	2	0.61 %	5.56 %	1.11 %
Total	164	36	180	100.00 %	100.00 %	100.00 %

Source: Field Survey

To gain an insight into this paradox, the data relating to the borrowing households' relationship with the personnel of lending agencies were further analysed. The responses from 230 borrowing households are put in table 4.6

Table- 4.6
Distribution of Borrowers by Occupation
and Relationship with Lenders

OCCUPATION	VERY GOOD	GOOD	POOR	VERY POOR	TOTAL
Farmer	81	62	3	2	148
Farm Labour	2	4	1	1	8
Business	10	8	2	0	20
Service	39	6	5	0	50
Others	1	2	1	0	4
Total	133	82	12	3	230

Source: Field Survey

Clearly, the relatively 'better off' borrowers have good contacts. This helps not only in their better access to credit but also to shield them from penalties of default. The field visits indicated that the non-repayment of credit was a symbol of power and 'influence' in the rural areas. On the other hand, the poor people repay out of fear of penal action.

A.3. Position of Overdue by Income Level of the Borrowers.

The poorest debtor households (with annual incomes below Tk. 12,000) have the lowest overdue (56 percent) while the middle income households (with income between Tk. 20000 and 30000) has the highest overdue. The richest ones (above Tk. 60000) also have high overdue (82 percent).

As non-institutional debts carry high rates of interest, the borrowers ought to try to clear the debt as early as possible. Here, the repayment behaviour is strange. The higher the income, the higher is the overdue. It appears that the low-income class prefers to repay the institutional loans out of fear. They are often unable to repay the non-institutional loan. This leads to the accumulation of heavy burdens of exorbitant interest on informal loans. The high-income class, on the other hand, demonstrates the opposite behaviour. They prefer to repay non-institutional loans first to avoid the heavy interest burdens. They can afford to postpone the repayment of the institutional loans. For this, the rate of repayment of non-institutional borrowings is higher than that of institutional borrowings.

Table- 4.7
Percentage Distribution of Borrowers with Overdue
by Income Level

Household Income Taka per year	Borrowers with Overdue as Percentage of All Borrowers in income group		
	Institutional	Non-institutional	Total
Upto 6000	66.67 %	50.00 %	55.56 %
6001-12000	72.73 %	91.67 %	68.97 %
12001-20000	85.00 %	81.82 %	83.67 %
20001-30000	95.00 %	71.43 %	93.48 %
30001-40000	88.89 %	75.00 %	83.87 %
40001-50000	80.00 %	66.67 %	78.57 %
50001-60000	90.00 %	50.00 %	83.33 %
60001 and over	84.00 %	0.00 %	80.77 %
Total	85.42 %	72.00 %	81.74 %

Source: Field Survey

A.4 Position of Overdue by Land Ownership. 382510

Table 4.8 shows that repayment performance of landless small and marginal farmers is better than that of the medium and big farmers. Overdue of the landless is nearly 62.23 percent debt. Marginal farmers with less than one hectare have the lowest overdue at 62.04 percent of debt. The richest farmers with 6-10 hectares have the highest overdues. But in case of non-institutional debt the situation is opposite, i.e., larger the holdings, the lower are the overdue and vice versa.

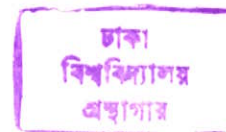


Table- 4.8**Distribution of Debt and Overdue by Size of landholdings**

Landholding	TOTAL DEBT			OVERDUE DEBT			OVERDUE % OF DEBT		
	Institutional	Noninstitutional	Total	Institutional	Noninstitutional	Total	Institutional	Noninstitutional	Total
Landless	27100	53500	80600	16900	33100	50000	62.36	61.87	62.03
<1 Hectare	265000	152700	417700	164400	89500	253900	62.04	58.61	60.79
1-2 hectares	612200	140400	752600	470700	72400	543100	76.89	51.57	72.16
2-4 hectares	275400	80500	355900	240500	39900	280400	87.33	49.57	78.79
4-6 hectares	125700	35800	161500	115500	14100	129600	91.89	39.39	80.25
6-10 hectares	80500	15500	96000	75200	8100	83300	93.42	52.26	86.77
10+ Hectares	100200	0	100200	92200	0	92200	92.02	*****	92.02
Total	1486100	478400	1964500	1175400	257100	1432500	79.09	53.74	72.92

Source: Author's Field Survey

A.5. Position of Overdue by Purpose of Borrowings:

One would suppose that the purpose of borrowing should affect the repayment behaviour. Some economic activities might have higher income generation prospects than others. These activities would increase the borrower's repayment capacity. But our survey found puzzling results. The overdues are relatively small for non-productive activities. The overdues were not very high (35.97 percent) in case of borrowing to finance acquisition of land. The percentage overdue was the highest in case of loans for agricultural inputs (83.76 percent).

The reasons for this type of behaviour are not hard to find out. When loan is invested in productive activities such as petty trades, the borrowers have investment opportunities. They prefer to invest more and more by postponing the repayment of debts. The cost of non-repayment is that the defaulter may miss further credit or be liable to a penal interest. But the cost of repayment is the withdrawal of capital from business leading to shrinkage of working capital culminating in partial or full shut down. The debtors found that the cost of non-repayment is less than the cost of repayment. Therefore, loans used for non-productive purposes would be repaid sooner because i) the yield from such loans is very negligible and ii) there is a possibility of unwanted load of penal interest. This situation prevails due to lack of timely supervision by the credit agencies. However, peasants failed to repay the loans for agricultural inputs mostly because the rate of return was very low.

B. ANALYSIS OF REPAYMENT BEHAVIOUR

B.1 The Analytical Issue

We discovered to our surprise that the borrowers with presumably greater ability to repay the loans had an even greater ability not to repay. How to analyse such a puzzle? We gathered objective data on many variables and applied a suitable analytical tool to discriminate between default and non-default behaviour. More surprises awaited us as our presuppositions broke down in the face of facts.

The repayment behaviour of the borrowers is influenced by a wide variety of factors. The study sought to identify the determinants of this behaviour. We began with the presumption that 22 selected variables would each be found to affect repayment behaviour. However, after a first round of analysis, we discovered that 9 variables were the most significant ones. Appendix-1 presents our findings on the 22 variables while the following is a presentation on the 9 major variables.

B.2 Methodology:

B.2.1 Discrimination between Default and Non-default Behaviour

We applied the analytical technique known as discriminant function to discriminate between default and non-default behaviour. Out of the 250 households interviewed by the author, 230 were borrowers. Among them, 192 were institutional borrowers and 50 were non-institutional borrowers (with 12 households borrowing from both sources). Again, 192 institutional borrowers were classified as defaulter (164) and non-defaulter (28). A borrower who had an overdue of 90 percent of the loan even after the lapse of six months from the date when he was supposed to pay the first instalment of loan was classified as defaulter. The author's definition of defaulter is not at all similar to that of a lending institution. In the latter case a borrower who fails to make payment of his instalment on time is instantaneously termed a defaulter.

We further categorised the defaulters into wilful and non-wilful. Non-wilful default occurs when the borrower is unable to repay while wilful default occurs even when the borrower is able to repay. Non-wilful default may occur due to unfruitful investment, collapse of farm income due to natural calamity, or other problems that destroy the debtor's ability to pay. Wilful default may occur mainly from the borrower's moral attitude. Since attitude is hard to observe and measure, we took a number of objective variables to search for a statistically significant correlation with default.

B.3 The Analysis:

B.3.1 The Meaning of Discriminant Function:

The discriminant function method was used to discriminate between defaulters and non-defaulters. It was also used to distinguish between wilful defaulters and non-wilful defaulters. The procedure keeps all but one variable constant to measure the marginal contribution of a given variable. It measures the difference made by the inclusion of a particular variable. In essence, the discriminant function allows us to measure the relative importance of different variables in determining payment behaviour. The discriminant function takes the following form. Let subscript j denote the variables (X_1 to X_{22}) and let subscript $k=1,2$ stand for default category (1= defaulter, 2= non-defaulter). Then

$$Z_k = \alpha_k + \sum \beta_{kj} X_j \text{ where summation } \Sigma \text{ operates over } j=1 \text{ to } 22$$

$$\text{For defaulters, } Z_1 = \alpha_1 + \sum \beta_{1j} X_j$$

$$\text{For non-defaulters, } Z_2 = \alpha_2 + \sum \beta_{2j} X_j$$

This is a linear discriminant function where alpha is the constant of the function and the betas are the coefficients of the function. The method finds beta coefficients such that the variance of Z is minimum within a given group but maximum between the two groups. That is, the ratio of the variance of Z between the populations to that within the population is the maximum.

The next step in the analysis is to take two differences. First, for any given variable j , the differences between the two betas ($\beta_{1j} - \beta_{2j}$) for defaulter and non-defaulter groups is taken as d_j . Next, the difference between the means μ_k of the two groups is calculated as $w_j = (\mu_{1j} - \mu_{2j})$. Next, the coefficient difference is multiplied by the mean difference to get $d_j w_j$. This product of differences is then used to calculate the percentage contribution to the difference.

To judge the level of significance of the discriminant function, the Mahalanabis D^2 statistic and the F statistic are used. The theoretical values of these two statistics are used to ascertain if there is a statistically significant difference between the two observed populations. The key issue is whether the defaulters and non-defaulters can be said to exhibit the same behaviour except for random errors. If the difference in behaviour is significant, there must be variables responsible for the difference. The job is to calculate the percentage contribution of each variable to the difference in observed repayment behaviour. The formulas for the calculation of the F and D^2 statistic are as follows:

$$F = \frac{N_1 N_2 (N_1 + N_2 - P - 1) D^2}{P (N_1 + N_2) (N_1 + N_2 - 2)}$$

$$D^2 = \sum (\beta_{1j} - \beta_{2j}) (\mu_{1j} - \mu_{2j}) \text{ where } \Sigma \text{ operates over } j=1 \text{ to } P \text{ where}$$

P = Number of variables

N_k = number of observations on population $k=1,2$

μ_{kj} = mean of variable j for population $k=1,2$

In the tables below, columns 1 through 9 present the following for any given variable in the particular row.

1	2	3	4	5	6	7	8	9
Variable	$(\beta_1)=$	$(\beta_2)=$	$(\beta_2 - \beta_1) = d$	$(\mu_1)=$	$(\mu_2)=$	$(\mu_2 - \mu_1) = w$	$(dw)=$	Percentage
	Coefficient of the defaulter function	Coefficient of the non-defaulter function	Difference between coefficients	mean of the defaulter group	mean of the non-defaulter group	Difference between the means of groups	product of difference of coefficients and difference of means	contribution to distance dw

Notice that for the discrimination between wilful and non-wilful defaulters, the coefficients and the means refer to populations of wilful and non-wilful defaulters.

B.3.2 Criterion of Discrimination:

The study uses two different criteria to apply the discriminant function. The first criterion is the existence of default in repayment of debt by the study households. The second criterion is the existence of wilful default.

B.3.3 Two Stages of Analysis:

There are two stages of analysis for each criterion of discrimination. In the first round, all 22 variables are used to calculate the percentage of contribution to the discriminant. In the next round, the variables found to have the biggest contribution to discrimination are brought under a focal analysis.

B.4 Findings:

B.4.1 Focal Analysis of Default and Non-default by Nine Variables:

From the first round analysis of the 22 variables (see Appendix-1), the following 9 were the main factors to differentiate between defaulters and non-defaulters. The variables are:

X_8 = Utilisation of loan;

X_{10} = contacts with the lending agency;

X_{11} = timely receipt of loan;

X_{12} = number of visits to lending agency;

X_{14} = percentage of institutional borrowing to total borrowings;

X_{15} = percentage increase in income after the use of credit;

X_{16} = sufficiency of income to meet usual household expenditure;

X_{19} = expectation of exemption of principal or interest or both;

X_{22} = Other problems faced in obtaining loan.

In the second round therefore we used only these 9 variables to calculate the discriminant. The calculations are shown below:

Table- 4.9

Focal Discriminant Analysis of Default

Variable	$(\beta_1)=$ Coefficient of the defaulter function	$(\beta_2)=$ Coefficient of the non- defaulter function	$(\beta_2-\beta_1) = d$ Difference between coefficients	$(\mu_1)=$ mean of the defaulter group	$(\mu_2)=$ mean of the non- defaulter group	$(\mu_2 - \mu_1)=w$ Difference between the means of groups	$(dw)=$ product of difference of coefficients and difference of means	Percentage contribution to distance dw
X_8	0.67832	0.66597	-0.01234	0.32454	0.87713	0.552580	-0.00682	-0.06990
X_{10}	4.32189	9.63615	5.31425	0.14568	0.89807	0.75238	3.99838	40.98730
X_{11}	-3.24678	1.00505	4.25183	0.31624	0.98872	0.67248	2.85928	29.31040
X_{12}	3.55428	1.99749	-1.55678	0.93456	0.33298	-0.60158	0.93653	9.60040
X_{14}	1.32456	2.21998	0.89542	0.43210	0.90421	0.47210	0.42273	4.33340
X_{15}	3.45982	5.67787	2.21895	0.21345	0.84560	0.63214	1.40270	14.37900
X_{16}	0.17324	0.82542	0.65218	0.56834	0.86968	0.30134	0.19653	2.01460
X_{19}	-1.54324	-2.04603	-0.50278	0.75628	0.47484	-0.28143	0.14150	1.45050
X_{22}	0.67324	0.99778	0.32453	5.77432	5.17138	-0.60294	-0.19567	-2.00590
Total	-	-	-	-	-	-	9.75518	100.00000

Among these 9 variables, 4 have the highest discriminating power. They are ' X_{10} = contacts with the lending agency,' X_{11} = timely receipt of loan', X_{15} = percentage increase in income after the use of credit,' and X_{12} = number of visits to lending agency.

B.4.2 Focal Analysis of Wilful versus Non-wilful Default by Nine Variables:

We then applied the second criterion of discrimination in order to understand the difference between wilful and non-wilful default. After the first round analysis with all 22 variables, we found the following 9 to have the most explanatory power.

X_2 = Occupation; X_7 = percentage of other income to total income;

X_8 = Utilisation of Loan; X_{10} = contacts with the lending agency;

X_{11} = Availability of Loan in time;

X_{15} = percentage increase in income after the use of credit;

X_{16} = sufficiency of income to meet usual household expenditure;

X_{17} = condition of house;

X_{19} = expectation of exemption of principal amount or interest or both;

In the second round, the above 9 variables were used to calculate the discriminant. The results are shown below.

Table- 4.10

Focal Discriminant Analysis of Wilful Default

Variable	$(\beta_1)=$ Coefficient of the defaulter function	$(\beta_2)=$ Coefficient of the non- defaulter function	$(\beta_2-\beta_1)=d$ Difference between coefficients	$(\mu_1)=$ mean of the defaulter group	$(\mu_2)=$ mean of the non- defaulter group	$(\mu_2 - \mu_1)=w$ Difference between the means of groups	$(dw)=$ product of difference of coefficients and difference of means	Percentage contribution to distance dw
X ₂	-0.35483	0.50180	0.85663	1.55342	1.20773	-0.34568	-0.29612	-8.48760
X ₇	0.34678	0.87895	0.53216	0.21368	0.85897	0.64528	0.34339	9.84270
X ₈	0.02345	0.03670	0.01234	5.56219	21.24045	15.67826	0.20765	5.95200
X ₁₀	5.67892	6.59126	0.91234	4.51321	4.83993	0.32671	0.29808	8.54370
X ₁₁	0.31453	0.36770	0.05316	8.95421	14.47746	5.52324	0.29365	8.41690
X ₁₅	-1.96203	-1.05649	0.90554	0.15483	0.98261	0.82778	0.74959	21.48520
X ₁₆	0.54321	0.66666	0.12345	2.31462	8.19654	5.88191	0.72615	20.81350
X ₁₇	0.46872	0.89183	0.42310	2.31456	3.57128	1.25672	0.53173	15.24070
X ₁₉	2.52189	3.16011	0.63821	0.21345	1.20799	0.99453	0.63472	18.19290
Total	-	-	-	-	-	-	3.48888	100.00000

The discriminant analysis clearly denotes that there exists an unholy alliance between the rural influential people and the functionaries involved in the disbursement of credits in rural areas. Such undesirable cordial understanding between the two acts as an important obstacle to the percolation of benefits to the lower income group of rural people. That is, the rural well-to-do persons take advantage of their connections not only in obtaining credit and ancillary benefits but also in securing protection for their defaulting behaviour. What do the lending agencies gain in the process? Our frequent visits and intimacy with the borrowers and credit agencies revealed that the lending agencies have vested interest in this respect. Good connections help in achieving the targets of disbursement of loans without difficulties. Consequently the overdues help the concerned officials in various ways. Thus, the personnel engaged in the recovery of overdues

derive the benefit not only of travelling allowance and other allowances from the institution but also a good hospitality from these villagers. Sometimes the staff unlawfully realises agricultural produce or other gifts or pecuniary benefits to hush up the matter. The fact remains that these lending agencies have been given targets for disbursing loans but not for recovery of overdues.

The next significant disclosure of this analysis is that the non-availability of loan in time is an important factor contributing to the mounting overdues. Since agriculture is a seasonal activity, it requires credit for inputs only at a particular time beyond which its availability ends up in misutilisation. The lending agencies spend, on an average, three to four months in processing the loan applications and the supply of funds to the borrowers. The poor farmers are not aware ahead of time to apply for loan before they really need it. They go to the doors of these lending agencies for funds only when they are in acute need for it. They are more used to receive loans from the moneylenders who deliver loans right at the moment without obtaining any sort of prior notice from them.

C. Comments on Repayment:

We are now in a position to offer a number of comments on the repayment situation. These comments are based both on observed data as well on subjective appreciation of the situation through in-depth discussion with many participants.

The analysis indicates the inadequacies in the system of institutional credit. Proper functioning of the system requires better co-ordination in the various constituent elements. Each party employed in the system is likely to face problems of varying nature. We tried to study

- a. The problems faced by the rural people in securing financial assistance from institutional credit agencies for rural development;
- b. the difficulties encountered by the institutional credit agencies for rural development in execution of finance function;
- c. the inadequacies of the overall system of institutional rural credit

C.1. Problems Faced by the Respondents in receiving credit.

The study classified the respondents into four categories: (a) non-borrowing; (b) household with non-institutional borrowings; (c) household with institutional borrowings; (d) household with institutional as well as non-institutional borrowings. Respectively 20, 38, 180 and 12 households come under these four categories. They faced many types of problems in obtaining credit. The codes for the problems they mentioned are cited below the table. Their responses are shown in Table- 4.11 below.

Table- 4.11

Number and Percent of Respondents by Kind of Problem of Access to Credit

Type of problem	Number of Respondents				Percentage of Respondents			
	Non Borrowing	Institutional only	Non-institutional Only	Both Sources	Non Borrowing	Institutional only	Noninstitutional Only	Both Sources
1	16	95	29	2	80 %	53 %	76 %	17 %
2	8	0	14	1	40 %	0 %	37 %	8 %
3	16	120	24	5	80 %	67 %	63 %	42 %
4	14	90	16	1	70 %	50 %	42 %	8 %
5	15	92	19	2	75 %	51 %	50 %	17 %
6	11	0	20	0	55 %	0 %	53 %	0 %
7	6	0	10	0	30 %	0 %	26 %	0 %
8	9	0	16	0	45 %	0 %	42 %	0 %
9	11	0	13	0	55 %	0 %	34 %	0 %
10	12	140	20	3	60 %	78 %	53 %	25 %

Source: Field Survey

Codes for Problems:

1	Applicant unaware of programme	2	Favouritism
3	Difficult / time-consuming procedures	4	Corruption
5	No active credit agency nearby	6	Fear of harassment
7	No loan for consumption	7	Applicant lacked collateral
9	Inadequate funds/ loans	10	Applicant illiterate

A good number of respondents faced one or the other problem in seeking or obtaining credit. The non-borrowing households represent about 8 percent of total respondents. The major proportion of non-borrowing households was deterred from obtaining credit as they were in the dark about objectives of the credit programs. This lack of awareness becomes frightful when coupled with the daunting documentation procedures.

The lack of awareness, difficulty of procedure, the requirement of collateral, and penal interest keep the non-institutional borrowers away from institutional corridors. The institutional debtors expressed their displeasure against difficult procedure, time consuming factors. They have also resented inadequacy of funds.

Almost all categories of respondents have found the two factors 'difficult procedure' and 'time consuming'- as highly discouraging. An analysis of these problems with regard to their causes is presented in the following paragraphs.

C.1.1 Lack of Awareness:

A significant lack of awareness may not be uncommon in case of rural people in backward areas. The observed low degree of awareness (80 percent in case of non-borrowing households, 52.78 percent in case of institutional borrowers and 76.32 percent in case of non-institutional borrowers respectively) is disturbing. In the absence of proper knowledge about the credit for rural development, it is only natural that the development program will exist only on paper without creating much real impact.

This calls for an immediate action for disseminating the message of institutional credit for rural development. Those rural people are normally deprived of information media. Here, personal communication is more effective. In this respect, the model of Grameen Bank seems to be a step in the right direction. In the union level, GB's Bank Assistants spread the message. Apart from this, the involvement of village school and madrasa teachers might help, because of their intimate knowledge of rural people.

C.1.2 Difficult Procedure:

Eighty percent of non-borrowing household, 66.67 percent of institutional borrowers, 63.16 percent of non-institutional borrowers and 41.67 percent of all borrowers cited difficulty of

procedures. To identify the crux of the problem, we examined the procedure used in Krishi Bank lending.

Let us suppose that a farmer owning 2 hectares of land wants to obtain a bank loan of Tk. 5,000. The following documents must be submitted along with the complicated application form:

- i. Proof of ownership of land;
- ii. *No-dues certificate* from all banks of the area.
- iii. Certificate of local union Parishad chairman.
- iv. Creation of mortgage and registration thereof.

The problem of the borrower begins right from the first stage. Producing evidence of right over land is a difficult task as the land ownership records may not be foolproof. The mutation in the name of the farmer might not have been done. The creation of mortgage is really a Herculean task. Even if these are complete, it invariably involves a number of visits and some illegal gratification to get the desired documents. It is really very difficult for the rural farmer to understand how many places he must go to get the '*no dues certificate*'. Even if he receives it, he is again confused about whom he will pass it to get the job done. To obtain a certificate from the union Parishad chairman is a painstaking job. If the farmer did not work in favour of the chairman during his last election, the chairman may refuse to supply the certificate. The creation of mortgage and the registration is again a hardship game of either influence or money.

In contrast to the above, the Grameen Bank offers a simpler procedure. In Grameen Bank lending, only one or two members of the five-member group receive loans. If these recipients utilise and repay loans properly for a month or two, the third and the fourth members can secure loans. The fifth member obtains the loans when four of his colleagues display regularity in repaying weekly instalments of the GB. The whole procedure is done at the behest of the employee of the Bank.

C.1.3 Inadequate Funds

Many borrowers lamented that they did not get adequate finance from the institutional credit agencies. Consequently, they borrowed from moneylenders, friends and relatives. The

institutional agencies lend in accordance with the cost of project activities as arbitrarily fixed up by the authorities at the top. But in the field, the picture of unit cost is quite different. In fact, the cost estimates required frequent revisions in view of inflation. The estimates have become outdated. Moreover, the lack of funds means that the institutional lenders must turn down many applicants.

C.1.4 Loan facility is time consuming and costly

The timely receipt of loan is important in determining the impact of credit. If credit is not available on time, the borrower's plans are frustrated. As such, 70 percent of the non-borrowing households did not borrow, as they believed that the institutional credit took exceedingly long time. Again, 42.11 percent of borrowers had to turn to non-institutional sources for the same reason. 50 percent of institutional borrowers also complained of delayed disbursement of loans to them. The responses of these institutional borrowers (76) with regard to the time taken by the credit agencies are presented in table 4.12.

Table- 4.12

Number of Months Taken to Process Loan Applications

Number of Months	Number of Respondents	Percentage
2	12	15.79
3	22	28.95
4	18	23.68
5	5	6.58
6	7	9.21
7	4	5.26
8	4	5.26
9	2	2.63
10	1	1.32
11	1	1.32
Total	76	100.00

Source: Field Survey

On average, a respondent has to pay 5 visits to the credit agencies to obtain loan. 30.26 percent of them made 6 to 7 visits. Thus, the rural borrower has to run from pillar to post to get his loan. Actually, most such visits have normally occurred in case of the poorest borrowers.

There exists a direct relationship between the number of visits a borrower has to make and the level of his poverty.

C.1.5 Favouritism and corruption in lending

There is a widespread corruption and favouritism in the sanctioning and disbursement of loans, especially under BKB, NCBs and co-operative societies. Under the existing rural credit network, a specific number of unions or villages are earmarked to disburse credit. Here, the influence of local elite on disbursements of loan is next to indomitable. In most cases, the local elite pressured the lending agencies to disburse credit in favour of their relatives and cronies. Due to the inclusion of local Union council chairmen and members in the present loan disbursement system, the village touts and brokers took the advantage. As a result, fraudulent persons instead of bonafide poor borrowers are getting loans.

C.1.6 Absence or Distant Location of Co-operative or Bank

Bangladesh Bank has been found fairly liberal to accord permission to open new rural branches by the NCBs. But the NCBs could not do the job due to the absence of infrastructural facilities such as proper premises for locating bank officers, staff quarters, post offices, medical facilities and safety measures, etc. This is found from 55.00 percent of respondent who could not get institutional credit due to the distant location of credit agencies. Regarding co-operative societies, the respondents replied that most of them were either defunct or had stopped lending due to lack of funds caused by non-repayment of past loans.

C.1.7 Favour to big farmers and problem in identification of borrowers

We saw that a significant number of non-poor families found the way into the list of beneficiaries. Discussions with the respondents, village poor, the workers and the officials of lending agencies in the study area revealed the following deficiencies:

- i) Identification of borrowers is made on a baseline survey. But the lack of experience vitiates the whole process.
- ii) The officials from lending agencies depend mostly on the certificates of the local Union Parishad Chairmen.

iii) Introductory relationship among the intending borrowers appears to be very poor and the resultant sequence is less effective.

C.1.8 Non-availability of institutional credit for consumption:

As many as 45 percent of the non-borrowing households were not given institutional credit because they needed it for non-productive purposes. About 42.11 percent of the non-institutional debtors had no other alternative but to approach the private sources as they failed to obtain institutional credit for their consumption purposes. We think that the credit institutions can make a reasonable distinction between unproductive consumption and necessary consumption required to sustain the lives and limbs of the borrowers.

C.1.9 Lack of Literacy

Illiteracy proved to be a major factor for 50 percent of the non-borrowing and 44.73 percent of the non-institutional borrowing households for securing institutional credit. The Problem was met by about 50 percent of institutional borrowers.

C.2 Problems Faced by Rural institutional Credit Agencies:

After nationalisation of commercial banks, there has been a phenomenal growth in rural banking both in terms of rural branches and the quantum of finance. Yet, it is generally said that these institutions failed to meet the expectations of the people. The allegation is not wholly baseless as the rural people face indomitable problems in obtaining credit from institutional sources. Discussions with the officials of the credit agencies exposed that they faced various problems in their day to day operations. Some of these problems are discussed below:

C.2.1 Political Interference:

The political system has a very close nexus with rural credit agencies. These institutions are used as platforms for promoting political patronage. To satisfy the political interest of the concerned parties, they make commitments for an exemption of loan. As a result, the borrowers are motivated not to repay loans on the grounds that the same will be written off at some stage of the tenure of the party in power.

C.2.2 Problem of mounting overdues:

A vast portion of disbursed loan has remained unpaid due to the enlistment of fraudulent persons. The rural influentials get the loan sectioned in favour of them directly and thereby start creating plea for the exemption of principal amount or its interest or both. The credit agencies faced tremendous problems to recover loans after the interest exemption declaration by the government in 1986. Again, the condonation of loan by the government up to up to Tk. 5,000 in 1991 further complicated the recovery problem. The non-repayment attitude of borrowers has accelerated.

C.2.3 Influence of local elitism

Due to the inclusion of local level elected representatives in the present system, the troublemakers could manage to creep up in the priority list to fulfil their malafide designs. As a result, the undeserving persons are drawing loans instead of rural poor and they do not bother to repay the loan at all.

C.2.4 Inadequacy of personnel:

The credit agencies are facing staff problem in implementing the credit programs. These institutions lack staff both for office and fieldwork. The workload has increased manifold not only because of higher volume of lending but also due to increased recovery efforts. Moreover, rural lending needs fieldwork for developing contacts with people. To maintain the ratio 1:10, i.e., one agricultural specialist/rural credit officer per 10 branches, it is essential to deploy necessary number of agriculture specialists in the credit institutions.

C.2.5 Non-availability of Statistical Data:

The rural credit agencies face a major problem in respect of non-availability of development statistics at the field level. The desired inventory of natural resources like population, individual land holdings, economic activities, infrastructural facilities like supply of pure water for drinking and other purposes and housing and social amenities, viz., house holds income, expenditure, employment and crop yields, etc., are not available at local level. Without this vital information, the rural credit agencies grope to assess credit risk. As a result, there is a dire need to create a statistical cell at each union level to collect and supply information on perpetual basis to the union officials as well as to the lending agencies.

C.2.6 Incompleteness and Uneven Flow of Application:

The delay in sanctioning agricultural loans, was mainly the result of an uneven flow of loan application. These applications are often incomplete. Even in case of complete application, the lack of interest and initiative on the part of applicant causes more delay. The banker approaches the applicant to judge his mental preparedness for grounding the schemes, i.e., whether he has the ability to take up the economic activity for which loan is sought. More so, the lending agency verifies the financial involvement of the applicant in implementing the applied project or activity. But both are missing. The applicant is found to have filled up the application for loan on the advice of some local influential person and he has no intention to take up the economic activity. Such applications are not approved. But unnecessarily time and efforts are consumed. Thus, the genuine cases suffer. The bankers faced difficulties in reaching the applicants due to poor accessibility in some cases. Any delay at any specific point causes delays at all subsequent points.

C.3 Ancillary problems Noticed in the system:

C.3.1 Lack of Monitoring and Feedback Mechanism

There is no monitoring of credit under the present system save for the recovery of such loans. Once credit is given, the authority assumes that the beneficiary's development has taken place. They have neither machinery nor ambition to monitor the end use of credit. Rather, they count the days to get back the loans. Now comes the '*feedback*'. But the field workers send reports that show inflated targets far in excess of real achievements. This kind of spurious report does more damage than benefit. An effective 'monitoring' and 'feedback' system should draw up of a time schedule for monitoring. The schedule must have slots for customer meetings in villages. They should emulate Grameen Bank' and NGOs to get speedy feedback. There must be a mechanism to trigger proper action to accomplish the desired results.

C.3.2 Lack of Co-ordination:

There is an acute lack of co-ordination between the top-level authority and the field level agency. Due to lack of co-ordination, it is difficult to monitor the progress of implementation.

D. CONCLUDING COMMENTS

In this chapter, our goal was to apply a sophisticated analytical tool to assess the relative importance of various factors in the determination of repayment behaviour. We used discriminant analysis to study the contribution of 22 variables in the first round analysis and then found out that nine of them had great importance. Out of these variables, the relationship with the executives of the lending agencies proved to be of crucial importance.

There is clear evidence of an indisputable 'entente cordial' between the rural elite and the executives of lending agencies. The result is that credit meant for the poor end up in the hands of the relatively rich. It is clear that this structural bias must be overcome to reach the poor through poverty alleviation programmes that must be designed exclusively for the poor.

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CHAPTER V

SUMMARY AND POLICY RECOMMENDATIONS

A. GENERAL OBSERVATIONS:

A.1 Improved Credit Accessibility:

In the study area, an overwhelming proportion (92 percent) of the rural households borrowed either from institutional or from non-institutional source or both. 79 percent of the households procured institutional finance accounting for 92 percent of the total borrowings. This shows a very high degree of accessibility of these institutions to the rural households. A remarkable progress in this respect is that the dependence of the weaker class on the usurious moneylenders is declining.

About 86 percent of the landless secured institutional credit though the volume was small. Now, the non-institutional sources deliver credit only to the extent of 14 percent of the total borrowings. The institutional credit was, to a magnificent extent (72 percent), made available to those who belonged to economically weaker segments of the society with annual income of less than Tk. 12,000. Of them, 86 percent supported their livelihoods by working for other upper bracket of the people. This is quite different from past experience.

The credit going to small industry, service, business and trade sectors accounted for the large number of recipients followed by farming activities, viz., dairy farming, buying a tractor and means of small transports. Primarily, this has been possible because of significant change in the institutional lending policy. There was a shift from security based lending to purpose based lending.

A.2. Impact on Income:

About 44.35 percent of the borrowers could register no increase in their incomes. Just 22.6 percent of the beneficiaries recorded an increase of more than 80 percent in their earnings.

The benefits accrued mainly to the already affluent class of borrowers. This impact of credit indicates a bias that fuels the fire of inequity. Poverty alleviation still remains an unfulfilled dream.

A.3. Systemic Problems:

The system suffers from acute operational deficiency and management inefficiency. The expansion of credit has not been coupled with an ideal package of monitoring and feedback based on control technique.

The flow of credit is mostly related to the timely repayment of the debt. The repayment behaviour is rather dismal as only 15 percent of the institutional debts were repaid leaving 85 percent overdue. The overdue partly occurred due to poor earnings of borrowers.

The horror picture of wilful defaults brings out the main villain as the conspiracy of high connections. The rich and the powerful defaulted brazenly, while the last, the least and the lost hurried to repay. Even as they were poor and failed to gain much from the use of credit, they were powerless before and after the credit.

This is the central problem. Institutional credit is not reaching the poor the way it should. It is falling in the villainous hands. A new sort of institution must be created to overcome the present bias.

B. SUMMARY OF FINDINGS

B.1 Elite Bias

The principal finding of the study is the presence of an institutional bias in favour of the rural elite. The rural rich managed to take the bulk of the credit from the institutional sources and managed to evade the responsibility to pay back. The institutional credit agencies and development agencies effectively contributed to an increase in the inequality of income, power and prestige. It has perpetuated and worsened an inequitable structure of socio-economic and political relation.

B.2 Lenders under Siege

Executives of the lending agencies do suffer from the political pressure, which often approaches the level of threat, to offer loans to candidates who are clearly neither the most deserving in terms of program objectives, nor are likely to repay the loans.

B.3 Repayment Behaviour of the Poor

It was also found that the relatively poor borrowers have a much better record of repayment. The poor borrowers generally tend to get very small loans, which are generally very inadequate to provide the minimal capital base to generate an increase in income. The ability to use credit as a capital base for increased income lies with the relatively rich. The poor borrowers had negligible success in increasing income, while the richer ones were able to increase income substantially.

B.4 Lack of Awareness among the Poor Borrowers

The rural poor are also largely unaware of the various development and credit programs that are supposed to help them. They face major inability to prepare cumbersome documentation and to practice the fine art of persuading institutional lenders.

C. SUMMARY OF CONCLUSIONS:

C.1 Credit for the Poor is Feasible:

The two major conclusions from the study are these: First, there is no ground to avoid programs to offer adequate credit to the poor on the assumption of their mythical inability to repay loans. They are creditworthy. The policy of bringing coal to Newcastle must be reversed in view of the actual repayment behaviour.

C.2 The Elite Bias is Unsustainable:

Secondly, the unholy alliance between the executives of the credit agencies and the rural elite cannot be sustained if there is true commitment to poverty alleviation. The failure of the powerful borrowers to repay the loans has already created a liquidity crisis. There is no justification to continue the present policy of making credit available to a class of defaulting and undeserving borrowers.

D. OBSERVATIONS ON PROBLEMS OF BORROWERS

D.1 Need for Consumer Credit

The rural people have a number of needs to fulfil. Considering their needs in terms of Maslow's Need Priority Model, recurring consumption needs are the most pressing ones. They call for the highest priority for allocation of funds to satisfy the demands. The non-availability of institutional credit for consumption pushed some of the respondents to the jaws of the loan sharks.

D.2 Burden of Interest

It was found that the loan carrying a penal interest remains unpaid leading to heavy overdue. However, if the rate of interest is reasonably low and flexible, then the recovery position improves or the overdue as a percentage of borrowings declines sharply. If it is free of collateral requirement or is interest free for the rural poor below the poverty line, it improves repayment. It is true that the interest burden may even break the back of the borrower.

On the other side, higher interest induces lenders to increase supply. The rate of interest on normal lending such as for BRDB, Co-operative societies, Grameen Bank, etc. should match the NCBs' rate to motivate the banks to adopt a realistic approach in the area of monitoring the use and recovery of credit. As a result, the borrowers may be induced to repay the loans. To balance both sides, there is an urgent need to review the interest rate structure.

D.3 Help with Marketing

The rural poor often need help with marketing. For instance, if a loan is given to a milkman, the lender can take measures to collect milk from the rural area for sale in the cities. As a result, the milkman will not only receive good price for the product, but also he will be induced to use the fund in productive purposes. Thereby the recovery of outstanding loan will be easier for the lending agency.

E. OBSERVATIONS ON PROBLEMS OF LENDERS

E.1 Liquidity Crisis

It is a crisis down there. The rural credit agencies, such as, BKB, BSBL, BRDB, NCBs are under the threat of liquidation, inter alia, because of mounting overdue. The volume of fresh loans is severely inadequate to meet the needs.

E.2 Lending Under Pressure

The application of discriminate function found the existence of a 'close nexus' between the rural elite and executives of credit agencies. The unholy alliance of the parties ensures benefits to the richer borrowers. These borrowers become defaulters.

Some borrowers enjoyed double benefits, viz., easy loans from the credit agencies and governmental or NGOs subsidy or both. They got these either in the form cash or kind or service. It deprives the other equally deserving borrowers. Many male members of the influential segment of society manage to record landholdings in different names in different areas. They fraudulently receive loans from the credit agencies in a very silent and inscrutable manner. The credit agencies are buckling under the pressure of these villains.

E.3 Need for Data

The main factor causing problem in the smooth running of the system in the back office is the lack of up-to- date development statistics, such as facts pertaining to family income, land

holdings, assets, expenditure, indebtedness and personal characteristics such as education, occupation, experience or training, etc. Lenders often have no knowledge of the past credit record of the applicant.

E.4 The Need for Peoples' Participation and Co-ordination

Monetary policy in Bangladesh is practically controlled by bureaucracy. However, the elected peoples' representatives theoretically have the authority on policy making and monitoring the whole operation. The Ministry of Finance formulates the fiscal and monetary policies. In most cases, the regulatory directives pour down from the Bangladesh Bank. This principal bank normally takes up all such critical and necessary policies and proposals with the Ministry of Finance before these are circulated for implementation in the field level. The rural borrowers either receive the benefits or suffer from deprivation, without a chance to take part in policy formulation. Normally, the top-down instructions are meticulously followed without raising any objection from credit agencies and the rural borrowers. It is a misfortune for the rural poor that 'bottom-up' suggestions are seldom considered by the top brass of controlling departments such as Bangladesh Bank or the Ministry of Finance.

The vital constituents of the systems, i.e., the Ministry of Finance, the Bangladesh Bank, NGOs, the NCBs, the co-operative societies, other lending agencies, the district, thana and union level credit control committees should co-ordinate their field operations. At present, there exist many forums, viz., district agricultural credit committee, Thana agricultural credit committee and the union agricultural credit committee. They are supposed to meet once a month. Only the district level credit committee meetings are held in slow intervals (though at Noakhali the district agricultural credit committee meetings are regular and held in on fixed date of the month). The Thana and union level agricultural credit committee meetings are very irregular. The meetings are more of a ritual than an opportunity to identify and solve the co-ordination problems. Therefore, it is essential that the meetings in all levels be arranged strictly on regular basis. In case of union level, the meeting should be arranged more frequently. If possible, they should be held in the far-flung areas of the rural villages involving people, union Parishad chairmen, members, agricultural

block supervisors and the representatives of the lending agencies. The meeting should monitor the allocation and sanction of the loans and oversee the measures to recover the overdue.

The existing relationship between the Bangladesh Bank and credit agencies except NGOs for grant of refinance also warrants a thorough re-examination. The policy to link it with their mounting overdue appears to be rather too hard on paper but too relaxed in field level operation. A vigilant eye is always necessary to see that the political interference either at the apex, district, Thana and union levels are very minimal. However, to incorporate flexibility in the institutional credit system, much can be learned from the easy operation of the half-educated or ill-educated moneylenders. They have developed the simplest methods of lending in the village level. Decentralised norms of financing, flexible interest rates, terms of repayments and personal bonds anyhow systematised the old system with the helpless clients.

If these features are introduced in the institutional rural credit mechanism, the process will be enriched with added dynamism. The rural credit agencies may appoint their reliable agents who will operate at the grassroots levels like Grameen Bank and the NGOs. These 'peripatetic credit' agencies should be given due authority to judge the credit worthiness of the party, purpose, or skill to sanction loans. These personnel can work as mobile banks as used by Brazil and Chile to promote savings, banking habits and collection of small savings as well as loans. These savings can also be promoted on the lines of Columbia. There, the depositors are get educational scholarship by lottery on working days. These are given for keeping minimum balances in their accounts.

Since the illiterate rural people are not used to set rules of office, the employees of these credit agencies normally keep themselves aloof from the poor credit applicants and their problems. The concept of mobile banks or 'peripatetic bankers' or the local mobile forums of the NGOs would be a good option. The personnel working in this new system may be chosen from rural areas. They must be trained before they conduct business. Hopefully, they will come forward as 'change agents' in the rural economy.

GB and some NGOs have already introduced 'Group Loan' systems in our rural economy. This 'group loan' system should be used by other rural credit agencies. Caution is

required to ensure that these groups have like-minded people. Moreover, the eligible entrepreneurs should be given adequate credit facilities.

E.5 Development, Not Just Credit

The rural credit agencies must serve not merely as suppliers of loans, but also as overall agents of development. Multi-purpose institutions have been very successful in Japan, Egypt and Republic of Korea. The credit agencies in rural Bangladesh can also become multi-purpose institutions.

Credit institutions should nurture the entrepreneurial talents of the borrowers. They must supply the badly needed consultancy services to establish and run the trades of customers.

E.6 General Considerations

An ideal rural credit system should be owned and controlled by its patrons on a democratic basis. It should be near the borrowers and oriented to their needs. It should seek to raise the productivity of the borrower. Such a system at country's disposal and with dedication, determination and collective efforts of all the people of all walks of life, it will be possible to transform our rural people into a dynamic, painstaking, forward looking and enterprising people. Then the system will be, in its indomitable spirit and letters, be '*institutional credit for rural development*' in Bangladesh.

F. POLICY RECOMMENDATIONS

F.1 Increase Volume of Credit for the Poor

The poor recovery of loans has made the lending agencies unable to extend further credit without fresh infusion of funds. The volume of credit is very inadequate to meet the needs of poverty alleviation.

F.2 Generate Awareness among the Poor:

This research found lack of awareness among the respondents about the basic objectives of rural development programs and rural credit. There is a need to generate awareness among people.

To generate awareness, the supervisors of the rural credit agencies should meet the poorest people in their rural slums. Apart from that, agencies like universities, colleges, schools, NGOs, social clubs *et cetera* may promote mass awareness. The teachers and students may visit rural areas. They may directly motivate people to take active part in rural development programs.

F.3 Establish a Credit Information Bureau:

There is a need for a '*data collection cell*' at the union level for collecting and compiling information for each household. It should create an individual '*Identity-cum-Monitoring Card*' for each beneficiary. This will solve problems of identification, claim of ownership of land, non-encumbrance certificate, and the proper assets to serve as collateral. It will shorten the time lag in processing the applications.

G. CONCLUDING COMMENT

The rural people are poor, but enterprising. With the help of a properly managed rural credit structure, they can get out of poverty. The government has a big job ahead. It must decide how to bring financial discipline so that the borrowers do not fail to repay. There is a great need to separate subsidy from credit. To increase food production and to alleviate poverty, some people at the bottom need grants or subsidies. The credit policy should not pretend to give them credit and expect to recover that. On the other hand, the ones who are able to repay ought to be obliged to repay. There should be a study to find out the available options.

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APPENDIX-1

DISCRIMINANT ANALYSIS WITH 22 VARIABLES

A. SELECTION AND QUANTIFICATION OF VARIABLES:

We selected 22 variables for the analysis of default behaviour by applying discriminant function approach. The symbolic list of variables, their meanings and their quantitative values are presented below.

Variable	Description of Variable	Quantitative Value
X ₁	Education	=1 if borrower is educated =0 if uneducated.
X ₂	Occupation	=1 if borrower is a farmer. =0 otherwise
X ₃	Size of borrower's family	Number of members
X ₄	Percentage of irrigated area to total cultivable area	(Area under irrigation) X 100/ Total cultivable land
X ₅	Farm Size	Farm size in hectares of land.
X ₆	Percentage of farm income to total income	(Income from farming * 100)/ Total income of household
X ₇	Percentage of other income to total income	(Non-farm Income * 100)/ Total income of household
X ₈	Utilisation of loan ,	=1 if loan was used productively =0 otherwise.
X ₉	Size of the loan	Amount of borrowing in taka
X ₁₀	Contacts with the lending agency	=1 if the relation was good =0 otherwise.
X ₁₁	Timely receipt of loan	=1 If the loan came on time; =0 if the loan was delayed.
X ₁₂	No. of visits to lending agency	No. of visits
X ₁₃	Adequacy of loan	=1 if the loan was adequate =0 if it was inadequate
X ₁₄	Source of borrowing	(Institutional debt X 100)/ total debt.
X ₁₅	Percentage increase in income after the use of credit.	(Change in income X 100)/ Income before use of credit
X ₁₆	Sufficiency of income to meet usual household expenditure	=1 if income was sufficient =0 otherwise
X ₁₇	Condition of the dwelling house,	=1 if house was pucca/semi-pucca =0 if it was 'kuccha '
X ₁₈	Rate of interest being a burden	=1 if interest rate was high =0 otherwise.
X ₁₉	Expectation of exemption of principal or interest or both.	= 1 If debtor expected exemption =0 otherwise
X ₂₀	Security problem .	=1 if security was a problem =0 if it was not.
X ₂₁	Persuasion of local influential for taking loan by an borrower,	=1 If influence was needed =0 otherwise.
X ₂₂	Other problem faced by the borrower in obtaining credit.	=1 if the borrower faced problems other than X ₂₀ in getting loan and =0 If he did not.

The rationality behind the inclusion of the 22 variables is explained below.

Education

An individual's education will determine the manner in which he gathers information and fits himself in the situation. An educated person can normally make a better use of credit and accordingly generate necessary surplus to repay the loan. Therefore, the respondents are classified into two groups, viz., (i) educated- those who can read and write; and (ii) uneducated- who cannot read, write and understand things around.

Occupation

One's occupation determines the level of income, which affects the repayment behaviour. Agriculture is the major occupation in rural Bangladesh and income from it varies quite noticeably. Income from other occupation, viz., business, service, cottage industry etc., is assumed to be more stable. Therefore, there exists a positive relationship between an individual's occupation and repayment performance. Here, occupation is mainly classified as agricultural and non-agricultural.

Family Size

Family size is regarded as one of the important factors in ascertaining the quantum of funds essential to meet consumption needs. It is quite unusual to think that a borrower will repay his loan without meeting the basic needs of his family. With this end in view, the family size of the respondent is taken into account for the present study.

Percentage of Irrigated area to Total Land

Agricultural income to a great extent depends on the practice of modern farming methods through irrigation facilities. Thus, timely repayment of loan is inter-linked with the irrigation facilities available to the borrowers. Information on total land-holdings and its apportionment between irrigated and non-irrigated were gathered for this purpose.

Farm Size

The scope of credit facilities is likely to be enjoyed by all the rural farmers irrespective of the farm size. Volume of agricultural yield depends on the size of one's landholding. It is rather logical that modern farming techniques can be quite effectively utilised if the size of farm is large and, thus, there appears a positive correlation between the farm size and the repayment performance.

Percentage of Farm Income to Total Income

Income composition of the selected borrowers is examined to reveal whether it affects the repayment behaviour of the borrower or not. Income composition relates to the make-up source. With this end in view, total income of the borrower was categorised as agricultural and non-agricultural for this study.

Percentage of 'Non-farm Income' to Total Income

A few studies on repayment performance shows that non-agricultural income plays a vital role in the repayment process. For instance, income from wages, trade, commerce and traditional businesses appears to be comparatively stable and certain.

Utilisation of Loan

Rural Credit institutions extend credit facilities to rural people in countryside for productive purposes. If the loan sought will definitely generate necessary income to support the family consumption needs and repay loan instalments. Thus, the proper utilisation's of loan has got a positive bearing on the repayment behaviour of the borrower. It is an open secret that the needy people of the rural areas availed of the credit facilities to meet their consumption as well as social needs under the fabricated pretext of productive purposes. This sort of mis-utilisation brings more damage than good. Thus, instead of getting incremental income from the investment, the borrower eventually becomes a defaulter. As such, the recycling of funds becomes impossible. Normally, the loans utilised for a pump set, tube-well, poultry farm, etc., are verifiable but in other cases it is difficult. The utilisation of loans, as such, was categorised as productive purpose and non-productive purpose.

Amount of Borrowing

It is a fact that the limited income of the rural poor increases the probability of default with the increment in debt burden. Because of this fact, the amount of borrowings was considered in this study. To verify the authenticity of institutional loan, some of the agencies were visited to gather information on the amount of loan, purpose of loan and the indebtedness of the borrower at that point of time.

Contacts with the Lending Agency Officials

Previous assessments in this direction reveal that the contacts and relations with the personnel of the lending agencies and government officials have been instrumental both in getting credit and delaying repayment. During field study, it was revealed that one's power is measured by the extent to which he can violate rules, regulations and government directions. Therefore, contacts with the lending agencies play a significant role in the repayment performance. The respondents' responses were found in four groups, viz., very good relations, good relations, poor relations and very poor relations.

Availability of Loan in Time of Needs

'Obtaining loan at proper time' increases the possibility of its effective utilisation. The lenders often delay disbursement of loan even though it has been sanctioned earlier. Non-repayment behaviour is affected by late receipt of loan. This occurs mostly in seasonal activity, e.g., agriculture. The respondents were questioned about the timely receipt of loan and their reactions thereof were recorded.

Number of Visits to Lending Agency

The borrower's repayment behaviour is guided by his attitude towards the loan and the lending agency. When a borrower had been unnecessarily taxed on his time and money by rural credit agencies for getting loan, he tends to develop a negative attitude towards repayment of loan. It is very difficult to ascertain under-hand dealing. Thus, the number of visits has been included in this study to examine the repayment behaviour.

Adequacy of Loan Amount

In fact, the effective use of loan depends largely on its adequacy for a specified purpose. The rural poor borrowers do not have their own funds to invest simultaneously with the borrowed amount to take up the economic activity. As a result, the inadequacy of funds may lead them divert the borrowed amount to other non-productive purposes. Accordingly, adequacy or inadequacy of loan is an important factor in repayment behaviour. As for example, a sum of Tk. 8,000 may be adequate for buying a rickshaw, while the same amount may be inadequate for buying a trawler or a boat with an engine. The responses were recorded in individual cases regarding the adequacy of loan. It was further supported by the response about the amount of loan granted as it was sought for.

Percentage of Institutional Credit to Total Credit

The borrowings normally occur from two sources; (i) institutional and (ii) non-institutional informal sources (the moneylenders). But the repayment to the latter case is more urgent to the borrowers because, the incidence of debt-service charge is exorbitantly high in case of informal borrowings. This prompts to default in repayment to the institutional source causing mounting overdue. As a result, the flow of the credit to the rural people goes down. Accordingly, to explain the impact of multiple borrowing on repayment behaviour, data were collected on total borrowings.

Percentage Increase in Income of the Borrowers after the Use of Credit.

Utilisation's of borrowed amount for a selected productive purpose by itself cannot ensure desired results because the nature of one economic activity differs from the other. More so, the same activity, for example, agriculture or poultry may earn good profits at one time and may fail at the other for unavoidable reasons (flood, cyclone etc.). Therefore, the effective use of borrowed amount is measured in terms of incremental income accrued to it. This was selected in this study to discriminate between wilful and non-wilful defaulters. When a borrower earns a profit from a particular project, he is able to repay the instalment. But if he does not pay, he is taken to be a wilful defaulter.

Sufficiency of Income to Satisfy Household Expenses

The repayment performance of the borrowers largely depends upon the availability of income to meet the usual household expenditure. That is, insufficiency of income to meet the normal consumption expenditure may insist the borrowers not to repay. This variable was included in the study to differentiate defaulters into wilful and non-wilful. Therefore, a defaulter is classified as wilful defaulter if it was observed that he had not repaid the debt even though his income was sufficient to meet the household expenditure at that point of time.

Condition of Dwelling Units

During visits, it was observed that the rural people have strong desire to own a pucca or semi-pucca dwelling unit. In many cases, though credit was obtained on the basis of an economic activity, but it was used for the construction of a dwelling unit or its extension. Such type of use of loan, though unavoidable from social point of view, turns the borrower into a defaulter due to non-productive investment. With this intention, data regarding the condition of borrowers dwelling unit was collected.

Rate of Interest.

High rate of interest may accelerate the repayment performance of the borrowers in order to minimise his debt burden. Therefore, higher the rate of interest, the stronger may be the attitude to repay. In opposition, the debt burden due to high rate of interest may become so large

that the borrower is unable to pay it quickly and eventually becomes a defaulter. Hence rate of interest was included in this study to see its effect on the repayment performance of the borrower.

Expectation of Exemption of Principal or Interest or both

Due to political benefits, the politicians (for their immature political base) sometimes committed to exempt principal amount of loan or interest or both to divert political support in favour of them. Such type of commitment has largely affected the repayment behaviour of the borrowers. We collected information on the borrower's expectation of exemption.

Problem of Collateral

Most of the institutional credit agencies supply credit on collateral basis. It is a hard reality for the rural people that most of them are unable to give collateral for obtaining loan. Eventually, it may hamper the repayment performance of the borrowers. As such, the respondents were interviewed on this issue to see the intensity of influence of this particular variable on the repayment performance to them.

Persuasion of Local Influential Person for Obtaining Loan

Rural influential persons, viz., landlords, mohazons, Union Parishad Chairmen, etc., are very powerful not only in their local jurisdiction but also in the whole administrative set-up of a district. This group of people controls the lives of the rest of the rural people in different ways. Such elite people greatly influence loan-giving agencies in the rural area. The borrower who obtained a loan with the persuasion of these influentials may show negative attitude towards repayment. For this reason, persuasion of local influential in obtaining loan by the borrowers was included as another variable in this study.

Problems Faced in Obtaining Loan

The borrowers who face a large number of problems in getting loan may show negative attitude towards the repayment of loan. This may create overdue with the lending agency and exerts great restraint on the smooth flow of credit to rural people. This, information was collected on the nature and extent of problems (other than 20) faced in obtaining loan by the borrowers.

B. OVERALL ANALYSIS OF DEFAULT AND NON-DEFAULT BEHAVIOUR:

The application of discriminant analysis led to the following results. In the first round, all 22 variables were used to calculate the discriminant. Table- App-1 below shows the summary of calculations:

Table- App-1
General Discriminant Analysis of Default

Variable	(β_1) =Coefficient of the defaulter function	(β_2) =Coefficient of the non-defaulter function	$(\beta_2-\beta_1)$ =d Difference Between Coefficients	(μ_1) = mean of the defaulter group	(μ_2) = mean of the non-defaulter group	$(\mu_2 - \mu_1)$ =w Difference between the means of groups	(dw)= product of difference of coefficients and difference of means	Percentage contribution to distance dw
X ₁	1.23456	1.23784	0.00327	0.52678	0.82546	0.29868	0.00097	0.00930
X ₂	-3.24536	-3.25668	-0.01132	0.22468	0.22569	0.00101	-0.00001	-0.00010
X ₃	0.45608	0.92345	0.46736	8.94674	5.44321	-3.50352	-1.63743	-15.49160
X ₄	0.32256	0.15123	-0.17133	9.68994	16.48662	6.79668	-1.16449	-11.01720
X ₅	1.00256	1.00125	-0.00131	3.46843	6.67983	3.21140	-0.00422	-0.04000
X ₆	5.46780	0.66829	0.12151	4.32770	38.44546	-15.88224	-1.92985	-18.25820
X ₇	1.54208	1.55089	0.00881	47.21992	55.67892	8.45900	0.07453	0.70510
X ₈	0.54328	0.53126	1.07455	0.32054	0.82008	0.49954	0.53679	5.07850
X ₉	4.67899	4.67892	-0.00069	9.32672	1107.4526	2318.1258	-1.61805	-15.30830
X ₁₀	3.31428	5.67439	2.36010	4.56892	5.89425	1.32532	3.12791	29.59290
X ₁₁	7.32147	3.42768	10.74916	0.45628	0.73289	0.27661	2.97333	28.13050
X ₁₂	2.03267	1.13589	-0.89677	7.46325	4.46589	-2.99736	2.68796	25.43070
X ₁₃	0.54231	0.57892	0.03660	0.40325	0.54678	0.14353	0.00525	0.04970
X ₁₄	4.32567	3.93460	0.39107	45.67829	50.22589	4.54759	1.77845	16.82580
X ₁₅	6.92789	7.11324	0.18534	20.69894	35.46892	14.76998	2.73755	25.89980
X ₁₆	3.21345	7.83225	4.61880	0.22541	0.54321	0.31780	1.46789	13.88760
X ₁₇	0.21324	2.01234	1.79909	0.55219	0.55023	-0.00195	0.00352	0.03330
X ₁₈	0.42158	0.21542	0.20616	0.21368	0.21008	-0.00360	0.00074	-0.00700
X ₁₉	5.23165	2.11542	3.11623	0.78994	0.52130	-0.26864	0.83715	7.92020
X ₂₀	2.42134	1.21324	-1.20809	0.52194	0.62598	0.10404	-0.12569	-1.18920
X ₂₁	0.53892	0.80324	2.26432	0.54221	0.54405	0.00183	0.00048	0.00460
X ₂₂	3.25892	1.01223	-2.24668	0.58326	0.21583	-0.36743	0.82550	7.81010
Total	-	-	-	-	-	-	10.56980	100.0000

C. OVERALL ANALYSIS OF WILFUL VERSUS NON-WILFUL DEFAULT:

Let us now apply the second criterion of discrimination to distinguish between wilful and non-wilful default. In the first round, all 22 variables are used. The calculations are shown below.

Table- App-2

General Discriminant Analysis of Wilful Default

Variable	(β_1) = Coefficient of wilful defaulter function	(β_2) = Coefficient of the non- wilful defaulter function	$(\beta_2-\beta_1)$ =d Differen- ce between coeffic- ents	(μ_1) = mean of the defaulter group	(μ_2) = mean of the non-defaulter group	$(\mu_2 - \mu_1)$ = w Differenc- e between the means of groups	(dw) = product of difference of coefficients & difference of means	Percentage contribution to distance dw
X ₁	2.45689	3.07821	-0.62132	0.52321	0.73844	0.21523	-0.13372	-0.65210
X ₂	4.52189	6.97872	2.45683	0.34568	0.84092	0.49524	1.21672	5.93310
X ₃	0.56821	0.78278	0.21456	4.63872	4.96329	0.32456	0.06964	0.33960
X ₄	0.01345	0.02690	0.13450	7.43219	3.97750	-3.45468	-0.04648	-0.22670
X ₅	1.45283	1.49972	0.04689	20.31456	10.08888	-10.22668	-0.47950	-2.33820
X ₆	0.03456	0.04802	0.01346	3.46820	5.61190	2.14368	0.02885	0.14070
X ₇	-3.21451	-1.37226	1.84225	2.11463	3.46025	1.34562	2.47897	12.08820
X ₈	3.45682	9.14006	5.68324	0.56829	0.83723	0.26894	1.52846	7.45320
X ₉	0.02345	0.02408	0.00063	8948.31456	6962.8525	-1985.462	-1.25878	-6.13820
X ₁₀	1.32456	2.03901	0.71445	5.21312	8.68156	3.46843	2.47804	12.08370
X ₁₁	-3.45823	-2.30360	1.15462	3.14552	4.69181	1.54628	1.78538	8.70600
X ₁₂	4.56893	5.48239	0.91346	0.62478	0.35583	-0.26894	-0.24567	-1.19800
X ₁₃	2.13214	0.78651	-1.34562	0.21540	0.75384	0.53842	-0.72452	-3.53300
X ₁₄	1.21324	1.66648	0.45324	3.15621	1.77079	-1.38542	-0.62793	-3.06200
X ₁₅	2.45691	3.51905	1.06214	2.56829	7.06257	4.49427	4.77356	23.27730
X ₁₆	0.56821	1.58168	1.01346	3.45682	7.51372	4.05689	4.11152	20.04900
X ₁₇	-0.34562	0.63981	0.98543	1.32075	3.86743	2.54668	0.00196	12.23740
X ₁₈	-0.34531	-0.31072	0.03458	0.03215	0.08898	0.05683	3.76223	0.00960
X ₁₉	1.21346	3.09888	1.88542	3.12520	5.12063	-0.99543	0.13281	18.34570
X ₂₀	0.31668	0.93859	0.62190	0.45678	0.67034	0.21356	-0.58459	0.64760
X ₂₁	-1.14568	-0.59879	0.54689	3.14582	2.07688	-1.06894	-0.26916	-2.85070
X ₂₂	1.45721	0.70293	-0.75428	0.36880	0.72563	0.35684	20.50739	-1.31250
Total							20.50739	100.0000

APPENDIX-2

IDENTIFICATION OF BENEFICIARIES

To identify eligible poor borrowers under poverty alleviation programmes, a family below the extreme poverty line (say, with an income of below Tk 100 per head per month) may be considered. On an average, a rural family may have five members. Income of less than Tk. 6000. per annum may be treated as living below the extreme poverty line. In the same way, the families having an income above Tk. 6000 but less than Tk. 12,000 per year may be considered as living below poverty line.

To measure the income of the target group, a comprehensive household survey should be conducted. A census of income should be conducted at the thana level. After completing the household survey, the families may be categorised on the basis of their annual income in the following format:

Classification by Income Group

PRIORITY LEVEL FOR CREDIT	(ANNUAL INCOME IN TAKA)	NUMBER OF FAMILIES
PRIORITY 1	Up to 5000	
PRIORITY 2	5001 – 8000	
PRIORITY 3	80001-12000	

Families falling in the lowest income group should be treated as most vulnerable group. Subsidies, loans and other facilities should be provided to them first.

For poverty alleviation, the urgent necessity is well trained and motivated personnel for the financial institutions. Such persons should associate directly with the target beneficiaries from the very beginning. To reduce the time-lag in identifying the families, it is necessary to hold camps in the villages.

This crash programme should accord top priority to landless and marginal farmers. This process will prevent diversion of subsidy and other assistance to influential and rich families. All possible precautions should be taken to **ensure that the ineligible is excluded totally**.

At the thana level, a system of careful supervision, minute monitoring and feed back should be developed. It should be meticulously followed in respect of each person of the selected target groups. To fulfil this objective, an Identity cum Monitoring card (IMC) has been proposed. Annexure III shows the IMC. This IMC may be coloured as red, yellow and green for the aforesaid three groups of families to distinguish them on first sight. There will be two copies for each beneficiary. One copy of IMC should be given to the beneficiary. The other should be left with the union level officials. The IMC can be prepared like a Bank Passbook.

The following questionnaire is intended to serve as a background for the IMC.

**DATA REQUIREMENT FOR
IDENTITY-CUM-MONITORING CARD**

Part - I (General Information)

1. District
2. Thana
3. Union
4. Village
5. Mouza
6. Date of survey
7.
 - a) Name
 - b) Father's / Husband's Name
 - c) Education level / Background

Part - II (Economic position and training needs)

8. Whether does the beneficiary (or head of the family to which belongs) own land?
Yes / No
9. If yes, extent of land: (Hectares)
 - i) irrigated
 - ii) un-irrigated
 - iii) non-irrigated
 - iv) Total
10. Number of animals / Poultry owned and their approximate value

Details of animals / poultry owned	No. owned	Value (Taka)
i)		
ii)		
iii)		
iv)		
v)		
vi)		
vii)		

11. Value of other belongings

Details others belongings	(value Tk.)
i)	
ii)	
iii)	
iv)	

12. Beneficiary's family occupation
13. Beneficiary's present occupation
14. Family income of the beneficiary :

i)	NET FARM INCOME (TK.)	
ii)	Net non-farm income (Tk.)	
iii)	Total income (Tk)	

15. Number of members of the family that the beneficiary belongs :
 - i) children (below 16 years)
 - ii) adults (16 years and above)
16. Does the beneficiary have any experience in agriculture and allied activities, viz., industry, service, petty trade, etc.
17. Name of activity / project which is expected to be implemented by the beneficiary.
18. Name of village / mouza where he would prefer to initiate activity / project.
19. Grounds for selection, if any for the expected activity/ project.
20. Is there any family tradition in respect of the expected activity / project.
21. Approximate investment required for the expected activity / project
22. Total credit requirement in the venture.
23. Approximate employment opportunity.

Part - III (Training imparted)

24. Training centre / trainer, if any, to which / whom detailed for training
25. Time when training held.
26. Project proforma prepared on.
27. Selection of site, if required.

Part - iv (Financial assistance gain)

28. Amount of subsidy (Taka)
29. Date of release.
30. Amount of loan (Taka)
31. Name of institutional lending agency.
32. Date of application.
33. Date of sanction
34. Date of receipt.

Part - v (Other assistance gain)

35. Providing tools and equipment.
36. Providing raw materials.
37. Marketing provisions.
38. Other problems encountered.

Part - vi (Income data)

39. Average monthly income (Tk.) in three years following completion of training / start of activity or project.

i)	At the end of 1st year.	.
ii)	At the end of 2nd year.	.
iii)	At the end of 3rd year.	.

Part - vii (Remarks of the concerned officials)

1	
2	
3	
4	
5	

APPENDIX- 3

LIST OF UNIONS COVERED BY STUDY

Thana	Serial No.	Union
Sadar	01	Noakhali
	02	Sonapur
	03	Neazpur
	04	Ashadia
	05	Noannoy
	06	Kadir Hanif
	07	Kaladarap
	08	Eoajbalia
	09	Goshbag
	10	Norottampur
	11	Shundalpur
	12	Daudpur
	13	Chaprashir Hat.
Begumganj	14	Begumganj
	15	Sharifpur
	16	Rasulpur
	17	Sayani
	18	Hazipur
	19	Jirtoli
	20	Rajgonj
	21	Jirtoli
	22	Rajgonj
	23	Eklaipur
	24	Amishapara
	25	Gopalpur
	26	Bajra
	27	Durgapur
28	Sonaimury	
Senbag	29	Kutubpur
	30	Arjuntala
	31	Kadra
	32	Chatarpaiya
	33	Kabilpur
	34	Nabipur
	35	Kesharpara
Chatkhil	36	Sahapur
	37	Chatkhil
	38	Badalkoat
	39	Porkoat
	40	Khilpara
Companyganj	41	Mohammadpur
	42	Sirajpur
	43	Rampur
	44	Musapur
Hatiya	45	Char Hajari
	46	Horani
	47	Channandi
	48	Tomoroddi
	49	Charking
	50	Sonadia

APPENDIX- 4

QUESTIONNAIRE FOR THE BORROWERS

- 1.1 Name
- 1.2. Village
- 1.3. Union
- 1.4. thana
- 1.5. Religion
2. Educational qualification
3. Member of the family
 - 3.1. Male
 - 3.2. Female
 - 3.3. Total
4. Educational qualifications of the members of the respondents
 - 4.1.a. S.S.C
 - b. H.S.C
 - C. Degree and above
- 4.2 Members still in education
- 4.3 Uneducated members
5. Occupations of the respondents

5.1.	MAIN	
5.2.	Subsidiary	
	a.	
	b.	

6. Land (acre / hectare)
 - 6.1. Own
 - 6.2. Share cropping (users)
 - 6.3. Share cropping (lenders)
 - 6.4. Mortgages (in terms of land)
 - 6.5. Mortgages (do)
 - 6.6. Total (6.1 + 6.2 - 6.3 = 6.4 - 6.5)
7. Income (annual)
 - 7.1. From main occupation
 - 7.2. From subsidiary occupations
 - 7.3. Income from the other members
 - 7.4. Income from other sources
 - 7.5. Total (7.1 -7.4)
8. Dwelling Units
 - 8.1. Kuccha
 - 8.2. Pucaa
 - 8.3. Semi - pucca
 - 8.4. Total
9. How much is your annual expenditure?
10. Is your income sufficient to cover your expenditures?
11. If not, how do you arrange?
 - 11.1. Commercial bank
 - 11.2. Krishi Bank
 - 11.3. BRDB
 - 11.4. NGOs

- 11.5 Village moneylenders
 11.6 Influential village mahajans
 11.7 Friends and relatives (put tick mark)

PART II

1. Have you borrowed in the last 5 years?
 Yes / No (put tick mark)

(organisational / institutional / friends / relatives / NGOs/ moneylender / village mahajans)

2. From which and how many sources have you borrowed?

SOURCE TYPE	SERIAL	NAME OF THE SOURCE	AMOUNT BORROWED
2.1 Institutional	a		
	b		
	c		
2.2 Non- institutional	a		
	b		
	c		
2.3.Total (2.1+2.2.)			

Institutional borrowing

- 1.1.1 How much loan did you demand during the last 5 years ?

ORGANISATION	1990-91	1991-92	1992-93	1993-94	1994-95
a					
b					
c					

- 1.2. Hoe much credit have you received during the last year?

Organisation	1990-91	1991-92	1992-93	1993-94	1994-95
A					
B					
C					
D					

2. What was the period of time?
 a.
 b.
 c.
3. What was the purpose of borrowing?
 3.1.
 3.2.
 3.3.
4. What was the interest rate?
5. Could you pay off the loan money in time?
6. If not, why?
 a.

- b.
- c.

- 7. How much money could you pay in due time?
- 7.1 Principal (amount & percentage)
- 7.2 Interest
- 7.3 Total

8. For which purpose (s) did you spend the borrowed money and how much? (Consumption, Social Occasions, etc.)

<u>Purpose</u>	Amount

- 9. Did you make profit?
Yes / No (put tick mark)
- 10. If yes, how much? (Percentages to total borrowings)

YEAR	1990-91	1991-92	1992-93	1993-94	1994-95
PROFIT PERCENTAGE					

- 11. If not, why ?
11.1.
11.2.
11.3.
- 12. How many times did you go to the organisation / institutes for borrowing ?
- 13. What was the time gap between application for & delivery of loan?
- 14.14.1 Did you apply any extra device for obtaining loan?
Yes / No (put tick mark)
- 14.2 If yes, how much?
- 14.3 To whom? middle men / employer (s) of the organisation / institutions others (put tick mark)
- 15. If not borrowed, why?
- 16. What was the conduct of the employees during borrowing?
very good / good / bad / very bad.
- 17. What kind of security did you furnish for borrowing ?

About Non - Institutional Loan

- 1.1.1 How much loan did you apply for ?
- 1.2. How much loan did you receive ? (amount & percentage)
- 2. When did you borrow ? (Month & year)
- 3. For what period of time did you borrow ?
- 4. What was the purpose of borrowing ?
4.1.
4.2.
4.3
- 5. What was the rate of interest ?
- 6. Could you repay the loan in due time ?

7. If not, why ?
 7.1.
 7.2.
 7.3.

8. How much money could your repay in time ? (Amount and percentage)

YEAR	1990-91	1991-92	1992-93	1993-94	1994-95
REPAYMENT AMOUNT					
REPAYMENT PERCENT					

9. Including interest how much money could you repay ? (in case of fully repaid loan).
 9.1. Interest
 9.2. Principal
 9.3. Total

10. For which purpose did you spend the borrowed money ?

PURPOSES	AMOUNT	PERCENTAGE OF THE TOTAL
a.		
b.		
c.		

11. Have you benefited from the money you borrowed?
 12. If so, how much ? (percentages)
 13. If not, why ?
 13.1.
 13.2.
14. How many times did you visit to the lenders for getting loan ?

PART III

1. What sources do you prefer to obtain loan ?
 organisational / institutional non- organisation / moneylenders / friends and relatives / NGDOS.
2. Why ?
 2.1.
 2.2.
 2.3.
3. Who did encourage you to borrow ?
 3.1.
 3.2.
 3.3.
- 4.4.1. What was the role of local influentials ?
 (e.g. large tenants, local elite, public representatives, govt. employees, etc.)
- 4.2. Co-operate
 4.3. Non-CO-operate
 4.4. Neutral (put tick mark)
5. Do you like to offer any further comments ? (Regarding delivery and recovery system of loan.)

APPENDIX-5

Questionnaire for the Lenders

- 1. Name
- II. Designation
- III. Address

1. For how many years have you been working in this organisation / Institute ?
2. For what term does your organisation / institute lend?
 - 3.a. Short term (1 month to 12 month)
 - b. Middle term (above 12 month)
 - c. Long term
(put tick mark)
- 3.3.1 To whom does your organisation / institution lend? (Please put tick mark)
 - Farmers
 - Merchants
 - Industrialists
- 3.2. People of which professions get preference to get loan? (According to priority)
 - a.
 - b.
 - c.
 - d.
- 4.4.1. On what basis does your organisation / institute give loan ? (Please put tick mark)
 - Demand
 - Deposit
 - Security
 - Other (if any)
- 4.2. What percentage of the loan is distributed based on deposit?
- 4.3. What types of security are applicable if it is on collateral basis ?
 - a.
 - b.
 - c.
 - d.
 - e.
- 5.5.1. What are the conditions given by the head officer in lending money ?
 - a.
 - b.
 - c.
 - d.
- 5.2. Do you think that the said conditions are appropriate to the socio - economic development ?
- 5.3. What should be the conditions, in your opinion, if change is needed ?
 - a.
 - b.
 - c.
- 6.6.1. Do you think that the systems of lending should be changed / enhanced / modified ? (Please put tick mark)
 - Yes
 - No
- 6.2. What sort of change extension / modification are necessary in your opinion ?

7.7.1. Does your organisation / branch achieves the loan disbursement target ?

If the target is not fulfilled (Please put tick mark)

- a. Do you feel the necessity of fulfilling the target ? Yes No
- b. Was the demand insufficient ? Yes No
- c. Did the borrower default loans ? Yes No
- d. Political cause. Yes No
- e. Other Yes No

1.8. Please reflect the loan sanctioned is disbursed by your organisation / institute only for rural areas, during the previous five years and state the overdue loan.

YEAR	SANCTIONED	DISBURSEMENT	OVERDUE
a.			
b.			
c.			
d.			
e.			

9.9.1. Does your organisation / institute branch supply credit to landless or those who are unable to furnish security ?

9.2. Do you supervise the proper use of disbursed loan ?
Yes / No (Put tick mark)

9.3 Do you adopt legal action if the loan is not utilised properly ?
Yes / No (put tick mark)

10.10.1.What are the measures taken by your organisation to recover loan ?

- a.
- b.
- c.
- d.

10.2 Do you feel the necessity of more measures ? (Please put tick mark)

- Yes
- No

11.The borrowers of which profession have repaid loan in time during the previous five years ?
(In percentage)

- a. Landless
- b. Farmers
- c. Traders
- d. Others

12.12.1. What are the problems faced by your organisation / institute to recover loan ?

- a.
- b.
- c.

12.2. Please give your suggestions to overcome those problems

- a.

b.
c.

12.3 Keeping in view the present stagflation, and the conditions of rural economy, please give your opinion about the overall loan disbursement and recovery system.

APPENDIX 6 NGOs IN NOAKHALI

SERIAL	NAME OF NGO	LOCATION AND NATURE OF ACTIVITIES	SCHEMES	YEAR	ALLOTMENT (taka)
1.	Dhaka Kaironia	Hatiya. tinshed housing for cyclone victims.	Cyclone rehabilitation	1991-92	1,07,98,260
2.	Menonite Central Committee	All of Noakhali	Agriculture, job creation	1991-94	57,70,600
3.	Sagarika Samaj Unnayan	Char Jabbar abd Char Clark of Sadar thana	Socioeconomic development	1991-92	2,73,400
4.	Pradipan	Char Jabbar, Char Bata & Char Clark	Cyclone rehabilitation	1991-92	4,88,000
5.	Prashanti	Eklashpur, Ashwadia and Neajpur Unions	Family Planning	1991-93	9,28,000
6.	Prashanti	Begumganj and Sadar thana	Family Planning	1991-93	8,48,000
7.	Rural Development Foundation	Char Hazari, Hatiya	Cyclone rehabilitation	1991-93	18,70,000
8.	Advanced Social & Human Action	Hatiya	Women's Development	1991-93	7,24,000
9.	Bangladesh Mission	Sadar, Companyganj and Hatiya	Housing, road irrigation,	1991-92	16,38,000
10.	Bangladesh Mission	Sadar, Companyganj and Hatiya	Housing, rehabilitation	1991-92	7,94,00
11.	Bandhan	5 Unions of Sadar & 3 wards of Sadar Pourashava	Family Planning	1991-93	7,99,000
12.	Bandhan	5 Unions of Sadar & 3 wards of Sadar Pourashava	Family Planning	1991-93	9,29,000
13.	Dwip Unnayan Sangstha	Hatiya	Housing	1991-93	28,40,000
14.	Dwip Unnayan Sangstha	Hatiya thana	Socioeconomic Development	1991-93	56,56,000
15.	Tere Des Hommes	All Noakhali	Water	1991-92	12,67,000
16.	Nature Conservation Movement	Coastal Islands of Bangladesh	Environment	1991-92	5,40,000
17.	Proshika Manabik Unnayan Kendra	Universal Education, Hatiya	Education	1991-92	12,51,000
18.	TARD	Hatiya	Sanitation	1991-92	19,83,000
19.	Relief and Rehabilitation Project	Cyclone Shelter, Char King, Hatiya	Relief	1991-92	1,75,00,000
20.	Nijera Kari	Relief and Rehabilitation, Sadar	Relief	1991-92	25,59,000
21.	Resource Irrigation Centre	Relief and Rehabilitation, Hatiya	Relief	1991-92	36,00,000