

INSTITUTIONAL FINANCE
FOR RURAL DEVELOPMENT:
A COMPARATIVE STUDY OF
INDIA AND BANGLADESH

MD. AZIZUR RAHMAN KHAN

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**INSTITUTIONAL FINANCE
FOR RURAL DEVELOPMENT :
A COMPARATIVE STUDY OF
INDIA AND BANGLADESH**



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**BY
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1983

DEDICATED
TO THE MEMORY OF MY MOTHER
WHO DID NOT LIVE TO SEE
THE FULFILMENT OF HER DESIRE

FORM "A"

CERTIFIED that the work incorporated in the thesis

"Institutional Finance For Rural Development :
A Comparative Study of India And Bangladesh"

(Title)

submitted by Shri Azizur Rahman Khan was carried out by
the candidate under my supervision. Such material as has
been obtained from other sources has been duly acknowledged
in the thesis.

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ABBREVIATIONS

ABP	- Agricultural Bank of Pakistan ...
ADFC	- Agricultural Development Finance Corporation
AFC	- Agricultural Finance Corporation
AIRCS	- All India Rural Credit Survey
ARC	- Agricultural Refinance Corporation
ARDC	- Agricultural Refinance & Development Corporation
BADC	- Bangladesh Agricultural Development Corporation
BKB	- Bangladesh Krishi Bank
C-D-ratio	- Credit - Deposit Ratio
CLDB	- Central Land Development Bank

CRAFICARD	- Committee to Review Arrangements for Institutional Credit for Agricultural And Rural Development
FAO	- Food and Agriculture Organisation
FSS	- Farmers Service Society
GOB	- Government of Bangladesh
GOI	- Government of India
IBRD	- International Bank for Reconstruction and Development
IDA	- International Development Association
IRDP	- Integrated Rural Development Programmes
LDC	- Less Developed Countries
LMB	- Land Mortgage Bank
LTC	- Long Term Co-operating (Grass-Root Level Operations)
MFAL	- Marginal Farmers and Agricultural Labourers
NABARD	- National Bank for Agriculture And Rural Development
NAC	- National Agricultural Credit
NCC	- National Credit Council
NSS	- National Sample Survey
PACS	- Primary Agricultural Credit Societies
PCES	- Pakistan Credit Enquiry Commission
PDR	- Public Demand Recovery
PEC	- Peoples Finance Corporation
PLDB	- Primary Land Development Bank

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RBI	- Reserve Bank of India
RCRC	- Rural Credit Review Committee
RRB	- Regional Rural Banks
SACP	- Special Agricultural Credit Programme
SBP	- State Bank of Pakistan
SBI	- State Bank of India
SCB	- State Co-operative Bank
SFDA	- Small Farmers Development Agency
SLR	- Statutory Liquidity Ratio
ST	- Short-Term.

CHAPTER I

INTRODUCTION, OBJECTIVES & METHODOLOGY

Recent Strategy of Rural Development:

(Until recently, most of the third world countries, for whatever reasons, almost blindly imitated the developed countries in pursuing policies for economic development with heavy accent on industrialisation. Such a policy benefited largely the urban people because industries are usually set up in the areas with relatively greater infrastructural development. This industry - oriented growth policy of the third world countries, has not significantly helped in the improvement of rural economic conditions.)

The emergence of socialism in some of the Asian and East European Countries during the first half of the 20th century, made the rulers of non-socialist third world countries undertake some kind of rural development programmes so that the teeming millions of deprived and frustrated rural populace do not become restive and press for revolutionary change in the Governments. However, the approach to rural development so far made by these countries, was found to be of piece-meal nature wherein hardly any consideration was given for co-ordinated and simultaneous development of infrastructures, production activities and service sectors.

(Experience shows that this unco-ordinated approach

resulted in the failure of most of the efforts towards rural development.¹ (Besides, the benefits from the programmes implemented by the Governments were found to have been grabbed by relatively advantaged farmers and other elites of the rural societies.²) Thus, past strategies relating to rural development programmes have placed greater emphasis on income and growth - not on the manner in which benefits of the programmes were distributed.

Hence, notwithstanding the absence of unanimity about the programme that is capable of improving the lot of the rural people, there is now an increasing realisation that the strategy of rural development so long pursued has not brought about any significant positive changes for large segments of rural population. (Appreciating the consequences of the faulty programmes and approach to rural development, World Bank (1975) identified³ the need for comprehensive approach to rural development and advised the member developing countries to adopt the same. This approach is multi-sectoral embracing wide range and mix of activities like agriculture, poultry, dairying, fisheries, rural

1. See, World Bank, Rural Development - Sector Policy Paper, Washington, 1975, pp. 16.

2. Rao, C.H.H., Technological Change and Distribution of Gains in Indian Agriculture, Institute of Economic Growth, Delhi, 1975, pp. 195.

3. World Bank, op.cit., pp.17.

industries, trade etc. It also encompasses improvement of health, education, communication, housing and recreational facilities.) It is to be noted here that Governments of both India and Bangladesh through their Plan Policy documents have accepted⁴ this approach - Integrated Rural Development Programme (IRDPs).

(Major objectives of the IRDP approach are: reduction of poverty; equitable distribution of benefits of public programmes; provision of basic needs; increase in the employment opportunities; universal literacy; reduction in the growth rate of population; improvement in health and hygiene conditions; sanitation and other recreational facilities along with fostering a sense of self-reliance among the rural people which will ultimately improve the Physical Quality of Life Index (PQLI) of the rural areas.)

The various components of IRDP activities are grouped under three main heads: (a) economic activities, such as crop raising, dairying, poultries, fisheries, rural industries, trade and transport; (b) infrastructural activities, that is, development of roads, canals, dams, electrification etc. and (c) social over-head activities like education, health, family planning and housing.

4. (i) GOI, The Framework of the Sixth Five Year Plan, 1980-85.

(ii) GOB, The Second Five Year Plan, 1980-85.

Organised efforts are simultaneously to be directed towards development of all these activities; since any sporadic, piece-meal and isolated efforts, as observed by the World Bank, may ultimately prove to be a frustrating experience.

1.2 Financial Involvement

Rural development, as delineated earlier, is largely a function of, among other variables, the rate of investment - both public and private. Approval of any rural development programme should be preceded by arrangement of adequate resources required to implement the same. Else, the rural development programmes shall merely remain on paper.

Governments through budgetary provisions may finance rural investments required for infrastructures as well as social overheads. Such funds can be mobilised by the Governments either out of domestic savings and/or from imported capital. In non-socialist countries like India and Bangladesh, Governments do not normally provide funds for privately managed economic activities, such as, agriculture, industries, trade etc. through departmental allocations. Therefore, funds for production and investments for pursuing these activities are required to be mobilised by the rural households engaged in such activities.

For a rural economic unit, there remains, three

sources of raising required funds for investments: from the past savings; by disposal of existing asset(s) and contracting borrowings. Raising funds by sale of existing assets transforms one asset into another. It does not add to the inflow of resources into the rural areas. It is, therefore, necessary either to generate more savings or make greater inflow of credit, in order to broaden the base of resources for rural development by encouraging higher level of economic activities.

1.2.1 Needs for Borrowed Funds

The need for larger amount of borrowed funds for the rural populace, to be utilised for production as well as investment purposes arises from a number of factors, such as, low incomes and hence low savings of a large segment of rural population; urgency for popularising various types of non-farm activities, at least, for small/marginal farmers and agricultural labourers in order to step up their incomes; adoption of modern methods of cultivation besides rising prices of various inputs resulting from inflation.

Traditionally, rural India and Bangladesh are capital-starved. Only a meagre proportion of the rural people have surplus funds to be ploughed back. It was observed that agricultural assets in India (1976) comprise 95% of the rural assets; land alone accounting for 81% of the former.⁵ It is, therefore, understandable that land

5. National Council of Applied Economic Research (NCAER), Capital Formation in Agriculture, Dec. 1979, p. 2.

is the most important source of rural income. A perusal of the rural land ownership pattern in both India and Bangladesh shows that 3/4th of the rural households, who are mostly small/marginal farmers and agricultural labourers, own only around one-quarter of the rural cultivable land.⁶ That apart, in case of India NCAER⁷ estimated that 63% of the rural households had no savings at all.

A study of savings and investment pattern shows that both in India and Bangladesh, during the period 1973 to 1979, investment as a proportion of GDP was higher than saving as proportions of GDP.⁸ It implies that capital

6. (i) GOI, All India Agricultural Census, 1977.

(ii) GOB, Statistical Year Book of Bangladesh, 1980.

7. NCAER, All-India Rural Household Survey: Savings, Income and Investment, Vol. II, New Delhi, 1965, pp. 66-100.

8. During the period 1973 to 1979, Household investment as proportion of GDP in India was 9% while unsegregated investment as proportion of GDP in Bangladesh was 10%. On the other hand, saving as proportion of GDP during the same period was 6% and 2% respectively for India and Bangladesh.

Source: (i) RBI, Capital Formation And Saving In India 1950-51 to 1979-80, Report of the GOI Working Group on Savings, 1982, pp. 19 & 33.

(ii) GOB, The Second Five Year Plan (Draft), Planning Commission, Dhaka, 1980, pp. 1-9.

formation was more than the available surplus which signifies dependence on borrowed funds. Another dimension to the problem of liquid resources is seen from an examination of the forms of savings of the rural people. If savings are formed in physical assets rather than in financial assets, the supply of savings for investment purposes cannot be significant. This tendency of having savings in physical assets, Moore⁹ termed as "Primitive Financial Technology." Alamgir while examining the structure of private savings in the developing countries, found that financial assets constitute around 50% of household savings in India and below 30% in case of Bangladesh.¹⁰

Low savings potential and consequent low possibilities of investments from surplus by a large segment of the rural population in both India and Bangladesh is further evidenced by the faster rate of growth of rural labour force compared to that of rural labour households indicating larger family size calling for higher family expenses; faster growth of non-agricultural labour force

9. Moore, B.J., An Introduction to The Theory of Finance, American Publishing Company Pvt. Ltd., New Delhi, 1968, pp. 103.

10. Alamgir M. "Structure of Private Savings in Participating Developing Countries," ESCAP Economic Bulletin For Asia and The Pacific Vol. XXVI, No. 3, June, 1975, Bangkok, 1975, pp. 14 to 32.

compared to that of agricultural labour force suggesting limited labour absorptive capacity of agriculture with uncertain income possibilities; increasing number of marginal farmers and landless coupled with larger number of cases of sale of rural lands indicating deteriorating financial condition of the rural people.¹¹ Thus from the above analysis of the condition of rural Bangladesh and India, it is clear that the expectation of massive investment out of savings as is called for by IRDP approach is neither realistic nor achievable. Like many of the developing countries, a vast majority of the rural people of India and Bangladesh are in the vicious circle as described by Nurkse¹²: Small capacity to save resulting from low level of income what itself is the reflection of poor productivity which in turn is the result of small savings.)

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11. (i) GOI, Report of the Rural Labour Enquiry Committee, 1974-75.
- (ii) GOI, Report of the National Commission on Agriculture Relating to Employment, 1979.
- (iii) GOB, Statistical Year Book of Bangladesh, Ibid.
- (iv) IBRD, Bangladesh Development in a Rural Economy, Report No. 455b-BD, 1974, pp. 42.
12. Nurkse, R. Problems of Capital Formation in Underdeveloped Countries, Oxford: Basil Blackwell, 1955, pp. 5.

1.3 The Need For And Emergence Of Institutional Supply

Because of the paucity of rural fund surplus as said earlier, a large proportion of rural population in territories comprising both India and Bangladesh, from time immemorial, have been habitually resorting to borrowings. Unorganised suppliers like professional money lenders, land lords/big farmers, friends/relatives/neighbours, trade merchants etc. were the only sources of supply till the first quarter of the 19th century. But the terms and conditions on which funds are available from the unorganised sources have been always unfavourable to the borrowers. And the consequences of such exploitative terms and conditions, time and again, have been found to be unbearable and inequitable to the rural borrowers. Some of the major problems¹³ connected with contracting loans from money lenders and land lords include exorbitant rates of interest; manipulation of loan records, personal humiliation; acquisition of borrowers assets, particularly land, on the plea of default etc.

13. For further details see - GOI, Central Banking Enquiry Committee, 1931; RBI, All India Rural Credit Survey, 1951; Karkel, G. Unorganised Money Market In India, Lalvani Publishing House, Bombay, 1967. GOI, Report of the Rural Banking Enquiry Committee, 1950; GOI, Report of the Agricultural Finance Sub-Committee, 1945; Singh, V.B. (ed), Economic History of India (1857-1956), Bombay, 1965; Dhaka University Rural Credit & Unemployment in East Pakistan, 1956.

The then Government was acquainted with the problems the rural people face while dealing with the unorganised suppliers of rural credit. Appreciating this, with a view to reducing and eventually replacing the unorganised supply, co-operatives were developed in 1904 in the British India, now forming Bangladesh and India. Besides developing co-operatives, a number of legislative measures were undertaken by the then Government to minimise exploitation by the unorganised suppliers, such as, Acts aimed at regulating money lending; restricting the transfer of property; liquidating past debts etc.

After partition of India (1947), Governments of the respective countries initiated steps in promoting additional direct/indirect agencies to supplement efforts of the co-operatives in the field of rural finance. For example, Bangladesh Krishi Bank (Former Agricultural Finance Corporation/Agricultural Development Bank) was set up in Bangladesh; and, in India, Agricultural Refinance Development Corporation (ARDC) and Agriculture Finance Corporation (AFC) were developed to augment the supply of rural credit. Of late, because of higher rural credit requirements arising out of the acceptance of the strategy of IRDP and the rural people's preference to use improved technology, Governments both in India and Bangladesh directed the nationalised commercial banks to extend and accelerate their operations in the rural areas to supplement

the efforts of other extent agencies.

1.4 Statement of The Problem

As stated earlier, Government of both Bangladesh and India promoted a number of agencies to extend credit to the rural people not only to save them from the clutches of the money lenders but also to raise the level of productivity and income of the rural people. But these expectations of the Governments are yet to materialise.

(This is evident by the fact that till today (1979) unorganised sources comprise the major suppliers of rural credit i.e. 65% in India) and 85% in Bangladesh¹⁴ in spite of various agencies, particularly co-operatives, operating in the territories for more than seven decades.

Reportedly, this poor performance of the involved agencies was partly owing to lack of clear cut policies in regard to their operations, partly for faulty implementation procedure of the respective agencies and partly arising out of the manifold operational difficulties being faced by the agencies. Reports also indicate that the slow growth of rural credit supply is a consequence of unimpressive mobilisation of local deposits; irregular and insufficient refinance facilities and lack of adequate trained staff

14. (i) RBI, Report of The Working Group on Multi-Agency, 1979, p. 3.

(ii) GOB, The Two, Year Plan, 1978-80, Planning Commission, 1980, pp. 141.

required for smooth discharge of their operations. It is also alleged that loanability of these agencies is constrained by rising volume of overdues. Apart from these, the unco-ordinated operations of similar agencies lead to duplication, avoidable competition and embarrassments both to the employees of the agencies and also to the rural people seeking financial accommodation.

There are also allegations that the agencies involved in rural credit operations are rather acting as agents for transferring rural funds to the non-rural areas.

Moreover, it is also reported that rural credit operations are highly concentrated among the advantaged rural people due to security-oriented loaning operations. Further, grassroot level layers of different involved agencies are reportedly facing various problems which act as hurdles in the smooth discharge of their operations. On the other hand, it is also alleged that rural borrowers are facing various kinds of problems while dealing with the agencies involved in extending rural finance.

1.5 Objectives

The objectives of the present study are manifold. These are stated and pursued at appropriate places in the respective chapters. However, the broad and overall objective of the study is to critically examine the performance for a decade (1969-70 to 1978-79) of the various agencies involved partly or wholly in the field of rural

finance in both India and Bangladesh.

A comparative performance appraisal of these agencies is attempted especially relating to their contributions in bringing under their coverage more and more rural areas, mobilisation of larger volume of rural deposits in order to improve the extent of their self-reliance and in the light of gigantic requirements, to extend increasing volume of rural credit with a view to improving the productivity condition and the level of income of the rural people.

An attempt is also made to assess the magnitude of transfer of rural funds, if any, to the non-rural areas through the operations of these agencies besides identification of the major problems faced by both the involved agencies and their clientele while making transactions with each other in the rural areas.

1.6 Utility of The Study

The present study relating to "Institutional Finance for Rural Development - A Comparative Study of India and Bangladesh", to our knowledge, is the first of its kind. Bangladesh and India are two neighbouring countries having a common rural heritage. Rural people of both the countries are facing similar problems connected with cultivation, rural finance and other related matters. As such, a comparative study of the agencies involved in rural finance revealing the strong as well as weak points of

these agencies will be beneficial to both the countries. There is no point in pursuing policies in a country proved ineffective or faulty in the other. Similarly, there is no justification in not trying the policies successfully implemented in the neighbouring country, of course, with suitable modifications and adaptations. It will be sheer waste of time and resources in repeating the same experiments the results of which are already known. Therefore, the main objective of this comparative study is to highlight the successes and failures so that the two countries may profit from each other's experiences. It is, in this background that the present study is undertaken.

1.7 Methodology

(a) Collection of Data

Data are collected from both primary and secondary sources for the purpose of examination. Information relating to population, national income etc. for both India and Bangladesh is collected from official documents of the respective Governments like statistical year books, census reports and five year plan documents. Bulletins and annual reports of RBI and Bangladesh Bank are also heavily used. Various issues of Currency and Finance in case of India and Bangladesh Economic Survey are also of great use.

Co-operative statistics relating to India are drawn from the various issues of Statistical Statements Relating to Co-operative Movement in India and also from the Review

of Co-operative Movement in India while the same type of data in case of Bangladesh are collected from various issues of Annual Departmental Reports published by the Registrar of Co-operatives in that country. Data relating to IRDP Co-operatives in Bangladesh are collected from IRDP offices as well as from their publications.

Information relating to rural operations of commercial banks in India are picked up from the various issues of the Basic Statistical Returns and Statistical Tables Relating to Banks in India while such data in case of Bangladesh are drawn from Bangladesh Bank Bulletins of various years and from the unpublished records of the Bangladesh Bank's Statistical Department.

Data relating to the operational performance of various specialised agencies like SKB, ARDC and AFC are mostly gathered from their Annual Reports of various years.

Apart from the above sources of macro-data, primary data for the case studies relating to rural branches of commercial bank as well as that of rural borrower in Bangladesh are collected by field investigation.

(i) Selection of Rural Branches of Commercial Banks

One of the six nationalised commercial banks is selected purposively for branch level case study. There were 445 rural branches of Agrani Bank operating in the country as on December 1979. We selected 15% or at least a minimum of three branches using random sampling

procedure from each of the 20 districts. In all, 69 branches are selected for the purpose of the case study. The required quantitative as well as qualitative information are collected from the sample branches.

(ii) Selection of Rural Borrowers of Commercial Banks

One rural branch from each of the 20 districts is selected purposively at first but because of unavoidable difficulties only 16 branches could be used for in-depth study of the borrowers. A list of borrowers who obtained loan from these branches during the last three years (1977 to 1979) is prepared in the alphabetical order of the borrowers names. From the list, five borrowers are selected from each branch using random sampling procedure. A total of 80 rural borrowers of commercial banks are thus selected for the purpose of interview.

1.7.2 Use of Technique

As stated earlier, growth performance of various aspects of different involved agencies is ascertained. Growth rates calculated from two-points suffer from incidental or accidental performance of the variables at these two-points of time and thus likely to render a distorted picture. To overcome this, we have mostly considered the entire series of the variables while measuring growth rates. The following exponential function is used to measure growth rates from the series of different variables:

$$Y = ab^t$$

where Y = variables under consideration

a = constant

b = Regression co-efficients signifying
the rate of change

t = refers to time.

Growth rates thus measured from the series wherever stated in the report are symbolised as g1. And in a few cases where series could not be processed for reckoning growth rates, two-point exponential function is applied using the log to the base e. Allen¹⁵ considers growth measured even from two-points by exponential function as 'approximate representation of the actual state of affairs'. Such growth rates, wherever referred to in the report are termed g2.

Composite index of growth of coverage, deposit mobilisation, credit extension etc. or a combination of these to denote overall growth pattern of an agency or all the agencies together is estimated on the lines stated in Appendix A, Chapter III. Besides, the level of development of an agency or that of all agencies together is assessed using ten-point scale of development as described in Appendix B, Chapter III.

15. Allen, R.G.D., Mathematical Analysis For Economists, The English Language Book Society, 1968, pp. 232.

Attitudes of the rural branch managers are approximately measured using Likert's scaling technique of attitude measurement with a little modification as stated in Chapter VII.

Multiple regression is used to determine the factors influencing the supply of co-operative credit. The same is also tried for locating the determining factors of mounting co-operatives' overdues.

Besides the above, chi-square (χ^2) tests are also applied to find the factors associated with diversion of bank loan; repayment performance of the borrowers and formation of attitudes of the rural branch managers.

1.8 Limitations of the Study

One of the limitations of the study is with regard to its temporal coverage. To arrive at any meaningful conclusion regarding the trend and pattern of rural finance, data for a fairly long-time series are necessary. That apart, growth rates of various performance indicators are likely to be depressed if base is good and likely to be inflated if the figure in the base year is small/low. This limitation is to be kept in mind while interpreting growth rates of the individual variables.

Information collected from rural borrowers are not from firm records. It is because rural people rarely maintain records of their income, expenditure and other transactions. As such, most of the information supplied

to us by the rural borrowers are merely approximations made from their memories. Opinions from both rural branch managers and rural borrowers are likely to suffer from similar inadequacies like any other opinion survey.

Moreover, a few sample rural branches of a commercial bank do not represent operational performance of all the rural branches, not to speak of all the grass-root level layers, of the involved agencies. Likewise, a few rural borrowers of a commercial bank cannot be regarded representative of all the rural borrowers. We, however, are aware of these limitations and tried to be objective while making appraisal in every step and to interpret the results with due caution.

Notwithstanding the limitations stated earlier, we believe that the findings of the study, will surely provide useful information to the policy-makers and others interested in rural finance.

1.9 Presentation of the Report

The presentation of the study excepting the introductory and summary chapters, is made in two parts: Part I devoted to a comparative performance analysis of the agencies in five chapters, viz., Chapter II to Chapter VI and Part II comprises Chapters VII and VIII containing two case studies relating to Bangladesh.

The present Chapter, highlights the objectives and

importance of the study. In Chapter II, we present a historical review of the problems of inadequate institutional supply of rural credit along with an account, in retrospect, of the organised efforts made to step up rural credit. Chapters III and IV respectively contain an analysis of the comparative performance in regard to the rural operations of co-operatives and commercial banks in India and Bangladesh. In Chapter V, we examine the performance of various specialised agencies directly/indirectly engaged in the field of rural finance in the two countries. An integrated picture of all the direct lending agencies wholly/partly engaged in rural lendings at the grassroot level is outlined in Chapter VI. In Chapter VII, we present results of our case study relating to a sample of rural branches of one of the commercial banks in Bangladesh while the results of a case study of a sample of rural borrowers of one of the commercial banks in Bangladesh are included in Chapter VIII. In the last Chapter (Chapter IX), we present a brief summary of the major findings of the study along with their policy implications.

CHAPTER IIINADEQUATE INSTITUTIONAL SUPPLY OF RURAL CREDIT
AND
AN OVERVIEW OF ORGANISED EFFORTS

As the title of the Chapter suggests, we intend to deal with the issues in two sections. In the first section, problems arising out of inadequate institutional supply of rural credit and related matters are discussed while an overview of the organised efforts made to meet the situation is presented in the second section. Before embarking on the overview of the organised efforts, it is necessary to examine the situation which led the relevant authorities take the steps they had taken.

II.2

SECTION IPROBLEMS ARISING OUT OF INADEQUATE INSTITUTIONAL
SUPPLY OF RURAL CREDIT

A discussion of the situation resulting out of inadequate institutional supply should logically include, among others, (a) the extent of inadequacy, (b) consequences flowing from such inadequacy, and (c) the factors that forced the rural people to seek assistance from non-institutional sources for want of adequate institutional support.

(a) The Extent of Inadequate Institutional
Supply of Rural Credit

The pressing needs of vast majority of rural people to borrow for productive and/or non-productive consumption

purposes, force them to manage the same from any available source. Very few people could avail of the institutional sources because of factors like absence/inadequate coverage of institutions, security orientation and other formalities to be complied with, which most of the rural people are unfamiliar with owing to massive illiteracy among them. On the other hand, a large proportion of the rural borrowers have to take recourse to borrowings from unorganised sources, even on exploitative terms and conditions, mostly because of having no or limited access to institutional supply of rural credit. However, reliance on unorganised sources is on the decline as a result of concerted efforts continuously being made to increase the institutional supply of rural credit. This can be seen from the following information.

Share of Non-Institutional Sources in the Supply of Rural Credit

Year	India *	Bangladesh **	Year	Percentage Share
1951-52	94	1956	95	
1961-62	85	1965	86	
1971-72	75	1974	91	
1978-79	65			

* RBI, Report of the Working Group on Multi Agency Approach in Agricultural Finance, 1978.

- ** (a) Dacca University Socio-economic Survey Board, Rural Credit and Unemployment in East Pakistan, 1956.
- (b) Directorate of Co-operatives, Agricultural Credit in East Pakistan, 1966.
- (c) Bangladesh Institute of Development Studies, Famine Survey, 1974.

Information provided in the table, shows that in case of India, dependence on non-institutional supply of rural credit gradually declined but in case of Bangladesh the situation which showed some improvement at the end of the second period deteriorated at the end of the third period. Reorganisation of cooperatives and introduction of multi-agency system might have improved the position in case of India. Existence of a large proportion of non-viable co-operatives, political instability and famine conditions (1974) are some of the possible explanations for mixed behaviour of institutional supply of rural credit in Bangladesh.

(b) Consequences of Inadequate Supply of Rural Credit

Although institutional supply of rural credit is limited, rural people who need to borrow must borrow, i.e., those who could not obtain any institutional rural credit or could obtain insufficient amount from the institutions, seek funds from unorganised sources. Of the various suppliers in the unorganised supply, money-lenders, rich farmers, rural tradesmen have been the prominent ones. The terms and conditions on which these unorganised

suppliers lend to the rural people have been unfavourable to the borrowers. Exorbitant compound rates of interest have perpetuated indebtedness and poverty among the rural borrowers in both India and Bangladesh. There is ample evidence to show that in India and Bangladesh, rural masses borrow almost habitually, passing on the burden of debt from generation to generation. (That is why the saying that in the Indian sub-continent, a farmer is born in debt, lives in debt and dies in debt.¹) Thus, it is evident that the effect of inadequate supply of institutional rural credit is to throw the rural people into chronic indebtedness. A man who is in chronic debt can hardly get out of this trap. It requires a little detailing of the types of problems that an indebted person encounters.

Problems Relating to Borrowings from Unorganised Sources:

(The chronic state of indebtedness to the unorganised sources, affects the borrowers both physically and morally. Many of the ills, the rural people suffer from are consequences of such indebtedness. It makes them stay poor and lead substandard way of life. While examining the conditions of the rural people, the Central Banking Enquiry Committee (1930) observes, "Of most of the causes responsible for the low standard of living of the agriculturists and the continuous impoverishment of this

1. GOI, Royal Commission on Agriculture, 1928, p. 365.

class, even in areas which are blessed with good season and normal crops, indebtedness must be given a high place. This low scale of income and poverty tends to lower the physical and mental vitality of the cultivators, and causes the decay and weakening of the normal fibre of the society. All these lead to agricultural inefficiency and indebtedness, coming in the wake of these evils, aggravates them."²)

Because of exorbitant rates of interest and its compounding along with manipulation of the accounts of debts, the amount of debt goes on mounting. When the rural poor find the accumulated debt beyond their capacity for repayment, the lenders take advantage of the situation and acquire land or other properties, of course, at a price lower than that prevailing in the market, towards full or partial settlement of loans. Sometimes, lenders force the marginal farmers and agricultural labourers who failed to repay the debt, to work as bonded labour.

This apart, debts also prevent the farmers from getting reasonable price for their produce. In a system of rural economy in which money lender is both a creditor and a village trader, the borrower is very often, compelled to sell his produce at a pre-arranged price. However, an indebted farmer cannot wait for a favourable market price because immediately after the harvest money lender

2. Quoted in Memoria, C.B., Agricultural Problems of India, 1979 Edition, pp. 426.

compels the farmer to sell his produce to make repayments, at least of the interest on the loan if not the principal itself.

(The social status of the indebted persons is downgraded by continuous humiliation and loss of property and thereby income. All these disturb the psychological balance of the man in debt and he starts behaving as an all time worried family head and an inefficient farmer.)

II.2.1 Magnitude of the Rural Indebtedness

Rural indebtedness in both India and Bangladesh has been a historical phenomenon. Various attempts were made from time to time to estimate the magnitude of indebtedness. We propose to present these estimates in two periods: (a) Estimates of Rural Indebtedness prior to partition of India, (b) Estimates of rural indebtedness after the partition of India.

(a) Estimates of Rural Indebtedness prior to partition of India

No systematic study of the problem of rural indebtedness was attempted till the 70s of the 19th century. The first attempt to look into the problem was made following the murderous uprisings of debtors against creditors in The Deccan Plateau popularly known as the Deccan Riots of 1875. To enquire into the situation, the government set up the Deccan Riots Commission in 1875, which for the first time, after a survey, came out with the estimate that one-third of the occupants were in debt and

the average debt per "occupant" was Rs. 371.³ This estimate of the Commission was based on a survey of 12 villages in Bombay.) Subsequently, during the 19th century, two more attempts were made to estimate the magnitude of rural indebtedness, one in 1880 by the Famine Commission and the other in 1895 by Sir Fredrick Nicholson. Further, during the 20th century, upto the partition of India, as many as nine estimates were attempted as to the magnitude of rural indebtedness in the undivided India. These estimates with reference years are furnished in Table 1.

The estimates, though not strictly comparable with one another, clearly show that the magnitude of rural indebtedness continued to increase over the period. This was partly because of price effects but mostly because of unfavourable terms and conditions imposed by the unorganised suppliers of rural credit.

(b) Estimates of Rural Indebtedness after the partition of India

Soon after the partition of India in 1947, GOI decided to review the economic condition of the rural people, particularly relating to indebtedness, once in a decade. The first of its kind was the famous All India Rural Credit Survey in 1951-52. Similar attempts were made at the end of first decade (1961-62) and also at the end of second decade i.e. 1971-72. It is gathered that

3. Ray, S.C. Agricultural Indebtedness in India 1915 , p. 3.

Table 2-1: Estimates of Rural Indebtedness during the pre-partition days

Reference Year	Author/Agency	Amount of Debt	General remarks
1875	The Deccan Ryots Commission	Rs. 371/- per family	Based on 12 villeges in Bombay
1880	The Famine Commission	-	One-third of land-holding class in deep debt, another one-third in debt but with capacity to redeem debt
1895	Sir Fredrick Nicholson	Rs. 450/- million	Of Madras only
1901	The Famine Commission	-	One-fourth lost their land for debt in Bombay and only less than 1/5th were free from debt.
1911	Sir Edward Macleagan	Rs. 3000 million for the whole of British India	Based on Madras Study (1895)
1925	M.L. Darling	Rs. 6000 million	Based on the Punjab figure of Rs. 900 million
1930	The Central Banking Enquiry Committee	Rs. 9,000 million	Based on Provincial Banking Enquiry Committee Reports
1935	P.J. Thomas	Rs. 12,000 million	
1937	Reserve Bank of India	Rs. 18,000 million	
1938	M.E.V.S. Menon	Rs. 18,000 million	
1939	Dr. R.K. Mukherjee	Rs. 22,000 million	
1945	Dr. S.N. Naidu	Rs. 13,000 million	

similar survey was conducted at the end of third decade (1981-82) but the results of this survey are not yet available in published form.)

In the other part of India (viz., Pakistan of which Bangladesh was a part), there was no comprehensive survey made for estimating rural indebtedness. However, some estimates of rural indebtedness pertaining to the territory which is now known as Bangladesh are available from three studies conducted in 1956, 1965 and 1974. The first one was done by the Dhaka University Socio-economic Survey Board, the second one was conducted by the then East Pakistan Directorate of Cooperatives and the third study was done after the emergence of Bangladesh by the Bangladesh Institute of Development Studies.

These studies collected such information relating to indebtedness of the rural people as proportion of rural families in debt, average amount of debt per family, sources of borrowings - institutional or non-institutional, utilisation pattern of contracted debt - for productive or non-productive consumption purposes etc. Comparative information relating to these for India and Bangladesh are provided in Table 2.

It is true that there are a number of difficulties for making a meaningful comparison of the survey information of the two countries obtained at dissimilar points of time and derived through adoption of different methodologies.

Table 2: Rural Debt Position of India and Bangladesh

	1951-52 (a)	India 1961-62 (b)	1971-72 (c)	1956 (a)	Bangladesh 1965 (b)	1974* (c)
I. Percentage of Rural families indebted	63.00	63.00	44.00	68.00	53.70	45.89
II. Average amount of debt per family	Rs. 447	Rs. 647	Rs. 552	Rs. 131	Rs. 275	Taka 711
III. <u>Sources of debt</u> (Per Cent)						
A) Institutional	<u>7.60</u>	<u>18.40</u>	<u>31.70</u>	<u>4.86</u>	<u>13.86</u>	<u>9.32</u>
i) Government Taccavi	3.90	6.70	7.10	N. A.	0.77	N. A.
ii) Co-operatives & others	3.70	11.70	24.60	N. A.	13.09	N. A.
B) Non-institutional	<u>92.40</u>	<u>81.60</u>	<u>68.30</u>	<u>95.14</u>	<u>86.14</u>	<u>90.68</u>
i) Rich farmers & money-lenders	75.20	62.80	44.20	29.99	52.06	53.73
ii) Friends & relatives	11.40	5.20	13.10	51.90	25.59	32.37
iii) Others	5.80	13.60	11.00	13.25	8.49	4.58
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Table 2 (contd.)

	1951-52 (a)	India 1961-62 (b)	1971-72 (c)	1956 (a)	Bangladesh 1965 (b)	1974* (c)
IV. Use of Debt (Per Cent)						
A) Production/Investment purposes	37.30	40.10	54.00	28.10	51.97	23.99
i) Farm	34.40	36.60	49.70	20.30	42.76	N. A.
ii) Non-farm	2.90	3.50	4.30	7.80	9.21	N. A.
B) Consumption purposes	43.20	49.20	37.80	68.80	48.03	72.63
C) Repayment of old debt	4.00	5.00	1.50	2.50	N. A.	0.35
D) Others	15.50	5.70	6.70	0.60	N. A.	3.03
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

N. A.: Not Available.

Sources: India: (a) RBI, All India Rural Credit Survey Report (1954).

(b) RBI, All India Rural Debt and Investment Survey, 1961-62.

(c) RBI, All India Rural Debt and Investment Survey, 1971-72.

Bangladesh: (a) Dacca University Socio-economic Survey Board, Rural Credit and Unemployment in East Pakistan, 1956.

Table 2 (contd.)

- (b) Directorate of Co-operatives, Agricultural Credit in East Pakistan, 1966.
- (c) Bangladesh Institute of Development Studies, Famine Survey, 1974.

* Since this was a famine year, information cannot be taken as indicative of a normal year. But this is the only comprehensive study done after Bangladesh till 1981.

Even in case of the same country such a comparison is difficult because of differences in concepts, framework, coverage etc. among the various surveys. However, though not strictly comparable, the survey information provides broad guidelines of the relevant issues relating to both the countries.

A perusal of information furnished in Table 2 shows that the proportion of households indebted came down, while, at the same time, the amount of debt per indebted family increased over the period in both the countries. The rate of increase of per family debt was more in case of Bangladesh compared to that of India. It was partly because of relatively higher annual rate of inflation in case of Bangladesh (after liberation) compared to that in India during the study period. Another explanation for the accelerated rise in the per family borrowing in case of Bangladesh is that the reference year of the survey was a famine year (1974).

(Among the sources of the contracted debts, it is found that India is consistently shifting more towards institutional supply. The share of institutions in the total supply of rural credit in case of India increased 4 times at the end of the third period) while the increase was only 2 times in case of Bangladesh. (This improvement in the position in case of India can partly be attributed to Government efforts to strengthen co-operatives by taking

various measures including reorganisation and early induction of commercial banking for rural operations.)

An examination of the use pattern of debts reveals that the proportion of debts contracted by the Indian debtors for productive purposes increased over the period while it did not consistently increase in case of Bangladeshi rural debtors. (It is heartening to note that at the end of third study period, Indian rural debtors utilised more than half of their contracted debts for productive purposes while it was even less than one-fourth in case of Bangladeshi debtors. As such, a partial explanation of decline in this proportion at the end of the third period may be the famine conditions existing in Bangladesh during the year of the survey.

It is also observed that the proportion of debts used for non-farm productive purposes showed a gradual rise over time in both the countries. This can be attributed partly to preference of the people for adopting more non-farm activities owing to decreasing land-man ratio resulting from fragmentation of holdings and also partly to the possibilities of a relatively better return from such activities.

II.2.2 Factors Responsible for Excessive Dependence on Unorganised sources

(1) Poverty

A very large section of the rural people in both India and Bangladesh has low income and hence find it

difficult to satisfy their consumption and production needs. They remain under-fed, under-clothed and always under-nourished. The physical deficiency resulting from poverty makes them prone to ill-health eroding their vitality and stamina, forcing them to borrow mostly for non-productive purposes. Further, as they have no adequate property or resources to improve their financial conditions or to comply with security requirements of the institutions involved in rural finance, they are compelled to borrow from the unorganised sources.)

(ii) Burden of Ancestral Debts

The rural people in both the countries from time immemorial are seen to have regarded discharge of ancestral debt almost as a religious obligation. Besides a feeling of moral obligation, law of inheritance also acts as an important force behind acceptance of the ancestral debts. That means, if a heir wants to enjoy ancestral property, he is required to honour ancestral debts as well. But the great irony is that most of the people are, often, found to be ignorant of the real implication of the law that the debt of the deceased pass on to the heir only to the extent of the property inherited by the heirs and if no property is inherited there is no obligation to honour the same.

These ancestral debts are mostly secured from unorganised sources because, in old days, institutional

supply of rural credit was either absent or very insignificant.

(iii) Ignorance and Illiteracy of the Disadvantaged Groups

Illiteracy and ignorance of the rural people form the principal obstacles to their progress and even existence; they easily fall into the clutches of the shrewd and intelligent money lenders. It has been said that money lenders tempt the villagers to borrow, the lawyers, who are also friends and relatives of the money lenders, tempt them to quarrel and the traders who usually are the money lenders themselves tempt them to waste.⁴ Darling (1950)⁵ documented how the villagers in Punjab spent thousands of rupees for property worth a few hundred of rupees, at most.

(iv) High Rates of Interest

The rate of interest in the unorganised sectors is exorbitantly high. The Central Banking Enquiry Committee found (1930) that the rates of interest in the unorganised sector varied from 12% to 30%. Besides, the compounding of interest further enhances the burden. The situation has not improved over decades. In a study made by the Dhaka

4. Quoted in Mamoria C.B., op.cit., pp. 422.

5. Darling, M.L., Punjab Peasantry in Prosperity and Debt, (1950), pp. 262.

University (1956) it was observed: "the rates of interest in some of the rural areas in Bangladesh are as high today as they were about half a century before."⁶

Besides the high rates of interest, the burden of rates and taxes such as land revenue and irrigation charges also sometimes aggravate the situation particularly when Tahsildars make a false demand. Thus, in Wealth of India, Wadia and Joshi noted, "the heavy land assessment with its rigid procedure of collection is largely responsible for the aggravation of the indebtedness."⁷

Besides the factors stated above, gradual increase in the number of holdings of uneconomic size; lack of adequate marketing facilities; unremunerative prices for the produce, religio-social-cultural obligations, natural calamities and famine conditions also force the rural people to borrow from any source and primarily from unorganised sources. However, organised efforts were made from time to time in order to ameliorate the conditions of the indebted rural people, which are outlined in the next section.

6. Dhaka University Socio-Economic Survey Board, "Rural Credit & Unemployment in East Pakistan," (1956), pp. 76.

7. Wadia, P.A. & Joshi, P.C., "Wealth of India, 1976", pp. 280.

SECTION IIII.3 OVERVIEW OF THE ORGANISED EFFORTS

As stated earlier, an overview of the organised efforts is made in this section for three periods: (a) a brief summary of the efforts made by the colonial rulers upto the partition of India (1947), (b) a review of the efforts* made from partition of India to the period before nationalisation of commercial banks and (c) an appraisal of efforts from the period since nationalisation of the commercial banks to the terminal year of the study (1979).

(a) A Brief Summary of the Efforts made by the Rulers upto the Partition of India (1947)

The problems that were faced by the rural people in regard to their borrowings from unorganised sources were of three types. Firstly, high rates of interest and manipulation of accounts by the money lenders led to a great increase in the burden of indebtedness. Secondly, for non-payment of debts, the debtors would lose the land to the lender either through outright sale at nominal price or in execution of decrees or through the execution of mortgages. Thirdly, when most of the indebted people could not pay-up the accumulated debt, it was necessary to give

* We discuss (a) without making reference to any country because the territories now comprising India and Bangladesh were under the same colonial ruler during that period.

them some relief by liquidating a part of it, if not the full.)

(In order to grapple with these problems, the then rulers adopted a three-pronged approach:

(a) By passing suitable legislation, such as, legislation for (i) regulating moneylending, (ii) imposing restrictions on transfer of property, particularly land, and (iii) liquidating past debts;

(b) Making on the spot surveys for assessing the magnitude of the problem, and

(c) By making alternative arrangement for organised supply of rural credit.)

(a)(i) Legislation for regulating moneylending

A number of Acts/Ordinances were passed in order to control usury, regulation of accounts, regulation of abuses in moneylending and regulation calling for registration of moneylenders. Some of these are: Rules for the Adjustment of Debts, 1772; The Deccan Agriculturists' Relief Act, 1879; Usurious Loans Act, 1918; Provincial Moneylenders Act (Various Years); Regulation of Accounts Act, 1930, etc.

(a)(ii) Restrictions on the Transfer of Property

To prevent transfer of land to the lender on the pretext of non-payment of debt, a number of Acts were passed, such as, The Court of Wards Act, 1879; Transfer of Property Act, 1882, etc.

(a) (iii) Liquidation of Past Debts

A number of Acts were passed in order to persuade the creditor and the debtor to come to a reasonable settlement in the matter of scaling down of debts. The first move in this regard was made under the Rules for Adjustment of Debts in 1772 during the time of Warren Hastings. Following the suggestion of the Central Banking Enquiry Committee (1930), a number of Provincial Debt Conciliation Acts were passed (1931-1940). Some of the Provincial Debt Settlement Legislations even provided for compulsory reduction when voluntary reconciliatory methods failed.

(b) Assessment of the Condition of Rural Indebtedness

The then Government of British India took stock of the economic condition of the rural India from time to time mostly under political pressure or to collect information on the basis of which tax/revenue rates could be increased. Usually, such assessment of the condition of the rural people was done by Committees/Commissions or settlement survey operations and included nature and magnitude of rural indebtedness.

(1) Committees/Commissions

Accounts of indebtedness of the rural people to the unorganised sources, either as an important part of the report or as the full text of the report, were given by: Famine Commission, 1880 and 1901; Fredrick Nicholson's

Report on The Development of Agricultural Bank, 1895; Committee on Village Co-operatives, 1900; Royal Commission on Irrigation, 1903; MacLagan Committee on Co-operation, 1914; Royal Commission on Agriculture, 1928; Central/ Provincial Banking Enquiry Committees, 1929-31; Land Revenue Commission, 1938; Agricultural Finance Sub-Committee, 1945; The Co-operative Planning Committee, 1946; and Famine Enquiry Committee, 1946.

(ii) Settlement Survey Operations

During the first quarter of the 20th century, many district collectors or settlement officers conducted village surveys mostly for revenue enhancement purposes but these studies incidentally carried a lot of information about rural indebtedness to unorganised sources. In one such survey, Mr. J.C. Jackson (1916), conducted enquiry of 3,42,108 families in a district of Bengal and unearthed substantial information about various aspects of rural indebtedness.

(c) Arrangements for Organised Supply

Government stepped into the field of rural credit with the promulgation of Taccavi Acts of 1871, 1876 and 1879. However, as Taccavi Loans failed to fulfil the objectives, two other Acts were passed, (i) Land Improvement Act, 1883 and (ii) Agriculturist Loan Act of 1884. The former provided for granting long-term credit while the latter was meant to enable the Government to extend short-

term production loans.

(To improve the situation, the then government following the recommendation of Sir Fredrick Nicholson, passed the Co-operative Societies Act, 1904. Subsequently, Macleagan Committee (1914) examined the progress of the co-operative movement and identified its defects and weaknesses. On the recommendation of this Committee, Provincial Co-operative Banks were established.) On the passing of the Government of India Act of 1919, co-operation became a provincial subject and the provincial governments passed their own co-operative Acts. In this regard Bombay Presidency gave the lead (1925).

The Co-operative Planning Committee (1946), identified a number of reasons for the slow growth of co-operatives and recommended conversion of primary societies into multi-purpose societies. The Committee also recommended that the RBI should extend greater financial assistance to the co-operatives. The progress of co-operatives was also studied by the Agricultural Finance Sub-Committee (1946) headed by Prof. D.R. Gadgil. The Committee observed that though the growth of co-operatives was slow, the best and the most lasting solution of the problem of agricultural credit is possible only through co-operatives. Considering the limited resources of co-operatives and large requirements of rural credit, this Committee also, like Co-operative Planning Committee, advocated a greater

participation of state in strengthening the services of the co-operatives.

(Thus, the story of organised supply of rural credit till the partition of India is nothing but the story of introduction of co-operatives.)

(REVIEW OF ORGANISED EFFORTS - COUNTRY-WISE

As stated earlier, a review of the organised efforts towards augmenting institutional supply of rural credit both in India as well as in Bangladesh is made for two different periods: (a) From the partition of India to the period before nationalisation, and (b) From nationalisation of commercial banks to the terminal year of the study.

INDIA

(a) First Period - 1947-1968

The review made in the earlier section shows that many of the measures taken by the colonial rulers were legislative in character. After partition, GOI adopted all these acts with suitable amendments. (Soon after the partition, GOI, in order to take stock of the situation, instituted the Rural Banking Enquiry Committee (1949) which suggested the formation of strong rural co-operative banks, district central co-operative banks along with the development of a strong provincial bank as apex body at the state level.) (Apart from this Committee, the GOI set up as many as 20 more Committees/Study Groups etc. to intensively examine the problem of rural finance and make suitable

recommendations. (The list of the Committees and study groups set up from 1947-1968 is provided in Appendix A.) We will not go into details of these reports. Rather, some references to the recommendations of the important committees will be made in the following paragraphs:

The original RBI Act provided for the creation of a cell, known as Agricultural Credit Department, to look after the matters relating to rural finance. But the resource position of the Department was inadequate to meet various demands of rural credit. Hence, (after partition, following the recommendation of All India Rural Credit Survey Committee (AIRCS) (1954), two special funds were established by amending the RBI Act: (i) National Agricultural Credit (Long-Term Operations) Fund and (ii) National Agricultural Credit (Stabilisation) Fund.) The former fund is meant to enable the RBI to give long-term loans to State Governments - participating in the share capital of Co-operative Banks, Land Mortgage Banks while the latter fund is to be utilised for the purpose of facilitating conversion of short-term loans into medium term loans by the State Co-operative Banks when, because of natural calamities, repayment of short-term loans becomes difficult. Besides the two funds mentioned above, another fund known as National Agricultural Credit (Relief and Guarantee) Fund was also established in the Ministry of Food and Agriculture. The establishment of this Fund was too recommended by

AIRCSC for giving grants to co-operatives through the State Governments for the purpose of writing off irrecoverable arrears especially after chronic and widespread famines and natural calamities. (AIRCSC also examined the effectiveness of the various legislative measures (as discussed in the earlier section) and observed that because of the inadequacy of supervising machinery, absence of alternative source of credit and the compelling nature of the borrowers' requirements, the moneylenders were able without much difficulty to evade almost all the important provisions of the enactments relating to the business of money lending.) Realising this, the Committee emphasised, time and again, provision of effective organised supply of rural credit as the only solution to the problems emanating from too much dependence on the unorganised sources of rural credit.) The committee suggested an integrated system of co-operative credit strongly supported by State participation. It also provided the blue print of a crop loan scheme under which credit would be linked, on one side, to production and on the other, to marketing. It also prescribed that credit-worthiness of the purpose rather than of the person should be the criterion for sanction of loans. The Committee further recommended that part of the credit should be given in kind, that credit should be timely and adequate; that it should be closely supervised; that repayment of credit should be ensured by

linking it with marketing; all these are still considered as accepted principles of rural credit at home and abroad. Thus, the recommendations of the AIRCSC have been of lasting importance in the sphere of rural credit.

(The RBI identified the need for financing village, cottage and small scale industries; for this purpose, the RBI Act was amended in 1956.) The RBI, for its refinance entitlement, identified 22 broad groups of cottage and small scale industries to be financed by co-operatives/ Finance Corporations.

(The GOI realised the need for the development of co-operatives right in the First Five Year Plan (1950-51).) In the Second Five Year Plan, Government identified optimum size of co-operatives - neither too small to be non-viable nor too large to be handled. The plan also preferred formation of multi-purpose societies and reorganisation of co-operative banks; it identified the need for establishment of Relief and Guarantee Fund at the State level. (The National Co-operative Development and Warehousing Board was established in 1956 following the recommendation of AIRCSC) to promote development of co-operative activities in general and to assist the progress of warehousing, processing and marketing in particular. In 1957, a Committee on Co-operative Law was set up which after review of the existing co-operative laws suggested model bye laws for various types of co-operatives.

Meanwhile, the GOI felt the need for evaluating the performance of co-operatives by an independent expert and Sir Malcolm Darling, sometime Registrar of Co-operatives of Punjab, was invited (1957) for the purpose. Darling recommended strengthening of the co-operatives, particularly below the district level. He also emphasised the need for proper training for the co-operative personnel. (The National Development Council (1958) reviewed the progress of co-operatives and suggested that every family should be represented in the village co-operatives, and Pucca loans should be routed only through co-operatives.) In 1958, the GOI set up a Working Group on Industrial Co-operatives to examine the problems and suggest measures to develop village/small scale industries. In 1959 a Working Group on Co-operative Policy was set up, which made a number of suggestions including the need for clear demarcation of the functions of village co-operatives and panchayats and abolition of the practice of nominating chairmen of the co-operative banks by the Government.

(In order to examine progress and problems of credit co-operatives, a Committee on Co-operative Credit was set up in 1960.) The main recommendations of the Committee were (i) reorganisation of primary co-operatives with a ceiling of 3000 rural members; (ii) the distance of the office of the co-operatives should be no more than 4 miles from the place of the member; (iii) provide credit to all

cultivators irrespective of whether they were owners, tenants or lease-holders; (iv) individual member should contribute to the share capital in certain proportion of borrowings from the cooperatives; (v) RBI should increase borrowal limits of co-operative banks; (vi) Taccavi loans be routed through co-operatives; (vii) increased participation of the State Governments in the equity and loan capital of co-operatives; and (viii) removal of restrictions on local bodies, educational institutions etc. depositing their funds with co-operative banks.

(A study team on Co-operative Training Arrangements (1961) suggested that not only the members but also their neighbours should be given training in principles of co-operation.) The team also recommended inclusion of co-operation as a subject in the curriculum right from school to University level. Another suggestion was for replacement of the Central Committee for Co-operative Training by the National Board of Co-operative Training. In the same year, another Working Group on Panchayats and Co-operatives made proposals for demarcating the functions between co-operatives and Panchayats and suggested measures for effective co-ordination between them.

Consequent on the realisation that a large share of co-operative assistance was grabbed by forward class, the GOI set up a special Working Group on Co-operation for backward classes (1962). The Working Group examined the

extent of deprivation of backward classes from the benefits of the co-operatives during the first two Five Year Plans and suggested a number of measures to augment co-operative services to these classes. (The Group recommended development of special co-operatives for disadvantaged class of people, viz., Forest-cum-Labour Contract Societies, Industrial Co-operatives for Tribals, Salt Co-operatives etc.) For examining how the operation of Taccavi Loans was affecting the operation of credit co-operatives, a Committee on Taccavi Loans and Co-operative Credit was instituted in 1962 which suggested a number of measures including that the operation of Taccavi Loans be avoided unless otherwise, essential.

Lack of professionalisation of co-operative management at various layers of co-operatives was reported to be responsible for slow growth of co-operative movement. Noting this, (GOI set up a Committee on Co-operative Administration in 1963.) The Committee, in order to improve co-operative administration, suggested a number of measures which include: elevating the status of the Registrar of Co-operatives to that of heads of other major State Departments; performing regular audit work as a statutory function of the Registrar and directing District Central Co-operative Banks to regularly supervise primary co-operatives. The local leadership is to be encouraged to assume field level responsibilities which, according to

the Committee, can alone make co-operative movement live and healthy. Paucity of investment loans was identified as a major factor responsible for low productivity and low incomes of the rural people. (To augment funds for investments, GOI in 1963, established a refinance corporation which was initially known as Agricultural Refinance Corporation (ARC). With the introduction of ARC, multi-agency character came into the sphere of rural finance.)

(In 1964, an informal group constituted by the RBI examined the existing institutional arrangements for agricultural credit. The Group suggested co-ordination between short and long-term structure of co-operatives.) It was hinted by the Group that Primary Co-operative Credit Societies can help Land Development Banks in the discharge of their activities. Two years later, a Committee on Co-operation headed by R.N. Mircha, recommended certain restrictions in the matter of admission to the membership of co-operative societies i.e. in case of Credit Co-operatives, moneylenders should not be included etc. The Committee categorically emphasised that instead of the Registrar of Co-operatives, audit assignments should be entrusted to an independent agency.

(Notwithstanding, various efforts, many of the primary societies remained financially weak.) As such, in a conference of the State Ministers for Co-operation (1964), the need for reorganisation of these weak primary societies

through amalgamation of non-viable units and liquidation of defunct ones was emphasised. With a view to improving the financial discipline of the co-operative banks, certain provisions of the Banking Regulation Act and the RBI Act were extended to co-operative banks in the year 1966. Accordingly, the RBI got the power to inspect any co-operative bank, instruct them to maintain required cash reserve and liquidity ratios, ask for submission of regular/special returns and to obtain licences for opening of a new Co-operative Bank/branch.

A heated debate started in the mid-sixties about the role of commercial banks towards a great majority of the people. It can be noted here that following the recommendation of AIRCSC, the then Imperial Bank of India was converted into State Bank of India (1955), assigning to it a specific role in the provision of rural credit. But the performance of other major banks was an indication of total indifference to the needs of the rural people. Therefore, Social Control on Commercial Banks was imposed in 1967 to regulate operations of the major commercial banks in conformity with national priorities. As a part of commercial banks' move to direct their operations in the rural areas, Indian Banks' Association promoted an organisation known as the Agricultural Finance Corporation (1968) with a view to facilitating the commercial banks in identifying and promoting projects related to agriculture

and allied activities.) Besides ARC and AFC, another organisation known as Agricultural Credit Corporation (ACC) was set up in 1968, following recommendation of the Informal Group on the Institutional Arrangements for Agricultural Credit (1964). ACC was meant to help promote agricultural credit operations in those States which could achieve only limited success in the field of rural credit - States like Rajasthan, Orissa, Bihar, Assam, West Bengal and other Eastern territories.

The above review of the organised efforts, shows that various measures were taken from time to time to strengthen the co-operative movement for rural development. Formation of the SBI and its subsequent take over of eight formerly State Associated Banks made a small beginning in the sphere of rural credit by commercial banks. Thereafter, the creation of AFC and social control order on banks indicate the concern of the relevant authorities to involve commercial banking system in a big way in providing rural credit.

(h) Second Period - 1969-79

The first period (1947-68) that we have discussed earlier was an era of co-operatives. It is evident from the fact that out of 21 Committees/Study Groups in that period none was devoted to commercial banks. The situation changed in the second period (1969-79); during this period, around three dozens (33) of Committees/Study Groups were set

up of which half were devoted to finding ways and means of involving commercial banks in a greater way in the field of rural finance. An exhaustive list of such Committees/Working Groups is provided in Appendix B. In the following few paragraphs, we intend to make reference to the crucial recommendations of important Committees/Study Groups.

We may, however, mention at the outset that the most important event of this period was the nationalisation of 14 major commercial banks in 1969 giving clear-cut directives to these banks to extend and accelerate their operations in the rural areas. Stepping up commercial banks' rural operations converted co-operative-oriented rural finance into a multi-agency field of operation.

The report of the Rural Credit Review Committee (RCRC) was published in 1969. The Committee after examining the progress and problems of the co-operatives along with rural branches of the SBI group, recommended reorganisation of rural credit department in the RBI by establishing an Agricultural Credit Board; reinforcement of the activities of the AFC and creation of Rural Electrification Corporation (REC). The Committee noted with concern weakness^{es} as in many of the primary co-operatives and suggested their immediate revitalisation. Noting the inadequacy of the institutional supply of rural credit, the Committee suggested greater involvement of commercial banks in the field of rural credit: "Co-operatives should be strengthened, but they would be all

the better - and the farmer better served - if other institutions co-existed with them in a healthy competition." (pp. 411).

The most important observation of the Committee, however, was that the weaker sections of the rural community continued to receive very limited help from the credit co-operatives. The Committee opined that if the fruits of development continue to be denied to large sections of rural community while prosperity accrues to some, the resulting tensions - social and economic - may not only upset but even frustrate national efforts to step up agricultural production. Therefore, the Committee recommended development of suitable institutions like Small Farmer Development Agency (SFDA) and Marginal Farmer and Agricultural Labourer Agency (MFALA). It is heartening to note that the GOI set up these agencies during the Fourth Plan.

During the same year (1969), the Study Group on Organisational Framework for the Implementation of Social Objectives headed by Prof. D.R. Gadgil recommended adoption of "area approach" for the development of credit and banking on the basis of local conditions. The Committee also proposed integration of District Credit Plans with other development activities of the district; besides direct financing, banks may also provide finance through credit co-operatives; supply of adequate credit at reasonable

terms to disadvantaged class; provision of better training facilities for the staff involved in rural finance; arrangement for linking credit with marketing, etc.

(In a conference of the State Ministers on Co-operation (1969), it was recommended that rural loan policy should be production-oriented; revitalisation of primary co-operatives should be expedited and suitable amendments to co-operative Acts/Rules/Byelaws be made as early as possible. As commercial banks were reported to be facing problems in the smooth discharge of their operations because of various State regulations, an Expert Group to Study the State Enactments having a bearing on commercial banks' lendings to agriculture was set up in 1969. The Group identified specific legal bottle-necks and suggested suitable amendments by the relevant State Governments.

Almost all the committees emphasised the need for suitable training of the staff of the agencies involved in rural finance. This is why with a view to improving the facilities of training arrangements, particularly, for commercial bank employees serving in connection with rural operations, a specialised training college - College of Agricultural Banking - was established by the RBI in the year 1969.

To bring about greater co-ordination among the financial agencies operating in the rural areas, the AFC initiated steps for the formation of a national level

Consultative Committee and with the suggestion of the National Consultative Committee, State/District Level Consultative Committees were formed in 1969. In somewhat similar pattern, Banking Commission (1972) recommended formation of a Co-ordination Committee at the district level with representatives of various lending agencies, with the seniormost officer of the State Government in-charge of development of the district as the Chairman.

Following the recommendation of the Gadgil Committee, the RBI introduced Lead Bank Scheme in December 1969. The bank, which is assigned the lead role, is expected to act as the consortium leader and plan for opening new branches in unbanked areas and allocate responsibility among banks and other financing institutions in meeting credit needs of the district.

Reportedly, tribal areas are relatively under-developed - both economically and culturally. Bawa Study Group (1971) examined the issue and recommended creation of Large Size Multi-purpose Co-operative Societies to provide the tribal people with, among others, all types of credits including those for social obligation and consumer requisites; technical guidance; arrangement for marketing etc. In the same year (1971), Farmers Service Societies (FSS) were also developed on the interim suggestion of the National Commission on Agriculture in order to enable farmers obtain all inputs including marketing at a single

contact point. The Commission subsequently made further recommendations which include, among others, integrated supply of both production and investment credit; scaling down of past debts of disadvantaged class; arrangement to ensure minimum price of agricultural produces and introduction of crop insurance.

The Working Group on Co-operation (1973) translated the viability criterion of co-operative banks into concrete terms - a minimum credit business of Rs. 2 lakhs.

The operation of Land Development Banks was studied by a Committee (1974) which recommended, among others, integration of both short and long-term structure of co-operatives only in the smaller states like Assam, Tripura, Jammu-Kashmir, Himachal Pradesh etc. Mounting co-operative overdues became a matter of concern to both the agencies and the RBI. In order to examine the problem and suggest suitable measures, RBI constituted the Study Team on Overdues of Co-operative Institutions (1974). The team identified various factors causing overdues of the co-operatives and suggested measures including certification of annewari by the District Collector; automatic disqualification of the members of the Managing Committee if the amount of default/number of defaulters exceed 70% of the total demand/total members for a continuous period of two years; introduction of penal rate of interest; programme for rehabilitation of genuine defaulters providing

conversion facility etc.

The question whether simultaneous operation of credit co-operatives and Land Development Banks created problems for both of them, was examined by various Committees/Groups as a part of their terms of reference, e.g., the Informal Group (1964), RCRC (1969) and National Commission on Agriculture (1976). The first two suggested some kind of agency business to be performed by primary co-operatives on behalf of Land Development Banks while the third hinted unified action of the two structure of co-operatives through FSS. Lack of unanimity over the issue led to the constitution of the Committee on Integration of Co-operative Credit Institutions (1975) which advocated integration of both the structures beginning with primary level and then intermediate and apex level in a phased manner. But, over this issue, State Governments had divergent views while National Co-operative Land Development Banks' Federation as well as State Land Development Banks opposed the decision on integration. (The Agricultural Credit Board of the RBI considered this issue (on 18th July, 1977) but failed to arrive at a conclusive decision. But the Board came to a consensus about the agency work by primary credit societies for certain activities on behalf of the Land Development Banks.

In spite of significant progress made by the co-operatives and rural branches of commercial banks, the

benefits have not been percolated evenly to all the sections of the rural population, particularly, to the disadvantaged class. (With a view to finding ways and means to channelise increased amount of rural credit to the disadvantaged class of the rural community, GOI appointed the Working Group to Review the Flow of Institutional Credit, especially, to the Weaker Sections of the Community (1975). The Group stressed the need for promoting a new institution which combines the local feel and familiarity as the co-operatives have and the modern business organisation, commercial discipline, ability to mobilise resources and access to the central money markets which the commercial banks have. With this rationale, the Committee recommended establishment of Regional Rural Banks (RRB). Following this recommendation, GOI created RRBs promulgating an ordinance on 26th September 1975.

Agencies, supplying rural credit, while examining credit-worthiness do not take into consideration requirement of borrowed funds for consumption purposes. Consequences of not taking into consideration consumption needs of the borrowers are diversion of loan resulting in poor repayment performance of the borrowers. Appreciating these, the Committee on Consumption Credit (1976) popularly known as Sivaremen Committee, recommended introduction of consumption credit for disadvantaged class of the community.

RRBs started operation in 1976. As these banks were

reportedly facing problems while operating in the rural areas a Review Committee on Regional Rural Banks headed by Prof. M.L. Dentwala was set up in 1977 which made a number of suggestions including the following: Expansion of RRBs preferably in the areas where District Central Co-operative Banks are weak; Instead of GOI, RBI should be a shareholder of RRBs; Local participation should be provided for in the share capital as well as in management; commercial banks' rural business (through rural branches) should be handed over to RRBs in a phased manner; all rural disadvantaged families either with or without land should be considered for financial accommodation; creation of rural credit training centres by each of the sponsor banks to meet increasing training needs of RRBs under their sponsorship.

With the introduction of the RRBs (1976), multi-agency pattern of rural finance got strengthened. Each constituent segment had of course, developed its own characteristic features and made its contribution to the overall system of rural finance. However, as the multi-agency approach gave rise to a number of problems, such as, over-financing, under-financing and multiple financing leading to financial indiscipline and diversion of scarce resources for unproductive purposes besides creating unhealthy competition among the involved agencies, a Working Group on Multi-agency Approach in Agricultural Finance was set up, the report of which was submitted in 1978. The Group underlining the need

for effective co-ordination of involved agencies at the grassroot level, suggested a number of measures which included functional demarcation of each of the agencies; development of consortium arrangements; preference to RRBs for opening new branches; adoption of uniform pattern of interest rates by all the agencies; popularisation of Agricultural Pass Book by the borrowers, etc.

The issue whether the disadvantaged class of the community could not receive their due share in rural credit owing to high rates of interest of institutional credit was examined by a Study Group (1978) which suggested Differential Rate of interest (DRI) for certain activities to be taken up by the disadvantaged group. In terms of Development Credit Agreement with IDA (1978), it was decided to examine the possibility of extending term loans also at a Differential Rate of Interest to the benefit of the disadvantaged class of the rural community. The matter was again taken up in the twenty point programme of the Prime Minister of India and a Committee on DRI, as also a Committee to examine agricultural credit under 20 point programme, were set up in 1978.

Commercial banks, as stated earlier, were operating in the rural areas mostly on the basis of "Area Approach"/ "Project-Oriented Approach". These approaches created a number of problems as identified by an Expert Group on Agricultural Credit Schemes of Commercial Banks (1978). The

Group apprehended that adoption of a few villages by some commercial banks may lead to the neglect of other villages. As the application forms used by the commercial banks were ambiguous and lending procedures lengthy, the Group made suggestions relating to the form of loan application, documentation and other procedures.)

(Recovery of term-loans of rural branches was poor. Therefore, a Standing Committee on Agricultural Loans through Commercial Banks was set up by ARDC (1979) to examine this problem and suggest remedial measures. A number of suggestions to improve the recovery performance of term lendings of commercial banks which were advanced by the Committee included, among others: improvement in the staff position of the rural branches; toning up supervision over the end-use of credit; using camp approach associating officials of the Revenue Department, Block Development Office and Agricultural Department; and pursuit of a policy of withdrawal of credit facilities to a defaulting borrower of any of the component units of multi-agency.

Finally, at the instance of GOI, RBI appointed, on March 30, 1979, a Committee under the Chairmanship of Shri B. Sivaraman, to Review the Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD). After carefully examining the performance of various institutions involved in rural finance including RBI, ARDC

and AFC, the Committee, in order to achieve the objective of integrated rural development in a co-ordinated and integrated approach by all the agencies, recommended creation of a National Bank for Agriculture and Rural Development (NABARD) merging Agriculture Credit Department of the RBI and ARDC. Some of the other recommendations of the Committee were: greater development-orientation of the involved agencies; introduction of discriminatory terms and conditions in favour of disadvantaged class; transfer of the National Agricultural Credit (LTC) and National Agricultural Credit (Stabilisation) to NABARD; flexibilities in rural banking hours to suit the seasonal needs of the rural people; abolition of the requirement of collateral security from the disadvantaged class of the society; and improvement of co-ordination among various agencies engaged in rural finance.

BANGLADESH

As stated earlier, progress of organised efforts in Bangladesh is sketched for two periods:

(a) First Period - 1947-72

Organised efforts in the initial period centred around the study of rural indebtedness and its impact on agricultural conditions. Co-operative movement started spreading during the colonial period. Immediately after the partition, Bangladesh (former East Pakistan) started without an apex Co-operative Bank as the Bengal Provincial

Bank Ltd., which served undivided Bengal, had its headquarters in Calcutta. To fill this gap, a new Provincial Co-operative Bank, viz., the East Pakistan Provincial Co-operative Bank Ltd. was established in 1948.

Though the State Bank of Pakistan (SBP, was established in 1948, it had no separate department to deal with the problem of rural credit until 1953. The amendment of the State Bank of Pakistan Act (1956) made it obligatory for the Bank to maintain a separate Agriculture Credit Department. The creation of a fund known as Rural Credit Fund was also provided for by the Act to enable the Bank make medium-term loans to the involved agencies and also to offer conversion facility to the Co-operative Banks when the latter were unable to repay on genuine grounds like natural calamities etc.

The Pakistan Agricultural Enquiry Committee (1951) suggested the need for strengthening co-operatives and promoting suitable institution to provide credit to agriculturists. As the co-operatives were then mostly engaged in short-term production credit, the Government in 1951, felt the necessity of developing an institution to provide medium and long-term investment loans. Thus, the Agricultural Development Finance Corporation (ADFC) came into being in 1952.

SBP felt the need for having a field level survey in order to procure first hand information about the problem

of rural credit. As such, at the instance of SBP, Dhaka University Socio-economic Research Board conducted a survey (1956) known as Rural Credit and Unemployment in East Pakistan. While the survey provided useful information relating to various aspects of rural credit, it refrained from making any policy recommendations.

Meanwhile, the Government observed that the performance of credit co-operatives in regard to supply of short-term credit in the rural areas was unsatisfactory. Thus, to supplement the efforts of the co-operatives, a separate specialised institution known as Agricultural Bank of Pakistan (ABP) was established in 1957. However, realising that there is considerable overlap in the functions of AFPC and ABP and following the recommendation of Credit Enquiry Commission (1959) these two institutions were merged in 1961 to form a new institution known as Agricultural Development Bank of Pakistan (ADBP).

Besides suggesting merger of AFPC and ABP, Credit Enquiry Commission, after due scrutiny of the problem of rural credit, made a number of suggestions which include: taccavi loans, unless compelled, be avoided; co-operatives be given major role in rural credit; formation of single purpose credit co-operative societies; credit co-operatives be restrained from commercial lendings; merger of the Central Co-operative Banks with the Apex Bank; Co-operative Banks be brought under direct control of SBP; creation of

Peoples Finance Corporation (PFC) to extend credit to non-farm small borrowers; development of training arrangements by promoting training institutes separately for each of the agencies involved in rural financing; introduction of crop and livestock insurance and formation of Rural Credit Advisory Committee to promote co-ordination among the agencies involved in rural credit.

In order to step up production of food grains, the Food and Agricultural Commission (1960), emphasised the need for adequate and timely supply of rural credit both for production and investment. Provision of credit without ensuring supply of inputs may not help the farmers derive full benefits of the credit. To improve supply conditions of inputs, Government of East Pakistan promoted the Agricultural Development Corporation (1961) following the recommendation of the Food and Agricultural Commission.

The three-tier co-operative system was found to have been slow in delivering goods to the people. In the search of an alternative, an experiment known as "Comilla Model" started in 1963 and, following encouraging results, the model has been adopted through the country.

A decade after Dhaka University Study (1956), East Pakistan Co-operative Directorate conducted a field level study to enquire into the changed condition, if any, in the field of rural finance. The study - Agricultural Credit in East Pakistan (1966) collected huge information relating to

various aspects of rural credit. However, the Study Group did not make any specific recommendations. The findings of the Study on Agricultural Credit in East Pakistan was examined by the Committee on Agricultural Credit in East Pakistan (1969). It emphasised the need for supply of adequate rural credit along with the need for developing financially viable co-operatives. Even before any measures were taken on the basis of this recommendation, the liberation movement of Bangladesh started.

(b) Second Period - 1972-79

After the liberation of Bangladesh, all major commercial banks were nationalised (March, 1972). After reorganisation, these nationalised banks were advised to extend and accelerate their operations in the rural areas to supplement the efforts of the other extant agencies. This apart, East Pakistan Agricultural Development Bank was renamed as Bangladesh Krishi Bank in 1973.

To review the rural credit situation in the country, Bangladesh Bank (Central Bank of Bangladesh) set up (in 1972) two Study Groups, /^{one} on Agricultural Development Bank and the other on Jatiya Samabaya Bank (State Co-operative Bank).

These Study Groups examined the strengths and weaknesses of the two major institutions involved in rural credit and indicated guidelines for their operation after the emergence of Bangladesh.

Soon after the liberation, "Comilla Model" of two-tier co-operatives was incorporated in the first Five Year Plan (1973-78) to be replicated throughout the country as a programme known as Integrated Rural Development Programme (IRDP). The IRDP aims at formation of farmers societies and making available credit, inputs and other support services at one contact point.

In 1973, GOB requested GOI to send an expert from the RBI to study rural credit problems of Bangladesh and suggest appropriate actions. As such, Dr. Kurtawala from RBI visited Bangladesh and studied the rural credit situation. He suggested development of viable co-operatives and an increased role of commercial banks. After the induction of Commercial Banks, rural credit system assumed a multi-agency approach which created problem of overlapping and the need for co-ordination among the agencies. To overcome this, Bangladesh Bank established standing Rural Credit Advisory Committee in 1974.

A rapid expansion of BKB and increased emphasis on co-operatives, created a problem in regard to availability of adequate trained staff. To examine the training needs and suggest suitable measures in order to improve training conditions, a Committee was set up (1977) known as Committee on Training Facilities for personnel of Credit Co-operatives and BKB. The Committee, among other recommendations, suggested creation of separate training institutes, Central

and Zonal, to improve the required training facilities.

The Bangladesh Bank conducted Agricultural Credit Study Project (1977) to review the progress of agencies involved in rural finance and to suggest suitable measures for improvement. The Committee submitted its report in two volumes which were not published till 1981.

As stated earlier after nationalisation, commercial banks started operating in the rural areas, but their progress was rather tardy. Therefore, GOB under a Special Agricultural Credit Programme (SACP) asked agencies like BKB and nationalised commercial banks in 1977 to operate under a target-oriented approach. In the same year, the lead bank scheme was introduced for a co-ordinated operation of these agencies. An experiment known as Grameen Bank Prakaipa was started in 1979 in the light of the experience of RRBs in India. However, it has not yet received wide acceptance.

CONCLUSION

The preceding appraisal of the organised efforts shows that the GOI was rather more active and concerned than its counterpart in Bangladesh in creating suitable conditions for providing adequate institutional finance for rural development. The number of Committees and Study Groups were many more in case of India than those in Bangladesh during the period under review. Almost all such Committees in India after due examination came up with a

list of recommendations while the two major field level studies conducted in Bangladesh only presented facts without making any recommendations. Another important observation is that most of the reports in both the countries were more like periodical reviews and running commentaries. Though number of Committees/Study Groups were quite large in India, most of them suffered from repetitions. In case of Bangladesh, there was not a single Committee/Study Group which looked into specific problem areas like the ones done in India i.e. Study of Overdues, Study of Enactments, study of integration of different structures of co-operatives etc.

APPENDIX "A"India: Working Group/Committee (1947-68)

Sr.No.	Year	Title
1.	1949-50	Report of the Rural Banking Enquiry Committee.
2.	1954	Rural Credit Survey Committee.
3.	1957	Committee on Co-operative Law.
4.	1957	Evaluation of Co-operative Movement by Sir Malcolm Darling, 1957.
5.	1957-60	Rural Credit Follow-up Surveys, 1957-60.
6.	1958	Working Group on Industrial Co-operatives.
7.	1959	Report of the Working Group on Co-operative Policy.
8.	1960	Committee on Co-operative Credit.
9.	1961	Study Team on Co-operative Training Arrangements.
10.	1961	Report of the Working Group on Panchayats and Co-operatives.
11.	1961	Committee on Consumer's Co-operatives.
12.	1961	Committee on Co-operative Processing.
13.	1961-62	All India Rural Debt and Investment Survey.
14.	1962	Report of the Special Working Group on Co-operation for Backward Classes.
15.	1962	Report of the Committee on Taccavi Loans and Co-operatives.

Sr.No.	Year	Title
16.	1962	Panchayat Raj and Co-operatives.
17.	1963	Committee on Co-operative Administration.
18.	1964	The Informal Group on Institutional Arrangements for Agricultural Credit.
19.	1965	Committee on Co-operation.
20.	1968	Working Group on Industrial Financing Through Co-operative Banks.
21.	1968	Report of the Working Group on Co-operatives

APPENDIX "B"India: Working Group/Committees (1969-80)

Sr.No.	Year	Title
1.	1969	Rural Credit Review Committee.
2.	1969	Study Group on Organisational Framework for the Implementation of Social Objectives.
3.	1969	Committee on State Enactments having a bearing on Commercial Banks' Lendings to Agriculture.
4.	1970-71	Committee on Commercial Banks' Lendings to Agriculture.
5.	1971-72	All India Debt and Investment Survey.
6.	1970-76	National Commission on Agriculture.
7.	1971	Committee on Large Sized Adivasi Multi-purpose Co-operative Societies.
8.	1971	Report of the Study Group on Term Loans Participation Arrangements.
9.	1972	The Banking Commission.
10.	1973	Working Group on Co-operatives.
11.	1973	Evaluation Committee for Secretaries Caderization Scheme.
12.	1974	Committee on Land Development Banks.
13.	1974	Study Team on Co-operative Overdues.
14.	1975	Study Committee on Debenture Norms.

Sr.No.	Year	Title
15.	1975	Working Group to Review the Flow of Institutional Credit especially to the Weaker Sections of the Rural Community.
16.	1975	Committee on Integration of Co-operative Credit Institutions.
17.	1976	Committee on Consumption Credit.
18.	1976	Committee on the Multi-Agency Approach in Agricultural Finance.
19.	1977	The Review Committee on the Regional Rural Banks.
20.	1977	Committee on the Working of the Lead Bank Scheme.
21.	1977	Study Group to Examine In Detail Present Interest Rates Scheme of Co-operatives.
22.	1978	Working Group on Simplification of Application Forms and Lending Procedures in the Banks for Loans to Agriculture and Allied Activities.
23.	1978	Committee to Study Functioning of Public Sector Banks.
24.	1978	Study Team on Interest Rates.
25.	1978	Expert Group on Agricultural Credit Scheme of Commercial Banks.
26.	1978	Working Group to Study the Interest Rate Spreads in Agricultural Lending Sector.

Sr.No.	Year	Title
27.	1978	Working Group on Differential Rates of Interest.
28.	1978	Working Group on Agricultural Credit under 20 Points Programme.
29.	1979	ARFC Standing Committee on Agricultural Loans Through Commercial Banks (ALCOB).
30.	1979	Working Group on Apex Financial Institutions For Small and Decentralised Sector of Industry.
31.	1979-80	Committee to Review Arrangements For Institutional Credit for Agriculture and Rural Development (GRAFICARD).
32.	1980	Study Team on the Viability of Regional Rural Banks.
33.	1980	Working Group on the Modalities of Implementation of Priority Sector Lendings.

CHAPTER IIIPERFORMANCE OF CO-OPERATIVES

(Co-operation means working together.) The principle of co-operation is as old as human society. The history of the emergence of family as an institution gave us a good beginning of a co-operative style of living. Most of the religions recognise the need for co-operation not only for religious activities but also for socio-economic assignments. The joint family system in India from time immemorial is one of the best examples of co-operation. The holy scripture of the oldest religion in the Indian sub-continent, "Veda", states:

"May you all have a common purpose
 May your hearts be in unison
 May you all be the same mind
 So that you can do work efficiently well".

Thus, the Hindu mythology is full of factual stories of joint action, share in wealth as well as battles organised in groups for achieving common objectives. The famous monumental work "Arthashastra" of Kautilya states:

"Whoever stays away from any kind of co-operative undertaking shall send his servants to carry on the work, shall have a share in the expenditure but none in the profits.¹

1. Quoted by Hough, E.M. "The Co-operative Movement in India", 1966, pp. 43.

This implies utmost priority for co-operative activities.

Economists have also found co-operation superior to competition. Thus, Mill in his Principles of the Political Economy (1876) wrote: "Co-operation is the noblest ideal. It transforms human life from a conflict of classes struggling for opposite interest to a friendly rivalry in the pursuit of common goal of all." Industrial Revolution in England gave rise to capitalism and therefore exploitation. Edwin Nourse stated, "The movement (co-operation) grew out of circumstances of the Industrial Revolution and was a reaction against early abuses, or at least, rigours of the Capitalistic Industrial System."² Thus, co-operation was conceived as the answer to the injustices of capitalism and it was developed as an antidote to capitalistic exploitation. Poorer men saw in it a price advantage, economists a new incentive to efficiency and The Utopian Socialists a method of developing a completely new society.

3.1.2 CO-OPERATION IN INDIAN RURAL FINANCE

In the absence of organised sources of rural credit, moneylenders were operating in the Indian sub-continent and the exploitation of the rural people by these moneylenders necessitated innovation of a suitable financial institution

2. Edwin Nourse, "The Economic Principles of Co-operation" an article in Agricultural Co-operation, edited by Martin Abraham Sen & Claud Scroggs, pp. 161.

to replace them. The long search for suitable institution for rural finance ultimately gave birth to co-operative societies in India.

The Government of Madras (1882) directed Sir Fredrick Nicholson to probe into the possibility of introducing an Agricultural Bank. After thorough examination of the problem of rural finance Sir Nicholson summed up his report in two words, "Find Raiffeisen". That means, the introduction of co-operative system is the answer to the problem of rural finance. Since then, the importance of co-operatives was recognised and, subsequently in 1904, the Co-operative Societies Act was passed. The British Government, in order to bring improvement in the working of the co-operatives, appointed a number of Committees like Royal Commission on Agriculture, Central and Provincial Banking Enquiry Committees etc. which studied, as a part of their assignment, various aspects of co-operatives and made useful recommendations. In 1944, the GOI, appointed a committee under the Chairmanship of Prof. D.R. Gadgil to look into the problem of agricultural finance. The Committee observed, "we are in general agreement with the view that the spread of co-operation would provide the best and the most lasting solution to the problem of agricultural credit in particular and those of rural economy in general."³

3. GOI, "Report of the Agricultural Finance Sub-Committee", (1945), pp. 47.

After partition, a number of Committees/Working Groups (details provided in Chapter II) such as, All India Rural Credit Survey (1951); All India Rural Credit Review Committee (1969); Working Group on Co-operative Policy (1960); and All India Debt and Investment Surveys (1961 and 1971) examined various aspects and made suitable recommendations towards efficient working of the co-operatives.

3.1.3 STRUCTURE OF CO-OPERATIVES

India as well as Bangladesh inherited almost similar co-operative structure because the territories now forming the two countries were under the same British rule. There were credit as well as non-credit co-operative societies. Since non-credit societies are beyond the purview of this study, we indicate the structure of credit co-operatives alone. Fundamentally, there are two structures of credit co-operatives in the two countries. They are: (i) The short-term co-operative structure known as Primary Agricultural Credit Societies (PACS); and (ii) long-term agricultural credit co-operative structure called Land Development Banks in India and Land Mortgage Banks in Bangladesh.

The short-term co-operative structure has three tiers, i.e., (a) PACS at the grassroot level; (b) Central Co-operative Banks at the intermediate level and (c) State Co-operative Banks at the apex level. In case of Bangladesh, Jatiya Samabaya Bank at the national level acts as the apex

body.

Long-term agricultural credit co-operatives in India consist of Primary Land Mortgage/Development Banks at the base level while Central Co-operative Land Mortgage/Development Banks (CCLDBs) at the apex level. But where Primary Co-operative Land Development Banks are non-existent, the branches of CLDBs work as grassroot level organisation. In Bangladesh, Land Mortgage Banks operate at the base level having direct contact with the Jatiya Samabaya Bank; there is no intermediate layer like CLDBs as in India.

Services to the ultimate beneficiaries are rendered only through the grassroot level tier of the co-operatives. The upper layers - both intermediate and apex - are really meant to facilitate the working of the grassroot level co-operatives. The operational efficiency of the other layers of co-operatives is ultimately reflected in the performance of grassroot level co-operatives. In other words, a study of the performance of grass root level co-operatives is representative of the health of the co-operative structure. This is why, we have decided to examine the performance of co-operatives at the grassroot level only, with particular reference to the following aspects:

- A. (1) Performance of the co-operatives as to the coverage of rural areas as well as rural populace;

- (ii) Performance of the co-operatives in regard to mobilisation of thrifts including deposits;
- (iii) Performance of the co-operatives as to the extension of credit accommodation along with recovery performance towards maintaining revolving character of loanable resources.

While the above three aspects form the main focal points of our appraisal of the co-operatives, an attempt is also made to examine two relatively less important aspects, which, we believe, are useful indicators of any organisational health. These are:

- (iv) Performance of the co-operatives in controlling the operational costs at a reasonable level, and
- (v) Performance of the co-operatives in earning profits.

B. A composite index is constructed taking all the five aspects stated in (A) above, in order to see the growth of efficiency over time.

C. Changes in the level of development of co-operatives are also measured using 10-point scale of development of the various indicators pertaining to the five aspects stated in (A) above.

D. Finally, an attempt is also made to identify the factors influencing the supply of co-operative credit in the rural economy using multiple regression.

The examination is made in three sections:

- (I) Performance of short-term co-operative structure,
- (ii) Performance of long-term co-operative structure, and
- (III) Performance of co-operatives as a whole.

The pattern of analysis is similar for all the three structures, excepting the (III) where in addition of A to C, identification of factors influencing the supply of co-operative credit as embodied in (D) above is also attempted.

3.2

SECTION IPERFORMANCE OF SHORT-TERM CO-OPERATIVES

Short-term co-operative structure in both India and Bangladesh is characterised by primary societies which are associations of borrowers and non-borrowers residing in one locality, known to each other and take interest in one another's affairs. These primary societies may be single-purposes or multi-purpose societies. In Bangladesh, two streams of primary co-operatives are running simultaneously, (i) Primary Societies on traditional pattern, and (ii) societies managed under integrated rural development programme which is known as "Comilla Model" IRDP co-operatives. The two streams are taken together for the purpose of our analysis. All these societies form the primary credit structure which hereinafter shall be referred to as Primary Agricultural Credit Societies (PACS).

3.2.2 Management

All the shareholders irrespective of their participation in the share capital are entitled to a say in the management with one member one vote as the principle. A committee of management including president and secretary are elected every year to look after the day to day affairs of the PACs. This management pattern is more or less the same in both India and Bangladesh.

3.2.3 Resources

The PACS in both the countries raise the required resources from share-capital, membership fees and deposits of the members as also of the non-member sympathisers. Besides local resources, PACS also obtain borrowed funds from higher financing agencies like Central Co-operative Banks etc. But the maximum borrowing power of PACS is fixed at a specific fraction of the value of net assets of the societies. There is no significant difference in the funding pattern of PACS of the two countries, except in respect of the basis for borrowings.

3.2.4 (A) FIVE POINT STYLE OF ANALYSIS

As stated earlier, the performance of five aspects i.e., coverage, resource mobilisation, credit extension, cost-control and profits-earning are examined in a sequential order. In addition to India and Bangladesh, West Bengal is also included in the comparative analysis. This is done because by heritage and structure of the rural economy,

West Bengal is very much similar to Bangladesh than any other state in India.

(I) Coverage of the PACS

Data provided in Table 3.1 show that the number of PACS declined significantly⁴ over the period in case of all India as well as West Bengal while the same grew (g1) significantly in case of the PACS of Bangladesh. On the other hand, both number of members and borrowing members grew (g1) significantly in all the three regions under comparison. It can be noted from the table that growth of members and borrowers in case of Bangladesh PACS was not in conformity to the growth (g1) of the number of societies. The decline in the number of societies in India and West Bengal can be attributed to the deliberate policy of reorganisation of the PACS into viable ones while it was not the case for PACS in Bangladesh. That Bangladesh preferred mushroom growth of PACS neglecting viability consideration is evident from the decline (g2) of both per society membership as well as number of borrowers per society. Both these indicators in case of India and West Bengal registered substantial rise (g2). But, in case of Bangladesh, per society membership dropped from 74 to 50 and per society borrowing members dropped from 19 to 11 over the period.

4. Significant wherever mentioned in the report means statistically significant.

The borrowing members as a proportion of total members showed a marginal decline over the period in case of both India as well as Bangladesh while the same recorded significant growth (from 40% to 50%) in case of the State of West Bengal. The trend witnessed in case of India as well as Bangladesh indicates greater concern of the PACS to make more rural people members of the societies than for making loans to a larger number of the members. Poor performance of India in this regard, can also be attributed to very low loaning activity of PACS in some of the States like Assam and Jammu and Kashmir. Though the position of West Bengal as mentioned earlier appears to be good, it has still scope to improve when compared to the performance of say, a State like Tamil Nadu.

Growth in borrowing membership is considered by us as an indicator of effective coverage of PACS. The growth (g2) of borrowing members per hectare of Gross Cropped Area (GCA) recorded an upward trend over the period in case of both India and Bangladesh, though it was higher in case of the later. West Bengal's performance in terms of this indicator was quite close to that of Bangladesh. Relatively higher growth of borrowing members by hectare of GCA in case of Bangladesh can partly be attributed to low performance in the base year and partly to marginal decline of GCA to 12.9 million hectares in 1978-79 from 13.3 million hectares in 1969-70.

Rural people are the ultimate beneficiaries of the services of PACS. It can be gleaned from the table that growth of borrowing members as a proportion of rural population showed upward trend both in India as well as in Bangladesh. The performance of West Bengal PACS was relatively better than Bangladesh. Though the trend was positive in all the three regions, in none of the regions the coverage of rural population as borrowers could exceed even one-twentieth of the rural population.

II. Management of Resources

As stated earlier, PACS in both India and Bangladesh draw their resources mainly from (a) owned funds like share capital, reserves and retained earnings, (b) Deposits from members and non-members, and (c) Borrowings from Central Co-operative Banks. These are the main sources of working capital.⁵

Information relating to growth of resources of PACS are furnished in Table 3.2. It can be perused that working capital, as also its various components, of the PACS of all the three regions under comparison registered significant upward trend (g1) during the decade under review. The growth rate of working capital was a little higher (14%) in case of Bangladesh PACS compared to that of India (13%). But, working

5. RBI defines working capital as total of all items appearing on the liability side of the balance sheet, excluding the contra-items and accumulated losses.

capital of West Bengal PACS registered a still higher growth rate (18%). Growth of borrowings in case of West Bengal PACS was higher than for other regions. This means reliance on borrowed funds was more in case of West Bengal PACS compared to others. However, the significant increase in working capital and its various components can partly be attributed to increase in the number of members and partly to increase in commitment of the Government towards rural development by way of augmenting refinances to the co-operatives.

An analysis of the relative position of different components of working capital shows that the share of owned funds and deposits showed upward trend (g2) only in case of PACS in Bangladesh while the same declined in case of PACS of India as well as West Bengal. Better performance noticed in regard to deposits in case of Bangladesh PACS was perhaps due to compulsory weekly saving system of IRDP co-operatives.

It can be seen from the same table that, though in absolute amount borrowings grew (g1) significantly in case of PACS of all the regions, as a relative proportion to working capital, it showed a marginally declining trend in all the three regions.

A part of co-operatives' resources in approved investments is mandatory by law. The modes of investment provided by the rules are: purchase of Government securities, shares and debentures of any other, preferably higher,

financing agencies, deposits with CCBS or in other scheduled commercial banks with prior permission of the registrar of co-operative societies. It is seen from the table that investment as a proportion of working capital declined in case of co-operatives of India and West Bengal. On the other hand, in case of PACS in Bangladesh, it increased from 11% to 17% during the period under review. It seems that PACS in India had invested minimum amounts required in order to increase their loanable resources while Bangladesh PACS appeared to have preferred gains out of investments with least risks and hazards.

(III) Loan Operations

A perusal of the data relating to loan operations (Table 3.3) show that loan issues registered almost the same annual compound growth rate (g1) during the period under review in case of India as well as Bangladesh, the growth rate for West Bengal PACS was more than double compared to that of Bangladesh. All these growth rates were found statistically significant. The rate of growth (g2) of loan issue per society and that per borrower was small for PACS in India while in case of Bangladesh PACS, loan issue per society declined and that per borrower recorded only a marginal rise during the period. Further, the performance of both these indicators in respect of West Bengal PACS was much better than for Bangladesh. The unsatisfactory performance of Bangladesh PACS is mainly a consequence of

the policy of encouraging mushroom growth of PACS, disregarding the need for reorganising them into viable ones as was done in India. Another factor which explains the (per society and per borrower) poor performance of Bangladesh PACS is the erratic behaviour of incremental amount of loan issue as compared to significant growth (g1) recorded by PACS in India and West Bengal.

The growth in the supply of loan issue during the period when considered as proportion of GDP from agriculture as also the rate of growth in per capita (rural) loan issue were relatively much better in case of PACS in India compared to those for PACS in Bangladesh. In fact, loan issue by Bangladesh PACS as a proportion of GDP from agriculture declined over the period from 0.81% to 0.45%. The growth record of West Bengal PACS in this regard was much better mainly because implementation of land reforms which enabled share croppers to PACS loan services which were denied to them earlier. Compared to it, the relatively lower growth rates recorded by PACS in India may partly be attributed to the already high performance in the base year (3.42%) and partly to low activity in respect of loan operations in some states.

Recovery Performance

Like loan issue, recovery in absolute amounts also registered highly significant annual compound growth (g1) in case of PACS of all the three regions. However, during

the period, there was a decline in per society recovery in case of Bangladesh PACS. This implies that recovery in absolute amount registered growth, not because of per society recovery performance but because of increase in the number of societies. Per borrower recovery performance recorded satisfactory growth (g2) in all the regions. This growth in per borrower recovery of Bangladesh PACS, despite decline in the per society recovery, can be attributed to a decline in the number of borrowers per society.

Overdues

Overdues of PACS in absolute amounts grew (g1) in all the three regions but the growth rate was not statistically significant in case of West Bengal. When recovery is considered in relation to demand for collection, it shows that recovery rate of all India PACS declined from 63% in 1969-70 to 56% in 1978-79 while for West Bengal it increased to 51% in 1978-79 from 40% to 1969-70.⁶ Such information is not available for Bangladesh. As such, a crude estimate is made of the proportion of recovery to previous year's outstanding loans. This estimate indicates that overdues got more than doubled during the period (Table 3.3).

Per borrower overdues as well as per society overdues grew (g2) in all the regions, of course, at varying rates.

6. RBI, Statistical Statements Relating to Cooperative Movement in India, 1969-70 and 1978-79.

Per society overdues grew at a lower rate in case of PACS of Bangladesh mainly because of increase in the number of societies.

(IV) Management of Cost of Operation

It is evident from the available information (Table 3.4) that per society operational costs increased at a higher rate (g2) in case of PACS in India (20%) compared to those in Bangladesh (5%). The fastest rate (31%), however, was recorded by West Bengal PACS. It should be borne in mind that compared to the price rise,⁷ growth of operational costs was rather lower in case of Bangladesh PACS and it was relatively higher for Indian PACS. The Indian situation is partly a consequence of the reorganisation of PACS requiring appointment of paid secretaries leading to a rise in the operational costs.

However, when operational costs were considered as proportion of working capital and as per unit of loan issue, it can be seen that growth (g2) of these ratios was rather higher in case of Bangladesh PACS compared to that of Indian PACS. The ratio of operational costs to working capital in case of West Bengal PACS was higher compared to that of Bangladesh while costs per unit of loan issue in case

7. Average annual growth of CPI in case of India was around 10% while that for Bangladesh was above 30% during the period 1969-70 to 1978-79.

of West Bengal PACS grew at a lower rate than for Bangladesh. Low per unit costs of loan issue in case of West Bengal, in spite of higher growth of per society costs of operation, can be attributed to increased loaning activities in the State during the period under review.

It is observed that payroll costs in all the three regions under comparison grew at a much lower rate (less than 1% in case of India and West Bengal PACS and a little more than 1% in case of Bangladesh PACS) than the growth of total operational costs. Higher growth of costs per unit of loan issue in case of Bangladesh can be attributed to lower loaning activities in that country. The main component of costs - other than payroll costs - the costs of funds which, due to lack of disaggregated information, could not be further examined.

(V) Profit Performance

The ability to earn profit is an important indicator of any commercial organisation. Though PACS are not commercial organisations, they are expected to operate in such a way as to earn reasonable amount of profit.

Profit performance of Bangladesh PACS was better compared to that of All-India PACS. During the decade under review, Bangladesh PACS incurred loss for one year only while Indian PACS incurred loss for two years. West Bengal PACS, however, incurred no loss in any year of the decade; of course, in the year 1971-72 the amount of profit earned

was very meagre. Profit performance judged by per society profit, coupled with profit as proportion of working capital, shows that there was a substantial decline in both of these in case of PACS of India as well as of Bangladesh (Table 3.5). The decline was rather substantial for the later years for India. In case of West Bengal PACS, while the per society profit performance improved by around four times over the period, profit as a proportion of working capital declined in almost the same proportion as in case of Bangladesh PACS. The relatively poor profit performance of Indian PACS can partly be attributed to the already high performance in the base year and partly to the populist decisions writing off overdues relating to PACS in some States. The decline in profit as a proportion of working capital in spite of increase in the per society profit in case of West Bengal PACS can be explained by the handling of a larger volume of working capital per PACS.

When profit as proportion of working capital is considered as an effective test of profit performance, it is found that PACS of all the three regions performed very poorly. As the ratio was less than 1 per cent, PACS in all the three regions earned much less than the opportunity costs of funds employed in them. (The **current** rate of interest of riskless fixed deposits is more than 10 per cent per annum while the earning rate is much higher in risky commercial ventures).

3.2.5 (B) COMPOSITE INDEX OF GROWTH

Secular growth of various indicators, however relevant, gives only a partial view of the growth performance. Therefore, an attempt is made here to construct a composite index of growth, taking into account loan and non-loan aspects of PACS operations. Six indicators are considered in measuring composite growth of loan operations while seven indicators are taken for computing composite growth of non-loan efficiency indicators. The loan and non-loan efficiency indicators are given equal weightage. Details of the method adopted in constructing composite index of growth are provided in Appendix A. A comparative picture of the composite growth index of PACS of the three regions i.e. India, Bangladesh and West Bengal is depicted in Chart 1. The composite growth of performance of all the three regions showed improvement over the period. Relatively, composite growth of Bangladesh PACS is observed to have been more erratic than the other two regions. Such growth index, in case of Indian PACS, was by far the most consistent while that of West Bengal PACS showed the highest rise. There was, however, a decline in the index, common to all regions, in the year 1971-72. It was probably due to the impact of the liberation war of Bangladesh. The sharp upward trend of composite index since 1977 in case of West Bengal PACS can be attributed to larger volume of loaning activities during the period. The volume of loan

CHART - I COMPOSITE INDEX OF PACS.

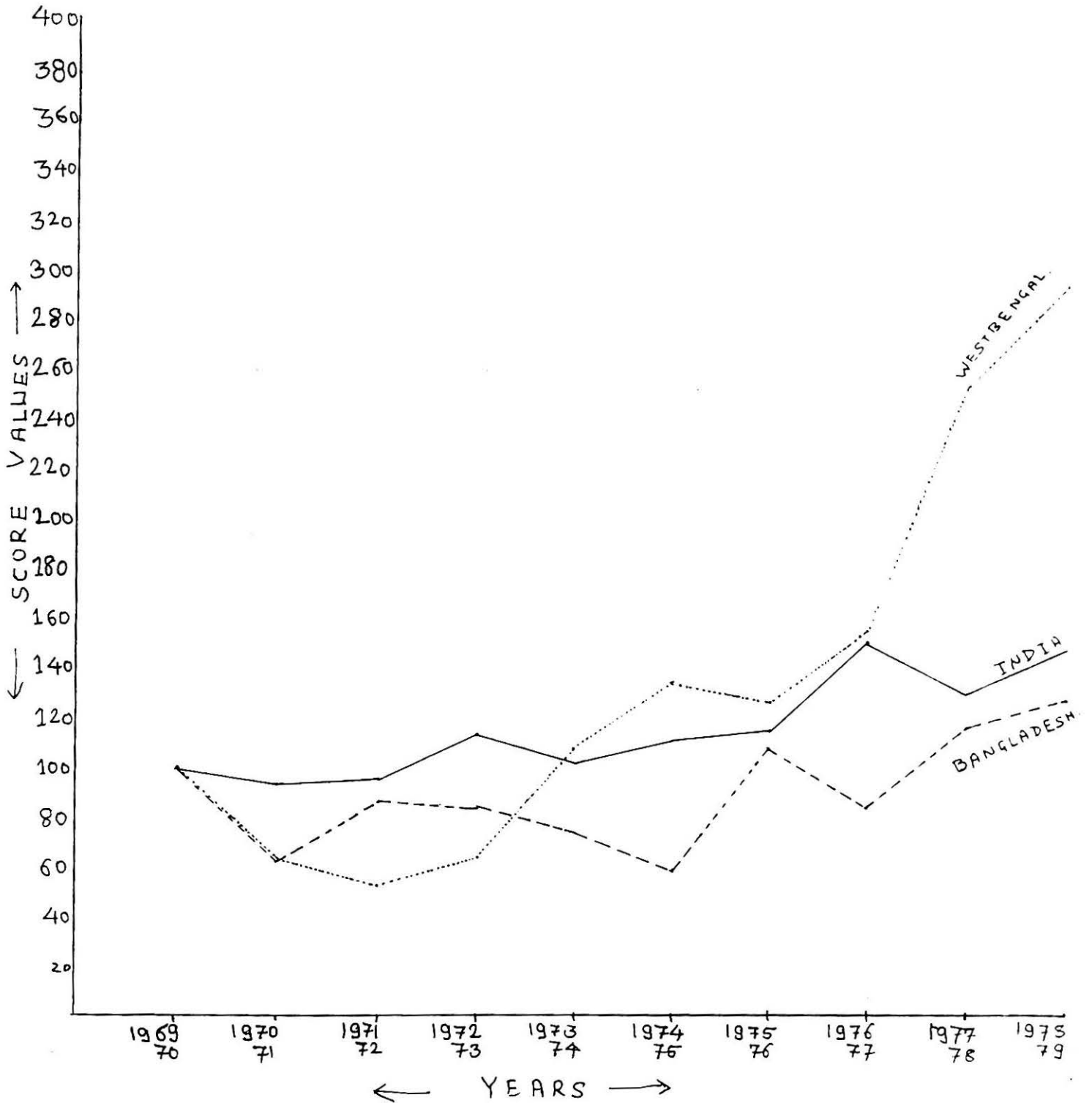
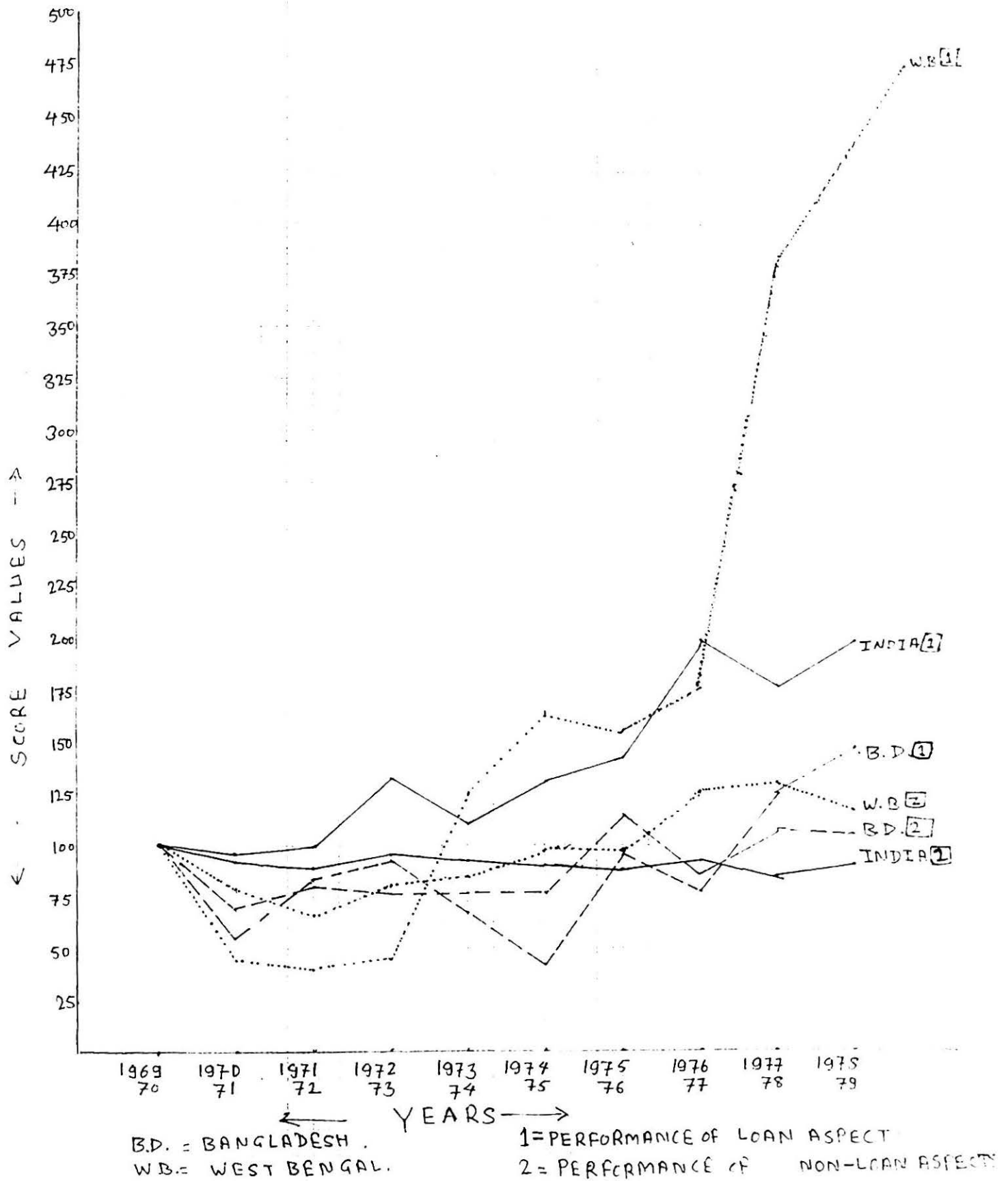


CHART II COMPOSITE INDEX OF LOAN AND NON-LOAN PERFORMANCE OF PACS.



operations of West Bengal PACS substantially increased since 1977 mainly because the share croppers, for the first time, were granted PACS loan facilities. On the other hand, the erratic behaviour of composite growth index in case of Bangladesh PACS can primarily be attributed to low loaning activities in some years owing to non-availability of adequate funds from the refinancing agencies. The not so encouraging growth trend of composite index witnessed in case of All-India PACS can be explained by the poor performance of PACS in some of the States like Jammu and Kashmir, Assam, other Eastern States and some of the Union Territories.

Composite growth performance, separately, of loan and non-loan efficiency indicators was shown in Chart II. It can be seen from the diagram that loan indicators recorded better performance than non-loan efficiency indicators. The gap between the growth of these two groups of indicators was wide in case of Indian PACS compared to that of Bangladesh PACS. It was by far the widest in case of West Bengal PACS.

Of the non-loan efficiency indicators, it is found that resource mobilisation and profit performance were not encouraging in case of PACS of all the three regions. In most of the years, in all the three regions, resource mobilisation and profit performance of PACS were lower than those in the base year. Other two non-efficiency indicators,

viz. coverage and control of operational costs, also registered lower growth performance during the period.

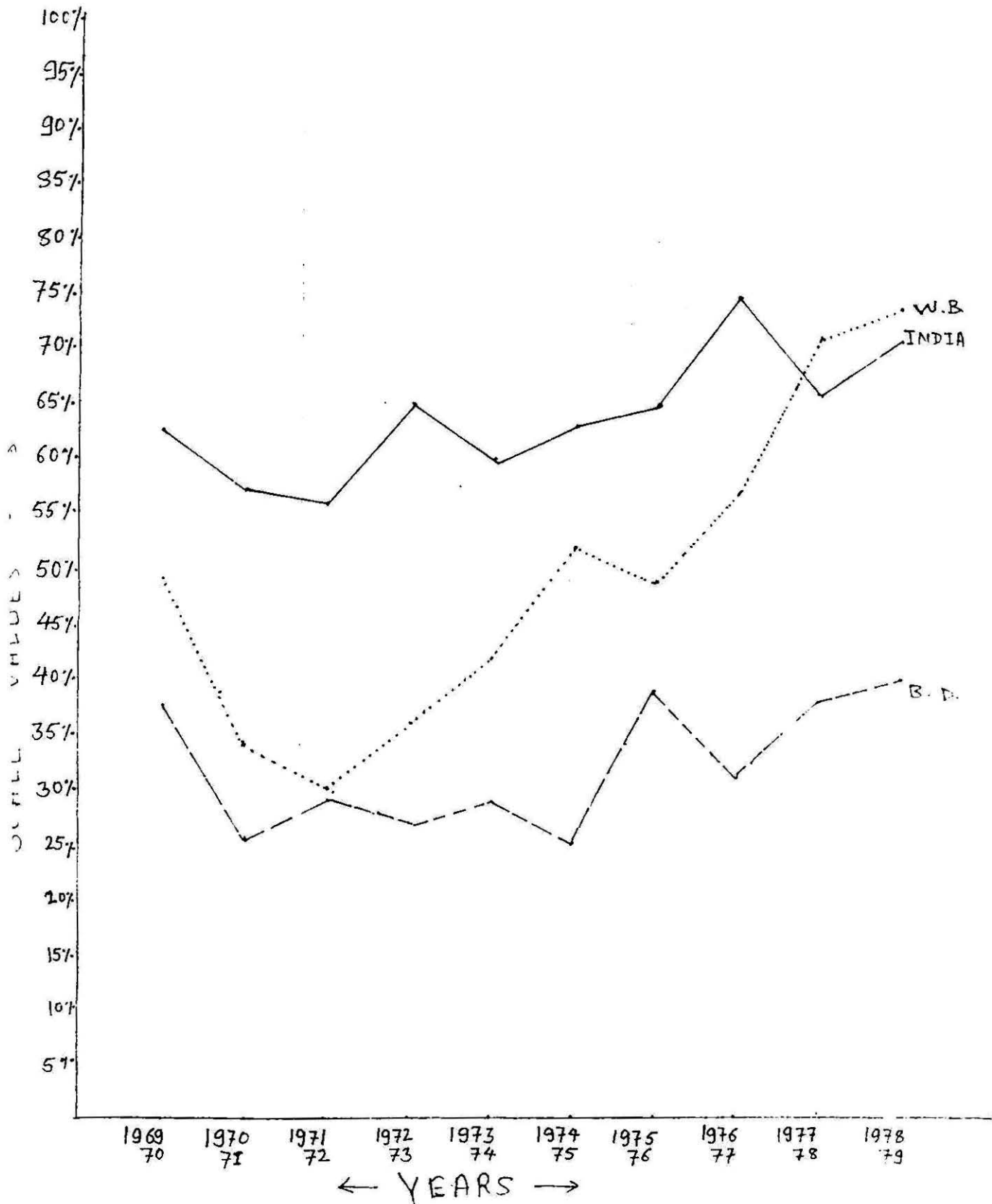
From the above analysis, it is apparent that relatively more emphasis was given for loan performance compared to non-loan efficiency indicators like effective coverage, mobilisation of resources, control of cost of operations and earning profits.

3.2.6 (C) CHANGE IN THE LEVEL OF DEVELOPMENT

The composite index, no doubt, has provided us with useful insight into growth pattern of PACS, but it failed to indicate the level of development in each of the regions under comparison. All the five aspects under two broad groups, i.e., loan and non-loan performance indicators as was considered while constructing composite index, are also considered to assess the level of development in each region. A 10-point scale is used to denote different stages of PACS development. Details of the method used in assessing the level of development are discussed in Appendix B.

The score values denoting the level of development of PACS over the period are shown in a diagram (Chart III), which depicts that the level of development of PACS was the highest in case of India except in the last two years when West Bengal by passed it. Bangladesh witnessed the lowest level of development of PACS during the period. The gap in the level of development remained wide throughout the period between Bangladesh PACS and Indian PACS as also between

CHART III - LEVEL OF DEVELOPMENT OF PACS .



Bangladesh and West Bengal PACS.

An in-depth study of the level of development reveals that in all the three regions under comparison, performance of non-loan indicators was far below that of loan indicators. The level of development of PACS in case of West Bengal and India could have been even better if the level of development of non-loan indicators were higher. It was found that West Bengal PACS emphasised on massive rise in the loan operations to the neglect of other aspects of development.

A decline in the level of development in all the three regions during the first two years is understandable in view of the involvement in the war of liberation of Bangladesh. The decline in the level of development in the years 1973-74 and 1977-78 in case of All-India PACS was partly due to low activities of PACS in some states. Low level of development of Bangladesh PACS during most of the years was due to a number of factors, such as irregular and inadequate refinances, large number of non-viable societies, poor internal management and lack of continuous support from the state owing to frequent government changes.

3.2.7 CONCLUSION

The number of PACS which increased significantly in Bangladesh declined in India as also in West Bengal. Despite this decrease in the number of societies, both number of members and borrowing members per society increased substantially in case of Indian PACS, while there was a

decline in both in case of Bangladesh PACS. It implies, effective coverage of PACS was relatively better in India than in Bangladesh.

Though the aggregate working capital as well as its components of PACS increased significantly, the relative proportion of owned funds and deposits declined in case of PACS of all India and West Bengal. The amount of investments as a proportion of working capital declined over the period in case of Indian PACS while it was the reverse in case of Bangladesh PACS. Investment of more funds by PACS than the minimum required, reduces loanable funds defeating the main purpose of their functioning.

PACS' loan disbursements in all the three regions increased substantially but the incremental flow of disbursements was highly erratic in case of Bangladesh PACS. The increase in the overdues as proportion of demand for the recovery was disturbing for both All-India and Bangladesh PACS.

Per society cost of operation has secularly increased in all the regions. Cost increase was largely due to increase in the non-payroll costs, the major component of which is the cost of funds both for refinances and deposits. Compared to the average rise of PACS, the cost escalation was not very much unfavourable in case of Bangladesh PACS.

Profit performance of PACS both Indian and Bangladesh deteriorated over the period.

The estimated composite index of growth was not smooth over the period in case of PACS of India as well as Bangladesh. However, there was an underlying upward trend in case of PACS of all the regions.

The level of development of PACS was highest in India excepting for the last two years when West Bengal by passed it. The level of development of Bangladesh PACS throughout the period was lower compared to that of either India or West Bengal. It was found that in both the countries PACS put greater emphasis on loaning operations neglecting effective coverage, mobilisation of local resources, control of operational costs and earnings of reasonable rate of profit.

3.3

SECTION II

PERFORMANCE OF LONG-TERM CO-OPERATIVES (LTCS)*

In India, long term co-operative structure comprises Primary Land Development Bank (PLDB) at the base level and Central Land Development Bank (CLDB) at the apex level. Where PLDBs do not exist, CLDBs act through their branches. LTCs in Bangladesh consist of Land Mortgage Banks (LMBs) at the base level having direct connection with national co-operative bank - Jatyā Samabāya Bank.

3.3.1 Management

The Management of the CLDBs is vested in board of directors consisting of 7-9 members. In some states, 2-3

* LTCs henceforth shall refer to grassroot level operation by PLDBs or by branches of CLDBs or by LMBs.

directors are nominated by the State Government. In case of PLDBs, CLDBs nominate one director to the board. The tenure of the board of directors is normally three years. The day-to-day operations of the PLDBs/LDBs in both India and Bangladesh are looked after by a manager assisted by supporting staff.

3.3.2 Resources

LTCs in both India and Bangladesh raise resources by issue of share capital, admission and other fees, deposits and borrowings. The only exception as regards LTCs in India is that, in addition to borrowing from higher financing agencies, they also secure funds by issuing debentures. PLDBs by themselves do not issue debentures but their respective regional CLDBs issue debentures and distribute the funds thus raised among the member-PLDBs under their jurisdiction.

Issue of debentures requires mortgage backing. Many of the CLDBs lack necessary financial resources to offer mortgage in order to float debentures. In such circumstances, the respective state governments provide temporary financial assistance referred to as interim accommodation to the CLDBs enabling them to offer necessary mortgages.

3.3.3 (A) FIVE POINT ANALYSIS

An analysis of the performance of the LTCs at the grassroot level is attempted here taking into account: coverage, resources, loan operations, cost control and profit

earning.

(I) Coverage of the LTCs

A perusal of the information relating to coverage by LTCs at the grassroot level (Table 3.6) shows that the number of banks during the period under review increased significantly (gi) in India and only marginally in Bangladesh. The growth in number was also much higher in case of West Bengal compared to Bangladesh. The growth (g1) of number of regular members was lower in Bangladesh compared to that in India and West Bengal. On the other hand, growth of the number of borrowing members was higher in case of Bangladesh compared to that of both India and West Bengal. This growth in case of Bangladesh, was due to a very small number of borrowers (around 1000) in the base year. For the same reason, Bangladesh also registered a relatively higher growth compared to both India and West Bengal in regard to the proportion of borrowing members to (i) rural population, (ii) borrowing members as proportion of total regular members, and (iii) borrowing members per hectare of gross cropped area. Another reason for higher growth rate of borrowing members per hectare of GCA in case of Bangladesh is that the later declined marginally in the terminal year compared to that in the base year.

(II) Management of Resources

From the furnished information (Table 3.7), it can be seen that working capital of grassroot level LTCs registered significant average annual growth (g1) in all the three regions. Further, own fund and borrowings of PLDBs/LMBs also recorded significant rise (g1) in case of India and Bangladesh. However, growth (g1) of deposits was not found to be significant in India as well as Bangladesh.

An analysis of the relative growth of various components of working capital shows that owned funds marginally increased in case of India. On the other hand, there was the substantial decline in owned funds in case of Bangladesh which was probably a result of large scale withdrawal of share capital consequent on unsatisfactory performance of LMBs. The relative share of deposits in the working capital declined in case of LTCs of both the countries. Borrowings of PLDBs as proportion of their working capital marginally declined while it registered a rise in Bangladesh which can partly be attributed to the low proportion of borrowings in the base year. It is evident from the fact that the proportion of borrowings of Bangladesh LMBs even in the terminal year was lower than that of India or West Bengal in the base year. One probable reason for this is the inadequate amount of refinances made available to the LMBs by the government in the earlier period. Contrary to Bangladesh case, the relative share of

owned funds and deposits in the total increased moderately in case of PLDBs in West Bengal.

PLTBs' investments as proportion of their working capital, declined in India and West Bengal while it recorded substantial size (average annual growth of 20%) in case of Bangladesh. It seems, PLTBs in India rightly preferred maintaining legally required minimum amount as investment in order to augment their loanable resources. On the other hand, substantial rise in the share of investments in working capital in Bangladesh implies that LMBs in that country deliberately pursued a policy of investment above the required minimum level. Discussions with the chief executive of/^aLMB revealed that the LMBs do so to keep a minimum reasonable level of resources in view of the irregularity of refinances and unsatisfactory recovery trends. However, this behaviour is not only against co-operative objectives but also uneconomic as investment income is invariably lower compared to interest income on loans.

(III) Loan Operations

Data presented in Table 3.8 relating to loan operations of LTCs show that the supply of loans to ultimate borrowers⁸ registered a substantially high compound growth

8. In case of India, in order to obtain total long-term loan issued to the ultimate borrowers, the amount of loan issued by the branches of CLDBs to the individuals were also taken into account along with the loan issues of the PLDBs.

per annum (g1) in India, Bangladesh as well as in West Bengal. But the growth (g1) of incremental loan issue, among the three regions under comparison, was significant only in case of West Bengal LTCs.

Growth (g2) of per Bank⁹ loan issue was higher in case of Bangladesh compared to that of India and West Bengal. Higher growth of per bank loan issue in case of Bangladesh LMBs was due to low per bank loan activity in the base year and also because of practically unchanged number of branches over the period. That per bank LMBs loan activities in Bangladesh were very low is evident from the fact that even in the terminal year (1978-79), per bank loan size of LMB in Bangladesh was much lower (Tk. 0.66 m.) than that in the base year of PLDBs in India (Rs. 1.4 m.).

An analysis of the loan issue by rural population and also by per hectare GCA show that Bangladesh LMBs had higher growth (g2) in this regard compared to that of PLDBs of India and West Bengal, which was partly because of low loan performance at the base year. That the performance of Bangladesh LMBs in respect of operations was poor is also evident from the growth of per borrower loan which in spite of steep rise in the price of inputs remained almost the same (Tk 800) even in 1978-79 as it was a decade before. On the other hand, per borrower loan size more than doubled

9. Here bank means PLDB/LMB.

in case of Indian as well as West Bengal PLDBs. This rise in per borrower loan in India cannot also be regarded as satisfactory when compared with the rise of prices of inputs.

Recovery Performance

Like loan issue, loan recovery in absolute amounts also registered a highly significant growth (g1) by grass-root level LTCs of India, Bangladesh and West Bengal. But when recovery is considered in relation to demand for collection, it is found that recovery rate of Indian PLDBs declined to 54% in 1978-79 from 77% in 1969-70; in case of West Bengal PLDBs; however, the recovery rate increased by 9% during the period. Recovery rate in case of Bangladesh LMBs could not be calculated for lack of required information. It is also found that though per bank recovery increased substantially in all the three regions, per borrower recovery grew (g2) significantly only in case of Indian LTCs.

Overdues

The amount of overdues registered a significant growth in case of LTCs in India as well in Bangladesh during the period; growth of overdues, however, was not significant in case of West Bengal LTCs. An analysis of overdues in relation to demand for collection shows that the proportion increased to 46% in 1978-79 from 33% in 1969-70 in case of Indian PLDBs while the same ratio declined from 51% in 1969-70 to 42% in 1978-79 in case of West Bengal PLDBs. The

relevant information is not available for Bangladesh LMBs. However, an attempt is made to estimate growth of overdues basing on the preceding year's loan outstanding, which shows that the proportion of overdues remained almost unchanged (around 50%).

Per bank overdues recorded substantial growth in case of LTCs in India. This is natural in view of the substantial increase in the per bank loan issue as well as per bank loan outstanding and also as a result of low recovery performance in some of the States. Further, per borrower overdues grew (g2) at a high rate in case of Indian LTCs while the same declined for Bangladesh and West Bengal LTCs.

(IV) Management of Operational Costs¹⁰

Data provided in Table 3.9 shows that per bank cost of operations grew (g2) substantially in case of LTCs of Bangladesh (18%), India (13%) as also of the state of West Bengal. When operational cost as a proportion of working capital is considered it is observed that the ratio increased for LTCs of India and Bangladesh; it, however, declined in case of West Bengal LTCs. Operation costs as a proportion of working capital was higher in Bangladesh than in India or West Bengal. The position of Bangladesh in this regard, can partly be explained by the relatively low volume of working capital compared to other regions (see Table 3.7).

10. In case of both all India and West Bengal costs of operation of PLTBs are only considered here.

It can be gleaned from the table that payroll cost as a proportion of total cost, declined for Indian, Bangladesh and West Bengal LTCs.

(V) Profit Performance

It is observed that while LTCs in India earned profits only for four years, in Bangladesh the same earned profits for all the years, though of those insignificant amount. Information provided in Table 3.10 indicates that per bank profit, in the terminal year (1978-79) as compared to the initial year, declined in case of India while it increased in Bangladesh and West Bengal. Profits of LTCs as proportion of their working capital, declined between the base and terminal years in India and Bangladesh, while the proportion increased by 2.5 times for West Bengal LTCs partly because of improved recovery performance in the State.

Though profit is not the sole criterion of efficiency of LTCs, profits earned by LTCs of none of the regions, i.e., India, Bangladesh and West Bengal, can be regarded as reasonable in the light of the opportunity costs of the funds employed in the LTCs.

3.3.4 (B) COMPOSITE INDEX OF GROWTH

Having appraised the performance of LTCs in terms of coverage, resources, loan operations, cost control and profit-earning in the preceding few pages, we examine LTCs' growth by constructing a composite index using the five aspects and the relevant indicators pertaining to each of

CHART IV - COMPOSITE INDEX OF LTCS.

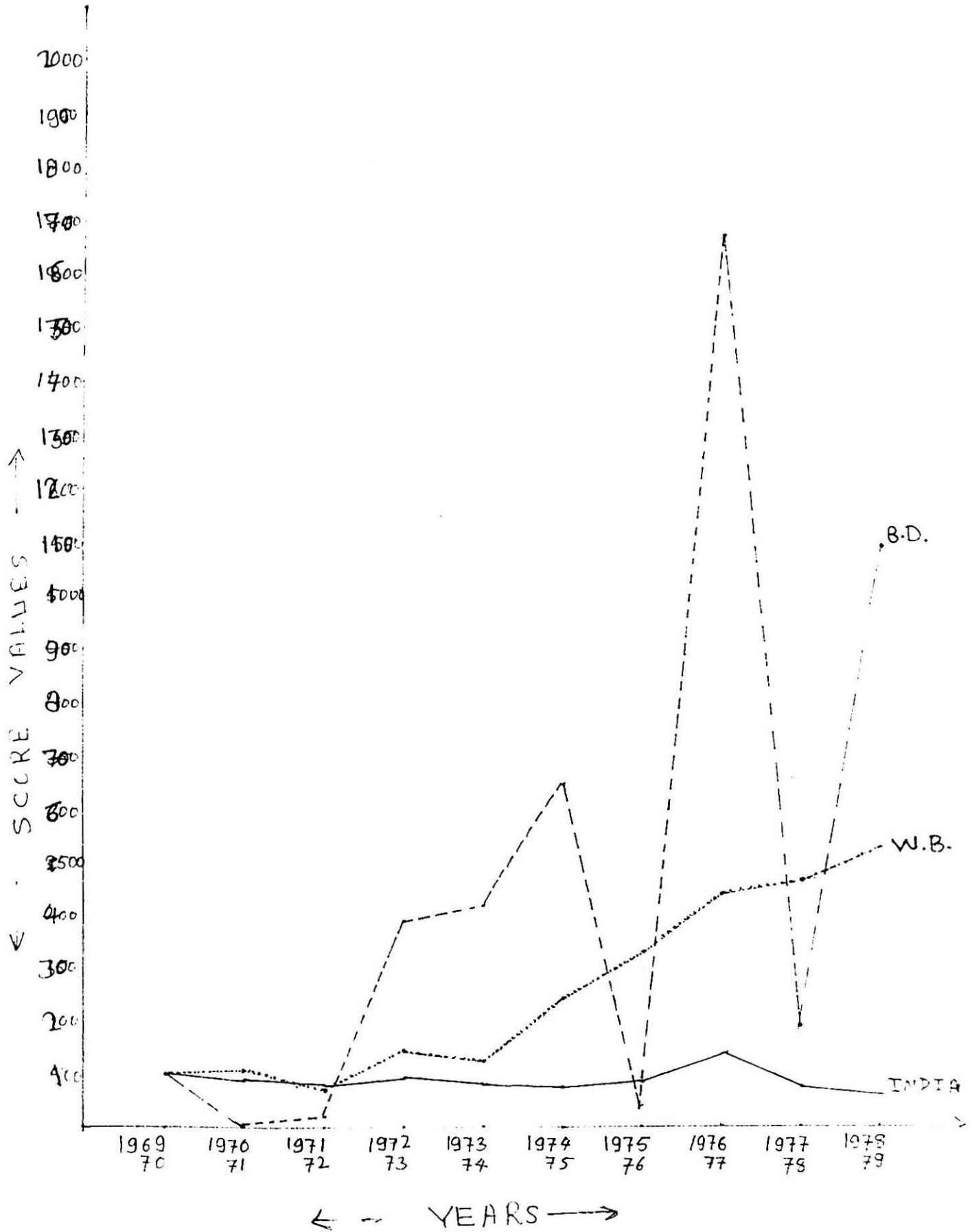
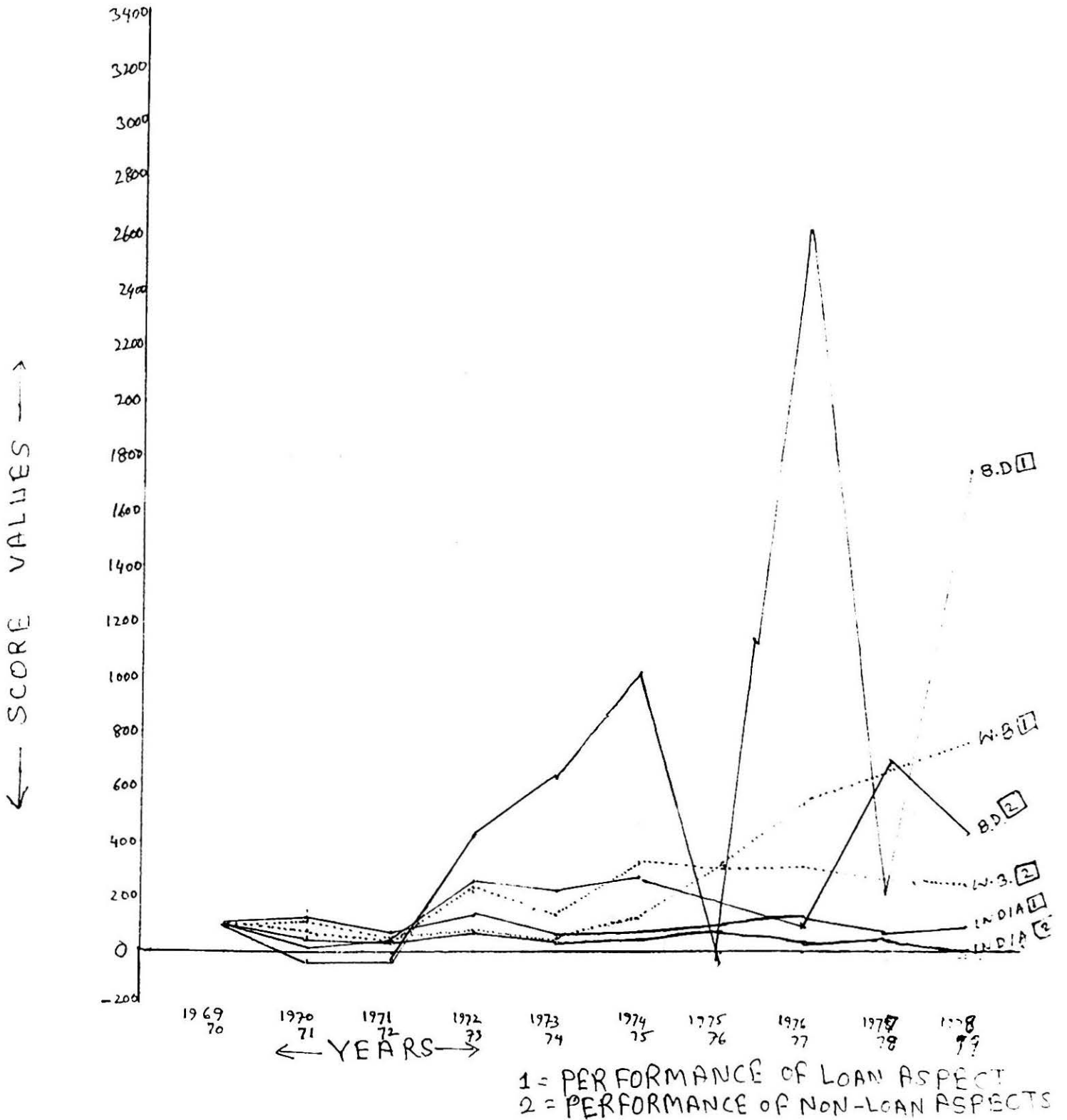


CHART V COMPOSITE INDEX OF LOAN AND NON-LOAN PERFORMANCE OF LTCS.



them. Secular growth of various indicators, however relevant, give only a partial view of the growth performance. Hence, the need for the composite index. In all, thirteen indicators are arranged into two broad groups, i.e. indicators pertaining to (i) loan performance and (ii) non-loan performance. Coverage, resource management, cost control and profit earning are regarded as non-loan performance indicators. The relevant details are presented in Appendix A.

The score values obtained for composite index are presented in a diagram (Chart IV), depicting the overall growth trends of the grassroot level LTCs in India and Bangladesh. It is seen that the growth of Indian LTCs was relatively more smooth while that of Bangladesh LTCs was subject to frequent year to year fluctuations. The growth of West Bengal LTCs was steady and smooth indicating almost undisturbed upward trend all through the period.

The performance of loan and non-loan indicators is shown in diagram V. It can be seen from the chart that the indicators of Indian and West Bengal LTCs loan performance was much better than that of non-loan performance indicators. Contrary to this, the behaviour of LTCs' loan efficiency indicators in Bangladesh was more unstable than that of the non-loan performance indicators. This can partly be ascribed to unsettled partial conditions during those years. The performance of LTCs index for India could have been much

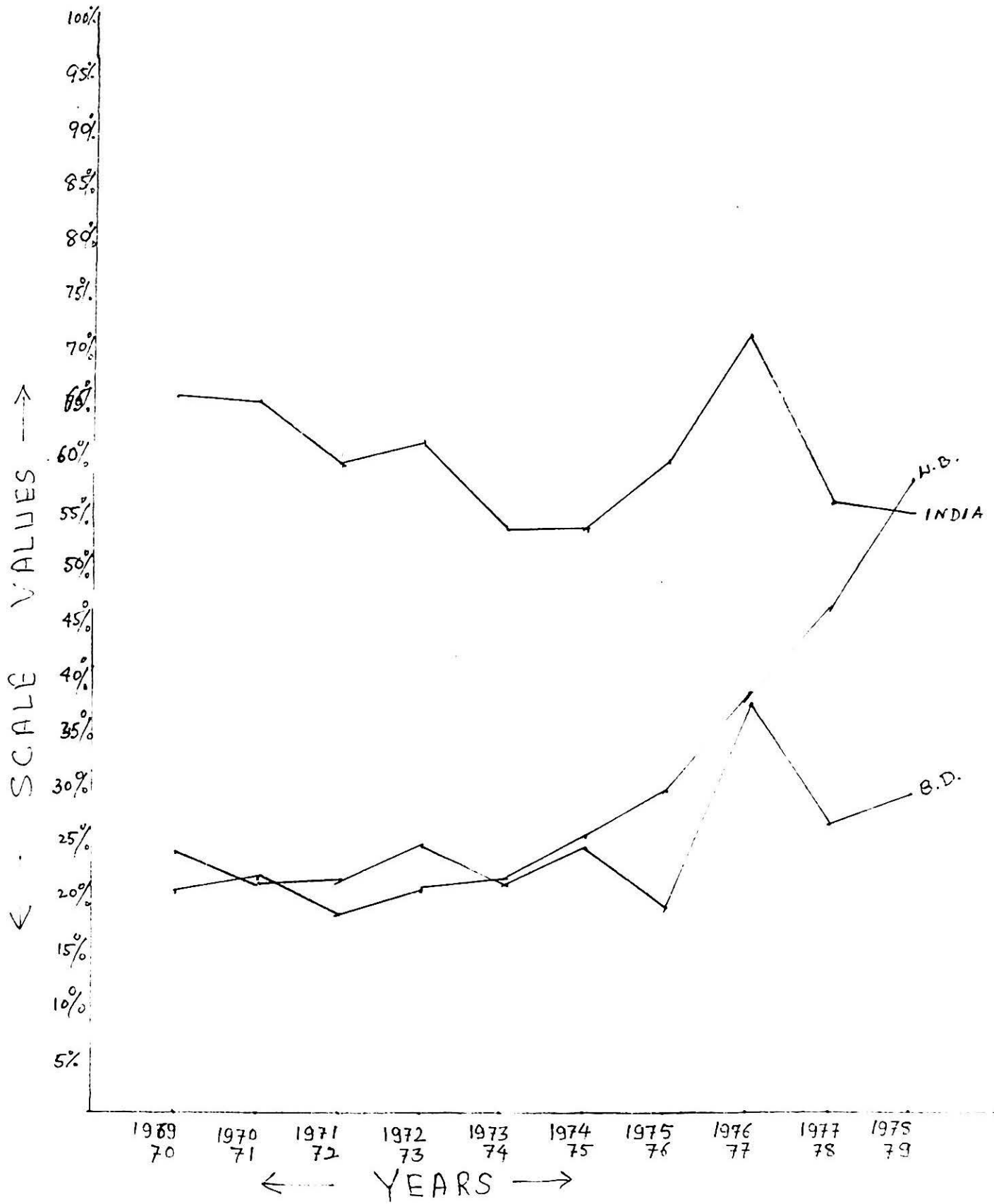
better but for their poor working in some of the States. The relatively better performance of composite index witnessed in case of LTCs in West Bengal was primarily because of massive loan operations after 1977.

3.3.5 CHANGE IN THE LEVEL OF DEVELOPMENT

The above composite index of growth, no doubt, has provided us useful insight into the working of the LTCs but it does not indicate the level of development of LTCs in each of the regions. Hence, the need to assess the level of development of LTCs. All the five aspects of performance efficiency discussed in (A) earlier and used in constructing the composite index, are also taken into account in order to assess the level of development of LTCs. A ten-point scale denoting the different stages of development is used for the purpose. The details of the method used for assessing the level of development are furnished in Appendix B.

The scale values are represented in diagram VI which shows that the level of development of Indian LTCs was by far the highest compared to that of Bangladesh and West Bengal. Until 1974-75, the level of development of West Bengal LTCs was below that of Bangladesh LTCs but afterwards, West Bengal LTCs recorded a sharp rise and crossed the development level of Bangladesh LTCs and even finally in 1978-79 beat the level of Indian LTCs also. A comparative assessment of the level of loan and non-loan performance

CHART - VI LEVEL OF DEVELOPMENT OF LTCS.



indicators suggests that growth in the later was much lower than the growth of the former.

3.3.6 CONCLUSION

The structure of LTCs in India is not uniform; some are unitary while some are federal in character. But in Bangladesh the structure of LTCs is uniform throughout the country having a federal set up. Management pattern of LTCs in the two countries is almost similar. As regards sources of fund, they are the same except for debentures as an important source for Indian LTCs.

Effective coverage of LTCs in terms of rural population and GCA are not very satisfactory in India as well as in Bangladesh. Growth of deposit mobilisation was not even significant in case of LTCs of India as also of Bangladesh. The supply of refinances to Bangladesh LTCs was not steady over the period. They preferred non-loan investment, reportedly because of irregular flow of refinances and unsatisfactory recovery performance; the amount of investment as proportion of aggregate working capital was almost the minimum required by law in case of Indian LTCs.

Loan issue substantially increased in case of LTCs of both India and Bangladesh; the growth was at a much faster rate in case of West Bengal LTCs. But the incremental flow of loan issue was not steady in case of Bangladesh LTCs. Recovery position of Indian and Bangladesh LTCs deteriorated over the period.

The increase in the per bank operational costs was not substantial compared to the rise in the price level. However, non-payroll costs played a greater role in the rise of operational costs.

Profit performance was not satisfactory for both Bangladesh and Indian LTCs. Rate of return on funds employed (working capital) is found to be ridiculously low for LTCs of India as well as Bangladesh.

The position of Bangladesh LTCs as regards growth of composite index as also that of the level of development is found to be inferior compared to India as also to the State of West Bengal. The analysis further reveals that LTCs in both India and Bangladesh laid greater emphasis on loan operations and neglected non-loan aspects, viz., effective coverage, mobilisation of local resources, controlling costs of operation at a reasonable level and earning minimum amount of profits in the light of opportunity cost of the funds.

SECTION III

3.4 CO-OPERATIVES AS A WHOLE

In the preceding two sections grassroot level short-term and long-term co-operative structures have been dealt with separately. In this section we appraise the performance of co-operatives as a whole.

3.4.2 (A) FIVE POINT ANALYSIS

As was done earlier, performance of co-operatives as a whole is examined here in respect of five aspects i.e. coverage, resource mobilisation, credit-extension, cost control and profit earning.

(I) Coverage

Coverage of the co-operatives may be considered in terms of number of Societies/Banks and also in terms of membership. However, effective coverage is taken to mean coverage in terms of borrowing members. In analysing coverage of the co-operative sector as a whole, the number of Societies/Banks has not been taken into account as it would not be proper to add societies with banks because of their heterogenous character.

Information furnished in Table 3.11 shows that growth (g1) of co-operative membership and borrowing membership was significant in India as well as in Bangladesh; the growth of both these indicators of coverage was relatively higher in case of Bangladesh compared to that of India. Further, growth of coverage in terms of both these indicators was highest in case of West Bengal Co-operatives. When coverage is judged by borrowing members as a proportion of total members, we find that the same declined marginally in case of Indian and Bangladesh co-operatives while the growth (g1) was sharp in case of West Bengal. The Indian position in this regard can partly be ascribed to a relatively higher

proportion at the base year and partly because of low co-operative activities in some of the States. It may be noted that the Bangladesh Co-operatives witnessed the lowest coverage/in terms of the proportion of borrowing to total members even ^(23%) in the terminal year (1978-79).

When we analyse the coverage of co-operatives by computing the ratio of borrowing members to (i) per hectare of GCA and (ii) rural population, we find that there was substantial growth (g2) in both the countries. The growth performance of borrowing members per hectare of GCA was by far the highest in case of West Bengal Co-operatives. On the other hand, coverage of rural population was unsatisfactory even at the terminal year. This is evident from the fact that in 1978-79 Indian Co-operatives covered (as borrowing members) 3.84 persons out of one thousand rural population while it was 1.47 persons in case of Bangladesh Co-operatives and 3 persons in West Bengal.

(II) Management of Resources

Table 3.12 reveals that the amount of working capital along with its components, i.e. owned funds, deposits and borrowings of Indian and Bangladesh co-operatives registered a highly significant growth (g1) - higher in case of the latter.

But when the growth (g2) of (i) owned funds and (ii) borrowings, as a proportion of working capital are judged, it is seen that both of these declined marginally

in case of co-operatives of all the regions under comparison. On the other hand, deposits as proportion of working capital marginally increased in case of co-operatives of both all India and Bangladesh while the same registered noticeable decline for West Bengal co-operatives. The increase in the deposits of Bangladesh Co-operatives was largely due to the system of weekly compulsory deposits followed by IRDP Co-operatives. The substantial decline in the relative position of deposits witnessed in case of West Bengal Co-operatives implies their greater dependence on borrowings for required funds.

An analysis of investment as proportion of working capital and as proportion of loan issue reveals that both of these indicators declined over the period in case of Indian and West Bengal Co-operatives but showed substantial increase in case of Bangladesh Co-operatives. The decline registered by these indicators implies that co-operatives in India deliberately followed a policy of channeling minimum funds to non-loan investments for the purpose of augmenting their loanable resources. On the other hand, an increase in the volume of investments as proportion of working capital and loan issue in case of Bangladesh Co-operatives suggests that they, in order to avoid hazards of loan operation, favoured riskless income from investment other than loans which is contrary to the interests of members as well as co-operatives.

(III) Loan Operations

A perusal of the data relating to loan operations (Table 3.13) shows that growth (g1) of loan issue in absolute amount was significant in case of the co-operative sectors of India and Bangladesh and West Bengal. The growth was a little faster in case of co-operatives of Bangladesh compared to that of India but the fastest rate was registered by West Bengal co-operatives. Incremental flow of loan issue grew (g1) in case of co-operatives of both the countries but was not statistically significant. However, growth of incremental loan issue was significant in case of co-operatives of West Bengal.

On the basis of the growth (g2) of per borrower amount of loan, per capita amount of rural loan and volume of loan issue as proportion of GDP from agriculture, it is possible to conclude that performance of Indian co-operatives was relatively better than that of Bangladesh Co-operatives. Growth (g2) of the volume of loan issue per hectare of GCA was better in case of Bangladesh Co-operatives compared to that in India. This can partly be attributed to marginal decline of GCA in Bangladesh, as stated earlier; GCA, however, rose in India as well as in West Bengal. The better performance in regard to loan issue witnessed by co-operatives in West Bengal was a consequence of land reforms allowing share croppers to obtain co-operative loans, previously denied to them. This was also reportedly

because of the commitment of the State Government for rural development.*

Recovery Performance

The revolving character of co-operative funds can be maintained only by ensuring timely recovery of loans. It is seen that recovery in absolute amount registered a highly significant growth (g1) in case of co-operatives of all the three regions - faster in Bangladesh than in India and fastest for West Bengal. There was some improvement in the recovery per borrower in case of Indian, Bangladesh and West Bengal Co-operatives. Taking into consideration the enormous increase in the per borrower amount of loan outstanding, the growth of per borrower recovery cannot, however, be regarded impressive.

Overdues

Loan overdues of co-operatives has been a matter of concern not only to the co-operators but also to the Governments - local and national. Overdues in absolute amount registered a significant growth (g1) in case of co-operatives of India, Bangladesh and West Bengal - faster for India than for Bangladesh and slowest for West Bengal.

That the overdues position of the Indian co-operatives (both of ST and LT) was worse compared to that of Bangladesh

* Interview of the author with the former Finance Minister of West Bengal Mr. Ashok Mitra at Poona on 10th December 1982.

co-operatives is evident from substantial increase in the per borrower overdues and also from significant increase of overdues as a proportion of previous year's outstanding. The rate of overdues in relation to demand for collection in India increased to 45% in 1978-79 from 38% in 1969-70.¹¹ A similar exercise reveals a reduction in overdues in case of West Bengal co-operatives. For lack of such information, overdue rate in case of Bangladesh co-operatives is judged in relation to preceding year's outstanding loan. It shows that overdue rate increased to 57% in 1978-79 from a little more than 22% in 1969-70.

(IV) Management of Operational Costs*

The information provided in Table 3.14, reveals that operational costs per borrower increased relatively at a higher rate in case of Indian co-operatives compared to those of Bangladesh; fastest growth (g2) was registered by West Bengal Co-operatives. The ratio of operational costs to working capital rose (g2) at a faster rate for Bangladesh co-operatives than for Indian or West Bengal ones.

It is seen that payroll costs as a proportion of

11. Refers to overdues of all grassroot level co-operatives excluding the branches of CLDBs.

* Operational costs of the branches of CLDBs in India and that of IRDP co-operatives in Bangladesh are not available; hence, not taken into account.

total costs increased marginally for Indian and declined marginally for Bangladesh and West Bengal Co-operatives. Increase in the total costs of operation with decline or marginal increase in payroll costs suggests that the cost increase was because of the rise in non-payroll costs of which costs of funds are the major component. Further analysis of non-payroll costs could not be attempted owing to non-availability of disaggregated information in this regard.

It is also seen that costs of operation per hundred (Tk/Rs) of loan issue increased by 200% in case of Bangladesh co-operatives; by 50% and 35% for Indian and West Bengal co-operatives respectively. However, the increase in the operational costs in case of co-operatives/^{of}both the countries when compared to the rise in prices, cannot be regarded as unreasonable.

(V) Profit Performance

Profit has been considered as an important indicator of operational efficiency. Though are not commercial organisations meant for earning profit, co-operatives are expected to earn reasonable amount of profit from their operation in view of the opportunity costs of funds.

It is observed from available data (Table 3.15) that Indian co-operatives in two out of ten years and Bangladesh co-operatives in one year incurred losses. West Bengal co-operatives, on the other hand, earned profits

in all the years, of course, with some fluctuations. Per member profits in case of Bangladesh co-operatives remained very low all through the years (Tk.1) while in case of West Bengal co-operatives it was slightly better i.e. in 1969-70 it was Rs. 2 which increased to Rs. 3 in 1978-79.

3.4.3 (B) COMPOSITE INDEX OF GROWTH

Having outlined the performance of co-operatives in terms of coverage, resource mobilisation, loaning operations, cost control and profitability, we construct here a composite index of growth in order to evaluate the overall growth.

As indicated earlier, we have constructed a composite index of growth by taking the five different aspects of co-operatives operation and classifying them into two groups, i.e., (1) indicators relating to loan operations and (2) indicators relating to non-loan performance.

Details of the methods adopted in constructing composite index may be seen in Appendix A.

The computed score values are plotted in a diagram (Chart VII) which shows that the growth of West Bengal Co-operatives was higher than that of Bangladesh co-operatives which, in turn, was higher than that of Indian Co-operatives. In spite of some fluctuations, the composite index of co-operatives of India as well as Bangladesh showed an underlying upward trend which was relatively steady in case of the former.

From Chart VIII depicting the movements in the two

CHART VII - COMPOSITE INDEX OF CO-OPERATIVES AS A WHOLE.

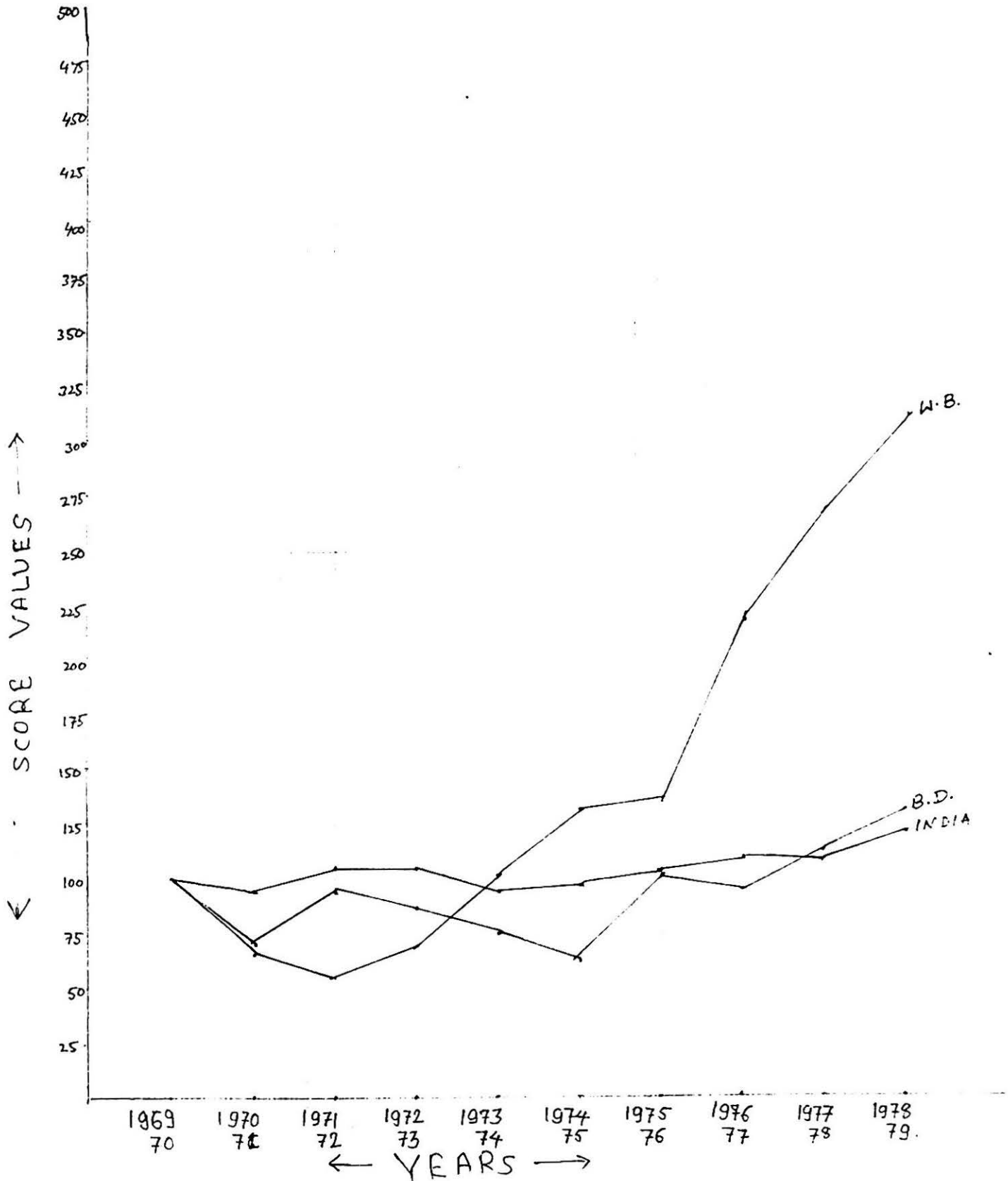
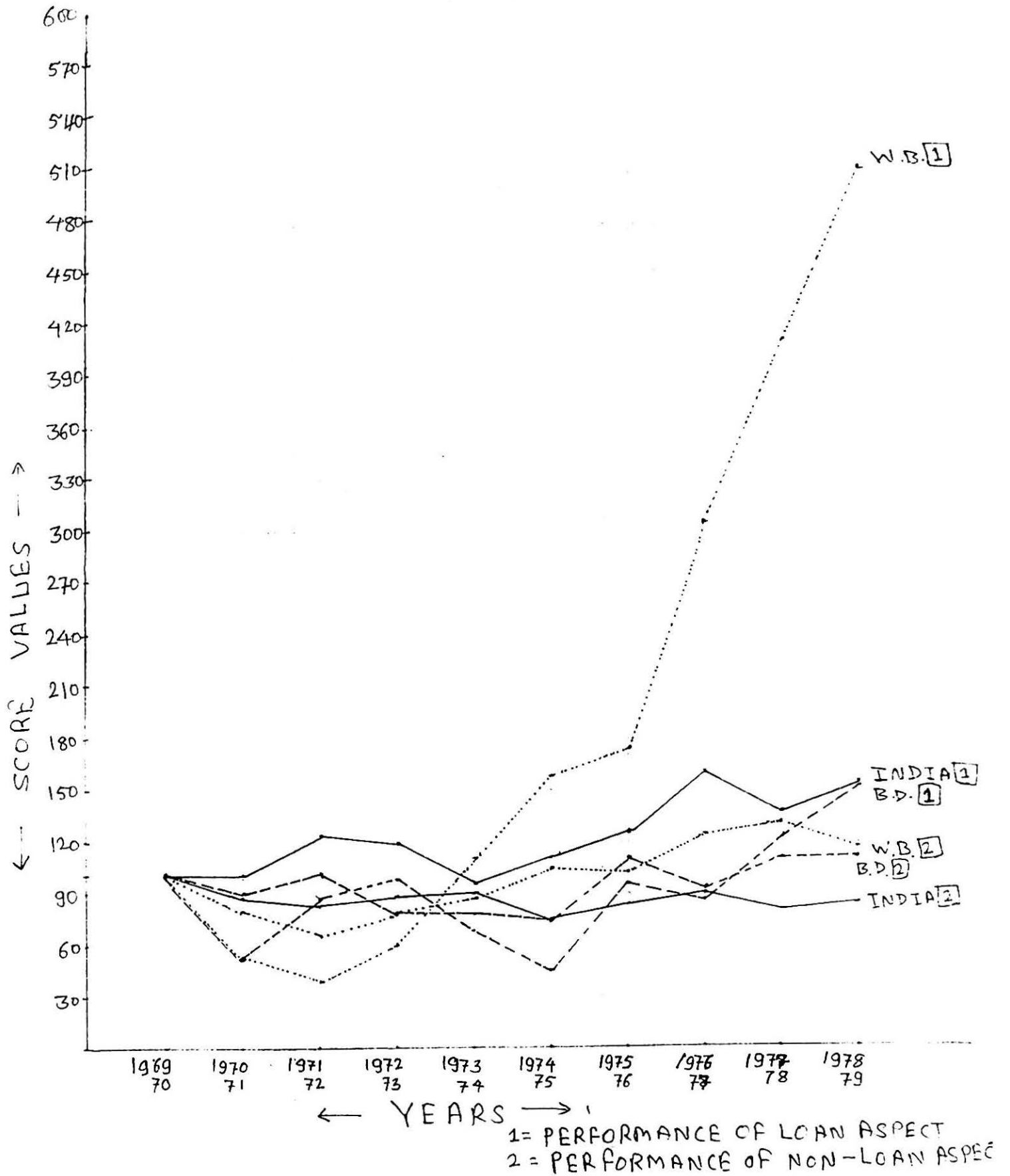


CHART VIII. COMPOSITE INDEX OF LOAN AND NON-LOAN PERFORMANCE OF CO-OPERATIVES AS A WHOLE.



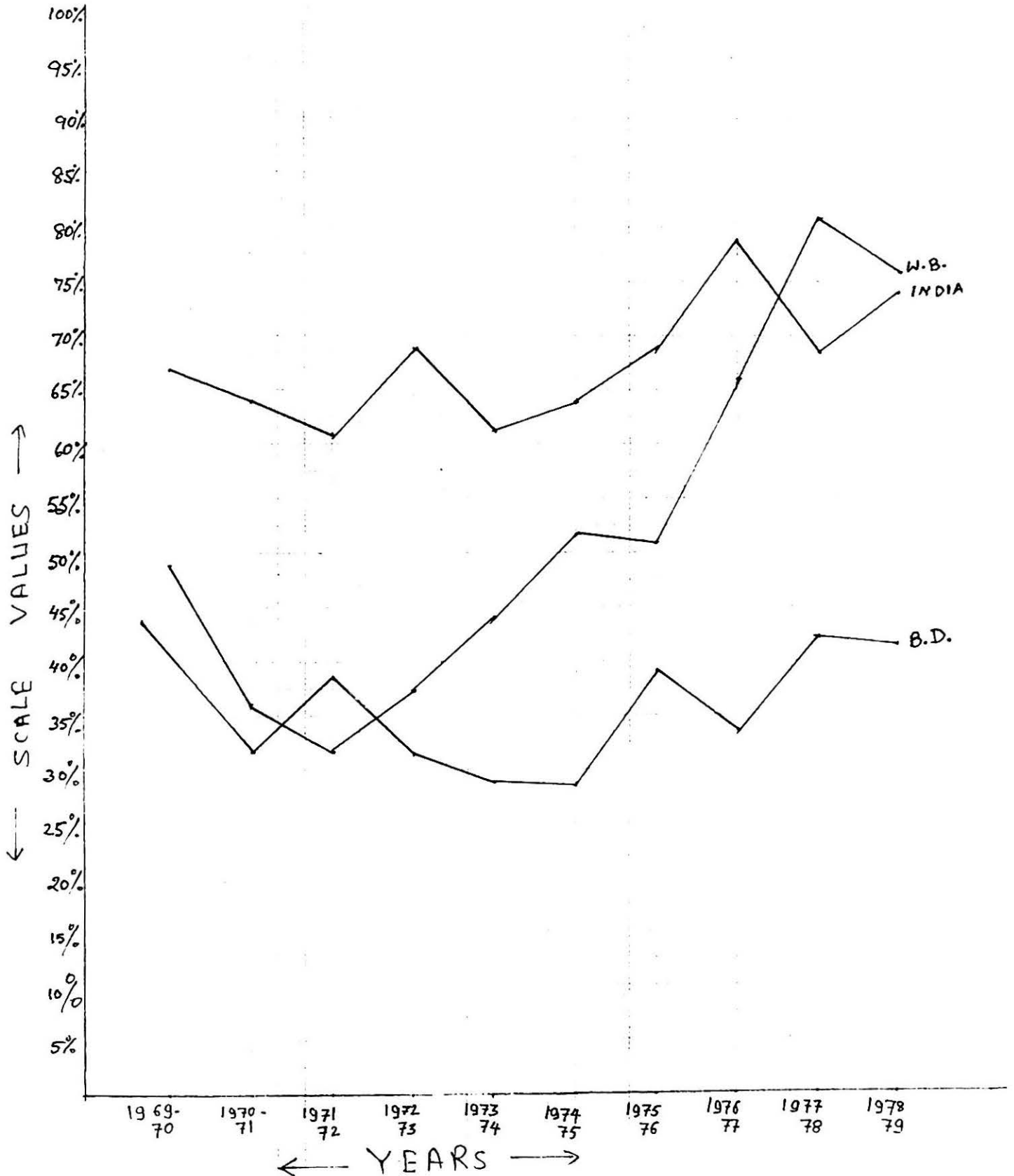
indicators, it can be seen that the performance of non-loan indicators was inferior to that of loan indicators in case of Indian Co-operatives. On the other hand, Bangladesh and West Bengal co-operatives showed a mixed behaviour. The gap of the composite growth of loan and non-loan indicators in case of West Bengal co-operatives was much wider than that of either Bangladesh Co-operatives or Indian co-operatives.

3.4.4 (C) CHANGE IN THE LEVEL OF DEVELOPMENT

It is not possible to comprehend the level of development of co-operatives in each of the regions either from secular growth of individual indicators or from composite index of the indicators. It is, therefore, decided to assess the level of development of the co-operative sector in each region by using a 10 point scale of development constructed on lines discussed in Appendix B.

The level of development of the co-operative sector of different regions under comparison is presented in a diagram (Chart IX) which shows that the Indian and West Bengal positions were much better than that of Bangladesh. The gap in the level of development between India and Bangladesh, which was wide at the beginning widened further during the period. And the gap in the level of development of co-operatives between Bangladesh and West Bengal was marginal during first three years (till 1972-73) after which the gap went on widening.

CHART IX. LEVEL OF DEVELOPMENT OF CO-OPERATIVES AS A WHOLE.



3.4.5 (D) SOME REGRESSION ESTIMATE

In the following few pages, we analyse the regression estimates made using some of factors influencing the supply of co-operative credit. Some of the important factors are: the amount of deposits mobilised; the amount of borrowings; GDP from agriculture as a proxy for the income levels of the rural population as also for Governments resources to provide refinances; recovery of loan dues, besides organisational strength of the co-operatives. On the other hand, demand for co-operative credit is influenced by factors such as number of societies, number of members desiring for loans, gross cropped area under cultivation, irrigated area as a proportion to gross cropped area, HYV area as a proportion to GCA, use of fertiliser and amount of rainfall.

However, we could not use all these variables together owing to availability of short time series data. After experimentation we finally selected three variables for running the regression. The postulated relationship is as follows:

$$Y = a_0 + b_1 X_1 + b_2 X_2 + b_3 X_3$$

where

Y = amount of co-operative credit issued in each year (dependent variable)

X₁ = number of borrowing members

X₂ = amount of working capital

X₃ = irrigated area as proportion of gross cropped area.

The a-priori relationship of each of the independent variable with the dependent one is explained as under:

X_1 = number of borrowing members.

Mere increase in the number of societies and number of members without corresponding increase in the number of borrowing members will not increase the demand for co-operative credit. Because of the fund constraints and because of some of the rules of the co-operatives including barring the defaulting members to borrow, all the members usually cannot become borrowers. As such, it is assumed that higher the number of borrowers, higher will be the required funds and higher will be the supply of co-operative credit. Hence, we expect the coefficient of X_1 to be positive.

X_2 = amount of working capital.

The amount of working capital has been considered as the most important factor determining the supply of co-operative credit. It can be noted here that working capital itself is a function of owned funds, deposits and borrowings and as such these components have been excluded to avoid multi-collinearity. It is assumed that higher the working capital of co-operatives, larger will be availability of loanable funds. Thus we expect the coefficient of X_2 to be positive.

X_3 = irrigated area as a proportion of GCA.

Irrigation has now been accepted throughout the world

as an important indicator of modern cultivation leading to higher productivity. This is also considered by many at home and abroad as a proxy for mechanisation. The cultivation of HYV calls for irrigation. It is assumed that the higher the proportion of irrigated area, the more will be the need for funds, not only to meet the cost of irrigation but also to provide improved seeds, higher doses of fertilisers and use of appliances. We, therefore, expect X_3 to have a positive coefficient.

The results are given below:

Regions	R ²	X ₁	X ₂	X ₃
1. India	0.997	+ 0.5548** (0.0774)	+ 0.1297* (0.0398)	+ 4.9340* (1.7605)
2. Bangladesh	0.972	+ 0.3288** (0.0585)	+ 0.0636 (0.0787)	- 0.1345 (0.1002)
3. West Bengal	0.996	+ 0.4001** (0.0634)	+ 0.2515** (0.0479)	+ 0.0554 (0.0979)

Figures in brackets are standard errors of estimates.

** Significant at 1% level.

* Significant at 5% level.

It is evident that the three independent variables explained more than 99% of the variation in the independent variable in case of India and West Bengal and 97% in case of Bangladesh Co-operatives. The three independent variables

have the right signs, excepting X_3 in case of Bangladesh.

It is observed that all the three variables contributed significantly in the supply of co-operative credit in case of India; however, X_1 appears to be the most important followed by X_2 . In case of Bangladesh co-operatives, while X_1 and X_2 seem to have influence, only X_1 contributed significantly in the flow of credit. All the three variables positively contributed in the flow of co-operative credit in West Bengal but the contributions of only X_1 and X_2 were statistically significant. Further, the observed insignificant contribution of the working capital to the supply of co-operative credit in Bangladesh can be explained by the earlier mentioned preference of the co-operatives to utilise substantial amount of working capital for non-loan investments.

X_3 (i.e. irrigated land as proportion of GCA) has relatively less influence in the supply of co-operative credit of all the three regions; it is decided to return the regression excluding this variable. The results are as under:

Regions	R^2	X_1	X_2
1. India	0.994	+ 0.5738** (0.1085)	+ 0.2178** (0.0344)
2. Bangladesh	0.964	+ 0.3331** (0.0616)	+ 0.0118 (0.0724)
3. West Bengal	0.996	+ 0.3799** (0.0498)	+ 0.2689** (0.0334)

Figures in brackets indicate standard error
of the estimate.

** Significant at 1% level.

It is clear that X_1 and X_2 are the most important variables influencing the supply of co-operative credit in both Bangladesh, India and West Bengal. However, the influence of X_2 i.e. working capital in Bangladesh on the supply of co-operative credit is not significant for the reason stated earlier. Of the two variables, working capital has contributed more to the supply of credit compared to the number of borrowing members in India and West Bengal.*

* Similarly, a modest attempt is also made by using multiple regression to explain mounting co-operative overdues. Three independent variables considered for the purpose are: per borrower loan outstanding, per borrower refinance outstanding and GDP from agriculture as a proxy for the income levels of the borrowers. But the results are poor. To avoid stock effects, the regression was rerun with incremental values of the variables excepting GDP from agriculture. The results did not show much improvement. Hence, we refrained from giving details of the regression exercise here.

CONCLUSION

Co-operative sector in India has been undergoing substantial reorganisation process while it was not the case with Bangladesh co-operatives as a result of which there exist a large number of non-viable and dormant units. As long-term co-operatives in India do not have a uniform structure in all the states, there is a problem in regard to comparison of their performance with those of Bangladesh. Effective coverage of co-operatives in terms of borrowers as proportion of rural population is found unsatisfactory in both the countries. However, an improvement of coverage in terms of GCA is noticeable. This, however, indicates that co-operatives in the two countries pursued, by and large, a policy of land-centered operations.

The expectations in respect of mobilising increasing amounts of local resources in terms of paid up capital and deposits have remained largely unfulfilled. This is evident from very insignificant increase or even decline of owned funds and deposits over the period by the co-operative sectors of both Bangladesh and India. Deposit performance of Bangladesh co-operatives, however, was better because of the introduction of compulsory weekly deposits system by IRDP co-operatives.

A portion of the funds is required by co-operative bye-laws to be invested in an approved manner. It is seen that co-operatives sector in India made investments to the

extent required under the rules and augmented their loanable resources, while Bangladesh co-operatives are observed to have diverted a larger proportion of available funds to non-loan investments which cannot be justified on economic or non-economic grounds.

While the volume of disbursements of co-operative loans increased remarkably in both India and Bangladesh, the incremental inflow of credit was erratic in case of the latter and disappointing in case of the co-operative sector in India. Further, the performance of co-operatives in both the countries in terms of disbursement of co-operative loans as proportion of GDP from agriculture as well as per capita disbursements of loans has been unsatisfactory. However, an increase of loan disbursements per hectare of land under cultivation is noticeable. This means, co-operatives in both the countries are pursuing a land-oriented and not purpose-oriented loan operations.

Most of the rise in the operational cost of the co-operatives in both the countries was mainly caused by the increase in the non-payroll costs of which cost of funds for both refinance and deposits are the major components.

Profit performance of the co-operative sector of both the countries is found to be far from satisfactory, particularly, in a view of the concessional supply of refinances and opportunity cost of funds.

Growth of composite index as well as the level of development were relatively higher in case of the co-operatives of India and West Bengal compared to those of Bangladesh. Neglect of non-loan aspects of operations like effective coverage, resource mobilisation, cost control and profit earning impaired the growth performance of both composite index and that of the level of development of co-operatives not only in Bangladesh but also in India and West Bengal.

Working capital followed by number of borrowing members are found to be the two most important factors determining the supply of co-operative credit by Indian and West Bengal co-operatives. But, in Bangladesh, working capital was not a significant determining factor of co-operative loan supply probably because co-operatives in that country have utilised an increasing proportion of working capital for non-loan investments.

(The factors which seem to be largely responsible for co-operative overdues include: attitude of the borrowers towards repayments; political leaders' advising borrowers not to make repayments; demonstration effects of defaults in the neighbour-hood; natural calamities causing crop failure.)

Appendix: AMethod used in constructing Composite Index of Growth

Five different aspects of efficiency measurement are considered in constructing a composite index of growth. These aspects along with different indicators are grouped under two broad heads as under:

(I) Loan Efficiency Test

- (1) Loan issued as % GDP from agriculture.
- (2) Loan issued per '000' of rural population.
- (3) Loan issued per hectare of gross cropped area.
- (4) Net inflow per '000' rural population.
- (5) Net inflow per hectare of gross cropped area.
- (6) Recovery as % of outstandings of the preceding year.

(II) Non-Loan Efficiency Tests**(a) Test of Coverage**

- (1) Borrowing members per '000' of rural population.
- (2) Borrowing members per hectare of gross cropped area.

(b) Test of Resource Management

- (3) Owned funds and deposits as % of working capital.
- (4) Loans issued as % of working capital.

(c) Test of Management of Costs*

(5) Working capital as times of cost of management.

(6) Loans issued as times of cost of management.

(d) Test of Profit Performance*

(7) Profit as % of working capital.

Time series data relating to the indicators stated above were obtained and are indexed taking the figure for the base year as 100. Then, the index values of the two broad aspects, viz., loan and non-loan efficiency, are summed up and divided by the number of indicators in each aspect in order to find average value of each aspect giving equal weights.

Thus, weightage of each loan indicator came to 0.08 while that for each non-loan indicator came to 0.07. Finally, the following weightage was given to the five different aspects of efficiency.

(1)	Test of Efficiency of loan operation	50.00%
(2)	Test of Coverage	14.29%
(3)	Test of resource management	14.29%
(4)	Test of Management of cost	14.29%
(5)	Test of Profit Performance	7.13%

* In case of Bangladesh PACS cost and profit information are not available relating to IRDP societies. Hence, cost and profit of Bangladesh PACS relate to only traditional co-operatives.

Highest weightage is given to the main function expected of the PACS, viz., loan operations including recovery performance while lowest weightage is given to profit performance since PACS are not commercial organisations with the main object of earning profit.

These five aspects are, of course, not wholly independent of one another. Some interrelatedness of the aspects cannot be ruled out which, however, is not likely to significantly affect the results.

Appendix: BMethod of Assessing the Level of Development

Index values of indicators represent change in relation to base year. They, however, cannot provide us information relating to the level of development. Hence, it is necessary to devise a method for assessing the level of development.

All the thirteen indicators under the five aspects as discussed in Appendix: A are considered in assessing the level of development. A 10 point scale is used to denote various stages of development i.e. scale point 1 (one) is for lowest level while scale point 10 (ten) denotes the highest level of development.

The value of each of the thirteen indicators is considered separately in order to obtain the scale values of the level of development. Of each of the indicators, the highest value recorded during the period under review is considered the maximum obtainable level which is then divided by 10 in order to indicate the different levels of performance of each indicator.

As is done while constructing the composite index all the indicators are classified into two groups, i.e., loan and non-loan indicators, giving equal weight to the two groups. The score values thus obtained are then summed up and averaged.

Table 3.1: Coverage of the PACS

Items	India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Number of Societies (in '000')	163	96	g1 -5.22**	27	97	g1 13.56**	12	8	g1 4.17**
2. Number of members (lakh)	298	526	g1 6.55**	20	48	g1 10.08**	10	22	g1 8.68**
3. Number of Borrowing Members [@] (lakh)	117	188	g1 5.88**	5	11	g1 11.97**	4	11	g1 15.21**
4. Borrowing Members as % of total members	39	36	g1 -0.64	25	23	g1 -2.15	40	50	g1 6.55**
5. Membership per society	183	543	g2 12.19	74	50	g2 -4.35	83	275	g2 13.31
6. Borrowing Members per society	72	196	g2 11.13	19	11	g2 -6.07	33	138	g2 15.90
7. Borrowing Members per thousand hectares of GCA	72	108	g2 4.54	38	85	g2 9.10	56	140	g2 10.10
8. Borrowing Members as % of rural population	2.72	3.73	g2 3.51	0.81	1.46	g2 6.55	1.23	2.85	g2 9.34

GCA = Gross Cropped Area.

** = Significant at 1% level.

* = Significant at 5% level.

@ = Borrowing members of Bangladesh PACS were estimated on the basis of average loan size (TK 281) relating to IRDP co-operatives for the period 1974-75 to 1978-79.

Source: FAO/World Bank, Bangladesh Agricultural Credit Project, Rome, 1980.

Table 3.2: Resources of PACS.

(TK/Rs in Million)

Items	India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Owned funds	2390	6179	10.54**	37	127	14.14**	43	172	14.32**
2. Deposits	630	2164	12.99**	24	111	18.39**	7	24	12.32**
3. Borrowings (a)	6180	18311	12.22**	199	706	13.05**	167	930	18.87**
4. Working Capital	9220	30927	12.78**	260	944	13.79**	217	1265	18.13*
5. Owned fund as % of Working Capital	26	20	-2.88	14.23	13.45	-0.63	19.82	13.60	-4.19
6. Deposit as % of Working Capital	6.83	6.98	0.24	9.23	11.76	2.69	3.23	1.90	-5.87
7. Borrowings as % of Working Capital	67.03	59.21	-1.38	76.54	74.79	-0.26	76.96	73.52	-0.51
8. Investment as % of Working Capital	12.69	7.96	-5.19	10.96	16.98	4.86	10.14	6.80	-4.44

(a) Borrowings of Bangladesh IRDP co-operative system for years 1970-71 to 1978-79 were estimated using the same proportion during the years 1967-68 to 1969-70.

Source: IBRD/IDA study, 'Bangladesh Agricultural Credit Review', 1974.

** Significant at 1% level.

* Significant at 5% level.

g1 For items 1 to 4.

g2 For the remaining items.

‡ Investment relating to Bangladesh PACS excludes investment by IRDP co-operatives.

Table 3.3: Loan Performance of PACS

(TK/Rs in Million unless otherwise indicated)

Items	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Loan Issued	5400	14530	11.44**	145	352	12.40**	94	640	27.79**
2. Loan Recovered	4550	12320	11.10**	83	268	18.00**	63	912	25.53**
3. Net Inflow (1-2)	850	2260	13.26**	62	84	-1.04	31	228	29.25**
4. Loan outstandings	7110	20494	18.67*	222	524	8.77**	170	956	18.69**
5. Loan overdues (a)	2683	9270	13.39**	48	301	13.36*	95	442	10.71
6. Overdues as % of preceding year's outstandings	38%	45%	1.56	22%	57%	4.44	56%	46%	-7.94*
7. Loan Issue as % of GDP from Agriculture	3.42	4.78	3.72	0.81	0.45	-6.53	0.98	2.60	10.84
8. Per Capita Loan Issue (Tk/Rs)	12.54	28.95	9.30	2.34	4.65	7.63	2.90	16.58	44.96
9. Loan Issue per hectare of GCA (Tk/Rs)	33.28	84.13	10.31	10.91	27.31	10.20	13.22	81.24	20.17
10. Per society loan issue ('000 Tk/Rs)	33.13	151.88	16.92	5.37	3.63	-4.35	7.83	80.00	25.82
11. Per Borrower Loan Issues (Rs/Tk)	462	776	5.76	290	320	1.09	235	582	10.07
12. Per Society Loan Recovery ('000 Tk/Rs)	27.91	128.33	17.03	3.07	2.76	-1.18	5.25	51.50	25.37
13. Per Borrower Loan Recovery (Tk/Rs)	389	655	5.79	166	244	4.28	158	375	9.60
14. Per Society Overdues ('000 Tk/Rs)	16.46	96.56	19.66	1.78	3.10	6.17	7.92	55.25	21.58
15. Per Borrower Overdues (Tk/Rs)	229	493	8.52	96	274	11.65	238	402	5.82

** = Significant at 1% level.

* = Significant at 5% level.

(a) Overdues of traditional co-operatives of Bangladesh were estimated using the ratio of overdues to outstandings of Bangladesh Jetya Samabaya Bank which is an apex body making refinances to PACS through COBS.

‡ = Growth rates of items 1 to 6 are g1 and those of items 7 to 15 are g2.

Table 3.4: Operational Cost of PACS[@]

Items	(Tk/Rs)								
	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth* Rate(%)	1969-70	1978-79	Growth* Rate(%)	1969-70	1978-79	Growth* Rate(%)
1. Per Society Cost of Operation	1411	8354	19.76	334	540	5.34	167	2625	30.61
2. Costs as % of Working Capital	2.49	2.59	0.44	3.51	5.20	4.37	0.92	1.66	6.56
3. Payroll Cost as proportion of total cost	52.17	53.87	0.36	13.00	14.71	1.37	50.00	52.38	0.52
4. Costs per Unit of Advance (Tk/Rs)	0.04	0.06	4.51	0.05	0.15	27.17	0.02	0.03	4.51
5. Payroll Cost per Unit of Advance (Tk/Rs)	0.02	0.03	4.51	0.01	0.02	7.70	0.01	0.02	7.70

[@] Excluding IRDP co-operatives in Bangladesh.

* Refers to g2.

Table 3.5: Profits of PACS*

Items	<u>All India</u>		<u>Bangladesh</u>		<u>West Bengal</u>	
	1969-70	1978-79	1969-70	1978-79	1969-70	1978-79
1. Amount of Profit (Tk/Rs in Million)	130	- 47	2	3	2	5
2. Per Society Profit (Rs/Tk)	798	-490	83	48	167	625
3. Profit as % of Working Capital	1.41	-0.15	0.88	0.41	0.92	0.40

* Relates to only traditional co-operatives in case of Bangladesh.

Table 3.6: Coverage of LTCS

Items ^x	India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Number of PLDBs/LMBS	809	890	0.80**	16	17	0.33	21	24	2.02**
2. Number of members [‡] ('000')	1980	3546	5.88**	20	30	3.95**	31	108	13.54**
3. Number of borrowing members (a) ('000')	341	341	1.80	1	14	37.52*	4	24	25.97**
4. Borrowing members as percentage of total members	17	10	-3.46	5	45	34.50*	13	22	12.34*
5. Borrowing members per '000' hectare of GCA	2.56	2.59	0.15	0.08	1.10	29.70	0.56	3.17	19.26
6. Borrowing members of percentage rural population	0.10	0.09	-1.32	0.002	0.019	25.02	0.01	0.06	19.91

^x = Items 1-4 are having growth g1 and items 5-6 having growth g2.

** = Significant at one percent level.

* = Significant at 5% level.

[‡] = Regular members.

(a) = Borrowing members in case of Bangladesh LMBS are estimated on the basis of average loan per borrower (Tk 828) as provided by a survey conducted by Dr. Kurtdawala (RBI) embodied in the report, Some Aspects of Institutional Arrangements For Agricultural Credit in Bangladesh. Bangladesh Bank, 1973.

Table 3.7: Resources of PLDB/LMBS

(Tk/Rs in Million)

Items ^α	India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Owned funds	380.00	1033.00	10.61**	3.00	4.00	6.86*	3.00	34.00	27.10**
2. Deposits	50.00	47.00	4.19	0.70	1.10	4.72	0.0003	0.60	43.04**
3. Borrowing	3610.00	7336.00	7.29**	6.00	24.00	15.79**	38.00	311.00	22.69**
4. Working Capital	4040.00	9901.00	8.14**	9.00	29.00	13.59**	41.00	383.00	23.58**
5. Owned fund as % of working capital	9.41	10.43	1.14	33.00	14.00	-19.80	7.32	8.88	2.15
6. Deposits as % of working capital	1.24	0.47	-10.78	11.11	3.45	-12.99	Ins	0.26	-
7. Borrowings as % of working capital	89.36	79.14	-1.35	66.67	82.76	2.40	92.68	81.20	-1.48
8. Investments as % of working capital	7.18	0.46	-56.11	10.23	64.13	20.40	6.33	4.18	-4.61

α = Growth rate of indicator 1 to 4 is g1 and that from 5-8 is g2.

Ins = Insignificant.

** = Significant of 1%.

* = Significant of 5%.

Table 3.8: Loan Performance of PLDB/LMBS

Items *	(Tk/Rs in million)								
	India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Loan issued (a)	1550	2406	5.74**	1	11	37.54*	10	113	32.27**
2. Loan recovered	330	1510	12.18**	1	3	21.78**	3	19	21.65**
3. Incremental Loan issue (1-2)	1220	896	-0.73	ins	8	-	7	94	35.94*
4. Loan outstanding(a)	2830	13337	10.01**	9	18	6.59*	38	327	23.21**
5. Loan overdues (P)	98	9006	21.85**	4	9	6.61*	3	13	7.31
6. Overdues as % of preceding year's outstanding	2.67	13.24	17.79	50.00	49.73	-0.06	7.81	3.98	-7.48
7. Loan issue as % of GDP from Agriculture	0.98	0.79	-2.39	0.004	0.014	13.92	0.10	0.46	16.93
8. Per Capita loan issue (Tk/Rs)	3.60	4.78	3.15	0.01	0.15	30.09	0.31	2.93	24.96
9. Loan issue per hectare of GCA (Tk/Rs)	9.55	13.88	4.16	0.06	0.87	29.71	1.39	14.34	25.93
10. Per Bank Loan Issue	1.40	1.91	3.45	0.05	0.66	28.67	0.47	4.54	25.20
11. Per borrower loan issue (000 Tk/Rs)	3.41	5.36	5.02	0.80	0.80	00.00	2.48	4.52	6.67
12. Per Bank Loan Recovery	0.41	1.16	11.56	0.05	0.19	14.83	0.12	0.71	19.75
13. Per Borrower Loan Recovery (000 Tk/Rs)	0.73	3.36	16.96	0.80	0.24	-13.38	0.65	0.76	1.75
14. Per Bank Overdues	0.12	1.02	23.59	0.28	0.54	7.30	0.14	0.50	14.15
15. Per Borrower Overdues (000 Tk/Rs)	0.22	2.02	50.22	4.40	0.65	-21.25	0.75	0.52	-4.07

* = Indicator No. 1 to 5 growth is g1 while growth of item No. 6-15 is g2.

(a) = In case of India and West Bengal include those by PLDBs, and branches of CLDBs.

(P) = In case of Bangladesh overdues rate of LMBS was estimated on the basis of the survey conducted by Kurdwala, cited earlier (1973).

ins = Insignificant.

** = Significant at 1% level.

* = Significant at 5% level.

Table 3.9: Cost of Operation of PLDB/LMBs

Items	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth* Rate(%)	1969-70	1978-79	Growth* Rate(%)	1969-70	1978-79	Growth* Rate(%)
1. Per bank ^x of cost of operation (000 Tk/Rs)	61.80	200.00	13.05	25.00	129.41	18.27	52.38	254.17	17.55
2. Cost as a % of working capital	1.24	1.80	4.14	4.54	7.48	5.55	2.14	1.75	-4.74
3. Payroll cost as proportion of total cost	60.00	56.74	-0.63	50.00	40.91	-2.23	72.73	58.21	-2.47
4. Cost per unit of advance (Tk/Rs)	0.05	0.10	9.56	0.50	0.20	-10.18	0.11	0.06	-6.74
5. Payroll cost per unit of advance (Tk/Rs)	0.03	0.06	7.70	0.25	0.08	-12.66	0.08	0.04	-7.70

^x PLDBs/LMBs are considered as Bank.

* Refers to g2.

Table 3.10: Profit* of PLDB/LMBs

Items	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth (a) Rate(%)	1969-70	1978-79	Growth (b) Rate(%)	1969-70	1978-79	Growth (b) Rate(%)
1. Per bank profit (000 Tk/Rs)	12.48	-92.13		10.63	23.53	8.83	1.90	41.67	34.31
2. Profit as % of working capital	0.25	-0.83		1.93	1.36	-3.89	0.10	0.26	10.62

* In case of India relates to PLDBs only.

(a) Growth rate could not be computed for loss incurred in some years.

(b) Refers to g2 only.

Table 3.11: Coverage of Co-operatives as a whole*

Items ^α	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Membership ^(a) (000)	32906	58571	6.62**	2020	4830	10.04**	1111	2364	8.27**
2. Borrowing Members (000)	12306	19335	5.67**	501	1114	12.10**	445	1159	14.45**
3. Borrowing Members as % of total Members	34.40	33.01	-0.86	24.80	23.06	-2.06	40.05	49.03	6.31**
4. Borrowing Members per '000' hectare of GCA	75.84	111.57	4.29	37.70	86.44	9.22	62.61	147.12	9.49
5. Borrowing Members as % of rural population	2.86	3.84	3.27	0.81	1.47	6.62	1.73	3.01	6.16

* Includes PACS, LTCs and also grain banks in case of India.

^α Growth of indicators 1-3 is g1 while that of 4 & 5 is g2.

(a) Only regular members.

** Significant at 1% level.

* Significant at 5% level.

Table 3.12: Resources of Co-operatives as a whole[§]

(Tk/Rs in million)

Items ^α	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Owned funds	2789	7229	10.37**	40	131	13.82**	52	208	14.45**
2. Deposits	682	2227	12.66**	25	112	18.06**	7	25	13.02**
3. Borrowings	9795	26149	10.49**	205	730	13.33**	205	1242	18.74**
4. Working Capital	13304	40853	11.44*	269	973	13.78**	264	1656	18.99**
5. Owned funds as % of working capital	20.96	17.69	-1.88	14.87	13.47	-1.09	19.70	12.56	-5.00
6. Deposits as % of Working Capital	5.13	5.45	0.67	9.29	11.51	2.38	2.67	1.51	-6.25
7. Borrowing as % of Working Capital	73.62	64.00	-1.56	76.21	75.03	-0.16	77.65	75.00	-0.39
8. Investment as % of Working Capital	10.99	6.15	-6.45	10.79	16.08	4.43	9.85	6.22	-5.10
9. Investment as % of Loan Issue	22.35	15.36	-4.17	19.70	46.03	9.43	24.53	13.72	-6.46

* = Significant at 5% level.

** = Significant at 1% level.

α = Growth of indicators 1 to 4 is g1 and from 5 to 9 growth rate is g2.

§ = Excludes branches of CLDBs in case of India and IRDP co-operatives in case of Bangladesh.

Table 3.13: Loan Operations^(a) of Co-operatives as a whole

(Tk/Rs in million)

Indicators *	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Loan issued	6960	17037	10.39**	146	363	12.81**	106	755	28.14**
2. Incremental inflow	2072	3170	3.41	62	92	0.69	39	323	35.33**
3. Per borrower loan issue (000 Tk/Rs)	0.566	0.881	4.92	0.291	0.326	1.26	0.238	0.651	11.18
4. Loan issue as % of GDP from agriculture	4.40	5.58	2.64	0.81	0.46	-6.29	1.11	3.07	11.27
5. Loan issue per hectare of GOA (Tk/Rs)	42.89	98.31	9.22	10.99	28.17	10.45	14.91	95.84	20.93
6. Per Capita Loan issue (Tk/Rs)	16.16	33.83	8.21	2.35	4.80	7.93	3.27	19.55	19.87
7. Loan recovered	4888	13867	13.11**	84	271	18.50**	67	432	25.21**
8. Per borrower recovery (000 Tk/Rs)	0.397	0.717	6.57	0.168	0.243	4.10	0.151	0.373	10.05
9. Loan outstanding	12290	33857	11.01**	231	542	8.71**	212	1287	19.95**
10. Per borrower outstanding (000)	0.999	1.751	6.23	0.461	0.487	0.61	0.476	1.110	9.41
11. Loan overdues	2794	11043	15.03**	52	310	13.06*	100	457	10.55*
12. Per borrower overdues (000 Tk/Rs)	0.023	0.571	35.69	0.104	0.278	10.92	0.225	0.394	6.22
13. Overdues as % of preceding year's outstandings	22.73	32.44	3.99**	22.51	57.20	4.25	47.17	35.51	-8.96*

* = Growth of indicator numbers 1, 2, 7, 9, 11 and 13 are g1 while the remaining are g2.

(a) = Includes PACs, grain Banks, PLDB/LMBs and Branches of CLDBs.

** = Significant as 1% level.

* = Significant as 5% level.

Table 3.14: Cost of Operation* of Co-operatives as a whole

Items ^α	(Tk/Rs)								
	All India			Bangladesh			West Bengal		
	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)	1969-70	1978-79	Growth Rate(%)
1. Per borrower cost	23	51	8.85	23	44	7.21	8	25	12.66
2. Cost as % of Working Capital	2.11	2.40	1.43	2.70	5.30	7.49	1.20	1.68	3.74
3. Cost per 100 Tk/Rs of loan issue	4	6	4.55	5	15	12.21	3	4	3.20
4. Payroll cost as % of total cost	53.57	54.39	0.16	18.75	16.30	-1.55	58.06	53.79	-0.85

^α = Growth rates of the indicators are g2.

* = Excludes cost of operation of the branches of CLDBs in India and IRDP co-operatives in Bangladesh.

Table 3.15: Profit Performance* of Co-operatives as a whole

Items ^x	1969-70			1978-79			1969-70			1978-79		
	1969-70	1978-79	Growth Rate (%) ^(a)	1969-70	1978-79	Growth Rate (%) ^(b)	1969-70	1978-79	Growth Rate (%) ^(b)	1969-70	1978-79	Growth Rate (%) ^(b)
1. Profit as % of Working Capital	1.06	-0.32	-	0.92	0.50	-6.77	0.93	0.36	-10.55			
2. Profit as % of owned funds	5.55	-1.79	-	5.86	3.34	-6.20	5.22	2.91	-6.49			
3. Per member profit (Tk/Rs)	4	-2	-	1	1	-	2	3	4.55			

971

^x = Growth rates to all the indicators are g2.

* = Excludes profit of operation of the branches of CLPBs in India and IRDP Co-operatives in Bangladesh.

(a) = Growth rates could not be computed for loss incurred in some years.

(b) = Refers to g2 only.

CHAPTER IV

PERFORMANCE OF RURAL OPERATIONS OF COMMERCIAL BANKS

In the preceding chapter, performance of co-operatives over a decade has been analysed. In this chapter, performance of Commercial Banks with particular reference to their rural operations is evaluated¹. As seen in the previous chapter, the co-operatives in the two countries failed to mobilise adequate amount of rural savings as deposits and the supply of co-operative credit, especially in the context of the increasing demand for funds by the rural sector, proved to be inadequate. Therefore, commercial banks in both India and Bangladesh, were advised to extend and accelerate their operations in the rural areas to supplement the operations of other extant agencies including co-operatives. These commercial banks have been operating in the rural areas for over a decade now. As such, as a part of the study of the institutional finance for rural development, an assessment of the performance of rural operations of commercial banks is appropriate.

4.2 Commercial Banks as Developmental Agents

Over the years, the theory of banking and the ownership pattern of banks have undergone a sea-change.

1. In India rural operations of commercial banks include those centres with population of less than 10,000 as per 1971 census while areas having no municipal facilities are regarded as centres of commercial banks' rural operations in Bangladesh.

Since Keynes' General Theory, the neutrality of money thesis has been more or less abandoned by the economists. Rather, money is now regarded as exercising an important influence on the level of production and accumulation in the economy. Commercial banks, as dealers in money, have thus been recognised as vital agents in the process of economic development.]

Contrary to traditional urban based business, rural operations of commercial banks may be regarded as an innovation. It is conceived that commercial banks, by mobilising rural deposits which remained untapped so far by co-operatives, can effectively add to the supply of rural credit known so far to be inadequately met by co-operatives and other extent agencies. Thus, commercial banks increase the incomes of the savers by paying them reasonable rates of interest on their deposits and also increase investment activities by providing required credit. Thus, what Schumpeter² identified as a source of new investment has come to reality even in the rural context. It is now regarded that by planned direction of commercial banks' lendings, more economic activities are possible to be created for relatively less developed sectors of the economy and also for less developed segments of the population.] With this end in view, commercial banks in

2. Schumpeter, J.A., The Theory of Economic Development, 1961, Chapters II & III.

both Bangladesh and India were directed to extend their operations in the rural areas in order to help the Governments' efforts for promoting rural development.)

4.3 Rural Banking is Wider than Agricultural Banking

It is true that agriculture is the largest sector of the rural economy but it is not the total rural economy. From the available current literature, it is found that there exists widespread misunderstanding about this as a result of which agriculture is often taken as a proxy for rural economy. It is also found that many regard agricultural finance as synonymous with rural finance. Rural banking/finance in real sense of the term includes in addition to finance for agriculture, finance for rural entrepreneurs, rural transport and marketing, rural trade etc.)

As such, to apprise the performance of commercial banks in the rural context, we consider their total rural operations and not those for agriculture alone.

Before presenting the evaluation it may be pertinent to discuss in brief the way commercial banks were brought on to the rural scene.

4.4 Taking Commercial Banks To The Rural Areas

Until recently, commercial banks in both India and Bangladesh were largely urban-oriented. In India, since 1968 and in Bangladesh since 1972, major commercial banks were brought under government control/ownership in order

to influence their resource flow in the most desired direction particularly, in the interest of the rural populace. The steps taken in this regard by the respective governments, are briefly outlined below.

Bangladesh

Before the liberation of Bangladesh (December 1971), a large section of the banking sector was owned and managed by West Pakistani industrialists and the operations of banks were deliberately designed to suit mainly their interests. At the time of liberation, only 14% of the commercial bank branches, 17% of total deposits and 14% of bank credit in Bangladesh were by those banks owned and managed by Bangladesh.³

Since the Head Offices of most of the banks were located in West Pakistan where usually surplus funds of the banks were maintained, Bangladesh lost the share of those surplus funds to which it was entitled. Because of this loss of surplus funds, the banking system as a whole in the newly born Bangladesh faced sudden and acute liquidity problem. Besides paucity of funds, Bangladesh also faced problems in managing the abandoned branches of West Pakistani banks. This situation, however, was tackled by various ad hoc arrangements including recruitment of

3. GOB, Ministry of Finance, Resume of the Activities of The Financial Institutions in Bangladesh, 1973, pp. 10.

temporary administrators. This stop-gap arrangement continued till April 1972, when the government of Bangladesh nationalised the commercial banks (except foreign banks). After the nationalisation, all the commercial banks were grouped under the following newly formed six banks: Agrani Bank; Janata Bank; Pubali Bank; Rupali Bank; Sonali Bank and Uttara Bank.

After consolidation of the commercial banking sector, the Government directed (1973) these banks to open branches in rural areas. However, even after four years of the directives, the number of rural branches of commercial banks did not increase significantly. Therefore, Government of Bangladesh in 1977 introduced a Special Agricultural Credit Programme (SACP) through which each of the nationalised commercial banks was asked to increase their operations in the rural areas by opening rural branches and making rural lendings in the light of the target set by the Bangladesh Bank (Central Bank of the Country) in consultation with the individual bank.

India

(Rural operations of commercial banks in India started practically when Imperial Bank of India was directed to open new branches in the unbanked areas following the recommendation of the Rural Banking Enquiry Committee (1950).) However, as the performance in this regard was not satisfactory, the Rural Credit Survey Committee (1954)

suggested formation of the State Bank of India (SBI), one of the main objectives of which is to perform rural credit operations. In 1955, the SBI Act was passed which provided for opening of not less than 400 branches within five years of its nationalisation; the target was achieved in due time. Thereafter, with the purpose of introducing credit planning for ensuring greater flow of credit to the priority sectors, social control was imposed on commercial banks' lendings in 1968. Further in the same year, GOI directed RBI to form National Credit Council (NCC) which is to assess the credit requirements of different sectors and indicate order of priority for granting commercial banks' loans.

[Even after imposing social control, GOI were doubtful of commercial banks' response to channelise increasing volume of credit to priority sectors which led them to think of bringing the ownership of banks under state control. This culminated in the nationalisation of fourteen major commercial banks in July 1969. The main objectives of nationalisation, among others, were: ensuring greater supply of credit for priority sectors; removal of ownership of banks by a few; and giving a professional bent to the bank management.⁴]

4. Mrs. Indira Gandhi (Prime Minister), Broadcast to the Nation, July 19, 1969.

The Lead Bank Scheme

Gadgil Study Group (1968) recommended area approach of lending for commercial banks along with an integrated rural credit operation under the leadership of the relatively stronger commercial bank in a particular area. This recommendation, after due examination by a committee of bankers (Nariman Committee), was accepted by GOI in 1969. Under this Scheme, a bank is designated as Lead Bank for each district which is made responsible for surveying the credit needs and credit facilities in the respective districts and to allocate responsibilities among other banks operating in the area.

Regional Rural Banks (RRBs)

(With a view to securing the twin advantages of the resource position and professional management outlook of the commercial banks along with the familiarity of local conditions of co-operatives, GOI established Regional Rural Banks in 1976 following recommendation of a working group under the chairmanship of M. Narasimham (1975). RRBs obtain funds from the RBI, and the GOI in addition to the sponsor banks.)

4.5 Measures to Encourage Increased Rural Operations

Governments and Central Banks in both India and Bangladesh issued a number of instructions and provided required facilities in order to speed up commercial banks' rural operations. Some of these are: liberal approach towards branch expansion; providing concessional refinances

as and when necessary; introducing lead banks system for co-ordinated and joint approach; introducing RRBs in India and in similar pattern experimenting with Grameen Bank in Bangladesh; introducing Differential Rate of Interest Scheme; earmarking certain proportion of lendings for priority sectors; preferential treatment to small/marginal farmers, agricultural labourers and rural entrepreneurs; and minimum rural credit-deposit ratio of 60% in case of India and 75% in case of Bangladesh.

We may now review the rural operations of commercial banks.

4.6

SECTION II

As stated earlier, in India rural operations of commercial banks started four years earlier (1968) compared to those of Bangladesh (1972). As such, in order to make the performance of rural operations of commercial banks comparable between the two countries, four years prior to 1972 in case of India were excluded i.e. the period of comparison is from 1972 to 1980.

Since separate information relating to operational costs of rural branches and their profit performance are not available in both India and Bangladesh, we appraise the performance of rural operations of commercial banks in respect of three broad aspects:

- (1) Coverage of rural areas by the commercial banks;

- (ii) Success in regard to mobilisation of rural savings as deposits, and
- (iii) Success in providing rural credits.

The performance analysis is attempted using the following:

- (A) Three point analysis using secular growth* of these three aspects, i.e., coverage, deposit mobilisation and credit extension.
- (B) A composite index is constructed taking all the three aspects together in order to assess the overall growth over the period, and
- (C) Assessment of the level of development and changes in the level over the period using a 10-point scale.

(A) THREE POINT ANALYSIS

Secular growth of each of the three aspects, viz., coverage, mobilisation of deposits and extension of credit are discussed here.

4.6.1 (I) Coverage

Governments of both India and Bangladesh followed a liberal policy of branch expansion in the rural areas since the nationalisation of the commercial banks in the respective countries. Central banks in both the countries

* Since starting year of rural operations of commercial banks is different, it is likely that Bangladesh which started operations later will have relatively higher growth rates of the indicators compared to those of India.

set annual targets of branch expansion for each of the nationalised commercial banks and in case of India the number of branches that may be opened in urban areas was linked with opening of rural branches. Specifically, it was stipulated by the RBI that for every four rural branches opened, only one branch was allowed to be opened in the non-rural areas. RBI also issued a circular which envisaged that commercial banks should cover all the unbanked areas including the rural by June, 1978. Similar instructions were issued by the Bangladesh Bank that within a decade after nationalisation (1982), commercial banks were expected to cover all the unbanked areas including the rural.

Information furnished in Table 4.1 shows that coverage of the rural areas by commercial banks in India, Bangladesh and West Bengal during the period was quite satisfactory, as revealed by the highly significant growth (g1) of the coverage indicators: number of rural branches; rural branches as proportion of total branches and rural branches per hundred thousand of rural population. Growth rates (g1) of all these indicators were relatively higher for Bangladesh compared to Indian commercial banks because of the lower base of these indicators. Besides, expansion of rural branches when judged in terms of GCA, was quite good in both the countries but in the terminal year (1979-80) coverage of GCA per rural branch in Bangladesh was half of that of India and also of the State of West Bengal.

It may further be noted that in the terminal year (1979-80) rural branches as proportion of total branches was the highest (63%) in Bangladesh, 47% in India and 34% in West Bengal. The low proportion of rural branches in case of India can partly be explained by the relatively larger proportion of urban area. The same factor also explains the relatively low coverage of rural population in spite of a high proportion of rural branches in Bangladesh.

Even though the expansion of rural branches in both India and Bangladesh was satisfactory during the period 1971-72 to 1979-80, there are problems which branches face in their rural operations such as disparity in the spread of banking facilities, inadequacy of trained staff and effective flow of communication to and from the branches.

4.6.2 (II) Mobilisation of Rural Deposits

From the available data (Table 4.2), it is evident that mobilisation of rural deposits by commercial banks in both India and Bangladesh (as also in West Bengal) during the period was quite commendable. This claim is substantiated by the highly significant growth (g1) of the various indicators used for judging the rural deposit performance of commercial banks: deposits in absolute amount; incremental amount of rural deposits; rural deposits as proportion of total commercial banks deposits; per capita rural deposits and deposits per hectare of

gross cropped area. However, incremental rural deposits as proportion of GDP from agriculture was not significant in Bangladesh.

A higher relative performance of rural deposits in terms of GCA in the terminal year in Bangladesh was mainly due to a decline in the GCA. A relatively low amount of deposits per rural branch in Bangladesh was probably due to faster increase in the number of rural branches with comparatively smaller command area of operation compared to that of India.

4.6.3 (III) Loan Operations

Commercial banks both in India and Bangladesh extend credit through the rural branches for various kinds of activities, such as, minor irrigation, farm mechanisation, dairying, poultry, fishery, and rural enterprises including those of artisans. Usually, such credits are made available from deposit resources for short-term period; in addition, term loans are also provided mostly from refinance resources for projects/lines of activities indicated by the refinancing agencies. In India, ARDC is the apex institution providing refinance and in Bangladesh where there is no such specialised agency, refinances are provided directly by the Bangladesh Bank.

Rural lending performance of Indian, Bangladesh and West Bengal commercial banks during the period under review is seen to be quite impressive from the information

furnished in Table 4.3. This is underlined by the significant growth (g1) of different indicators considered in appraising the success of rural/^{loaning}operation of commercial banks: quantum of rural credit supply; incremental supply of rural credit; rural credit as proportion of total commercial bank's credit; rural credit as proportion of total commercial banks deposits; amount of rural credit per bank; rural credit per capita and per hectare of GCA and incremental rural credit supply as percentage of GDP from agriculture.

It can be seen that growth (g1) of almost all the indicators in case of commercial banks' rural lendings of Bangladesh were relatively much higher than those of India and West Bengal; largely due to low performance level of the relevant indicators in the base year. It is to be noted that in Bangladesh, the growth of incremental rural credit supply as proportion of GDP from agriculture was not significant; it was, however, significant for India as well as West Bengal.

Though the amount of rural credit recorded a significant rise (g1); rural credit as a proportion of total commercial banks' credit in the terminal year was 9.60%, 8.51% and 3.36%, respectively, for India, Bangladesh and West Bengal. This ratio signifies low rural credit performance in view of the GOI's announcement that by 1985, 16% of the aggregate bank credit has to go for agriculture

and allied activities. Besides, per rural branch credit also appears to be low when compared with per rural branch deposit performance (Table 4.2). An examination of Tables 4.2 and 4.3 reveals that credit-deposit ratios of rural branches in case of India, Bangladesh and West Bengal were 54%, 44% and 32% respectively (1980). These ratios were below the GOI target of 60% to be reached by March, 1979 and Bangladesh Government's target of 75% to be achieved by 1980.

Though per capita rural credit by commercial banks registered significant growth, the per family (assumed 5 member size) rural credit at the end of 1980 was Rs. 210, Tk 110 and Rs. 100 respectively in case of India, Bangladesh and West Bengal. This, in view of the rising prices of inputs, and by any other standard, is grossly inadequate.

A similar picture emerges when rural credit is considered by per hectare of GCA which in 1980 was Rs. 125 in case of India, Tk 132 for Bangladesh and Rs. 99 for West Bengal. This is very low when judged by the cost of cultivation per hectare. Basu⁵ (1978) estimated the cost of implements alone per acre at Rs. 3000 in 1974-75 prices. Even if one puts per hectare cost of cultivation (including all inputs) at Rs. 5000, supply of rural credit per hectare

5. Basu A. Technological possibilities of Indian Agriculture, Calcutta, 1978, p. 46.

is woefully inadequate even after taking into account the supply of co-operative credit.

Similarly, the incremental rural credit as percentage of GDP from agriculture while showing significant growth over the period was very low even at the end of 1980 - 1.53%, 0.69% and 0.57% respectively in case of India, Bangladesh and West Bengal. It may be pointed out here that the Pakistan Credit Enquiry Commission⁶ (PCCEC) estimated in 1959 credit requirement for agriculture as 25% of GDP from agriculture. Even if we assume half of this proportion (12.5%) as the requirement for rural credit, the extension of rural credit by commercial banks in both India and Bangladesh turn out to be quite inadequate.

Besides, when the rural credit of commercial bank is considered in relation to total deposits mobilised by commercial banking sector, it is found that notwithstanding commendable growth over the period, rural credit of commercial banks as share of total bank deposits was low even in the terminal year (1980) - 6.49%, 6.82% and 2.05% respectively in case of India, Bangladesh and West Bengal. This indicates that non-rural areas in India contributing 35% of GDP (roughly 30% of GDP in Bangladesh) got a substantially higher proportion of credit than the rural areas which contribute 65% of GDP (70% in Bangladesh).

6. Government of Pakistan, Pakistan Credit Enquiry Commission, Karachi, 1959, pp. 7.

From the foregoing analysis, it is evident that even if, by absolute amount and by growth rates of various indicators, rural lending operations were apparently high, the low level of various key indicators even at the terminal year (1980) suggests that flow of commercial banks' credit to rural areas was still inadequate.

4.6.4 Implications of Target Oriented C-D Ratios)

Governments of both India and Bangladesh, as mentioned earlier, set target C-D ratios for rural branches. It was considered necessary, because in the absence of such targets, rural branches may not have a clear goal to achieve. Apparently, it was a good decision but a closer examination of such target C-D ratios show some unhealthy implications such as the following:

- (1) The deposits base of the rural branches in both India and Bangladesh being low, a 60% or 75% C-D ratio by itself does not imply any significant improvement in the supply of the volume of rural credit.
- (2) It is likely that because of a relatively higher level of development, some states/areas have higher amount of deposits. In such areas, achievement of target oriented C-D ratios will only accentuate the already existing regional disparities.
- (3) At the rural branch level, greater attention may be given to achieving the target rather than lending to the right persons for right type of activities.)

(4) In developed areas where deposits are relatively higher, rural branch managers may find it difficult to achieve such target C-D ratio because even lower than such ratio may meet the immediate credit requirements of the area owing to higher deposit base.

(The above criticism does not mean that target C-D ratios should not be set. Rather, blindly following the targets without taking into consideration both the level of development and quantum of mobilised deposit resources in different areas may not yield the desired results.)

4.7 (TRANSFER OF RURAL SAVINGS)

About three decades back Gunnar Myrdal⁷ in his Theory of Underdevelopment, stated that through the rural operations of various financial institutions including banks, surplus funds of the rural areas, are being transferred to the relatively more developed urban/metropolitan areas. This process of fund transfer was termed by him as "backwash effects". The logic of such fund transfer, as shown by him, lies in the possibility of having relatively higher return from investing funds in the more developed areas.)

Assessment

Transfer of rural funds to non-rural areas has been reckoned with reference to loanable funds - both deposits

7. Myrdal G., Economic Theory and Underdevelopment Regions, Bombay, 1958.

and refinances. Loanable deposits means the amount of total rural deposits mobilised minus the amount necessary to meet the requirements of the Statutory Liquidity Ratio (SLR). This SLR in both the countries during the period under review was around 35% with some minor fluctuations. Hence, in order to assess loanable deposits, we have assumed SLR in both the countries as 35% and thus loanable deposits would be of the order of 65% of the total rural deposits.

(Data provided in Table 4.4 show that the growth (g1) of the amount of total fund transfer through rural operations of commercial banks was highly significant in case of both Bangladesh and India (as also in West Bengal). Such transfer of rural deposits increased to about four times during the period in case of India; three times in case of Bangladesh and a little more than six times in case of West Bengal. The amount of transfer in 1980 was around Rs. 4 thousand million in case of India and a little less than Tk/Rs one thousand million in case of both Bangladesh and West Bengal. When refinances for specific lines of activities are deducted from the total rural lendings, the magnitude of rural fund transfer appears to be even larger.

Growth (g1) of deposit transfer per rural branch was significant in case of India; in case of Bangladesh, on the other hand, there was a significant decline in deposit transfer per rural branch. The decline of per branch

transfer of rural deposits in case of Bangladesh was partly due to relatively lower per branch amount of deposits compared to India and West Bengal (Table 4.2) and partly due to higher target C-D ratio in Bangladesh (75%) compared to that of India (60%). In 1980, per branch transfer of rural funds was highest in case of West Bengal (Rs. 1.13 m), Tk 0.40 million in Bangladesh which was 1.5 times more than the transfer in case of India at Rs. 0.28 million.

Transfer of rural deposits, when judged as share of total rural deposits, shows that it significantly declined in all the regions under comparison. Rural deposits' transfer as a share of total rural deposits in the terminal year (1980) was 10.5%; 21.3% and 32.6% respectively in case of India, Bangladesh and West Bengal.

From the above analysis, it is evident that transfer of rural funds during the period was more in case of Bangladesh compared to that of India. The position of West Bengal in this regard was worse than Bangladesh. The magnitude of rural fund transfer was more in case of West Bengal compared to some other states of India is evident from the share of the amount of fund transferred in the terminal year i.e. about 1/5th of the all India total. A relatively higher transfer of rural savings in West Bengal can partly be attributed to low share of ARDC refinances for the state (2.26% of all India total in 1980). Besides, it could be gathered that in spite of State Government's

persuasive efforts, such transfer in West Bengal still continues.⁸

While looking into the trends of transfer of rural deposits through commercial banks, one should not also forget that commercial banks are not the only agency transferring rural savings to non-rural areas. Large number of rural Post Offices, Insurance Companies (mostly Life) through rural premiums and other public limited companies entitled to accept deposits from the members of public are also acting as agents for transferring rural funds to non-rural areas. Another important point to be borne in mind is that lending operations of commercial banks in rural areas can be different in different regions depending on a number of factors such as: level of infra-structural development; availability of inputs; and magnitude of co-operative loan operations. Therefore, it will not be proper to put the entire blame at the doors of commercial banks for not lending the total loanable funds in the rural areas. However, as an institution in the public sector, commercial banks should make all out efforts to minimise transfer of the funds from the rural areas. Rather, they should, in pursuance of the Government commitments, make additional inflow of funds from non-rural areas in order

8. Mitra, Ashok, (Former Finance Minister of West Bengal), "A talk on Centre-State Financial Relationships", S.P. College, Poona, 11th December 1982.

to help faster development of rural areas.

4.8 COMPOSITE INDEX OF GROWTH

A composite index of growth taking the three major aspects of rural operations of commercial banks viz., coverage, deposit mobilisation and extension of credit is constructed on lines similar to that for co-operatives (Appendix A, Chapter III). The only difference is that, unlike in the case of co-operatives, aspects like cost control and earning of profit are not taken into consideration as information relating to these are not available separately for rural operations of commercial banks in both India and Bangladesh.

Specific indicators chosen for each of the three aspects are:

I. Coverage

- (i) Number of rural branches as % of total number of branches.
- (ii) Number of rural branches per '000' rural population.

II. Deposit Mobilisation

- (i) Rural deposits as % of total deposits.
- (ii) Per capita rural deposits.
- (iii) Incremental rural deposits as % of GDP from agriculture.

III. Extension of Rural Credit

- (i) Amount of rural credit as % of total credit.

- (ii) Per capita rural credit.
- (iii) Rural credit per hectare of GCA.
- (iv) Incremental rural credit as % of GDP from agriculture.
- (v) Incremental rural credit/deposit ratio (C-D ratio).

The composite index thus computed is plotted in Chart Number X. The diagram shows that the composite index of the rural operations of commercial banks, except for the first four years, has grown faster in case of Bangladesh (marked, of course, by noticeable fluctuations) compared to that of India as well as West Bengal. The decline of the index for Bangladesh in 1974-75 was partly due to lower incremental flow of deposit and credit as a consequence of famine conditions and the decline in 1978-79 can be attributed to a policy of go-slow followed by Bangladesh banks in order to appraise their past operations in the rural areas.*

Relatively faster growth of composite index of the rural operations of Bangladesh commercial banks can be ascribed partly to low performance in the base year (because of later start) and partly to introduction of target oriented rural loan operations of commercial banks known as SACP (1977).

* Discussion with the Deputy Governor of Bangladesh Bank, Dhaka, October, 1980.

CHART X. COMPOSITE INDEX OF RURAL OPERATIONS OF COMMERCIAL BANKS.

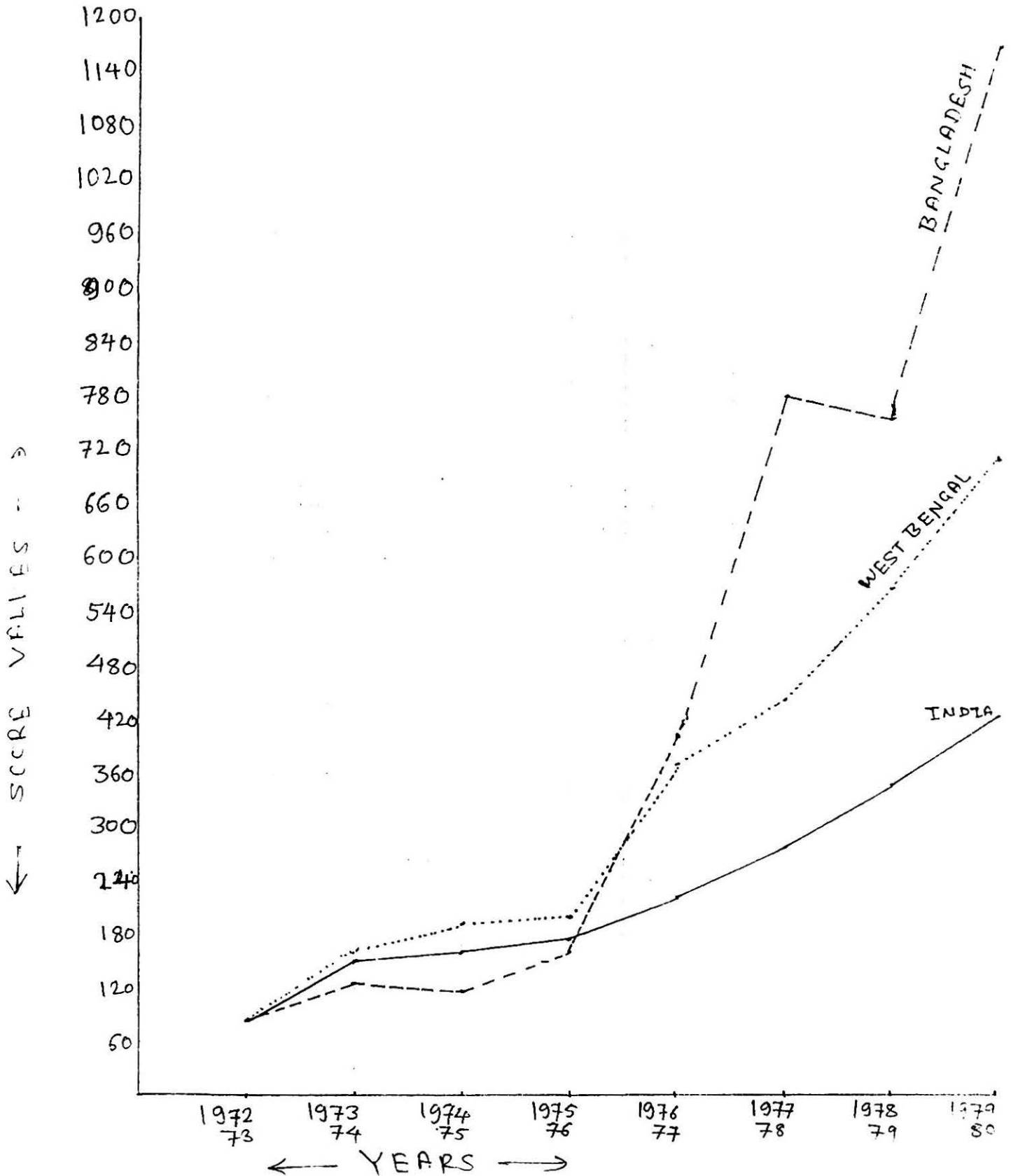
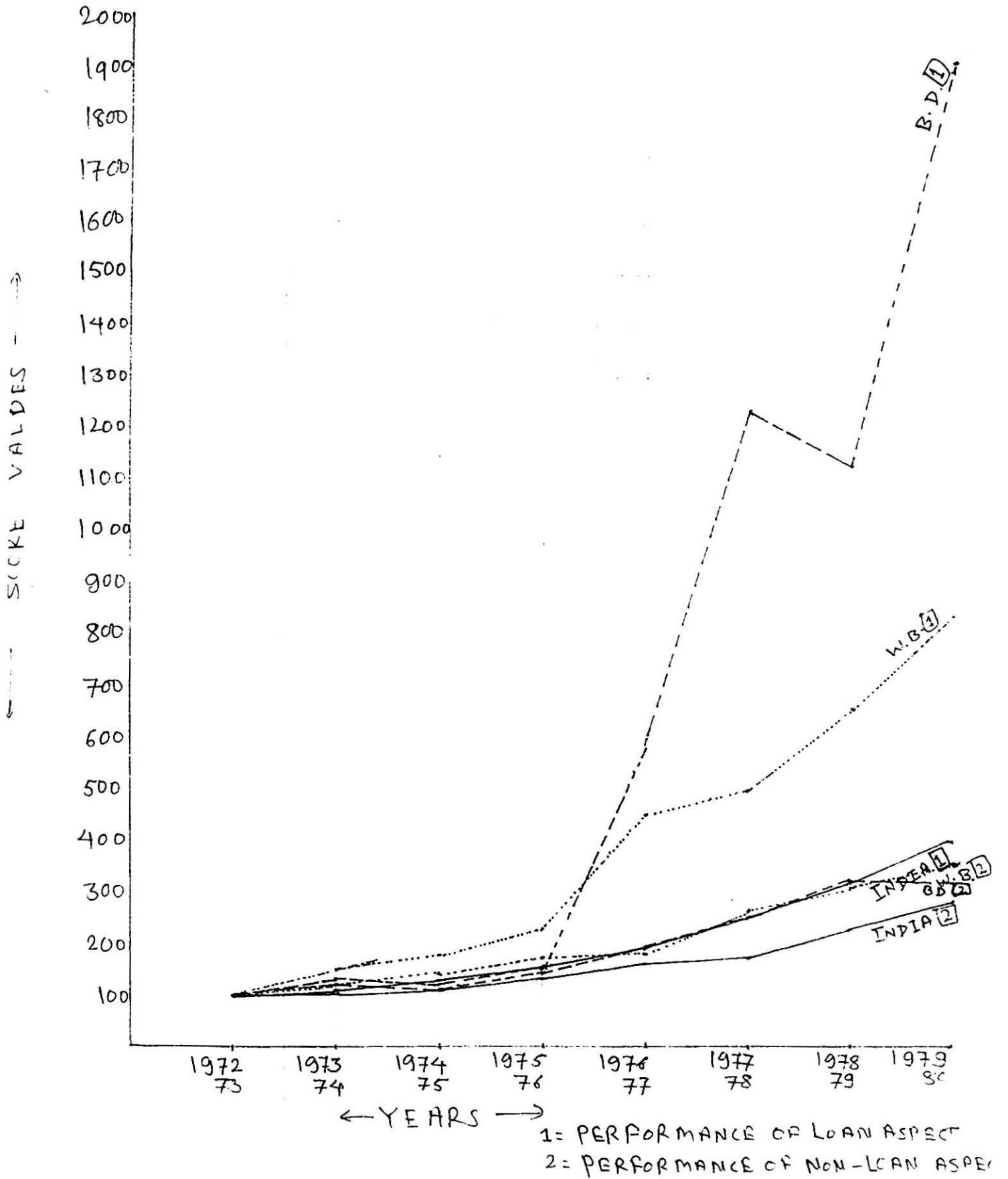


CHART VI. COMPOSITE INDEX OF LOAN AND NON-LOAN PERFORMANCE OF RURAL OPERATIONS OF COMMERCIAL BANKS.



It can be seen from the Chart XI that composite index of loan operations for all the three regions showed relatively better growth than that of non-loan operations. But this gap in the growth of loan and non-loan performance during the first four year was rather narrow and since 1976 such gap continuously widened in all the regions. Such gap was wider in case of Bangladesh compared to India. A relatively lower growth of composite index of non-loan indicators, especially deposits, might have been a result of higher deposit at the base year relative to loan performance in case of all the regions under comparison (see Tables 4.2 and 4.3).

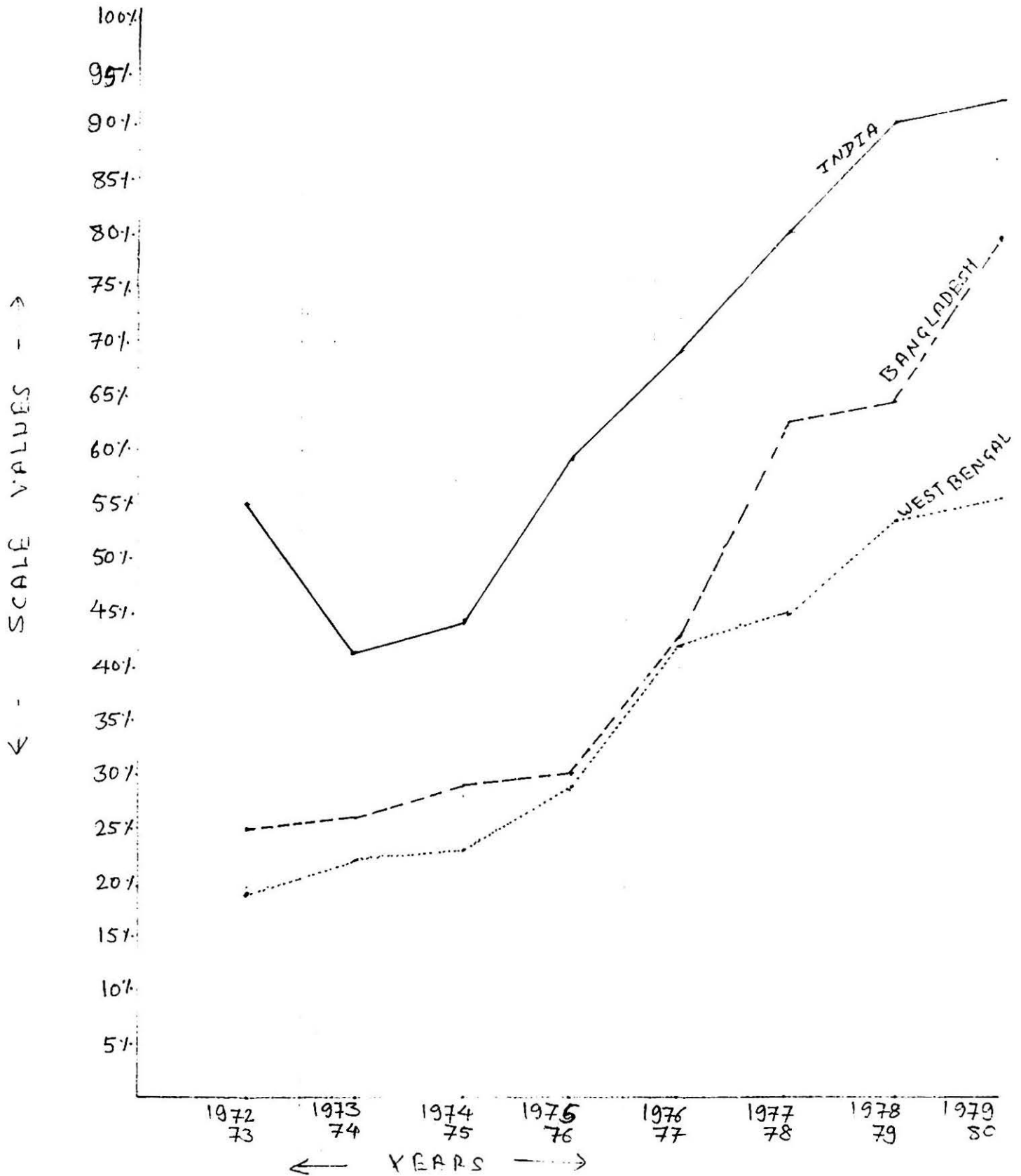
4.9 THE CHANGE IN THE LEVEL OF DEVELOPMENT

The three aspects that were considered while constructing composite index are also used for assessing the level of development with a ten-point scale on the lines discussed in Appendix A, Chapter III.

The Chart XII shows that the level of development in India was all through higher and relatively more consistent than that of Bangladesh. In case of West Bengal, this was even lower than Bangladesh.

The gap in the level of development between India and Bangladesh in the first few years was wide but gradually narrowed down which may be ascribed to aggressive efforts and target-oriented approach of rural operations of commercial banks in Bangladesh.

CHART XII . LEVEL OF DEVELOPMENT OF RURAL OPERATIONS OF COMMERCIAL BANKS.



4.10 CONCLUSION

The growth in the number of rural branches in the two countries during the period (1972-80) was commendable. But, the proportion of rural branches to total commercial banks' branches in India was lower compared to that in Bangladesh.

An impressive growth of rural deposits as well as rural credit have been noticeable in terms of both flow and stock amounts in the two countries. However, an assessment of the underlying factors indicates that there is need to make further efforts to step up deposit mobilisation and credit extension in the two countries.

Backwash effects appear to be operating through rural branches of commercial banks in both India and Bangladesh, more in the latter than in the former. Compared to Bangladesh backwash effects were even more pronounced in West Bengal.

Table 4.1: Rural Coverage by Commercial Banks

Items	All India			Bangladesh			West Bengal		
	1971-72	1979-80	Growth Rate(%) (g ¹)	1971-72	1979-80	Growth Rate(%) (g ¹)	1971-72	1979-80	Growth Rate(%) (g ¹)
1. Number of rural branches	4817	15105	14.72**	349	2103	23.16**	168	690	19.47**
2. Rural branches as proportion of total branches	35.36	46.59	3.41*	31.84	63.10	8.50**	22.11	33.74	6.29**
3. Thousand Hectares of GCA per rural branch	34.29	12.99	-13.91**	33.75	6.85	-22.44**	43.28	12.71	-18.71**
4. Rural branches per lakh of rural population	1.08	2.95	13.03**	0.53	2.73	21.22**	0.50	1.76	17.57**

** = Significant at 1% level.

* = Significant at 5% level.

Table 4.2: Rural Deposits of Commercial Banks

Items	(Tk/Rs in million)								
	All India			Bangladesh(P)			West Bengal		
	1971-72	1979-80	Growth Rate(%) (g1)	1971-72	1979-80	Growth Rate(%) (g1)	1971-72	1979-80	Growth Rate(%) (g1)
1. Amount of rural deposits	4586	39664	26.33**	461	3900	27.70**	254	2400	28.04**
2. Rural deposits as % of total deposits	6.09	11.90	7.45**	10.04	15.63	7.86**	2.49	6.34	11.44**
3. Per branch rural deposits	0.96	2.68	11.77**	1.32	1.85	4.52**	1.51	3.48	8.53**
4. Per capita rural deposits (Tk/Rs)	10.27	77.42	24.62**	7.02	50.69	25.80**	7.52	61.04	26.17**
5. Rural deposits per hectare of GCA (a) (Tk/Rs)	27.76	176.17	25.44**	39.13	258.71	26.61**	34.93	229.25	26.32**
6. Incremental (b) rural deposits	1092	9133	26.54**	109	566	20.59**	76	594	25.70**
7. Incremental (b) rural deposits as % of GDP from agriculture	1.07	2.79	19.15**	0.42	0.65	17.84	0.53	2.35	22.91**

** = Significant at 1% level.

(a) = Last year relate to 1978-79.

(b) = First year relate to 1972-73.

(P) = Rural deposits of first three years were estimated on the basis of per branch deposits of 1974-75.

Table 4.3: Rural Credit of Commercial Banks

(Tk/Rs in million)

Items	All India			Bangladesh(P)			West Bengal		
	1971-72	1979-80	Growth Rate(%) (g1)	1971-72	1979-80	Growth Rate(%) (g1)	1971-72	1979-80	Growth Rate(%) (g1)
1. Amount of rural credit	1909	21619	28.94**	45	1703	49.44**	42	777	38.10**
2. Incremental rural credit (a)	1177	5013	24.61**	11	600	65.24**	17	144	32.69**
3. Rural credit as % of total credit	3.56	9.66	10.71**	1.58	8.51	27.87**	0.52	3.36	25.15**
4. Per branch rural credit	0.40	1.46	14.39**	0.13	0.81	26.29**	0.25	1.13	18.73**
5. Per capita rural credit (Tk/Rs)	4.27	42.20	27.23**	0.69	22.13	47.49**	1.17	19.76	36.23**
6. Rural credit per hectare of GCA (Tk/Rs)	11.56	124.75	28.37**	3.82	132.15	47.45**	5.78	98.63	38.29**
7. Incremental rural credit as % of GDP from agriculture (a)	0.64	1.53	17.95**	0.04	0.69	52.60*	0.12	0.57	25.55**
8. Rural credit as % total deposit	2.53	6.49	10.07**	0.98	6.82	29.56**	0.41	2.05	21.56**

** = Significant at 1% level.

* = Significant at 5% level.

(a) = Refers to the year 1972-73.

(P) = Amounts of rural credit for the years 1971-72 - 1973-74 were estimated on the basis of per branch performance of 1974-75.

Table 4.4: Transfer of Rural Savings through Commercial Banks

(Tk/Rs in million)

Indicators	All India			Bangladesh ^x			West Bengal		
	1971-72	1979-80	Growth Rate(%) (g1)	1971-72	1979-80	Growth Rate(%) (g1)	1971-72	1979-80	Growth Rate(%) (g1)
1. Amount of deposit transferred (a) (without refinances)	1072	4163	18.02**	255	832	15.94**	123	783	21.37**
2. Transfer of rural deposits (with refinances)	1095	5836	22.12**	-	-	-	124	821	22.40**
3. Adjusted C-D ratio after refinances	41.13	50.29	1.67*	-	-	-	16.14	30.79	9.27**
4. Per rural branch transfer of deposits	0.22	0.28	3.70*	0.73	0.40	-7.14*	0.73	1.13	1.86
5. Percentage (b) transfer of deposits	23.37	10.49	-8.32**	55.25	21.33	-11.74**	48.46	32.62	-6.66**

(m) = Million.

(-) = Not applicable for Bangladesh.

** = Significant at 1% level.

* = Significant at 5% level.

(a) = Calculated assuming 65% maximum loanable deposits.

(b) = Loanable percentage of deposit minus actual percentage of deposits extended as credits.

^x = Bangladesh refinances to commercial banks for rural credit are not separately available.

CHAPTER VPERFORMANCE OF SPECIALISED AGENCIES

Having discussed comparative performance of co-operatives in Chapter III and that of the rural operation of commercial banks in Chapter IV, in this Chapter, we discuss performance of specialised agencies either directly or indirectly involved in rural finance in both India and Bangladesh.

(In India there is no specialised agency directly engaged in rural finance. But there are two agencies indirectly involved - i.e. Agricultural Refinance Development Corporation (ARDC) and Agricultural Finance Corporation (AFC).) By merging the Agricultural Credit Department of RBI with ARDC - the most important of the two specialised agencies in India, the National Bank For Agricultural and Rural Development (NABARD), was formed in 1982, following the recommendation of the Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (1981). Since the reference year of our study ends in 1979, our discussion is confined to ARDC only. The other Corporation in India i.e. AFC is a consultancy organisation engaged mostly in project formulation in order to facilitate the commercial banks

making advances for agriculture and related activities.

In Bangladesh, the Bangladesh Krishi Bank (BKB) is the only specialised agency involved directly in rural finance. There is no specialised indirect agency involved in rural finance either for refinance or for project formulations as in India. Even though the workings of the agencies in the two countries are not strictly comparable, we, in the following few pages, appraise the performance of these agencies.

An evaluation of these specialised agencies relating to their operational achievements, among others, will include whether or not and to what extent Governments' commitment to make greater inflow of resources in the rural areas has been achieved; whether or not, more and more rural activities were receiving financial assistance; whether or not Government's concern to improve the economic condition of disadvantaged classes like landless agricultural labourers, small and marginal farmers has been reflected in the operations of the specialised agencies as also whether or not and to what extent announced policy of the Government towards balanced regional growth was being pursued through the financial assistance of these institutions.

5.2 BANGLADESH KRISHI BANK (BKB)

BKB came into existence under BKB Order 1973 (President's Order No. 27 of 1973) as a successor of the

former Agricultural Development Bank of Pakistan (Eastern Zone) which was established in 1961 by the merger of Agricultural Development Finance Corporation (1952) and Agricultural Bank of Pakistan (1957).

The main objective of the BKB is development of agriculture and other allied operations in order to increase productivity and income of the people involved in these activities by providing credit either in cash or in kind for activities like crop, irrigation, land development, horticulture, forestry, animal husbandry, fishery, poultry, dairy, sericulture, tea plantations, warehousing, marketing, processing of agricultural produce, and farm mechanisation.

The bank is expected to prepare bankable projects to be taken up by interested people; procure agricultural machineries from abroad against foreign credit, in addition to, performing normal functions like that of a commercial bank. The bank is also expected to evaluate the on-going schemes and provide advisory services to the loanees for proper implementation of the projects, besides providing training arrangement for its executives.

The management of the bank is entrusted to the Board of Directors, seven in number including the Managing Director as the Chairman and three nominee directors of the GOB (Since 1982, the GOB has been appointing a Chairman, in addition to the Managing Director). The Board is entrusted with the general direction and administration of the affairs

and business of the Bank. As regards policy matters, the bank is guided by the instructions given to it from time to time by the GOB. The Managing Director is assisted in the execution of day-to-day affairs by two General Managers.

The bank advances loans for production as well investment purposes - short term loan for 18 months, medium term loans exceeding 18 months but not more than 5 years and long term loans extending upto 15 years.

Loans are granted generally against security of immovable property, government/scheduled bank guarantee, pledge, gold or gold ornaments and other security papers. Production loans, upto a specified limit, may, however, be allowed against personal surety/hypothecation of crops. Bank's lending rates vary from 12% to 15.5% (as in June 1979). BKB obtains funds from Bangladesh Bank/^{and} foreign credit arranged through GOB at 6%.

The bank's Branch Manager is empowered to sanction agricultural loans upto Tk 5000, except in case of shallow tube wells (STWS) for which the ceiling is Tk 24000. The scales of finance are furnished in the appendix which shows that these are dependent on the nature of crops and the type of land - irrigated or not.

Loans are advanced for projects that are technically sound and economically viable. The instalments for repayment are generally fixed keeping in view the season in which the borrower is expected to get income.

Generally loan appraisal is expected to be done by investigation officer or field supervisor; however, in practice, most of the loan appraisals are done by the latter because of the shortage of investigation officers.

The field supervisor visits the rural areas and calls meetings of the rural people including the elected leaders. In such meetings, a list of would-be borrowers is prepared; defaulters of earlier loans are excluded from the list. The field supervisor after collecting required information submits the loan proposals with his comments to the branch for sanction.

Investment loans are usually provided for irrigation, land development and for purchasing agricultural implements.

An international study group which examined the methods followed by BKB in making production and investment loans found that as the field investigators were mostly untrained, their reports on credit worthiness of the loanees lacked many fundamental details. Further, the group observed that the bank does not take technical advice regarding the deposit position of ground water in case of shallow/deep tubewells, nor does the bank render any advice to the borrowers on suitable cropping patterns.¹

1. FAO/World Bank, A Report of the Bangladesh Agricultural Credit Project, Rome (1980), Annexure 5, pp. 7.

Every branch of BKB is required to have at least one Investigation Officer and one Field Supervisor, for loan appraisal, supervision and recovery. However, because of rapid increase in the number of branches, it is reported that many of the new branches lack adequate number of supervisory staff. An analysis shows that each investigation officer/field supervisor is required to handle about 400 new loan cases and 600 running accounts every year.²

BKB has a Central Training Institute in Dhaka with two regional training Institutes, one at Chittagong and the other at Bogra. A third regional training institute is being opened at Jessore. Besides offering training in its own institutes, the bank also deputs its employees to relevant training programmes arranged at home or abroad.

Owing to rapid expansion of branches, staff strength of the bank increased from two thousand to five thousand during the period 1972 to 1980 with an annual compound growth rate of 11.5%. The Institutes of the bank conduct both foundation and special courses, depending on the background of the trainees. An examination³ of the type of courses, their contents and the background of the trainers

2. Ibid, pp. 7.

3. (i) World Bank/IDA Study, op.cit., pp. 27.

(ii) Bangladesh Bank, Agricultural Credit Study Project, 1978, pp. 202-206.

reveal that the training given to the BKB's employees was not only inadequate, but also ineffective.

5.2.2 Resource Mobilisation

The resources of BKB which is a wholly owned public undertaking of the GOB, comprise owned funds, deposits and borrowings. The bank is empowered to raise funds by selling bonds in the open market.

It can be seen from Table 5.1 that during the nine year period (1971-72 to 1979-80), there had been a commendable rise in the funds of the bank, the overall resource position increasing by about six times - owned funds rising by 3 times, borrowings by 5 times and deposits by 11 times.

In terms of growth rates^α of each of the components, it can be seen from the following information that the highest compound annual growth during the period was recorded by deposits followed by owned funds.

Components		Absolute Growth Rate (in %)	Relative § Growth Rate (in %)
(i)	Equity Capital (a + b)	22.68	- 7.31
	(a) Paid up Capital	9.85	- 11.87
	(b) Reserves and Surpluses	64.69	+ 41.27
(ii)	Borrowings	20.98	- 0.75
(iii)	Deposits	29.86	+ 8.12
(iv)	Overall (Total)	21.74	-

^α Two-Point exponential growth rate. Growth rate hereinafter in this Chapter shall refer to g₂.

§ Relative growth rate is calculated taking proportionate change of each of the elements in the total resources.

Since BKB is a public undertaking growth of equity capital mainly resulting from non-disbursement of dividends means nothing significant. Higher compound annual growth rate of deposits is an encouraging sign. However, per branch deposits grew at an annual rate of 9% implying that high growth rate of deposits was primarily because of increase in the number of branches from 77 in 1972 to 412 in 1980.

Further, we may also notice a perceptible change in the nature of deposits over the period as can be seen below:

	1971-72 %	1979-80 %
Current Deposits	18.84	22.35
Savings Deposits	37.68	17.28
Fixed Deposits	43.48	60.37
Total	100.00	100.00

It is clear that the share of fixed deposits in total deposits increased at a higher rate than that of current deposits while the proportion of savings/deposits declined significantly over the period.

Section 15(1)(c) of BKB order (1973) allows the bank to raise funds from the open market by selling bonds and debentures which has not been utilised so far.

5.2.3 Evaluation of Operational Achievements

BKB's operations underwent a sea change during the last three decades as may be seen from the data given below:

(Tk in Million)				
Partioulars	1951-61	1961-71	1971-81	Total
1. Disbursement of Loan	92.60	557.20	5972.80	6602.60
2. Average Annual Disbursements between 1951 & 1981	9.26	55.72	597.28	220.09
3. Decadal Growth Rate	-	19.94	26.34	-

Around 9.5% of the total disbursements for the three decades was made during the 20 years reflecting the indifference of the then Government of Pakistan shown towards rural finance in the Eastern Zone. Islam⁴ (1968) stated that for 56% population of Pakistan located in the East Wing, a little more than 42% of the total Agricultural Development Bank loan was disbursed during the period 1952-68. During the 10 years after Bangladesh was established (1971-81), BKB's disbursements were about 10 times more than those made during the years 1951-1971.

5.2.3.1 Physical Coverage

The bank which had 77 branches and 7 regional offices as on June 1972 increased then to 555 branches with

4. Islam, K.S. "ADPP's Activities & Achievements". The Pakistan Observer, ADPP Supplement, Feb. 18, 1968.

20 regional offices (Table 5.2) indicating an annual compound growth rate of 22% and 12% respectively. Branches per regional office which were 11 as on June, 1972 increased to 28 as on 1980-81.

Regional Spread of Branches

There are four administrative divisions in Bangladesh i.e. Dhakha, Khulna, Chittogong, Rajshahi. It can be seen from Table 5.3, that the number of BKB branches in Dhakha division rose to 164 in 1980-81 from 29 in 1973-74 with an annual compound growth rate of 29%. The lowest growth of branches was in the Khulna division, from 38 to 118, with an annual compound growth rate of 19%. Regional spread of BKB branches can be gleaned as under:

Regions	% of GCA (1979)	% of POP (1981)	Number of Branches		Annual Growth Rate
			1973-74	1980-81	
Dhakha	22%	25%	29 (21%)	164(30%)	28.87%
Chittogong	21%	26%	31 (23%)	141(25%)	25.12%
Khulna	25%	25%	38 (28%)	118(21%)	18.88%
Rajshahi	32%	24%	38 (28%)	132(24%)	20.37%
Total	100%	100%	136(100%)	555(100%)	20.09%

GCA - Gross Cropped Area (hectares).

Figures in the brackets indicate percentage of the total.

Judged from either GCA or population, Dhakha division had the highest proportion of BKB branches while

it was the lowest in case of Khulna division. The second place was occupied by Chittagong division with a growth rate of 25% over 1973-74. Viewed from both GCA and population, the distribution of branches in 1980-81 was more imbalanced compared to what it was in 1973-74.

5.2.3.2 Loan Disbursements

From Table 5.4 giving information relating to loan disbursements, number of beneficiaries and per borrower loan for the years 1971-81, it is seen that the amount of disbursements rose to Tk 2097 million in 1980-81 from Tk 94 million in 1971-72 with an annual compound growth rate of 34%. An year-to-year analysis of changes in disbursements showed that the highest increase was in 1976-77 which can partly be attributable to the introduction of Special Agricultural Credit Programme (SACP) by the GOB while there was a decline in 1973-74 perhaps because of the famine conditions prevailing in the country.

Number of borrowers increased to 391 thousand as on June 1980-81 from 92000 in 1971-72 with an annual compound growth rate of 16%. Not only was there an increase in the number of BKB borrowers but there was also an increase in the per borrower amount of disbursements from a little more than Tk 1000 in 1971-72 to Tk 5000 in 1980-81 (compound annual growth rate of 18%).

Production V/s Investment Loan

Production loans are usually of a duration of not

exceeding one year while investment loans may even be for a period of 20 years.

(Tk in million)					
Decade	Production Loan (Short term)	Investment Loan			Total (2+5)
		Medium Term	Long Term	Total (3+4)	
1	2	3	4	5	
1. 1961-71	245.8	270.6	40.8	311.4	557.2
2. 1971-81	3637.0	1827.0	509.0	2336.0	5973.0
Total	3882.8	2097.6	549.8	2647.4	6530.2

It can be seen from the information furnished above that during the decade before the liberation of Bangladesh BKB was giving a higher proportion of its loans (56%) for investment purpose. But, in the decade after the liberation of Bangladesh (ending on June 1981), the proportion of loan for investment purposes declined to 39%. The shift of the bank towards production loan was largely due to the introduction of SACP (Table 5.5). Another probable explanation for the shift of BKB towards production loan may be the inability of the potential investment borrowers to offer additional land as security for investment loan while it was already offered for production loans. It is most likely in view of the fact that Bangladesh is a country with very low land-man ratio.

Purpose/Activity-wise Disbursements

Table 5.6 gives purpose/activity-wise loan disbursement of the bank in three different years i.e. 1963-64, 1971-72 and 1980-81. It is observed that crop loans (seed, fertiliser etc.) declined to Tk 1.7 Million in 1971-72 from Tk 14 Million in 1963-64, but increased to Tk 381 million in 1980-81. However, the share of crop loan in total BKB loan declined to half of what it was in 1963-64. BKB loan for irrigation, land development and farm mechanisation including farm implements increased both in absolute amount as well as proportion to the total.

Particulars	1963-64	1971-72	1980-81
	Amount	Amount	Amount
	Tk	Tk	Tk
1. Crop loans	13.93 (36.33)	1.70 (1.77)	381.24 (18.18)
2. Tea loans	4.15 (10.82)	27.52 (28.55)	579.58 (27.64)
3. Irrigation, farm mechanisation, farm implementation	1.16 (3.02)	3.29 (3.41)	231.31 (11.03)
4. Marketing and processing etc.	2.02 (5.27)	4.32 (4.28)	361.82 (17.25)
5. Fisheries and poultry, dairy etc.	0.2 (0.52)	0.09 (0.09)	126.58 (6.04)
6. Drought animals	13.02 (33.96)	35.55 (57.63)	175.20 (8.35)
7. Others	3.86 (10.07)	3.92 (4.06)	291.67 (11.50)
Total	38.34(100.00)	96.39(100.00)	2097.40(100.00)

Figures in the parentheses indicate percentage of the total.

Loan for marketing, transportation and processing increased in absolute amount in all the three years but as proportion of total, it marginally declined in 1971-72 from 1963-64. The proportion of this loan in the total increased fourfold, compared to 1971-72. Loans for related agricultural activities like dairying, poultry and fishery which declined in 1971-72 both in amount and in proportion showed sharp rise in 1980-81. Loans for draft-animals, though showed an increase in absolute amount in all the three years, as a proportion of the total declined substantially from 58% in 1971-72 to only 8% in 1980-81. Loans for agro-based industry which was nil in 1963-64, increased marginally in absolute amount as well as a proportion of the total; the proportion was only a little more than 1% in 1980-81.

Disbursements of Loans by Sizes

Size-wise (five sizes) information of loan distribution for the periods i.e. 1965-66 to 1969-70, 1970-71 to 1975-76 and 1980-81 are furnished in Table 5.7. It is evident that the position of the lowest group (i.e. upto Tk 1000) as well the lowest two groups together (i.e. upto Tk 3000) in the disbursements of BKB loans deteriorated over time. The share of the lowest two groups in the disbursements declined significantly from 59% in the first period to only 24% in the third period.

On the other hand, the highest size group (i.e. over

Tk 5000) cornered 58% of the aggregate disbursements of BKB in the last period compared to 31% in the first period.

Disbursements by Size of Land-holding

Table 5.8 gives distribution of loans by landholding size for three periods viz., 1965-66 to 1969-70, 1970-71 to 1975-76 and 1976-77 to 1980-81. Because of the change in the classification of the holding size, the information had to be regrouped under two categories i.e. (i) upto 12.5 acres and (ii) above 12.5 acres.

The rearranged data clearly reveal that while the proportion of loanees with upto 12.5 acres to the total loanees increased continuously from 86% to 98%, their share in the total amount disbursed declined from 60% to 54% between the first and the third period. Further, the proportion of loanees with landholding of above 12.5 acres declined steeply from 14% in the first period to only 2% in the last period while they accounted for 40% and 46% of the aggregate loan disbursements during the two periods.

Concentration of loan information of owners of large holdings appears to be more serious when we consider that 97% of the farm holders in Bangladesh⁵ with 85% of total area are with the size of less than 12.5 acres of land. This concentration of BKB lending operation, therefore, is very much in contrast with the GOB announced policies to

5. GOB, Bangladesh Agricultural Census, 1977.

help improve economic conditions of small and marginal farmer including landless agricultural labourers by providing funds both for production as well as for investments.

Disbursement of Loan by Security

It can be seen from Table 5.9 that BKB in the year of introduction of SACP disbursed 42% of the total loans to 70% of the borrowers on hypothecation of crops. Since then, it went on declining and during the year 1980-81, only 26% of the total loan was disbursed to 55% of the borrowers on hypothecation. Similar downward trend is noticed in regard to disbursement of loans against personal surety. Contrary to this, both proportion of borrowers as well as proportion of amount of loan against pledge of stored agricultural products has increased during the period. This is also a production-oriented approach but this facility can usually be availed of by relatively larger farmers. The proportion of borrowers who obtained loan against security of immovable property increased from 26% during 1977-78 to 40% during 1980-81. These borrowers obtained loan amounting to around 50% of the total during the period.

Regional Distribution of Loans

The GOB through plan documents and various policy announcements expressed its concern for balanced regional growth to be achieved by equitable distribution of

resources both by budgetary provision as well as by loans. The required information for assessing the achievement of the aforesaid objective is presented in Table 5.10. Loan operations of the four administrative divisions of BKB (or its predecessors) are presented for three periods: (i) since 1952 upto the liberation of Bangladesh (1971), (ii) 1971-72 to 1975-76 and (iii) 1976-77 to 1980-81, besides a cumulative position as on June 1981.

Ranking of the divisions on the basis of GCA and the proportion of the borrowers indicates that Rajshahi occupies the top position followed by Khulna, Dhaka and Chittagong Divisions. As regards proportion of the amount of disbursements (1952-1971), however, Chittagong division was the first followed by Dhaka division. After liberation of Bangladesh, Dhaka division ranked first both in proportion of borrowers and in proportion of the amount of disbursements while Chittagong division secured second position in the amount of disbursements.

The above analysis suggests high concentration of BKB lendings in Dhaka and Chittagong divisions. This can partly be explained as preference of the bank to encourage agro-based processing plants in and around Dhaka and Chittagong cities besides the fact that most of the plantation loans were given in the Chittagong division because of the location of tea gardens there.

5.2.3.3 Recovery Performance

In order to maintain revolving character of loanable funds, it is essential to ensure prompt recovery of loans. Recovery information which is available for twenty years i.e. 10 years before liberation and 10 years after liberation of Bangladesh, is provided in Table 5.11.

Recovery rate is computed on the basis of the repayments and amount recoverable during a year. Amount recoverable includes overdues at the beginning of a year plus the amount of loan that has fallen due during the year. It can be seen from the table that the recovery rate during the year 1961-62 was 80%, which gradually declined to 11% in the year of liberation. Since then, the recovery rate started improving reaching 67% in 1980-81.

Of the twenty years under consideration, as many as in 13 years, BKB's recovery rate was lower than the average recovery for the period (48%).

Size of Recovery Rates	Number of years			Percentage of the total
	BL	AL	T	
1. Over 80% to 100%	1	0	1	5%
2. Over 60% to 80%	1	1	2	10%
3. Over 40% to 60%	2	5	7	35%
4. Over 20% to 40%	6	3	9	45%
5. Upto 20%	0	1	1	5%
Total	10	10	20	100%

BL - Before Liberation. AL - After Liberation. T - Total.

When we compare the two periods, i.e. before and after liberation, it can be seen that of the 10 years of low recovery rate (below 40%) 6 years were before liberation and 4 years were after liberation. Of the four years after liberation, two years, i.e. the year of liberation and the following year poor recovery was for understandable reasons; GOB ordered not to insist on recovery during these two years in view of the loss suffered by the borrowers as a result of the war of liberation. The other two years of low recovery rate (i.e. 1973-74 and 1974-75) were famine years.

Recovery Performance by Regions

Recovery information by administrative divisions which is available only since 1972-73 to 1978-79 (Table 5.13) reveals that during the year 1972-73, recovery rate of the Dhaka division was the highest (40%) followed by Chittagong division (18%). During the same period recovery rates of Khulna and Rajshahi divisions were below 15%. However, during the 1978-79, recovery rate in all the four divisions improved. Chittagong division was at the top (71%) followed by Khulna (49%), Dhaka (48%) and Rajshahi (38%) respectively. Better recovery performance of Chittagong division can partly be attributed to large volume of tea loan in that division - tea loan as linked with marketing.

Overdue Position

It can be seen from the information furnished in Table 5.11 that overdue rate as percentage of total

recoverable loan in twenty years ending June 1981 was on the average, 52%, ranging from 18% to 89%.

Size of Overdue Rates	<u>Number of years</u>		
	BL	AL	Total
1. Upto 20%	1	0	1
2. Over 20% to 40%	1	1	2
3. Over 40% to 60%	2	5	7
4. Over 60% to 80%	6	3	9
5. Over 80% to 100%	0	1	1
Total	10	10	20

BL - Before Liberation

AL - After Liberation.

Overdues were low only in three years; in 7 years they were between 40% to 60%; of the 10 years of high overdues six years were before liberation and the remaining were after liberation.

Aging Schedule of Overdues

BKB does not publish information relating to aging schedule of overdues. However, with special efforts, we were able to collect information relating to this for five years (furnished in Table 5.14), which reveals that as on June 1972, overdues of more than 3 years were 46%; this proportion increased gradually reaching 60% as on June 1976-77.

5.2.3.4 Profit Performance

Rate of return on capital employed is an important financial indicator of organisational performance but it is not the only indicator for public sector enterprises - whose prime objective is to render service to the people. Keeping this in mind, we have to interpret the BKB's profit performance.

Table 5.15 presents information relating to profit performance of BKB for a period of 10 years from 1971-72 to 1980-81. Profits earned by the bank during the year 1971-72 was Tk 4 million which increased to Tk 78 million during the year 1980-81. This is apparently a good profit performance; however, the rate of return on capital employed as well as that on equity capital, is discouraging. Return on capital employed during the year 1971-72 was 1% which increased to 3% during the year 1980-81. The profit performance of BKB, by any standard, is far from satisfactory, particularly, in view of the fact that a normal rate of return in private manufacturing sector is around 15%.

5.3. AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (ARDG)

The report of the All India Rural Credit Survey Committee (1951-52) suggested greater emphasis being given to long-term lendings without which it is not possible to secure full benefit of even short-term lendings. Following this recommendation and with the purpose of improving investment credit facilities, the GOI took a number of steps

of which the establishment of a refinance corporation was one. Thus, the Agricultural Refinance Corporation (ARC) was established by an Act of Parliament in 1963. The Corporation, although fundamentally a refinance agency, had from the beginning discharged some functions which are essentially developmental and promotional in character. In order to emphasise this role of the Corporation, it was renamed, by an amendment of the Act in 1975, as Agricultural Refinance and Development Corporation (ARDC).

The main object of the Corporation is to augment the flow of investment resources, both medium and long-term, for promoting agriculture and related activities such as crop raising, animal husbandry, dairying, poultry, pisciculture and fisheries (both inland and marine). The Corporation is expected to assist all those projects which cannot be financed by other agencies either on account of the volume of funds involved or the terms and conditions of repayment, or because the projects are such as cannot be brought within the normal rules of business under which Land Development Banks are operating.⁶

The objectives of the Corporation have been somewhat changed over time. Thus, the reconstituted Corporation (1975) had the following objectives, among others: (i) Providing adequate refinance facilities to eligible

6. ARC, First Annual Report (1963), pp. 4.

institutions to step up the productive lending needed to achieve the national plan programmes, (ii) diversifying the types of lending for achieving a broad based growth of the economy as a whole in terms of increasing national income through agricultural development, (iii) promoting agricultural development in areas which have not so far attracted much attention either of the governmental agencies or of the lending institutions and help set right regional imbalances, (iv) paying special attention to promoting the interest of small and marginal farmers by expanding refinance facilities for schemes prepared for the benefit of such weaker sections of society, (v) emphasising the need for technical considerations in the formulation of projects with a view to maximising the use of available resources, and (vi) assisting the various governmental agencies in the formulation of economically viable and financially feasible schemes and in their implementation.

The Corporation, within the confines of its objectives, assists a number of activities from plantations to commercial forestry, from on-farm development to farm mechanisation and from piggery to pisciculture. More specifically, the corporation's assistance is available for the following activities: Minor irrigation; land development and soil conservation; farm mechanisation; plantation and horticulture, poultry; dairying, goatery,

piggery, fisheries, storage and market yards, agricultural aviation, bio-gas plant, commercial forestry including purchase of work animals/animal-driven carts by small and marginal farmers.

Under Section 5 of the Corporation Act, the membership is open, besides RBI, to: (a) CLDBs, (b) State Co-operative Banks and (c) Scheduled Banks, (d) LIC and other Insurance and investment companies, and (e) such other class of financial institutions as may be notified by the Central Governments on this behalf.

The types of financial assistance provided by the corporation are:

- (A) Loans and advances by way of refinance,
- (B) Subscriptions to the debentures of any eligible institution in respect of which repayment of principal as well as interest are fully and unconditionally guaranteed by the Government, and
- (C) Loans and advances other than by way of refinance to approved co-operative societies (excluding CLDBs and SCBs) in exceptional cases.

The corporation management is vested in a Board of Directors consisting of nine members of which a Deputy Governor of RBI is the Chairman. Of the nine Directors, three are nominated by the GOI and another three are elected by the shareholders. Besides nominating a director, the RBI has the privilege of appointing the Managing

Director.

In addition to the Board, there is an Executive Committee comprising 4 directors including the Chairman, the Managing Director and 2 Directors - one elected and other a nominee of the GOI. All policy matters approved by the Board are executed by this committee.

The head office of the Corporation is located in Bombay with 14 Regional Offices located in the major State Capitals.

Training programmes for the senior and middle level staff is conducted by the Corporation through the College of Agricultural Banking, Poona, while for the junior level staff, it arranges training through the regional training centres with the help of State Land Development Banks.

Medium-term accommodation usually varies from 3 to 5 years and that for long-term may normally be upto 15 years. The minimum amount of accommodation which was initially rupees one lakh was raised later to Rs. 5 lakh in case of CLDB.

Rates of interest charged on Corporation's refinances are always less than the bank rate. Normally, the rate of interest charged by the financing bank from the ultimate borrowers should be such as would restrict their margin to 2½%.

In case of CLDBs, no accommodation is granted unless it is fully and unconditionally guaranteed by the State

Governments. In case of commercial banks, however, the security is to be sub-mortgaged/hypothecated by the ultimate borrower in favour of the financing banks and refinance is provided to the extent of 50% of the value of such securities.

In order to involve commercial banks, in a major way, the corporation grants them the following incentives:

- (i) The Corporation, in determining the banks' eligibility for funds, excludes their past borrowings.
- (ii) Term loans granted by the banks for agricultural development which were refinanced by the Corporation are not considered as advance.
- (iii) Banks are also allowed to exclude other term lendings (not financed by ARDC) which resulted in the creation of tangible assets.

5.3.2 Resource Mobilisation

The Corporation was incorporated with an initial authorised capital of Rs.250 million divided into 25 thousand shares of Rs.10 thousand each. Besides share capital, the Corporation is also entitled to issue bonds and debentures, resort to borrowings from the GOI and RBI in addition to accepting fixed deposits from both central as well as State Governments. The RBI usually sanctions credit limits annually to the corporation from the NAC (LTO) fund. These borrowings are generally for a period of ten years and bear interest of 6% per annum.

The resource base of the Corporation (both equity and loan) increased manifold over time in line with the increased demand for refinances. The maximum borrowing capacity of the Corporation is fixed at 20 times the paid-up capital and reserve fund. In order to further increase the resource base of the corporation, the RBI allowed to retain the share of its dividends on the shareholdings as interest free special deposit for a period of 15 years.

The capital of the corporation which was Rs.100 million (Equity and loan capital 50:50) in the beginning increased to Rs.11,090 million on 30th June 1979.

Information relating to growth of the corporation's resources between 1968-69 and 1978-79 is presented in Table 5.16 and 5.17. The data reveal that the overall resource position increased by 35 times with an annual compound growth rate of 36%. Major components of corporation's resources with their shares in the total in 1968-69 and 1978-79 shown in parentheses were: (i) owned funds (16%, 8%), (ii) special deposits (2%, 0.4%), (iii) borrowings from GOI (82%, 45%); borrowings from RBI (from insignificant proportion to 24%), (iv) bonds/debentures (from insignificant proportion to 22%) and (v) others (0.3%, 0.6%).

The highest increase was recorded by borrowings (from GOI and RBI) followed by borrowings by issuing

debentures/bonds, owned funds and special deposits. Relevant information further reveal that borrowings from RBI increased at a faster rate than that from the GOI. Although the borrowing capacity of the corporation, as mentioned earlier is 20 times of its owned funds, the corporation is found to have utilised around half of its capacity to borrow during the year ending on June, 1979.

5.3.3 Operational Performance

The operational performance of the corporation is judged in terms of its (a) sanction of schemes and (b) disbursement of refinance.

5.3.3.1 (a) Sanctions

From the information on sanction of schemes for the period 1968-69 to 1979-80 given in Table 5.18, it can be seen that the number of schemes increased by 34 times, from 108 in 1968-69 to 3657 in 1979-80. Total financial assistance rose from Rs. 792 million to Rs. 9182 million between the two years, with an annual compound growth rate of 25%. However, the proportion of ARDC commitment in the total sanctioned amount declined to 82% from 88% during the period, implying a corresponding rise in the share of Government/bank.

The average size of sanction per scheme declined over the period from Rs. 7.33 million to Rs. 2.51 million. In this connection, it may be noted that by an amendment of the Act, the GOI instructed the corporation to give greater

attention for projects meant to benefit disadvantaged classes. Hence, it can be said that the corporation, following the Government directives, has shifted towards low cost schemes.

Sanctions by Agencies

As said earlier, the corporation usually channelises its accommodation through three financing agencies, viz., CLDBs, State Co-operative Banks, and Commercial Banks. It can be seen from Table 5.20 that the share of commercial banks which was insignificant at the time of their nationalisation gradually increased since then.

In fact, commercial banks recorded the highest compound growth rate (54% per annum). Its share in the total sanctioned schemes was only Rs. 37 million which rose to Rs. 14,169 million from 1968-69 to 1979-80. Besides amount of sanction, proportion of the commercial banks' sanction in the total sanctioned amount also increased substantially from 2% in 1968-69 to 46% in 1979-80 in 1979-80. The share of CLDBs and SCBs in the total sanction declined to 52% and 2% in 1979-80 from 94% and 4% respectively in 1968-69 (Table 5.21).

Sanction by Purposes

From the purpose-wise sanctions by ARDC shown in Table 5.22, it can be seen that both the number of schemes and the amount sanctioned for each of the activities increased over the period. Relatively higher growth, both

in terms of number of schemes and amount of sanction was shown for activities like farm mechanisation and dairy development. Further, it may be noted that compared to the base year (1968-69), the corporation focused greater attention on farm-related activities like dairying, poultry, fisheries, storage facilities and agricultural aviation during the period of study.

In terms of proportion of both number of schemes and amount of sanction, three activities registered a decline, viz., minor irrigation, land development and soil conservation and plantation and horticulture. The decline in the importance of minor irrigation and land development can partly be explained by reduced demand for such activities in some of the major states like Punjab, Haryana, Maharashtra, Tamil Nadu, Andhra Pradesh owing to cumulative effect of development of such activities since the creation of ARDC.⁷

Sanction by Size of Amounts

Information relating to sizewise sanctions by ARDC is available only for two years i.e. 1978-79 and 1979-80. Table 5.24 reveals that in 1979-80 15% of the schemes with 61% of the sanctioned amount was of the size of above Rs. 2.51 million. On the other hand 32% of the schemes with 4% of the sanctioned amount was of the size of upto

7. RBI, Debt and Investment Survey Report,
Tamil Nadu, 1971-72.

Rs. 0.5 million. This is a clear-out indication of concentration in favour of large farmers.

5.3.3.2 (b) Disbursements

Table 5.19 which furnishes information relating to disbursements of the Corporation reveals that 56% of the total committed amount by June 1980 was disbursed. Of the two major parties, the proportion of ARDC disbursements to total commitments was slightly higher at 56% compared to that of the Government/Banks (54%).

Disbursement by Agencies

As mentioned earlier, the corporation makes its refinances available through agencies like SCBs, CLDBs and commercial banks. Disbursement performance of these agencies are shown in Tables 5.20 and 5.21. The relative share of commercial banks in the total disbursements increased from 4% in 1968-69 to 42% in 1979-80. In case of the other two agencies, there was significant decline in their relative share of disbursements.

The proportion of disbursements to the commitments by the agencies which was less than 30% in 1968-69 increased to more than 46% during the year 1979-80. Increase in the proportion of disbursements as percentage of commitments was high in case of CLDBs (3 times) followed by that of commercial banks (1.7 times).

Disbursement by Purposes

Table 5.23 provides information relating to

disbursements by purpose. It is heartening to note that disbursements as proportion of sanction, for each activity, except for farm mechanisation and land development/soil conservation has increased during the period.

Disbursements for poultry and sheep breeding have increased to Rs. 190 million in 1979-80 from only Rs. 0.1 million in 1968-69. The second highest growth in disbursements was recorded by farm mechanisation (60% per annum), the amount increasing to Rs. 2790 million in 1979-80 from only Rs. 4 million in 1968-69. On the other hand, lowest growth rate in disbursements (14%) was observed in case of land development/soil conservation.

5.3.3.3 Regional Distribution of ARDC Refinances

The GOI directed the corporation to channelise its assistance in a way that will reduce existing regional imbalances. Information pertaining to regional distribution of ARDC assistance for three periods: (a) 1963 to 1969, (b) 1969-75 and (c) 1975-80 is provided in Table 5.25.

It is evident from the information given below that almost half of the States which are relatively less developed lagged behind in regard to utilisation of corporation's assistance.

Regions	% of population 1981 Census	1963-69			1969-75			1975-80			As on June 1980			Cumulative
		1	2	3	1	2	3	1	2	3	1	2	3	
1. Developed ^(a)	42.46	77.68	72.36	89.51	62.75	56.41	70.68	51.72	54.42	55.83	53.69	55.75	59.97	
2. Less Developed States/ Union Territories ^(b)	57.54	22.32	27.64	10.49	37.25	43.59	29.32	48.28	45.59	44.17	46.31	44.25	40.03	

1 - Schemes sanctioned in percentage.

2 - Financial assistance sanctioned in percentage.

3 - Refinance disbursed in percentage.

a - Developed States as identified by the corporation are: Punjab, Haryana, Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.

b - All other States and Union Territories are assumed to be underdeveloped areas.

However, the position of the relatively less developed states has improved over time. In view of the larger share of population (58%), ARDC assistance to these areas need be increased further. Moreover, among the less developed states, substantial share of the assistance went to Uttar Pradesh, Madhya Pradesh and Rajasthan. If we exclude the share of assistance of these three states, the position of other less developed states appears to be far from satisfactory.

It is difficult to blame the corporation wholly for these inter and intra regional imbalances in the disbursement of its assistance as the demand for corporation assistance depends on the level of infrastructural development of the areas as well as commitments of the State Governments and financing banks in complying with their responsibilities. The State Governments have a definite role to play both in the initiation as well as in the implementation of the projects. If State Governments are slow in making available their part of the commitments, the implementation gets delayed resulting in low disbursements from the corporation. Apart from these, some states showed enthusiasm in availing corporation's assistance in only some years.

5.3.3.4 Share of Weaker Sections

It is one of the major objectives of the ARDC to channelise more than half of its assistance for projects

that will benefit small and marginal farmers and other weaker sections of the community. A small farmer has been defined by the corporation as one cultivating land, providing a pre-development net return to family resources not exceeding Rs. 2000 per annum based on 1972 prices. It was found that the corporation, in order to ensure the flow of substantial portion of its assistance for weaker sections, instructs the financing banks through its sanction letters that at least 50% of the beneficiaries should be small farmers and other weaker sections. Besides, the corporation makes its assistance available to small farmers on 5% down payment only (Equity Participation) as compared to 10% and 15% stipulated for medium and large farmers.

Information relating to disbursements by size of farmers are not available except for a few activities relating to the year 1978-79 which is furnished in Table 5.26.

From the available data, it is seen that the share of small farmers in the total disbursements for minor irrigation was 48% while 52% of the amount advanced towards diversified purposes (other than farm mechanisation, storage and market yards which do not directly benefit the small farmers) was for small farmers. Further, out of the total disbursements of Rs. 13,336 million during the year 1978-79, the share of small farmers was 35% (Rs. 4730 million).

This performance of the corporation, in the light of

the Government directive that at least 50% of corporation's assistance should go to small farmers (This target of the share of small farmers was further raised to 60% during the 3rd ARDC credit project, 1978) is far from satisfactory. Apart from this, CRAFTICARD Report⁸ (1981), observed that assistance given for farm mechanisation, storage, and market yards has not benefitted small farmers and other weaker sections.

5.4 AGRICULTURAL FINANCE CORPORATION (AFC)

AFC was promoted by the Indian Banks' Association (1968) to help the commercial banks in financing agricultural projects. It was incorporated with an authorised share capital of Rs. 1,000 million of which Rs. 50 million has been paid-up.

The corporation is managed by a Board of Directors, the size of which, as per Articles of Association, is not to exceed 25. Of the Directors, 3 are to be nominated by GOI, one by ARDC, besides a maximum of 4 to be co-opted by the Board for their expert knowledge in relevant fields. The corporation has regional offices at Calcutta, Lucknow and Madras besides having some branches.

The corporation started as both financing as well as promoting agency. AFC was expected to extend financial assistance directly or indirectly for suitable projects but

8. RBI, CRAFTICARD Report, 1981, pp. 227.

the most challenging task, that the corporation has become involved over the years, is its promotional role. Beginning as a financing agency, the corporation has emerged as a consultancy organisation rendering expert assistance not only to the member banks but also to the Central and State Governments and other public corporations. Recently, the corporation has extended its consultancy business to some of the Third World Countries too.

The Corporation takes up a project either on a consultancy basis or on a service-charge basis. Implementation and follow up of the project is the responsibility of the agency for whom the project is formulated. On the other hand, in the case of projects taken up on a service-charge basis, the AFC, besides preparing the project, also undertakes complete supervision of implementation.

The Corporation, in order to develop better understanding among the co-operative banks and commercial banks, established national, state and district level consultative committees. These committees are also supposed to enrich the experience of the involved agencies in dealing with matters such as, agricultural loan applications, formulation of schemes for the benefit of member-banks and establishing a technical consultancy service for helping the member banks in the appraisal and financing of appropriate projects.

5.4.2 Performance Appraisal

As stated earlier, the corporation which began as a financing agency became a consulting agency later as evidenced by the information furnished in Table 5.27. The corporation's financing activities which increased to Rs. 35 million in 1973 from Rs. 8 million in 1969, declined thereafter. It is also seen that most of the corporation's financial accommodation during the period went to State Electricity Boards.

Besides direct financing, the corporation had assisted member banks in project formulation. A perusal of the data furnished in Table 5.28, shows that since inception to 1979 the corporation formulated 951 projects in the field of Agriculture and related activities requiring Rs. 7451 million as loan assistances from the banks.

In addition to commercial banks, Central and State Governments and some Government Corporations commissioned consultancy services of the corporation. From available data (Table 5.29), it can be seen that more than 50% of the consultancy services during the period (1968-79) was availed of by different State Governments. Next to State Governments, Government Corporations (23%) and commercial banks (18%) are the other agencies which used the consultancy services of the AFC during the period.

As observed earlier, the Corporation appraises projects either on a consultancy basis or on a service-charge

basis. Of the total projects formulated, 84% were done on consultancy basis. Of the projects handled on consultancy basis around 60% was those belonging to the State Governments while 82% of the projects considered on service charge basis was those relating to Government Corporations (Table 5.29).

5.5 Conclusion

The foregoing appraisal of the functioning of the three specialised agencies in Bangladesh and India has revealed strength and weaknesses in the structure as well as achievements and shortfalls in realising the objectives. The policy measures required to be taken in the light of the findings here are discussed in the concluding chapter of the study.

AppendixBKB Scales of Financing

Per acre credit norms and ceiling per borrower of short term loans for crop production followed by the BKB are as under (1978-79)

Crops	Per acre credit norm Tk	Maximum per borrower Tk
1. Paddy -		
High yielding variety	385	1,540
Local lintensive variety	282	1,128
Local variety	221	884
Irrigated boro	800	1,600
2. Wheat -		
Irrigated	637	1,600
Reinfed	465	1,600
3. Potato		
Irrigated	1,200	4,800
Non-irrigated	788	3,150
4. Nystard -		
Irrigated	356	1,424
Non-irrigated	268	1,074
5. Sugarcane	1,111	4,444
6. Cotton	655	-

Table 5.1: Resource Mobilisation by BKB (1971-72 to 1979-80)

	(Take in million)								
	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80
1. Paid-up capital	100 (20.24)	100	100	100	150	200	200	200	220 (7.83)
2. Reserves and surpluses	N11	N11	2	10	47	78	81	91	97 (3.45)
	100	100	102	110	197	278	281	291	317 (11.28)
3. Borrowings	325 (65.79)	442	508	516	406	767	729	1,021	1,742 (61.97)
	425	552	610	726	603	1,045	1,010	1,312	2,059
4. Deposits	69 (13.97)	73	77	134	159	258	332	467	752 (26.75)
	494	625	688	860	762	1,303	1,342	1,779	2,811

Figures in the parentheses indicate percentage of the total.

Source: BKB Annual Reports.

Table 5.2: Expansion of BKB Branches (1972-81)

Years	<u>Branches</u>		Regional Offices (RO) Number	Branches per R.O.
	Number	% increase over the previous year		
1971-72	77	-	7	11.00
1972-73	102	32.47	7	14.57
1973-74	136	33.34	8	17.00
1974-75	147	8.09	9	16.33
1975-76	152	3.40	10	15.20
1976-77	171	12.50	10	17.10
1977-78	197	15.20	12	16.42
1978-79	252	27.92	14	18.00
1979-80	412	63.49	14	29.43
1980-81	555	34.71	20	27.75

Source: BKB Annual Reports.

Table 5.3: Regional Spread of Branches
(1973-74 and 1980-81)

Regions	% of total population (1981 census)	1973-1974		1980-1981		Growth Rate (%)
		No. of Branches	% of the total	No. of Branches	% of the total	
1. Dacca	11.54	12	8.82	51	9.19	20.67
2. Mymensingh	13.14	17	12.50	71	12.79	20.42
3. Chittagong	11.53	15	11.03	59	10.63	19.57
4. Sylhet	14.39	16	11.76	82	14.77	23.34
5. Khulna	12.22	17	12.50	71	12.79	20.42
6. Barishal	12.95	21	15.44	89	16.04	20.63
7. Rajshahi	9.98	16	11.76	47	8.47	15.39
8. Rangpur	14.25	22	16.18	85	15.32	19.31
Total	100.00	136	100.00	555	100.00	20.09

Source: BKB Annual Reports.

Table 5.4: Amount of Disbursements and Beneficiaries of Loans, (1971-72 to 1980-81)

(Tk in million)

Year	Disbursements		Beneficiaries		Per Borrower loan*	% change over previous year
	Amount	% increase over previous year	Number	% increase over previous year		
1971-72	96.4	-	92,000	-	1.05	-
1972-73	179.0	85.68	1,75,000	90.22	1.02	(-)2.86
1973-74	135.7	(-) 24.19	81,000	(-)53.71	1.68	64.71
1974-75	176.3	29.92	66,000	(-)18.52	2.67	58.93
1975-76	185.1	4.99	67,000	1.52	2.76	3.37
1976-77	388.4	109.83	2,26,000	237.31	1.72	(-)37.18
1977-78	553.0	42.38	2,44,000	7.96	2.27	31.98
1978-79	746.6	35.01	2,58,000	5.75	2.89	27.31
1979-80	1,414.9	89.51	3,88,000	50.39	3.65	26.30
1980-81	2,097.4	48.24	3,91,000	0.77	5.36	46.85
Total	5,972.8		19,88,000		3.01	

* Per borrower loan in '000' Tk.

Source: BKB Annual Reports.

Table 5.5: Disbursement by Term of Maturity (1971-72 to 1980-81)

(Amount in million Taka)

Years	Short-Term			Medium-Term			Long-Term		
	Amount	% of the total	% increase over previous year	Amount	% of the total	% increase over previous year	Amount	% of the total	% increase over previous year
1971-72	33	34.02	-	61	62.89	-	3	3.09	-
1972-73	56	31.28	69.70	122	68.16	100.00	1	0.56	(-)66.67
1973-74	67	49.26	19.64	68	50.00	(-)44.26	1	0.74	-
1974-75	94	53.41	40.30	81	46.02	19.12	1	0.57	-
1975-76	111	60.00	18.09	74	40.00	(-) 8.64	0.2	Ins.	(-)80.00
1976-77	267	68.81	140.54	119	30.67	60.81	2	0.52	900.00
1977-78	342	61.85	28.09	158	28.57	32.77	53	9.58	2,550.00
1978-79	423	56.63	23.68	219	29.32	38.61	105	14.05	98.11
1979-80	925	65.37	118.68	351	24.81	60.27	139	9.82	32.38
1980-81	1,319	62.90	42.59	574	27.37	63.53	204	9.73	46.76
Total	3,637	60.89	-	1,827	30.59	-	509	8.52	-

Ins = Insignificant.

Source: BKB Annual Reports.

Table 5.6: Purposes/Activity-wise Loan Disbursements

Purpose/Activity	1963-64		1971-72		Change over the previous period (g2)	1980-81		Change over the previous period (g2)	
	Amount	% of the total	Amount	% of the total		Amount	% of the total		
(Take in million)									

A. Short-Term Loan									
1. Production of crops (other than tea)	13.93	36.33	1.70	1.76	(-) 26.30	381.24	18.18	60.14	
2. Tea production	3.27	8.54	27.25	28.27	26.50	553.67	26.40	33.46	
3. Marketing of processing activity	1.65	4.30	1.72	1.78	0.52	317.76	15.15	57.99	
4. Other	3.24	8.45	2.00	2.07	(-) 6.03	66.10	3.15	38.85	
Sub-total (1-4)	22.09	57.62	32.67	33.89	4.89	1,318.77	62.88	41.10	
B. Medium-Term Loan									
1. Land Development etc.	0.92	2.40	0.23	0.24	(-) 17.33	22.63	1.08	50.99	
2. Irrigation	-	-	-	-	-	23.70	1.13	-	
3. Farm Implements	0.16	0.42	1.03	1.07	23.28	27.78	1.32	36.61	
4. Draft Animals	13.02	33.96	55.55	57.63	18.14	175.20	8.35	12.76	
5. Poultry and Dairy etc.	0.20	0.52	0.09	0.09	(-) 9.98	49.06	2.34	70.01	
6. Fisheries	-	-	-	-	-	72.52	3.70	-	
7. Transport facilities for marketing	0.37	0.97	2.60	2.70	24.37	44.06	2.10	31.45	
8. Agro-based cottage industry	-	-	-	-	-	7.61	0.36	-	
9. Others	0.43	1.11	1.71	1.77	17.25	146.65	6.99	49.47	
Sub-total (1-9)	15.10	39.38	61.21	63.50	17.50	574.21	27.38	24.87	
C. Long-Term Loan									
1. Irrigation	0.05	0.13	0.96	1.00	36.94	154.51	7.37	56.45	
2. Farm mechanisation	0.03	0.09	1.07	1.11	44.68	2.69	0.13	10.24	
3. Agro-based industry	-	-	0.03	0.03	-	19.27	0.92	71.83	
4. Development of tea garden	0.88	2.30	0.27	0.28	(-) 14.77	25.91	1.24	50.71	
5. Others	0.19	0.50	0.18	0.19	(-) 0.68	2.04	0.09	26.97	
Sub-total (1-5)	1.15	3.00	2.51	2.61	9.76	204.42	9.74	48.88	
Grand Total (A+B+C)	38.34	100.00	96.39	100.00	11.52	2,097.40	100.00	34.22	

* Three periods are not as such comparable, hence rearranged.

Source: BKB Annual Reports.

Table 5.7: Size-wise Average Annual Distribution of BKB Loan

Size of Loans (in Taka)		(Percentage)					
		1965-66 to 1969-70 +		1970-71 to 1975-76		1980-81	
		% of Loanees	% of amount of Loans	% of Loanees	% of amount of Loans	% of Loanees	% of amount of Loans
Upto	Tk 1,000	85.98	41.13	77.98	37.13	36.57	5.45
	1,001 to 3,000	11.53	17.48	19.96	16.34	42.00	18.37
	3,001 - 10,000	1.94	7.01	1.53	4.64	16.80	12.52
	10,001 25,000 @	0.36	3.09	0.45	3.98	2.67	5.74
	Above 25,000 *	0.19	31.29	0.08	37.91	1.96	57.92
	Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: BKB Annual Reports.

+ Bangladesh Bank, A study of the working of former ANBP during the 5 years from 1965-66 to 1969-70 (1972).

* Includes loans for Tea, Cold Storage, Tobacco marketing and processing activities.

@ BKB publication changed the size information from 1976-77. Hence, for this size in 1980-81 it is from Taka 10,000 to 20,000 instead of Tk 25,000 and for the last size it is above Tk 20,000.

Table 5.8: Percentage of Annual Average Number of Loanees and Amount of Loans by their Holding Size

Holding size		% of annual average number of loanees	% of annual average amount of loans				
A. <u>For the period of 1965-66 to 1969-70</u>							
1.	Landless	2.79	2.42				
2.	Upto 3 acres	33.24	16.19				
3.	Over 3 acres to 12½ acres	50.09	41.13				
4.	Over 12½ acres to 50 acres	12.54	16.77				
5.	Over 50 acres	1.34	23.49				
B. <u>For the period 1970-71 - 1975-76</u>							
1.	Landless	0.92	7.90				
2.	Upto 3 acres	54.29	29.95				
3.	Over 3 acres to 12½ acres	39.51	22.54				
4.	Over 12½ acres to 50 acres	4.86	5.09				
5.	Over 50 acres	0.42	34.42				
C. <u>For the period 1976-77 - 1980-81 *</u>							
1.	Landless and upto 2.50 acres	55.51	24.06				
2.	Over 2.50 acres to 7.50 acres	34.14	20.17				
3.	Over 7.50 acres to 12.50 acres	8.49	10.02				
4.	Over 12.50 acres	1.86	45.75				
* Figures for the year 1979-80 are not included.							
D. <u>For the period 1965-66 to 1980-81 (excl. 1979-80)</u>							
		1965-66 to 1969-70	1970-71 to 1974-75	1975-76 to 1980-81	1965-66 to 1969-70	1970-71 to 1974-75	1975-76 to 1980-81
1.	Upto 12.50 acres (including landless)	86.12	94.33	98.10	59.74	64.76	53.82
2.	Over 12.50 acres	13.88	5.67	1.90	40.26	35.24	46.18

Table 5.9: Security-wise Distribution of Loans (Excluding Tea, Gold Storage and Tobacco Loans)

(in percentages)

Nature of Security	% of Borrowers			% of Amount of Loan		
	1977-78	1978-79	1980-81	1977-78	1978-79	1980-81
1. Real Estate Mortgage	26.13	40.92	40.14	53.16	53.89	45.01
2. Pledge for Stored Agricultural Products	0.58	0.78	1.90	0.26	3.54	25.87
3. Hypothecation of crops	70.09	56.27	55.44	41.86	35.34	26.04
4. Assignment of Security of Deposits	0.18	0.05	0.19	1.15	0.50	1.09
5. Pledge of Gold	-	Ins.	-	-	0.01	-
6. Personal Surety/Bond	1.69	0.92	0.14	1.33	0.20	0.01
7. Bank Guarantee	0.08	0.01	Ins.	0.48	2.82	0.05
8. Government Guarantee	-	Ins.	Ins.	0.32	0.49	0.58
9. Others	1.25	1.06	2.19	1.46	3.21	1.35
Total	100.00	100.00	100.00	100.00	100.00	100.00

Ins. = Insignificant.

Source: BKB Annual Reports.

Table 5.10: Regional Distribution of Loans

(in percentages)

Divisions	% of GCA	% of Borrowers				% of Amount of Loans			
		Before liberation (since inception)	1971-72 to 1975-76	1976-77 to 1980-81	Inception to as on June 1981	Before liberation (since inception)	1971-72	1976-77	Inception to as on June 1981
Dacca	22%	20.85	48.65	28.79	29.48	24.04	54.20	33.03	34.66
Chittagong	21%	22.75	19.75	20.89	21.19	33.98	23.74	35.90	34.30
Khulna	25%	25.71	7.28	26.89	23.33	20.76	5.95	15.76	15.09
Rajshahi	32%	30.69	24.32	23.43	25.90	21.22	16.11	15.31	15.95
Total	100.00	100.00 (31.95)	100.00 (16.26)	100.00 (51.79)	100.00 (100.00)	100.00 (9.42)	100.00 (11.66)	100.00 (78.92)	100.00 (100.00)

Figures in the parentheses indicate percentage of the cumulative total.

GCA = Gross Cropped Area.

Source: BKB Annual Reports.

Table 5.11: Recovery and Overdue Position of BKB 1961-62 to 1980-81

(Amount in million Taka)

Years	Overdue at the beginning of the year	Loan fell due during the year	Total amount recoverable	Amount recovered during the year	Overdue at the end of the year	Percentage of recovery (%)	Percentage of overdue (%)
1961-62	3.51	54.60	58.11	47.39	10.73	81.55	18.45
1962-63	10.73	33.93	44.66	22.68	21.98	50.78	49.22
1963-64	21.98	29.47	51.45	24.29	27.16	47.21	52.79
1964-65	27.16	48.75	75.91	29.02	46.89	38.23	61.77
1965-66	46.89	41.78	88.67	34.66	54.01	60.91	39.09
1966-67	54.01	49.62	103.63	34.52	69.11	33.31	66.69
1967-68	69.11	53.61	122.72	38.33	84.39	31.23	68.77
1968-69	84.39	62.72	147.11	47.65	99.46	32.39	67.61
1969-70	99.46	76.24	175.70	52.12	123.58	29.66	70.34
1970-71	123.58	99.37	222.95	51.72	171.23	23.19	76.81
1971-72	171.23	84.16	255.39	29.16	226.23	11.42	88.58
1972-73	226.23	99.39	325.62	67.24	258.38	20.65	79.35
1973-74	258.38	161.26	419.64	118.99	300.65	28.36	71.64
1974-75	300.65	228.31	528.96	199.96	329.00	37.80	62.20
1975-76	329.00	280.19	609.19	274.79	334.40	45.11	54.89
1976-77	334.40	280.70	615.10	297.36	317.74	48.34	51.66
1977-78	317.74	495.82	813.56	381.76	431.80	46.92	53.08
1978-79	431.80	559.59	991.39	521.66	469.73	52.62	47.38
1979-80	469.73	884.87	1,354.60	747.30	607.30	55.17	44.83
1980-81	607.30	1,357.61	1,964.91	1,310.79	654.12	66.71	33.29
Total	3,987.28	4,981.99	8,969.27	4,331.38	4,637.89	48.29	51.71

Source: BKB Records.

Table 5.12: 5 Yearly Recovery Position (Before and after Liberation)

(Amount in million Taka)

Particulars	Before Liberation			After Liberation			Overall
	1961-62	1966-67	1961-62	1971-72	1976-77	1971-72	1961-62
	to 1965-66	to 1970-71	to 1970-71	to 1975-76	to 1980-81	to 1980-81	to 1980-81
1. Overdue at the beginning of the year	110.27	430.55	540.82	1285.49	2160.97	3446.46	3987.28
2. Loan fell due during the year	208.53	341.56	550.09	853.31	3578.59	4431.90	4981.99
3. Total amount recoverable	318.80	772.11	1090.91	2138.80	5739.56	7878.36	8969.27
4. Amount recovered	158.04	224.34	382.38	690.14	3258.87	3949.01	4331.38
5. Overdue at the end of the year	160.76	547.77	708.53	1448.66	2480.69	3929.35	4637.89
6. % of recovery	49.57	29.06	35.05	32.27	56.80	50.12	48.29
7. % of overdue	50.43	70.94	64.95	67.73	43.20	49.88	51.71

Source: Table 5.11.

Table 5.13: Division-wise Recovery Position

(Amount in million Taka)

Partioulars	<u>Dacca</u>		<u>Chittagong</u>		<u>Khulna</u>		<u>Rajshahi</u>	
	1972-73	1978-79	1972-73	1978-79	1972-73	1978-79	1972-73	1978-79
1. Overdue at the beginning of the year	43.84	133.97	66.43	67.61	59.20	59.26	56.74	138.04
2. Loan fell due during the year	40.29	154.06	16.03	292.20	22.79	48.06	20.28	65.26
3. Total amount recoverable	84.13	288.03	82.46	359.81	81.99	107.32	77.02	203.30
4. Amount recovered	33.79	138.81	14.76	254.01	11.17	52.34	7.52	76.51
5. Overdue at the end of the year	50.34	149.22	67.70	105.80	70.82	54.98	69.50	126.79
6. % of recovery	40.16	48.19	17.90	70.60	13.62	48.77	9.76	37.63
7. % of overdue	59.84	51.81	82.10	29.40	86.38	51.23	90.24	62.37

Source: BKB Annual Reports.

**Table 5.14: Aging Schedule of BKB Overdues
(1971-72 to 1976-77)**

	(In percentages)				
	As on June 1972	1973-74	1974-75	1975-76	1976-77
1. Upto 1 year	28.00	19.00	12.93	17.48	14.53
2. 1-2 years	15.00	16.56	14.22	15.62	13.28
3. 2-3 years	11.00	12.19	13.98	11.94	12.37
4. 3-4 years	46.00*	12.57	16.65	10.46	13.43
5. 4-5 years	-	9.71	12.14	9.15	10.82
6. Above 5 years	-	29.97	30.08	35.35	35.57
Total	100.00	100.00	100.00	100.00	100.00

* Includes more than 3 years.

Source: Information relating to 1972 taken from World Bank Study 1974, op.cit., (App. P-12) and others from Bangladesh Bank Credit Study Project 1977, op.cit. (P. 26).

Table 5.15: Profit Performance of BKB 1971-72 to 1980-81

(Amount in million Taka)

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
1. Total capital employed	425	552	610	726	603	1045	1010	1312	2059	2876
2. Total owned funds	100	100	102	110	197	278	281	291	317	366
3. Profit before Tax	4.2	7.3	2.5	11.7	17.9	8.2	9.7	17.3	31.6	77.6
4. ROTCE (%)	0.99	1.32	0.41	1.61	2.97	0.78	0.96	1.32	1.53	2.70
5. ROTEC (%)	4.2	7.3	2.45	10.64	9.09	2.95	3.45	5.95	9.97	21.20

ROTCE = Return on total capital employed.

= Share capital + retained earnings + borrowings.

ROTEC = Return on total equity capital.

= Paid up share capital + retained earnings.

Source: BKB Annual Reports.

Table 5.16: Sources of funds of ARTC (1968-69 to 1978-79)

	(Rs. in million)										
	68-69	69-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79
1. Paid up share capital and reserves	50	51	52	104	108	165	227	294	421	589	850
2. Special deposits	6	7	9	10	12	14	18	23	29	39	50
3. Borrowings from											
a) Government	258	448	668	771	1,249	1,635	1,966	2,501	3,400	4,276	5,020
b) RBI	-	-	75	84	382	656	927	1,401	1,726	2,168	2,640
4. Open market (Bond issues)	-	109	195	277	387	662	992	1,377	1,817	2,023	2,460
5. Others	1	1	1	1	1	-	-	-	-	46	70
Total	315	616	1,000	1,247	2,139	3,132	4,130	5,596	7,393	9,141	11,090

Source: ARTC, Annual Reports.

Table 5.17: Change in the relative Position of the Sources of Fund

	(Rs. in million)										
	1968- 69	1969- 70	1970- 71	1971- 72	1972- 73	1973- 74	1974- 75	1975- 76	1976- 77	1977- 78	1978- 79
1. Paid up share capital and resource	15.87	8.28	5.20	8.34	5.05	5.27	5.50	5.25	5.70	6.44	7.66
2. Special deposit	1.90	1.14	0.90	0.80	0.56	0.45	0.44	0.41	0.39	0.43	0.45
3. (a) Borrowings from GOI	81.90	72.73	66.80	61.83	58.39	52.20	47.60	44.69	45.99	46.78	45.27
(b) Borrowings from RBI	-	-	7.50	6.74	17.86	20.94	22.44	25.04	23.34	23.72	23.81
4. Open market	-	17.69	19.50	22.21	18.09	21.14	24.02	24.61	24.58	22.13	22.18
5. Others	0.33	0.16	0.10	0.08	0.05	-	-	-	-	0.50	0.63
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: ARDC Annual Reports.

Table 5.18: Overall Position of ARDC Sanctions

(Rs. in million)

Years	No. of Schemes	Financial Assistance	ARDC Commitment	Commitment of Govt/Bank	No. of Schemes	Financial Assistance	ARDC Commitments	Commitment of Govt/Bank
1968-69	108	792	694 (87.63)	98 (12.37)	1	2.40	2.00 (83.34)	0.40 (16.67)
1969-70	142	928	709	219	2	0.50	0.40	0.10
1970-71	100	622	539	83	1	1.80	1.80	-
1971-72	269	1542	1351	191	4	3.30	3.00	0.30
1972-73	230	1966	1723	243	4	2.10	2.10	-
1973-74	550	2513	2205	308	12	27.00	24.70	2.30
1974-75	623	2359	2044	315	9	14.20	12.70	1.50
1975-76	909	3564	2969	505	31	110.40	99.70	10.70
1976-77	1653	3679	3072	607	52	154.60	138.90	15.70
1977-78	1836	3927	3301	626	89	162.30	144.60	17.70
1978-79	2505	6948	5727	1221	97	265.40	238.20	27.20
1979-80	3657	9182	7569 (82.43)	1613 (17.57)	109	137.80	123.50 (89.62)	14.30 (10.38)
As on 79-80 (cu- mulative)	12225	36564	30766 (84.14)	5798 (15.86)	402	874.30	780.40 (89.26)	93.90 (10.74)

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* Minor difference because of rounding to million rupees.

** Figures in the parentheses indicate percentage of the total.

Source: ARDC Annual Reports.

Table 5.19: Overall Position of ARDC Disbursements

(Rs. in million)

Year	All India			West Bengal		
	ARDC	Govt/Bank	Total	ARDC	Govt/Bank	Total
1968-69	178 (25.69)	24 (24.49)	202 (25.51)	0.15 (7.50)	0.05 (12.50)	0.20 (8.33)
1969-70	286 (40.34)	37 (16.89)	323 (34.81)	0.10 (25.00)	0.03 (30.00)	0.13 (26.00)
1970-71	306 (56.77)	39 (46.99)	345 (55.47)	1.00 (55.56)	0.10 (100.00)	1.10 (61.11)
1971-72	350 (25.91)	38 (19.90)	388 (25.16)	0.50 (16.67)	-	0.50 (15.15)
1972-73	941 (54.61)	74 (30.45)	1015 (51.63)	0.40 (19.05)	-	0.40 (19.05)
1973-74	978 (44.35)	121 (39.29)	1099 (43.73)	2.20 (8.91)	0.10 (4.35)	2.30 (8.52)
1974-75	1064 (52.05)	159 (50.48)	1223 (51.84)	6.90 (54.33)	0.30 (20.00)	7.20 (50.70)
1975-76	1712 (57.66)	312 (61.76)	2024 (56.79)	15.90 (15.95)	1.70 (15.89)	17.60 (15.94)
1976-77	2208 (71.87)	408 (67.22)	2616 (71.11)	59.00 (42.48)	6.40 (40.76)	65.40 (42.30)
1977-78	2343 (70.98)	432 (69.01)	2775 (70.66)	99.60 (68.88)	12.90 (72.88)	112.50 (69.32)
1978-79	2849 (49.75)	557 (45.62)	3406 (49.02)	104.50 (43.87)	11.80 (43.38)	116.30 (43.82)
1979-80	4122 (54.46)	928 (57.53)	5050 (55.00)	98.10 (79.43)	12.20 (85.30)	110.30 (80.04)
As on June 80 (cumulative)	17337 (56.55)	3129 (53.97)	20466 (55.97)	388.35 (49.76)	45.58 (48.54)	433.93 (49.63)

* Figures in the bracket indicate percentage of the sanctioned amount.

Source: ARDC Annual Reports.

Table 5.20: Agencywise Sanctions and Disbursements

(Amount in million Rs.)

Years As on June (cumulative)	Sanctions			Disbursements		
	CLDBs	Scheduled Commercial Banks	Co-opera- tive Banks	CLDBs	Scheduled Commer- cial Banks	Co-ope- rative Banks
1968-69	1472	37	56	279 (18.95)	11 (29.73)	16 (28.57)
1969-70	1936	120	93	547	17	29
1970-71	2224	149	114	814	45	41
1971-72	3041	237	230	1098	78	74
1972-73	4284	479	251	1959	123	109
1973-74	5369	1410	262	2737	297	136
1974-75	6284	2232	268	3507	577	146
1975-76	7708	3500	264	4497	1287	156
1976-77	9352	5001	297	5767	2217	166
1977-78	10540	6779	385	6887	3417	186
1978-79	12842	9742	442	8197	4917	226
1979-80	16035	14169	562	9830 (61.30)	7290 (51.45)	260 (46.26)

* Figures in the bracket indicate % of sanctions.

Source: ARDC Annual Reports.

Table 5.21: Relative share of ARDC sanctions and disbursements - agencywise

(in percentages)

Years As on June (cumulative)	CLDBs	Scheduled Commercial Banks	Co-oper- ative Banks	CLDBs	Scheduled Commercial Banks	Co-operative Banks
1968-69	94.06	2.36	3.58	91.18	3.59	5.23
1979-80	52.12	46.05	1.83	56.56	41.94	1.50

Source: ARDC - Table 5.20.

Table 5.22: ARDC Sanctions by purposes (1968-69 to 1979-80)

Purposes	(Cumulative) (Amount in million Rs.)											
	1968-69	69-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	1979-80
1. Minor irrigation	1051 (125)	1406 (186)	1695 (237)	2498 (434)	3674 (553)	5402 (860)	6666 (1139)	8184 (1637)	10010 (2175)	11794 (2680)	15006 (3713)	19079 (5059)
2. Land development and soil conservation	327 (32)	445 (41)	454 (45)	497 (56)	671 (78)	684 (89)	641 (91)	792 (106)	1278 (309)	1182 (395)	1435 (499)	1700 (613)
3. Farm mechanisation	5 (2)	41 (9)	47 (10)	46 (5)	73 (15)	176 (107)	522 (244)	1287 (489)	1658 (711)	1973 (954)	2476 (1284)	3699 (1803)
4. Plantation and horticulture	138 (62)	176 (115)	190 (138)	253 (176)	328 (205)	387 (233)	414 (262)	478 (296)	577 (385)	818 (491)	1490 (798)	2176 (1161)
5. Poultry and sheep breeding	4 (5)	4 (6)	5 (7)	9 (9)	12 (16)	18 (32)	27 (56)	35 (74)	67 (124)	109 (199)	190 (343)	358 (642)
6. Fisheries	18 (5)	35 (8)	38 (10)	45 (13)	53 (19)	57 (22)	109 (97)	158 (121)	184 (168)	303 (291)	448 (386)	578 (575)
7. Dairy development	3 (1)	3 (2)	14 (5)	19 (7)	40 (23)	108 (82)	181 (119)	246 (195)	300 (325)	541 (494)	695 (704)	855 (1035)
8. Storage facilities and market yard	19 (1)	38 (4)	45 (6)	136 (11)	163 (14)	207 (31)	213 (44)	287 (85)	537 (272)	866 (663)	1140 (843)	1421 (1052)
9. Agricultural aviation	-	-	-	-	-	1 (1)	1 (1)	1 (2)	4 (3)	4 (3)	4 (3)	4 (3)
10. Others	-	-	-	-	-	-	-	-	37 (15)	115 (51)	144 (82)	149 (282)
Total	1565 (233)	2149 (371)	2487 (458)	3508 (711)	5014 (923)	7041 (1457)	8774 (2053)	11472 (2905)	14650 (4487)	17701 (6221)	23026 (8655)	30766 (12225)

* Figures in the brackets indicate number of schemes.

Source: ARDC Annual Reports.

Table 5.23: ARDC disbursements - by purpose

Purposes	(Cumulative) (Amount in million Rs.)											
	1968-69	69-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	1979-80
1. Minor irrigation	128 (12.18)	351	582	849	1691	2544	3384	4469	5884	7314	9024	11300 (59.23)
2. Land development and soil conservation	139 (42.51)	172	216	239	262	280	300	350	410	450	560	660 (38.82)
3. Farm mechanisation	4 (80.00)	6	7	11	33	71	191	651	1171	1451	1861	2790 (75.43)
4. Plantation and horticulture	21 (15.22)	36	56	77	92	114	134	164	214	294	414	630 (28.95)
5. Poultry and sheep breeding	0.1 (2.50)	0.7	0.7	0.7	2.2	3.1	13.1	23.1	33.1	53.1	93.1	190.0 (53.07)
6. Fisheries	6 (33.33)	10	14	20	21	30	50	70	90	140	220	320 (55.36)
7. Dairy development	-	-	-	4 (0.32)	7	15	25	55	85	125	195	300 (35.09)
8. Storage facilities and market yard	10 (52.63)	19	26	51	86	115	135	165	265	645	915	1060 (74.60)
9. Agricultural extension	-	-	-	-	-	1.2	1.2	1.2	1.2	1.2	1.2	1.2 (30.00)
10. Others	-	-	-	-	-	-	-	-	-	20	40	130 (87.25)
Total	305 (19.49)	591	897	1247	2188	3166	4226	5936	8146	10486	13336	17381 (56.49)

* Figures in the brackets indicate disbursements as % of sanctions/commitments.

Source: ARDC Annual Reports.

Table 5.24: Sizewise Classification of Schemes Sanctioned during 1979-80.

(Rs. in million)

Purposes	Upto Rs. 0.5 m.		Rs. 0.51-2.5 m.		Rs. 2.51-10.0 m.		Above Rs. 10.0 m.		Total	
	No. of Schemes	Amount	No. of Schemes	Amount	No. of Schemes	Amount	No. of Schemes	Amount	No. of Schemes	Amount
1. Minor irrigation	259	77.7	840	1124.1	203	905.9	57	1701.7	1359	3809.4
2. Land development etc.	80	17.9	41	41.6	17	91.1	5	143.9	143	294.5
3. Farm mechanisation	85	25.5	312	369.4	111	453.5	12	339.8	520	1188.2
4. Plantation/horticulture	83	19.4	217	300.4	75	275.3	1	60.0	376	655.1
5. Poultry etc.	235	42.5	115	115.2	5	15.2	-	-	355	172.9
6. Fisheries	76	15.8	50	53.1	12	46.3	1	11.0	139	126.2
7. Dairy development	196	56.8	172	157.5	4	12.7	1	11.2	373	238.2
8. Storage etc.	84	34.4	107	123.7	21	78.4	3	52.6	215	289.1
9. Others	84	22.4	74	84.4	17	56.6	2	23.6	177	187.0
Total	1182	312.4	1928	2369.4	465	1935.0	82	2343.8	3657	6960.6
	(32.32)	(4.49)	(52.72)	(34.04)	(12.72)	(27.80)	(2.24)	(33.67)	(100.00)	(100.00)
1978-79	(32.61)	(3.73)	(47.58)	(26.79)	(17.01)	(34.89)	(2.79)	(34.58)	(100.00)	(100.00)

Figures in the brackets indicate percentage of the total.

* Excludes IRDP Schemes.

Source: ARDC Annual Reports.

Table 5.25: State-wise Position of Sanction and Disbursements (1963-64 to 1979-80)

States	% of population with rank in the parentheses (1981)	(Rs. in million)											
		1963-1969			1969-1975			1975-1980			As on 1980 (Cumulative)		
		No. of Schemes	Sanctioned Amount	Disbursements (Refinances)	No. of Schemes	Sanctioned Amount	Disbursements (Refinances)	No. of Schemes	Sanctioned Amount	Disbursements (Refinances)	No. of Schemes	Sanctioned Amount	Disbursements (Refinances)
1. Haryana	1.88 (15)	7	118	30	89	763	385	387	1947	986	483	2828	1401
2. Himachal Pradesh	0.62 (18)	-	-	-	3	5	1	36	103	28	39	108	29
3. Jammu and Kashmir	0.87 (17)	2	11	3	6	8	4	11	15	7	19	34	14
4. Punjab	2.44 (14)	21	265	65	69	377	310	513	2236	1069	603	2878	1444
5. Rajasthan	4.99 (9)	5	39	1	63	346	100	474	1535	608	542	1920	709
6. Assam	2.91 (13)	5	9	7	10	25	6	177	234	87	192	575	100
7. Manipur	0.21 (20)	-	-	-	-	-	-	82	30	9	82	30	9
8. Tripura	0.30 (19)	-	-	-	-	-	-	12	12	2	12	12	2
9. Bihar	10.21 (2)	4	136	2	53	507	191	650	1602	959	707	2245	1152
10. Orissa	3.84 (11)	3	7	1	55	318	13	386	784	390	444	1109	404
11. West Bengal	7.97 (4)	4	21	1	30	31	10	368	822	377	402	874	388
12. Madhya Pradesh	7.62 (6)	11	122	3	186	871	253	1233	2476	1153	1430	3469	1409
13. Uttar Pradesh	16.21 (1)	16	159	12	243	1453	565	1430	4079	2117	1689	5691	2694
14. Gujarat	4.97 (10)	16	97	21	75	649	459	364	919	607	455	1665	1087
15. Maharashtra	9.17 (3)	10	94	19	351	870	440	1206	2158	1226	1567	3122	1685
16. Andhra Pradesh	7.81 (5)	60	328	81	150	519	340	1068	3733	1841	1278	4580	2262
17. Karnataka	5.42 (8)	32	227	26	188	735	328	791	1602	827	1011	2564	1181
18. Kerala	3.71 (12)	14	53	2	85	124	44	415	967	279	514	1144	325
19. Tamil Nadu	7.06 (7)	21	135	33	135	618	469	497	854	537	653	1607	1039
20. Others	1.79 (16)	2	2	-	29	33	8	72	74	40	103	109	48
Total	100.0	233	1820	305	1820	8252	3926	10172	26492	13151	12225	36564	17382
		(1.91)	(4.98)	(1.75)	(14.89)	(22.57)	(22.59)	(83.20)	(72.45)	(75.60)	(100.00)	(100.00)	(100.00)
		(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)

Figures in the bracket are % of the total.

Source: ARDC Annual Reports.

Table 5.26: ARDC Disbursement for Small Farmers
- (1978-79)

(Rs. in million)

Category of Schemes	Minor Irrigation			Diversified (excluding farm mechanisation, storage and market yards)		
	Total Disbursements	Disbursements to small farmers	% of 3 to 2	Total Disbursements	Disbursements to small farmers	% of 6 to 5
IDA Projects	3299	1111	34	131	53	40
ARDC I	1125	624	55	105	40	38
ARDC II	1541	828	54	296	100	34
SFDA/MFAL	359	359	100	54	54	100
Other Schemes	2014	1119	56	745	442	59
Total	8338	4041	48	1331	689	52

Source: Quoted in CRAFICARD Report, 1981, p. 227.

Table 5.27: Loans and Advances of AFC (1969 to 1979)

(Rs. in '000')				
Year (ended in December)	Total Loans and Advan- ces	Secured (including interest)	State Electricity Boards	Others (excluding bad debts)
1969	80,97	5,08	75,86	2
1970	1,49,70	20,19	1,29,36	16
1971	3,40,37	12,44	3,24,17	3,76
1972	3,48,41	5,90	3,32,20	10,31
1973	3,49,55	3,42	3,32,75	13,39
1974	2,69,94	7,16	2,49,30	13,47
1975	2,37,73	18,44	1,84,55	34,73
1976	1,81,69	5,28	1,61,44	14,97
1977	1,51,72	5,74	1,31,70	14,28
1978	1,11,57	5,20	91,93	14,44
1979	94,89	5,00	78,41	11,48

Source: Agricultural Finance Corporation Records.

Table 5.28: Schemes Formulated/Appraised by AFC

Year	Number of Schemes	(Rs. in million)
		Estimated Bank loan requirements
1968-73	125	1751
1974	199	350
1975	101	577
1976	149	749
1977	137	2177
1978	86	1184
1979	154	665
1968-79	951	7451

Source: Agricultural Finance Corporation Records

**Table 5.29: Agencies Commissioning the AFC (Year-wise)
and types of consultancy availed**

(in number)						
Year	Govt. of India	State Govts.	Govt. Cor- porations	Scheduled Commer- cial Banks	Others	Total
1968-73	-	12	18	79	16	125
1974	-	68	105	23	3	199
1975	-	83	6	3	9	101
1976	-	60	79	4	6	149
1977	48	82	1	4	2	137
1978	1	73	5	6	1	86
1979	1	96	4	49	4	154
1968-69	50	474	218	168	41	951
- of which -						
Consultancy basis	50	473	93	145	37	798
Service Charge basis	-	1	125	23	4	153

Source: Agricultural Finance Corporation Records.

CHAPTER VIINTEGRATED VIEW OF THE PERFORMANCE OF AGENCIES

The analysis relating to working of individual agencies presented in the earlier chapters, no doubt, gave useful insight into a number of aspects relating to their operations in the rural areas. However, in the nature of things, it has not revealed an overall picture of the performance of agencies involved in rural finance. Therefore, the current chapter is addressed to depicting the overall performance of the agencies involved in direct¹ lendings to the ultimate borrowers.

[There are a number of aspects that can be considered for evaluating the performance of rural credit system in a country. But the Regional Seminar² for Asian Agricultural Credit for Small Farmers held in Bangkok, suggested two

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1. Finances provided by refinancing agencies are routed through the agencies meant for direct lendings. Direct lendings include both from resources of the individual agencies as well as out of refinances obtained from other agencies. Therefore, in order to avoid duplication, only direct lendings are taken into account in this chapter to arrive at the actual magnitude of rural credit made available to the ultimate users.
 2. FAO, Agricultural Credit in Asia, Report of the Regional Seminar for Asia on Agricultural Credit for Small Farmers, Bangkok, Thailand, 7-18 Oct. 1974, pp. 7-8.

major criteria (among others) for judging the effectiveness of the rural credit system in any country. These are:

- (i) The credit system should generate adequate savings and mobilise them as deposits in order to accelerate the economic growth in a planned way, and
- (ii) The credit system should be able to satisfy all the credit needs of the rural people, in whatever nature (short/medium/long-term) and in whatever form (cash or kind) it is necessary.]

In the following pages, an attempt is made to assess how far the rural credit systems in India and Bangladesh were able to meet the aforesaid two major criteria.

6.2 Mobilisation of Rural Deposits

It is to be noted here that the extent of self-reliance of any financial institution, rural or otherwise, largely depends on resources mobilised by way of deposits. A perusal of the information in Table 6.1 reveals that rural deposits in both India and Bangladesh rose substantially over the period - in India from Rs. 5367 m. to Rs. 32758 m. and in Bangladesh to Tk 3820 m. (Tk 546 m.)³. The rural deposits mobilised by all the agencies grew at more than 25 per cent per year in India, Bangladesh as well as West Bengal. Incremental rural deposits registered significant growth during the period - 38% in case of

3. Figures in the bracket indicate performance in the base year.

Bangladesh, 26% in India and 30% in West Bengal. However, incremental rural deposits as proportion of GDP from agriculture grew significantly only in case of India and West Bengal. But, the ratio of incremental rural deposits to GDP from agriculture is low in both the countries; even in the terminal year - it was 2.59% in case of India as against 1.12% in 1971-72, 1.49% (0.46%) in Bangladesh compared to 1.90% (0.53%) in West Bengal.

(That the mobilisation of rural deposits by the agencies was satisfactory but not impressive and adequate is underscored by the fact that even in the terminal year, the per capita rural deposit was Rs.65 (Rs.12) in India, Tk 50 (Tk 8) in Bangladesh and Rs.47 (Rs.8) in case of West Bengal.

An analysis of rural deposits per hectare of GCA shows that they registered significant growth of 24% per annum (g1) in case of India and at a rate of 26% in case of both Bangladesh and West Bengal. However, this substantial growth did not result in adequate funds being made available to rural borrowers is underlined by the low amount of rural deposits per hectare even in the terminal year; it was Tk 296 (Tk 46 in the base year) in case of Bangladesh⁴, Rs.189 (Rs.32) in case of India and

4. This may be compared with per hectare net farm income (1978) which was Tk 3816 for HYV farms and Tk 1222 for farms using local variety seeds.

Source: Quoted in Bangladesh Bank Credit Study Project, 1978, op.cit., App. A, pp. 1.

Rs. 232 (Rs.36) in West Bengal.

Relative Share of Agencies

(As mentioned earlier, there are two agencies i.e. co-operative and commercial banks (including RRBs) in India and three in Bangladesh, viz., co-operatives, commercial banks and BKB operating in the field of rural finance.) We may now analyse the change in the relative share of these agencies in the mobilisation of rural deposits during the period under review.

A reading of the relevant data shows that the share of co-operatives in rural deposits significantly declined over the period in case of all the regions under comparison. It declined from 15% to 7% in case of India, from 6% to 3% in case of Bangladesh and from 3% to barely 1% in West Bengal. Correspondingly, the share of commercial banks in the rural deposit mobilisation increased substantially in the two countries. This sharp increase in the relative share of commercial banks can be attributed to factors like planned and faster expansion of rural branches of commercial banks, innovation of alternative organisation system like RRB, and adoption of villages and introduction of group lendings, besides relatively lower performance of co-operatives in rural deposit mobilisation.

BKB in Bangladesh, on the other hand, maintained its relative position (10%) notwithstanding increase in

the share of commercial banks in the rural deposit mobilisation. (20% of BKB deposits are considered urban).

6.3 Extension of Rural Credit

The volume of rural credit supply in nominal value registered highly significant growth (g1) during the period under review in both India and Bangladesh (Table 6.2); in absolute amount, it increased more than three times to Rs. 33048 m. in India, almost eight times to Tk. 1995 m. in Bangladesh and 14 times to Rs. 1533 m. in case of West Bengal. When we compare growth in the real value of rural credit, we find the position of Bangladesh to be slightly better (2.7 times rise) compared to that of India (2.2 times). The situation in this regard to the flow real credit of West Bengal was much better compared to Bangladesh. The volume of real rural credit in the state rose nine times over the periods to Rs. 846 m.

The amount of incremental rural credit in India increased to Rs. 6313 m. in 1978-79 from Rs. 2967 in 1971-72 to Tk.400 m. from Tk. 118 m. in Bangladesh and to Rs.303 m. from Rs. 50 m. in West Bengal. Growth (g1) of this item was significant only in case of India. Incremental rural credit in Bangladesh was rather erratic showing substantial year to year fluctuations.

The proportion of incremental rural credit to GDP from agriculture was higher in case of India compared to that of Bangladesh; in the terminal year it was 2.07%

(1.62%) in case of India while it was 0.51% (0.45%) in case of Bangladesh and 1.23% (0.35%) in case of West Bengal. When the position of the supply of rural credit is judged by per capita availability, it is found that per family (assume 5 member size) rural credit rose to Rs. 328 m. from Rs. 107 in India, to Tk 132 from Tk 18 in Bangladesh. This cannot be regarded as adequate in view of the requirements of credit for farm and non-farm activities and in the light of rising prices of inputs.

The supply of rural credit per hectare of GCA increased to Rs. 191 in 1978-79 from Rs. 58 in 1971-72 in India while it increased to Tk. 155 from Tk. 20 in Bangladesh and to Rs. 172 from Rs. 14 in West Bengal over the period. The annual compound growth (g) of this was the highest in West Bengal followed by Bangladesh and India respectively. Whatever be the growth rate, the quantum of rural credit supply by gross cropped area cannot be regarded as satisfactory in view of the cost of cultivation stated earlier (Chapter IV).

Change of Relative Share of Agencies

The relative share of wholly devoted agencies like co-operatives and BKB has declined while the same relating to partly involved commercial banks substantially increased over the period. Specifically, the share of co-operatives in the total rural credit supply declined sharply from 81% in 1971-72 to 50% in 1978-79 in case of India while it

declined at a faster rate from 52% to 18% over the period in Bangladesh. The decline in the share of co-operatives in case of West Bengal was rather marginal - from 58% to 56%. Contrary to the position of co-operatives, the share of commercial bank registered a highly significant growth (g1) in both India and Bangladesh. It can be noted here that commercial banks' share in the aggregate rural credit increased from 19% in 1971-72 to 48% in 1978-79 in India, from 7% to 45% in case of Bangladesh and marginally from 42% to 44% in West Bengal. On the other hand, BKB's relative share decreased marginally from 41% to 38% over the same period.

The relatively better performance of commercial banks in both India and Bangladesh was the outcome of the respective governments' deliberate policies assigning a greater role to commercial banks including RRBS in the sphere of rural credit.

Term Nature of Rural Credit Supply

The data on rural credit by term nature are not available from Bangladesh PACs. Further, such data are not available in respect of the commercial banks' rural operations in both India and Bangladesh. Therefore, we assumed that the entire credit granted by PACs and all rural credit by commercial banks in both the countries as production credits. Credits extended by long-term co-operative structure are regarded as investment credits.

BKB loans upto one year are categorised as production credits and those of more than one year maturity are taken as investment credits.

It can be gleaned from the available data (Table 6.3) that production credit in India increased from Rs. 7978 m. in 1971-72 to Rs. 30642 in 1978-79 and from Tk 232 m. to Tk 1883 m. in case of Bangladesh registering a highly significant annual growth (g1). The position of West Bengal in this regard was much better than Bangladesh. In West Bengal, rural production credit increased 14 times (from Rs. 91 m. to Rs. 1240 m.) over the period with highly significant growth per annum (g1).

On the other hand, investment credits in India moved up from Rs. 1610 m. in 1971-72 to Rs. 2406 m. in 1978-79 and from Tk. 3 m. to Tk. 115 m. in Bangladesh. The growth of West Bengal investment credit in the rural areas was similar to that of Bangladesh.

When the relative share of production and investment credits is considered, it is seen that in India the share of production credit increased to 92% in 1978-79 from 83% in 1971-72 while the same declined by 5% from 99% in Bangladesh. The relative shares of production and investment credit remained unchanged over the period (production credit 92%) in case of West Bengal.

Thus, investment credit as a proportion of total rural credit was low in both the countries even by the end

of the study period. The position may not significantly change, even if we considered contribution of PACs and commercial banks to investments credits (assumed to be not more than 2%). It is symptomatic of lack of awareness about the need for proper term-mix of the supply of rural credit. It is now a well accepted principle that for benefiting the borrowers, a reasonable mix of production and investment credits is necessary; else, it may ultimately cause diversion of loans resulting in poor repayments. In a recent study⁵ (1980), it was found that the recovery performance was better in cases where investment loans were accompanied by production loans.

6.4 Composite Index of Growth

On the basis of secular growth of various indicators relating to rural deposits and credits, it is not possible to make out the over all growth performance of the agencies. Therefore, a composite index of growth is constructed taking together performance of both rural deposit and credit on the lines stated in appendix A, Chapter III. Equal weightage is given to the two aspects. Indicators considered in the two aspects are:

5. ARDC Study, Standing Committee on Agricultural Loans through Commercial Banks, quoted in CRAFICART Report, 1981, pp. 167.

- (I) Mobilisation of Rural Deposits
- (i) Incremental rural deposits as % of GDP from agriculture
 - (ii) Per Capital rural deposits
 - (iii) Rural deposits as % of total bank deposits.
- (II) Extension of Rural Credit
- (i) Incremental Rural Credit as % of GDP from agriculture
 - (ii) Per Capital rural credit
 - (iii) Rural credit as % of total supply of bank credit
 - (iv) Rural long-term credit as % total rural credit
 - (v) Incremental rural credit - deposit ratio.

The score values employed in constructing composite index are depicted in Chart XIII. It shows that growth of composite index in the first few years was higher for India compared to Bangladesh but the situation was reversed in 1976-77. Further, composite growth index for Bangladesh experienced relatively more fluctuations than that for India. Composite growth of the agencies for West Bengal was not only higher all through but was relatively smoother and consistent compared to that of Bangladesh.

It is not possible to assess the contribution of rural deposits and credits separately from the Chart XIII. Chart XIV, which shows separate contribution of each,

CHART XIII, COMPOSITE INDEX OF INTEGRATED PERFORMANCE OF ALL AGENCIES.

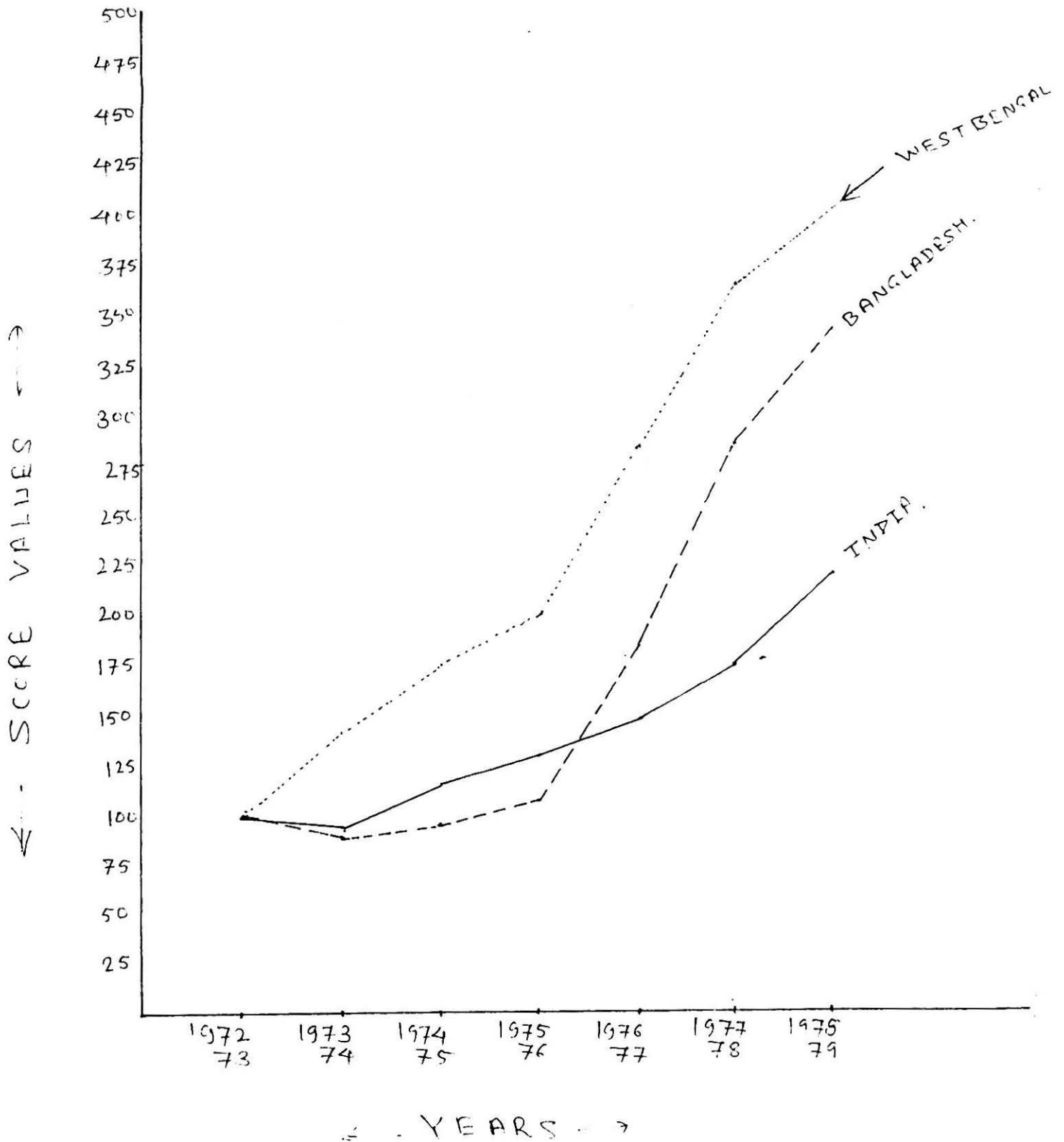
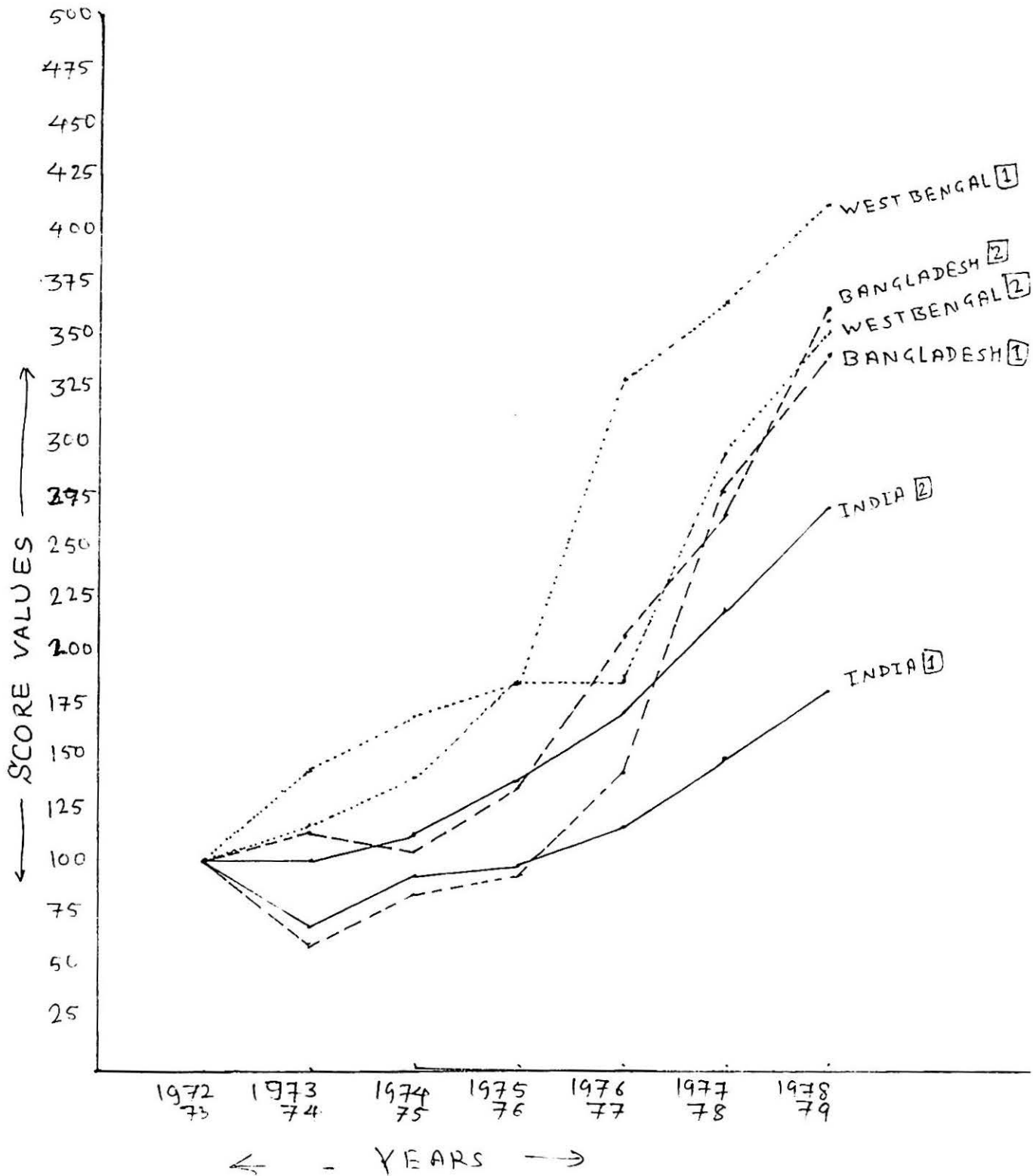


CHART XIV COMPOSITE INDEX OF INTEGRATED LOAN AND NON-LOAN PERFORMANCE OF ALL AGENCIES.



1: PERFORMANCE OF LOAN ASPECT
 2: PERFORMANCE OF DEPOSIT ASPECT.

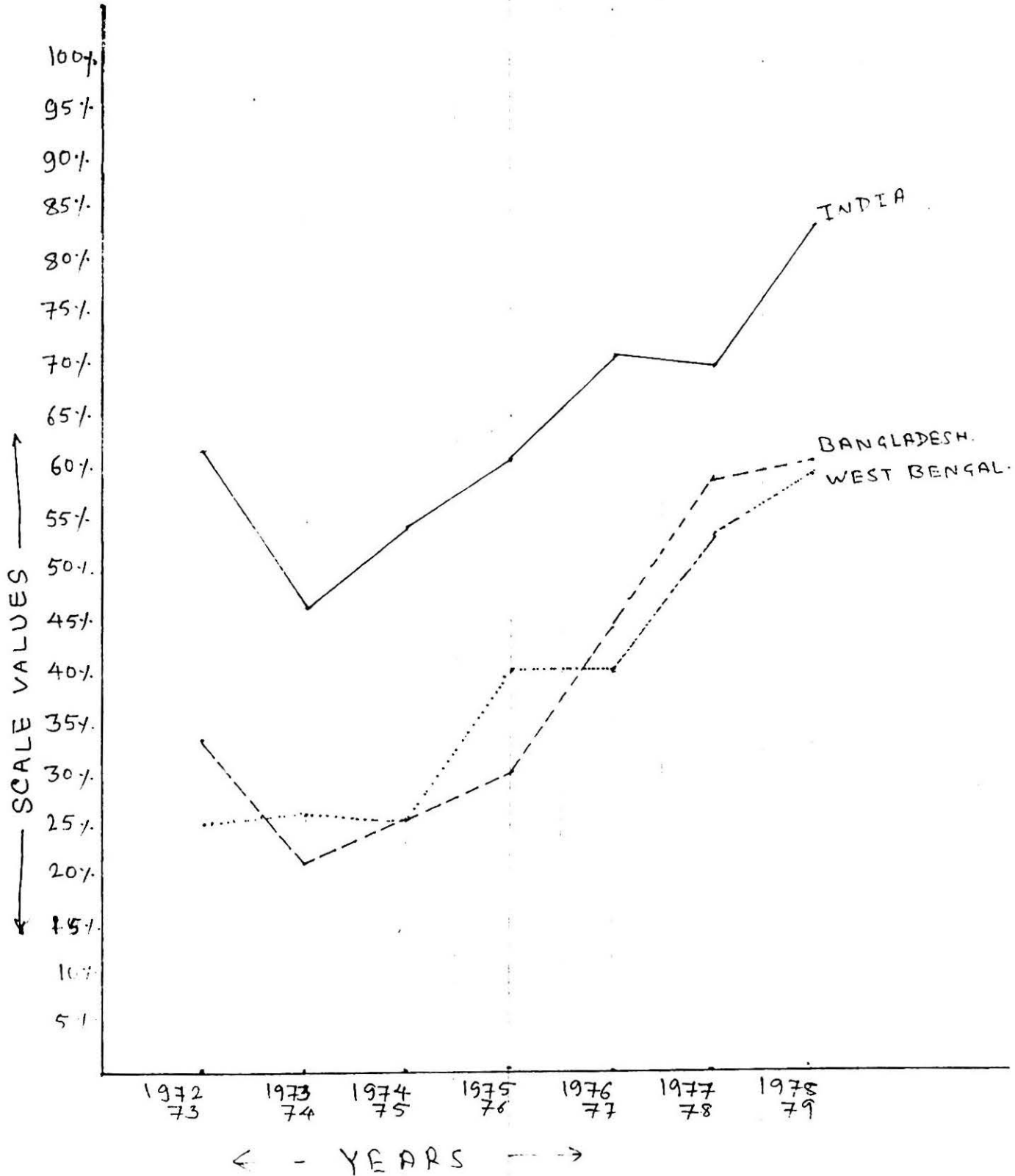
reveals that in India growth performance of rural deposit mobilisation was higher than that of rural credit. Furthermore, the gap between the two was rather getting wider. The same trend can be observed in case of Bangladesh excepting in the penultimate year of the study. Contrary to Bangladesh case, extension of rural credit in West Bengal registered relatively higher growth compared to that of rural deposits since 1975-76. This can be attributed to massive co-operative credit activities in the state following land reforms offering right of credit to the share croppers who were denied the facility earlier.

6.5 Level of Development and its Change

Assessment of the growth performance of financial institutions in the rural areas through the composite index has, no doubt, provided useful insight; however, one cannot make out from it the level of development of the rural operations of various involved agencies in the two countries. Therefore, the two aspects and their respective indicators as were considered while constructing composite index are used applying a 10-point scale of development on the lines outlined in appendix B, Chapter III.

The score values obtained for the level of development are then plotted in Chart XV which shows that the overall level of development of the rural operations of various agencies in India was much higher all through the period compared to that of Bangladesh. It is further

CHART XV. LEVEL OF DEVELOPMENT OF INTEGRATED PERFORMANCE OF ALL AGENCIES. -



seen that there was a smooth upward trend in the level of development in India as well as Bangladesh for most of the years. It can also be noted that the gap between the level of development in the two countries narrowed down till the penultimate year of the study.

The level of development in West Bengal was lower than that in Bangladesh in a few years at the beginning and end of the period but afterwards West Bengal surpassed Bangladesh in a few intervening years. However, the level of development in Bangladesh should be viewed keeping in mind that the entry of commercial banks in that country in the field of rural finance was five years later than that in India.

A further analysis of the level of development by the two major aspects (viz., mobilisation of rural deposits and extension of rural credits) shows that in Bangladesh the performance of rural deposit mobilisation was better all through than that of rural credit extension while the reverse is the case in India except in the last two years.

6.6 Share of Rural Credit in the Total Credit Supply

In this era of planned development, it is reasonable to expect that the central bank as well as government of a country will make adequate efforts to direct credit resources available in the economy among the various sectors and sub-sectors in order of their priorities. It is, therefore, pertinent to examine the supply of rural

credit in relation to the total credit supply in the economy during the period of study.

Data provided in Table 6.4 show that in India the share of rural credit as proportion of total credit was around 14% all through the period. In case of Bangladesh, however, the share of rural credit increased to 12% in 1978-79 from 8% in 1971-72, registering 9% growth per annum (g1). The favourable Bangladesh record may be explained by the low share in the initial period and augmented supply of rural credit through commercial banks by target-oriented approach.

An analysis of rural credit supply by term nature shows that, of the total short-term credit supply in India the share of short-term rural credit was 12% in 1971-72 which moved up to 14% in 1978-79 while the increase in Bangladesh was 8% to 12%.

The proportion of rural long-term credit in the total long-term credit supply in India was 42% in 1971-72 which substantially declined to 19% by the end of the period. Similar downward trend was noticeable in Bangladesh. Further, the rate of decline was higher in case of Bangladesh compared to that of India. The steep decline in the position of rural long-term credit in India was primarily because of massive credit extended to industrial projects while in case of Bangladesh it was due to insignificant credit for housing in the initial years

of the study and also due to low demand for private industrial credit in that period resulting from nationalisation of medium and large industries in that country. Private demand for industrial credit in Bangladesh picked up only after 1975, following disinvestment policy of the government in favour of private ownership of industries.

The preceding analysis suggests that in view of the higher contribution of rural areas to the national income (in India it is around 63%⁶ and in Bangladesh it is estimated to be around 70%), the supply of rural credit both in India (14%) and in Bangladesh (12%) appears to be quite inadequate.

6.7 REQUIREMENTS OF AND GAP IN RURAL CREDIT

As stated earlier, rural credit does not mean credit for agriculture alone. It is true, of course, that agriculture is the main economic activity of the rural populace in India as well as Bangladesh. Countries like India and Bangladesh where cultivable land is scarce, other non-land economic activities like dairying, poultry, fisheries, rural industries, rural trade and transports need be encouraged to add to the limited income from

6. GOI, National Account Statistics, 1981, op.cit.

agriculture, especially for those who have small/marginal land holdings or no cultivable land at all.) The contribution of crop-raising to the rural national income in India is around 70%⁷ while the balance comes from other non-land economic activities, some of which are mentioned above. Besides, in India as well as in Bangladesh small and marginal farmers own about a quarter of the operational holdings.⁸

(It is, therefore, understandable that through land-based economic activities alone, it is not possible to improve the economic conditions of a large segment of rural population. As such, it is peremptory to help these disadvantaged class to take up more and more non-land economic activities by providing adequate institutional finance in time and on easy terms. But to our knowledge so far no official or private attempt has ever been made to estimate rural credit requirements of all the economic activities including cultivation. Most of the estimates made earlier related to agriculture only. It is, in the above background, a modest attempt is made here to make a post facto estimate of rural credit requirement of the aforesaid economic activities in order to have an idea

7. GOI, National Account Statistic, Jan.1981 loc.cit.

8. (i) GOI, All India Agricultural Census 1977 loc.cit.

(ii) GOB, Statistical Year Book of Bangladesh, 1979, loc.cit.

of the gap in the rural credit supply that existed during the period 1972-73 to 1978-79.

Data used for the purpose of estimation are drawn from national income statistics of India and Bangladesh. The ratio of credit requirement to purchased inputs for agriculture and the proportion of credit requirement to net value added for trade, transport and rural enterprises are used for the purpose of estimation. The details are furnished in the appendix to the chapter.

Estimated Credit Requirements

(It can be seen from Table 6.6 that during the year 1972-73 rural credit requirements in India were Rs. 54896 m. of which only 2.33% was for non agricultural activities. In the last year i.e. 1978-79 the requirements almost doubled (Rs. 97334 m.). The share of rural industries, trade and transports increased to 3% of the total rural credit requirement in 1978-79.)

In case of Bangladesh, estimated total rural credit requirements in 1972-73 were Tk. 7157 m. of which only 1.52% was for activities like rural industries, trade and transport. The estimated amount of rural credit for 1978-79 stood at Tk. 22775 m. with just 2% for activities like rural industries, trade and transport.

Estimated rural credit requirement for West Bengal for 1972-73 was Rs. 3698 m. of which only 2% was for activities like rural industries, trade and transport.

For the last year of the study, (1978-79) total credit requirement amounted to Rs. 8000 m. in West Bengal.

Gap in Rural Credit Supply

As a result of the organised efforts, gap in rural credit has shown reduction during the period 1972-73 to 1978-79 in both India and Bangladesh (Table 6.7). It can be gleaned that in India the gap in rural credit narrowed down to 66% in 1978-79 from 77% in 1972-73. It can be mentioned that in India the gap in rural credit narrowed down to 66% in 1978-79 from 77% in 1972-73. It can be mentioned here that the gap in rural credit in India in 1978-79 as estimated by RBI⁹ was quite close to our estimate (65%). The gap in rural credit in case of Bangladesh was quite wide - 95% in 1972-73 which came down to 91% in 1978-79. Compared to Bangladesh the position of West Bengal in reducing the gap in rural credit was better i.e. in 1972-73 it was 96% which declined to 83% in 1978-79. The rate of reduction of the gap of rural credit was faster in case of India (14.3%) compared to 13.5% in West Bengal and 4.2% for Bangladesh.

6.8 CONCLUSION

In view of the accepted policy of comprehensive rural development, the need for massive investment in the rural areas cannot be gainsaid. Governments in both India

9. RBI, "Multi-Agency System, 1980, op.cit., pp. 3".

and Bangladesh through policy measures and by promoting various agencies and encouraging them with suitable guidelines identified this need of the rural areas.

An examination of the performance of the agencies show that rural deposits in absolute amount substantially increased during the period (1971-72 to 1978-79) in both India and Bangladesh. But such increase is found to be inadequate when judged by incremental rural deposits as proportion of GDP from agriculture and also by per earning member deposit in the light of the increase in the per capita income and rural savings rate. It cannot also be considered satisfactory when examined by per hectare amount of deposits in the light of per hectare income from cultivation. Co-operatives in both the countries lost ground in regard to rural deposit mobilisation. BKB in Bangladesh could only maintain its position in regard to rural deposits despite more than three times increase in the number of branches over the period.

There was substantial increase in the amount of rural credit in nominal value in both the countries but in real value the increase cannot be regarded as impressive. The supply of real rural credit in Bangladesh even in the terminal year was very low. The growth of (g1) incremental rural credit was found significant only in case of India. In Bangladesh, it was rather erratic showing substantial year-to-year fluctuations. The supply of

incremental rural credit as proportion of GDP from agriculture was very meagre in both the countries when viewed from the ratio of such requirements as proportion of GDP (more than 25%). Rural credit supply per family appears to be inadequate in both the countries when compared with the requirements of credit need per family as estimated by us i.e. in India Rs. 966 and in Bangladesh Tk. 1506 (1978-79). The supply of per hectare rural credit in both the countries even in the terminal year was low. A study of the relative performance of the agencies shows that co-operatives in both the countries and BKB in Bangladesh are losing their relative share in the supply of rural credit to commercial banks. Co-operatives in Bangladesh lost comparatively a greater share in the total rural credit supply than their counterparts in India. Rural production credit has risen at a faster rate than investment credit in both the countries. Investment credit in both the countries was low, even in the terminal year, - only 10% of the total rural credit supply.

The supply of rural credit as proportion of total credit supply was almost stable (14%) for India while it improved to 12% in 1978-79 from 8% in 1971-72 in case of Bangladesh. Long term rural credit as proportion of total long term credit in both the countries was found to have significantly declined during the period under discussion.

The gap of rural credit supply in relation to requirements was all along more in case of Bangladesh compared to India. In the terminal year, the gap in rural credit was 66% in India, 91% in Bangladesh and 83% in West Bengal. It was found that the rate of reduction of the gap of rural credit was much faster in India (14.3%) compared to that of Bangladesh (4.2%).

APPENDIXMethod of Estimating Rural Credit Requirements

By rural credit we mean credit for economic activities undertaken in the rural areas, such as, raising crops, livestock, fisheries, rural industries, trade and transport pursued under private initiative. Estimating requirements of credit for these activities is not an easy task, especially in the absence of reliable information. A perusal of the current literatures shows that no such estimate of rural credit requirement (taking all the stated activities together) has ever been attempted either in India or in Bangladesh. Whatever estimates were available related to mostly production of crops. As such, in the present study, an attempt is made to estimate rural credit requirements of the stated economic activities.

Data used for the purpose of such estimation, are drawn from available national income statistics. Because of different methods of computing national income for agriculture and related activities compared to that from activities like industries, trade and transport, we had to adopt two different methods in estimating requirements of credit for these activities, i.e.

- (A) Agriculture and related activities - input basis. ✓
- (B) Other activities - income/value added basis. ✓

A brief discussion of the method followed is given ✓

here.

(A) Agriculture and Related Activities

National income of these activities are computed on the basis of production in relation to inputs. It is well accepted that credit requirements of agriculture and related activities are dependent on the amount of inputs, more particularly, on the amount of purchased inputs which we may call cash inputs. It is true that a part of the total inputs are financed out of the part savings which in the Indian sub-continent is inadequate. Hence, the heavy reliance on borrowed funds.

At first, we considered the amount of cash input including the payment of wage to the hired labour. Then, cash inputs pertaining to public sector is deducted in order to arrive at the actual cash inputs of the private sector for such activities. Afterwards, the share of rural areas in such cash inputs is assessed by using rural - urban ratio of NDP¹⁰. After thus obtaining the amount of private sector cash inputs relating to rural areas, we estimate the requirements of rural credit basing on a ratio of such inputs to the requirement of credit for these activities.

Now the problem is to decide what proportion of cash inputs is financed by credit. It is, no doubt, a difficult question because such proportion may vary depending on the regions, crops, technology and time. We have not come

10. GOI, "National Accounts Statistics", op.cit, pp. 148.

across any comprehensive national study providing information on this. However, seven studies¹¹ in the recent past conducted either in India or Bangladesh, showed that such proportion varied from 50% to 73% depending on the factors stated earlier. For our purpose, we used average of these ratios (63%) to estimate requirement of credit on the basis of cash inputs. We believe the average ratio will take care of varying proportions of credit requirements. Having estimated the amount of credit requirements relating to India for these activities, we have related this amount to the NDP from

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11. (i) Singh H. and Kahlon, A.S., "A Study of Credit requirements and advances to farmers in Patiala District", Indian Journal of Agriculture Economics (IJAE), 1942, Vol. 26, 1971, pp. 496 to 503.
- (ii) Bansil, P.C. "Credit requirements", IJAE, Vol. 26, 1971, pp. 468.
- (iii) Suryawanshi, S.T. et al, "Adequacy & Productivity of credit on the farms of Western Maharashtra", Indian Co-operative Review (ICR), 1978-79, pp. 306.
- (iv) Singh, R. et al, "Availability & Utilisation of Co-operative Credit in Agriculture - A case study" ICR, 1978-79, pp. 380.
- (v) Swamy, G.M. & Raimane K.T., "The Impact of New Farm Technology on Farm Income & Employment Potential under Credit Management in Kurnool District of Andhra Pradesh", ICR, Jan. 1982, pp. 191 to 199.
- (vi) BADC (Bangladesh), "Winter Rice & Wheat - Economics of Cultivation", 1977-78, pp. 22-23.
- (vii) U.S. Aid Mission to Bangladesh (1977), Quoted in Bangladesh Bank Credit Study Project, Phase II, 1978, pp. 1 & 2.

such activities in order to obtain a ratio of NDP as credit requirements. After obtaining this ratio, (Table 6.5), we applied the same in estimating credit requirements of agriculture and related activities for Bangladesh and West Bengal. This is done in view of the non-availability of required segregated information relating to various cash inputs in these regions.

Use of the same proportion in estimating credit requirements of other related activities is attempted because relevant information relating to these are not available. It is to be noted here that fisheries and livestock require mostly medium/long term loans. We believe, annual estimate will take care of the term loans because only a few borrowers make investments in each year. One who takes term loan for such activities, unlike crop loans, does not want investment loan every year - only once in a few years. This is why we have reasons to believe that our estimate of credit requirements for livestock and fisheries are not far from the actual.

(B) Other Activities i.e. Rural Industries, Trade and Transport

Credit requirements of these activities are estimated on the basis of income/value added. From the national income accounts, we first gathered Net Domestic Product (NDP) for each of these activities. From the total NDP values of each of these activities, we deducted the share of the public sector in order to have private sector

contribution of these activities to NDP. After that the share of non-rural areas to NDP of such activities is deducted following CSO (1971) basis of rural-urban distribution to arrive at the rural contribution of NDP for such activities. The share of rural area in case of industries was 25.4%; trade and hotels 18.17% and transports 16.19% for India.

Having segregated the share of NDP of the rural areas from these activities, we estimated requirements of credit for these activities using a ratio of credit to NDP. This ratio is used basing NSS 29th Round information of self employed households in non-agricultural enterprises.¹² In that survey credit contracted was obtained but not credit requirements. In the same survey, NDP for these activities under discussion are also available. We calculated credit contracted as a proportion of NDP. These ratios in case of India were 3.23% for rural industries; 7.78% for trade and hotels and 13.43% for rural transport. Using these ratios, we estimated requirements of credit for these rural activities. We are aware that using these ratios would lead to some under-estimation because credit requirement is always higher than credit contracted. This limitation has to be kept in mind while using the estimates.

12. GOI, NSS, 29th Round Survey. "Tables with notes of survey of self-employed households in non-agricultural enterprises - detailed results, New Delhi, 1978.

After estimating the requirements for these activities, we related the amount of requirement to the NDP from these activities in order to obtain the ratios (Table 6.5) which to be applied for estimating credit requirements for these activities in case of Bangladesh.

State level information from NSS survey¹³ was used in order to estimate rural credit requirements of the stated activities in case of West Bengal. The ratios which were 1.93% for rural industries, 3.40% for rural trade and 4.57% for rural transport are used in estimating rural credit requirements for the State.

13. NSS, "Self-employed household in non-agricultural enterprises - by state", Sarvekshana, Vol. III, No. 2, Oct. 1979, pp. S 257.

Table 6.1: Mobilisation of Rural Deposits by all Agencies

(Tk/₹. in million)

Indicators	INDIA			BANGLADESH			WEST BENGAL		
	1971-72	1978-79	Growth Rate(%) (g1)	1971-72	1978-79	Growth Rate(%) (g1)	1971-72	1978-79	Growth Rate(%) (g1)
1. Amount of rural deposits	5,367	32,758	25.05**	546	3,820	27.28**	262	1,831	27.51**
2. Incremental (a) amount of rural deposits (IRD)	2,042	7,903	25.63**	121	1,176	38.43**	76	467	30.24**
3. IRD as % of GDP form agriculture (a)	1.12	2.59	18.95*	0.46	1.49	24.18	0.53	1.90	22.32**
4. Per Capita Rural Deposit (Tk/₹.)	12.02	65.05	23.32**	8.32	50.51	25.32**	7.76	47.42	25.63**
5. Rural Deposit per hectare of GCA (Tk/₹.)	32.49	189.02	24.32**	46.35	296.42	26.32**	36.03	232.42	26.11**
6. Share of Agencies in the rural deposits(%)									
(a) Co-operatives	15%	7%	-10.50**	6%	3%	-11.10*	3%	1%	-16.58**
(b) Commer. Banks	85%	93%	1.17**	84%	87%	0.38	97%	99%	0.28**
(c) BKB	-	-	-	10%	10%	2.00	-	-	-

** Significant at 1% level

* Significant at 5% level

(a) Relates to 1972-73.

Table 6.2 : Supply of rural credit by all Agencies, 1971-72 to 1978-79.

Indicators	(Tk/₹. in million)								
	INDIA			BANGLADESH			WEST BENGAL		
	1971-72	1978-79	Growth Rate (%) (gl)	1971-72	1978-79	Growth Rate (%) (gl)	1971-72	1978-79	Growth Rate (%) (gl)
1. Amount of rural credit (nominal value)	9,588	33,048	17.06**	236	1,995	30.77**	99	1,353	37.45**
2. Amount of rural credit (a) (real value)	9,219	20,029	10.98**	184	493	17.62	97	846	30.36**
3. Incremental amount of (b) rural credit (IRC)	2,967	6,313	19.03*	118	400	R	50	303	30.72**
4. IRC as % of GDP from (b) agriculture	1.62	2.07	13.21	0.45	0.51	R	0.35	1.23	22.71*
5. Per Capita Rural credit (Tk/₹.)	21.48	65.62	15.31**	3.59	26.38	28.83**	2.93	35.04	35.58**
6. Rural credit per hectare of GCA (Tk/₹.)	58.04	190.70	16.28**	20.03	154.81	29.81**	13.62	171.74	36.05**
7. Relative share of agencies in rural credit (%)									
(a) Cooperatives	31	52	-5.89**	52	18	-15.21**	58	56	-0.89
(b) Commercial Banks	19	48	12.07**	7	44	31.48**	42	44	1.27
(c) BKB	-	-	-	41	38	-3.01	-	-	-

** = Significant at 1% level

* = Significant at 5% level

R = Growth rate could not be calculated because of -ve figure in one year.

b = Relate to 1972-73

a = Nominal value figures given in item 1 are deflated by using CPI of agricultural labourers (Base 1970-71 = 100) in case of India and West Bengal and wholesale price of medium quality rice in case of Bangladesh

Source - RBI Bulletin for India and Statistical Year Book for Bangladesh - various issues.

Table 6.3: Supply of Rural Credit by Term Nature

Indicators	(Tk/Rs. m.)								
	All-India			Bangladesh			West Bengal		
	1971-72	1978-79	Growth Rate (g1) (%)	1971-72	1978-79	Growth rate (g1) (%)	1971-72	1978-79	Growth rate (g1) (%)
1. Production credit	7,978	30,642	18.33**	233	1,880	30.29**	91	1,240	36.87**
2. Investment credit	1,610	2,406	6.98**	3	115	48.35*	8	113	45.42**
3. Relative share of									
a) Production credit	83%	92%	1.19**	99%	94%	-0.55	92%	92%	-0.55
b) Investment credit	17%	8%	-8.91**	1%	6%	19.88	8%	8%	7.60

** Significant at 1% level.

* Significant at 5% level.

Table 6.4 : Relative Position of the supply of Rural Credit in the total Credit Supply by all Credit Agencies (1971-72 to 1978-79)

Particulars	(₹/Rs. in million)															
	All India								Bangladesh							
	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79
1. Industrial Finance (all agencies)	1914	2188	3016	4251	4330	5886	6995	9258	2	21	31	54	100	102	270	567
2. Housing Finance (a)	289	272	386	613	803	805	890	1078	2	3	12	30	84	133	214	559
3. Coop rative Long term Finance (b) (PLDBs & branches of CLDBs and BKB)	1610	1830	1580	1810	2150	2790	2302	2406	3	4	5	7	1	18	56	115
4. Sub-Total : (Long Term finance 1+2+3)	3813	4280	4982	6674	7283	9481	10187	12742	7	28	48	91	185	253	540	1241
5. All other Credit Cooperatives (grass root level only) (c)	12000	14150	15630	17140	19050	27090	23250	27750	126	155	133	126	215	189	336	356
6. Specialised Agencies (BKB)	-	-	-	-	-	-	-	-	94	178	135	175	185	382	500	643
7. Commercial Banks	53671	63759	80653	91187	117814	137620	162876	198224	2850	4523	6313	5917	6924	8835	11552	14263
8. Sub-total (Short Term finances 5+6+7)	65671	77909	96283	108327	136864	164710	186216	225974	3070	4856	6581	6218	7324	9406	12388	15262
9. GRAND TOTAL (4+8)	69484	82189	101265	115001	144147	174191	196313	238716	3070	4884	6629	6309	7509	9659	12928	16503
10. Rural Credit (Direct Lendings only)	9588	12555	13357	16019	18986	23509	26735	33048	236	354	297	336	441	836	1595	1995
11. Rural Credit as % of total supply (10 as % of 9)	13.80	15.28	13.19	13.93	13.17	13.50	13.62	13.84	7.67	7.25	4.48	5.33	5.87	8.66	12.34	12.08
12. Share of Rural Long Term Credit in the total Long Term Credit	42.22	42.52	31.71	27.12	29.52	29.43	22.60	18.88	42.86	14.29	10.42	7.69	0.54	7.11	10.37	9.27
13. Share of Rural Short term Credit in total Short-term credit.	12.15	13.78	12.23	13.12	12.30	12.58	13.13	13.56	7.59	7.21	4.44	5.29	6.01	8.70	12.42	12.32

(a) In case of Indian figures include HUDCO as well as Cooperative Housing Societies. And in case of Bangladesh only House Building Finance Corporation (because Cooperative sector had given very meagre credit for housing).

(b) Bangladesh Krishi Bank gives a small part of its loan as long term credit as such it was shown here - not as a long term financing institution.

(c) Even if a small part of the PACS's lendings are Medium Term, it is assumed here to be all short term only.
Source: (i) Annual Reports of Respective Agencies - various issues and (ii) RBI and Bangladesh Bank related publications.

Table 6.5: Estimated Rural Credit Requirement in India as Proportion of Net Value Added

					(%)
Year	Agriculture and Allied activities	Rural Industries	Trade and Restaurant	Rural Transport	Total
1972-73	28.35	0.72	1.37	1.65	13.53
1973-74	25.13	0.72	1.37	1.65	13.00
1974-75	27.29	0.70	1.37	1.72	13.00
1975-76	29.59	0.70	1.35	1.63	12.89
1976-77	30.89	0.69	1.34	1.58	12.90
1977-78	29.10	0.69	1.33	1.61	12.35
1978-79	30.19	0.70	1.34	1.63	11.95

Table 6.6 : Estimated Rural Credit Requirements by Sectors - India, Bangladesh & West Bengal (1972-73 to 1978-89)

(Tk/₹. in Million)

Year	ALL INDIA					BANGLADESH					WEST BENGAL				
	Agricul- ture & Allied activi- ties.	Rural Indus- tries.	Trade & Restau- rant.	Rural Trans- port.	Total	Agricul- ture & allied activi- ties.	Rural Indus- tries.	Trade & Restau- rant.	Rural Trans- port.	Total	Agricul- ture & allied activi- ties.	Rural Indus- tries.	Trade & Restau- rant	Rural Trans- port.	Total
1972-73	53671 (97.77)	408 (0.74)	639 (1.17)	176 (0.32)	54896 (100.00)	7048 (98.48)	21 (0.29)	52 (0.73)	36 (0.50)	7157 (100.00)	3624 (98.00)	32 (0.87)	28 (0.76)	14 (0.38)	3698 (100.00)
1973-74	64457	489	792	218	65956	9995	31	89	51	10166	5502	36	33	13	5584
1974-75	45653	631	1073	299	77656	20826	59	150	77	21112	6637	50	39	17	6743
1975-76	78295	654	1186	306	80444	14867	57	145	103	15172	6682	52	43	19	6796
1976-77	84942	721	1224	331	87218	15816	60	139	115	16130	7312	51	46	24	7433
1977-78	91642	806	1407	378	94233	19842	65	171	142	20220	7682	55	51	26	7814
1978-79	94419 (97.01)	959 (0.99)	1521 (1.56)	435 (0.45)	97334 (100.00)	22338 (98.08)	72 (0.32)	209 (0.92)	156 (0.68)	22775 (100.00)	7864 (98.30)	59 (0.74)	49 (0.61)	28 (0.35)	8000 (100.00)

* Figures in the brackets indicate percentage of the total.

Table 6.6 : Estimated Rural Credit

Table 6.7 : Gap in rural credit - India, Bangladesh & West Bengal. (1972-73 to 1978-79)

(Tk/Rs. in million)

Year	ALL INDIA			BANGLADESH			WEST BENGAL		
	Rural Credit requirements	Rural Credit supply	Rural Credit supply as requirements.	Rural Credit requirements	Rural Credit supply	Rural Credit Supply as requirements	Rural Credit requirements	Rural Credit supply	Rural Credit Supply as requirements
1972-73	54896	12555	22.87	7157	354	4.94	3698	149	4.02
1973-74	65956	13357	20.25	10166	297	2.95	5584	251	4.49
1974-75	77656	16019	20.63	21112	336	1.59	6743	367	5.44
1975-76	80444	18985	23.60	15172	441	2.90	6796	440	6.47
1976-77	87218	23509	26.95	16130	836	5.18	7433	732	9.84
1977-78	94233	26735	28.37	20220	1595	7.88	7814	1050	13.43
1978-79	97334	33048	33.95	22775	1995	8.75	8000	1353	16.91

CHAPTER VIICOMMERCIAL BANK'S RURAL BRANCHES IN BANGLADESH- A CASE STUDY

In Chapter III, a macro-level performance appraisal of the rural operations of commercial banks in both India and Bangladesh was undertaken. The present chapter is addressed to a case study of grass root level operations of 69 rural branches of a major commercial bank in Bangladesh. The case study specifically seeks to focus on: the characteristics of rural branches, their performance in regard to mobilisation of rural deposits and extension of rural credit (by their size and age); transfer of rural funds, if any, with direction of such transfer; pattern of operational costs, attitudes of rural branch managers, identification of factors influencing their attitudes and locating the nature and types of problems that the branches face in their rural operations.

A sample of 15% of the rural branches of Agrani Bank as on December 1979, is selected from the four administrative divisions using random sampling procedure. It can be noted here that branches of less than one year of establishment are excluded. Collection of relevant data for the year ending 1979 from the sample branches was done

between March and July 1980.

7.2 Characteristics of the Rural Branches

Of the 69 rural branches, 23% is from Dhaka division and 27.5%, 22% and 27.5% are from Chittagong, Khulna and Rajshahi divisions respectively. According to size, 45% of these branches were small (upto Tk. 1 m. deposits), 30% medium (above Tk. 1 m. to Tk. 2 m.) and 25% large (above Tk. 2 m. deposit).

Mean age of the sample branches was 5.43 years; it was 2.83 years, 5.79 years and 7.41 years respectively for small, medium and large branches.

Mean age of the sample branch managers was 32 years and it was the same for all categories of branches excepting small for which it was 31 years.

Average years of experience in the branch of the branch managers was a little less than 2 years. It was so in case of the managers of the large branches. But the mean years of experience of managers in the medium-size branches was more than (2.4 years) and the small branches was less than the overall average (1.4 years).

Mean employee size of all the sample branches was 8. It was almost the same in case of medium branches. But the mean employee size of large branches was higher than the overall average (10) while that of the small branches was only 5.

New branches (upto 3 years of age) were 36%;

middle-aged (about 3 years but not exceeding 7 years) were 18% and old branches (above 7 years of age) were 46% (Table 7.1).

7.3 Mobilisation of Deposits

I. Deposit Accounts

The survey reveals that an average-size rural branch of our sample had 2015 deposit accounts of which 87% was of savings nature. The share of current and fixed accounts in the total number was 12% and 1% respectively. Mean deposit accounts of small, medium and large branches were 1121, 1920 and 3762 respectively. Small branches had higher proportion of savings accounts (96%) which decreases with the increase in the size of branches. Reverse was the case relating to the proportion of current accounts in the total number of accounts (Table 7.2).

II. Amount of Mobilised Deposits

The amount of rural deposits mobilised by the 69 sample branches totalled Tk. 144.9 m., with a per branch average deposits of Tk. 2.1 m. Mean deposits of small, medium and large branches were Tk. 1.4 m., Tk. 2.2 m. and Tk. 3.3 m. respectively.

(a) Structure of the Amounts of Deposits

The share of deposit amounts of savings, current and fixed accounts was 57%, 26% and 17% respectively. An average-sized rural branch had Tk. 1.1 as savings deposits;

Tk. 0.6 m. as current deposits and Tk. 0.4 m. as fixed deposits. The proportion of savings deposits to the total amount of deposits was higher compared to others irrespective of the size of the branches - 61% in case of small branches and 34% for large branches. The proportion of current deposits in all sizes of branches was between 30% and 40%. The share of fixed deposits in the total amount of deposits was the lowest in branches of all sizes. (Table 7.3).

(b) Deposits by Ownership Pattern

The average amount of deposits mobilised per branch was Tk. 0.9 m. from cultivators, Tk. 0.7 m. from rural tradesmen, Tk. 0.1 m. from rural entrepreneurs and Tk. 0.4 m. from others. The share in the overall deposits of cultivators, tradesmen, entrepreneurs, and others was 42%, 34%, 6% and 18% respectively. Small-size branches mobilised relatively higher proportion of deposits from cultivators (Table 7.4).

(c) Deposits by Age of Branches

Of the total deposits, only 12% was mobilised by new branches, 16% by middle-aged branches while the largest proportion (72%) was mobilised by old branches. The mean deposits of an average-sized new, middle-aged and old branch were Tk. 0.7 million, Tk. 1.9 m. and Tk. 3.3 m. respectively.

An analysis of the size of deposits by age of

branches shows that 52% of the new branches, 8% of middle-aged branches and 6% of old branches mobilised deposits of the size of Tk. 0.5 m. On the other hand, 8% of new branches, 44% of old branches had deposit size of above Tk. 2.0 m. (Table 7.5).

(d) Regional Performance of Deposits

The survey shows that Dhaka division contributed 18% of the total deposits while the share of Chittagong, Khulna and Rajshahi divisions was 29%, 28% and 25% respectively. Per branch deposit was highest in case of Khulna division (Tk. 2.7 m) followed by Chittagong division (Tk. 2.2 m.); the lowest Tk. 1.7 m. was in case of Dhaka division. This suggests existence of regional imbalances in the mobilisation of rural deposits (Table 7.6).

7.4 Extension of Rural Credit

The survey reveals that 3 branches out of the sample of 69, did not start any loaning operations. Further, of those which started loaning operations, 25% did not extend any farm credit. It is further observed that only 12% of the branches extended some amount of credit for agri-machinery and 19% provided credit for farm-related activities like dairying, poultry, fisheries etc.

By farm credit we mean credits for the related activities in addition to that for crop raising and non-farm credit includes that for rural trades, enterprises and other organisations etc.

I. Amount of Credit Extended

The amount of credit extended by the sample branches was Tk. 62.9 million, of which 68% was farm credit and the balance non-farm credit. Mean amount of credit of an average-sized rural branch was Tk. 0.9 m. - Tk. 0.6 m. for farm credit and Tk. 0.3 m. for non-farm credit. The overall credit-deposit ratio was 43%. (Table 7.7).

Seeds and fertilisers comprised 60% of the farm credit, irrigation and land development and agri-machinery each accounted for 7% of the farm credit. Credit for dairying, poultry and fisheries constituted only 3% of the total farm credit. On the other hand, 76% of the non-farm credit was for trade of which 49% was for wholesale trade and 27% for retail trade. Rural enterprises got 19% of the non-farm credit.

II. Term Nature of Credit

Term credit includes that for land development, agri-machinery, dairying, poultry and pond digging besides rural enterprises.* Credits for all other activities are treated as short-term.

It is seen that of the credit advanced by our sample branches, more than 88% was short term and a shade less than 12% was term credit. Of the short term loans, 74% went to farm sector and 29% to non-farm sector. On

* Treating credits for all these items as term credit may entail some over estimation.

the other hand, 53% of the term-loans was obtained by non-farm sector. Mean amount of short-term credit per branch was Tk. 0.8 m. and term credit Tk. 0.1 m. (Table 7.8).

III. Credit By Branch Size

The case study shows that of the total credit, 45% was extended by small branches, 36% by medium and 19% by large branches. However, mean amount of credit for medium branches was highest (Tk. 1.1 m.) followed by small branches i.e. Tk. 0.9 m.

Besides, the smaller the branch the higher the proportion of farm credit - 73% for small branches and 60% for large branches. The proportion of non-farm credit was the highest for large branches at 40% and 23% for small branches.

The mean amount of farm credit was around the same in case of both medium and small branches (Tk. 0.7 million) while it was only Tk. 0.4 m. in case of large branches. On the other hand, average amount of non-farm credit per branch was higher in case of medium-sized branches (Tk. 0.4 m.) compared to Tk. 0.24 m. in case of small branches.

Credit deposit ratio was high in case of small branches i.e. 65% and was only 22% for large branches (Table 7.7).

It is further revealed that 71% of the large branches

had C-D ratio of less than 20%; the ratio was around 40% in case of both small and medium branches. The proportion of branches with more than 74% C-D ratio was higher for small branches (16%) and lowest for large branches (5%) (Table 7.4).

IV. Credit By Age of Branches

Of the credit extended, 47% was given by old branches followed by middle-aged branches (31%). Apparently, credit performance of the old branches was better. However, mean amount of credit supplied by middle aged branches was highest (Tk. 1.0 m.) followed by old branches (Tk. 0.9 m.). Farm credit as a proportion of total was highest for new branches (82%) and lowest for old branches (58%).

It is further revealed that mean amount of farm as well as non-farm credit was highest in case of middle-aged branches followed by old branches.

C-D ratio was highest (84%) in case of middle-aged branches followed by new branches (78%). It was the lowest (28%) in case of old branches (Table 7.10).

Further, 69% of the old branches had C-D ratios of less than 30% while 33% of middle-aged branches had such low C-D ratio. On the other hand, the proportion of branches with above 74% C-D ratio was highest in case of middle-aged branches (25%) followed by new branches i.e. 12%. Only 9% of the old branches had C-D ratio of above

74% (Table 7.11).

V. Regional Distribution of Credit

The case study shows that of the total extended credit 37% was in the Dhaka division, and 26%, 20% and 17% was disbursed in Rajshahi, Khulna and Chittagong divisions respectively. Per branch disbursement of credit was also high in Dhaka division (Tk. 1.4 m.) followed by Rajshahi division (Tk. 0.9 m.). Mean amount of credit per rural branch was the lowest in Chittagong division at Tk. 0.6 m.

The highest proportion of credit for farm purposes was distributed by the branches of Dhaka division (92%) and the lowest in Chittagong division i.e. 29%. Contrary to this, Chittagong division had a high proportion of non-farm credit.

The C-D ratio was highest in case of branches in Dhaka division (85%) and lowest in Chittagong division (26%). C-D ratio of the branches of the other two divisions were also much below the target - 46% in case of Rajshahi division and 31% for Khulna division (Table 7.12).

7.5 Transfer of Rural Funds

Having appraised the performance of rural branches as to their deposits and credits in the preceding pages, we examine here whether or not and to what extent transfer of rural funds, if any, was made by our sample branches. Transfer of rural deposits has been computed with reference

to the target C-D ratio of 75% set for rural branches by the GOB and Bangladesh Bank.

The survey reveals that 69 branches under observation had loanable deposits of Tk. 108.7 m. i.e. 75% of the mobilised deposits of Tk. 144.9 m. But these branches by under-lending operations are seen to have transferred Tk. 45.7 m. from the rural areas to the semi-urban and urban areas.

(i) Transfer By Size of Branches

Of the amounts transferred by the sample branches, 66% was made by large branches and 24% by the medium branches. An average-sized large branch transferred Tk. 1.8 m. while it was Tk. 0.5 m. in case of a medium branch. Per branch transfer of deposits was the lowest in case of small branches i.e. Tk. 0.1 m. only (Table 7.3 and 7.7).

(ii) Transfer By Branches According to Age

When transfer of rural savings by branches of different ages is examined, it is revealed that 97% of the amount transferred was made by the old branches while middle-aged branches not only made no transfer but also made available Tk. 1.7 m., in addition to their own loanable deposits. Mean amount of transfer by an old branch was Tk. 2.7 m. while it was only Tk. 38 thousand for a new branch. Contrary to this, an average-sized middle-aged branch made additional inflow of Tk. 78 thousand

into rural areas (Table 7.13).

(iii) Inter-Sectoral Transfer

The transfer of rural funds was more from business followed by agriculture. Of the total transferred amount through our sample branches 91% was from business (Table 7.14).

This finding is in sharp contrast to the general belief that fund transfer is more from agriculture sector. The relatively better loaning funds to the agricultural sector is a consequence of target-oriented aggressive crop-loan operations pursued by the GOB since 1977.

(iv) Inter-Regional Transfer

(a) Inter-Administrative Divisional Transfer

An examination of the transfer of rural savings through our sample branches reveals that there was transfer of funds from three out of the four divisions; of the total transfer, 42% was from Chittagong division, 37% from Khulna division and 21% from Rajshahi. On the other hand, Dhaka division got an additional inflow of Tk. 2.7 million with a per branch average of Tk. 0.2 m. Mean amount of transfer per branch was more from the Khulna division at Tk. 1.2 m. followed by Chittagong division at Tk. 1.1 m. (Table 7.6 and 7.12).

(b) Transfer Among Regions With Different Levels of Development

A further analysis by different regions according to their levels of development is attempted. In the

absence of any settled criteria for determining the levels of development, we categorise Bangladesh into three* regions: developed, developing and less developed depending on the per acre value added from agriculture by districts for the year 1978-79.¹

It is found that C-D ratio was lowest in the developing districts (30%) and highest in the least developed districts. Of the 58% of the total fund transfer made by the sample branches, 48% was from the developed regions and 39% from the developing regions. However, per branch transfer was slightly higher from the developing regions (Tk. 0.9 m.) compared to the branches in the developed regions (Tk. 0.8 m.). Per branch transfer from less developed regions was the lowest i.e. 0.3 m. (Table 7.14).

From the above analysis, we may conclude that there was no inter-regional transfer of funds in the rural Bangladesh; on the other hand, the transfer was relatively more from the developing regions and less from the least developed regions. Relatively better credit operation in

* (a) Developed districts: Noakhali, Chittagong H.T., Dhaka, Comilla, Pabna, Mymensingh and Sylhet.

(b) Developing districts: Kustia, Barishal, Faridpur, Rajshahi, Tangail and Dinajpur.

(c) Less developed districts: Patuakhali, Jamalpur, Rangpur, Bogra, Khulna, Jessore and Chittagong.

1. GOB, Statistical Yearbook of Bangladesh, BBS, 1980.

the developed regions can partly be attributed to the existence of higher demand for credit due to better infrastructural facilities in the region while that in the least developed regions was partly due to administrative pressure from both GOB and the Bangladesh Bank.

7.6 Pattern of the Operational Costs of Rural Branches

In the present section, an attempt is made to examine the pattern of operational costs of the sample rural branches and to assess the economies of scale, if any, among the rural branches of different sizes.

Operational costs are classified under two heads: fixed and variable. Fixed costs include rents, rates, insurance premiums, lighting expenses and depreciations of the fixed assets. On the other hand variable costs includes payroll expenses and 'others'. 'Other' variable expenses include, besides interest payments for deposits,* stationary, postage, printing and the like.

Cost Structure

The average operational costs for maintaining a rural branch was Tk. 1.2 m. in 1979 of which 91% was variable. Of the variable expenses, 62% was for payroll alone.

The survey shows that average operational costs of a small branch was Tk. 87 thousand while it was 127

* Disaggregated data on other costs including interest on deposits were not collected.

thousand and Tk. 172 thousand, respectively, in case of an average-sized, medium and large branch. The proportion of fixed cost was high in case of small branches (10%) while it was low in case of medium branches (8%). The higher proportion of fixed cost (9%) for the large branches compared to medium branches can partly be attributed to requirement of relatively more space and furniture for them and partly to more fixed expenses for lighting and insurance premium for higher volume of business.

It is also observed that as the size of the branch increased, proportion of variable cost on payroll expenses increased; for example, this proportion was 56%, 61% and 69% respectively for small, medium and large branches (Table 7.15).

Economies of Scale

An increased scale of operation should confer a relative advantage by a decline in the per unit operating costs. Scale economies are to be ascertained with reference to output/service. But the problem in measuring economies of scale of commercial banks' operations lies in the controversy on defining its output/service. It is to be noted that bank is a multi-service industry. It is relatively easy to assess scale economies of an industry whose output/service consists of a single commodity/service consists of a single commodity/service or a few of such whose 'mix' does not differ appreciably for a reasonably

long time.

Power², while making a survey of the relevant literatures, observes that there exists no agreement as to the definition of commercial banks' output. However, some researchers³ treated 'gross revenue', others 'total assets', some others 'total deposits/advances', still others a combination of 'assets and liabilities', and finally some others 'number of deposit and loan accounts' as a commercial bank's output.

We do not consider gross revenue as output because accounts of branches do not reflect the bank level cost of

2. Power, J.A. "Branch Vs. Unit Banking: Bank output and cost economies".
The Southern Economic Journal, Vol. XXXVI, No. 2, Oct. 1969, pp. 153.
3. (i) Benston, G.J. "Economies of Scale of Financial Institutions", Rochester, (1970).
- (ii) - " - "Branch Banking Economies of Scale", Journal of Finance, Vol. XI, May, 1965, pp. 312-331.
- (iii) Grenley, L.E. "Scale Economies in Banking", Federal Reserve Bank of Kansas City, 1962, pp.4-5.
- (iv) Bell, F.W. & Murphy, N.B. "Economies of Scale in Commercial Banking", Federal Reserve Bank of Boston, 1967.
- (v) Longbreake, W.A. "Productive Efficiency in Commercial Banking: The Impact of Bank Organisation Structure & Bank size on the cost of demand deposit service" Working Paper No. 72-10, Washington, Federal Deposit Insurance Corporation, U.S.A., 1972.
- (vi) Reo, B.S.R. "Structure of Commercial Banking in India: An Appraisal" (Being published by R.B.I. Cell in Banking, M.S. University of Baroda).

advertisement, cost of share capital etc.; the idea of taking total assets as output seems also not to be sound because most of the rural branches are housed in hired premises with relatively low rent. We thought it also not proper to consider rural branches' number of loan cases/ amount of loan as output simply because a majority of the rural branches, unlike their counterparts in the urban areas, have not made any meaningful headway with regard to loan operations. Therefore, we have taken number of deposit accounts and amount of deposits as proxies for rural branches' output in order to make a modest attempt to assess the economies of scale among the rural branches.

Scale Economies per Deposit Account

The survey data show that the smaller the branch the higher the operating cost per account of deposit. Per account cost of operation was Tk. 78 in case of a small branch; Tk. 66 per medium-size branch and only Tk. 44 in case of a large branch. The rate of reduction in per account cost of operation was rapid with the increase in the size of branch. This rate of reduction in per account cost from small to medium branch was 15% while it was 30% from medium to large branch (Table 7.17).

Scale Economies per Tk. 100 of Deposits

The operating cost per Tk. 100 of deposits was highest in case of small branches (Tk. 6.21) followed by medium branches i.e. Tk. 5.94 and large-sized branches

(Tk. 5.17). The rate of reduction declined as the size of branches increased. Such reduction of cost of operation per Tk. 100 of deposit from small to medium branches was 4.35% while the rate of reduction was 3 times faster from medium to large branches i.e. 13% (Table 7.17).

Thus, it follows from the above analysis of our sample that relatively larger branches enjoyed better scale economies resulting from higher volume of operation in terms of both number of accounts and amount of deposits.

Break-even Operation of Rural Branches

We have seen earlier that the average cost of maintaining a rural branch of our sample was Tk. 120 thousand. Now, the question is to ascertain the minimum volume of operation necessary to cover this operational cost. In order to ascertain this, the following assumptions are made:

(i) That 90% of the rural branches' income is generated from lending operations and the remaining 10% from other sources like commissions, rentals of lockers etc. This assumption is based on the pattern of the sources of income of the bank to which our sample branches belong for the year 1979. Major portion of the income was from loan operations (79%) and remaining 21% was from other sources.⁴ But rural branches may not have that high a proportion of

4. Agrani Bank, Annual Report, 1979.

income from other sources which the bank managed mostly from non-rural areas. As such, an assumption is made that 90% of the total income of the rural branches is generated from only loan operations.

(ii) The sample branches can extend loans upto 75% of their mobilised deposits as desired by the Bangladesh Bank.

(iii) The entire loan was extended at an interest rate of 15% though the rates of interest varied from 11% to 17%.

With the above assumptions, 90% of the average costs is taken as BEP costs (Tk. 108 thousand) which is required to be matched by income from loan operations. It is ascertained that a total loan volume of Tk. 720 thousand is required to be extended at 15% rate of interest in order to generate an income of Tk. 108 thousand. This volume of credit i.e. Tk. 720 thousand is the break-even point credit. It is stated earlier that 75% of the deposits are loanable deposits. Therefore, in order to extend Tk. 720 thousand credit a branch has to mobilise a minimum amount of Tk. 960 thousand as deposits which for our purpose is termed as break-even point deposits.

The break-even point computed above is considered by us as an improvement over the attempt made by Wadhva⁵ who, without any assumptions, calculated BEP operations.

5. Wadhva, C.D., Rural Banks for Rural Development, 1980, pp. 134 & 135 and 159-161.

Assessment of the Performance of Branches by BEP

A scrutiny of the sample branches in the light of the BEP operations shows that, of the 69 branches, 87% were able to mobilise deposits at or above BEP level while 64% of the branches extended credit at or above BEP level. It is further found that when BEP relating to both deposits and credits was considered, only 62% of the branches achieved the stipulated level. The survey also reveals that one of the small branches reached BEP level of credit without realising the same for deposit.

All the medium and large branches were able to mobilise deposits at or above BEP level while 29% of the small branches failed to achieve the same. When break-even point credit is considered we find that the highest percentage the medium branches were able to achieve was 76% followed by small branches i.e. 61%. Lowest proportion of large branches (53%) were able to reach at or above BEP level of credit. (Table 7.18). Thus, notwithstanding low performance in regard to BEP deposits, small branches appear to have better credit operation compared to other sized branches. Likewise, loaning performance of medium-sized branches was better than that of large branches.

7.7 Attitude of the Rural Branch Managers

It is now generally accepted that attitudes determine the level of performance. Favourable attitudes result in better performance while poor/unsatisfactory performance

is caused by negative/indifferent attitudes.

Definition of Attitudes

Latin word 'aptus' that referred to, 'fitness' or 'adaptedness' gave rise to the modern concept of 'mental' or motor attitudes. A number of authorities⁶ tried to define the term attitudes in various ways. The central idea that emerges is: attitude is a disposition of mind from which motives are aroused to react favourably or unfavourably to a particular object or to a set of objects.

Importance of Attitude Study of the Rural Branch Managers

The idea of using commercial banks as agents of change for rural development is not only a new but also a challenging task. Mere opening of branches in rural areas without mentally preparing the men under whose leadership these branches are being operated, will ultimately prove to be a self-defeating policy.

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6. (i) Thomas W.I. & Znaniecki, F., The Polish Peasant in Europe & America, Vol. I, Boston, 1918.
 - (ii) Trener, I., A Dictionary of Psychology Penguin, Hammonds Worth Middlesex, 1956, pp.22.
 - (iii) Sernoff, I., "Psychoanalytic Theory and Social Attitudes", Public Opinion, Quarterly, 1960, p. 24.
 - (iv) Mann, L., Social Psychology, Harvard University, Gonn Villey, Australasia Pvt. Ltd., 1969.
 - (v) Doob, W.: "The Behaviour of Attitude" in Fishbein, M(Ed) Readings in Attitude, Theory and Measurement, 1967.

A branch manager is not only the executive head of the branch but also the prime mover of ideas, thoughts and actions of those who work under him. As such, if the manager's attitude towards rural banking is positive and if he is thoroughly convinced of the idea that effective service through rural banking can change the level of rural development, he is sure to continue making constructive efforts along with the subordinate personnel with a view to achieving the maximum level of operation of the branch. On the other hand, a branch manager without healthy attitudes will not only remain indifferent to his responsibility but also is capable of influencing his subordinates (who are otherwise have healthy attitudes) and convert their attitudes to his own. Therefore, a positive attitude on the part of a branch manager is essential to produce drive and initiative in the subordinates. This will not only enhance the level of operation but also will improve the quality of the service to the satisfaction of the customers.

Rural operation of commercial banks is a new experiment, the success/failure of which largely depends on the type of attitudes of the managers of these branches who are supposed to translate into action the very objective of rural banking. Reportedly, many socially desirable projects at home and abroad in the past met premature death mainly because of negative or indifferent

attitudes of those changed with implementations. It is with this rationale, a modest attempt* is made here to assess the attitudes of our sample rural branch managers.

Method of Attitude Measurement

Measurement of attitude can be attempted by direct interview as well as by indirect observation. Campbell⁷ suggested four alternatives:

- (i) Non-disguised - structured.
- (ii) Non-disguised - non-structured.
- (iii) Disguised - Structured.
- (iv) Disguised - Non-structured.

The first two are direct methods while the latter two are indirect methods. These alternatives are used depending on the situation. In a comparative reliability study, it is found that direct interview methods have much higher reliability coefficient than indirect observation methods.⁸ Therefore, we have adopted alternative (i) as

* It should be noted that this is not primarily an attitude study. But while examining opinions/perceptions of the rural branch managers as to the various aspects/problems of rural operations, quite a number of responses came as attitude indicating. Hence this incidental exercise. The results may, therefore, be considered broadly indicative and not conclusive.

7. Campbell, D.T., "The Indirect Assessment of Social Attitudes", Psychological Bulletin, 1950, number 47, pp. 25-28.

8. Likert, R., "Technique for Measurement of Attitudes", Archives of Psychology, 1932, No. 140, pp. 34.

above i.e. direct and structured method in order to measure attitudes of our sample branch managers. Likert's⁹ summated scale technique modified to three scale instead of five is used to measure attitudes of the rural branch managers. This was adopted not only because it is more reliable but also in view of the time and resource constraints; it is found simple¹⁰, less costly and less time consuming.

In all, ten questions were asked to the branch managers in order to measure their attitudes. These pertain to: role of rural banking towards rural development; shift from security-to production-oriented credit; identification of responsibility for poor recovery performance; behaviour towards small loanees; suggested solution for the recovery problem; inclination to stay in the rural areas; opinion relating to the usefulness of training; nature of rejection of loan application, opinion as to the use of supervision of loan cases and methods used in estimating impact of loan on the financial condition of the borrowers.

The three scales used denote positive attitude, negative attitude or indifferent attitude. Responses

9. Likert, R., Technique of Attitude Scale Construction, Macgraw-Hill, New York, 1957, pp. 159.

10. Seashore, S.F. & D.G. Bowers, Changing the Structure and functioning of an organisation, Survey Research Centre, University of Michigan, 1963.

indicating positive attitude, indifferent attitude and negative attitude are given score values of 3, 2 and 1 respectively. According to this method, the highest score value is 30 and the lowest score value is 10. The obtained score values are then arranged to denote the nature of attitude of branch managers from their responses to the 10 queries as under:

- (a) Positive attitudes - those with score value of above 23.
- (b) Indifferent attitude - those with score value of 17-23.
- (c) Negative attitude - those with score value of below 17.

Managers of our sample branches are then ranked according to the score value obtained by them, with a view to categorising them on the basis of their attitude thus identified.

It is to be noted that any psycho-behavioural measurement, not to speak of attitudes, is a mere approximation. And some times highly intelligent respondents express themselves skillfully in a way quite different from their actual feelings. This limitation has to be kept in mind while using the findings of our measurement of attitudes of the sample branch managers.

Branch Managers by Nature of Attitudes

It is revealed from our survey that half of the

rural branch managers have indifferent attitude and nearly a quarter of them (23%) show negative attitude. Only 28% of the branch managers exhibit positive attitude.

Among the managers of different size branches, a high proportion of medium-sized branch managers have positive attitude (38%) followed by of small branches. On the other hand, a sizeable proportion of the managers of large-sized branches reveal negative attitude (35%) followed by managers of small branches (22%). Irrespective of the size of the branch, around 50% of the managers displayed indifferent attitude. When negative and indifferent attitudes are considered together, we observe that the position of the managers of large branches is the worst followed by that of small branches (Table 7.19).

Factors Determining Manager's Attitudes

We may make an attempt here to identify the factors that determine such attitudes. In all seven personal/organisational factors are considered for examination: age of the manager, experience of the manager in the existing branch, training of the manager, size of the branch, employee size of the branch; gross salary income of the manager; involvement of the manager in local non-political organisations like schools, colleges, clubs and other social associations.

Chi-Square test (X^2) is applied to find the extent of association with the score values of attitudes of the

managers and the variables stated above. It is ascertained that out of the seven factors considered, only three are identified as significantly associated with the attitude of the manager. These are: age; training of the manager and his involvement in the local non-political organisations (Table 7.20).

Relatively younger managers, perhaps because of their progressive outlook, seem to have a greater concern for rural development. Trained managers appear to be comparatively more convinced of the role and responsibility of bank towards rural development. Involvement of the manager with local organisations fostering a sense of familiarity and belongingness make them responsive to the needs of the rural people.

Influence of the Attitudes on the Level of Performance

An attempt is also made to appraise whether level of performance of the rural branches was influenced by the nature of attitude of the branch managers. Three performance indicators are considered for the purpose: credit - deposit ratio; break-even point deposit and break-even point credit.

In order to find the extent of association of these variables with the score values of the branch manager's attitude, Chi-Square (χ^2) test is again adopted. It is found that out of the three performance indicators two are significantly influenced by the attitudes of the

branch managers. These performance indicators are credit-deposit ratio and the break even point credit. (Table 7.20). It implies that mobilisation of BEP amount of deposits do not require significant effort from the side of the bankers in the rural areas.

7.8 Perceived Problems of the Rural Branch Managers

Next, an attempt is made to identify the type of problems that are being faced by the rural branch managers in their efforts to augment the base of deposits and the quantum of credit. The respondent managers mentioned the following important problems:

(a) The branch managers identified some problems common for both mobilisation of deposits and extension of credit. These, in order of rank, are: unmanageably large command area and lack of suitable and quick transport facilities; inadequate and untrained staff; lack of awareness among the rural people of bank services; unsuitable banking hours for the rural areas; uncoordinated functioning of the similar agencies; delayed production of photographs/references and inadequate/underdeveloped marketing centres.

(b) Problems Peculiar in the mobilisation of Deposits:

Lack of provision to open foreign exchange account in the rural branches to facilitate remittances of those rural people serving in the middle eastern countries and low rates of interest on deposits.

(c) Perceived problems peculiar to only extension of

credit, in order of rank, are: lack of adequate and trained field staff to investigate loan cases in too large a command area, inability of a large number of potential rural borrowers to comply with adequate security requirements/guarantee/surety; inadequate loan sanctioning authority of the rural branch managers; unhelpful and indifferent attitude of the local leaders; incomplete/inadequate information in loan applications; inadequate provision to extend term credit and irregular supply of inputs that are usually procured by the rural borrowers with bank credit.

(d) Apart from the above problems, rural bank employees, as indicated by the branch managers, are facing a number of personal problems like; absence of adequate security arrangements in rural areas; lack of suitable residential accommodation facilities; lack of good education facilities such as schools and colleges; lack of any recreational facilities like clubs, parks, and cinema houses; non-availability of reliable and qualified doctors and required drugs when needed; lack of organised facilities for obtaining essential commodities at fair prices; absence of electricity facilities; lack of good shopping centres etc.

7.9 Suggested Solutions For the Perceived Problems

When the branch managers were asked to suggest suitable remedial measures in the light of their

experiences and understanding of the problems, a number of suggestions were put forward by the respondent managers. These are:

(a) A number of suggestions were common for both mobilisation of deposits and extension of credit. These, in order of rank, include: immediate provision for suitable transport facilities/conveyance allowance; shifting of the branch to a suitable location such as a central place in the command area; provision of adequate and trained staff; adoption of rural-based bank publicity to make the people banking-minded; introduction of incentive system in cash/kind/prize for superior performance of branch/employees relating to both deposits and credits; introduction of evening banking system; reconsideration of the question of involving local leaders in asking reference/recommendation from them for potential bank customers and development of entrepreneurs and of market centres.

(b) The respondent managers put forward some suggestions for augmenting the deposit base. These are: permission to operate foreign currency accounts in the rural branches; requirement of photo of the potential depositors should be reconsidered in view of lack of suitable photographic facilities in rural areas; enhancement of the rates of interest on savings and fixed deposits and short-term over-draft facilities.

(c) For augmenting the quantum of rural credit, the managers made a number of suggestions including the following (in order of rank): Provision of specially trained loan as well as field investigating staff; enhancement of loan sanctioning authority of the branch manager; reconsideration of the policy of involving local leaders in view of their non-co-operation; greater emphasis on group/project lending; consideration of the question of genuine non-productive consumer loans; provision of adequate term loan; PFR act be suitably amended to enforce recovery; emphasis on coordinated and planned credit operation by all the agencies engaged in an area; arrangement of some kind of short training for the potential rural borrowers and ensuring regular supply of inputs that are usually procured using the bank loan.

(d) Relating to personal problems perceived by the rural bank employees, branch managers suggested; tightening of security arrangement; provision for residential accommodation; promotion of better schools, colleges, parks and other recreational facilities; provision of better medi-care facilities and reasonably equipped local hospitals; facilities like supply of rationed goods; provision of electricity facilities, and development of shopping centres.

7.10 Conclusion

The case study reveals that deposit mobilisation

performance was good in case of large branches; small and medium branches had relatively poor performance relating to mobilisation of fixed deposits. It is also found that relatively smaller branches were successful in mobilising deposits from cultivators. Deposit mobilisation by the sample branches from Dhaka and Rajshahi divisions was lower than from other divisions.

The study uncovers that some of the sample rural branches (3 in number) did not start any loaning operation - even after two years of operation. Further, 25% of those who were involved in loaning operations were found not to have disbursed any loan till then for farm activities. It is also observed that despite Government emphasis, only 3% of the farm loan was disbursed for dairying, poultry, fisheries etc.

It is further noticed that a lion's share of the non-farm credit (83%) was disbursed for trade. Of the disbursed amount of loan, the proportion of term loan was around 1/10th only and the major portion of which went to non-farm sector.

It is ascertained from the survey that while per branch deposit performance was better in case of large and older branches, per branch credit performance was better in case of medium sized and middle aged branches. It is further ascertained that Dhaka division though mobilised lowest proportion of deposits but grabbed the

highest proportion of credit. On the other hand, a sizeable portion of credit disbursed in Dhaka division has gone to farm activities while in the Chittagong division they received a very small proportion. This suggests absence of any credit planning - neither for different activities nor for different regions.

It is noticeable from our survey that Tk. 46 m. i.e. 32% of the total mobilised deposits was transferred from the rural areas to the urban areas. Relatively older and larger branches were important in transferring the funds.

The operational cost of an average sized rural branch was Tk. 1.2 m. of which 9/10th was of variable nature. Payroll costs accounted for 57% of the total cost. Relatively larger branches enjoyed better cost advantage considered either by number of accounts or by amount of deposits.

It is found that 87% of the branches was successful in mobilising BEP deposits while 64% of the branches was able to attain BEP credit.

The survey reveals that the attitude of 3/4th of the rural branch managers was either negative or indifferent. Attitudes of relatively younger managers, who were trained and involved in the local non-political organisations were found better than others. It is noticeable that the minimum level of deposit (BEP) was not dependent on the nature of attitudes of the managers.

However, even minimum level of credit (BKP) and credit-deposit ratio were found significantly dependent on the nature of attitudes of the branch managers.

Improper location of branches, large command area; lack of good communication and inadequate transport facilities; shortage of trained staff; indifference of the local leaders; lack of provision to open Foreign Currency account; too many incomplete loan applications; inability of borrowers to offer suitable and adequate security; limited loan sanctioning authority at the branch level; lack of suitable residential accommodation; absence of good schooling facilities; absence of rationing facilities, absence of electric supply and lack of good shopping centre are some of the major problems that are reported to be faced by the managers/employees of rural branches.

Table 7.1 : Characteristics of the rural branches

Particulars	Small Branches	Medium Branches	Large Branches	All Branches
1. Average age of branch (years)	2.83	5.79	7.41	5.43
2. Average age of manager (years)	31.00	31.84	32.81	31.88
3. Average experience of the manager in the branch (years)	1.41	2.39	1.83	1.84
4. Average employee size (Number)	5.13	7.79	9.70	7.65
5. a) New Branches (upto 3 years)				36%
b) Middle-aged branches (Above 3 upto 7 yrs.)				18%
c) Old branches (Above 7 yrs.)				46%

Table 7.2 : Per branch Deposit of Accounts by size of branches

(in number)

Particulars	Saving A/c	Current A/c	Fixed A/c	Total
1. Small branches	1080 (96%)	36 (3%)	5 (1%)	1121 (100%)
2. Medium branches	1689 (88%)	215 (11%)	16 (1%)	1920 (100%)
3. Large branches	3089 (82%)	617 (16%)	56 (2%)	3762 (100%)
4. Total	1760 (87%)	234 (12%)	21 (1%)	2015 (100%)

N.B. : Numbers in parentheses are percentage to total.

Table 7.3 : Per branch amount of Deposits by size of branches

(Tk. '000)

Particulars	Saving A/c	Current A/c	Fixed A/c	Total
1. Small branches	854 (61%)	477 (34%)	71 (5%)	1402 (100%)
2. Medium branches	1048 (47%)	797 (36%)	394 (17%)	2239 (100%)
3. Large branches	1129 (34%)	1188 (36%)	1007 (30%)	3324 (100%)
4. Total	1100 (52%)	600 (29%)	400 (19%)	2100 (100%)

N.B. : Numbers in parentheses are percentage to total.

Table 7.4 : Per branch amount of deposits by ownership and size of branches

(Tk. in '000)

Particulars	Cultivators	Entrepreneurs	Business	Total
1. Small branches	855 (61%)	14 (1%)	533 (38%)	1402 (100%)
2. Medium branches	962 (43%)	272 (12%)	1005 (45%)	2239 (100%)
3. Large branches	1230 (37%)	299 (9%)	1795 (54%)	3324 (100%)
4. Total	900 (42%)	100 (6%)	1100 (52%)	2100 (100%)

N.B. : Numbers in parentheses are percentage to total.

**Table 7.5 : Proportion of branches by size of deposits -
Agewise**

(Percentages)

	Upto Tk. .5	0.6 to 2.00	Above 2.00 m.	Total
1. New (upto 3 years)	52	48	8	100
2. Middle Age (upto 7 years)	8	84	8	100
3. Old (above 7 m.)	6	50	44	100
Total	23	52	25	100

Table 7.6 : Regional distribution of deposits

Regions	Per branch Amount (Tk. '000)	% of the total
1. KHULNA	2703	27.98
2. CHITTAGONG	2188	28.69
3. RAJSHAHI	1881	24.66
4. DHAKA	1690	18.66
Total	2100	100.00

**Table 7.7 : Per branch Distribution of Credit
by size of branches**

(Tk. in '000)

Size of Branch	Farm	Non-farm	Total	C-D ratio (%)
1. Small	668 (73%)	243 (23%)	911 (100%)	64.98
2. Medium	703 (65%)	372 (35%)	1075 (100%)	48.01
3. Large	431 (60%)	284 (40%)	715 (100%)	21.51
4. Total	620 (68%)	293 (32%)	913 (100%)	43.46

Table 7.8 : Distribution of Credit by Term Nature

Particulars	Amount	% of the Group	% of the Total
A) Short-term	55714	100.00	88.48
(a) Farm Credit	39356	70.64	62.50
(b) Non-Farm Credit	16358	29.36	25.98
B) Term Credit	7259	100.00	11.52
(a) Farm credit	3422	47.14	5.43
(b) Non-farm credit	3837	52.86	6.09
Total	62973	-	100.00

Table 7.9 : Distribution of branches by size according to range of credit-deposit ratio

Size of branches	Credit Deposit Ratio				Total
	Below 20%	20% to 40%	41% to 74%	75% & above	
Small	42	10	32	16	100
Medium	38	34	14	14	100
Large	71	12	12	5	100
All	48	17	22	13	100

Table 7.10 : Per branch Distribution of Credit according to age of branches

	Farm	Non-farm (Tk. in '000)	Total	C-D Ratio (%)
New	452	102	554	77.88
Middle aged	1165	445	1611	84.49
Old	547	384	931	28.54
Total	620	293	913	43.46

Table 7.11 : Distribution of branches by Ages according to Credit-Deposit Ratio

(% of branches)

Age of the branch	C-D Ratio				Total
	Below 20%	20% to 40%	41% to 74%	75% and above	
New	44	24	20	12	100
Middle aged	17	25	33	25	100
Old	63	9	19	9	100
Total	48	17	22	13	100

Table 7.12 : Per branch distribution of credit by regions

	Farm	Non-Farm (Tk. in '000)	Total	C-D Ratio (%)
Dhaka	1317	120	1437	85.00
Chittagong	169	409	578	26.43
Khulna	646	194	840	31.08
Rajshahi	463	400	863	45.88
Total	620	293	913	43.46

Table 7.13 : Per branch Deposit and Credit - Agewise

Particulars	Deposit (Amount in '000 Tk.)	Credit	C-D Ratio
New	712	487	68.40
Middle aged	1895	1559	82.27
Old	3262	1003	30.75

Table 7.14 : Deposits and Credit Performance by Sectors

Particulars	Deposit (Amount in '000 Tk.)	Credit	C-D Ratio (%)
Cultivators	62100	42778	68.89
Entrepreneurs	6900	4854	70.35
Business & Others	75900	15341	20.21
Total	144900	62973	43.46

Table 7.15 : Per branch deposit and credit by regions according to levels of development

Regions	Average Deposit (Amount in '000 Tk.)	Average Credit	C-D Ratio (%)
Developed regions	2588	1127	43.55
Developing regions	1976	541	30.13
Less-developed regions	1614	938	58.12

Table 7.16 : Per Branch Cost Structure by size of branch

(Tk. in '000)

Size of branches	Fixed Cost	Variable Cost			Total
		Payroll	Others	Total	
1. Small	9 (10)	44 (51)	34 (39)	78 (90)	87 (100)
2. Medium	10 (8)	71 (56)	46 (36)	117 (92)	127 (100)
3. Large	16 (9)	107 (62)	49 (29)	156 (91)	172 (100)
4. All	11 (9)	68 (57)	41 (34)	109 (91)	120 (100)

N.B. : Figures in the brackets indicate percentage of total.

Table 7.17 : Per Branch Costs in relation to Deposit and Credit A/cs. as well as Amount of both Deposits and Credit

Size of branch	Av. No. of deposit accounts	Costs per deposit accounts	Average No. of loan * cases	Cost of loan per case (Tk)	Per branch deposit ('000 Tk.)	Cost per '00 Tk. deposits (Tk.)	Per branch credit ('000 Tk)	Cost per '00 Tk. loan (Tk.)
1. Small	1121	78	188	463	1402	6.21	911	9.55
2. Medium	1920	66	222	572	2139	5.94	1075	11.81
3. Large	3762	46	148	1162	3324	5.17	715	24.06
4. All	2015	60	189	635	2100	5.71	913	13.14

* No. of loan cases are not available. We assumed average loan size of Tk. 4833 as is found from the 80 borrower study (Chapter VIII)

Table 7.18 : Distribution of the Proportion of Branches with break-even operations by size of branches

(in %)

Size of branches		BEPD	BEPC	BEPD + BEPC
1.	Small	71	61	58
2.	Medium	100	76	76
3.	Large	100	53	53
	All	87	64	62

BEPD = Break-even point deposit

BEPC = Break-even point credit

Table 7.19 : Distribution of branches by nature of attitudes of the Managers

(in %)

	Small	Medium	Large	Total
1. Positive Attitude	26	38	18	28
2. Indifferent Attitude	52	48	47	49
3. Negative Attitude	22	14	35	23
4. Total	100	100	100	100

Table 7.20 : χ^2 values Showing Association of the Factors to the Attitudes of the Managers

Factors	Value of χ^2
<u>Attitude Determining Factors</u>	
1. Age of manager	9.94*
2. Experience in the branch	3.05
3. Training of the managers	25.7*
4. Size of the branch	3.06
5. Employee size of the branch	4.01
6. Per employee earnings of the branch	7.22
7. Manager involvement in local organisations (non-political)	6.05*
<u>Influence of Attitude to Performance</u>	
1. C-D ratio of the branch	26.49**
2. BEP deposit of the branch	5.75
3. BEP credit of the branch	14.58**

* Significant at 5% level

** Significant at 1% level.

CHAPTER VIIICOMMERCIAL BANK'S RURAL BORROWERS IN BANGLADESH- A CASE STUDY

The present chapter is devoted to a case study of 80 rural borrowers of commercial banks in Bangladesh. Specifically, the case study deals with: Nature and characteristics of the borrowers; use pattern and diversion, if any, of the bank loan; repayment performance of the rural borrowers; identification of factors affecting diversion of loan (if made) as well as those factors influencing repayment performance; and nature and types of problems that are being faced by the rural borrowers while dealing with rural branches of commercial banks in Bangladesh.

The required information was collected from 80 borrowers of 16 rural branches of a commercial bank. Branches are purposively selected. From each of the selected rural branches, 5 borrowers were taken using random sampling procedure. Information collected during the months of June and July, 1980 pertaining to the year ending 1979.

8.2

SECTION ICHARACTERISTICS OF BORROWERS AND PROCEDURE FOR BORROWING8.2.1 Characteristics

Characteristics of the commercial bank's rural borrowers were examined from different angles: occupation, size of land holding, education, size of family income and expenditure (Table 8.1).

Of the 80 borrowers, 77.5% were farm borrowers and the remaining non-farm borrowers. Of the non-farm borrowers, 83% were rural tradesmen and the remaining were owners of handicrafts/cottage industries.*

Farm borrowers were categorised by their landholdings as small (upto 2 acres), medium (above 2 and upto 5 acres) and large (above 5 acres). Of the 62 farm borrowers 31% are small farmers; 37% medium farmers and remaining 32% large farmers. Incidentally, some of the non-farm borrowers were found to have land holdings of more than small farmers and none of the non-farm borrowers were absolutely landless.

The mean age of the 80 borrowers was 43 years; it was 44 years for farm borrowers and 38 years for non-farm borrowers.

Of the 48 borrowers from whom literacy information could be collected, only 6% were completely illiterate;

* Hereinafter referred to as rural entrepreneurs.

56% were below S.S.C. level and around 10% had schooling for 12 years or longer.

The family size of the respondents varied from 3 to 18 members with an overall average of 9. The mean family size of farm borrowers was slightly lower than overall average while that of non-farm borrowers was a little higher (10).

The average size of earning members of the borrowers was 1.68. About 54% of the borrowing families had only one earning member per family while only 6% of the families had earning members of more than 3. The average size of the non-farm borrowers was more (2.22) compared to that of farm borrowers, i.e., 1.66.

The average size of loan applied for by the 48 borrowers was Tk. 9854 - Tk. 3486 for farm borrowers and Tk. 19112 for non-farm borrowers. The average size of loan applied for was Tk. 1910, Tk. 2289 and Tk. 5987 respectively for small, medium and large farmers. On the other hand, among the non-farm borrowers, it was Tk. 33890 in case of rural tradesmen and 9500 for rural entrepreneurs.

The overall average size of loan obtained was Tk. 4833; it was Tk. 1632 for the farm borrowers and Tk. 15859 for the non-farm borrowers. The average size of the loan secured by small, medium and large farmers was Tk. 726; Tk. 940 and Tk. 3288 respectively while the mean size of loan obtained by rural tradesmen and rural

entrepreneurs was Tk. 17051 and Tk. 9900 respectively.

More than 64% of the farm loans belong to the size of upto Tk. 1000, while around 13% was of the size of above Tk. 3000. It was found that 77.5% of the farm borrowers got only 26.17% of the sanctioned loan. More than half of the farm loan (65%) was covered by the large farmers.

The average period of loan for all loans was nearly a year (11.64 months). It was 11.87 months in case of farm borrowers and 10.84 months for non-farm borrowers. Only 20% of the total borrowers were able to secure loans for a period exceeding one year.

The average size of income of the borrowers was Tk. 19445 - for the farm borrowers it was Tk. 18622 and for non-farm borrowers Tk. 22278. The average income size of small, medium and large borrowers was Tk. 8979; Tk. 13335 and Tk. 33865 respectively; for business borrowers the size was Tk. 22657 while for rural entrepreneurs it was Tk. 22334.

The case study of the borrowers reveals that nearly 12% of the total income of the 80 borrowers was derived from subsidiary occupations. Of the borrowers, 40% had income from subsidiary occupations. Such income was earned by nearly 44% of the farm borrowers and 28% of the non-farm borrowers. The proportion of farm borrowers who had such income among small, medium and large farmers was

58%, 35% and 40% respectively. The average annual subsidiary income per borrower was Tk. 2296 - it was Tk. 2592 for the farm borrowers and Tk. 1278 for the non-farm borrowers. The average annual subsidiary income of small, medium and large farm borrowers was Tk. 1642, Tk. 1457 and Tk. 4800 respectively. It was Tk. 1133 for business borrowers and Tk. 2000 for the entrepreneurial borrowers.

The average annual family expenses (current and capital together) of the borrowers was Tk. 17920 - Tk. 15902 for farm borrowers and Tk. 24871 for non-farm borrowers. The mean annual family expenses of small, medium and large farm borrowers were Tk. 9559; Tk. 11504 and Tk. 26986 respectively. For the business borrowers it was Tk. 24133 and for the entrepreneurial borrowers Tk. 28567.

Expenditure on food as a proportion of total family expenses of all the borrowers was 76%; farm borrowers had the same proportion while non-farm borrowers had a little lower proportion i.e. 72%. The proportion of family expenses for food alone was highest in case of small farmers (91%) followed by medium farmers (77%). Such proportion was the lowest in case of large farmers i.e. 71%.

8.2.2 Procedure

We present here information supplied by borrower-respondents on sources of information of bank services,

knowledge of bank formalities, sources of help in filling the application form for bank loan and main terms and conditions required to be complied with by the rural borrowers.

8.2.2.1 Source of Information of Bank Services

Table 8.2 in the appendix shows, in order of rank, the various sources of information of bank services for the rural borrowers: radio, rural leaders, input suppliers, bank employees, news papers, signboards, friends/relatives/neighbours, cinema slides, bank pamphlets, television and extension workers. It is noteworthy that bank employees and extension workers are not providing information to the extent expected of them regarding bank services to the rural people. Television as a source of information about bank services appears to be insignificant because most of the rural people do not possess television sets.

8.2.2.2 Knowledge of Bank Formalities

We may now turn to examine the extent of familiarity of rural borrowers with the formalities to be observed for availing of the bank services. It was found that 65% of the total borrowers (76% of the farm borrowers and 28% of the non-farm borrowers) had no knowledge of bank formalities.

8.2.2.3 Sources of Help in Filling Loan Application

Of the 48 borrowers who furnished information relating to sources of help in filling loan application, 44% indicated that they themselves filled in the applications

while a large proportion of the borrowers (56%) got them filled in by others including loan brokers. (Table 8.3). Loan brokers and others were used more by the farm borrowers compared to the non-farm borrowers.

8.2.2.4 Terms and Conditions

(a) Nature of Security offered

GOB and Bangladesh Bank have directed the commercial banks to follow production-oriented rather than security-oriented approach in order to make the bank's financial services available to a large segment of the rural population, particularly small/marginal farmers, agricultural labourers and rural artisans.

The survey, however, reveals that 88% of the rural borrowers offered land as security. In case of farm borrowers, this proportion was even higher at 97%; some times land is offered as collateral along with some other forms of security. However, 19% of the farm borrowers obtained bank loans against hypothecation of crops and personal surety/guarantee. But none of the small farmers could obtain loan against hypothecation of crops/personal surety.

(b) Rates of Interest

It is gathered from our sample study that most of the loan transactions carried interest ranging between 11% to 17%. Rates of interest varied, depending on the nature of the programmes and regions like tribal etc.

Further, 77% of the farm borrowers obtained loans at an interest rate of 11% to 12%. Rates are higher for special programmes which require greater supervision. It may be noted that the non-farm borrowers secured loans at rates of interest ranging from 12% to 17%.

8.3

SECTION IIUTILISATION AND DIVERSION OF LOAN

We may now look into the purposes for which credit was obtained by the rural borrowers and the pattern of utilisation thereof. It could be gathered from the bank (whose rural branches and clientele were surveyed) that it¹ provides loans for crop raising, horticulture, pisciculture, dairying, poultry, duckery, fisheries, rural transport, rural enterprises etc., besides traditional lending for trade.

The survey reveals that most of the borrowers obtained loans for a single purpose while some of the farm borrowers obtained them for more than one purpose (especially) relating to their main occupation, none of the non-farm borrowers obtained loan for more than one purpose. Further, loans for non-traditional activities like raising poultry, dairying, duckery, fisheries etc. have yet to become popular among the borrowers; only 25% of the sample borrowers availed loan for such activities

1. Agrani Bank, Financing of Rural Development, 1980.

as a part of their total loans (Table 8.4). Moreover, the survey reveals that half of the non-farm rural borrowers secured loans for their establishments in the non-rural areas. This is an example of rural fund transfer through commercial banks.

8.3.2 Uses and Diversions

While the loan advanced is expected to be utilised only for the purpose for which it was obtained, it is reported that some loanees divert the loans wholly or partly, mostly for unproductive purposes. An examination of information furnished by the 80 borrowers reveals that a little more than half of the borrowers (52.5%) utilised the loan for the purposes for which it was obtained. Of the remaining 47.5% of the borrowers who diverted the loan, around 1/5th had diverted it fully while 4/5th diverted the same partially.

The pattern of utilisation and the direction of diversion of loan by different categories of borrowers are provided in the Table 8.5. Compared to farm borrowers, a larger proportion of non-farm borrowers had utilised the loan for the declared purposes. Of the farm borrowers, a relatively high proportion of medium-sized borrowers utilised the loan for genuine purposes followed by large farmers. On the other hand, of the non-farm borrowers, a higher proportion of entrepreneurial borrowers made complete diversion compared to trade borrowers. The proportion of

farm borrowers who partially diverted loans was four times more than those who made complete diversion. Of the farm borrowers, partial diversion was more in case of small farmers followed by large farmers.

8.3.3 Direction of Diversion

Among the borrowers who completely diverted loan for other productive purposes (OPP), the proportion of non-farm borrowers was the highest. Among the farm borrowers, it was more in case of large borrowers followed by medium-sized ones. It may be noted that none of the small farmers made complete diversion of loan for opp. Among the non-farm borrowers, this proportion was high in case of rural entrepreneurs. On the other hand, partial diversion for OPP was relatively more in the case of farm borrowers compared to non-farm borrowers. Among the farm borrowers, the proportion was highest in case of large farmers followed by small farmers.

This apart, partial diversion for unproductive purposes was also more in case of farm borrowers compared to that by non-farm borrowers. Of the farm borrowers, it was highest among the small farmers followed by medium sized ones.

The nature of unproductive purposes for which loans were diverted were: food expenses, clothes, education, marriage, medical, litigation and repayment of old debts. On the other hand, some examples of productive diversion

were: purchase of land, purchase of goods for resale, working capital for shops etc.

8.3.4 Factors Responsible for Diversion

In an attempt to identify the factors associated with and responsible for diversion of loans in the rural Bangladesh, the following hypotheses are considered:

- (i) Personal characteristics like age, education, occupation, holding size, family size and number of earning members of the borrower's family have no relation with diversion of bank loans.
- (ii) Financial characteristics such as availability of subsidiary income, ability to manage additional borrowings, extent of family expenditure for food, repayment of old debts and size of bank loan obtained have no direct relation to diversion of loans.
- (iii) Factors relating to terms and conditions such as security of loan, periodicity of loan, rates of interest and nature of loan (i.e. single v/s composite loan) have no relationship with diversion of loans; and
- (iv) other related factors like time lag in obtaining loan; initial cost of raising loan from the bank; awareness of the borrowers about various formalities relating to bank and loan supervision are not directly related to the diversion of bank loan by the rural borrowers.

The above hypotheses when tested by using chi-square

(χ^2) reveal that the following factors in order of rank are associated with diversion of bank loans; lack of/inadequate supervision of loan cases; inability to secure additional loan from other sources when bank loans were inadequate; high proportion of family expenses for food; inordinate delay in obtaining bank loan; lack of knowledge of the bank formalities; lower number of earning members per family; heavier burden of cost of raising bank loan; relatively higher level of education of the borrowers²; relatively lower rates of interest and lack of opportunity to earn subsidiary income to supplement that from the main occupation (Table 8.6).

8.4

SECTION III

REPAYMENT PERFORMANCE

In the previous section, utilisation pattern, diversion and factors associated with diversion were dealt with. The repayment performance of the sample of commercial banks rural borrowers in Bangladesh is examined here. Prompt repayment of extended credit is necessary to infuse a sense of financial discipline among the borrower on one hand and preserve and enhance the loanable capacity of the rural branches of commercial banks on the other.

Co-operatives are already plagued by mounting

2. Similar experience for educated borrowers was reported in case of India by Baluswami N, "Diversion of Crop Loans", Indian Co-operative Review, 1978-79, p. 55.

overdues in Bangladesh. Reportedly, commercial banks are also facing the problem of recovery. But, to our knowledge, there were no studies on this problem. The non-availability of any study throwing light on the rural operations of commercial banks at the borrowers level was regretted by a Team³ of the FAO/World Bank (1980). The analysis of the repayment performance of 80 rural borrowers of a commercial bank in Bangladesh which is provided here may fill the gap in a small way.

8.4.2 Repayment Capacity

There is no settled definition of repayment capacity. However, RBI defined repayment capacity for short-term loan as 1/3rd of average estimated value of gross produce.⁴ This method of assessing repayment capacity suffers from a number of limitations, viz., it does not take into account factors such as the family needs, extent of indebtedness of the borrowers and level of non-farm income. An alternative suggestion is to base repayment capacity on marketable surplus. This method suffers from the same limitations as it does not also take into account past indebtedness and other related factors that may tell upon the liquidity position of the borrowers.

3. FAO/World Bank, Report of the Bangladesh Agricultural Credit Project, (1980) Annexure 4, p. 4.

4. RBI, Crop Loan Manual, 1965-66, pp. 31.

To overcome the aforesaid limitations we follow a method, which can be named "Liquidity Approach Method". According to this method, repayment capacity is the excess of inflow over outflow of cash during the period. It is to be borne in mind that this is an ex-post measure of repayment capacity and will have the limitations applicable to any kind of ex-post measurement. Thus,

$$RC = IF - OF$$

where RC = Repayment capacity

IF = Inflow of Cash

OF = Outflow of cash.

Inflow of cash is determined by the following items:

- (i) Balance of cash of the previous year.
- (ii) Income from main occupation (Net of cost of production).
- (iii) Income from subsidiary occupation.
- (iv) Sale proceeds of assets, if any.
- (v) Loan contracted during the year (including that from commercial banks as well as from other institutional and non-institutional sources).

Outflow of cash, on the other hand, depends on the following factors:

- (i) Family expenses during the year.
- (ii) Repayment of old debts.
- (iii) Acquisition of assets, if any.
- (iv) A contingency reserve of 10% of income from main

source to combat price escalations and to meet any unforeseen expenses in order to maintain a desired level of liquidity of the borrowing families.

However, this method suffers from arbitrary provision for contingency reserve as also from not distinguishing between essential and inessential items of family expenditures, which vary from family to family and in the same family from time to time. While we are confident that the limitations will not seriously affect our assessment of the repayment capacity, one has to keep in mind the limitations mentioned above.

8.4.3 Estimated Extent of Repayment Capacity

On the basis of the estimated repayment capacity borrowers are classified into three categories: (i) those with sufficient capacity to pay the dues (SR); (ii) those who had some but not sufficient repayment capacity to make repayment of all the dues (NSR) and (iii) those who did not have any repayment capacity (D).

It is found that, of the 80 borrowers, 60% belong to SR; 20% each to NSR and D. Of the 62 farm borrowers, 39% had SR and about 30% each had NSR and D. Estimated repayment capacity of non-farm borrowers was rather better than that of farm borrowers - the ratio for the three categories was 44% for SR and 28% each for NSR and D.

Among the farm borrowers, a high proportion of large

farm borrowers (55%) belong to SR followed by medium-sized borrowers (30%); only 16% of the small farmers had sufficient repayment capacity. On the other hand, the highest proportion of small farmers (58%) had no repayment capacity followed by medium farmers (30%). Among the non-farm borrowers, 47% tradesmen and 33% of the rural entrepreneurs had sufficient repayment capacity (Table 8.7).

8.4.4 Actual Repayment Performance

Repayment performance is examined both with and without regard to repayment capacity.

(a) Irrespective of Repayment Capacity

The survey shows that 67% of the borrowers repaid either in part or in full, 68% of the total amount fallen due. The position in this regard was better in case of non-farm borrowers - 89% of the non-farm borrowers made repayment of 73% of the amount due while 61% of the farm borrowers repaid 52% of the amount due.

Further, 68% of the small farmers and 61% of medium farm borrowers made repayment of amounts due; however, medium farmers repaid 62% of the amounts due while small farmers repaid 54% of dues.

Among the non-farm borrowers, 100% of the rural entrepreneurs and 87% of rural tradesmen repaid their dues promptly. However, when repayments as proportion of amounts due are considered, we find that it was 74% for rural

tradesmen and 66% for rural entrepreneurs. It is evident from the preceding analysis of our sample that relatively smaller farmers are better repayers (Table 8.8).

(b) With Reference to Repayment Capacity

It is found that of the 54 borrowers who made repayments, either in part or in full, 41% made it with SR. 33% with NSR and little more than 1/4th did so with D. The repayment performance with reference to repayment capacity of the farm borrowers was close to that of the overall performance. Of the 38 farm borrowers who made repayments, 37% did so with SR, 34% with NSR and 29% with no repayment capacity at all. On the other hand, of the 16 non-farm repayers, 50%; 31% and 19% made repayment with SR, NSR and D respectively.

Among the farm borrowers, larger portion of big farmers (45%) repaid with SR followed by medium-sized farmers (43%). In case of small farmers, this proportion was the lowest (23%). On the other hand, 46% of the small farmers with no repayment capacity have repaid followed by medium farmers (29%). Only 9% of the large farm repayers with no repayment capacity have repaid.

Of the non-farm borrowers, the proportion of trade borrowers was more (54%) who repaid with SR compared to that of rural entrepreneurs (50%). It is found that the proportion was higher in case of rural entrepreneurs (50%) who repaid with no repayment capacity compared to that of

tradesmen (15%) (Table 8.9).

Our sample study thus shows that a high proportion of relatively smaller farmers and rural entrepreneurs made repayments even if they had no repayment capacity at all; they are better repayers than others considered in this study. It follows from the preceding analysis of the repayment performance of our sample that contrary to belief repayment is not always a function of capacity to repay.

8.4.5 Nature of Default: Wilful or Genuine

By defaulter, we mean any borrower who fails to repay the amount of loan when it becomes due for repayment.

It is found that out of the sample 80 borrowers, 58 defaulted - 45% of those defaulted fully while the remaining were part defaulters.

An attempt is made here to distinguish between genuine and wilful defaulters. Wilful defaulters are those who do not make repayment inspite of sufficient capacity to repay while genuine defaulters are those who default owing to insufficient or no repayment capacity at all.

It is found that, of the 58 defaulters under our sample, 45% were wilful defaulters of whom half made part repayment and the other half did not make any repayment at all. Among the farm and non-farm defaulters, the proportion of wilful defaulters was more (46%) in the case of the farmer defaulters compared to the latter (40%).

Among the farm defaulters, proportion of wilful defaulters was more in case of large farmers (63%) followed by medium-sized ones (53%); the lowest (20%) was in case of small farmers. This apart, of the wilful defaulters, proportion of those who defaulted completely was more in case of medium farmers (68%) followed by large farmers. Here again this proportion was the lowest (33%) in case of small farmers.

Of the non-farm defaulters, none of the rural entrepreneurs defaulted wilfully while 44% of the rural tradesmen did so wilfully and defaulted after part payment (Table 8.10).

8.4.6 Factors Influencing Repayment Performance

It cannot be gainsaid that repayment of loan is good not only to lender but also to the borrowers in ultimate analysis. As mentioned above, only 28% of the 80 borrowers made full repayments while the others defaulted either partly or fully. As commercial banks make loans mostly out of deposit resources, chronic recovery problem affects not only their loanability but also jeopardises their liquidity position. Hence, recovery problem of the commercial banks need be studied with a view to identifying the factors related to repayment in order to take suitable corrective actions.

With this end in view, a number of variables under four broad aspects are considered as below:

- (a) Personal characteristics like age, education, occupation, land holding size of the farm borrowers, family size and family earning members per borrower.
- (b) Financial characteristics of the borrowers like income, expenditure, opportunity to earn subsidiary income, expenditure for food as proportion of total family expenses, repayment of old loan, ability to contract additional borrowings, size of the bank loan, diversion of loan and extent of repayment capacity.
- (c) Terms and conditions like security of the loan, maturity period of loan, rate of interest and single vs. composite nature of loan.
- (d) Other related factors like inordinate delay in obtaining loan from the bank, initial cost of raising bank loan, knowledge/familiarity of the borrowers about bank formalities and extent of bank supervision of loan cases.

Chi-square tests (χ^2) are applied to identify the factors associated with repayment performance (Table B.6).

Of the 23 factors considered, only the following 11 were found to have been significantly associated with repayment performance of the sample borrowers under observation.

Factors having direct Association	Factors having inverse Association
1. Bank supervision	1. Initial cost of raising loan
2. Subsidiary income	2. Payment of old debts
3. Earning members per borrower family	3. Proportion of family expenses for food
4. Awareness of Bank formalities/facilities	4. Size of family
5. Rates of interest	5. Division of loan
	6. Time lag in obtaining loan

8.5

SECTION IVMAJOR PROBLEMS OF RURAL BORROWERS

Having discussed the characteristics of rural borrowers of commercial banks, their use pattern and repayment performance, we examine in the present section, major problems that the rural borrowers usually face, viz., inadequate loan cover; inordinate delays in obtaining bank loan; initial costs of raising bank loan; unsuitable banking hours in the rural context and harassment by rural leaders.

8.5.1 Inadequate Loan Cover

FAO⁵ (1975) pointed out that denial of adequate

5. FAO, Report of the Agricultural Credit in Asia, 1975, pp. 3-5.

amount of loan by the involved agencies ultimately proves to be a self-defeating strategy because borrowers with inadequate loan cover are then forced to seek additional loan mostly from unorganised sources dividing their loyalty and resulting in poor recovery.

An examination of the extent of loan cover made by the rural branches of commercial banks reveals that the short-fall between loan applied for and that sanctioned to an average borrower was as high as 51%. It was more in case of farm borrowers (53%) than for non-farm borrowers (50%). Among the farm borrowers, such short-fall was relatively more in case of small farmers (62%) followed by medium-sized ones (59%). On the other hand, both the categories of non-farm borrowers had an identical proportion of short-fall (49%). (Table 8.12). The possible reasons for such short-fall are: over-statement of the loan applied for; inadequate security backing; arbitrary cut by the bank employees etc.

8.5.2 Additional Loan

That loans applied for were not always overstated is evident by the fact that 55% of the 80 borrowers had to resort to additional loans. The proportion of borrowers taking additional loan was more in case of farm borrowers (60%) compared to non-farm borrowers (39%).

Among the farm borrowers, a high proportion of small farmers (79%) had to contract additional loan

followed by medium farmers (52%). On the other hand, such proportion was 67% in case of rural entrepreneurs and 33% for rural tradesmen. This greater shortfall in case of small farmers and rural entrepreneurs may be partly for security reasons and partly for poor social connections needed to influence the bank authorities.

8.5.2.1 Sources of Additional Loan

It is found that of the 44 borrowers who contracted additional loan, only 9% got it from co-operatives; 43% from money lenders and the remainder managed the same from neighbours/friends/relatives. None of the small farmers got loan from co-operatives. The proportion of those who borrowed from money-lenders was higher in case of farm borrowers (46%) compared to those of non-farm borrowers (29%). Among the farm borrowers, this proportion was the highest in case of small farmers (60%) followed by medium-sized ones (42%). Of the rural tradesmen who contracted additional loans, 40% did so from the money lenders and 20% from the co-operatives.

It seems moneylenders are still prominently existing, notwithstanding restrictive laws. Their existence will continue so long as adequate loan cover (including that for consumption) is not actively considered by the involved agencies.

8.5.3 Delays in Obtaining Bank Loan

Inordinate delays in obtaining loan, unnecessarily

increase initial cost of raising loan besides disturbing the production/business schedule of the rural borrowers. As such, delay in sanctioning and disbursing the bank loan has become a major problem to the rural people.

In an examination of the period of such delays, it is found that more than 1/3rd of the rural borrowers got loan in a period not exceeding four weeks. Delayed disbursement was more in case of farm borrowers compared to non-farm ones. Further analysis shows that 38% of the farm borrowers got the loan after a period exceeding four weeks while this proportion was lower in case of non-farm borrowers (18%).

Among the farm borrowers, 40% of the small farmers, 57% of the medium farmers and 15% of the large farmers secured loan in a period of more than one month. Further, all the large farmers and all non-farm borrowers were able to obtain the loan within 8 weeks' time. On the other hand, 30% of the small farm borrowers and 21% of the medium farm borrowers secured loan in a period exceeding 12 weeks' time (Table 8.13).

8.5.3.2 Timely Disbursements

To be really useful, the loan should be available just at the time/season when it is required. Disbursal of loan after the expiry of sowing/harvesting season renders it fruitless or leads to diversion.

Our survey shows that 52% of the 48 borrowers

indicated that they got disbursement of bank loan after the expiry of the season. Of the 25 borrowers who got untimely disbursement of loan, 56% got the same within one month of the expiry of the season.

The proportion of borrowers who got untimely disbursement of loan was more in case of farm borrowers (34%) compared to that of non-farm borrowers (22%). Among the farm borrowers, this proportion was high in case of small farmers (47%) followed by medium farmers (30%). On the other hand, 33% of the rural entrepreneurs and 20% of rural tradesmen obtained such delayed loans.

8.5.3.3 Reasons for Untimely Disbursement

Delays in the disbursement of bank loans are not always due to the bank. On being asked, 25 borrowers who secured untimely disbursement identified the following reasons (in order of preference): inability of the borrowers to submit required certificates/recommendations (36%); refusal of the borrowers to give bribe to bank employees (20%); delays in obtaining sanction from the regional office (14%); and insistence of the bank to pay off past loan (4%). Other reasons included negligence of the bank employees, pretension of the employees to be busy with other non-loan activities, alleged shortage of cash at the branch level etc.

8.5.4 Initial Costs of Raising Loan

Initial costs of raising loan comprise fees for

application form, registration, travelling expenses entertainments and bribes to the bank employees but exclude nominal expenses for interest payments. Usually unorganised sources charge higher rates of interest which are fixed and relatively lower in case of institutional lenders. However, in case of institutional loans, we find that the costs involved in the process of getting loan are significant.

The survey reveals that average initial cost per loan was Tk. 207 of which around 50% was for giving bribe to the bank employees and to entertain them with some refreshments. Conveyance charges for the loan applicant constituted 36% of the total initial cost and the remaining portion was for fees and other expenses.

Such initial costs constituted 4.3% of the amount of sanctioned loan for an average borrower. The ratio was higher (6.56%) for farm borrowers compared to that of non-farm borrowers (3.48%). Among the farm borrowers, such burden of initial costs was heavier in case of small farmers (12%) followed by medium farmers (10%); of the non-farm borrowers, rural entrepreneurs had more of such costs (7%) compared to rural tradesmen (3%).

Effective Costs of Borrowing

By effective costs of borrowing, we mean costs of nominal interest payments plus initial cost of raising loan. As stated elsewhere, interest rates on rural

lendings of commercial banks in Bangladesh varied from 11% to 17%. But for the purpose of computing effective costs of borrowing, we assumed a rate of interest of 15%.

It is seen from our sample study that loans of an average borrower for relatively shorter periods carried a higher effective cost i.e. 24% p.a. for 6 months; 19% for one year. Effective cost of borrowing was higher in case of farm borrowers i.e. 22% (28%)* per annum compared to that of non-farm borrowers i.e. 18% (22%).

Among the farm borrowers, effective borrowal cost was more in case of small farmers i.e. 27% (39%) per annum followed by medium farmers i.e. 25% (34%). On the other hand, such costs per annum were more in case of rural entrepreneurs i.e. 22% (28%) compared to rural tradesmen i.e. 18% (21%) (Table 8.14).

The above analysis of borrowal costs of our sample suggests that farm borrower's effective cost of borrowing was more than that of non-farm borrowers. Among the farm borrowers, it is found that smaller the farmer higher was the burden of effective cost. On the other hand, rural entrepreneurs' burden of effective cost was more than that of the rural tradesmen.

* Figures in the bracket indicate rates of effective cost of borrowing for loans of 6 month duration.

8.5.5 Unsuitable Banking Hours

Present banking hours in Bangladesh are the same for both urban and rural areas. These are: 9-30 a.m. to 5-30 p.m. (for public transaction only upto 1 p.m.). An attempt was made through the present survey to ascertain whether the existing banking hours are suitable to the rural people.

The survey reveals that out of 80 borrowers, 72.5% indicated unsuitability of the present banking hours for the rural areas. It was found unsuitable by majority of both the farm borrowers (77%) and non-farm borrowers (56%).

8.5.5.2 Reasons for Unsuitability

Most of the 58 borrowers, who found present banking hours unsuitable for the rural areas, stated more than one reason for such unsuitability. These reasons, in order of importance, are: inability to deposit money into the bank after the rural market hours which usually ends around 7-8 p.m.; loss of productive work for the whole day because the banking hours coincide with working hours in the field and difficulty in reaching the bank on foot from long distance of 20-25 miles⁶ before 1 p.m.

6. Huq, M.N., "Agricultural Credit Some Related Issues", Journal of the Institute of Bankers, Bangladesh, Volume 7, 1978, pp. 30.

8.5.5.3 Suggested Rural Banking Hours

Borrowers who found present banking hours unsuitable were asked to suggest alternative banking hours for rural areas. Most of them (79%) preferred evening banking hours upto 8 p.m.

8.5.6 Harassment by Rural Leaders

Because rural branches of commercial banks are new and rural branch employees are not familiar with the bulk of the rural populace, banks thought it useful to associate rural leaders by nominating them to the loan committee and asking references/recommendations/certificates from them about the genuineness of potential rural borrowers. An attempt was made through the present survey to find out whether or not this involvement of the rural leaders was helpful to the rural borrowers.

It is gathered from our survey that 79% of them required to seek assistance of the rural leaders in connection with bank loan. A larger proportion of farm borrowers (90%) had to seek such assistance compared to that of non-farm borrowers (38%).

8.5.6.2 Difficulties Experienced

The survey reveals that 63% of the borrowers who sought assistance of the rural leaders found it difficult to obtain it. The nature of difficulties stated by them were: asked to entertain the rural leaders with refreshments time and again; loss of productive days in addition to

travelling costs; repeated appointments and procrastination; and asking for financial benefit.

8.6

CONCLUSION

The case study reveals that news of commercial banks' financial services reached the rural borrowers mostly through radio, rural leaders and input suppliers; mass media like newspapers, television and cinema slides appear to be not so effective. Around 3/4th of the rural borrowers were found to be unfamiliar with bank formalities and procedures connected with the loan. It is also found that only 1/4th of the rural borrowers were helped by the bank employees in filling their loan applications; majority of the borrowers had to seek assistance of others including loan brokers.

The survey also shows that more than 3/4ths of the borrowers were farmers who obtained only 1/4th of the disbursed loan. Among the farm borrowers, large farmers secured loans five times more than small farmers and three times more than medium farmers. On the other hand, of the non-farm loans, 90% went to rural tradesmen alone. None of the non-farm borrowers was landless agricultural labourers or artisans. Sectoral inequalities in the distribution resulted from lack of clear cut credit planning for various rural sectors. The concerned authorities probably directed commercial banks to extend loans in the rural areas without specific allocations and

guidelines for each of the sectors and sub-sectors. Inequalities of loan disbursements among various categories of farmers can partly be attributed to inability of the relatively smaller farmers to provide adequate security and partly because of the absence of clear cut guidelines and credit targets for specific asset groups of the rural people.

It is found that a large number of non-farm borrowers having their establishments in the urban areas secured loans from rural branches. These loans though utilised in the urban areas are usually shown as rural loans. It is also found that mostly educated/semi-educated villagers obtained loans from rural branches of commercial banks. In a country of 90% illiterate rural people, this is not a happy sign.

The short-fall between loan applied for and sanction was more in case of farm borrowers compared to that for non-farm borrowers, and among the farm borrowers, relatively smaller farmers had wider short-falls. The reasons for the short-falls were inadequate security, over-statement of needs and arbitrary reduction by bank employees. The reduction was mostly either for security reasons or arbitrary, is evident from the fact that 55% of the borrowers under our sample had to resort to additional borrowings. As a source of additional borrowings, co-operatives appeared to be very insignificant. Relatively smaller farmers had

to depend for additional loans on moneylenders.

Diversion of loan was more among the farm borrowers than non-farm borrowers. Relatively smaller farmers diverted bank loan mostly for unproductive purposes while relatively larger farmers and trade borrowers diverted for other productive purposes. It is found that diversion was more among those borrowers who experienced delay in disbursement of the loan, incurred a high proportion of raising costs and unaware about the bank loaning facilities. It is also observed that diversion was less among those borrowers who because of inadequacy of bank loan were able to contract additional loans from other sources; had opportunity to earn income from subsidiary occupations; had better supervision by and guidance from bank authorities, besides those who obtained bank loan at relatively higher rates of interest.

The survey reveals that 40% of the borrowers had sufficient repayment capacity. Repayment performance was better in case of non-farm borrowers compared to that for farm borrowers. Among the latter, relatively smaller farmers were better in regard to repayment inspite of their often insufficient or even no repayment capacity at all. Evaluation of repayment performance in relation to capacity shows that the proportion of wilful defaulters was higher among the large farmers. The proportion of wilful defaulters among the farm borrowers was more than for the non-farm

borrowers. It is found that repayment performance was better in case of those borrowers who were regularly supervised and guided by the bank employees; had income from subsidiary occupation; had relatively more earning members per family; were familiar with the bank formalities and obtained bank loan with relatively higher rates of interest. Moreover, it was also better in case of those borrowers who obtained loan within reasonably short time, had incurred less raising costs, did not divert loan; were able to contract additional loans when bank loan was inadequate, whose family size was relatively small; had to spend relatively low proportion of family expenses on food and had no past debts.

The rural borrowers are reportedly facing problems such as inadequate loan cover, inordinate delays in obtaining bank loan, incurring heavy initial costs of raising loan, unsuitable banking hours and harassment by rural leaders.

Delay in processing loan applications was more in case of smaller farmers who sometimes waited even 53 weeks for obtaining bank loan. Inability on the part of the borrowers to comply with too many certificates/recommendations etc., delay in the sanction from the regional office and refusal of the borrowers to entertain some of the bank employees with refreshment/bribes are some of the reasons for delayed disbursement of loans.

Because of inordinate delay in the disbursement of loans, initial costs of borrowing were higher in many cases. Effective borrowal cost is found to have been inversely related to holding size among our sample farm borrowers. Most of the rural borrowers suggested introduction of evening banking hours for the rural areas.

Table 8.1: Characteristic of the Sample of Commercial Bank's Rural Borrowers

Characteristics	Farm Borrowers				Non-Farm Borrowers			Grand Total
	Small	Medium	Large	Total	Business	Rural	Total	
1. Occupations (No. of Borrowers)	19	23	20	62	15	3	18	80
2. Holdings (in acre)	1.84	3.65	10.50	5.31	5.86	3.66	5.56	5.36
3. Age (years per borrower)	39 N=10	47 N=14	45 N=13	44 N=37	38 N=9	35 N=2	38 N=11	43 N=48
4. Education* (years of schooling)	8.4	5.00	8.38	7.11	7.33	10.00	7.82	7.27
5. Family size (Numbers)	9	10	9	9	9	11	10	9
6. Earning members (No.)	1.16 N=10	1.95 N=14	1.65 N=13	1.66 N=37	2.06 N=9	3.00 N=2	2.22 N=11	1.68 N=48
7. Size of loan applied for* (Tk.)	1910	2289	5987	3486	33890	19500	19112	9854
8. Size of loan obtained (Tk.)	726	940	3288	1632	17057	9900	15859	4833
9. Mean period of loan (months)	12.21	9.56	14.2	11.87	10.2	14.00	10.84	11.64
10. Size of annual income (in Tk.)	8979	13335	33865	18622	22667	20334	22278	19445
11. Subsidiary Annual as % of total income	18.29	16.92	14.17	13.91	5.00	9.84	5.74	11.81
12. Per acre farm income (Tk.)	3988	3254	2768	3021	-	-	-	-
13. Annual family expenses (Tk.)	9559	11504	26986	15902	24131	28567	24871	17920
14. Annual food expenses as % of total family expenses	91%	77%	71%	76%	74%	76%	72%	76%

* N = 48.

Table 8.2 : Sources of Information in order of rank

	Small farmers	Medium farmers	Large farmers	Non-form borrowers	All borrowers.
1. Radio	III	I	I	VII	I
2. Rural leaders	I	II	V	IX	II
3. Input suppliers	IV	III	VI	IV	III
4. Bank employees	VIII	IV	IV	I	IV
5. News papers	VIII	VIII	II	III	X
6- Sign boards	IV	VI	III	VI	V
7. Friends/Relations/Old borrowers.	II	VI	IX	VIII	VII
8. Cinema Ads.	VI	VIII	VIII	IV	VIII
9. Bank pamphlets	X	X	VI	I	VIII
10. Televisions	XI	XI	XI	X	XI
11. Extension workers	VII	V	IX	XI	X

Table 8.3 : Sources of assistance in filling up the loan applications

Particulars	(in %)					
	Farm Borrowers				Industry/ business	Total
	Small	Medium	Large	Total		
1. Borrowers themselves	40%	21%	54%	38%	64%	44%
2. Bank employees assisted	-	21	31	19	27	21
3. Loan brokers	20	14	8	14	9	13
4. Others	40	44	7	29	-	22
5. Total	100	100	100	100	100	100
n =	10	14	13	37	11	48

n = Number of respondents

Table 8.4 : Distribution of borrowers by purpose of bank loans

Particulars	(Number)					
	Farm Borrowers				Non-Farm Borrowers	All Borrowers
	Small	Medium	Large	Total		
1. Crop raising (seeds, fertilizers, irrigation, etc.)	19	23	20	62	-	62 (79.5)
2. Fisheries	-	2	4	6	-	6 (7.5)
3. Dairying	6	3	5	14	-	14 (17.5)
4. Trade	-	-	-	-	15	15 (18.8)
5. Enterprise	-	-	-	-	3	3 (3.8)

* Multiple responses

N.B. : Figures in the brackets indicate % of the total.

Table 8.5 : Distribution of Borrowers by Diversion of Bank loans.

(in %)

Particulars	Farm Borrowers			Total	Non-Farm Borrowers			All-Borrowers.
	Small	Medium	Large		B	I	T	
A. Complete utilisation for genuine purpose.	42.10	56.52	45.00	48.39	66.66	66.67	66.66	52.50
B. Complete Diversion								
1) OPP		4.35	5.00	3.23	-	33.33	5.56	3.75
11) UP	10.53	8.70	5.00	8.06	-	-	16.66	6.25
C. Partial Diversion								
1) GPP + OPP		8.70	30.00	12.90	20.00	-	5.56	13.75
11) GPP + UP	31.58	13.03	10.00	17.74	6.67	-	5.56	15.00
111) OPP + UP	15.79	8.70	5.00	9.69	6.67	-	-	8.75
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

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GPP = Genuine productive purpose (for which loans were obtained)

OPP = Other Productive purposes.

UP = Unproductive purposes.

B = Business (rural)

I = Industries (rural)

Table 8.6 : χ^2 values of factors showing association with diversion of bank loan.

Factors	Value of Chi-Square	Factors	Value of Chi-Square
I. <u>Personal Characteristics</u>		III. <u>Terms & Conditions</u>	
i) Age	3.52	i) Security of loan.	2.21
ii) Education	9.09**	ii) Periodicity of loan	1.13
iii) Occupation	5.45	iii) Rate of Interest	5.03*
iv) Holding size	1.52	iv) Single vs. Composite loan	0.08
v) Family size	6.54		
vi) Earning members	7.76**		
II. <u>Financial characteristics</u>		IV. <u>Other Related Factors</u>	
i) With/without subsidiary income	5.66*	i) Time lag	21.41***
ii) With/without additional borrowings	49.11***	ii) Initial costs	10.07**
iii) Extent of family expenditure for food.	18.44***	iii) Awareness of the borrowers of bank formalities	13.18***
iv) Payment of old debt	1.21	iv) Supervision of loan	26.39***
v) Size of bank loan obtained.	3.75		

*** = Significant at 1% level.

** = Significant at 5% level.

* = Significant at 10% level.

Table 8.7 : Distribution of bank borrowers by the extent of repayment capacity

Category of Borrowers	(% of Borrowers)			
	SR	NSR	D	Total
All borrowers	40.00%	30.00%	30.00%	100.00%
Farm borrowers	38.70	30.66	30.64	100.00
- Small	15.78	26.33	57.89	100.00
Medium	30.43	39.14	30.43	100.00
Large	55.00	25.00	20.00	100.00
Non-Farm borrowers	44.44	27.77	27.77	100.00
- Tradesmen	46.67	26.67	26.66	100.00
Rural Entrepreneurs	33.33	33.33	33.34	100.00

SR = Sufficient Repayment Capacity to pay off the dues

NSR = Not sufficient repayment capacity to pay off the dues

D = Deficient, i.e., no repayment capacity at all.

Table 8.8 : Overall Repayment Performance of bank loans

(in %)

Category of borrowers	Repayment Performance	
	% of borrowers (FP + PP)	Extent of repayments (FP + PP)
A. <u>Farm Borrowers</u>		
a) Small	68.42%	54.55%
b) Medium	60.86	61.70
c) Large	55.00	48.02
Sub-total	61.29	51.84
B. <u>Non-Farm Borrowers</u>		
a) Business	86.67	74.18
b) Industry	100.00	66.33
Sub-total	88.89	73.37
C. All Borrowers (A+B)	67.50	67.74

FP = Fully paid

PP = Partly paid

Table 8.9 : Distribution of borrowers by repayment performance with reference to repayment capacity.

(% of the Borrowers)

Category of Borrowers	<u>Repayment performance at different levels of Repayment capacity</u>			
	SR	NSR	D	Total
A. Farm Borrowers				
a) Small Farmers	23.07%	30.76%	46.17%	100.00
i) FP	25.00	25.00	50.00	100.00
ii) PP	22.22	33.34	44.44	100.00
b) Medium Farmers	42.86	28.57	28.57	100.00
i) FP	50.00	33.33	16.67	100.00
ii) PP	37.50	25.00	37.50	100.00
c) Large Farmers	45.45	45.45	9.10	100.00
i) FP	25.00	50.00	25.00	100.00
ii) PP	57.14	42.86	00.00	100.00
Sub-total (All Farm Borrowers)	36.84	34.22	28.94	100.00
i) FP	35.71	35.71	28.18	100.00
ii) PP	37.50	33.33	29.17	100.00
B. Non-Farm Borrowers				
a) Business Borrowers	53.84	30.78	15.38	100.00
i) FP	50.00	33.33	16.67	100.00
ii) PP	57.15	28.57	14.28	100.00
b) Industrial Borrowers	33.33	33.30	33.34	100.00
i) FP	50.00	00.00	50.00	100.00
ii) PP	00.00	100.00	00.00	100.00
Sub-total (All non-farm)	50.00	31.25	18.75	100.00
i) FP	50.00	25.00	25.00	100.00
ii) PP	50.00	37.50	12.50	100.00
c) All Borrowers (A+B)	40.74	33.33	25.93	100.00
i) FP	40.91	31.82	27.27	100.00
ii) PP	40.62	34.38	25.00	100.00

SR = Sufficient Repayment Capacity

NSR = Not sufficient repayment capacity

D = Deficient (-ve) i.e. no repayment capacity at all.

FP = Fully paid.

PP = Partly paid.

Table 8.10 : Distribution of Defaulters By Nature of Default.

(Number)

Nature of Default.	FARM BORROWERS									NON FARM BORROWERS						ALL BORROWERS								
	Small			Medium			Large			All Farm			Business			Industry			Total			FD	PD	TOTAL
	FD	PD	TOTAL	FD	PD	TOTAL	FD	PD	TOTAL	FD	PD	TOTAL	FD	PD	TOTAL	FD	PD	TOTAL	FD	PD	TOTAL			
Wilful Default	1	2	3	6	3	9	6	4	10	13	9	22	0	4	4	0	0	0	0	4	4	13	13	26
Genuine default	5	7	12	3	5	8	3	3	6	11	15	26	2	3	5	0	1	1	2	4	6	13	19	32
Total	6	9	15	9	8	17	9	7	16	24	24	48	2	7	9	0	1	1	2	8	10	26	32	58

FD = Fully Defaulted

PD = Partly Defaulted

**Table 8.11 : χ^2 Values of various factors showing Association
with Repayment Performance**

Factors	χ^2 values
(A) <u>Personal Characteristics</u>	
i) Age	3.27
ii) Education	4.24
iii) Occupation	6.51
iv) Holding size	1.20
v) Family size	18.58 ***
vi) Earning member per borrower family	26.83 ***
(B) <u>Financial Characteristics</u>	
i) Income of the borrowers	4.50
ii) With or without subsidiary income	17.74 ***
iii) Family expenditure	3.90
iv) Proportion of family expenses for food	15.85 ***
v) Diversion of loan	11.37 **
vi) Repayment capacity	1.82
vii) Payment of old debts	14.16 ***
viii) Additional Borrowings	3.26
ix) Size of the Bank loan	0.66
(C) <u>Terms and Conditions</u>	
i) Security of loan	0.03
ii) Periodicity of loan	1.56
iii) Rate of Interest	5.50 *
iv) Single Vs. Composite loan	0.63
(D) <u>Other Related Characteristics</u>	
i) Time lag	7.24 **
ii) Initial Costs of raising loan	24.08 ***
iii) Awareness of the borrowers of bank formalities	5.09 *
iv) Supervision of loan	12.62 ***

- * = Significant at 10 % level
 ** = Significant at 5 % level
 *** = Significant at 1 % level

Table 8.12 : Short fall of loan sanctioned in relation to that applied for

(Amount in Tk.)

Particulars	Per Borrower loan applied for	Per Borrower loan sanctioned	Short fall (%)
(A) Farm Borrowers			
i) Small	1910	726	62.00%
ii) Medium	2289	940	58.93%
iii) Large	6987	3288	45.09%
Sub-total	3486	1632	53.18%
(B) Non-Farm Borrowers			
i) Rural Business	33890	17051	49.69%
ii) Rural Industry	19500	9900	49.24%
Sub-total	31492	15859	50.36%
(C) All Borrowers (A+B)	9854	4833	50.95%

Table 8.13 : Distribution of Borrowers by time lag (Delays in obtaining loan).

(Percentage of borrowers).

Time lag in weeks	<u>Farm Borrowers</u>				<u>Non-Farm Borrowers</u>			All Borrowers
	Small	Medium	Large	Total	Business	Industry	Total	
Upto 2 Weeks	10.00	7.14	15.38	10.81	22.22	50.00	27.28	14.58
Above 2 to 4 weeks	50.00	35.71	69.23	51.35	66.67	-	54.54	52.08
Above 4 to 8 weeks	10.00	21.43	15.39	16.21	11.11	50.00	18.18	16.69
Above 8 to 12 weeks	0.00	14.29	-	5.40	-	-	-	4.16
Above 12 to 26 weeks	20.00	14.29	-	10.81	-	-	-	8.33
Above 26 weeks	10.00	7.14	-	5.42	-	-	-	4.16
Total =	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
n =	10.00	14	13	37	9	2	11	48

Table 8.14: Effective Costs of Borrowing by Categories of Borrowers

Particulars	Amount in 'Tk.)							
	Farm Borrowers				Non-Farm Borrowers			All Borrowers
	Small	Medium	Large	Total	Business	Industry	Total	
1. Average size of loan	726.00	940.00	3283.00	1632.00	17051.00	9900.00	15859.00	4833.00
2. Average initial cost per loan	87.00	91.00	144.00	107.00	530.00	662.00	552.00	207.00
3. Interest costs (at 15% p.a.)								
(a) For 6 months	54.45	70.50	246.60	122.40	1278.83	742.50	1189.43	362.48
(b) For 12 months	108.90	141.00	493.20	244.80	2557.65	1485.00	2378.85	724.95
4. Total costs (2+3)								
(a) For 6 months	141.45	161.50	390.60	229.40	1808.83	1404.50	1741.43	569.48
(b) For 12 months	195.90	232.00	637.20	351.80	3087.65	2147.00	2930.85	931.95
5. Interest cost as % of total cost								
(a) For 6 months	38.49	43.65	63.13	53.36	70.70	52.86	68.30	63.66
(b) For 12 months	55.58	60.76	77.40	69.58	82.83	69.17	81.16	77.79
6. Effective annualised costs of borrowings as % Av. loans (4 as % of 1)								
(a) For 6 months	38.97	34.36	23.76	28.11	21.22	28.37	21.96	23.57
(b) For 12 months	26.98	24.68	19.38	21.56	18.11	21.69	18.48	19.28

* Since most of the rural lendings of commercial banks are of short term nature we did not consider any term loan case. Again, among the short term loans most of the cases are either for 6 months or for 12 months and hence these two periods were considered in calculating effective borrowing costs. But effective cost for term loan will be lower than short term loans.

CHAPTER IX
CONCLUSIONS AND POLICY SUGGESTIONS

9.1 CONCLUSIONS

A critical appraisal of the direct and indirect agencies involved in rural finance both in India and Bangladesh and a separate examination of the rural operations of Bangladesh commercial banks with the help of a case study (69 rural branches and 80 rural borrowers) lead us to make the following important concluding observations.

(The problems of rural finance were well-understood and appreciated by the Governments of both the countries as is evident from their efforts in promoting a number of suitable institutions as also from appointment of a number of committees/working groups to look into the rural credit situation in general and workings of specified agencies and policies in particular.) However, the committees appointed by GOB were primarily of fact-finding nature while GOI committees made a host of suggestions in their reports. A number of suggestions made by earlier committees were, of course, repeated by subsequent committees in India, signifying absence of or inadequate implementation of these. Another feature we notice is that most of the committee reports lack problem-centered

evaluation such as overdue, credit delivery system, attitudes of the personnel of the involved agencies etc.; rather they were largely in the nature of periodical reviews of the general situation. None of the GOB committees looked into any such specific problem while there were only a few in India.

One important conclusion that comes out from the study is the lack of effective coverage of co-operatives in the two countries. (Expansion of branches of BKB, RRBs and commercial banks could not yet make a significant dent into the situation. This is evident by low coverage of rural population by borrowing membership.) The tardy growth of borrowing membership per hectare of GCA also underlines the inadequate effective coverage. The proportion of non-viable and dormant societies/banks to the total was larger in Bangladesh compared to India. It appears that reorganisation of co-operatives in India to weed out ineffective or dormant ones is still to be completed while no step in this regard is known to have been taken in case of Bangladesh co-operatives.

Although, there was a brisk coverage of rural areas by commercial banks branches in both the countries, an analysis of their performance indicates existence of large number of non-viable branches in both the countries. Besides, BKB branches in Bangladesh and ARDC offices in India were found unevenly distributed among the various

regions.

(The amount of rural deposits mobilised by all the agencies together in Bangladesh and India may be considered small in view of the rising per capita incomes, per hectare incomes and rate of rural savings.) The performance of co-operatives in India in regard to mobilisation of deposits and that of BKB and co-operatives in Bangladesh was poor compared to that of commercial banks in the two countries. However, deposit performance of Bangladesh co-operatives (where a new kind of co-operatives on the Comilla Model was developed) was relatively better than their counterparts in India. Further, deposits mobilised by BKB were found to be largely of demand type and the proportion of time deposits in the total was observed to have declined over time.

It is further revealed that, besides BKB in Bangladesh, co-operatives in the two countries have continued to depend significantly on borrowed funds. Funds made available through refinance were irregular to co-operatives in Bangladesh. This apart, unlike LTCs in India, Bangladesh LTCs and BKB did not tap the resources from open market by sale of bonds/debentures despite legal sanction. The co-operatives rules in both the countries provide for investment of a certain proportion of funds in an approved manner. Both PACS and LTCs in Bangladesh were, however, observed to have made much more non-loan

investment than required, reducing not only their loanability but also depressing the rate of return that they could have obtained on loan investments.

Our estimates for the two countries show that there exists quite a wide gap between requirements and actual supply of rural credit. The gap, however narrowed down in India to 66% in 1978-79 from 77% in 1972-73 and in case of Bangladesh to 91% from 95%. Thus, we notice that the rate of reduction of the gap was much faster in case of India compared to that of Bangladesh.

(Rural credit supply to the ultimate borrowers by all the agencies together constituted 14% of the total credit supply (marked by minor fluctuations) in India throughout the period.) On the other hand, in Bangladesh the ratio increased to 12% in 1978-79 from 8% in 1971-72; the share of rural credit in the total credit supply was, however, still low in Bangladesh.

Although the supply of rural credit at nominal value increased markedly in both the countries during the reference period, the rise was not substantial in terms of real value. The position of Bangladesh was much worse than that of India.

(The supply of rural credit in the two countries,) thus appears to be low, more so in Bangladesh where incremental supply was highly erratic. Of the involved agencies, the relative contribution of co-operatives (and

BKB in Bangladesh) to total credit supply deteriorated over time in both the countries.

Our study further reveals that most of the rural credit advanced by the agencies was for production purposes to the neglect of investment financing, signifying absence of "reasonable balancing" of the two types of credit in both the countries.

Among the agencies involved in rural finance, the performance of commercial banks in both India and Bangladesh during the reference period was better than that of others. However, credit-deposit ratios of rural branches of commercial banks in both the countries were far below the target set by the respective Governments. Moreover, per capita rural credit did not increase substantially while per hectare rural credit increase was relatively better indicating the continuance of (land) security-oriented loaning operations in both the countries. (Further analysis of the performance of specialised agencies in both the countries shows that loaning operations were conspicuously directed to the higher asset groups.)

The study further shows that there remained considerable regional disparity in the distribution of rural credit in the two countries. Such disparity is also marked among the various sub-sectors of the rural economy.) It was found that extension of rural credit for non-land activities like dairying, poultry, fisheries and rural

enterprises received very little attention of the agencies.

The back-wash effects resulting from the operation of rural branches of commercial banks are noticed conspicuous in both the countries.

The objectives of ARDC and AFC have not clearly emphasised assistance for agro-based industries, transport and rural marketing. Clumsy loan-sanctioning procedures of ARDC through State Governments even after having the projects appraised by AFC led to unnecessary delay in the approval of the projects. Besides, ARDC has utilised only half of its borrowing capacity even at the terminal year. This is not a healthy sign in view of the low proportion of investment credit channelled to the rural economy during the reference period of our study.

That the recovery performance of co-operatives in both the countries deteriorated over time is evident by the increase in the proportion of overdues to demand/preceding year's outstandings.

Furthermore, it is found that non-payroll costs (which includes cost of refinance funds) had a greater impact than payroll costs for the observed increase in the operational costs of co-operatives in the two countries.

An appraisal of profit performance of both the structures of co-operatives shows that profits in relation to capital employed was far from satisfactory in both the countries.

A perusal of loan and non-loan aspects of performance of the co-operatives and BKB, reveals that these agencies laid greater emphasis on loan operations to the relative neglect of other aspects like effective coverage, deposit mobilisation for self-reliance, cost control and earning of reasonable profit. Commercial banks on the other hand, seemed to have cared more for deposit mobilisation than for credit extension.

The results of our case study lend support to some of the aforesaid findings. They are briefly mentioned here.

A good number of rural branches of commercial banks in Bangladesh could not mobilise deposits required for achieving a break-even point and a still larger number of branches have yet to reach the level of BEP credit. It is easy to see that coverage of rural areas by such non-visible branches cannot be regarded as coverage in real sense of the term.

Further, the performance of sample branches indicates limited success relating to mobilisation of time deposits which increases the loanability of the bank; rural branches have been found to have extended insignificant proportion of credit for investment purposes. Majority of the larger branches had C-D ratios below the set target.

Back-wash effects are observed from the operations

of the sample branches. Relatively older and larger branches made a larger transfer of funds from rural areas compared to others.

Most of the borrowers obtained bank loans against mortgage security and the share of non-land loans to the total bank credit was meagre. Besides, a lion's share of credit extended by the branches under study was cornered by large farmers and other rural elite.

The case study further shows that there remained considerable disparity in the regional distribution of bank credit in the rural areas.

Apart from the above findings, our case study also threw up some interesting additional information such as the following.

Rural branches of commercial banks seemed to have limited loan sanctioning authority. Publicity relating to financial services provided by the bank through television, newspaper etc. appeared to be ineffective. It was also found that a majority of the rural borrowers (3/4ths) were not familiar with the bank formalities relating to supply of credit. It is seen that a large proportion of the rural borrowers had to seek assistance from loan brokers in filling their loan applications. It was also found that a good number of non-farm borrowers obtained loan from the rural branches for their establishments in the urban or semi-urban areas.

Diversion of loan was more among the farm borrowers than non-farm borrowers. Relatively smaller farmers diverted bank loan mostly for unproductive purposes while relatively larger farmers and trade borrowers diverted for other productive purposes. It is found that diversion was more among those borrowers who obtained delayed disbursements of bank loan, incurred higher proportion of rising costs and unaware about the bank facilities in connection with loan. It is also observed that diversion was less among those borrowers who because of inadequacy of bank loan were able to contract additional loans from other sources, had opportunity to earn income from subsidiary occupations, were subject to better bank supervision and guidance besides those who obtained bank loan at relatively higher rates of interest.

The case study of rural borrowers in Bangladesh further reveals that 40% of the borrowers had sufficient repayment capacity. Repayment performance was better in case of non-farm borrowers compared to that of farm borrowers. Among the farm borrowers, relatively smaller farmers were better repayers inspite of their, often, insufficient or even no repayment capacity at all. Evaluation of repayment performance in relation to repayment capacity shows that larger the farmer higher was the proportion of wilful defaulting. The proportion of wilful defaulters among the farm borrowers was more than

among the non-farm borrowers. It is found that repayment performance was better in case of those borrowers who were regularly supervised and guided by the bank employees; had income from subsidiary occupation; had relatively more earning members per family; were familiar with bank formalities and obtained bank loan at relatively higher rates of interest. The performance was also good in case of those borrowers who obtained loan within reasonably short time, had incurred lower raising costs, did not divert loan; were able to contract additional loans when bank loans were found to be inadequate, whose family size was relatively smaller; had to spend relatively lower proportion of family expenses for food and were not required to make any repayment of past debts.

An analysis of the operational costs of rural branches in Bangladesh suggests that relatively larger branches enjoyed scale economies. On the other hand, analysis of effective borrowal costs show that relatively heavier burden was borne by the smaller farmers compared to others. It is further found that a large proportion of small farmers' borrowal costs was non-interest costs of raising a bank loan.

It is found that attitudes of 3/4ths of the rural branch managers were either negative or indifferent. In this regard, the proportion was higher in case of large managers followed by managers of small sized branches.

The attitudes of relatively younger managers, who were trained and involved in the local non-political organisations were found better than others. It is noticeable that the minimum level of deposit (BEP) was not dependent on the nature of attitudes of the managers. However, minimum level of credit (BEP) and credit-deposit ratio were found to be significantly dependent on the nature of attitudes of branch managers.

Improper location of branches, large command area; lack of good communications and inadequate transport facilities; shortage of trained staff, indifference of local leaders; lack of provision to open Foreign Currency account; too many incomplete loan applications; inability of the borrowers to offer suitable and adequate security; limited loan-sanctioning authority at the branch level; insufficient arrangements for security of staff and office in the rural areas; lack of suitable residential accommodation; absence of good schooling facilities; lack of facilities for supply of rationed commodities as in urban areas; and lack of good shopping centres are some of the major problems that are being faced by the managers/employees of rural branches.

Important problems that the rural borrowers in Bangladesh face in securing loans include: inadequate publicity of bank loan facilities; unhelpful attitude of bank employees in filling loan applications; too much

documentation references/guarantees asked from the rural leaders; harassment by the rural leaders for giving timely references; too much of security-orientation; preferential treatment given to the relatively larger farmers and other educated elite; inadequate loan cover, particularly, in case of the small farmers; inordinate delays in getting sanction of loans; heavy initial cost of raising loan; and unsuitable banking hours for rural areas.

9.2 POLICY SUGGESTIONS

A number of policy suggestions which would improve the rural credit situation in both India and Bangladesh emerge from the preceding conclusions of our study. Some of the important policy suggestions are enumerated here.

Credit programmes for the relatively disadvantaged rural people should aim at meeting all their credit requirements including genuine consumption needs. The denial of consumption credit forces the disadvantaged class who obtain bank loan for production or investment to divert the same partly or fully for consumption needs and also seek additional loans from money-lenders with all the attendant consequences. Besides, diversion of loans by the borrowers ultimately jeopardises the recovery position.

Emphasis on mortgage security should be done away with or considerably relaxed because 3/4ths of the rural population of India and Bangladesh do not possess adequate

land to offer as security. Project/crop/activity insurance, besides character and capacity of the potential borrowers, should be given preference while deciding on eligibility for loan. Loan policies of the agencies should encourage promotion of non-land economic activities. This can be done by providing loans for more than one purpose i.e. on the basis of family requirements. Group/project lending approach should be preferred to individual borrower-oriented approach.

In order to ensure effective utilisation of rural credit and to minimise its diversion, an appropriate mix of production and investment credit should be provided at a single contact point to the borrowers. It may be noted that world bank now-a-days does not distinguish between these two types of loans and favours granting of adequate credit to the borrower for both purposes.

Rural credit should be channelised in a planned way instead of making ad-hoc decisions. Such plans prepared at the National, State, district and local level should be integrated. Any national rural credit plan should take into account all the sub-sectors of the rural economy and an equitable distribution should be ensured among the different asset groups of the rural populace. Such a rural credit plan may envisage different amounts of credit for different regions of the country depending on their levels of development.

The concerned Governments should make special efforts to enhance the credit absorptive capacity of the relatively less developed areas by developing infrastructural facilities. Besides, proper arrangements should be made to ensure adequate and timely supply of inputs for which credits are usually utilised. For this purpose, required co-ordination should be promoted between the agencies supplying credits as well as inputs.

Deposit base of the lowest level units, especially of co-operatives, can be increased by adopting (i) compulsory weekly saving system on the lines of "Comilla Model" co-operatives, as in Bangladesh; (ii) asking members to deposit a portion of sale proceeds of any article/commodity when the sale proceeds exceed certain amount, ^{and} (iii) granting loan facilities to members for an amount equivalent to a certain multiple of their deposits in the society.

Co-operatives in both the countries and BKB should be allowed regular and timely refinances. A formula should be evolved to assess refinance entitlements of a society taking into account the recovery level in the preceding year, repayment performance pertaining to past refinances and the volume of deposit resources. In view of the higher operational costs and low profit performance and for providing greater supply of rural credit, refinances should be granted at lower rates than those prevailing at

present in the two countries.

Agencies involved in investment finance should be advised to raise funds from the open market by issue of bonds/debentures. BKB and LMBs should be particularly encouraged to adopt this method which they have not so far resorted to.

Effective supervision and guidance of loan cases would substantially reduce diversion of the loans as well as improve the recovery position. Besides, to enforce recovery drives, Public Demand Recovery Act should be suitably amended. Moreover, an attempt be made to link credit with marketing in order to improve recovery position.

Location of the grass-root level units of the agencies should be at the centre of the command area. The area should be well connected by various modes of transport.

An immediate reorganisation of co-operatives in Bangladesh should be undertaken to make them viable while such reorganisation should be expedited in some of the states of India. Further, the policy of expansion of rural branches of commercial banks without definite prospect of break-even point operation should be reconsidered.

Non-loan investments of rural finance agencies should not be unduly excessive. The tendency of large non-loan investment noticed on the part of Bangladesh co-operatives should be promptly discouraged.

The practice of barring defaulting members of the co-operatives from securing new loans would only push the denied borrowers into the clutches of the money lenders. Hence, the dues may be collected by the revenue department, of course, with some penal interest.

Fixing an uniform target credit-deposit ratio for the whole country and for all types of rural branches irrespective of size and age appear to be an unsound and unjustifiable policy. Instead, credit-deposit ratios should be different for different areas, depending on the level of development of the area, size and age of the rural branches of the commercial banks; for example, 85% C-D ratios for the least developed regions; 65% for the developing regions and 45% for the developed regions.

Undue delay in processing loan cases besides raising borrowal costs disturb production/business schedules of the borrowers. As such, maximum time lag for processing a loan application should not normally exceed seven days.

Lowest units of the involved agencies should be adequately manned by trained personnel motivated for rural service. For this purpose, a 'Rural Cadre Service' may be instituted and after recruitment, these people should be given attitudinal training to orient them for rural service along with training for technical operations. Evening banking hours (say, 2 p.m. to 8 p.m.) may be more suitable for rural areas.

An official demarcation of operation of the involved agencies and periodical meetings of the heads of their grass-root level units can promote better co-ordination.

The services available from the involved agencies and the rights and duties of rural borrowers should be well publicised through radio and personal contacts by the executives of grass-root level units of the agencies at public gatherings, specially arranged for the purpose, at regular intervals. Formalities to be followed, documents to be submitted, benefits available to borrowers who promptly repay loans such as fresh loan facility and low interest burden should be explained at such gatherings.

Since involvement of rural leaders for certificates/ references from them and making them committee members has become a source of trouble both to the agencies and to the rural people, this policy need, therefore, be reconsidered. Respectable social workers/local school teachers may serve as alternatives.

Availability of electric supply, essential goods at regulated price, educational and medicare facilities and good shopping centres would ease the life of the employees staying in the rural areas.

Information Collected Through Questionnaire

A ; From Rural Branches

- Name of the Respondent Manager & Age.
- Designation & Experience in the Branch.
- Name of the Branch: District: Thana: Telephone No.
- Year of Establishment of the Branch.
- Size of the Branch:
 - (a) Number of Deposit Accounts (as on 31-12-1979):
Savings, Current & Fixed.
 - (b) Average Amount of Annual Deposits & Credits.
- Classification of different types of Account-holders, by sex & ownership i.e. cultivators, serviceholders, businessmen, rural entrepreneurs, students & others.
- Amount of Deposits (as on 31-12-1979) by category, viz., Savings, Current & Fixed and also by ownership of deposits i.e. cultivators, service holders, business men, rural entrepreneurs, students and others.
- (a) Amount of credit by major purposes i.e.
Farm-Credit & Non-farm Credit.
 - (b) Classification of the amount of credit by occupation of the borrowers i.e. cultivation, business, rural enterprises etc.
- Distribution of the amount of farm credit by different purposes, such as, seeds, fertilisers, land development,

poultry, irrigation, pond digging, excavation, fish cultivation, agri-machinery, insecticides, etc.

- Distribution of the amount of non-farm credit by Trade (wholesale & retail) & Rural Enterprises i.e. Small & Cottage/Handicrafts with 59 detailed classification of Rural Enterprises.
- Nature & types of problems being faced by the rural branches in mobilising larger volume of rural deposits.
- Suggestions to improve deposit mobilisation.
- Nature & types of obstacles being experienced in extending larger volume of rural credit.
- Suggestions to make augmented supply of rural credit.
- Amount of the operational costs for the year 1979 with break-up into major items: fixed & variable including payroll expenses.
- Suggestion to reduce the Operational Costs of the Rural Branches.
- Nature of Association of the Rural Branch Managers, if any, with the Local Non-Political Organisations like Schools, Colleges, Clubs, Voluntary Associations etc.
- Amount of Loan, if any, Provided during the year for Non-Profit Public Organisations/Public Works, such as Schools, Colleges, Clubs, Roads, Canals, Bridges, etc.

- 7 Comment on the Involvement of the Local Leaders:
Helpful or Otherwise; Nature of Problems Created
by the Local Leaders in the way of Smooth Operation
of Rural Branches.
- Opinions as to the usefulness of Rural Operation of
Commercial Bank for Rural Economic Development.
- 7 Opinions as to the Shift of Rural Bank Loan Operations
from Security to Production-Orientation.
- Opinions relating to the responsibility for Poor
Repayments; Experience in regard to Repayment
Performance of Small Borrowers relative to others;
Opinion as to the kind of attempts (such as Coercive
and Persuasive) for Recovery of loans.
- Feelings about Staying in the Rural Areas; Types of
Problems being faced while staying in Rural Areas.
- Opinion as to the usefulness of on the job training;
Nature of Training, if had earlier; suggestions
regarding type of training for Rural Branch Employees.
- Number of Loan Cases rejected during the year along
with the major reasons thereof.
- Opinion as to the usefulness of Supervision of Loan
Cases; Frequency of such Supervisions, if made, by
the Branch & the rank of persons who supervised.
- Opinion as to the Need for Assessment of the Impact
of Bank Loan on Borrowers' economic conditions; Methods
adopted for such Assessment if & when made i.e. Personal
Observation, Report from the Borrowers and assessment
by the Manager himself or others.

B : From Rural Borrowers

- Name & Address of the Borrower; Age; Occupation; Size of Land Holding, Literacy, Size of the Family & Number of Earning Members.
- Amount & Sources of Annual Income; from Main Occupation; from Subsidiary Occupation/s (with Specification of Subsidiary Occupation).
- Amounts and Heads of Annual Family Expenses: Current & Capital.
- Sources of information relating to bank services; knowledge of bank formalities relating to loans.
- Sources of help in filling Bank Loan Applications.
- Sources of Help in Making Follow-up to obtain Sanction of the Bank Loan.
- Terms & Conditions on which Bank Loan obtained.
- Types of Securities offered.
- Amount of Loan applied for.
- Amount of Loan actually sanctioned, if under-sanctioned, reasons thereof.
- Period for which loan obtained.
- Purpose(s) for which Loan obtained.
- Purpose(s) for which Loan actually utilised.
- Amount & Sources of additional loans contracted.
- Causes of Diversion, if made.
- Amount required to be repaid in each instalment.

- Amount of Repayments made so far.
- Nature & Types of Difficulties Faced in Making Repayment Instalments.
- Time Required in Obtaining Loan.
- Timelines of the Loan Disbursed with Reasons for delayed Disbursement.
- Amount of Initial Costs incurred in Raising Bank Loan with Break-up by Elements of such Costs.
- Number of days required to go to the Bank to expedite Loan Sanction & Disbursement.
- Nature of Assistance sought from Local Leaders in connection with Loans and the Nature & Types of Problems faced in managing such assistances from Local Leaders.
- Opinion as to the suitability of Banking Hours and Mobile Banking System .
- Amount & Number of Loans, if any, obtained for Non-Traditional & Non-Land Economic Activities And the Reasons, if such facilities are not availed of.
- Whether Supervision and Guidance obtained from the Bank as to the better utilisation of Loan and Frequency of such supervision, if made.
- Frequency & Purposes of Visits to the Bank by the Borrower after the Disbursement of loan.

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