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VOLUME 4
PAPERS ON SAVING MOBILIZATION I

Prepared by

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with

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Papers on Saving Mobilization

VOLUME 4

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HOUSEHOLD SAVING AND BORROWING
PATTERNS IN RURAL BANGLADESH

A RURAL FINANCE PROJECT REPORT

April 1986

A Socio-anthropological Field Study

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- Prepared for -

The Bangladesh Bank - RURAL FINANCE PROJECT

(USAID Project No. 388-0037)

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LIST OF ABBREVIATIONS

- BADC - Bangladesh Agricultural Development Corporation
BIDC - Bangladesh Industrial Development Corporation
BKB - Bangladesh Krishi Bank
BRAC - Bangladesh Rural Advancement Committee
BRDB - Bangladesh Rural Development Board
CARE - Cooperative for American Relief Everywhere
CCDB - Christian Commission for Development in Bangladesh
CRWRC- Christian Reformed World Relief Committee
FIVDB- Friends in Village Development, Bangladesh
IRDP - Integrated Rural Development Board
MCC - Mennonite Central Committee
MIDAS- Micro Industries Development Assistance Society
NGO - Non-Governmental Organization
RDB - Rural Development Board
RDI - Rural Development Institute
RFEP - Rural Finance Experimental Project
RFP - Rural Finance Project
SCF - Save the Children Fund
TFYP - Third Five Year Plan
VERC - Village Education Resource Centre

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Executive Summary

Background

In light of overall RFP concern for determination of policies and strategies to make rural banks more self-financing, the role of savings mobilization in rural areas is considered of primary importance along with the role of credit disbursement and loan recovery. Prior to undertaking empirically oriented and quantitatively rigorous field surveys, it was considered necessary to make an "exploratory situational analysis" of the environment of rural banking. This paper reports the results of such a socio-anthropological situational analysis and succeeds in identifying many factors and variables which influence or reflect rural borrowing and savings behavior.

The study was carried out in six geographically unrelated rural agricultural communities. 300 households were investigated in depth over a period of 2½ months by six trained Bengali researchers; 50 households apiece. All work was supervised by the Authors who personally researched the communities in which the households were located with emphasis on interviewing bankers and other elite and influential personalities.

Objectives

- 1) To identify and describe prevalent rural household financial management patterns.
- 2) To observe and assess respondent perception of the usefulness of alternative savings and borrowing schemes and constraints limiting their usefulness.
- 3) To arrive at tentative recommendations regarding needed policy and strategic changes that might result in improved savings mobilization and loan recovery in the rural Bangladesh banking sector.

Major Findings

1. Although a substantial literature exists on rural credit in Bangladesh, very little research literature at a micro-economic level on rural savings and investment was discovered. The most abundant source identified were some of the RFEP reports.
2. The average monthly income of the study group households was Tk. 3,120 generated by 1.7 income earners per household. There appears to be a positive relationship between the rate of savings and a) income, b) size of landholding, and c) opportunities for investment.
3. Female makes up about 6.5 percent of primary household earners, and the same proportion of secondary earners. Such earnings do not include the "personal" earnings of females which are not traditionally expected to be contributed to the general household budget, and which are very small, in any case (Tk.124 per earner per month from livestock activities, for example). Average monthly earnings of the females were Tk.586. Women appear to save universally, but the fact is often concealed from their husbands. However, the amount of female savings is negligible, and rarely involves the formal banking sector. Traditional social and cultural barriers militate against rural women venturing beyond their household compounds which is, of course, necessary if banking services are to be accessed.
4. The study population had an overall savings rate of 24% of income per household. 80% of the households save within a range of 10% to 35% of their earnings. The term "Savings" is defined by the respondents as "what is left over after basic needs are met".
5. Only 34% of rural household savings reach formal financial institutions. The respondents prefer to invest their savings

where they believe higher rates of return are obtainable than in the formal market. To the rural peasant an investment in "GI" roofing is defined as saving. At this socio-economic level, savings in the form of financial asset holdings is virtually non-existent.

6. 41% of the respondent households maintained bank accounts. The main reason given for depositing savings in banks was "safety". Awareness of other banking services, the variety of types of accounts available, interest rates, etc., is meagre at best.
7. Successful spontaneous private savings and loan groups were found in all six study locations. This indicates that the propensity for small group cooperative endeavour is well established in rural Bangladesh culture. Thus, the near universal failure of the formal cooperative savings and credit system is probably attributable to weak and corrupt public sector management and administration.
8. The respondents mainly require credit and/or savings for purposes such as purchase of land, house repairs and maintenance, education, and marriage of children. They say their requirement for agricultural loans is rarely as great as, or coincident with the amounts and kinds disbursed through the banking system. Given the relatively high rate of "savings qua investment" discovered among the respondent households, overall dependency on formal agricultural credit appears not to be as great as generally supposed.
9. Small farmers who require crop loans are often frustrated by difficulties in obtaining formal credit from the banks on time if at all.
10. As with the concept of savings, the distinction between expenditure and investment is blurred. A lavish wedding banquet is

regarded as an investment in terms of future social and economic benefits.

11. The vast majority of financial transactions is conducted through various informal sector intermediaries rather than formal sector ones. Most of these transactions observe traditional part-cash, part-credit methods, and are based on an intricate network of reciprocal relationship.
12. Most respondents allege that bribery is usually involved in obtaining loans from the banks. The claimed rate of such "bribery" is 10% of the loan amount but actually is between 3% and 10%. However, borrowers who command local influence receive their loans without bribery. Those who pay the bribes can least afford to do so.
13. The prevalence of politically influenced loan disbursement and pronouncements of loan repayment forgiveness are probably undermining credit discipline in the study areas.
14. The findings point to two fundamental reasons for poor loan recovery. One is the traditional lack of familiarity with financial discipline in rural society. The other is failure to hold financially responsible those influential individuals and groups (UACCs) without whose recommendation applications are not accepted by the banks.
15. Loan repayment bears little relationship to the use to which loan funds are put. Loan utilization often differs from the use for which the loan was intended by the bank, or requested by the borrower. Particularly in the case of small farmer loans, borrowed funds are usually comingled with other household funds.

Recommendations

1. Bank publicity campaigns should emphasize the advantages of

saving for the kinds of things that are important to rural Bangladeshis.

2. Discontinue drawing up loan programs against inflated estimates of agricultural credit needs.
3. Cost effectiveness of mobilizing rural women's savings should be carefully appraised. It is doubtful that such savings are sufficient in volume to make mobilization viable. Furthermore, they may be more beneficial to the local economy expended as they are at present than if they were banked.
4. To attract rural deposits, establish flexible banking hours, publicize banking services through local fairs, and greatly increase direct banker-customer personal contacts.
5. Bring bribery which is rampant throughout the banking system under control. The Investigators believe that top management in the banking system can control bribery by providing better training and supervision, rewarding honesty, and giving enthusiastic support to observance of legitimate banking practices.
6. Bankers should encourage group borrowing and saving by improving procedures for opening accounts by spontaneous informal savings and loan/credit groups (unions, societies, etc.).
7. The introduction of a commission-based recovery program might be an important means to develop repayment discipline in rural Bangladesh.
8. A national study should be conducted of spontaneous savings and loan groups to assess the role such groups might play in stimulating the rural economy and to determine potentially effective means by which to institutionalize such resources.

These and other recommendations are detailed in each chapter and fully summarized at the end of the report.

1. Introduction: STUDY OBJECTIVES AND METHODS

1.1 The major objectives of the field study upon which this report is based were to identify, describe and analyse common behavioral and attitudinal patterns of rural Bangladesh financial saving and investment, primarily; and of borrowing and accessing of credit, secondarily. Saving and investment was given emphasis partially because rural use of credit and loans had been given primary emphasis in the Rural Finance Experimental Project (RFEP/1979-84). The present emphasis also reflects the fact that the major objective of the current Rural Finance Project (RFP/1984-86) is on rural savings mobilization as a strategy for enhancing the financial viability of the rural banking system. Identifying strategies for improving rural bank loan recovery is also an important objective of the RFP so that while the RFEP dealt relatively fully with the "who, what and how" of rural bank lending and repayment experience, the RFP is focusing on the "why" of non-repayment with a purpose of identifying strategies for improving loan repayment. In short, the general objective of the RFP is to determine policies and strategies by which to make rural banks more self-financing and less dependent on external financial resources; thus, the emphasis on bank deposits and loan recovery.

1.2 With the RFP focus on the objectives mentioned above, the necessity for conducting a comprehensive, valid and statistically reliable national sample survey of rural banks, their management and operations, their users (depositors and borrowers), and of representatives of the power-elite in the sampled banking communities as a core activity of the RFP was clear. However, in order to devise a survey plan, define areas of inquiry and construct questionnaires

and observation guides it would first be helpful, if not indispensable, to carry out exploratory, less quantitatively rigorous "situation analysis" of the environment in which the core national sample survey would be conducted. That is the nature and purpose of the field study reported, herein, namely to identify important saving and borrowing patterns typical of rural farm and small business households for subsequent quantitative measurement of their statistical significance by means of the core RFP national sample survey.

1.3 Specifically, the consultative team of Drs. C.T. Maloney and A.B. Sharfuddin Ahmed were provided the following terms of reference for their socio-anthropological investigation: /1

1. Review empirical studies bearing on saving behavior in rural Bangladesh focusing on identification of opportunities for enhancement of saving and constraints inhibiting saving.
2. Develop savings behavior observation and interview guides for use in rural household case-study investigations.
3. Train a team of male and female Bengali speaking social scientists in administration of the case-study investigations.
4. Assisted by the field study team, supervise and conduct rural household case-study investigations with an objective of selecting, on a judgemental basis, households representative of major rural socio-economic classes.

/1 These are the specific terms of reference and study objectives which "survived". For a variety of reasons a few of the original task/objectives could not be addressed.

5. Adopt for the investigation these specific objectives:
 - a) To identify and describe prevalent rural household financial management patterns; that is, practices of, and attitudes toward financial saving, borrowing and loan repayment.
 - b) To assess and appraise respondent perception of advantages, disadvantages, opportunities for, and constraints against :
 - i) alternative saving methods, instruments and institutions, and
 - ii) alternative borrowing methods, instruments and institutions.
 - c) To derive recommendable policy innovations and banking sector strategies by which to:
 - i) enhance rural banking sector savings mobilization, and
 - ii) improve loan recovery in rural Bangladesh.

1.4 Methods adopted by the Consultants encompassed standard anthropological research procedures. Thus:

- a) Development of observation and interrogation research instruments.
- b) Logistical support for field operations.
- c) Selection, training and task-wise instructions for field investigators ("Research Associates")

1.5 Development of research instruments. Based on their many years of involvement in sociological and anthropological research in Bangladesh and, in particular, in the RFEP for which they also contributed a sociological study report (Bib. 25), Consultants C.T. Maloney and A.B.S. Ahmed compiled the observation and interview schedule presented in Annex 1 to this report. It is stressed that this schedule is not a "questionnaire", and was not intended to be used as such. It was not to be introduced into meetings between respondents and investigators. It was to be memorized and used as a control of areas of inquiry/observation to be covered to satisfy study objectives at least minimally. It was to be checked nightly against notations of daily contacts with selected respondent households.

1.6 Logistical Support Plan for field operations. Because the main objective of this study was to identify and analyse typical rural household financial management patterns rather than deal with questions of national representativeness of such patterns, no sampling operations were involved in the process of respondent household selection. It was considered of utmost importance that the RAs should be comfortably established in their six study communities as early as possible. In two and a half months each was expected to gain the confidence of 50 households through multiple visitations. The less time and energy each had to spend on logistical problem solving, the more time there would be for research and household visitation.

1.7 With those priorities in mind, six communities were chosen because of the fact that certain non-governmental organizations (NGO) or semi-autonomous government supported rural development institutions (RDI) had well established financial management improvement oriented programs in operation in those communities. The NGOs and NDIs provided board, lodging, security and, of equal importance, companionship at the end of each day's challenges as a stranger in the community.

1.8 The host organizations, study communities, and names of the RAs were as follows (Table 1):

- a) Friends In Village Development, Bangladesh (FIVDB)-
Khadimnagar, Sylhet - Ms. Nazeema Parveen.
- b) Christian Commission for Development in Bangladesh
(CCBD) - Manda, 35 miles North of Rajshahi -
Mr. Abdur Razzaque.
- c) PROSHIKA - Satoria, Manikganj. - Ms. Roxana Akthar
- d) SWANIRBHAT - Katolia, Swar upkati - Mr. Shafiul
Islam.
- e) Rural Development Board (RDB) - Chaddogram,
Comilla - Ms. Nilufar Nasreen.
- f) Bangladesh Rural Advancement Committee(BRAC) --
rural community 2 miles from Pabna - Joseph D'Costa.

1.9 Selection and training of Research Associates (RA).

A rigorous search for the most highly qualified RAs possible was undertaken. It was found that experienced Bengali speaking anthropological field research professionals are few in number and those who came readily to mind were employed under such terms as to make them unavailable under the conditions the RFP could offer. Ultimately, six highly regarded and experienced survey enumerators - 3 men and 3 women - were

identified, some with experience as survey field supervisors. Use of female RAs was considered indispensable insofar as it was anticipated that for a significant proportion of rural households management of financial affairs becomes a woman's role be they widows, divorcees or secondary earners in normal households. A week of intensive familiarization with the purposes and objectives of the RFP, and training in the methods to be followed was carried out by the Consultants.

1.10 Task-wise instructions to RAs. Each RA was instructed to prepare to take up residence in a particular rural community for a period of 2 - 2½ months during which time each must complete 50 household case studies following the guidelines mentioned in paragraph 1.5, above by visiting each household as frequently as necessary. In addition, each was instructed that he or she must maintain a diary of visits, discussions, relevant happenings and problems encountered each day. Examples of interesting saving or borrowing situations should be written up as illustrative cases.

1.11 The RAs were also instructed to write an end-of-assignment essay in which they would comment on several topics of interest to many professional observers of Bangladesh's rural financial system, such as:

- a) Types of mechanisms used by rural households to accumulate savings in cash/kind ("Cookie jars" "handful of rice set-asides", etc.)
- b) Existence, if any, of group cash accumulation mechanisms like Korean Key Funds, Indian Chit Funds, informal credit unions, etc.
- c) The things rural people really save and borrow for in contrast to what banks wish to open new accounts for.

- d) Effective bank saving incentives, actually observed or suggested as worth trying.
- e) Extent to which banking system is or is not responsive to savings inclinations and credit needs of rural people in terms of physical accessibility, customer relations, interest rate structure, etc.
- f) Competition between the banks and other institutions in the rural communities for the savings and loan requirements of the household and small businesses.
- g) Rural attitudes on loan repayment issues.

1.12 Again, the RAs were asked to draft papers describing the programs in savings and credit management of their host organizations. This effort contributed to this report as well to a separate RFP report by Dr. Maloney titled NGO Programs in Rural Saving and Credit in Bangladesh completed in May 1985. (Bib. 24).

1.13 Field work commenced during the last week of January 1985. The general guideline provide to the RAs on selection of households was to try to represent the broad range of major rural socio-economic classes in their study communities. This objective was achieved in terms of occupational and income distribution of the households ultimately selected.

1.14 At the end of the first month the RAs came into Dhaka for review of their progress and productivity. The results were positive and field work continued. The Consultants visited the RAs periodically in their respective study communities to provide supervision, resolve technical and logistical problems and to conduct their own fact and opinion gathering among

branch bank managers, Union Agricultural Credit Committee chairmen, teachers, large scale surplus agriculturists, and other representatives of the rural power-elite. The results of this unified team effort are presented in the following chapters.

1.15 Important Characteristics of the Study Population:

As noted previously, the respondents for this study do not, and were not intended to represent a cross-section of rural Bangladesh. On no variable may results be projected to all of rural Bangladesh. A projectible sample would have required selection of so many landless peasants and persons not involved in the monetized economic sector in any significant way as to overwhelm the major objectives of the study. It was desired to select households which, if not actually participants in the formal banking sector, could be considered to be part of the potential market for formal banking services.

1.16 The result was that a more than averagely affluent population was selected for this study. Compared with the World Bank's most recent estimate of Bangladesh annual per capita income at US\$ 130.00, per capita income of the study population at US\$ 188.00 is considerably higher. Also, it is believed that the income structure of the studied households probably differs from that of the rural population as a whole. The average household in this study is supported by 1.7 job sources of income as shown in the following tabulation:

<u>Income Structure of Studied Households</u>	<u>Number of Job Sources</u>
Primary Earner via Primary Job	300
" " via Second Job	65
Secondary " via Primary Job	119
" " via Secondary Job	24
Total Sources	508

1.17 It was found that out of the 300 study households 123 of them (41%) had 133 bank deposit accounts, the average size of which was Tk. 6,848/= in a range of Tk. 200/= to Tk. 14,000/=. The expected correlation between household income and size of deposits was observed. On the other hand, looked at from the point of view of those trying to increase participation in the formal rural banking sector, nearly sixty percent of the relatively affluent population investigated in this study are still non-participants. Thus, there remains much potential for expansion of savings mobilization by the banks.

1.18 In explanation of the relative affluence of the study population, it may be noted that the selected households were located in communities which, while rural, are ones potentially influenced by well established NGO and quasi-governmental savings and credit management promotional programs. Also, it is probable that the study communities may not be as isolated and remotely located in terms of national communication and transportation systems as in the average rural community in Bangladesh. Nevertheless, while not projectible to the population at large, household financial management patterns defined in this research are prevalent.

1.19 Frequently, statements based on the informed professional opinions of the senior researchers will be found in the text of this report for which no specific reference to the bibliography or to the empirical research findings will be identifiable. The researchers themselves accept full responsibility for such statements which may or may not reflect opinions of the contractor or the sub-contractor. The inclusion of these non-empirically supported statements is done on the basis of the extensive experience of both researchers in anthropological and sociological research and teaching in Bangladesh.

Table 2

General Characteristics of the Study Population

Sources of earnings

	Primary Earner*	Secondary Earner*	Total
Agriculture	136	29	165
Trade/shop/business	103	38	141
Salary	62	29	91
Day/Wage laborer	47	32	79
Other investment	10	8	18
Cottage industry	4	2	6
Industrial work	3	5	8
	<hr/>	<hr/>	<hr/>
	365	143	508

Land

		Number of households
5 +	acres	70
2 - 5	"	78
½ - 2	"	79
Under ½	"	59
Landless	"	14
		<hr/>
		300

Education

Some	62% (avg. 6.75 years each)
None	38%

* Break-up indicating households having multiple sources of income is in section 1.16, Table 1.

Table 2 (cont.)

<u>Dwelling</u>	Concrete/Tile/Tin	Thatched	Total*
Roof	63	46	109%
Walls	37	67	104%

Household equipment, livestock/poultry

Electricity	88
Wooden bed	79%
Table	61%
3 + books	62%
Lantern	69%
Paddy storage capacity	167 maunds
Cow	69% (2.5/household)
Ox	37% (2.3/household)
Goat/sheep	34% (3/ household)
Poultry	83% (10.7/household)

* Some houses are combinations of concrete/tile/tin as well as thatched structure.

2. FAMILY SAVINGS

2.1 Bangla Proverbs on Savings

The following proverbs suggest the attitudes of Bangladeshi people towards earning and saving money.

1. māyāloker tabil khāli aynā, herār kāche tyāhā cāilei pāoyā jāy.

Womenfolk's treasury is never empty; if you are in need of money from them all you have to do is ask for it.

2. pulā māiyā aiche, kichu jamāo, ata khāile aiba kemne ?

You have children now; save a little.

If you "eat" so much how will you manage ?

3. māiyār biyā dibānā? tyāhā kai? jamān lāgba.

Won't you give your daughter in marriage? Where is the money? One must save!

4. tākā jamāo, pulā māiyāre mānus karan lāgbanā?

Save your money!

Don't we have to bring our boys and girls to the stage of wisdom?

5. tākāy tākā āne.

Money brings in more money.

6. bārī, gārī, nārī.

House - then carriage - then woman (marriage).

7. jamijamā nā thākle samaje mān nāi

If one does not possess land, there is no respect in society.

8. bārighar bhāla nā aile, bhāla jāgāy māyā biyā deyan jāibanā.

If one's house is not decent

One can't give a daughter in marriage to a decent place.

9. tākā jār duniyā tār.

Whoever has money owns the world.

10. tākā kare kān, marder nām.

Money does the work;

Men get the recognition.

11. tākāy kinā hay.

Money can achieve everything

12. tākā madhur cheye misti.

Money is sweeter than honey.

13. tākār nām bābājī.

Money is the ultimate parent.

2.2 Household Income

The quantitative data is based on a study group of 300 households. In these households the average family monthly income was Tk. 3,120 (Table 3 - 6). This is high compared to the average family monthly income of 1,207.75 for Bangladesh ('81-'82 survey, statistical yearbook, 1984-85, Bangladesh Bureau of Statistics). However, although the study group contains representations from all income levels there are disproportionately more rich households than poor ones. The reasons for this situation are mentioned in Chapter 1.

Over-representation of relatively well-to-do households in the study was considered justifiable and advantageous on grounds that this is where potential savings, and therefore, a more promising market for bank services exists.

The samples in the first 4 of the 6 study areas have similar incomes. The Sylhet sample has a lower average income probably because it is from an isolated location. The Manikganj group has a high income. The area includes a number of prosperous or wealthy families including merchants, brick makers, and large

farmers. The high figure could be explained by the strong presence of this socio-economic category. (No figures on average income by area representing the present value of the taka are available; the figures gathered in 1981 have not been published as of this writing). The data on Table 3 could not therefore, be corroborated by findings from other studies. Table 4 shows that 70 of the 300 families fall in the poorest category of the sample, with average monthly family income of under Tk. 1,000. This is probably representative of the bulk of the rural Bangladesh population.

The average family incomes shown in the tables are from the earnings of 1st and 2nd main earners. Out of 300 families, 119 had second earners, and Table 4 shows that most of the earners had incomes of more than Tk. 1,000 a month. First earners average Tk. 2,440 a month and 2nd earners average Tk. 1,710 per month. As might be expected, the families in the lower income categories in Table 4 have fewer 2nd earners than the rich families. In the well-to-do study households there are educated, employable sons and daughters. Family size makes a big difference; it is average 5.6 for all Bangladesh, but 7.5 for the study group, indicating the possibility of multiple earners in some households.

Many families have some supplementary source of income, often from women's income-generating activities (Chapter 3). In the poorer families children also have earnings, not shown in the tables. A boy who drops out of school is likely to bring in enough to support himself by age 12 or 14, while a girl of that age contributes to the supplementary income of women.

The spread of incomes (Table 4) indicates that many socio-economic status levels are prevalent among rural population of Bangladesh. Rural banking services so far appear to have catered mostly to the relatively wealthy socio-economic category. On the other hand NGOs and semi-autonomous governmental agencies attempt to

provide banking services to the poorer majority.

2.3 Sources of Income:

Traditionally, landholding has symbolized wealth and status. Table 5 shows that families having less than $\frac{1}{2}$ acre of land have about 55% of the average family income, while those who have more than 10 acres have more than double the average income. Many landed families have family members who earn a second or third income. The "landless" category in the table includes both the poorest laborers and some salaried persons with secure incomes. While substantial landholding provides leverage for economic advancement in many other ways, it is clear from Table 5 that most people in the study with relatively uneconomic landholdings of an acre or so have been able to diversify their sources of income and earn more than Tk. 2,500 per month.

The main sources of income are diverse (Table 2 and 6) and reflect a dynamics in the rural economy that some observers do not expect. Table 1 (Section 1.16) shows that 65 of our 300 1st earners have a 2nd main source of income, and 24 of our 2nd earners do so. Table 6 shows that only 20% of the respondent families have solely agriculture as a main source of income; the more prosperous families combine agriculture with business, salaried employment, or industry. In the study group one out of three families has trade/business/shopkeeping as one of the main sources of income. Landless wage labourers are the largest group having minimal monthly income (Table 6), not more than Tk. 1,000 per month. But if the wage laborers can combine their work with agriculture, business, or industry, as the majority study group do, their income potential increases greatly (Table 6). These figures on diversity of sources of income are consistent with the findings of other studies, such as the BIDS Rural Industries Study Project (Bib 16a).

The BIDS study (Page 87, Bib 16a) showed that 16% of the

employees in rural industries and 13% in cottage industries derived their primary income from these sources. In their study population about 44% depended on rural and 35% on cottage industries for their supplemental sources of income. Of the respondents, the largest group (49%) whose main earnings were derived from agriculture depended on cottage industries as a secondary source of earning.

2.4 Management of Household Income

It is both a religious as well as a cultural tradition in Bangladesh that the man of the house brings in the family income and also controls its expenditure. In the Bengali Hindu inheritance code, the father owns the land until his death, after which it is divided among his sons or heirs. Muslims also generally do not divide the property until after the death of the father. But at present, the issue is more complicated because of the possibility of educated sons/female earners. We wished to see how the main household incomes are managed in such cases. Table 7 shows management of the income of the first two earners of the family in the study households.

When a male other than the household head has an income, the household head often controls it (Table 7). In a third of the cases the earnings of a son, and in the majority of the cases the earnings of a younger brother, are controlled by the male household head. When a woman brings in the 1st or 2nd household income, the husband or father appears to control it (13 out of 40 cases). The rest are mainly women who head a household (see also Table 10). These tables probably understate women's role in both managing household income and in keeping "running household cash" (Chapter 3).

As for spending the money brought in by the main earners, Table 7 shows that in some cases, especially for the 2nd income, even though the father controls it, the son or brother actually goes

out and spends it. Table 7 shows that household running cash is also held by the person who controls the main household incomes.

2.5 Income and Household Appearance:

There are some popular associations between being prosperous, and what the household should look like. The most significant is having a pākā roof (concrete/tile/tin) of proper or durable construction, rather than kāchā (thatched) implying something impermanent or countrified. "Everybody" knows that a house with an G.I. ("tin") roof means prosperity. In the study areas, there is nearly a steady increase in iron roofs as income rises (Table 4). Only two rich families in the sample have concrete roofs, and 10 have tile roofs. The tiles are produced mainly in the western side of Bangladesh, as the industry diffused from Calcutta and never spread across the whole country. Tile roofs are used by households having middle-low income or middle income. It is "tin" that carries prestige, so much so that though it is very hot, mostly imported, more expensive than tile or thatch, and aesthetically not pleasant to people not of the culture, it is preferred. Appearances may be deceptive; a quarter of the houses having thatched roofs in the study also have good income. But on the whole, where one sees a "tin" roof, there is likely to be good income and a potential for saving.

To a less extent, walls made of "tin", brick, or wood, indicate prosperity; only 9% of the houses of those with moderately low incomes have pākā walls, but a third to half or more of the prosperous households do. In some areas walls were made of mud. Only half the poorest households have wooden beds while all the rich households do. A quarter of the poorest households have tables while all the rich households do. Possession of a lantern ("hurricane") is somewhat indicative of socio-economic status. Households having some books (apart from the Koran) means educated members. Only about half the households in the lower income

categories have 3 or more books while almost all the households in the sample in the upper 5 income categories have a number of books in their home. Table 4 which tabulates these findings probably shows to what extent one can expect savings from each of the 5 income categories by the appearance of the home and its furnishings.

2.6 Household Savings or "What is left after basic needs are met":

The data suggests that the great majority of rural households in Bangladesh save. Table 4 shows that 80% of the households in the study save part of the 1st and/or 2nd income. In addition, the supplementary income brought in by women is usually saved.

The findings of the study indicate that about 66% of a family's total household savings is usually reinvested. The rest is retained in cash (Table 5). It was the observation of the Investigators that the majority of the study population prefer to invest their savings personally in a manner selected by them. The accumulation of cash or institutional savings did not seem to be a very attractive alternative to them.

It should be noted that the boundary between expenditure for subsistence and savings (or investment) is often not clear. If one spends for a social purpose beyond basic subsistence, such as for a guest, the rural people may consider it an investment in possible long-range economic benefit.

2.7 Income and Propensity to Save:

In the study group, 24% of the income from main household earnings is saved or reinvested; Table 3 shows this by study location, and Table 4 by income category. The three study locations having the lowest average family income also have less savings. Of the locations having higher rates of savings (Table 4.a), Pabna has 92%. Chaudagram with 94% savings, is an area having some dynamic agricultural and other rural development. Manikganj

(88%) is a sample of extraordinarily prosperous rural people, many of whom are in trade. It seems that the rate of savings among these 6 locations is related not only to income, but also to the possibility of profitable investment. The most isolated location, Manda, is an upazila centre 3 hours by bad road from any town and there is very little scope for profitable investment there except in agriculture. Only 52% of families there save, in contrast with 80% for the whole group.

The percent of families who save ranges from 58 among the poorest to 95% in the middle socio-economic category (Table 4.a). Even among households earning Tk. 500 to 1,000 a month, 65% save (and/or invest). This seems to be true according to the casual observation of the Investigators who felt that most respondents are careful with their money, and think of their future welfare.

The amount of savings is 24% of the main household income in the study group. This seems on the face of it to be a high rate by other national and international estimates of saving. It has been calculated by the economists of the Rural Finance Project (based on the Household Expenditure Survey of 1978-79), that average rural propensity to save was 6% for those in the bottom three quarters according to income, and 13.6% for the households in the top quarter. The TFYP indicates a domestic savings rate of 8% in 1984-85.

Examination of the figures by income category shows that the results are familiar. The lowest income households in the study save only 2.2% of their income (Table 4.b). The next 3 lowest income households save 12 to 13 % of income, and these households are half of the sample. The authors believe they may represent the economic status of the great bulk of the rural population. It is felt that the households in the top income categories in their study group represent the rural well-to-do and account for the relatively high average income and savings of the study group (Table 4.b).

2.8 Concluding Remarks about Household Savings:

The Investigators would like to conclude that the great mass of ordinary and poor households in the country save/invest between 2 and 13% of their main incomes. The more prosperous households can save/invest 20 to 25%. The rural rich can save/invest perhaps 30 to 45% of their income (Table 4.b).

It was the impression of the authors that the male household head in most families above subsistence level typically spends a lot of his time and energy in thinking, planning, manipulating, and acting, to increase his investment and income. Many such men appear to have few diversions in life. This probably accounts for the level of saving and reinvestment found among the study households. The amount of savings in a household appears to be positively correlated to income, increasing with a rise in earnings.

2.9 Savings and Landholding:

Savings potential appears to increase directly with landholding (Table 5). Those who do not have enough land to provide savings still save about 15% of their income from other sources since most of them have either an additional source of income and/or another earner in the family. Families who have between 2 and 5 acres save nearly a quarter of their income, again including additional sources of income. Those who have more land are surplus farmers, and naturally they continually profit and invest.

The popular belief that those with land can build on this asset save and invest, and build up an economic and social support network, is supported by the findings. In South Asian tradition, land is generally the main asset to seek, and second is gold. Nothing else is sure.

The landless are not all poor. In the study group there are a number who are salaried, and their savings potential is higher than that of agriculturalists having less than 2 acres. But

there are also very poor landless day laborers who can hardly save.

It is interesting how few of the households have absolutely no land. Most of those who make a modest living by any other means try to hold on to some land if they can. It is important to note the large proportion of people who might want bank loans who also have land to mortgage.

2.10 Socio-economic Position of Savers:

Table 6 shows propensity to save by occupation. It runs from 1% for hawkers, to 7 or 9% for those with subsistence or day labor income, to 14% for those on salaries, and to 21% for farmers and shopkeepers. Those households which save more mostly have 2 or 3 occupations. Those who save most are in agriculture plus industry.

Below are the main socio-economic categories in the population and the context in which they save.

a) Landless laborers

These people sell their labor, either in field work or in construction; nearly two thirds of them live by working on rich farmers' fields for daily wages. This occupation is seasonal, especially for sowing, transplanting, and harvesting, at which times there is often a shortage of labor in many places. On such occasions the wage rate rises. On an average, three quarters of these people remain unemployed for some time in the off-season, and have to live from their savings earned during peak seasons. These people believe there is nobody to offer them financial help, nor do they have land to mortgage for loans. They might borrow from the employer, but at a high interest. Therefore most of them save, maybe Tk. 40 to 100 a month during the peak seasons. But some 10 to 20% of them find work in the off-season in development projects (construction of roads, buildings, and

earth works) and these people are in a better position to save. They may save to try to lease a little land for one season and cultivate it.

b) Landless non-farm laborers

These people are engaged in construction or some small enterprise and have more income and/or more security than the field laborers. They may save Tk. 75 or well over Tk. 100 a month. Table 6 shows that laborers save as much as 9% of their income. But those having large families save less until the sons begin to earn. Prominent objectives of the savers in this category is also to lease or mortgage some land, to educate their children, or invest in an enterprise such as a little shop.

c) Small farmers

These people are mainly subsistence level producers. About two-thirds of them save to meet input costs of the next crop. A minority relies on crop loans from institutional or local sources. They need to save about Tk. 800 to 1,500 for their crop inputs, but all of them also try to save for a daughter's marriage, ornaments for the daughter, releasing of mortgaged land, or leasing of land. Small farmers who are also involved in trading are in a better position to save, as Table 6 shows. Most of them did not appear to keep much cash at home but seemed to invest it in their enterprises. Small farmers having sons employed in business or "service" are in a still better position. They invest their savings in business and in buying or leasing of land. All these categories also save for building or repairing their houses.

d) Medium and large farmers

These are the main potential savers in entirely rural areas. A quarter or a third of them have bank accounts, depending on their location. But usually they do not retain much savings in the bank, and prefer to keep only about

Tk. 300 or 500 in cash in the house. The rest is invested in land, animals, stock business (rākhī), shops in the bāzār, or education of their children. They also save for the expenses of a daughter's dowry and marriage expected of this class of people, and for gold ornaments, and building or improvement of their houses. These farmers are primarily agricultural entrepreneurs, and they do not directly engage in field work, as they consider such manual work degrading. Most of them would like to buy more land and thus increase their overall socio-economic status. The descendants of these surplus farmers in the study locations are often educated and work away from home. They come to their ancestral villages as visitors and often send their savings to their parents or relatives for buying land or any other investment. This reverse flow of capital is newer phenomenon, and one purpose is probably to avoid taxes. Some of the surplus farmers invest their cash with local businessmen and get between 5% and 20% interest a month on the first week of the month, the interest depending on the loan and the type of risk involved.

e) Salaried persons

The Investigators feel that in the Bangladesh society there are 2 main modes of life, apart from agriculture: salaried employment ("service") and trade (byabsā). The distinction is fundamental, and families would like to have earning members in both, one for security and the other for potential profit. In most rural areas salaried persons are very few, but in the study group out of 365 occupations held by the main earners in the 300 families 17% are salaried, and out of 2nd earners, 20% have some salary (Table 2). Salaried persons save about 13% of their income, and they usually have bank accounts. Salaried persons who also have income from land save more, and those with income from business save the most (Table 6). Reasons for saving are emergencies,

building houses, educating children, and buying land or some other investment. All the school teachers interviewed have bank accounts, and they save for house building, and for leasing or buying land in preparation for their retirement. The bankers interviewed invest their personal savings, not in the bank but in local business which gives interest the first week of every month. Some salaried persons also maintain pension deposits in the banks, with a view to receiving a lump sum to serve as old age security.

f) Small businessmen

Businessmen in the study group (Table 6) earn on the average the same as farmers who have no other source of income; their rate of savings is also the same, 21%. But this includes many petty mudi dukans (grocery stores), tea shops, and other vendors. Those who have more substantial shops all have bank accounts, and they keep a few thousand taka in a current account. Their savings are reinvested in the business or in lending. A shopkeeper might generate the capital for his father's or brother's agricultural credit needs, or might lend locally for consumption at up to 10% monthly interest.

g) Large businessmen

Businessmen who also have farms save 28% of their income (Table 6), while those who have farms and also salaries can save as much as 47% in the study. Contractors earn a relatively high amount and save about 32% of their income. Virtually all substantial shopkeepers and businessmen have bank accounts. They maintain current accounts for their day to day needs, both for safety and for writing overdrafts, which are usually for double the amount on deposit. They may also keep large amounts in the bank, but often for only a few days or until they can invest it themselves. Some of them maintain fixed deposits for security and to facilitate the receipt of loans.

2.11 Purpose of Savings:

The actual purposes for which the respondents recently saved are shown in Table 8. Each study household was asked to give the last 3 purposes, for which they save. It is to be noted that 87% have recently saved for some purpose (though 80% of the population say they save from their income, Table 4). Most of them have also saved recently for 2nd and 3rd purposes. The average amount recently saved for the first purpose was Tk. 1,424, and for all 3 purposes, Tk. 2,335.

Buying land for the respondents is most important, for about 44% of respondent families have recently saved for this purpose. This supports the assertions made in the last section about the importance of landholding.

Future security is the next important purpose. Actually, the larger part of the savings for future security are invested for the future in land, cattle, or any other productive enterprise.

About 11% of families mentioned trade or shopkeeping as one of their purposes of recent saving. Almost equal in importance is saving for a "child's" education (boy's) or a "child's" marriage (girl's).

The point to be noted is that the financial institution's purpose for disbursing loans is based on a criteria of economic return. But rural life has a different perspective, as Table 8 shows. The potential borrower's need for money may diverge greatly from the purpose for which the financial institution may want to give (lend) him money. Bankers would probably not be enthusiastic about giving loans for buying land (if it is considered uneconomic) or for a son's education/a daughter's dowry. But to the rural people in the study these were very important incentives for savings.

The mechanism of hypergamy, by which a girl marries a groom of somewhat higher status or potential, and her whole family benefits by the new social network, is very important to the rural people in the study areas. House building and house repair, which accounts for 10% of the savings purposes, is not purely consumption, but has its own social value which leads to economic returns; this is apparent in the findings about pākā (tile/brick) roofs and walls. If a family saves for a feast or a festival as much as for a dowry, such expenditure cannot be called "non-productive" for that family. It may not be "productive" in the aggregate expenditure of the country but the family regards it as an investment for receiving social as well as economic benefits in future.

While agricultural loans are often needed by sharecroppers and small farmers for crops, only 9.4% of the study group mentioned this as one of the last 3 reasons for saving. Many farmers accumulate seeds and other inputs and do not think so much of these as savings. Also, the proportion of farmers who really need crop loans is smaller in the study group. Chapter 1 explained that the population contains more rich farmers than poor ones. Rich farmers normally do not require short term crop loans, since most often they have sufficient liquidity themselves. Other studies have demonstrated this fact. Therefore the absence of numerous crop loanees in the study is explained by the disproportionate representation of rich farmers among the respondents. Buying a cow or a bull requires conscious savings as the study shows. Some have saved for their cottage industry, or for buying a supply of household rice while the price is low, or for buying a bus, rickshaw, or a sewing machine.

These substantial recent savings support the statements by respondents presented in Table 20, that most of them are not planning on taking loans for their next capital needs. But the fact that many of them do in fact have current loans (Chapter 6) probably suggests that the money is frequently

diverted to some personal or optional use, while they try to cover their most urgent needs for capital from their own savings.

Table - 3

FAMILY INCOME AND SAVINGS IN 6 STUDY LOCATIONS

<u>Location</u>	<u>N</u>	<u>Average monthly income(Taka)</u>			<u>Average monthly family savings</u>		<u>Percent of families that save</u>
		<u>1st earner</u>	<u>2nd earner</u>	<u>Total</u>	<u>Amount</u>	<u>Percent</u>	
1. Manda, Naogaon	50	2440	500	2950	590	20.3%	52%
2. Pabna Sub-urban	50	2270	810	3090	750	24.3	92
3. Kathalia, Jhalakati	50	2224	340	2580	790	30.6	78
4. Chauddagam, Comilla	50	2226	740	3010	580	19.1	94
5. Sylhet, Kot-wali rural	50	1680	330	2010	220	11.5	78
6. Satoria, Manikganj	50	3750	1360	5110	1570	30.6	88
	300	2440	680*	3120	750	24.0%	80%

*119 families had a second earner; column shows average of second earning for all 300 families.

- Annual income per household : $\frac{3120 \times 12}{26.5}$ = approx. US \$1413

- Annual per capita income $\frac{3120 \times 12}{7.5 \times 26.5}$ = approx. US \$188 Vs. \$130 (WB estimate total country)

Note: Calculations based on study population of 7.5 members per household, Tk. 3120 average monthly income per study household and the prevailing conversion rate of Tk. 26.5 to US \$1.

: Author's estimate of \$ 188 is applicable to the study areas only. The WB estimate of \$ 130 applies to the whole of Bangladesh.

TABLE - 4

(a) MONTHLY INCOME AND SAVING

Income Category (taka/month)	Primary Earner		Secondary Earner		Combined monthly income	Percent savings	Percent who save
	N	Amount/ month	N	Amount/ month			
7000 - 10000 + (high)	22	8334	19	2683	10651	35	78
4000 - 6999 (mid-high)	42	4747	27	1887	5212	24	86
2000 - 3999 (middle)	74	2506	33	1561	3201	24	95
1000 - 1999 (mid-low)	92	1354	22	1574	1730	13	84
Upto 999 (low)	70	571	18	617	729	10	58
	300	2440	119	1710*	3120	24%**	80%

(b) HOUSEHOLD FURNISHING AND SAVINGS

Income Category (taka/month)	Percent savings	Percent of houses having					3 or more books
		Iron/concrete roof	Iron/brick alls	Wood bed	Table	Lantern	
10000 +	46.0	86%	71%	100%	100%	100%	100%
7000 - 9999	29.3	93	40	93	73	67	93
5000 - 6999	27.7	85	50	92	85	65	92
4000 - 4999	18.6	75	31	88	68	87	94
3000 - 3999	25.9	81	19	91	72	84	94
2000 - 2999	22.4	74	21	79	74	57	45
1500 - 1999	12.8	53	24	84	55	73	57
1000 - 1499	13.7	40	9	74	51	65	49
500 - 999	12.2	31	9	59	43	61	37
- 499	2.2	13	13	50	25	69	44
		57%***	22%	79%	61%	69%	62%

Note: Estimates are weighted average calculations of field level findings.

- * Shows average for the 119 secondary earners only.
- ** Percentage total savings to total earnings.
- *** Only 2 houses had concrete roofs. 10 houses had tile roofs (found only on the western side of the country); they are not included in the column because their use does not seem to be related to income.

Table - 5

LAND, INCOME, AND SAVINGS

<u>Land owned (acres)</u>	<u>No. of families</u>	<u>Average monthly income (Taka)</u>			<u>Average monthly family savings</u>	
		<u>1st earner</u>	<u>2nd earner</u>	<u>Total</u>	<u>Amount</u>	<u>Percent</u>
10 +	21	5950	1650	7600	2450	32.2%
5 - 9.9	49	3610	1000	4610	1220	26.5
2 - 4.9	78	2560	710	8270	810	24.7
1 - 1.9	53	1830	510	2340	490	20.8
.5 - .9	26	2050	570	2620	400	15.3
Landless	14	1000	740	1730	280	16.2
	<u>300</u>	<u>2440</u>	<u>680</u>	<u>3120</u>	<u>750</u>	<u>24.0%</u>

Notes:

- yearly savings = Tk. 9000 (750 x 12) per household of which:
- reinvestment = Tk. 5952 (66%)
- retention in cash = Tk. 3048 (34%)

Table - 6

OCCUPATION, INCOME, AND SAVINGS

<u>Occupation</u>	<u>No. of families</u>	<u>Monthly family income(1,2 earners)</u>	<u>Monthly savings</u>	<u>Percent of savings</u>
Agriculture	61	3050	650	21%
Agriculture/business	48	5150	1420	28
Agriculture/salaried employment	29	3140	530	17
Business	24	3090	630	21
Agriculture/wage labor	23	2110	270	13
Wage labor	20	1000	90	9
Salaried employment	15	1070	140	14
Wage labor/business	9	1250	200	16
Wage labor/industry	9	1280	120	9
Agriculture/business/salaried employment	7	3790	1770	46.7
Agriculture/business/wage labor	7	3320	820	25
Agriculture/industry	6	7800	4070	52
House tutor	5	2560	360	14
Mechanic	5	3120	520	17
Contractor	5	7160	2300	32
Tailor	4	2610	250	10
Fisher	4	2050	320	16
Agriculture/money lending	3	2040	400	17
Hawker	3	900	10	1
Healer	3	3950	660	17
Business/salaried employment	2	3589	250	7
Agriculture/industry/other	2	4900	3280	67
Watch repair	2	2500	180	7
Oil crusher	2	2020	820	41
Broker	2	1950	-	-
Carpenter	1	1000	200	20
Agriculture/business/industry	1	600	150	25
	<u>300</u>	<u>3120/per household</u>	<u>750/per household</u>	<u>24%</u>

Notes:

Yearly savings = Tk.9000 (750x12) per household of which:

- reinvestment = Tk.5952 (66%)

- retention in cash = Tk.3048 (34%)

Table - 7

MANAGEMENT OF MAIN HOUSEHOLD INCOME

	<u>Main earners in household</u>		<u>Management of main incomes</u>		<u>Spending of main incomes</u>		<u>Keeping main household running cash</u>
	<u>1st</u>	<u>2nd</u>	<u>1st</u>	<u>2nd</u>	<u>1st</u>	<u>2nd</u>	
Male house head	224	19	222	29	221	24	227
Son	24	38	24	29	21	41	23
Father	20	14	17	38	29	10	19
Brother	7	25	7	7	4	25	7
Other male	5	3	16	3	11	8	11
Female (See Table-11)	20	20	14	13	14	11	13
	<u>300</u>	<u>119</u>	<u>300</u>	<u>119</u>	<u>300</u>	<u>119</u>	<u>300</u>

Table 8

PURPOSE OF SAVINGS

<u>Purposes of last 3 savings in the family</u>	<u>No.</u>	<u>Percent.</u>
Buying land	134	20.0%
Family security for the future	89	14.6
Trade or Shopkeeping	72	10.8
Child's Education.	71	10.6
Child's marriage	68	10.2
Agriculture	63	9.4
House building	53	7.9
Buying Cow / Bull	27	4.0
Loan repayment	18	2.7
House repair	15	2.2
Industry/Cottage Industry	13	1.9
For self	11	1.6
Buying Rice for household use	8	1.2
Bus	3	
Ricksha	3	
Goat	3	
Sewing machine	1	
Land release	1	
Medicines	1	
Festival	1	
Association	1	
Ornaments	1	
Watch	1	
Cycle	1	

669

	<u>No.who saved.</u>	<u>% of sample of 300</u>	<u>Average amount saved (taka).</u>
1st purpose	263	87%	1424
2nd purpose	215	72%	513
3rd purpose	191	64%	399
	<u>669</u>		<u>2335</u>

3. WOMEN'S EARNINGS AND SAVINGS

3.1 Women's Earnings and Money Management:

It is the observation of the Investigators that women in all sections of the society tend to save, and in many cases they are the main family members who hold on to money. They are compelled to save because of economic insecurity of the family, possibility of death of the male earner or divorce, and for the welfare of their children. There is a Bangla proverb mentioned in Chapter 2: "Womenfolk's treasury is never empty; if you are in want of money, all you have to do is ask for it."

As a child a girl is usually taught thrift as one of the virtues to be learned so she will enter marriage and be an asset to the family of her husband. Thrift is one of the qualities on which a young bride is judged. She should not want to consume just for her pleasure. When she has children she naturally takes the initiative to save and be thrifty for their welfare. As her children get older she assumes more authority in the household. By middle age she is frequently dominant in household decision-making, including spending decisions, although this was not brought out quantitatively in the study.

3.2 Categories of Women's Earnings:

In Bangladesh rural households the Investigators classified 4 categories of women's earnings:

1) Income in cases of those who are a major household earner, 2) Supplementary income generated by women's activities around the household, 3) Deductions from the household budget, which they may hide, and 4) Money remitted by an earning son for the woman or for her to hide for him. These are described below:

3.2.1 Household main earners : In the study of 300 households, 20 women were the main earners and 20 were the second earners (Table 7). The range of sources of these women's earnings is wide (Table 9). Out of 6 major sources of income 12 are from salaries. This is a higher rate of salaried women than one

would find in the country as a whole, because in the selected research areas for this study there was better than average opportunity for women's employment in some government job or private project. But the highest women's income is from the trade or shopkeeping category. A few women in the sample own substantial businesses, but most others are engaged in petty and marginal trade. Women engaged in cottage industries have the lowest income among the major categories (Table 9). However, women's earnings are very low compared with the figures for overall household earnings by category (Table 6). The average earning of people who bring in the 1st or 2nd household income in the study is Tk. 3120 a month (Table 4), whereas the study's women 1st or 2nd earners bring in only Tk. 586 a month. In fact, if we deduct the incomes of a few women with exceptionally high earnings, the average is only Tk. 394.

Most of the women who support their households can do so only marginally. They receive less than men for agricultural labor, and they tend to be employed in part-time, low-paying jobs when they are salaried. Those who work as domestic laborers get very low wages. Table 9 shows that women who work at cottage industries earn only a pittance. This is also supported by the Rural Industries Study Project (RISP, Bib. 16c) which showed that people engaged in jobs usually thought of as women's work (such as making mats, making baskets, winding yarn, beating pots, or making fishnets), earn so little per hour that costs can hardly be met. Such work can serve only as supplemental family income. More popular is paddy husking, now promoted in an organized way by many NGOs. However, this source of income is threatened by the introduction of mechanized rice mills.

The majority of women who are 1st or 2nd earners in study households manage and spend their own earnings (Table 10). But in a number of cases male members manage these earnings of women who are 1st or

2nd earners, in 10 cases the husband or father manages, and in 3 cases the son does, while in 2 cases another woman manages it. Many of the women who manage their own earnings are female household heads, either widows or women whose husbands work elsewhere. But when a father, husband, or son spends women's earnings it does not mean the woman always loses complete control over it, although she may. This is partly the result of difficulties faced by women in personally going out and making purchases.

"Running household cash" in these households with women earners is managed and held by men in 17 out of 40 cases (by husband, son, father, or brother). Women who manage the household cash are mainly household heads themselves. It is nearly impossible for women to do the weekly hat shopping (local bazar). Men of women in the study areas have never bought anything from a shop in their lives. However, all this disguises the extent to which women may actually save, as shown below.

2.2 Female Supplementary Household Earnings: This category of female's income is shown in Table 11. In the sample, the families have women who have personal earnings through selling milk, raising cattle, keeping goats or sheep, keeping poultry, selling vegetables and fruits, or processing some agricultural commodities. In 69% of households where there are cows, buffalos, or oxen, women control earnings therefrom in 42% of cases. Where there are goats or sheep, (34%) women manage the earnings 60% of the time. Where there are poultry, (82%) women keep the earnings 72% of cases. The table shows that women who earn in these ways, take in an average of Tk. 124 monthly. Usually they save this or use it only for emergency subsistence inpages.

The 3rd and 4th sources of women's money; savings out of the household budget and children's remittances, are discussed below.

It is felt that the cost effectiveness of mobilizing deposits from such marginally surplus areas should be appraised before financial institutions can consider making an effort to mobilize women's savings.

3.3 Why Women Save:

A woman has little opportunity at the beginning of her married life to save anything. She is critically evaluated by her female inlaws and cannot make household decisions. As soon as she becomes a mother, especially mother of a son, her position improves, and gradually she increases her influence in the family. She then has the opportunity to handle money for household expenses, though she often finds a male to do the important marketing. She starts saving for emergency subsistence for herself and her children, not being able to rely on a husband's unsteady income in many cases. She also saves against the possibility of divorce or husband's death. Women remain in a state of insecurity fearing divorces or second marriages by their husbands, and they know that the fund pledged by the husband at the time of wedding to be used for her support if there is a divorce, is virtually never actually given. She therefore feels compelled to put money away for her mental peace.

Although a Muslim daughter by Islamic law is entitled to inherit at one half a son's rate, she does not usually make a claim. This is particularly so in the case of land inheritance. She cannot actually work the land herself. Therefore she lets her brothers have her share in return for being able to rely on them in case of divorce or impoverishment. Women may bring jewellery into their marriage, which as mothers they can pass on to their daughters. Otherwise they feel compelled to save either from their earnings, or by deducting something regularly from the money husbands provide for running the household.

Women usually hide personal savings, especially from the husband or grown-up sons living at home. If the husband knows about her hidden

savings he is likely to demand a "loan" which is seldom repaid. It is difficult for women to let their money work for them without exposing it to their husbands unless they can buy an animal or make a similar investment in some enterprise. However most of them keep it hidden or with their parents, while inflation eats up its value. Women who consider these matters carefully often take their savings to the house of their parents buy land in the name of the daughter, and then the husband is informed that the parents or a brother has bought the land as a gift for her. Or someone in the woman's parent's house may take the money and buy gold with it, and the woman's husband is informed that they have given her a gift of a gold necklace. This scenario applies more or less for all women in the study areas, but the scope differs depending on the socioeconomic situation as described below.

As for using the banks for savings many women feel they are not welcome. Being usually illiterate, banking procedures are bewildering. Many of them in the study responded that they would like to keep their money in a bank, if they could physically go there, and if the amount of their deposit would not be disclosed to anybody.

4 Savings by Mid-level and Poor Women:

Women from landless laborer households save primarily to meet the family's needs during crisis periods. They know that income is seasonal, and uncertain, and that surely a crisis time will come. And they know there is nobody to help them then. When a financial crisis comes, such women may dip into their savings for family food, telling the husband that they have taken a loan from the neighbour and the neighbour wants to be repaid soon. Some poor women also save in the hope of buying a sari or children's clothes.

Most of the middle-level farm families have cows. While the men take care of the plow oxen and male calves, the women usually take care of the cows. Profit from the sale of milk and from

female calves will be used partly to meet family expenses and will be partly saved by the women. The women can manage the sale of milk themselves because goallas (milk vendors) come to the house to buy it. In the survey, 2/3 of families having cattle, the women manage them and get part/all of the profit. 34% of the study households had goats and sheep, and in 60% of case the women took care of them and got the profit (Table 11).

a) How poor women save: Traditionally, for women to work outside their home is the clear symbol of their poverty. Some work in houses or kitchens of rich farmers, or now a days, also in the fields and in public works programs. When employed by a local person, women may ask to have part of their salary withheld as savings by the employer. Often such women disclose a reduced amount of earnings to their husbands. Of the respondents, 3 saved from earnings they got from paddy processing at the houses of large farmers. This occurs only during harvest season, and they are paid one maund of paddy for the season, plus 3 meals a day, and a sari. For just paddy husking, they are paid one kilo of rice for every maund of paddy husked on the dheki (indigenous rice-husking device) plus 3 meals a day. Such income is used partly for family subsistence or household expenses, but part is also likely to be saved. It may be put in a bamboo hole or left with trusted people.

Rural women also save mushti rice; for each meal they take out a handful (mushti) of rice to save. Three handful a day accumulates enough to meet an emergency, and if not used for that it is used partly for the mosque committee fund to support maktab (religious) education, and part may be sold in the market by the woman through her children for cash. The woman keeps this amount herself.

Women in all social classes who process produce after harvest have an opportunity to withhold some surplus unbeknown to their

husbands. This may be marketed secretly, or sold to neighbors for a low price, or bartered for saris, aluminium pots, or betel leaves.

The head woman in households of all classes may save groceries such as garlic, onions, oil, or kerosine. After collecting them for some months she may send them to the market, or may tell the husband that a neighbour is selling such items at a cheap rate, and when he hears the rate he becomes interested to buy them and pays his wife accordingly.

Poultry is kept by most rural households. The profit usually belongs to the woman, and the husband often does not even know the number of chickens in the household. In the study 82% of households had poultry, numbering 10.7 per household on the average, which is higher than in most rural households. Eggs are often sold by the women to neighbors, or they send them to market with their children. While some is consumed, most of these women sell chickens and eggs locally or through dim bepariwalas (egg vendors) who come around and buy them. There is no purchase of chicken feed as rice bran is used, and the women retain the earnings which come to about Tk.20 or 30 a month.

Sale of vegetables and fruits is another common source of women's income. The market for such produce in the country is growing, and more varieties are in demand. Some of the NGOs (MCC, CARE) have vigorous programs to encourage women to grow these and market them efficiently in order to maximize productivity.

Finally, there were 16% of women in the study households (Table 9) who were involved in cottage industries. Other studies have indicated that cottage industry is a popular source of employment for rural women in Bangladesh. In traditional cottage industry such as in winding yarn by weaving

families or beating pots in potter families, women work at home but are not paid directly for their services. Studies have shown however, that if she can market her products (mats, baskets, etc.) directly or through children or a male relative, she may retain the earnings herself.

- b) Where poor women save: The poor women were asked where they keep their savings. A variety of answers resulted. Women hide their cash in a secret place: a hole in a bamboo, in the attic in a pot, in a pot in the ground, or in the bedding. Some leave it with relatives without taking interest. Others give it to the wife of a trusted local man or to an employer. A few women respondents gave savings to a local shopkeeper, probably related, who used it as capital, and on which he paid interest such as 10% a month. In the project areas many women place savings with the NGOs and some with cooperatives on which they receive a little interest, and which is usually part of a fund deposited in a bank.

There are also little clay "banks" found in households all over the country, usually made by local potters. The women, children, or the whole family, may save their coins or part of their daily cash in these "piggy" banks. But they have to be broken to get the money out.

The study areas had often women who are entrusted with the household money while the men are out working, although the men control main expenditures. While working a man cannot carry his money; so the woman at home guards it. It may be that the man does not even want to know where the woman hides it so he cannot yield to a thief's demand, it is said.

- 5 Women Moneylenders: In the study areas, a number of cases of women moneylenders were observed, especially widows. They start lending a little of their money to other women, then lend to male neighbors, taking interest, and ultimately branch out and

make a business of it.

There were also other women who are married who have a money-lending business unknown to their husbands, lending at 5% to 12% a month interest.

It is also reported by Rashid (Bib.32) that in his study villages there are moneylending women who lend on behalf of their men because it is safer for them to handle the money. According to Rashid people may accuse a man saying moneylending is contrary to Islamic tradition, and is exploitative. However, it is believed that critics are less likely to cast aspersions on woman without proof, so female moneylending is safer. Women lend the money, but men still manage in the background.

3.6 Two Case Studies:

- 1) A woman who has a grown son working in the city gets a regular income from him for herself, but the woman never told her husband. The woman saved almost the whole amount, with the intent that some day she would give it back to her son when he wants to buy land or get his daughter married.
- 2) A woman moneylender operates in a village near Pabna and is wellknown in the village for this activity. She raised her her capital by taking a loan of Tk. 3000. She lends money at 10 to 12% a month and has multiplied her capital. Last year she earned Tk. 6000 profit.

3.7 Savings by Women in Surplus Farm Households:

Women in farm surplus families and some among households having salaries often save principally for buying ornaments. Ornaments enhance the status of women in social situations, particularly where other women are gathered. Ornaments can also be sold for cash at any time, and in South Asia gold and silver has always been regarded as a prime security. Ornaments are also a form of savings for one's daughter's marriage.

Buying land is the next most common savings objective of surplus farm family women. Women who have substantial savings may be approached by their husbands for money to buy some land "on sale" or small pieces needed for consolidation. Such women try to get their husbands to register the land in their names. The respondents have mentioned such cases. A woman can also buy land by sending money to her parent's home and having someone there buy it in her name, whereupon her husband is told it is a gift to her; two study respondents had done this.

Saving by women for university education of their children is another popular purpose because it is realized that money sent by the father may not be enough for the son to enjoy the amenities of the university environment.

Several female respondents said they saved to help their parents who were not well off. These respondents did this without informing their husbands.

Other women in surplus farm families save for investment; our female respondents had investigated in grocery shops, in a brother's business, and in a women's group project.

Most women of this class do not save much in cash, but in the form of ornaments or some investment. Of these respondents, 2 maintain bank accounts. It is specially difficult for women of more respectable farm families to go out, for they have to observe parda (social seclusion according to Islamic tradition) more than others. More of them would use banks if banking services could be brought to their house. As with poorer women, they sometimes want to keep their savings a secret, so they may keep them discreetly or entrust them to well-known friends.

3.8 Females in Salaried Households:

Females in the salaried study households have been classified by the field associates into four categories: 1) those in which the women earn the salaries, 2) those in which the male earner

is a daily office goer, 3) those in which the male earner cannot take his family to the work place but remains separated from them most of the time, 4) those in which the son has an urban job and the mother prefers to stay on the family land. Women's savings patterns are different among these categories.

In the 1st category there are 12 women (Table 9) in the sample whose salary is the 1st or 2nd income of the household. Their salaries belong entirely to themselves. They typically spend half for household expenses and save half to buy ornaments for a daughter, buy land, or upgrade the household situation. Those who are unmarried save primarily to help their parents meet the expenses of their future marriage.

In the 2nd category, office goers, the man commutes from the rural residence to work and leaves the wife there all day. The wife has to have cash to manage everything. Usually she saves from the amount given for household expenses, and also saves what might be given for incidental expenses. She tends to keep this cash at home or leave it with a trusted businessman for earning profit, as it is difficult for these women to visit a bank. Of the respondents, 2 lend money on interest to other local women, and one invested in the clothing business.

In the 3rd category, the man is a temporary resident of his place of work, leaving his family in the village home. Women in these families have absolute freedom over expenditures which are not disclosed to the husbands. They save for buying saris, ornaments, and cosmetics for self and children, as well as for land or other long-term investment.

In the 4th category the males are absentee landowners working in a town and the mother stays at home. The mother stays at home by choice and cares for the land on behalf of her son(s). The sons send remittances, and the women save much of it for their sons or their grandchildren to inherit.

3.9 Women and Institutional Savings

3.9.1 Constraints: The study has shown that roughly 80% of the female respondents save in cash or in kind, invest in animals or with neighbors. The main constraints to women preventing them from the benefits of banking are as follows:

- a) Lack of motivation: For most rural women banks are seldom a conscious option. They don't come in contact with them; banking is not a topic of their discussion with other women; nor are they reached by bank's publicity programs.
- b) Parda: Respectable women from farmer families, such as might have money to save, usually confine their movements to the para (hamlet), while poor women or old widows, who don't have money to put in the bank anyway are free to go farther if they have to work. If a respectable woman goes out for any reason she is usually escorted by a male relative. But because of her desire for secrecy she can hardly do any banking, on those occasions. However, women whose children are grown can sometimes take initiative to go out and walk around.

College educated women nowadays go out for shopping and some are also employed in different projects in rural areas; they are regarded by rural farm women as having a different value system in this respect.

The fundamental constraint is not even in moving about, but in the division of activities of life into men's domain and women's domain. A substantial percentage of rural women have never in their life purchased anything from a shop, and this is even a matter of pride. Public activities in the upazila center, and marketing in the hat (village open market), are entirely men's domain, and banking falls in the same category, except that it is a modern activity and therefore women who have a modern

viewpoint about going out might go to a bank. The main practical problem is that the women from respectable farm families who have the money are the ones least likely to feel able to go to a bank.

- c) Bank procedure: Most rural women are not only illiterate but also lack numeracy skills. The experience of several NGOs has shown that it is a great struggle to train even one woman in a group to keep reliable group records. Even as regards literate women, there is seldom any idea about bank records, interest computation, time deposits, and the like. They are in awe of written documents because documents have power; most women rely on men to deal with the mysteries of documents.
- d) Fear of husband: Even if a woman has the courage to visit a bank and deal with documents she still might be constrained by fear that her husband will come to know about her savings, and if he wants to dip into them there will be marital conflict. A woman can hardly visit a bank and expect that her husband will not know. Usually women have no conception of the confidentiality of an institution as it is their experience to trust only a few individuals. In the field work this was found to be an important constraint to women saving in banks.
- e) Absence of women bankers: In the study areas there were no women bankers, despite the policies of BKB and some other banks to hire them. Neither were there female agents working for the banks; nor were there any special arrangements for attracting female depositors.

9.2 Concluding Remarks: It is not clear that bank mobilization of women's savings could be cost effective to banks at present levels of those savings, or that banks as organized & managed at present can serve women's savings interests any

better than the informal repositories of their savings as used at present.

However, the proportion of women's bank savings is likely to increase because of increased female employment, and enhanced confidence of women that banking may be to their advantage. In terms of social values, there is no doubt that banking must become an aspect of women's overall socio-economic development as required for restraint of population growth, greater productivity, and improved quality of life.

In view of this, if the banks want to mobilize women's savings, the following may be important:

- a) House to House Campaigning: Since the movement of women in Bangladesh is restricted by social and religious norms, the investigators feel that the only way to reach these potential savers is by motivating them individually through house to house campaigns. Mass media does not reach them, and previous experience has shown that in the case of male depositors organized campaigning in this manner results in mobilizing new deposits.
- b) Women's banking day or women's bank: The setting up of a women's bank would probably not be cost effective for the banking sector. Suggestions are the setting up of a special day in the week only for women or a separate enclosure in the bank where they could conduct their banking.
- c) Women bank officers: It is obvious that a woman will feel more comfortable in the presence of women bank officers and will feel more confident that news of her bank account will not reach her husband.

The banks are moving to employ women officers, and it is understood that BKB policy is now that 30% of officer candidates should be women. However, the experience of BKB is that these women are not willing to go around in rural

areas and canvass in homes. They are educated women who come to work every day in fine sari and shoes, and they are not willing to tramp through muddy or dusty paths to mobilize women's savings. Nevertheless, more women should be employed in the banks for meeting national objectives. The investigators feel that women bankers need not be collage graduates.

- d) Influential females: Generally speaking, in every area there are women whose advice other women listen to. Sometimes they organize groups or cooperatives, and they exert some leadership. Such women can quickly make other women aware of the advantages of banking, for they are trusted.
- e) Local women bank agents: The most important suggestion here is that local women with some education may be employed as part-time bank agents to mobilize women's savings. They could get a nominal stipend, or preferably a commission (1% to 5% of money deposited). Such woman agents might be selected from among the wives of school teachers, other salaried persons, or from locally respectable families. They should have minimum 5th class education, and should be given responsibility for 2 or 3 villages near their residences. Such a woman visiting local women in their homes is acceptable, and she will be trusted not to divulge personal information. Many households would even be honored to have this type of woman visit, and will listen to her advice.

Two opinions about this arose in our discussions in rural areas: One is that such agents should not carry cash, but otherwise facilitate women coming to the bank or operating an account through others. The other opinion is that she should carry a sealed box to receive deposits, and conduct the banking services in the women's homes. This raises the problem of security. Some men say she will need an armed

guard from the bank. But it is the opinion of the Investigators that if she comes from a locally well-respected family she can perform these functions without fear.

3.10 Case Studies:

- 1) The manager of a BKB bank branch in Comilla town hired 3 female bank officers, which was according to bank policy. He found them working better than men, because they were eager to work. But they didn't like to go out so he did not send them to rural areas. He then deputed them to go around in Comilla town to mobilize women's savings. But even that was not satisfactory, as they were educated women and preferred to sit in the bank.
- 2) The wife of a school teacher in Manikganj District has her own bank account, but her husband must operate it as she does not go to the bank. The bank is half a mile from her house. She has completed 8th class. She would be willing and interested to work as an agent of the bank to mobilize women's savings, and believes local women trust her so she could do this work effectively.

Table - 9

FEMALE EARNINGS

(only females who are 1st and 2nd earners in the household)

Income source	N	Average monthly income (Taka)	Percent of all female income
Agriculture/farm	8	550	19%
Trade/shop	8	762	26
Cottage industry	7	247	7
Salary	12	568	29
Wage/daily labor	8	406	14
Other	4	237	4
6	47*	586**	100%

Notes:

- 40 women earned 1st or 2nd income in household from 6 sources
- Tk. 586/- is the average of the earnings from primary and secondary sources.
- Average income for 1st earner in household is Tk. 627/-.
- Average income for 2nd earner in household is Tk. 544/-.
- Income figures include 3 women with exceptionally high monthly income (trader Tk. 3500, farmer 2500, salaried woman 2500). If these are excluded average for 1st earners is Tk. 346/- and for 2nd earners Tk. 441/-.
- Average monthly income is then Tk. 394/-.

Table - 11

FEMALE EARNINGS THROUGH SUPPLEMENTARY LIVESTOCK OPERATIONS

	Households having livestock operations		Households in which women manage and keep earning's	
	Number	%	Number	%
Cow/bull	207	69	87	42
Goat/sheep	102	34	61	60
Poultry	246	82	177	72

Note : Average monthly women's earning from livestock activities :
Tk. 124/- (Author's estimate).

4. INSTITUTIONAL SAVINGS

4.1. Potential for Deposit Mobilization

- 4.1.1 Banking in the study population: Of the 300 study households 133 or 41% have bank accounts (Tables 12, 13). A method of measuring the intensity of banking has been developed by the investigators so that it can be perceived in various socioeconomic categories and in comparison with different parts of the country. The measure is the number of bank accounts per 100 population. In the sample there are 133 bank accounts held by 123 households, so only 8% (10/123) of the account holders have a second account. Intensity of bank accounts in the sample is 44.3 per 100 households (133/300) and given the household size of 7.5, it is 5.9 accounts per 100 persons (Table 12).

Table 12 shows that the intensity of bank accounts by this measure ranges from 2.4 in the lowest of 5 socioeconomic categories, to 9.8 in the highest. This is consistent with comparative figures for a few other parts of Bangladesh (Table 12). Most areas of the country having a rural character have banking intensity of 2 to 4 accounts per 100 population, similar to the poorest group in the study. The mid-low socioeconomic category has 5.7 accounts per 100 population, which may indicate the success of the NGOs working in the study areas. All the study households were in target zones of intense efforts by NGOs and semi-autonomous government agencies, all of which promote savings and/or credit programs.

Table 12 shows that other districts have 4 to 8 accounts per 100 population. Manikganj District has 7.2 reflecting its established merchant/trading population, highway access, the presence of many Hindus who have the saving habit, and development efforts by NGOs and semi-autonomous government agencies. In thanas/upazilas having substantial towns, intensity of bank deposits is 23 per 100 population, rising to 50 for the larger cities, and to 75 for Dhaka city as a whole.

Table 13 shows intensity of banking among households in the study; it ranges from 15 per 100 households among the poor to 84 among the prosperous category. Here it is clear again that the mid-low group has been successfully motivated by the development agencies to open bank accounts, but the size of their accounts is not great. The low group (mostly day labourers) have very few bank accounts.

Account size is also shown in Table 13. Average account size in rural Bangladesh, according to Bank statistics, is about Tk 2410. For the country as a whole it is Tk.5997 (Scheduled Bank Statistics, April-June 1984). Darshana, a rural town, has an account size larger than most other such towns probably because it is on the border and has a high income derived from smuggling activities. It is clear that most deposits in Bangladesh are mobilized from Dhaka and a few other cities. However, the highest socioeconomic category in the study population has an account size equal to that of the biggest cities.

As for type of accounts, in the sample 82% (109 out of 133 accounts) are current and savings accounts (Table 13). Fixed deposits are held only by 20% in the highest socioeconomic category. The percentage is relatively low as most of them find other ways to invest their money in operations that generate higher rates of return. Those who are not accustomed to manipulating capital, such as salaried persons, prefer security and put the money in fixed deposits. Pension accounts are new in some areas and there were only 11 among the study population; the deposits are also small in size.

4.1.2 Effectiveness of savings mobilization: The question of whether the thousands of rural bank branches established in the past few years are justifiable economically or socially does not come within the scope of this study. However, the Investigators would like to present a few observations based on their findings.

- a) For the country as a whole, two-thirds of the bank branches are in rural areas, but they bring in only 17.2% of bank deposits (Table 14). A few years ago especially during the Pakistan era, banks were accused of collecting deposits in rural areas and draining off the capital to urban areas. The trend has now reversed itself. More money is disbursed in rural areas at present than is collected there in deposits (Table 14).
- b) The data in Table 13 from the study population suggests that efforts to mobilize a large number of accounts from among small farmers and shopkeepers or from sharecroppers and day laborers is unlikely to be profitable to the banks. Table 2 shows for example, that Manikganj District has double the number of accounts per 100 population of many other rural areas, for which the work of rural development agencies (Swanirbhar, RDB, BRAC, Proshika, SCF) is partly responsible. But average account size in the district is one of the lowest among all districts at only Tk.1870 (Table 13). Similarly, the mid-low socioeconomic category in the sample, which is the object of many development programs, has only about Tk.1000/- in the average bank account, while day laborers have only Tk. 223. Surely this is insignificant by banking criteria.
- c) The Report on NGO savings and credit programs (Bib 24) describes the efforts of 17 private agencies, plus 5 other programs, to target savings plans and loans to the mid-low and low economic groups. But virtually all these programs are subsidized, for it is not anticipated that such small savings are worthwhile for any financial institution in purely economic terms. However, the agencies that promote rural development by getting poor people to save show encouraging results (CRWRC, CARE, SCF, Swanirbhar, etc). Several evaluations of these programs have shown that savings along with credit can cause marked overall economic development in the target population (Bib 21). The same was true of the RFEP (Borrowers Financial Survey p.46 Bib27).

d) One of the important conclusions of this study is that the rate of savings/investment in rural areas is quite high, but little of it reaches the banks. For the poor, the amounts are too small in absolute terms. For the more prosperous, direct personal investment is preferred. Most of the money saved is in upper income families, and it has been seen already that while they keep bank accounts for convenience, relatively few of them have fixed deposits (Table 13). They would probably open fixed deposits if they were convinced that this is the best way to keep their money.

Nevertheless, there appears to be greater scope for efforts to mobilize deposits, especially from among the rural well-off, and by many small accounts from among the poor if that is desired by the financial institutions. Some of the constraints are discussed below.

4.2 Utilization of Banks for Saving:

We tried to find out where the respondent families keep their cash savings (Table 15)*. The main reasons people give for using banks for depositing all but the cash needed for running the household are as follows:

- 1) Safety: This is the main reason most rural people give for maintaining bank accounts. Hiding money is not so easy: few houses can be securely locked up. If the cash is kept in a bamboo or in a hole in the ground it may be destroyed by insects or rats. If it is kept in an almirah or on a shelf it may be discovered. If it is kept on the person it may get stolen or lost. There is also the risk that if it is accessible it might be spent. The Case Studies (Section 4.4) exemplify this.

* Only one/first answer has been tabulated here. Although Table 13 says that 109 current and savings accounts are maintained by the study population, only 20 families in Table 15 mentioned "bank account" as their answer.

- 2) To take loans: Farmers may keep bank accounts so that they can get quick crop loans or borrow in times of crop failure; it is a hedge against calamity. Businessmen may keep accounts to enable them to write overdrafts.
- 3) Interest: The Investigators observed that in areas distant from banks or where new bank branches were established, gaining interest was not an important motive for saving in the bank. But in the more urban areas and where businessmen bank it is an important factor. Some businessmen say they are wise to put part of their savings in Fixed Deposits at 15% interest because the money will double in a short time with no risk.
- 4) Prestige: This is a lesser factor, but when a farmer lets it be known that he has opened an account, for instance, his local standing may be a little enhanced.

4.3 Some Comments:

It was found that in areas where new banks were trying to take in more deposits, it was the middle and upper-middle level farmers who are depositors. The poor have little to deposit and their potential accounts of a few hundred taka are not very useful to a bank anyway. The richest or more entrepreneurial rural people have their own means of investing money. Salaried people often open accounts.

In general, people are reluctant to keep their savings either in cash or in the bank. A popular way to utilize savings is to purchase "stock," (locally termed as "rakhi") any produce that comes on the market whose price is expected to rise within some months. Rice is the most common, but any crop may be utilized in this way for profit-making. Many people, and also many spontaneous savings groups, gather cash specifically to invest in this way seasonally. One might make a profit of 15% in 6 months, instead of in one year as in a Fixed Account. The rate of profit made by informal money lenders (often 7% to 10% on a monthly

rate, or 40 to 60% on a yearly rate) is similar to the rate of profit the more entrepreneurial people expect to get from their savings. Poorer people will often invest in a cow or a goat instead of putting money in the bank.

Thus, the prospect is gloomy if one expects that the banks can mobilize anything more than a small fraction of the money actually saved from income beyond the expenses of daily necessities. In the study population of 300 households about 2 month income is saved in banks. However, the constraints and suggestions mentioned in the following Section show that there is still potential for the banks to gradually mobilize savings, and awareness of bank services can be greatly enhanced.

4.4 Case Studies:

- 1) A woman near Pabna whose husband is a day laborer managed to save Tk.50 from the household daily expenses and hid it in the attic of the house. A neighbour woman saw it and looked for a chance to take it. The chance came when the first woman went to the pond with her children for bathing and left the house unlatched, as rural women often do. But while the neighbor woman was descending from the attic the woman of the house returned and saw her, and discovered that the money was missing. She demanded that the neighbour return it, but the neighbour denied having taken it. She then called her a thief and there was a big altercation. In the evening when the husbands returned they started abusing each other too and even used bows and arrows against each other, and involved their kin groups. The fight was stopped by the matbar (local leader) but there was no reconciliation and the two factions do not talk to each other and avoid each other's ceremonies.
- 2) A fariwala (peddler) near Pabna is out peddling most of the time, and does not have a bank account but keeps cash in the hollow of a bamboo in his house. He had Tk.200 there and planned to invest it. But when he opened the bamboo he found the money gone. A week later he found the remains of it in a rat hole.

- 3) A woman in Brahmanbaria whose husband is an advocate saved Tk.5000 which she hid from her husband; intending to buy jewellery for her newly married daughter. She hid it in a wooden almirah. One night the house caught fire and her small daughter was badly burnt. The next days were spent getting the girl hospitalized and treated. Only afterwards did the woman remember the Tk.5000, and then she regretted that she had kept that savings in the house.

4.5 Awareness of/Attitudes Towards Institutional Savings:

Whereas Bangladesh has a literacy rate of about 24%, in the study population 62% have been to school, and their average education is 6.7 years (Table 2). Moreover, 41% of the households have bank accounts (Table 13). Therefore, their awareness about banking is probably much higher than for the average population. The respondents were asked to speak freely about their experiences and attitudes towards different forms of institutional savings in the country. Their comments are summarized below.

4.5.1 Interest rates on own account: Table 16 shows that 41% of the respondents did not even try to state the interest rate on their own accounts. Most of the study group in the upper socio-economic categories know their interest rate, but only 18% of those in the two lower socio-economic categories even try to state it. The range of answers regarding interest rate is from 6% to 20%. All the answers could not be verified but obviously the majority are in the right range, while quite a few are not. This confirms the evidence presented in section 4.2, that interest rates are sensitive to savings in urban areas and among those who deal more in money, and salaried people. For others, however, a difference in the interest rate by a few percentage points probably does not offer much incentive to putting money in the bank.

In the following list, the Investigators try to indicate (wherever possible) how many people are aware of the savings

method, then give summaries of their comments, both positive as well as negative. The percentages mentioned are in some cases based on tabulated responses, but in other instances they are estimates from the field experience of the 6 Research Associates and the two authors of this Report.

4.5.2 Bank accounts:

- a) Current and savings accounts: 100% of the respondents know that money can be kept in a bank, but 83% think the first reason to keep it there is safety, and only 17% think the first reason is gaining interest. Most of those who have accounts have benefitted from having done so. The majority did not know the difference between checking and non-checking arrangements, or different types of current and savings accounts. 45% of them say they are not familiar with banking procedures such as opening an account, making deposits and withdrawals. Roughly 20% say it is a nuisance to go to the bank and it often takes a long time to get the money out. Some 20% say the interest is lower than on investments they might make themselves. And a number say the restrictions on days and times of withdrawal, and the requirement of advance notice to draw out more than Tk.5000, are an inconvenience.
- b) Fixed deposits: Less than 20% have distinct knowledge of fixed deposits. The majority of these say such accounts are good because they generate substantial amount of profit, and some also say such deposits are a kind of investment without any risk. But none of the respondents could give the rates of interest for different periods of deposit. A few expressed the idea that the rate of interest is not as attractive as the return they would receive had they invested the money with merchants. They are aware that they will have a lump sum on the due date, and some of the respondents had successfully saved money for a

project such as a rice mill or a drug store using fixed deposits. The case studies in section 4.5 amplify this aspect. Two complaints were heard a number of times. One was that interest charged on loans is higher than interest paid on fixed deposits. Consequently, in case of an emergency one has to pay more than one would have lost if he did not have the fixed deposit. The other complaint was that there is no provision for them to nominate an heir as one can with pension accounts, yet they want to save mostly for their children.

- o) Pension Deposit Scheme: Though this scheme is new, about 787 or 35% of the respondents were aware of it. Of these the majority say the program is good because it is not difficult to put in Tk.100 or 200 a month; many also say the long term benefit is good. However, of those who know the program, half say that 10 or 20 years is a long time to leave the money; during that time anything might happen, or there might be some political decisions so that the money is ultimately not available.

4.5.3 Cooperatives: While most people know about cooperatives, there were a few who were unaware of them. About half say the cooperatives are good because they encourage a spirit of enthusiasm among the members, and about 20% say they are good for economic development. It was the impression of the Investigators that there is still sufficient confusion among the rural people regarding the actual objectives and functioning of cooperatives. This was apparent from some of the remarks made by respondents who are aware of the program.

4.5.4 National Savings Schemes:

- a) Defence Savings Certificates: Roughly 10% have heard of this scheme. While they think it might be attractive, none of them have any experience with it, nor do they know of anyone who has used the scheme.

- b) Bonus Savings Certificates: Fewer than 10% know of this scheme, and none have used it or know of anyone who has used it.
- c) 5-Year Bonus Savings Certificates: Very few know of this scheme, and none have used it or know of anyone who has used it.
- d) Prize Bonds: Approximately half of the respondents were aware of this scheme. But they have no favorable experience with it. Rather most of them say they have never heard of anybody winning a prize, and therefore the program appears to be unprofitable. Several complained that they do not get correct information about the drawing, for they seldom read newspapers, and they think the authorities should directly inform the winners. Some suspect that nobody they know wins because the relatives of the authorities win, and that is why publicity of the winning number is not wide.
- e) Wage Earners Development Bonds: Very few of the respondents had heard of this scheme. But when it was explained to them, they thought that it would be beneficial for those earning abroad, particularly in the Near East.

4.5.5 Post Office Schemes:

- a) Post Office Ordinary Savings: The possibility of having a savings account in the post office is known to many of our respondents, (about 25%) and they are all aware that before the banks came to rural areas, one could save in the post office. Two of the respondents still have accounts there, but the interest rate is unknown to them.
- b) Post Office Fixed Deposit: Few respondents are clear about this program, as distinct from Post Office Savings.
- c) Post Office Bonus Account: Very few have heard of this, and nobody knows of anyone who has experience with it.
- d) Postal Life Insurance: This is virtually unknown.

An opinion expressed a few times about postal savings in general is that in case the depositor dies his heirs have a lot of trouble in getting the money out. It was also noted that the post office makes no attempt at savings mobilization except setting up a sign indicating that savings can be deposited here.

4.5.6 Life Insurance: About a third of the respondents are aware of the life insurance offered by Jiban Bima. A number say that the program is good because it gives security in old age and for the children. But the majority of those who know about it also have an unfavorable idea regarding it, saying it is difficult to get the money on maturity. Either it takes a year or the right connections, or a bribe is required. The unlucky person who cannot operate in this manner cannot tell when he might get his money. There were some instances of the head office asking the insured to pay on the policy after payment had already been made to the local agent. Another complaint is that if no payment is made for 3 months the company might cancel the insurance policy, and policyholders think they might lose their investment.

4.5.7 Credit Union: Credit unions are known to the respondents principally if they have had contact with those established in connection with Caritas or other Catholic activities in Bangladesh. None of the respondents were members. They have little idea about it and had no comments to make.

4.6 Concluding Remarks about Awareness of Bank Accounts:

In sum, it is the physical presence of bank branch buildings in rural areas that are probably the most effective advertisement so far. But the majority appear to have very vague conceptions about the different kinds of accounts or interest rates. Awareness of programs under post office savings is very poor, and of the National Savings Schemes almost nil, with the exception of

Prize bonds. Some District Officers of the National Savings Schemes were visited and it was found that they are not very active; the prevailing atmosphere is one of lethargy. The officers do little more than put up a few posters or occasionally make a visit to an institution. Hardly any advertising of National Savings Schemes reaches rural areas with the exception of Prize Bonds, which are sold through banks.

Bank advertising by leaflets, posters, and announcements on radio and television reach a small population, and may be intensified. But a more effective means of mass advertising in rural areas is dramas and jātras (stage drama in local dialect), and in fact this has been suggested by some of the respondents. It was observed that some bank officials in Dhaka suppose that because of media announcements people are aware of bank policies. However, it is the observation of the Investigators that in rural areas, most diffusion of information is by personal contact, and not by mass media. This is why it is important, if institutional savings are to increase rapidly, for bankers, post office savings personnel, and National Savings Schemes officers, to intermix with the rural people, go from house to house, and establish contact with local influential people. They should take the initiative to go where there are pockets of prosperous rural people, which may be miles off the main roads.

4.7 Case Studies:

1. A man of Chorempera, some miles from Sylhet, saves from his farm income and deposited Tk.5000 in a Sonali Bank Fixed Deposit. He had never taken a loan in his life. His objective in saving was to set up an allopathic "doctor" shop in the bazar, which he was able to do after 3 years, and he found the Fixed Deposit program very helpful to achieve his objective. But he stated that he had never met a bank officer motivating people in his area, and the media advertisements also do not reach there. He thought that drama in the language of the people showing the causes and

consequences of institutional saving would be effective.

2. Another man of Ghoremera, Sylhet, has a combined grocery and tailoring shop, and he also has some agricultural land. He had saved Tk.40,000, but he did not want to invest it in his business because of the limited market, so he decided to aim at setting up a rice mill. He deposited his Tk.40,000 in a Fixed Deposit in Sonali Bank, which is some miles away, and ultimately he set up his rice mill. He thought that were it not for the Fixed Deposit scheme his savings would have been spent or stolen in the meantime, while his business was not a good place to invest it. He is of the opinion that many people in his area do not know about Fixed Deposits and that news of it should be circulated person to person so that the potential of the scheme can be reached.
3. A respondent in Kathalia, Jhalakati, and 2 of his sisters had life insurance policies with Jiban Bima Corporation for 2 years. After they had paid installments to the local agent they received notifications from the head office to pay. From then onwards they distrusted the program, and stopped it for good.

4.8 Constraints and Suggestions

The following suggestions and/or problems about bank savings (not loans) have been mentioned by people in the study areas.

1. Bankers should move among people: It is said that in Pakistan times bankers would often move around to convince people to make deposits. That was the main function of bank branches in those days, and the money was used as capital in urban areas. Bankers were assigned primarily to bring in deposits, although there were very few rural banks.

Now despite 3325 rural branches in Bangladesh (as of June '85, Bangladesh Bank statistics), there are still large areas, such as half an upazila, where nobody has seen a banker come to explain his services. On the other hand, where new branches are set up

and the Managers have conducted consistent house to house programs and talked with local influentials, hundreds of new accounts are opened. It is felt that rural people do not have confidence in the banks as an institution so much as in the banker as a person. Their awareness is often so low they will not bank unless it is suggested to them personally. Some bankers suggest that they should have a motorcycle in order to go to frequent trips. Alternatively, the bankers like to get better per diem allowances for making extensive house to house campaigns, as was suggested by one of the bankers interviewed.

2. Bankers' first goal is loans, not savings: It appeared to the Investigators in their talks with the rural bankers that they felt it their first obligation, to meet quotas in giving loans, second in collecting loan repayments, and third in mobilizing savings. There is a big difference in the savings brought in among bank branches, which mostly reflects the priorities of the bankers. Bankers say that they are so busy making loans and collecting them, that they don't have time to visit around to get deposits. It is also apparent that before the close of the fiscal year bankers make increased efforts to bring in deposits to improve performance in view of their deposits quotas. This probably shows what could be done had bankers given priority to increasing deposits.
3. Procedure: The procedure for making withdrawals is sometimes troublesome, and there are complaints of long queues, which is time-consuming especially if one wants to combine banking with a trip to the hat (village open market) or bazar on business. Complaints were heard that illiterate people need a photo to withdraw their savings, which is troublesome to obtain. Generally, people with low literacy also lack numeracy skills; they hardly comprehend any records or documents. This has been shown to be especially true for rural women (section 3.8).

Therefore, confidence in the banker as a person becomes more important.

4. Interest rate: Interest rates are probably less important in rural than in urban areas. However, some depositors object to paying more interest on loans than they get on deposits; there are some suggestions that depositors should have the facility to take out most of their Fixed Savings as a loan, paying the same interest rate. Such points of concern among the respondents indicate that rural people are not yet fully acquainted with banking practices and regulations.
5. Location: The 4448 bank branches in Bangladesh are located so that often groups of several unions have no bank. Prominent people in these areas sometimes make efforts to get bank branches opened, unaware of the problem of bank branch viability.
6. Sub-branches: While most large bazars now have banks, many smaller ones do not. There are about 5000 hāts in the country, meeting on an average 2 days a week, and the majority of them do not have banks. Apart from the questions of viability and security, a bank "sub-branch", "window", or "desk" in these bazars and hāts providing deposit and withdrawal services would be one of the most feasible ways for bankers to promote the habit of banking in rural areas. It is estimated that half the people of Bangladesh virtually never visit a town or large bazar but conduct all their purchases and sales through hāts. Each bank branch could have one or two agents to open bank "windows" in these hāts by turn on hāt day. This might require the services of an accompanying security guard.
7. Banking hours: The inflexibility of banking hours is not only inconvenient; it inhibits depositors as well. In some bazars most of the shopping is done in the evening, but the bank is open mostly in the morning. In some hats it was noticed

that there was a bank open during banking hours, but the hāt was in the late afternoon. Holidays of the bank may coincide with hāt days. During peak seasons of sowing or harvesting farmers want a lot of bank services, but the the official bank hours remain the same.

8. Rural agents: There are a number of types of bank rural agents possible: 1) to motivate only, 2) to motivate and take deposits, 3) to enable deposits and withdrawals, 4) to arrange loans, or 5) to do several of these. Agents may be males or females. They may be given a commission of 1 to 5% of deposits brought in, or a part-time salary. One Regional Manager of Krishi Bank informed the Investigators that he had put forth a request to set up a system of such agents, but the idea was rejected by the head office. One suggestion is to use school teachers as part-time banking agents. The inherent difficulties in mobilizing women's bank savings without employment of women field agents has been discussed in Chapter 3. A further suggestion is that the Union Parishad might allot chaukidars or youths of the Village Defence Party to provide security to these agents if they carry cash. Bankers differ in their opinions regarding the exact job description of the agents, but they all agree that such rural agents are necessary. All the NGOs in Bangladesh that have savings and credit programs use field agents, and that is how they are able to provide financial services to such a large number of people. It is recommended that the banking authorities examine the experiences of the NGOs (Bib 24) as well as the programs of Swanirbhar and Grameen Bank on the use of field agents, and experiment with the viability of such a cadre of employees.
9. Confidentiality: It was found that some potential depositors are uncertain about the reliability of banks on the point of confidentiality. There are two reasons for their concern: some are afraid that they will be harassed by tax officials, and

others who mostly draw government salaries are afraid that there might be questions about the sources of the money in their deposits. To meet such concerns the banking system may emphasize and advertise its commitment to confidentiality, and enforce this administratively.

10. Inheritance: Depositors say that they are allowed to nominate beneficiary of an account only in case of pension deposits, and they would like the same facility for savings and fixed deposits. Some people save principally for their children and are afraid that the money will not be released to them.
11. Religion: Only a few people now object to the use of banks on religious grounds (that they take and give interest). It was not found to be a significant deterrant in the study areas. Such people will accept an increment on their money if it can be thought of as "profit" instead of interest.

4.9 Case Study

A branch of the Agrani Bank in Manikganj District is in a hāt which meets on Friday afternoons. The bank closes Fridays at 1 p.m. officially, and there is no administrative flexibility to allow for different official hours. The hāt has about 2000 patrons a week, and those who have extra cash usually invest in "stock" of mustard seed, potatoes, or oil, rather than keeping it in the bank. Since the present bank Manager came he has been sitting in the bank Friday afternoons until dark, and consequently deposits have increased by half.

Table - 12

BANK ACCOUNTS PER 100 POPULATION

The Study Population:

Socio-economic category	No. of households	Average family size	No. of persons (1 x 2)	No. of bank accounts	No. of bank accounts per 100 population (4 ÷ 3)
	1	2	3	4	5
1. high	50	8.6	430	42	9.8
2. mid-high	43	8.0	344	30	8.7
3. middle	74	8.22	608	24	4.1
4. mid-low	76	6.45	490	28	5.7
5. low	57	6.65	379	9	2.4
	300	7.5	2250	133	5.9

Bangladesh*

Region	Accounts per 100 population	Study population (as above)
Dhanmandi Thana	170.2	
Dhaka city	75.2	
Sylhet Kotwali	53.8	
Top 76 upazilas/thānās in bank deposits	23.0	
Chnatak Upazila	13.7	
All Bangladesh	12.1	
		9.8
		8.7
Manikganj District	7.2	
		5.7**
		4.1
Naogaon District	3.9	
Patuakhali District	3.5	
		2.4
Jamalpur District	1.8	

* Derived from Scheduled Bank Statistics, April-June 1984, and data supplied by Bangladesh Bank.

** The higher than the country average may indicate the success of NGOs or semi-autonomous bodies working in that study area.

Table - 13

BANK ACCOUNTS AND ACCOUNT SIZE

The Study Population:

Household socio-econ. category	N	Bank accounts								
		Current and savings accounts		Fixed deposits		Pension accounts		Total bank accounts		
		No.	Average amount	No.	Average amount	No.	Average amount	No.	No. per 100 households	Taka per account
1. high	50	28	13,691	10	18,550	4	400	42	84	13,599
2. mid-high	43	26	5,938	2	10,000	2	5,050	30	57	6,118
3. middle	74	20	4,137	1	40,000	3	1,790	24	35	5,754
4. mid-low	76	26	903			2	3,600	28	37	1,096
5. low	57	9	223					9	16	223
	300	109	5,915*	13	18,880*	11	2,210*	133	44.3	6,848*
		(36%) ¹	644,735 ²	(4.3%) ¹	245,440 ²	(3.6%) ¹	24,310 ²	(44.3%) ¹		914,485 ²

- 123 households have accounts, = 41% of households.
 - 133 accounts, = 44.3*(133/300) per 100 households = 5.9 or $\frac{133}{300 \times 7.5}$
 - accounts per 100 persons'.
 - Tk. 3048 or 914485/300 per household.
 - weighted average calculation of figures in the column.
1. No. of accounts in that category/300 households.
 2. Average amount x No. of accounts in that category.

Continued to next page

Table - 13 (continued)

Banladesh

Region	Average account size (Taka)	Study population (as above)
Dhaka city	15,468	
Chittagong city	12,212	13,599
Darshana *	6,550	
All Bangladesh	5,997	6,118
Feni	3,070	5,754
Brahmanbaria	2,723	
Banladesh minus Dhaka/Chittagong	2,673	
Jamalpur	2,570	
Naogaon	2,410	
Jhalakati	2,169	
Chuadanga	2,130	
Patuakhali	2,060	
Manikganj	1,870	
		1,096
		223

Derived from Scheduled Banks Statistics, April-June 1984, and data supplied by Bangladesh Bank.

- Median - Tk. 2410/- for rural Bangladesh
- Average - Tk. 5997/- for the whole of Bangladesh

Although a rural town, it lies along the border. and its relatively large account size is probably due to income from smuggling activities.

Table - 14

RURAL VERSUS URBAN BANKING

	Bank branches	Deposits	Advances
Urban	33.2%	82.8%	75.4%
Rural	66.8%	17.2%	24.6%
	100%	100%	100%

Derived from Scheduled Bank Statistics, April-June 1984

Table - 15

WHERE THE HOUSEHOLD KEEPS CASH

In a box	150
One one's person	41
In a pot	31
In an almirah	29
In the bed	22
In a bank account	20
In a bamboo hollow	3
With another person	2
With employer	1
In an iron safe	1
	<hr/>
	300 households.

Note; Only one/first answer per household was accepted.

Table - 16

KNOWLEDGE ABOUT BANK INTEREST RATES

<u>Socio-economic category</u>	<u>Number of bank accounts</u>	<u>% who think they know interest rate on their account</u>
High and mid-high	54	87%
Middle	22	73%
Mid-low and low	33	18%
	<u>109</u>	59% (41% say they do not know)

<u>Range of answers</u>	
<u>Interest rate (%)</u>	<u>No. of accounts</u>
6	2
8	20
8.5	12
10	3
11	6
12	24
15	6
18	3
20	1
	<u>81</u>

Notes :

- 81 accounts' interest stated
- 28 accounts' interest not known
- 109 accounts total

5. GROUPS AND GROUP SAVINGS

5.1 Spontaneous Groups:

Spontaneous savings and loan groups were observed in all the study locations. Unfortunately, the Investigators could not find any available literature referring to the existence of such groups. They appear to emerge out of the society under local leadership and are usually not registered as cooperatives or sponsored by any organization (Table 17). The findings of the study indicate that the ethos of group formation and interdependence may be more deeply imbedded in the society than may appear from the performance of the cooperative movement in the country. These informal groups are all spontaneously built on mutual trust and on homogeneous interests.

Membership composition of such groups is greatly varied, as Table - 17 shows. All over the country there are youth kilābs (clubs) organized for different purposes such as sports promotion or cassette exchange, for which the young people contribute a small fee. Such clubs were not considered in the sample unless the club also made loans to members and/or outsiders. There are farmers' groups that exclude the landless, there are landless or day laborer groups, and there are groups that have unrestricted membership. There was one case of slum dwellers of a district town who organized themselves into a big group and a few cases of ricksha drivers' groups. There was also a case of a small children's group (Table-17).

There are spontaneous associations or groups all over the country for maintaining mosques and mādrāsās (religious schools). They were included in the study only when they are known to use some of their savings to make loans. This is often done as part of their charitable functions to help needy parishoners.

In most of the bāzārs and towns of the country there are

bainik samitis (merchant societies). Investigations were made in a number of places as to whether such samitis or committees engage in savings and loans. It was found that most of them do not. They primarily keep order in the bazar, set times and days, settle disputes, and employ night guards. The same is true of associations of businessmen of certain categories, or guilds, such as those in oilseed pressing, fertilizer sales, jewelers, cloth shop owners, or rice merchants. Most businessmen needing loans require more than can be provided by such associations. But in a few cases in the study areas, both bainik samities (merchant societies) and associations of businessmen dealing in a product appeared to collect capital (perhaps from some of its members having a surplus). Loans were subsequently made to members and in some cases to non-members as well. Two such groups, one from each category were recorded during the interviews.

5.2 Group Objectives:

The purposes of these groups, as shown in Table 17 are also varied. There are two differing and sometimes conflicting main objectives:

- 1) loans to members
- 2) loans or investment outside the group for profit.

Additionally, some collect funds for:

- 3) lottery, and
- 4) setting up group or employment generating projects.

Loans to members may be either for crisis times or for investment. Groups of the poor make loans to members for small investments such as a crop on sharecropped land or an animal, and some make loans for any purpose. The slum group makes loans for "soft" purposes such as medical treatment or education, and mosque samitis (associations) may also make loans for crisis times, at little or no interest. Most groups charge

non-members double the interest charged to members, say 10% and 5% a month. Some groups of businessmen even charge members 10% a month, which they are glad to pay for the convenience of an immediate short-term loan, while the group as a whole has profit as the main objective.

Sylhet and Comilla areas have an interesting type of group called dharmagolā (dharma means religion, or trust, and golā is commodity storage, especially paddy). In such systems members contribute some produce at harvest time which is stored to "lend" to the needy members later in the year when prices have increased.

Many groups, particularly one of the businessmen's groups, and several of the youth groups, have making profit as the main motive. They lend at 7%, 10%, even 12% a month, with higher rates to non-members. The assets of such groups grow fast, and the members take a profit annually, or when the group breaks up.

There were 2 groups in the study that operate through lottery. Contributions of members are allocated once a month to a member through lottery, and next time the others draw lots, and so on till a cycle is completed, and then another cycle starts. The members use the money as they like and do not repay it. In these cases they prefer to buy "stock" (Reference Section 4.3). This system of investment by lottery is also practised widely in India. It combines the fun of gambling with the surety of a chance to get a little cash to invest.

Some groups are interested in group projects and in community development. Many such groups seem to have sprung up in the Comilla area recently. Other groups invest in group projects such as renting a pond buying rickshas, or renting a ferry ghāt, for group profit and group involvement. Group formation

for buying deep and shallow tube wells is stimulated often by NGOs and the RDB cooperatives, but it was found that several spontaneous groups organized for this operation as well. Some groups increase their goals for investment to getting trucks or setting up small factories. Consequently, they not only generate profit for the group, but employment for the community as a whole.

It is interesting that in many areas young people form juvak kilābs (youth clubs) or samitis (association) although they have little cash, giving them a chance to learn to function in such mutual help groups. There was one case of small children forming such a group to buy a hen, and the group fund has increased by the sale of its eggs.

The important point to remember (mentioned in section 5.1) is that these groups are all spontaneously built on mutual trust, and on homogeneous interests. In many cases the groups of farmers, landless people, or youths, are really kinship groups. A group may be a gushti, which is a kinship segment of a few patrilineally descended males and their wives which functions to some extent as a faction. Several of the groups of farmers or laborers in the study are essentially groups of gushti members or at least people who live in a neighborhood (pārā, hamlet). All the groups in remote rural areas consist of relatives, neighbors, and/or long-time friends, who trust each other. The groups in towns are all common interest groups in which most members would not risk alienating their colleagues by dishonesty in a group activity. Most of the NGOs have also found that in formation of groups the first point to ensure group functioning is that there be common interest and a certain homogeneity. Some NGOs do not admit more than one family member in a group, but many of the spontaneous groups have some kinship linkages, and it probably contributes to the mutual trust. Enquiries about loss of group assets through dishonesty of the group leaders reveals that people sometimes know

of such incidents, but fear of it is over-ridden by mutual confidence within the group. In two cases of businessmen's groups do we find an insistence that members pledge land or other security. In some cases, as in the large groups found in the Comilla area, local elite help in the formation of the groups, and in such cases one wonders if leverage in local politics may not be a main objective. But there is no evidence of filching money even in the case of such groups. Reasons for less success through cooperatives are discussed below.

Most of these groups do not intend to register with the Department of Cooperatives, either because they want to avoid the trouble and entanglement with the government, or because they do not consider that the group will be permanent. The youth groups, in particular, are considered by the members often to be temporary, and when the profits are divided they are likely to break up, and then perhaps re-form with new members.

5.3 Bank Accounts:

Enquiries were made about informal groups opening bank accounts. Most of these groups have accounts, and in most cases all that was required is a written statement of the group organization and proceedings, and authorization of certain persons to operate the accounts. However, there is hesitancy by some banks to allow such informal groups to open accounts. For example, MCC in its efforts in Noakhali District found that some branches would not allow groups to open accounts. It seemed during the interviews that Agrani Bank is more apprehensive than some others about such group accounts. Group savings may be facilitated if the branches are instructed to allow groups to easily open accounts provided the Manager is presented evidence of the structure and intent of the group.

5.4 Case Studies (Refers to groups in Table 17)

- 5.4.1 A rural town near Rajshahi has a rin kilāb (loan club) with about 30 members, all friends, and mostly in some enterpreneurial activity besides agriculture. Each pays Tk. 10 a week. The kilab has a matha (head; but is not registered as a cooperative, Members can borrow, up to several thousands of taka, for business, a wedding, or any purpose. Interest is 10% a month, or 120% a year. On deposits one earns 80% a year. To get a loan one should mortgage land and sign on stamped paper, and the club can sue in case of default. But repayment has been good and the club is very profitable to its members.
- 5.4.2 In Chauddagam Upazila, Comilla District, there is a grām unnayan samabāy samiti (village development cooperative society) with 300 members in 23 villages. It is open to all, for Tk.16 a month joining fee and Tk.10 a month savings. The committee consists of a chairman, secretary, and a group manager from each village whose function is to collect the monthly savings from the members. It is not registered as a cooperative. The purpose is to promote the savings habit, raise capital, give loans to members, and establish small industries to give employment. Members mostly take crop loans, at 5% a month, and outsiders at 7%. The samiti has undertaken some business projects, and besides its income of Tk.12,000 a month from payments, it has earned Tk.15,000 as profit. Now it is going to lease a dighi (large pond) from the upazila office for 3 years. The samiti has Tk.85,000 in its bank account.
- 5.4.3 In Chauddagam Upazila, Comilla District, in a bazar there is the Miā bāzār bainik samiti comprising businessmen of the bāzār. The 30 members pay Tk.10 a week. The samiti bank account is operated by the samiti chairman and secretary. The samiti gives loans to members for business purposes only, at 2.5% interest per month, and to outsiders at 3.5%, and maximum loan period is 3 years. Now the samiti has Tk.1,50,000 in the bank.

- 5.4.4 A dharmagolā near Sylhet is a type of group collecting funds to help members and village development activities, for which initiative was taken by some local elite. Any villager except the landless, can join. Subscription is in kind at harvest time, and is decided according to the condition of different members. Paddy, jute, and summer (rabi) crops are collected from the members and kept in the house of the treasurer, from which loans are given to needy members. One has to pay Tk. 25 for loan of one maund of paddy for 3 or 4 months, but at that time the price of paddy will have increased by Tk. 25 over its earlier price.
- 5.4.5 In Barisal a mādrāsā committee was spontaneously formed to look after the administrative and financial needs of certain mādrāsās (religious schools). Subscriptions are raised from villagers. The committee provides loans to needy farmers, for which one has to pay one maund of paddy against Tk.100 after 2 or 3 months.
- 5.4.6 At Khadimnagar, near Sylhet, there is a club of 7 members who pay Tk. 10 per week. All are young, landless laborers, and they elect a treasurer from amongst them. The club gives loans to its needy members without interest, for releasing land, repaying bank loans, or other urgent purposes.
- 5.4.7 At Khadimnagar near Sylhet there is a samiti of landless laborers who give Tk.10 a week each. Once a month they draw lots to determine who gets the fund; there are 7 members and each time the lots are drawn among members who have not taken it on that round, then another round starts. The member can use the fund for any purpose and does not have to repay it.
- 5.4.8 In Saturia Upazila, near Manikganj there is a bālak samiti (boys' society) of 17 members. The samiti was founded by each boy giving one taka. With the Tk.17 they bought a hen, and from the sale of its eggs, now there is Tk. 50 in the samiti fund.

- 5.4.9 In Manikganj town there is a bastī kallyān samabāy samiti (slum welfare cooperative society) having some 500 members. They deposit Tk.1 per day, and after a year Tk.1,50,000 was saved. The purpose of the samiti is to provide loans to poor members for medical expenses, education, or other personal needs, without interest. The samiti engages in some profitable business, and now has 16 rikshas which it leases out. It plans to collaborate in setting up a garments industry. It also generates employment from its various activities.
- 5.4.10 In a village in Manikganj District there is a jāmā samiti (savings society) comprised mostly of youth. Each pays Tk.5 or 10 a month. Members are all relatives or close neighbors. There is no samiti bank account because of the nuisance of going to the bank, but the secretary keeps the money and lends it out as fast as it comes in. Members borrow at 5% a month and outsiders at 10%. It does not want to register as a cooperative. Rather, the young members feel that it is a temporary sort of club with a profit motive. After 2 or 3 years it is expected to have some good profits and the group will probably split up. Then some of them might organize a new one.
- 5.4.11 Near Pabna there is a rice market in a bāzār, and the rice merchants have joined together to form a society. Each businessman deposits Tk.2 per day in the fund. The society was formed about 3 years ago, and now the fund has about one lakh taka. With this capital the samiti set up two rice shops with paid employees. The profit goes into the samiti fund, to be ultimately shared among the members.

5.5 Cooperatives

It is beyond the scope of this Report to deal in depth with the registered cooperatives in the country, but a few comments are offered. As of January 1985 there were 1,18,628 registered primary cooperatives with a membership of 79,48,335. But they appear

to mobilize relatively little savings. The Rural Development Board (BRDB) cooperatives have 33 crores in shares and savings, and the Samabay Bank 8 crores, in contrast to 7158 crores deposited in the commercial banks.

Deposits in BRDB accounts are Tk. 121 per member (BRDB record of February 1985). Deposits in Samabay Bank in the farmers' cooperatives are Tk. 25 per member, and in the multi-purpose cooperatives only Tk. 14 per member (De, P.140, Bib 19).

Why do both the spontaneous groups and the NGO-sponsored groups raise so much more in savings per capita than the cooperatives? Why is repayment of loans in most NGO programs 90 to 95% on-time, but repayment of BRDB loans only 50 to 60% on-time, and for Samabay Bank even lower?

Some historical comments, and then some observations from the field are offered below:

- 5.5.1 Historical problems and Bangladesh Samabay Bank Ltd. (BSBL): Around the turn of the century the cooperative movement spread through British India, and the Government promulgated cooperative rules in 1904 and 1912. An Imperial Committee in 1914 reported, though, that while the number of cooperatives was large, they were qualitatively weak and lacked intrinsic cooperative character (such as was found in the European cooperatives). Among the recommendations were the following: a) cooperatives should be well structured before they are registered, b) loans should be given only to members, c) there should be a primary level, a district level, and apex cooperatives, and d) there should be a cooperative to each village. These and other provisions have been inherited from that time by the Bangladesh Department of Cooperatives. While these recommendations seem reasonable, it is fair to note that they are at variance with characteristics of successful spontaneous savings and loan groups in Bangladesh today which have been described. In 1947 East

Pakistan had 26,000 cooperatives on record, but most had been patronized by Hindus, who either left for India or reduced their participation in such activities. The position of cooperatives after partition "was one of total collapse." There was no provincial apex cooperative bank. Most of the societies existed only on paper, their members in India, bankrupt, or dead (p.11, Bib. 18). It should be noted that the original cooperatives here were mostly called Savings and Credit Societies, and their purpose was that. The Hindus who comprised much of the membership had a more conservative idea about savings and capital formation than the others of East Pakistan. In 1948 far-reaching decisions were taken to set up Union-level Multi-Purpose Cooperative Societies (UMPCS) all over the country, with primary cooperatives for farmers, fishers, etc. at the village level. The UMPCSs were given more authority and resources because the planners thought they would be something better than the "village" cooperatives. They were made to engage in various "development" projects, with resources pumped in, and they were given preferential dealership in scarce controlled commodities.

However, many societies were formed on paper to get loans or other advantages, and in fact a quarter of the UMPCSs were dissolved soon after formation for not conducting any business. The present 4119 UMPCSs and all the primary societies cannot be properly monitored by the Department of Cooperatives. The result is that in 1983 overdues on Samabay Bank loan principal were 62%, and on interest 95% including many loans which should have been written off long ago (Cruz, P. 6, Bib 18). For lack of savings, Samabay loans are obtained almost entirely from Bangladesh Bank credit with inflationary printed money. Efforts are certainly being made to correct the situation. But the structural problems of these old cooperatives may be at their roots, if the comparisons with the spontaneous groups and the NGO and semi-autonomous government agencies can teach any lessons.

The Investigators feel that the UMPCSs had lost 4 characteristics that enable spontaneous groups to be successful: a) They had moved from being groups where people could trust each other to large populations supposed to rely on structure and rules. b) They were given credit, dealerships, and resources from outside which attracted bad leadership. c) They were assigned development tasks planned externally, whereas what they wanted first was savings and credit societies. d) Finally, due to rules invoked decades earlier, they were not able to lend their assets outside. Thus, good profits were not expected and there was no motivation for savings. It is this expectation of profit that fuels many of the current spontaneous groups. The result is the present savings rate of Tk.14 per member in Samabay Bank in UMPCS accounts.

5.5.2 BRDB Cooperatives: There is a great range of effectiveness of the Rural Development Board cooperatives. Therefore, both at the Upazila and the primary society level, they are classified as A, B, C, or D societies, based on criteria such as repayment rate and regularity of meeting. The A societies function well, while the C and D ones tend to be dormant. In the RFEP loans were disbursed through these cooperatives, and because UCCAs classified mostly as A were chosen, loan repayment and loan utilization was good; some societies under that project were visited. It seems that leadership in these cooperatives was competent, records were in order, and repayment in some cases was 100%. But of the UCCAs nationally some 30% are good and classified as A, 25% as B, and 45% are not working actively. Of the primary societies, 25% are A, 20% B, and 55% are not active. 27 lakh members have 33 crore taka in savings and shares, which is about Tk.123 each (BRDE 1985 data).

The BRDB cooperative system appears to possess huge potential to stimulate rural financial dynamics in the country. There are 60,761 farmers' societies, 9295 landless farmers' societies, and 7608 women's societies (no other types of cooperatives come

under this system; others are supposed to come under Samabay Bank).

Since the beginning of the program (IRDP in 1973), Tk. 303.48 crore has been disbursed in short term and Tk. 91.46 crore in medium term loans. Recovery as of February 1985, has been Tk. 191.66 crores short term and Tk. 11.80 crores medium term loans. Therefore total recovery has been 203.46/394.94 or about 52%. Amount of loans outstanding including overdue is Tk. 111.82 crores short term and Tk. 72.44 crores medium term or about 47% of total advances. (Figures as of Feb. 1985 supplied by Credit Department, BRDB).

The fact that 83.5% of advances are ultimately recovered disguises the tendency to roll over loans, on which there is no estimate. Ultimately the rolling-over comes to an end. BRDB has ruled that if in an Upazila Central Cooperative Association 40% of loans are not recovered, no more loans will be made to them in the following fiscal year. This is illustrated in the Case Studies below.

It is not within the scope of this Report to evaluate the BRDB cooperative system as a whole. Obviously, the agricultural inputs, livestock and fisheries' promotion, health and family planning activities, etc. have their own weight in national development. But on the financial side, it is felt that if the 25% of primary cooperatives that are more or less successful could be replicated nation-wide, the scope for savings mobilization and good loan utilization would be substantial.

5.6 Case Studies:

- 5.6.1 The Sylhet Kotwail Central Cooperative Association has been unable to show a 40% recovery rate. Therefore loan disbursement to the cooperatives through the Khademnagar Sonali Bank has been stopped this year. The CCA officer called the farmers' co-

operative leaders together and asked them to at least show on paper 60% recovered, but they were unable to do so. In many places there is no cooperative for the landless or for women because these cannot draw substantial "loans" comparable to farmers' cooperatives. It is said that the Manager of the Kollogram KSS got a loan for his cooperative of Tk. 35,000 and used it to go to the Near East, also taking some of the group savings. It is said that in another cooperative a loan of Tk. 10,000 was obtained from the Sonali Bank, from which Tk. 500 was paid to the Inspector and more than a thousand to the Sonali Bank Manager. The field officer of FIVDB there (a private development organization that has a policy of working with the RDB cooperatives to help improve them) said that in his place of work he "never saw an RDB loan used for the stated purpose." However, the FIVDB supervisor, who works with the cooperatives, estimates that half the loans are partly used for the stated purpose. He has taken the initiative to call groups of cooperative leaders together to plan and organize, and thinks that sub-centres for 10 to 20 cooperatives for such activities would help the whole system, and ensure better loan utilization. FIVDB has successfully improved cooperative performance in certain areas but has not been able to extend its service throughout the Kotwali CCA. The irony is that Khadimnagar has one of its training institutes, and the trainees are supposed to get a little field experience there. However, matters may improve because it is said that the present Rural Development Officer does not take bribes, and cases have been filed against 7 of the defaulting cooperatives.

- 5.6.2 In Chauddagam, Comilla District, there is some economic growth, and there are many spontaneous groups, as mentioned above. It is not far from the place of the famous Comilla Experiment, which give rise to the whole RDB system. The Upazila has 455 primary cooperatives. However, of these 150 are classified as D and not working, and 40 as A and working fairly well. Our Field Researcher there reports that now that bank branches have been

established, many farmers prefer to go directly to the bank for a loan rather than dealing with the cooperatives, although cooperatives require less bribe than the banks. Repayment of loans in the RDB system is poor, and this year the upazila was not able to show a 40% recovery rate, so disbursement of loans has been stopped. The Assistant Project Officer in the upazila says this is so because the borrowers "expect forgiveness of the loans."

5.7 Some Observations Regarding Groups and Group Savings:

5.7.1 Organized groups: Most of the NGOs working in Bangladesh organize groups, especially of small farmers, the poor, and women, for various development activities. 17 of these NGO programs for motivating savings and credit through groups, as well as BRDB, Swanirbhar, Samabay, Grameen, and RFEP, have been described in a report prepared simultaneously with this one (Bib. 24). That information is not repeated here. Some agencies form groups of 5, others groups of 7 to 15, and other groups of 25 or 30, or even more; some agencies encourage the groups to register as cooperatives, and others avoid such an association. On the whole, these agencies function well through these groups, mobilizing small group savings and providing capital for more loans. Repayment is about 90 to 95% in most agencies.

The experience of commercial banks in trying to organize savings and loan groups is not so positive. In RFEP Uttara Bank used a model of group lending, but disbursement was very low because the bankers found it troublesome and time-consuming to organize the groups, and the clients did not prefer to borrow in groups. Uttara repayment in RFEP was not bad, however, at 88%, and savings came to 11.6% of loans outstanding. Janata Bank also experimented with group lending, but most borrowers operated individually after they had received the loans. Janata recovery was average for RFEP, and savings came to 21.8%, which was above average. On the whole, the RFEP experience probably did not show the expect-

ed advantages of group lending. In the sociological study of RFEP (p.7, Bib. 25) it was shown that 9 out of 10 borrowers prefer to deal with the bank individually rather than through groups or cooperatives.

But in contrast to these banking efforts, Grameen Bank channels all its activities through groups of 5, aimed at poor people. Savings and re-investment locally are satisfactory, and the repayment record is exceptionally good, over 97% on time, and 99% ultimately. Their explanation is good motivation, loan utilization and supervision, and peer pressure within the groups. An excellent analysis of Grameen lending has been made by Mahbub Hossain, (Bib. 20) but there is insufficient information on savings mobilization in his analysis. The Swanirbhar program also works through groups of 5, and generates savings from among poor people, while also recovering loans at a rate of 90%. These two agencies and the NGOs show that group savings and loans can work well, and can decrease costs to the bank of dealing with small amounts of deposits and loans. Grameen, Swanirbhar, and the NGOs are all expanding their savings and loan activities done through groups. The methods can be perused in the separate Report prepared by the Investigators.

Some agencies encourage groups to ultimately register as cooperatives (VERC, CRWRC) and other agencies prefer to avoid such entanglements with Government Departments (BRAC, Proshika).

In the field survey it was found that in most places these groups could open bank accounts in the name of the group, if there was a record of proceedings and signatories were assigned. But in a few cases (i.e., the MCC experience) the banks were reluctant to open accounts in the name of such groups.

The group approach is increasingly being used to motivate savings and credit in the country. Swanirbhar, now working in 70 upazilas, is expanding to 140. Grameen Bank has 156 branches and is expanding rapidly. The NGOs are also, in general, expanding these activities.

However, it should be remembered that all these groups deal with the poor, small farmers, or women, and though their social importance is great their potential for mobilizing savings is relatively modest.

- 5.7.2 Spontaneous groups: The spontaneous groups as described above are not limited to disadvantaged segments of the society. Some of them have as members merchants, prosperous farmers, or salaried people, and their actual potential for savings mobilization may be large.

But there are no available statistics regarding the number of such groups functioning in the country, nor of the extent of their financial importance, their rate of growth, etc. It is therefore unknown whether it would be useful to have some policy concerning them, or if some of them might be brought under the umbrella of the cooperative movement, or under the jurisdiction of the credit union movement, or any other system.

However, it is the informal judgement of the Investigators that the movement of spontaneous groups is growing within the country. The majority were found in the vicinity of NGO programs and Government development agencies, and in areas where some rural economic dynamism was visible. In the Manikganj area, spontaneous groups were clearly formed from the examples of BRAC, Proshika, and others. In the Sylhet area they were stimulated by FIVDB. In the Comilla area they were stimulated by the cooperative movement. Some groups are very old, but on the whole it seems to be a fairly recent phenomenon. If so, future growth in this sector may hold promise for stimulating the rural economy of the country.

- 5.7.3 Cooperatives: The potential of cooperatives in savings and loans is huge, if the successful ones are considered. An example is Deedar near Comilla, a cooperative of poor people and ricksha drivers. The organization began with savings of 56

paisa and reached 9 lakhs, and now aims to save 50 lakhs. A key is dynamic leadership. (The account of this cooperative by Ray was found by the Investigators to be essentially correct). The A category RDB cooperatives often do very well, and under RFEP they recovered their loans with only 9.7% ~~overdue~~ and accumulated 11.4% of the loan financing in the form of members' savings. On the other hand, roughly half the cooperatives in the country are C and D in performance, essentially moribund.

Spontaneous savings and loan groups differ from registered cooperatives in the following essential ways:

- a) Spontaneous groups are organized by trust, whereas cooperatives rely on structure and rules.
- b) Spontaneous groups are self-regulating, whereas cooperatives are supposed to be regulated by the Department of Cooperatives and examined yearly by auditors.
- c) Spontaneous groups engage in activities exactly as the members determine, whereas cooperatives take up development projects planned for them by the concerned authorities.
- d) Spontaneous groups lend money not only to members, but also to outsiders for profit, whereas according to Department of Cooperatives rules, cooperatives can lend only to members.

The last distinction is especially important. Many spontaneous groups exist primarily so that the members can make profit by some investment or by lending to non-members, whereas official cooperatives, in theory, put members' credit needs and welfare above making profit.

5.7.4 Credit unions: Savings and loan groups called credit unions were formed in Bangladesh primarily as part of Catholic development projects, particularly with Caritas projects. They merged into

the Credit Union League of Bangladesh, which now accepts member organizations without regard to creed or background. The League is a young organization having 17,537 members in its constituent credit unions, and it is prepared to expand nation-wide to serve as an umbrella organization. It is a member of the Asian Confederation of Credit Unions, and the World Council of Credit Unions (the history has been written by D. Cruz).

The credit union concept merges with that of cooperatives, on the one hand, and with spontaneous savings and loan groups, on the other. Most credit unions in the West originated with membership drawn from a particular category of employees, say a corporation or a type of industry. There are a few credit unions of this type in Bangladesh, mostly in Dhaka, comprising employees of organizations or corporations. But member unions of the League of Credit Unions are mostly in rural areas. Each credit union may or may not have its own criteria for membership (locality, occupation, etc).

The member credit unions of the League at present are all registered as cooperatives, and the League is seeking registration as an apex cooperative. The reason is said to be that no other set of rules exists whereby the members can have confidence in the leadership of the groups. However, savings and loan groups that are not cooperatives may become members of the League.

5.8 Concluding Remarks:

It has been suggested that the spontaneous groups should become organized and registered as formal cooperatives. The Investigators foresee two major problems that make these informal groups unwilling to do so. The problems are:

1. Many groups in the study areas are opposed to the idea of cooperatives, mainly because they want to avoid the "trouble." The costs are too great in terms of time and

money (travel costs, tea and snack for the cooperative officials averaging about Tk.300 to Tk.400 per trip). There is the additional hassle of keeping records in a prescribed manner, adopting procedures, etc.

2. Most of these groups will probably never want to register as cooperatives because their objectives are different. These groups have profit as one of their motives, while cooperatives exist to serve their members only.

So far government policies have been directed preferentially through cooperatives whereas the spontaneous groups are mostly not known to exist. The Authors believe that there is room for both in the Bangladesh economy. It may be possible for the credit union League to serve as an umbrella organization for many of the spontaneous savings and loan groups. The league could provide structure, sets of rules to generate confidence, legal advice, etc. and thereby avoid the complexities and government involvement in the cooperative structure. At present it is not in a position to do this. However, the Authors feel that there is potential for an umbrella credit union body in Bangladesh, similar to that which exists in other countries. The League could perhaps grow to fill that role.

The prohibition against cooperatives lending to non-members at present applies to groups affiliated with the League. But this could probably be relaxed if the League could provide its own organization throughout the country, with an alternate set of procedures for generating savings and loans. It is anticipated that such a step would attract some of the spontaneous groups which now make profit for members by lending to outsiders, and the whole credit union movement would become more dynamic because of more profit potential.

These suggestions require further study. The issues to be addressed would be:

1. Can savings and loan groups not generated by the official cooperatives structure play a significant role in stimulating the rural economy?
2. If so, what is the mechanism to deal with them?

Table - 17

MEMBERSHIP AND PURPOSE OF SPONTANEOUS SAVINGS AND LOAN GROUPS

<u>Membership</u>	<u>Number of groups</u>
Youth	5
Farmers	5
Day laborers	3
Masjid/Mādrāsā	3
Unrestricted	3
Businessmen	3
Town merchants	2
Ricksha drivers	2
Slum dwellers	1
Children	1
	<u>28</u>

Group size in the population:

- Minimum : 7
- Clustered around: 15, 20 and 30 members per group
- Maximum : One group of 300, and one of 500 members.

<u>Main purpose</u>	<u>Number of groups</u>
Loans to selves & outsiders	5
Investment in profitable project	5
Crisis loans for needy, & profit project	4
Loans for selves & business projects	3
Religious inst. & crisis loans for needy	3
Lottery	2
Loans for own emergency	2
Pump loans	2
Crop loans for selves and outsiders	1
Member speculation in commodities	1
	<u>28</u>

Note: Only those clubs that also make loans to members and/or outsiders have been tabulated here.

6. FORMAL AND INFORMAL CREDIT

6.1 Indebtedness:

In the study population, 50% of households had current loans, and 16% of them had more than one loan (Table 18). Various other studies of rural indebtedness in Bangladesh have shown that this many or somewhat more have some debts (49%, 54%, 55%, 56%, 63%, 54%, 71%, and 75% in studies cited in Maloney and Sharfuddin p.3, Bib. 25 and Rashid p.111, Bib. 32). Perhaps the respondents have somewhat fewer loans because their income is higher than average. This rate of indebtedness may be compared with savings in the sample: 80% save now, (Table 4) and 87% have saved for some projects in the recent past (Table 8) while 41% have bank accounts (Table 13).

6.2 Sources of Loans:

Among the respondents, 54% of those having loans had obtained them from banks, 1% from cooperatives, and 45% from informal credit sources, including some NGO programs (Table 18). This is a far higher rate of institutional credit than is shown in studies based on more representative samples. Other estimates are that institutional credit comprises 15%, 16%, 20%, 22%, 23%, 28%, and in an exceptional case, 40% of all loans (Zia pp. 68-69, Bib. 5b; Ali p.38; Maloney and Sharfuddin p.3, Bib. 25). These sources all show that institutional credit as a proportion of all credit is increasing. But the estimate is probably above average because of the study group's nearness to banks, and due to its prosperity.

6.3 Size of Loans:

Table 18 shows that average loan size in the group was nearly Tk. 7000. Even in the low socio-economic category it was over Tk. 2000. (Average loan size in Rashid's study was about Tk. 550). But in view of their income loan size in the households is

not inconsistent.

In Table 18, loan size of the 5 categories is large probably because of a few large items. Some of the poorer people in the study population have invested in animals; loans for oxen and buffaloes include amounts of Tk. 7000, 9000, and 12,000. The mid-low and middle groups have borrowed large amounts for irrigation, as have some of the more prosperous categories. The sample includes 6 shallow tube wells and 2 deep tube wells, which are long-term investments for these farmers. In the upper groups, one man bought a bus, and others took loans for business of Tk. 80,000. Those who went abroad also took out large loans. Most of the crop loans are in the range of Tk. 500 to Tk. 3000.

6.4 Interest:

Interest computed at annual rates on some of these loans was nominal, 5 to 12%. These are mostly informal loans from friends and relatives. Indeed, many such loans are interest free. Some who had bank loans were paying between 16 and 21%. Quite a few informal loans were at 24%, thought of by the borrowers at 2% a month. Only a few loans carried interest of 50%, and none was higher in this sample. The usurious rates sometimes attributed to moneylenders were not evident here. Usurious rates may be charged to exploit the crisis conditions, but in fact only 2 of the loans in this study were taken for consumption. Business loans at high rates of interest such as 10% a month are almost always short term, for a matter of days or a few months at most, and none were found in the study. Loans for large items are for 3 to 5 years, and if the sources are informal, the interest rate comes down to 24% or so per annum under competition from bank loans.

5 Uses of Loans:

Uses of these loans are shown in Table 19. Of the respondent

families, 174 had loans of which, 2 or 14% were used for more than one purpose. This appears low compared with the rate of multiple use of loans from RFEP (26% were used for 2 or more major purposes, see Maloney and Sharfuddin p.37, Bib. 25) while it was computed in the main study that only 20% were entirely used for the stated purpose. RFEP loans were for poor people who merged their loans with household cash. But it is probable that most borrowers use loans for several purposes and/or for purposes different from the stated one.

Claimed use of at least the major part of loans (Table 19) is roughly in line with the occupations of the sample population (compare Table 2). It is claimed that in 14% of cases, loans were used primarily for personal or consumption purposes, but in fact this might be understated.

Loans used for agriculture in the sample are only 35% of the total amount of current loans. In many credit programs it has been found that people want loans for non-agricultural purposes proportionately more than was expected. This is true of many of the NGO credit programs, as also Grameen Bank and Swanirbhar. Only 1.9% of Grameen loans are for agriculture, compared with 26% for animals, 26% for processing and cottage industries, and 40% for trade and shopkeeping (Hossain p.60, Bib.20). RFEP, which was originally conceptualized in the context of agricultural credit, was not used mostly for agriculture. Actual uses of RFEP credit from their own study are shown in Table 19, and these vary from the stated uses in the loan applications. Of all RFEP loans, 31.5% were taken out for agriculture, but subsequent utilization was only 24.5% for agriculture. Even that may be too high as it is based on respondents' statements (RFEP Terminal Evaluation Report p.49; Maloney and Sharfuddin p.35, Bib.25). Of course, these projects were aimed at a poorer population than is found in this study.

But the emphasis in official and public statements about agricultural credit as compared with other types of credit are probably partly motivated by political considerations and to some extent by traditional concern with rural indebtedness to landowners and moneylenders, rather than being based on concrete analysis of how people actually want to use their loans.

A third of loans taken out by the respondents in the study are used for business, and about 47% of the study population have business as a first or second means of income (Table 2). In RFEP, 9.4% of loans were taken out for business or trade, but 23.6% of loans were used primarily for that. Only 10.6% in the sample took their loans for animal raising, compared with 32% in RFEP and 26% in Grameen. However, individual loan size in the study is much larger and respondents appear to invest in more specialized enterprises. The investigators feel that among borrowers from the spontaneous savings and loan groups, most take loans for trade or business, followed by consumption and agriculture.

Loans used primarily for personal purposes or consumption are 14% of all loans in the study. The RFEP survey showed that nearly 10% of loans were admitted to be not used for their stated purpose, and the true figures may be even higher. In fact, 80% of RFEP borrowers did not use the entire loan for the stated purpose but diverted some or all of it (Borrowers Financial Survey p.33, Bib.27). Personal use is often productive from the viewpoint of the borrower, if not from the viewpoint of the bank.

The most important personal loan use in the study is house building or repair, which is considered a good use of credit in developed countries but is not recognized as an officially accepted use of credit for rural borrowers in Bangladesh. Other personal uses of loans are also not regarded as frivolous. By

dowry and marriage, or by a festival, a rural family makes an investment in gaining social position which in time results in economic advantage. Going abroad is similar. And people who take emergency loans for subsistence are aware that repayment may be difficult, but they make their judgments about what is necessary. These issues have been discussed in Chapter 2. Rural moneylenders feel that a borrower can usually use a loan for any purpose he wants, provided he repays it and provided the interest can sustain the lender or the lending institution.

5.6 Meeting Next Need for Capital:

The assumption that rural people mostly need credit to pursue their activities is not corroborated by the findings of this study (Table 20). Among the respondent households, 224 need capital for agriculture for the next season. But all except 9 think they can raise it from their own activities. Similarly, 76 need capital for business or trade "soon", and all but 9 think they can raise it from their own activities. Only 6% of the respondent households think they will have to borrow to meet their next capital needs.

A probable, but partial explanation of current number of loans compared with the low expectation of future need for loans, is that the survey was undertaken at a time when farmers had taken out crop loans, and were expecting a good harvest. Consequently they were not thinking in terms of taking out yet another loan for a future crop.

It is the observation of the Investigators that people hope for a good crop or a good income and do not like to actually plan to take out loans. They want the facility in an emergency, but they live on the assumption that the crop won't be damaged, that an animal will not die, and that business will succeed. Still, the anticipated need for loans is small considering that 50% of these same households had current loans at the time of the study (Table 18).

This probably suggests two things. First, many loans, may be even the ~~majority~~, are not used for the purpose they were taken. Second, most people are financially conservative enough not to plan in terms of taking loans until they really see a need for ~~them~~.

This modest need for credit appears in conflict with other questionnaire surveys which show that what most people need is credit. Usually in such surveys when people are asked what they need they immediately think of "credit" (money). One survey showed that 67% of people "need" credit for agriculture, 67 for food and consumption, 60% for house repair, 43% for medicine, and 10% for clothes and business (M.M. Ali; also M.H. Ali p. 38, Bib. 8 and 9). In the 1978 handloom census, 81% of weavers said the "reason" for looms being idle was lack of credit. In the Rural Industries Study Project the "need" most commonly mentioned by cottage industry respondents was credit. Actually, the problem might be, poor market, uncompetitive product, bad management, etc. (Mia p.96, Bib.26). It is the observation of the Authors that Government programs based on such over-estimation of credit need risk substantial default, and this indeed has been the experience in Bangladesh.

The respondents try to save to meet most of their capital needs (Table 6). Daily wage laborers save 9%, marginal farmers and others in the mid-low category save 12%, other farmers and shopkeepers save 21%, and the local rich save a third or more. But if a sharecropper earns Tk.1000 a month and saves 12%, a year's savings is hardly enough to plant a crop. He needs a loan, but the study shows that he hopes he won't have to borrow. The middle and richer families have loans of Tk.12,000 to 35,000 for pumps, or up to a lakh for business or travel abroad. But for their ordinary investment needs other studies have shown that their savings are usually sufficient. The study group families already saved an average of Tk.2355 per family for recent purposes (Table 8) Apart from small farmers' crop loans,

many of the loans taken by the study households were used as sort of discretionary funds, either for some capital improvement or venture investment, or for other than the stated purpose since their usual income would enable them to repay it. Those who needed crop loans had just taken them at the time of this study and did not plan another loan. These factors probably account for the higher actual use of credit than people's thoughtful estimate of their actual need for credit.

6.7 Credit and Socio-economic Categories:

The subject of non-institutional credit has been discussed over the years in Bangladesh (summarized in Hussain Bib.21) and India. A detailed study of credit in relation to landholding and the social relations arising from landholding has been made by Rashid, based on a study of 2 villages in Narail and Manikganj Districts which describes various types of informal credit (Bib.32). In the previous study by the Authors (Bib.25) the various Bengali terms concerning credit, security arrangements, and types of land mortgage were listed. A few observations from the 6 study areas about credit arrangements by socio-economic category are added here.

- a) Landless agricultural laborers: These people, who live by selling their labor in the fields, need credit mainly in the off-season, and often for consumption. The majority of them take loans from the large landowners who employ them, the conditions being that the laborer will work for the landowner, and that the landowner will fix the wage rate. When there is a labor shortage, especially for transplanting and harvesting, landowners who have made such arrangements are more sure of getting the labor they need. In the case of HYV crops, supply of labor at the right moment is even more crucial. Of course, some of these people get loans through NGOs, Swanirbhar, or Grameen Bank, but practically none of them get bank loans. Table 20 shows that

none in the low socio-economic category expect to take any loans at all for capital needs.

- b) Landless household laborers: These people work in the homes of the richer families, and their jobs are secure. When they need loans, they get them from their employers without interest.
- c) Landless non-farm laborers (socio-economic category mid-low): These people sell their labor working on road or building construction projects, or as workers in rural processing and production industries, or in transport. They are slightly better off as a whole than landless field laborers, and they tend to be employed for most of the year. Still, many of them need credit in time of crisis, which they get from friends and relatives. Some are able to save and provide the inputs for sharecropping, or take lease of land, and these have agriculture as a secondary means of livelihood. They also do not get bank loans, although some get loans through cooperatives, Grameen, Swanirbhar, or NGOs; otherwise they manage on their own capital savings.
- d) Farmers with few assets: These people have cattle and plows and can be employed as sharecroppers, or they have a little land and try to manage more through leasing or sharecropping. Normally they provide all the agricultural inputs for sharecropping, and give the landowner 50% of the produce. But if the landowner provides inputs the harvest is divided 10 to 6 (10 annas or 63% to the landowner and 6 annas or 37% to the sharecropper). Some are employed with their cattle and plough in preparing land on a daily wage basis. Most of these people are in need of credit to buy oxen and ploughs, provide inputs on sharecropped land, or lease a small plot. But they do not usually get bank loans because they have no collateral. Some of them raise capital by operating a tea shop, grocery store, peddling, or ply-

ing a ricksha, cart, or boat. Some get credit from local moneylenders, whom they sometimes repay by plowing their lands at rates fixed by the landowners. However, many short-term or consumption loans are obtained interest-free, as shown both in the previous study by the Authors and by Rashid (bib.32). Rashid also describes in detail the complex matrix of land ownership, management, and cultivation in the context of which such loans are made.

- e) Petty peddlars and shopkeepers (socio-economic category - mid-low): Many peddlars get into the business part-time, going house to house; they and the petty tea shop or mudi dukān owners are often driven to try this livelihood for absence of any other means. Naturally they need capital, and they all complain that they cannot get it from the bank for lack of security. In our study 3 started petty businesses by taking loans from relatives at 2% per month, and one from selling cattle. All the rural development savings and credit programs show that there is a strong demand for small loans in this area. Among the 18 such households in our study (Table 20) who intend to take loans for their next capital needs, half need them for business.
- f) Small farmers: The need for crop loans by these people is widely recognized; only a quarter or fewer ever get bank loans. The rest get them from informal sources. Loans are usually given in cash during sowing or transplanting, to be repaid in a certain quantity of paddy after harvest. Such loans are called dādan (cash loan repaid in paddy or other kind), or dhāndiyā sud (giving paddy as interest), and this is widely practiced. Other forms of informal lending and mortgaging are listed in the previous RFEP study, especially khāikhālāsi (the lender "eats" the rice and "gives back" the land), or bandhak (with some security). Small farmers who cultivate their own land as well as some leased land are in a slightly better position to meet their

capital needs. We found in our study that a fair number of small farmers have grown-up sons who have income from a shop or some other non-farm activity, who help provide capital for crops, which is repaid at the time of harvest. Most farm work in these families is done by their own labor, but in peak periods they may have to hire wage labor. The Investigators observed that there are reciprocal arrangements among these farmers to reduce their capital needs for labor, based on kinship and neighborliness. They exchange labor and borrow equipment. However, no communal cultivation by hamlet or kinship segment in the study locations were observed. But the intense network of mutual obligations providing labor, materials, and interest-free loans greatly reduces the needs of small farmers for capital. This is one reason why so few people actively plan to take bank loans for their next capital needs. Those who do need loans and have something to reciprocate probably can get them within the informal social system.

Case study:

In a rural area near Sylhet, there is no professional money-lender. If a small farmer needs a loan of Tk.2000 he gives bandhak (mortgage) on two crops of paddy on one acre (amounting to Tk.2500). This is very common. If he needs more and only has one acre he can give bandhak for another year. The loan is from prosperous local farmers, and most bandhak is by trust, without documents. It hardly ever occurs that a small farmer loses his land by inability to repay a loan. If a small farmer needs a loan for consumption he can get it in paddy from a surplus farmer; he will get it in the scarce season and repay at harvest time, so he usually repays 1½ maund for every maund borrowed.

- g) Surplus farmers: Surplus farmers are those who have cash income beyond their subsistence needs, and they generally

do not require loans for agricultural inputs for crops. They may require agricultural loans for extraordinary inputs as with HYV crops or some cash crops, or more especially for installing irrigation equipment. Larger surplus farmers are usually not badly affected by crop damage in one season, but if crops are repeatedly damaged they may seek loans. Some 10 or 15% of them also invest in stock business (rākhī), buying during harvest, and selling later. Many also have family members who engage in a variety of occupations, as in the study population.

- h) Established small businessmen: Some of these people are able to get loans from relatives without interest, and perhaps a third of them take loans from other businessmen or money-lenders at interest ranging from 3% to 10% a month. Many of them have bank accounts, and they can take overdraft on current accounts, or loans against 90% of the money in fixed deposits. Some can provide security or hypothecation of goods and do take bank loans, but it seems common enough for them to take a bank loan for another purpose and use it for business. Many of them do not need much outside capital as their own rates of saving are high. We have shown (Table 6) that in the sample businessmen save 21% of their income, while those who combine business with agriculture or some other activity save between 25% and 45% of their income.
- i) Large businessmen: About half of the more substantial businessmen and merchants need bank credit from time to time; this was true in several bāzārs where enquiries were made. The rest manage from their savings, incidental loans from friends and relatives without interest, overdraft on current account, and most important, transactions on partial credit. Most of them appear to be highly competent in managing and manipulating, and they use their social network to great advantage.

6.8 Procedures for Obtaining Formal Loans:

Requirements for a loan are difficult from the viewpoint of the borrower, and this difficulty deters many rural people from seeking bank loans. This is the impression of the Investigators judging from the responses in the study locations

The banker complains that the borrower keeps coming around with one document at a time and never brings all the documents together. The borrower complains that the bank employee does not inform him of all the requirements, so that he has to make many trips. The respondents have suggested that requirements for different types of loans should be clearly posted on the wall of the bank. A semi-literate person needs to go through a broker; there is no alternative. For a security loan, even a well-educated person may say he doesn't understand the requirements and had to make several visits to get everything in order. Both the banker and the borrower have valid viewpoints. The banks have experienced so much default that bank employees are subject to discipline if they process loans with questionable documents. RFEP results suggested that small non-secured loans can be made with a minimum of red tape, and with only one visit by the borrower prior to getting a loan. However, in the RFEP study we found that some banks imposed extra requirements, such as their photographs and various recommendation signatures.

Procedural requirements vary among the banks and for different types of loans. For a secured loan, typically a borrower needs an application form which in some cases has to be bought; a photograph; actual title paper to his land; original purchase deed of the land; recent tax receipt; a genealogy chart to show the share of the land actually owned by the applicant; a certificate from the UP Chairman that the applicant is residing in his Union; signatures on the application by the UP Chairman, one Member, and 3 witnesses; sometimes also a certificate from the Health and Population Officer that the applicant is not dead. It is not enough to present copies of the land title,

purchase deed, and tax receipt; the originals must be brought and left in the bank.

For a crop loan, the prospective borrower will need to be on the list prepared by the Union Credit Committee (perhaps requiring special efforts and/or contacts); an application form; photograph; promisory note hypothecating the crop; signatures, as by Chairman, Member, and 3 witnesses. BKB has simplified requirements for repeat borrowers by issuing pass books once people are on the list to get a crop loan, and the borrower then has a line of credit available. It is believed that the other commercial banks will introduce passbooks in the immediate future.

Each document provides an opportunity for delay and pay-off. A poor or ordinary borrower may have to pay Tk. 5 to 20 to Union or Upazila officials for signatures, though in many cases elected officials sign free of charge to build up good will. Getting the land records for a secured loan can be a formidable problem. The simplest is often for a borrower to get a broker to do it all, and this also simplifies the taking of extra payment by the bank. The signature of the Health and Population Officer seems to be not an official bank requirement, although it was found in Manikganj that the officer was signing about 30 loan applications a day to affirm that the borrower is not dead.

But in many cases bankers go out of their way to help potential borrowers, make exceptions, and work extra hours. Many of the bankers are friendly and genuinely helpful to clients. Some of the formalities are not imposed by the banks but by higher policy requiring recommendations of relevant upazila officers for loans for agriculture, fish production, forestry, animal husbandry, etc. Fertilizer loans are paid in kind when the borrower presents the bank authorization to BADC, where there may be a scramble of farmers in sowing season each trying to get an earlier serial number.

A complaint was made about gold mortgage. Many people would like to offer gold as security, but not all banks accept it. In one town only Pubali and Sonali accepted it, and they required a minimum of 5 tolas. Many people have 1 or 2 tolas of gold against which they would like to borrow. It was suggested that the banks change their policy and accept less than 5 tolas. Moreover, it was said that bankers are afraid to give a mortgage for the full value of the gold; if one brings in jewelry of 5 tolas, the banker may say it looks impure, and accounts it as suitable for a loan of the value of 3 or 4 tolas.

In all such matters the borrower appears to have trouble distinguishing the official rule from delay imposed by the bank to encourage side payments. The bankers, for their part, feel harassed by a jumble of rules, directives, and quotas.

6.9 Loan Amount:

Borrowers frequently complain that the loan amount they got was not enough to undertake the project, so either the project cannot be implemented profitably, or the borrower uses the money for something else. This is said to be the case for crop and cooperative loans also. Farmers say they need Tk. 2500 or 3000 for a plow ox, but they only get Tk. 500 or 1000 through the cooperative, so they use it for consumption, and perhaps don't repay. For security loans, the banks lend much less than the value of the property mortgaged. Both borrowers and bankers may have justifiable viewpoints.

Case study:

A registered pharmacist in the bazar in Khadimnagar, Sylhet, wanted a loan to open a drug store. These days one needs Tk. 50,000 to open a business, but the bank would only lend Tk. 8000 to 20,000 for any business there. In 1980 he got a Sonali loan for Tk. 8000. He paid Tk. 300 for the application

form, but no other extra payment, and the process took or 4 months. But the loan was only given for one year. How can one start a business on such an amount, and succeed in one year? Fortunately he had some land. In that bazar there are 30 shops but none got started with a bank loan. There are no big moneylenders in the area any more; one has to go to Sylhet to borrow from one. The bazar committee also does not make loans. In the bazar 4 of the shopkeepers set up business with money sent by relatives in England, and the rest used their own capital or borrowed from friends and relatives at no interest. He thinks the main problem with bank loans is insufficient size and short repayment time.

6.10 Refusal of Loans:

Sometimes people who appear to have good loan projects and are otherwise apparently qualified, do not get loans. The real reason is sometimes not clear to the prospective borrower. It may be that the bank thinks the client is not credit-worthy, or because of bad personal relations. It may be that the bank branch has met its quota for lending, or is restricted by instructions concerning certain types of loans. Banks sometimes give the excuse that they have "no instructions" to give certain types of loans. It has been suggested that banks post on the walls the instructions they receive about which kinds of loans can be sanctioned. It may also be that the bank branch is in collusion with a rival business, or is waiting for more pay-off. Borrowers usually tend to suspect the latter, perhaps unfairly.

Case studies:

1. In Brahmanbaria an oil mill owner wanted Tk. 50,000 to buy oil seeds in season, to be repaid in a year. Uttara Bank would not even listen to him. Janata told him to come back in 6 months, but that would be useless. Sonali told him to open an account,

which he did; he put Tk.18,00 in it for 3 months. Still he was unable to get the loan. He did not apply formally because he was told he would not get it; he was told there is "no order to give a loan like this." He is willing to mortgage his land, shed, and machines, which he says are worth Tk.6 to 7 lakh, and he wonders why the bank will not give a loan for at least 60-70% of such assets. He makes 25% profit on his capital in the oil crushing business, and more if he can buy the seeds at harvest time. Out of 50 oil mills in the town, only one was set up with the help of a loan, for Tk.75,000 from BKB, which he suspects required a good side-payment. The oil crushers samiti is not effective because members are all busy in their own affairs. Finally he borrowed Tk. 25,000 from a friend, paying 4% interest per month. He is not sure of the reason for loan refusal, but he noticed that the brick field owners borrow all they want to; they need 4 to 6 lakhs at a time, and the brick field men are found sitting and talking in the bank. He has also noticed that oilseed crushers from Laksham come here to buy seeds in season, as Brahmanbaria is a surplus area. The Laksham people get loans for seeds, and they also write overdraft on accounts in a Laksham bank. He suspects some kind of collusion. Of the businessmen he knows, 80% take informal loans because of the unavailability of bank loans.

2. On the same street another oil mill owner tried to get a Rupali loan for buying oilseeds, but the bank told him he might get a loan if he did business with them of Tk. 1 lakh per week for a year, and even then it would not be certain. He does not know if Rupali was waiting for a pay-off, or if they prefer to lend larger amounts. He has a Janata account with Tk.1.5 lakhs. He never applied there for a loan because he was waiting for proper instructions to do so. The former Manager said a loan might be arranged, but that Manager was transferred and the new Manager does not know him. He thinks if he pursues Janata and offers an advance of Tk.5000 he might get a loan. While he has

cash assets at present, he needs more. At harvest time the oilseeds arrive in huge amounts by boat. The street is choked at that time with farmers trying to sell them and he requires financial resources for the purchase of this commodity. He is very unhappy with the banks.

The banks say simply that they have given a few loans to oilseed crushers, and that these applicants do not appear to be credit worthy.

6.11 Financing and Intermediaries in Rural Business:

There seems to be no available literature on how business transactions are financed in bāzārs and hāts, and how traditional commodities are handled and financed. This is a complex and important matter for a population of 100 million. Some observations were made by the Investigators about traditional and institutional credit in such transactions. Trade functions in the handloom business (Baburhat, Amirganj) and the paddy/rice business (Ashuganj, Barisal) were especially noted. It is recommended that more thorough study of trade and capitalization of such commodities be undertaken.

6.12 Traditional Business Credit:

A substantial volume of business is conducted on part-cash and part-credit basis, especially in commodity trade. Where middlemen, agents, and wholesalers continually deal with known persons they exchange goods for 40% to 60% in cash with the rest in credit. In case of crops which come to the market all at once, processors may buy 20% on cash and 80% on credit, and the middlemen themselves procure it from their suppliers on part-credit. As the processing is completed the payments are made and passed along to the producer. This is probably possible because such transactions are usually within a network of well-known persons.

In some towns and bazars 50% of the merchants use banks to

meet their credit needs, and in others it is only 20%. Others rely on their own capital or borrow from informal sources, and there are also many petty shopkeepers who never even consider bank credit.

Interest on informal business loans is usually computed monthly. Here are a few examples. In Swarupkati (Barisal) business loans can be obtained from several goldsmiths, and interest is 7 to 8% a month; they prefer to have gold as security. In Manikganj there are still 2 Hindu goldsmiths who lend money, taking gold as security; they can lend for quick turnover at interest of Tk.2 per Tk.1000 loan per day, or else 6% per month. In several places there are other Hindu mahājans who make loans with the agreement on stamped paper, and they charge 2% to 6% interest per month depending on the risk and the client. In Barisal businessmen can usually get capital from a moneylender at the rate of 5% or one seer of paddy interest per month. In Barisal some grocery shop owners receive credit from a moneylender at the rate of 3% to 4% interest per month.

But the banks appear to have displaced moneylenders for business loans in many areas. In Manikganj the Hindu merchants who used to provide most business credit are gone. In Madhabi, Narshingdi District, 10 or 15 years ago mahājans would advance money to shopkeepers at 3 to 4% interest a month. They have now been replaced by formal institutions. In Sylhet town the mahājans have had to reduce their interest rates to compete with banks. Also, in some cases they have had to be more flexible, such as agreeing to a share of the profit of the borrower rather than to fixed interest. Merchants now often say that banks are more convenient.

The informal savings and loan groups discussed in Chapter 5 often make loans to businessmen; they charge about 10% interest to non-members and 5% to members, as their objective is to make a profit for the members. But there are not many other types of associations that make loans to businessmen. Each town or bazar has a bainik

samiti (merchant association) of member merchants. In some places such as Manikganj, this samiti used to make some funds available to members as loans, but now it merely organizes the market place, settles disputes, and provides night guards. This is a pattern prevalent in a number of towns in the study areas. The bāzār of bainik samiti continues to have an important regulatory function and is an interesting social phenomenon in its own right. However, they do not usually give credit nowadays. Nor do the associations of oil mill owners, fertilizer merchants, lumber merchants, etc. make loans anymore. Friends, relatives, and banks are the main sources of loans for shopkeepers, but many appear to have their own capital.

6.13 Banking Services

The banks facilitate business transactions by allowing overdraft on current accounts, and this is part of their normal operations. Also, if a person has a fixed deposit account he can take a loan up to 90% of the amount deposited. The fixed deposit earns 15% interest, and the banks charge 16% on the loan. The Fixed Deposit Account (FDA) and overdraft checking facilities are important conveniences for businessmen.

Another way the banks facilitate business is to allow a buyer from a distant place to cash a check written in the name of a local āratdār (agent) or other intermediary. A bank will not give a nonresident merchant immediate cash on a check he writes from the bank in his home bazar, but by using the name of a known local intermediary the visiting merchant can get cash for his transactions by writing a bank draft.

Rural banking, then, is closely tied in with the intricate network of reciprocal relations that activate transactions. And as with any business, the bankers get tied into the system of favors given and favors received. For example, cloth merchants in Rajshahi complained that they used to be allowed to write

bank overdraft checks for their bulk purchases. But since a factional dispute in which the bank Manager has been influenced by some local influential persons, none of the cloth merchants have been getting the privilege of writing overdraft checks, and they have to borrow from mahājans at higher interest rates. They would like to again have the facility of writing overdrafts.

6.14 Intermediaries in Rural Business:

The types of intermediaries who conduct most rural business transactions are as follows:

- a) Āratdar: A commissioned agent who handles goods, usually having his own establishment which can provide storage, packing, and shipping services.
- b) Bepārī: An agent who handles his own buying and selling, or he may be a commissioned agent of an āratdar.
- c) Mahājan: A person who advances personal or business loans; also, a large or small shopkeeper; an arātdār or bepārī who offers credit along with other services.
- d) Paikār ("Wholeseller"): An agent who buys and sells, usually on behalf of an āratdār on commission.
- e) Fariyā: A smaller agent who buys and sells on behalf of an āratdār or bepārī.
- f) Feriwālā: An itinerant peddler who buys and sells, usually house to house, but he may also act as an agent of a larger intermediary.
- g) Dālāl (agent): A person who goes around working as an agent of a larger intermediary, merchant, officer, or landowner; he collects payments, arranges transport of goods, arranges bribes, and attracts customers on behalf of the man who retains him as dālāl.

There is a large number of petty peddlars or feriwālās, who go

from house to house, buying and selling in cash or kind. Some of them arrange to procure paddy, jute, or winter crops at harvest time, and engage in some other trade in other seasons. Some are part-time farm laborers who do this in their off-season. Most of them have little capital and manipulate purchase and sale on part-credit. They cannot usually borrow from a bank because they have no establishment or collateral. They may capitalize their trade with loans from local mahajans with interest at 10% a month.

The above terms and functions are often overlapping. These people among themselves function in an atmosphere of reciprocity, favors given, and favors received. In some cases they also provide informal banking services.

6.15 Rice Trade:

Paddy or rice is usually collected and forwarded through the countryside as follows. Āratdārs are big merchants who control the trade and set the price. Attached to them are particular bepārīs who usually have their own nauka (boat). They travel around organizing purchase of paddy from the farmers or from lesser intermediaries, and deliver it as arranged by the āratdār. The network and the reciprocity in the system is well understood by every aratdar. Therefore, although large boats travelling the rivers filled with paddy represent a large investment, the boats are safe from a rival's attack. The bepārīs are trusted agents of the āratdārs, but it is the latter who determine the price and the profit. Āratdārs advance money to their bepārīs during sowing or transplanting seasons. The bepārīs advance money as required by the surplus farmers in return for an assurance that they can buy part of the surplus paddy. But the bepārīs determine the price as they had advanced the capital.

At both levels, repayment of the cash loan is in the form of dadān (cash loan repaid in kind) a quantity of the produce representing principal and interest, although aratdars may also

change the price according to market demand. If a bepari sells paddy through the aratdar, the latter gets a commission of Tk.2 per maund. On the other hand if large buyers come to buy it directly through the aratdār the bepari pays an additional Tk.2 per maund (sells at a discount) to the trader. This sort of arrangement is common in Ashuganj, which is a center for river shipment of paddy. At Barisal paddy traders pay dādan at the rate of one seer per month per Tk.100 borrowed, or alternatively they pay Tk.5 per month. In Barisal rice and paddy are almost always moved by boat. Bepārīs in that region normally own boats. If not, they use a boat of a mahajan or aratdar and give him 50% of the profit for transporting and selling of the commodity.

There is another category of paddy aratdārs who buy on credit and also sell on credit, but their number is small. A third category of aratdārs engages in the storage and shipping business. Their charge for storage is Tk.2 per bastā (a sack of 2 maunds 30 seers) in addition to the normal commission for marketing. Payment of agent charges through this network with paddy or rice, and procuring it on partial credit, minimizes handling of cash and banking. However, a majority of the larger agents have bank accounts.

6.16 Handloom Cloth Trade:

This business is most intense in Narshingdi District, especially in Bāburhāt, the largest cloth market in Bangladesh. Businessmen from all over the country come here to trade. There appears to be a well organized network of dealers and agents here. The Handloom Weavers' Cooperative Union in Narshingdi tried to get into cloth marketing some years ago but was unable to enter the market because of this existing network. In Jessore and Kushtia where the network is reportedly not as strong, the Weavers' Cooperative Unions have been able to take up marketing. Two kinds of aratdārs are involved in handloom production and

marketing. One kind is involved mostly in production and is based in a shop in a major cloth hat or bāzār. Such an āratdār provides loans in kind (yarn) or in cash to weavers with whom he usually has cordial relationship. Some 20 to 30% of weavers who bring their product to such a hāt are thus tied to an āratdār there. The loan carries no interest, but the āratdār makes his profit in two ways. He may give (lend) the yarn (and perhaps dye materials and loom parts) at an inflated price and also take repayment (the cloth) calculating a lower than market price. Or the value added may be split equally between the āratdār who provides the capital and inputs and the weaver who provides the labor.

Most weavers do not normally themselves come to the large markets, but the cloth is brought by a network of rural agents. 41% of handloom cloth finds its way to distant wholesale markets, 39% to local wholesale markets, and the rest to retail markets or direct customer sales (Mia, MIDAS report, pp. 92, 96, Bib. 26; also quoting BIDS). Most weavers often cannot afford to take even one day a week off from weaving to go to the market, but must sell the cloth to bepārīs or mahājans, who may be agents of āratdārs in the big markets. It should not be supposed that all weavers are tied to these intermediaries by indebtedness; only 49% of cottage weavers have ever taken loans (75% of these loans were from mahājans or intermediaries, 17% from banks, 5% from cooperatives, and 3% from friends/relatives). (Mia, MIDAS, Bib.26).

The other kind of āratdār is an agent having a warehouse in a major market, with facilities to pack and forward goods. He also provides capital for cloth purchase from the weavers, weaving factory owners, or intermediaries who bring the cloth to the hāt. He has dālāls who are his agents to go around and look at the available cloth, and buy. The dālāls need not carry cash, but they have some slips stamped with the address of the āratdār and signed by him (like a blank check). When a price

for purchase of cloth is negotiated, the dālāl writes the amount on the slip and gives it to the weaver or cloth supplier. The seller takes these slips to the respective aratdars later on and collects payment. Thus, a large proportion of the cloth trade on the bāzār streets is carried on without any cash.

There is another type of dālāl who makes a business of dealing in these slips, buying them at small discount and giving the seller of cloth immediate cash, perhaps so he can leave for home the same evening.

The aratdars who have storage and shipping facilities may procure cloth in this way for clients in distant places, and their fees may be included in the price of the cloth they forward, or they may charge separate fees for storage and shipping.

Large aratdars in the cloth trade will provide capital to their bepārīs up to Tk.25,000 for on-the-spot purchase at interest of Tk.2 per week per Tk.100 loan, but if the loan is a big amount, interest of Tk.1.50 per week, per Tk.100. The rate also varies according to their personal relationship. These loans are usually tied to other intermediary services.

These aratdars, with their system of credit slips, purchase on supply of raw materials, and wholesale on partial credit, may be said to provide some banking services. This continues in spite of the presence of bank branches probably because of the network of reciprocal relations on which the handloom trade is built.

6.17 Case Study :

A paikar from 'ilfamari far in the northwest comes to Bāburhāt in Narshingdi to buy handloom cloth to market in shops in his home town. He comes regularly, and is known in Bāburhāt. Therefore the cloth merchants give him supplies with 60% cash payment and 40% on credit until his next visit. If he does not

have enough cash at the end of negotiations about price, he states that he needs some credit, and is able to get it without any increase in the price. Therefore he does not need the services of an aratdar to provide credit, nor to buy with the system of slips used by some paikars. But he often must use the services of an aratdar to store his purchased goods and arrange transport of these goods to Nilfamari.

The main function of the Uttara Bank in Baburhat appears to be the extension of banking services to cloth traders who meet weekly. The banker thinks that 70 to 80% of outside agents who come to buy cloth come with bank drafts. The bank allows them to cash the drafts on the spot, even for up to Tk.10,000 on one day's notice. He estimates that 40% of the beparis in the hat conduct business of more than 1 lakh on hat day. If a bepari has no account in the bank in the hat he can issue a check in the name of his aratdar and receive immediate cash.

Table 18

CURRENT LOANS

(formal and non-formal sectors)

Household socio-econ. category	N	^{Savings} Bank accounts (from Table 13)		Current loans (all types)		
		No.	Average amount.	No.	No per 100 households $\frac{4}{1} \times 100$	Taka per loa
	1	2	3	4		
1	50	42	13,599	28	56	18,054
2	13	30	6,118	17	40	11,329
3	74	24	5,754	41	55	4,541
4	76	28	1,096	49	64	4,924
5	57	9	223	39	66	2,129
	300	133	6,848	174	58	6,946

150 households have current loans, = 50% of households.

174 loans, = 58 loans per 100 households, = 7.7 loans per 100 persons or $\frac{174}{300} = 7.5$

<u>Source of loans</u> :	Bank loans	93 = 54%
	Cooperative loans	3 = 1%
	Other loans (including some NGO loans)	78 = 45%
		<u>174</u> <u>100%</u>

Table 19

USES OF LOANS.

(formal and non-formal)

<u>Use</u>	<u>1st use</u> <u>1</u>	<u>2nd use</u> <u>2</u>	<u>combined %</u> <u>1+2</u> <u>1+2</u>	<u>actual use of</u> <u>RFEP loans.</u>
Agriculture	61	7	34.3%	24.5%
Business	56	7	31.8	23.6
Animals (cow/ox purchase etc.)	20	1	10.6	32.2
Land (purchase, release)	7	2	4.5	
Cottage industries	3	3	3.0	4.5
Transport (bus, ricksha, cart)	2	1	1.5	5.3
Personal uses:	<u>25</u>	<u>3</u>	<u>14.1</u>	<u>9.8</u>
House building/repair	9	174	24	100%
Dowry/marriage	5			
Going abroad	4			
Family food	2			
Sewing	2			
Eribe	1			
Festival	1			
Medicine	1			
Funeral	1			
Other	3			

Maloney and Sharfuddin, 1982, p. 35.

Table 20

NEED FOR CREDIT.

Next need for capital

<u>Purpose</u>		<u>How need for capital is expected to be met</u>	
<u>Agriculture:</u>		<u>Agricultural credit need from:</u>	
Rice	157	Crop sale	171
Jute	46	Trade	17
wheat	10	Salary	10
kabi crop	8	Jute sale	8
Vegetables	3	Cattle sale	8
	<u>224</u>	Daily labour	<u>1</u>
	76	Loan	<u>215</u>
	300		<u>9</u>
			224
<u>Business/trade/industry:</u>		<u>Business/trade/industrial credit needs from:</u>	
Business	75	Business	45
Purchase recksna	1	Savings	11
	<u>76</u>	Agriculture	5
		Sale of goods	4
		Salary	<u>2</u>
			67
		Loan	<u>9</u>
			76

Expected source of next credit

<u>Socio-econ. category</u>	<u>Purpose</u>		<u>Proposed source</u>		
	<u>Agri.</u>	<u>Bus.</u>	<u>Bank.</u>	<u>Other org.</u>	<u>Moneylender</u>
1. High	1				1
2. Mid-high		2	1		1
3. Middle	4	1	1		4
4. Mid-low	4	6	5	3	2
5. Low					
	<u>9</u>	<u>9</u>	<u>7</u>	<u>3</u>	<u>3</u>
Need credit:	18		18		

7. DISBURSEMENT AND RECOVERY OF INSTITUTIONAL LOANS - SOME PROBLEMS

7.1 The High Cost of Borrowing - Bribery and Gifts:

Based on their experience from numerous discussions with rural people all over Bangladesh the Investigators observe that a particular opinion is universally expressed regarding formal credit - "no bribe, no loan." The bribe is uniformly stated to be 10% of the loan amount. However, this opinion is not fully correct, as the study has shown. It is a statement of general cultural acceptance that pay-off may extend to 10%. It is similar in this respect to the statements found during the RFEP study (Sociological Report, p.59, Bib.25), that interest on informal loans is 10% a month, whereas in reality such interest on the average is less. But the actual rate of payoff for bank loans is probably less important than the attitude about it. As a social observer remarked, such pay-off "is the life-blood of the country". The Investigators observe that Bangladesh society operates largely on a complex network of reciprocal favors and obligations, and the same moral judgements that one might apply in western countries are not as appropriate here.

The actual rate of bribery is probably between 3 and 10% of the loan amount. Not all borrowers pay bribes. Influential men do not unless they want a reciprocal favor. School teachers do not if they command respect. And in many branches officials are observed to be sincere. Also, businessmen or farmers whose papers are in order are able to get loans without bribes. The Authors assess that 60 to 70% of those who take bank loans pay bribes or make substantial gifts.

In Manikganj if a bribe is to be paid, for a substantial security loan, the minimum rate is 3%, plus a tip for the Investigator, and a fee for the application form (may be legal). But for crop loans the rate is often 10%. Our researcher in Chauddagram reported that in her area payment for a BKB crop

loan is usually 10%, to be paid through a dālāl (agent) in advance, and in addition the application forms cost 30 to 50 taka. In the case of Sonali payment is at the same rate, but the money is deducted at the time of disbursement. It is the observation of the Investigators that those who pay this money have a higher tendency to default. In a few cases, there is demand for as much as 20% bribe. The findings of the study from Sauria, Kathalia, Sylhet, Pabna, Manda, and other places we visited confirm this. The following are the methods of payment:

- 7.1.1 For the application form: The banks give application forms free for small loans but have policies to sell forms for certain categories of loans. The amounts are not posted and are often not known to the borrowers. Usually the forms are not sold directly in the bank, but by an agent outside. The bank personnel sometimes say the forms are "not available". Following this experience several times, some of the NGOs (MCC, CRWRC) printed application forms themselves.
- 7.1.2 In advance: When a prospective borrower visits the bank and finds out it may be difficult to get a loan, on the way out he may be accosted by a dālāl who offers to get the form, help fill it out and get all the signatures and documents, and get the loan sanctioned. In return he demands an advance payment of 10% or so. The dālāl is said to be agent of the bank officials and he shares his profit with them. Most bank officials prefer that the payments be handled by such agents so that risk of proof of bribery is minimized. An alternative reported to us is that after an application is made the bank will send an Inspector to see the proposed project, who may demand a substantial portion of the loan amount in advance.
- 7.1.3 Waiting for sanction: Delay, of course, goes hand in hand with pay-off. To avoid this, some banks have a pol-

icy that loan applications should be processed within a specified time, say 7 days. But it is reported by the researcher in Manda that when an applicant fills in the form he is told to sign it and leave the date blank. The application is not processed until the customer makes a payment. Only then is the date filled in and he gets his loan. For business loans, the delay is often said to be a matter of "procedure," and to move things along the borrower will offer "tea and pān" (betel leaves) to the concerned bank staff, which may mean 1 or 2% of the loan or a small gift.

- 7.1.4 During disbursement: It is reported by some respondents that bank tellers sometimes disburse the loan minus 5 or 10%, which it is assumed they do on instructions from the bank officers. However, this method is not very common.
- 7.1.5 Immediately after disbursement: If the borrower gets his loan following some agreement that he will have to pay, the dālāl will be waiting for him outside after he gets the loan, and he will have to pay an agreed amount. This is common.
- 7.1.6 As sālāmi (in kind): The bank official or his agent may be given "tea and pān" or rather, a big fish, a carton or cigarettes, sārīs for the wife, clothes, or boxes of sweets.
- 7.1.7 To recommending authorities: It was found during the RFEP study that most poor loan applicants had to pay 5 or 10 taka to the UP Chairman or Member to sign the application form. This is a relatively harmless reciprocity, but several such payments significantly increase the cost of borrowing for poor people. Influential people do not pay the Chairman to sign their loan applications, for they are in a position to reciprocate politically or in other ways. Currently there are many different loan programs under which the banks require the signatures of specia-

lists or authorities, such as the relevant upazila officers for loans for agriculture, fisheries, forests, and the like. All these may give rise to pay-off potential. The system of Union Credit Committees which is supposed to draw up the list of persons eligible to receive crop loans is similarly placed. It seems that direct bribery is not so common in making up these lists, because the elected officials are more interested in building up a following by doing favors for people than in short-term gain. However, the process does exclude some people from the lists because of factionalism. Cases of pay-off at that point were reported also. But it is the banks which actually sanction the loans.

- 7.1.8 Influential local people do not make such payments unless they are seeking an unusual favor. They also do not make payments to the UP Chairman, because the Chairman needs their favor in developing a political following. In fact, it is said that in some cases when an influential man wants a loan the bank official will arrange all the papers and bring the money directly to his house. There appears to be great variation of formalities in loan disbursement according to bank branch, type of borrower, type of loan, and character of bank officials.
- 7.1.9 The Investigators would like to emphasize that often the borrower himself takes the initiative to offer a bribe. This may be true in as many as half the cases, because the borrowers do not have clear security, or know that the banker is aware of diversion of the loan. Many borrowers for example, do not have clear title to land. If one has insufficient land, or encumbered land, and is influential enough, he can get the Chairman to "verify" that he has land, and not present either the deed or

the revenue receipt. This is a common reason for such payment. It is reported to the Authors that those who cultivate by barga (sharecropping) virtually always have to get a crop loan by paying 10% bribe, because they have no land to put up as mortgage. An upazila Agricultural Officer said bargādārs (sharecroppers) usually have to pay 20% of the loan, because they can put up no security. Perhaps half the "bribes" are initiated by the borrowers under such circumstances, and everybody is satisfied all around. Because of this mutual advantage, and also because of the care taken to see that gus (bribe) is usually paid by dālāls and proof is difficult, there seem to be few cases of public protest against these pay-offs. An unsuccessful such attempt is given below in the Case Studies (7.2).

7.1.10 Bank officials have their own viewpoint on this subject. In several study areas it was found that BKB has a reputation for requiring more bribes than other banks. But BKB Branch and Regional Managers respond to this by saying that BKB advances more loans to people recommended by the Union Credit Committees or by various upazila officers, where pay-off might occur, and they say that these officials take bribes in the name of the bank. Probably more important, BKB makes more loans to borrowers with marginal security or no security, and such people more often have to pay bribes. Yet BKB affirms that its loans are the best supervised, and indeed the repayment rate is apparently better than in some other banks.

Bankers in frank discussions will admit that in this society such payments are often expected. They also sometimes say that they cannot live on their salaries. For example a BKB Regional Manager said he earns Tk.2030 a month all included, and cannot afford to send his wife through university on that. Bankers also say that they

are educated people sent to work in remote rural places with no infrastructure, no good schools for the children, and no employment opportunities for family members. They feel that they should be better compensated for all these hardships, and at least earn something during this period until they get posted to a better location. It is also true that the policy of frequent transfer of bank officers makes it easy for all parties to quickly forget the bribe. But at the same time it is probably difficult to say that bribery would be less if bankers were posted permanently.

7.1.11 Bribery appears to affect the entire loan process. A branch manager is under pressure to show that overdues are not too great, as otherwise he might not get posted to a better place or be promoted. If borrowers who bribed are slow in repaying he might call them in and prepare papers for another loan so that the records show a satisfactory level of repayment (see also Chapter 8 on loan repayment)

7.2 Case studies:

7.2.1 The manager of Sonali Bank at Ashuganj had developed a reputation for requiring excessive pay-off. People had made complaints to the District Commissioner and to the military authorities, but action had not been taken. Finally the Bazar Committee convened a meeting and summoned the bank manager. Two complainants, a farmer and an upazila official, presented their cases. However, the Bazar Committee could not prove anything; there was no evidence of direct pay-off, and the bank manager showed that his cashier had made the loan disbursement in full. He said, "If anybody can prove anything, I will resign today. Here is the key." Nothing was proved, and the Bazar Committee had to pass a resolution clearing him.

The bank manager still retains a copy of that resolution for his safety.

7.2.2 In Saturia Upazila a high school teacher observed that all his poor neighbors had to pay 5 to 10% bribe to get bank loans. Thereafter he started helping them get loans without extra payments, and so far has helped about 30 borrowers. They are now able to get crop loans even if their names are not on the list supposed to be made by the Union Credit Committee. The teacher has enhanced his own local reputation in this way, and he is also becoming respected as a man of moderate substance himself because of his profit from raising cows and on "stock" business in mustard seed and black gram. He helps the borrowers to obtain application forms free, helps them apply, and accompanies them to the bank to recommend them, so none have had to pay bribe.

7.2.3 A merchant having a cloth shop in Brahmanbaria has a Pubali bank across the street from his shop. It is his experience that whenever he needs a loan he has to pay a "lump sum". He does not consider that a problem, but the order of the day and he does not have any bad feeling against the bank across the street. He said, "Even if the banks are all computerized nobody can stop bribery. Any time somebody may give a large fish to a banker."

7.2.4 A Branch Manager in Saturia admitted that he takes payment; the usual amount for a crop loan seems to be Tk.50. But still, he tries to do his job sincerely and does not give loans to all applicants. This causes a problem because people refused loans may take revenge and spread rumors that he demands large bribes. "A few days ago I was robbed of my watch and other things, and the person who robbed me was a man to whom I refused a loan."

7.2.5 A farmer outside Manikganj applied for a BKB loan to set up

a rice mill. He needed Tk.35,000. He had to pay Tk.300 for the application form. When the Inspector visited he had to pay the Inspector Tk.3000 cash advance. He got his loan, and the rice mill is profitable. But he complains that BKB requires more "gus" (bribe) than other banks.

- 7.2.6 A farmer in Kathalia, Jhalakati, applied for a loan of Tk6000 from BKB for stock business, mainly for buying betel nut in harvest season. He owns 10 bighas (.33 acre=1 bigha) of land, has oxen and plow, and has a grocery shop run by his son. He wanted the loan for 6 months only. After he submitted his application form he was approached by a man known to be a dālāl of the bank who demanded that he pay Tk.2000 to get the loan of Tk.6000. The farmer disagreed, saying the amount was just too high. Finally, he gave a bribe of Tk.500 and got a loan of Tk.2500.
- 7.2.7 A subsistence farmer in Kathalia, Jhalakati has little land and 7 family members. He lost his crop in the flood of 1984. He applied to BKB for a crop loan, asking for Tk. 3000. A week after he had submitted the application a bank agent approached him and said, "If you want a loan you will have to pay Tk.300." The farmer replied, "I don't have that much; if I had it why would I be applying for a loan?" On hearing this, the agent replied, "You will not get it unless you pay this. Since you said you won't pay, don't hope for the loan." After that the farmer met one of the bankers there, who made many difficult enquiries which he could not answer, and was told he was ineligible to get a loan. Then the farmer took a loan from a surplus farmer in Kathalia Upazila, to be repaid in dādan (kind) at the rate of 20 kati (seers) paddy for Tk.100 loan (roughly 50% per annum interest). The farmer now realizes that he made a mistake and promised us not to disagree with the bankers again, as only a fool does this and he ultimately pays more.

7.2.8 A man living near Pabna who won 25 bighas of land has a pond which he wanted to re-excavate for fish-farming purposes. He applied for a BKB loan of Tk.10,000 in August, 1984. He did not use any agent as his neighbors had done, but made many trips to the bank. After 6 months a new Manager was appointed, who told him his application and papers had been "lost." The man became annoyed at this and went home. A few days later an agent approached him and asked him to pay 10% of the loan. He refused, so did not get the loan, and is unable to have a fish-farm.

7.3 Politically Motivated Loan Disbursement:

7.3.1 Quotas: The setting of quotas for disbursement of loans may be justifiable in terms of stimulation of the economy, but the fact that such quotas pertain especially to crop loans and cooperative loans suggests that there is also a political motive behind them. Bankers in Sylhet, Manikganj, and elsewhere have told the Investigators that their staff is so busy dealing with loans that they have little time for work on collection and savings. Some of them are able to meet only half their quotas on loan disbursement, and often even less on collection and savings.

NGOs working with cooperatives state that the IRDP/RDB cooperatives have been formed too fast and loans disbursed against overly ambitious quotas. In many cases a cooperative is formed just to get the loan, and then ceases to function. The Field Assistant is supposed to make up the list of eligible borrowers, based on market and harvest observations, but often he is unable to meet his quota. In Sylhet, the BKB and Sonali Regional offices received orders to disburse more loans after the 1984 floods. This was politically motivated because

the orders were preceded by the announcement of interest forgiveness. The particular crop loan whose period of disbursement was extended was the ITAP (Intensive Transplanted Aman Program) loan. The orders to disburse came on media, and the banks were to disburse to any names on the lists made by the Union Agricultural Credit Committees (UACC). The bankers were compelled to do so even though they knew that there were fictitious names on the lists. The statutory limits of the banks for borrowing were automatically raised so they could make these sudden loans. The bankers expect to have trouble during the recovery period since borrowers quite reasonably look upon these loans as gifts from the government.

The issue of loan quotas is discussed below in the context of default.

- 7.3.2 Handloom weavers' loans: On 27 December, 1982, a circular was issued from Bangladesh Bank authorizing a program of credit to handloom weavers. Pressure to launch this loan program came from the government through the Ministry of Textiles, and virtually over the head of the Bangladesh Handloom Board. The Handloom Board had little role in its formulation and was not prepared to back up the credit to weavers with technical marketing, or raw material assistance. To date 100 crore taka has been disbursed under this scheme. It is feared that a large proportion of it may never be recovered.

The weavers were surveyed, (mostly by the Department of Textiles) and given passbooks stating the number and type of the looms, and on presentation of these passbooks the weavers were to receive loans from Janata, Agrani, Sonali, and Krishi Banks. Loans ranged from Tk.3500 to Tk.9000 per loom, to cover 4 weeks' working capital and a weaver may take loans for as many looms as he had. "In case a borrower has overdues with any bank including the present financing bank, fresh loan may be considered if there is satisfactory arrangement for repayment of the arrear dues." Interest

of 13% was to be paid periodically, but principal did not have to be repaid until 3 to 5 years. Security was mainly hypothecation of looms. The pass book itself "may be considered as the basis for appraisal of the loan required by the individual handloom weavers."

There are about 437015 looms in the country and about 847000 weavers (Figures derived from statistical yearbook, 1984-85 p.379, 381) plus family members. Therefore, this loan program has a potentially wide dispersal. It was originally calculated that 130 crore taka would be disbursed under it, and recent calculation is for far more than that. Justification for the loan was a Task Force Report that cited statements of the weavers that their first need was "credit" (money). The credit system bypassed both the cooperatives and the Handloom Board, which might have provided some technical back-up.

It is felt that the loans may not be repaid well for the following reasons:

- 1) Many passbooks were issued by the Department of Textiles personnel to people not having looms, or showing more looms than they owned. A survey by the Bangladesh Handloom Board, showed that 10 to 20% of passbooks were false, and in the northern upazilas of Comilla District as many as 50%.
- 2) There is no monitoring system, or central accounting of the borrowers, loans, and their repayment.
- 3) There is no system of technical back-up, raw material supply, marketing, or supervision, and the banks are unable to do these. The credit system was imposed before the Handloom Board was prepared to offer these services.
- 4) Repayment is not due for 3 to 5 years, but the loan is to cover only 4 weeks' raw materials.
- 5) The banks did not, and mostly could not, conduct their individual appraisals of these borrowers.

- 6) There is no security except the hypothecated looms, but the bankers feel that these are hardly saleable, and certainly not for the amounts borrowed.
- 7) The weavers sense that the whole program has an element of a political favor and therefore there will be no serious consequence if they do not repay.

In early 1985 loan disbursement was stopped, mainly because of reports of false passbooks. The Bangladesh Handloom Board was given the task of re-survey of the weavers, after which it is intended that the loan program will resume and disbursements may reach Tk.200 crores or more.

It is felt that the program is not having the desired effect of increased productivity in the handloom sector. Rather, it is further damaging the discipline of rural credit in the country.

7.3.3 Mātir Dāk: A credit program called mātir dāk (call of the earth) was instituted in the districts of northwest Bangladesh under the orders of the military regime, and particularly by influential high army officers based in that part of Bangladesh. The credit was for agriculture, and the stated aim was to spectacularly boost agricultural production there. The loan arrangement was instituted by agreement with the Department of Agriculture and all the commercial banks there. The program began in 1982. There was indeed some increase in productivity. How much is attributable to the loan program is not known.

However, repayment of the crop loans were poor, principally because people sensed that one objective of the program was to build up support for the regime. The authorities then issued dire threats that if repayment was not made by a certain date, consequences would be severe. There was a subsequent rush at the banks to repay. It is reported that in Rajshahi

District repayment was only 40%. A story is narrated that an army officer called the borrowers in a place, ordered them to stand up, turn around, and proceed to the garrison, where they were compelled to stay until the loans were repaid. Local leaders then told the officers that this method had nothing to do with development and it is better not to collect the loans at all than to use force in this manner. The details can not be confirmed, but it is clear the borrowers know that the loans were not motivated purely by consideration of their economic welfare. Repayment ranged from 40% to 70%, as far as could be determined by the Investigators. After these efforts the authorities have in fact forgiven the rest of the loans.

7.3.4 Grihasta sri: A program called grihasta sri (roughly, beautified household) was instituted in all the districts of north-west Bangladesh, mostly following the matir dak program. It is available only to the dependents of army personnel. Field offices were set up (about 13 in Rajshahi District) following the requests of the Deputy Commissioners through the UP Chairman to provide some office space. Some are in brick/tile buildings, and some in thatched ones, but they are open only a few days a month, and there is no permanent staff.

There are 3 aspects of this program:

- 1) A wife, son or daughter, or other dependent of any military person can take a "loan" of Tk.500 to 2000, at 12% interest, for up to 2 years.
- 2) Women are encouraged to sweep and clean their house and beautify them (hence the name), for which they get paid Tk.200 or so a year, but there is no check on it.
- 3) Women's meetings are convened for discussing health, nutrition, etc., at which some army officer speaks, and the women get some per diem or travel fund for attending these meetings. The banks, principally Janata and Pubali

have to advance the loans under this program.

It is thought by local people that this program was instituted in the northwest because of the influential officers there. The northwest is relatively poorer and in some ways neglected, and because the people are more likely to extend support to the present regime, the program was probably launched there. This is the local attitude towards the program.

It is understood that repayment on the "loans" so far is zero.

- 7.3.5 Local political influence: National political parties have their roots in rural areas, and their strength is judged by the intensity of mass rural support. Consequently, the successive stages of political transformation have some effect on loan disbursement and recovery.

It is said that bankers are continuously receiving phone calls and visits by local and regional politicians and officers, urging that somebody be given a loan for a truck or a cold storage, or a new loan to cover an overdue one. This is usually linked with the whole power structure of the rural areas, and the bankers get involved in it almost imperceptibly.

At the Union or Upazila level leaders are known to rally political support by upward and downward linkages. For example, in Ghior Upazila the President of the Upazila Swanirbhar Committee names the applicants who should get loans; he was formerly a member of BNP, but now has switched over to Janadal. In Saturia Upazila centre it is said that a man rallying support persuaded a number of poor people he could get them bank loans, and he helped them apply to Krishi Bank. When he got the money he gave each applicant part of the loan money as a gift and kept the rest, reportedly

telling them that he had the influence to get the loans written off. Local would-be influentials tell people their bank loans are from American or Saudi Arabian money and they shouldn't have to repay them. In the BRDB cooperative system, the UCC's Managing Committee members or the primary cooperative chairman may default; an official of a Rural Development Training Institute himself estimated that in the areas he was familiar with (Sirajganj and Sylhet) 60% of such cooperative leaders default on their loans. This is profitable to these leaders not only economically but also politically because they lead the others into default.

It is felt that the only way to change the system is by a change in values, generated by constant and repeated supervision, rigorous training of staff, and enthusiastic honesty throughout the banking system.

7.4 Pronouncements of Forgiveness:

In Bangladesh there is a history of politically motivated pronouncements about loan or interest forgiveness. The Authors were unable to compile a history of such pronouncements from any official sources, but from the field research it may be deduced that such pronouncements have affected loan repayment and the whole attitude toward bank lending and recovery discipline.

In the Pakistan period there were announcements by the government of forgiveness of interest on certain loans, including cooperative loans.

The Mujib regime, just after independence in 1972, made an announcement that interest on all agricultural loans disbursed during the Pakistan period, especially between 1969 and 1970, would be forgiven. The borrowers relaxed their payments altogether, thinking that there could be no dire

consequences, and in any case the country was engaged primarily in reconstruction. All those loans have now become bad loans, according to a BRDB Project Manager and a Rupali Bank Branch Manager.

In President Zia's time some loans were disbursed through cooperatives on the suggestion of politicians. Recovery of these loans was never vigorously pursued. An MP from Borura, Comilla was one of the initiators, and virtually none of the borrowers have cared to repay.

Local politicians often spread rumors that loans are disbursed with foreign aid money, and since the foreign countries donate the money or charge very little interest for it, there is no need for the rural people to repay. This was rumored in the Comilla area concerning weavers' loans, and Saudi Arabia was said to be the source. It was rumored by politicians in the Manikganj and Barisal areas that agricultural loans were advanced with aid money from the United States. The funds were said to have been donated to the poor people of the country, but the banks were making a profit on it.

The President announced remission of interest on certain crop loans after the floods of 1984. A lot of uncertainty and mis-information about this were found in different parts of the country. The announcement was supposed to be only for the flood-affected areas, but a large number of upazilas on the flood-affected list had flooding only a little more than usual, with little crop damage, and in the southwest of the country the crops following flooding were better than usual. Many people say they had heard there was such an announcement on the radio, but they were unable to give details. Some thought it pertained to all crop loans. A teacher said he had heard on the radio that interest forgiveness was for one year. Another man present at the time said, "No, I heard it was for 6 months." An educated man present said that it was for two years. Some people say they had inquired at their banks, but

were told the banks did not get clear circulars.

The Authors' investigations at several banks did not clarify the question. A BKB Regional Manager said the President's announcement pertained to all crop loans, which are to be rescheduled and to be paid within one year of due date with interest remitted. But a Rupali Branch Manager said the interest forgiveness was only for 1983-84 HYV rice, not for any other crop, and that for other crops the service charge would be reduced from 4% to 2%, if the loan was repaid on time. His latest information was that there was no remission of interest, but extra time would be given to repay crop loans, up to the time of the next HYV harvest. Another BKB Regional Office Manager said repayment time was not postponed, but interest forgiveness pertained to the loans outstanding at flood time, and in flood affected areas. The bankers apparently did not get clear circulars on these points and were not sure which were the flood-affected areas or flood affected crops.

In April, 1985, there was a Presidential announcement that no man would lose his house for non-repayment of loans. In fact, this is a safe promise because up to now virtually no man has lost his residence for default on agricultural loans. However, such announcements contribute to the popular feeling that the Government can over-rule the bank procedures and can support the poor man against the banks.

The effect of these announcements has been felt, for instance, by CARE, which has an arrangement with the banks and BADC for maximization of irrigation under deep tubewells. Timely repayment of loans declined from about 90% to 64% in 1984-85, not only because of floods, but also because of "the government's policy to suspend loan repayment and exempt payment of interest." (NGO Report, p.14, Bib.24). A Rupali Bank Manager said that people remember the previous occasions of loan or

interest forgiveness and think they can get by without paying at all. A BKB Regional Manager said of the announcements of forgiveness of interest, that "people think their loan is a gift." The Assistant Project Officer in Chauddagam, Comilla, said "repayment is poor because people expect forgiveness "

The Investigators feel that this is a serious matter affecting the whole structure of rural credit.^{1/}

5 Union Credit Committees:

7.5.1 Procedure: To conduct an evaluation of this system of committees would require a separate research project. However, some observations of the system drawn from the 6 study locations and elsewhere are noted below:

These committees only function in connection with crop loans, and their sole activity is drawing up lists of eligible borrowers. It is the responsibility of banks to sanction loans.

The system was set up in 1977 as part of the functioning of the Special (100 Crore) Agricultural Credit Program. Each Union establishes a committee of 6 members: Union Parishad Chairman (chairman of the committee), bank branch manager (secretary), 2 BADC Block Supervisors, and 2 Union Parishad Members. Borrowers are supposed to apply on forms available from the bank. The committee draws up a list of eligible borrowers, (excluding defaulters), based on the funds allocated to that Union. The Committee transmits the list to the bank, which is supposed to conduct its own sanctioning procedure.

^{1/} A research paper on "Rural Credit Forgiveness Programs - 1984 and 1985" was prepared by R. Rashid for USAID (January 1986).

The District Director of Agriculture is supposed to make projections of loan requirements based on estimates of different crops and their productivity. These estimates are sent to the District Credit Committee, which includes representation from the Lead Bank of the District. Based on this and the availability of funds, the District Credit Committee allocates funds to the Upazila Credit Committees. These committees in turn channel funds to the Union Credit Committees, against which the lists are drawn up. This system was discussed with some 45 borrowers and non-borrowers. Uncertainty about procedure and differences of operation, were apparent from some of the responses. These are described in the following section.

7.5.2 Opinions of its functioning: Who actually makes up the list of eligible borrowers? In some cases it is said to be the BADC Block Officer. In others it is said to be the bank. But in cases where the committee is really functioning, control seems to rest with the UP Chairman, and the whole process tends to enhance his political authority.

It is not possible for the bank Manager to be familiar with all the potential borrowers. For example, in Chaudagram the Bank Manager sits on the credit committees for 7 Unions, encompassing 201 villages. It is the UP Chairman and the 2 UP Members on the Credit Committee who are more likely to know the applicants.

a) The farmers interviewed on this matter say the procedure makes getting loans more complicated. The majority of them also report that in order to get their names on the list they have to satisfy the Credit Committee members either by providing support during elections or by a gift in cash or in kind. Borrowing costs are often even higher than before because they

now have to pay off the Credit Committee members in addition to the bank officials as was the case previously. However, about a third of the farmers expressed satisfaction about the working of the Credit Committee. But it was also observed that most of these borrowers were related to or connected with the UP Chairman or Members in some way.

Opinions among borrowers not related in any manner to the UP Chairman or Members are also known to vary. Some respondents have complained that genuinely needy borrowers are often excluded from the list, while others say that the list is often a "fair" one.

- b) The bank Managers interviewed on this matter mostly said that the system causes delay in loan disbursement, or that the Credit Committee is not working at all. In one case the Bank Manager said the committee had submitted a list only once. In several bank branches the Managers said that they dispense crop loans even to people whose names are not on the list, and this was confirmed by two Regional Managers.

It is the opinion of bank branch Managers that in a good number of cases the Committee recommends loans to fictitious borrowers and virtually all the lists drawn up overlook some potential borrowers because they belong to the wrong faction or did not support the Union officials during elections. Sometimes at the end of the financial year the banks take the initiative to draw up lists of potential borrowers and submit them to the Committee. This may cause conflict within the Committee, either because the bank nominees are not accepted, or because the bank lends to persons not on the list. All the bank Managers interviewed believe that the Committees cannot function properly unless they take some responsibility for recovery of the loans as well.

However, some bank Managers express overall appreciation of the role of the Committees because they eliminate a lot of work the bank might otherwise have to do. Indeed, one of the main objectives of the system is to reduce the banks' lending cost for the many small short-term loans. Two Regional Managers expressed the view that the system of Union Credit Committee should continue because otherwise the banks would be unable to handle the load, and they were optimistic that the system would improve over time.

c) It is the observation of the Investigators that this system dilutes the authority of credit analysis which in theory should rest entirely with the bank Manager. The current system tends to throw the whole area of agricultural credit into the political arena. The poor have little access to the elite on this matter, and are used by them for their political games. Loans are often given to kinsmen and faction members as the interviews have shown. Repayment is affected because in such cases the borrower also depends on his patron to avoid trouble for not repaying the loan. Moreover, since national political parties compete for control at the upazila and Union level, the whole matter of agricultural credit is grist for the mill of national politics.

Poor rural people often have to approach a UP Chairman or other officials to get a loan. The rural elite are often happy to provide this service, sometimes without charge, for enhancing their power. This would continue even if the Credit Committees were abolished. In fact a recent government decision has been the gradual phasing out of the Agricultural Credit Committees.

The lending costs to the banks of providing agricultural credit would probably increase at the initial stage. However, if loans are disbursed after a proper check of

borrower credit worthiness by the bankers, an improvement in loan recovery is ultimately expected. The trade off may prove beneficial to the banking industry in the long run.

However, the Investigators feel that the main reform needed is not the abolishment of the committees but the task of compelling such Committees to take some responsibility for recovery also. This may be done by:

- 1) Instructing the Union officials to order defaulters to repay.
- 2) There could be disincentives to the Unions with high default, such as halting the flow of funds.
- 3) There could be incentives to Unions with high repayment, such as opening of new bank branches or Government undertaking of public works and infrastructure.
- 4) There could be an experiment to give the recommending officials a small commission, such as 1% of the interest on repaid loans, which would be justified because their work reduced bank expense in conducting its business.

7.5.3 Other recommending officials: In different loan programs officials are involved in recommending applicants for loans: upazila officers for fisheries, horticulture, agriculture, forestry; also officials in BADC and REB, and sometimes BSCIC and the Handloom Board, for example. In all these cases there are 2 potential problems: perhaps an increase in borrowing costs for the borrower, and the fact that recommending officers at present do not take any responsibility in loan recovery. If the banks do not have the expertise to appraise these loans, then in principle they should operate commercially and pay a little for this expertise and see that there is some

accountability in the system of loanee selection. This may not be feasible all at once, but it is felt that such a step would result in improved repayment.

8. REPAYMENT AND DEFAULT

8.1 Overdues and Default:

There does not appear to be uniformity in the recording methods used by the various financial institutions serving the study population. The study has therefore been unable to produce any composite data on loan recoveries and default. However, there is a long tradition of repayment delay and borrower default in Bangladesh. Unrepaid cooperative loans are among the worst of the cases. The monthly statement (September 1985) for BSBL (Bangladesh Samabaya Bank Ltd.) shows an average loan recovery rate for the whole of Bangladesh of about 5% only. The SACP (Special Agricultural Credit Program) begun as the 100 crore program recorded in 1980 that of the total amount of loans disbursed between 1977 and 1979, 51% were overdue. Furthermore, the program had largely failed to reach the target group (Bangladesh Bank, 1980; Rashid P.12, Bib.32). In spite of serious efforts for reform by the authorities concerned, non-repayment of loans remains a serious problem. Two of the recently partially privatized financial institutions (Uttara and Pubali) have formally withdrawn from the agricultural sector. The disappointing performance of the two cooperative credit systems has been described in Chapter 5.

The RFEP presented a wide range of loan recovery performance, (IRDP 95.6%, Agrani 94.2%, Krishi 89.6%, Sonali 79.2%, Samabay 63.6%; Terminal Evaluation Report, pp.27, Bib.29). It was stated in the conclusion that the most important factor in loan recovery is the establishment of confidence based client-customer relationship that gives the borrower assurance that credit will be available in future. Recovery potential appears to be in the hands of the bank personnel to a great extent. This was suggested by the very wide differences in recovery performance among branches of the same financial institution. Recovery of RFEP loans 6 months past due date ranged among branches of Janata from 100% to 88%, IRDP 100% to 74%, Samabaya 91% to 55%,

Uttara 86% to 66%, etc. (Institutional Survey p.128, Bib.28). There was an even greater range among the banks in the duration of overdues, suggesting that some bank managers pursue their clients more vigorously than others.

NGOs experience relatively good repayment; our report on them (Bib.24) shows that on-time repayment for most NGOs ranged from 85 to 95%, with a few nearing 100%. But with all their facilities for building infrastructure, giving training, inculcating financial discipline, and motivation, many of the larger ones are not able to achieve repayment rates of better than 90% on time. In fact, three of the NGOs experienced substantial decline in repayment rates within the last year or two (BRAC, CARE, and Swanirbhar).

The reasons for loan non-repayment based on the field research of the Investigators is given below:

8.2 Reasons for Non-Repayment:

- 8.2.1 Insufficient discipline and supervision: The Authors feel that the fundamental reason for poor loan recovery is a traditional and cultural lack of financial discipline regarding institutional borrowing. This attitude prevails all over Bangladesh. From an anthropological point of view, childhood training, the softness of social infrastructure, difficulties of subsistence, and personal life experience cause people to have less confidence in institutions than in their network of personal relations. They are therefore often not conscientiously committed to abstractions such as a cooperative, a bureaucracy, or a financial institution. Rather, they are more consciously committed to groups within which they establish personal and fictive kin relationships. This probably accounts for the financial success of the spontaneous groups described in Chapter 5, and to some extent for the success of the small credit groups of the poor formed by the NGOs. Beyond

this, it is the Investigators' observation, Bangladesh society is a society mostly of individuals who are trained to look out for themselves all their life.

It is felt that the only way to establish financial discipline concerning loans is by extensive supervision, training of staff, honesty at the top, and inculcation of enthusiasm and sincerity. There does not appear to be a quick way to resolve the issue.

All the NGOs with successful credit programs organize a constant process of training of staff, supervision at different levels, and inculcation of sincerity. Most of them also require potential borrowers to fulfil numerous conditions indicating capability of discipline before getting a loan, such as meeting regularly, saving, learning to read, etc. Grameen Bank has 16 such requirements to be fulfilled before a potential borrower requires a loan. Grameen, Swanirbhar, BRAC, and others insist on employee loyalty and commitment to founding ideals. "Such intensive training helps build a dedicated cadre of bank employees who are really the key to the success of the Grameen Bank. They have not yet been corrupted by the influence of other bank employees who generally take a 10 per cent cut on the amount of loan issued as their illegal "service charge" (M.Hossain, p.89, Bib.20). The banking institutions have their training centres and programs. Despite these facilities, these bureaucracies are apparently unable to affect real internalized changes of values.

When financial discipline is insufficient, a momentum of non-repayment may build up. Everyone sees that his neighbor does not repay, and nothing happens, so why should he? This was identified in certain localities of RFEP credit (Maloney and Sharfuddin, pp.45-50, Bib-25) and it has happened to many specific credit programs in Bangladesh. The Investigators feel that only discipline and supervision can prevent such a momentum of non-repayment from building up.

The experience of the NGOs has shown that the poor tend to repay their loans better than local leaders do. Their discipline is motivated by fear, for their main hesitation to take loans in the first place is fear that if they default it will be an excuse for someone to oppress them. Women repay even better than the poor, because their loans are usually obtained through small group membership and they have little life experience of financial manipulation. The discipline is absent and therefore most needed among those borrowers who have life experience of manipulating others, and who are most likely to lead any momentum of non-repayment.

8.2.2 Quotas: We have already discussed quotas for loan disbursement and the pressure on bank personnel to give their time to meeting quota requirements rather than to loan recovery or savings. The effect on overdues and default is illustrated in this example:

Case study:

The Sonali bank in Khadimnagar, Sylhet Kotwali, handles BRDB cooperative banking. The branch opened in 1980-81, and disbursed about 1 lakh cooperative loans a year. In 1983 the Dhaka office set a quota of Tk.10 lakhs for disbursement, and somehow the quota was fulfilled. But recovery was so poor that even 40% repayment could not be shown in spite of inclusion of renewed loans. This year the branch is restricted from advancing any BRDB loans. Similarly, under the Thana Irrigation Project less than 1 lakh a year was disbursed, but in 1983-84 the bank was given a quota of Tk.5 lakh for that project. It managed to advance Tk.2.7 lakh, mostly for T. Aman rice. So far recovery is only 13%. Floods are blamed, but in fact the overdues were accumulating before the floods. Now this bank branch shows 90% overdue on all loans disbursed so far. A new BRDB Project Officer has been appointed. He is sincere and is taking action. Several certificate court cases have been filed by him. But it will take greater effort to break

the momentum of non-repayment that has built up around that bank branch.

- 8.2.3 Bribery: This was discussed in Chapter 7. The Investigators believe that its effect on repayment is significant. Whether bank officials take money directly or indirectly, either way their reputation declines. Borrowers come to recognize that the rules are not always followed. When a borrower defaults, the banker is sometimes reluctant to pursue him as both are aware of the favor that has been done. The banker may resort to issuing an official letter warning that repayment is required, so as to get it on record. The borrower may then come in with the letter and ask the banker what it means. The banker will clarify the situation by assuring the borrower that he does not intend to take any action and that nothing will happen to him. We have also heard of cases in which additional payment was given so that such a letter would not be issued, or at least not circulated. Then, of course, it is difficult for a banker in such a situation to file a certificate court case; he remains fearful that his social image may be tarnished, or that the incident will cause him to be suspended or fired. Thus, in cases where bribes are frequent, non-repayment may continue until the banker is transferred.
- 8.2.4 Political influence: Rural people often believe that if they have linkage with high officials and politicians of the party in power in the nation, they may default with impunity. In such cases they are sure that a phone call from the right intermediary will enable them to retain a bank loan for a long time. The bank official may oblige because he also works in a government institution (BKB) or is beholden to officials linked with government power. Even if a locally influential borrower does not have high linkage with the party in power, he still may feel confident enough to default, because of the power he wields locally. It is the observation of the Investigators that many defaulters belong to this category. They

know that officials will be visiting their village, and they will be in a position to entertain them. The officials in turn, depend on local influentials to organize political activities at that level. The visiting officials may often be willing to do a reciprocal favor for this reason. The Authors feel that the majority of rural people of all categories are not fully acquainted with banking practices and financial discipline. Consequently they tend to feel that their linkage with influential persons gives them the privilege of defaulting and do not regard it as a violation of financial discipline. Such an attitude creates a chain reaction. Their political followers may also be encouraged to default in the belief that their leader has influence over the Bank.

- 8.2.5 Loan diversion: It is often felt among bankers that a prime cause of non-repayment is diversion of the loan to a purpose other than the one stated in the loan application. Some of the NGOs also attribute their good rate of repayment to proper loan use, for example, IUCW, FIVDB, and Comilla Proshika. Most of these NGOs claim that good loan use is the result of close supervision by field staff. This may be true for many poor people. But even for RFEP borrowers, who were supposed to be relatively poor, only 19.3% used the loan entirely for the stated purpose (Borrowers Financial Survey p.33, Bib.27). Yet 87% of loans were repaid. Therefore, there does not appear to be a negative correlation between loan diversion and loan repayment.

Grameen Bank and Swanirbhar claim that good loan use is encouraged by their groups of 5. But in these organizations repayment must be in weekly installments. Therefore, the loan is likely to be merged with family cash and used for various purposes. Usually the family has varied sources of income. Nevertheless, Grameen loans result in distinct improvement in levels of income and living (M.Hossain, pp.124-141, Bib.20), and the same was shown to be true with IUCW loans and with

RFEP (IUCW Report, 1984; RFEP Borrowers Financial Survey, Bib.27).

For the more prosperous and influential borrowers it is even more doubtful whether the use of loan for the stated purpose makes any difference to the rate of repayment. The Authors feel that what is more important is the intent to repay. We refer here to small loans which are merged with family income. It is believed that loans for large projects or for setting up substantial industries do require close supervision. In the study of 300 families, savings and investment is 24% of income, ranging from 10% for small farmers to 35% for the richest category (Table 4). Against these savings, most bank loans probably form a minor proportion of capital needs. It was also found that very few people in the study areas actually plan to take a loan to meet anticipated capital requirements (Table 20). How, then, does one explain the fact that so many families actually do have current loans (Table 18)? Presumably, for many of them the loan provides some discretionary fund they can use as they like, for any economic or social purpose. Given the rates of savings (Table 4) in the study areas, dependency on loans to generate income does not appear to be as great as is sometimes supposed.

The Authors support an RFEP conclusion that loan utilization is not such a critical matter (except perhaps for the poorest people and for larger industries). The banks can hardly monitor it anyway. It is suggested that bankers should concentrate on overall borrower credit worthiness and actual timely repayment rather than on loan supervision.

Case study:

The researcher in Chauddagam, Comilla, found that out of approximately 20 households with loans outstanding, at least 6 had clearly used the bank loans for purposes other than those for which loans were made. A business loan was used for

the household, 2 agricultural loans were used for going abroad, and 3 agricultural loans were used for the household.

8.2.6 Slow legal action: Legal action against defaulters is so slow and so rare that few people fear it, except the very poor. The procedure is the following: the borrower is given a notice a month before the due date of the loan. Then if he does not repay, 3 months later a legal notice is given. If that is ignored, a Special Notice is given from an official such as UNO, DC, or Martial Law authority. If there is no repayment, 3 years later a Certificate Case may be filed for a security loan and notice is given. The Court may give an order to recover the property. If there is still evasion, a body warrant may be issued to bring the defaulter into custody. Since Bangladesh Krishi Bank (BKB) is owned by the Government, its rules are slightly different. In case of its defaulters there is no need to file a Certificate Case. The Certificate Officer can directly order that the mortgaged land be auctioned, and the government rather than the bank recovers the value.

In the case of cooperative loans, the Manager of the samiti has to take initiative to see that there is a Resolution passed against the borrower. The Resolution goes to the District Cooperatives Officer, and he appoints an investigator. This takes time, perhaps years. Cooperative managers hardly ever initiate such Resolutions.

The study has revealed that at all these steps the borrower can halt the process by paying a little. The matter can drag on almost indefinitely.

Most of the bank managers interviewed said that during their career a borrower's security had never been sold. Some of them had filed a few Certificate Cases. One Manager said he had filed 5 certificate cases, including 2 for truck loans. The truck owners ultimately repaid, but there was delay in that because

the court had to clear their payments. The other 3 certificate cases had unknown resolutions. Another Manager said he had recovered a taxi from a driver's cooperative. A Krishi Bank (BKB) Manager said that he had recovered a defaulting borrower's tea estate. A few instances of recovery of land were mentioned. It is the observation of the Authors that the majority of defaulters are given no trouble and if there is any action they are known to make a little payment. Many of them take new loans from other banks. There has been some recent stepping up of activity on bad debt recovery. For example, the Bangladesh Bank has organized an Action Program for Recovery. All commercial banks as well as BKB and BSBL have been asked to implement this program.

One suggestion from an experienced banker is that a Magistrate should be assigned to inspect the loan utilization and repayment situation of defaulters. In case of agricultural loans, the UNO is supposed to look into cases of default, but he usually has no time. The bank may send its own inspectors, perhaps from Dhaka. But when bank inspectors come it seems the Chairman is always out on "other business." If a Magistrate comes to inspect, the Chairman will be compelled to be present.

It appears to the Investigators that financial discipline will not improve until the system is streamlined and delays in the disposal of certificate cases are eliminated. The main point is that almost all the respondents in the study said that they did not personally know of any case in which one's land was actually sold, though they know of many cases default. And their attitude seemed to be if one is in trouble he can be shielded by local politics. Why then should he repay ?

Case study:

CARE has a widespread program of collaboration with BADC and BKB for loans to farmers for maximizing irrigation under the command area of deep tube wells. The loans are made to indi-

viduals only. Repayment has declined from roughly 90% to about 64% in 1984. Floods and the government's pronouncements on interest exemption are partial causes. But even earlier than that, loan default was on the increase with these BKB loans. "The expansion of agricultural credit in the country in the absence of legal and other sanctions against chronic defaulters is negating the lasting effects of the agricultural development program (CARE project officers, in Maloney 1985, Bib.24).

- 8.2.7 Project failure and crop damage: Crop damage is certainly an occasional cause of failure to repay; in 1984 evidence was that in some places not only did overdues increase, but bank deposits dropped off. But one soon becomes weary of hearing of natural calamity as the cause of all human failings. In cases of livestock loans, NGO programs and also Grameen Bank have had trouble with animals dying. Solutions are either to give new loans, or to try setting up an insurance scheme. In cases of loans to weavers, the loan is supposed to free the weaver from the mahājan, but a defaulting weaver may easily say that he could not get the yarn at a reasonable price. Several stories were narrated to the Authors of failure of a loan project caused by manipulation; one person unfairly competes with another, or the leader of a cooperative or group falsifies the records and perhaps builds himself a house with his profit. The political will to take action in such cases is often weak.
- 8.2.8 Genuine poverty: There are certainly cases of genuine inability to repay any part of a loan because of poverty in this land of increasing nutritional deficiency, increasing landless labor, and increasing poverty of many marginal farmers. An elaborate study of borrowers' credit-worthiness was undertaken as one of the exercises under RFEP (Borrowers Financial Survey, Bib.27). Though the borrowers were not supposed to have more than 2 acres of land, 72% of them were found to be credit-worthy.

Actual rate of repayment was far greater - 87%. It was found in the RFEP survey that borrower credit-worthiness did not change significantly with age, rate of interest, or whether the activity undertaken with the loan was as stated or even if none of it was used for "productive" activities. Credit-worthiness was less related to household size than to number of earners, and only slightly related to labor productivity. It was, however, related to landholding and income.

IUCW, which specializes in loans to the poorest, estimates that only 1% of borrowers default of genuine poverty and 3% because of being misled about repayment by local influentials, (IUCW Chief Field Coordinator).

8.2.9 Recommending authorities do not help recover: The most important item under this head is the Union Agricultural Credit Committees (UACCs) which may and in most cases do recommend, but give no help in recovery; the process involves elected officials who gain popularity by putting names on the list, but fear to lose it if they take action to recover. Bankers and impartial observers have commented that recovery will continue to be poor on crop loans until those who recommend are held responsible and are required to take part in recovery proceedings.

The UP Chairmen and Members sign a large number of loan applications, but their involvement in recovery proceedings is minimal. Often, they are known to avoid such involvement, as their first interest is the support of their electorate.

The several loan programs that require the recommendation of institutional specialists (Upazila Fisheries Development Officer, Upazila Horticulture Development Officer, BADC for irrigation pumps, Rural Electrification Board for wiring loans, Department of Textiles for weavers' loans, etc.) have

no provision for accountability in such recommendations. It is reported in the study areas that they often take payment for making recommendations.

- 8.2.10 Transfer of bankers: Frequent transfer of bankers may be a significant point in non-recovery, especially because the bribery involved may be forgotten. A new banker may be unable to recover loans made by his predecessor and does not know the conditions under which the loans were given. The Investigators realize that frequent transfer of bankers may be necessary in theory to prevent their becoming too involved locally or because they may dislike their rural postings. But some consideration might be given to working out a system whereby previous bankers have some accountability or involvement in cases of default.
- 8.2.11 False security: Land without clear title, or other false security may be presented along with loan application. Often, an influential person does not need to present all the land documents, but just a signature from the Chairman that he has land, together with a (false) land registration number. According to the respondents, this happens in cases where the banks for one reason or another pursue a borrower to take a loan. Such borrowers will probably feel that they can default with impunity.
- 8.2.12 Multiplicity of policies and instructions: The banks are said to deal with some 60 different loan programs, plus constant instructions and changes of rules. All bankers interviewed mentioned this difficulty. If the bankers find this difficult, the borrowers do even more so. Some bankers have suggested that a uniform credit policy is required. Several borrowers have suggested that banks should post on their walls information about the loan programs and the requirements for getting loans under them. It is the observation of the Investigators

that there is sufficient conflict between the social and political objectives of these many loan programs on one hand and the principle that the banker should determine who is creditworthy because he must recover loans on the other hand. It is believed by the Authors that the reduced scope for judgment of the banker tends to undermine repayment discipline.

- 8.2.13 Delay in disbursement: Delay in receiving loans, frustration with formalities and numerous visits to the bank, and sometimes receiving the loan after it was really needed, causes a disgruntled attitude among borrowers. This is likely to affect repayment. Two of the respondents said that since they had to make 10 or so visits to a bank to get a loan, they will not repay it until the bank people visit them a similar number of times.
- 8.2.14 Insufficient incentives or commission: Bank staff say they do not get sufficient travel allowance and incentives for the difficult work of going around and supervising loans. Some banks do award prizes for recovery, but that is regarded as an uncertain and distant incentive. An experimental loan program (in which ILO collaborates with the Manpower Bureau for loans to small industry and transport) has a system of involvement of local leaders who get a commission on loan recovery. This experiment at Kanaighat, Sylhet, so far has yielded 100% loan recovery, as the Investigators were informed. Krishi Bank (BKB) is beginning a program of commissions on loan recovery. This might be an important means to develop repayment discipline in rural Bangladesh.
- 8.2.15 Insufficient bank image: RFEP emphasized in its Terminal Evaluation Report (Bib.29) that bank-client relations were at the heart of good lending and good repayment. Their findings indicate that bankers showing personal interest in clients

Friendliness, clean appearance of bank premises, prompt action on complaints, and such are said to promote an attitude conducive to repayment of loans.

There is a particular bank service greatly in demand all over the country: exchange of torn or dirty currency. The respondents have remarked that at present many banks will not exchange such currency and poor people are troubled if they have some. There is a system of exchanging it with an "exchanger" (Badli-wālā) for 20% or so discount, and he may have a personal arrangement to exchange it in the bank. An order that the banks should readily exchange such currency as a public service might do more than any other measure to familiarize large numbers of people with banks.

9. SUMMARY OF RECOMMENDATIONS

Chapter 1:

Existing studies on rural formal and informal financial institutions and methods have very little information at the micro-economic level on savings and re-investment. These issues need to be more thoroughly analyzed.

Chapter 2:

- 2.1 The rate of savings/investment in the rural population is high enough so that banks may continue to increase deposits proportionate to per capita income. Rural people appear to be financially conservative: 80 to 87% of respondent families save. Among the poorest, rate of savings is 2% of income, among laborers 7 to 9%, among the ordinary poor, 12 to 13%, among small farmers and shopkeepers 20 to 24%, among those with several sources of income 30 to 35%, and among the rural prosperous, up to 46% of income. But most (66%) is reinvested by themselves at present.
- 2.2 Banks should structure their publicity campaigns to emphasize the advantages of savings for the kinds of things that are important in rural areas such as: land, future emergency, trade, boys' education, girls' marriage, agriculture, house building, other investments.

Chapter 3:

- 3.1 Women's savings should be mobilized only if banks feel it is cost effective to do so.
- 3.2 This can be done by: a) appointing local women as bank agents to motivate savings on commission, b) introducing a program to motivate savings through local influential females, c) appointment of women bank employees, d) special women's day at a bank, c) strict confidentiality so that

the existence of women's accounts will not be publicized.

Chapter 4:

4.1 Increase in rural deposits may be achieved by:

- a) greater person to person contact between borrower and banker,
- b) employment of local agents on commission basis to mobilize deposits,
- c) assigning priority to deposit mobilization rather than to loan disbursement,
- d) banks keeping close liaison with NGOs and government rural development agencies,
- e) publicity through local fairs,
- f) assured confidentiality of deposits,
- g) sub-branches in hāts and in other locations.
- h) flexibility of bank days and hours,
- i) provision for all savings depositors to name an heir in case of death,
- j) posting rates of interest for different accounts in prominent places,
- k) increased reliability of the banker as an honest and trust-worthy person and
- l) better publicity about the advantages of different types of accounts.

4.2 The rural rich deposit only a small portion (34%) of their savings; they can probably be motivated to deposit more by higher interest rates, facility for assignment of heirs, the creation of awareness about fixed and pension deposits.

4.3 A much higher rate of opening of bank accounts by the poor can possibly be achieved, especially with the help of other development agencies. However, given the low probable volume of such deposits it is unlikely to be cost-effective for financial institutions.

- 4.4 Post offices conduct no publicity to motivate savings. Awareness about different kinds of deposits offered by them including their life insurance scheme is meagre.
- 4.5 The schemes under the National Savings Directorate (NSD) are practically unknown in rural areas. The District Offices of the National Savings Directorate need to be motivated out of their lethargy. Winnings of prize bonds are insufficiently advertised. Life insurance has a reputation for irregularities and difficulties in the process of claiming indemnities.

Chapter 5:

- 5.1 Spontaneous savings and loan groups all over the country will more easily deposit their funds in banks if there are no impediments to such groups opening and operating accounts. Liaison with NGOs will increase deposits in areas where they are working, and banks should be willing to draw up agreements with them to serve their clients more readily.
- 5.2 Disbursing loans should not be the goal for forming cooperatives; this trend must cease. Cooperative formation should also focus on savings mobilization.
- 5.3 The Credit Union League of Bangladesh may come to serve as an umbrella organization for informal savings and credit groups in the country, and as a system supplementing the cooperatives.
- 5.4 A study should be conducted to investigate the role of informal savings and loan groups in the economy. Whether such groups should be formally mobilized and what is the mechanism to deal with them are some of the concerns regarding this issue.

Chapter 6:

- 6.1 Loan programs should not be drawn up based on inflated esti-

mates of credit needs. For many categories of borrowers, their savings cover most of their capital needs. Those who have something to exchange such as labor, produce, or influence, generally receive loans within the informal social system.

- 6.2 Banks may be more flexible on loan use, noting what people actually utilize their loans for.
- 6.3 Borrowers' problems with bank loans include procedure, insufficient loan amount, loan refusal even though objectively the borrower seems creditworthy, and refusal to accept less than 5 tolas of gold as security.
- 6.4 Informal credit is believed to be giving way to bank credit. However, banks can link up with traditional business and trade patterns through allowing overdraft, giving loans against fixed deposits, and cashing checks for visiting merchants written in the name of a known local merchant.

Chapter 7:

- 7.1 The extent and effect of bribery should be better recognized and dealt with. It is one of the first things rural people associate with formal loans. It ranges from 3% to 10% of the loan amount, and there are various methods and points of delivery. The system of requiring recommendations by local politicians and technical people provides another level for pay-off. Bribery affects the whole tenor of the banking system, including the repayment rate. It can only be reduced by constant supervision, training of bank employees and enthusiastic honesty throughout the banking system. Prosecution of it should be increased.
- 7.2 Politically motivated loan disbursement results in fiasco. Quotas for disbursing loans lead to abuse. Examples of politically motivated loan programs include handloom weavers'

loans, matir dak loans, and Grihasta Sri loans, and in all these programs repayment performance is poor. Local political influence on the banker should be reduced. Official pronouncements of forgiveness destroy credit discipline.

- 7.3 Union Agricultural Credit Committees (UACCs) provide scope for local political involvement and for delay and pay-off. The system has certain advantages also. Revision of the system chiefly in requiring that recommending authorities be accountable in loan recovery is needed. This also applies to technical officers who make loan recommendations.

Chapter 8:

- 8.1 Borrower default may be reduced in the following ways:
- a) constant and continual supervision and training and internalization of the value of financial discipline,
 - b) elimination of disbursement quotas,
 - c) reduction of bribery and political influence at all levels of credit disbursement,
 - d) more speedy and severe legal action against defaulters,
 - e) requiring recommending authorities to be responsible for loan recovery as well,
 - f) proper credit analysis,
 - g) simplification of paper-work, policies and instructions on loan programs,
 - h) posting of loan programs and procedural requirements on the bank walls,
 - i) reduction of delays in disbursement, and
 - j) incentives to bank staff such as commissions on recovery.
- 8.2 With the help of publicity, the above mentioned measures and

the creation of consumer awareness, the image of banks may also be improved. A means that would help to achieve such an end and would initiate many people to enter banks would be to require all rural branches to exchange torn and dirty notes free of charge.

Earners in household :

<u>who</u>	<u>source</u>	<u>approx amount/mo.</u>	<u>by whom managed</u>	<u>by whom spent</u>	<u>approx amount saved</u>
.....
.....
.....
.....

Who physically keeps running cash in the household !

12a. How are you planning to finance your capital needs for next crop (What ?)
next investment in trade/ industry (What ?).

<u>who ?</u>	<u>amount</u>	<u>how/where kept</u>
.....
.....
.....

Last 3 objectives for which you and household saved money :

<u>self or household</u>	<u>approx amount</u>	<u>how long saved</u>	<u>how savings managed</u>	<u>interest rate</u>
.....
.....
.....

Women's savings :

number of animals kept by the women : cow goat sheep..... poultry.....
 whether she often sells : cow milk goat.... chicken eggs vegetables and fruit cowdung cakes firewood...
 processes foods and sells them often :
 average monthly income from such activities coment

1.. Cash savings and attitudes about savings :

	<u>Approx amount</u>	<u>Annual interest</u>	<u>Attitude</u>	<u>Example/experience</u>
bank: checking
ordinary
fixed
pension deposit
cooperative
National Savings Schemes				
Defence savings certificate
Bonus Savings Certificate
5-year Bangladesh Savings Certificate
Prize bond
Wage Earners development bond
Post office savings bank :				
Ordinary account
Fixed deposit account
Bonus account
Postal life insurance
credit union
other org.
life insurance
employer
bepari/middleman
friend/neighbour
relative
other
cash

further attitudes and experiences :

.....

.....

.....

.....

15. Suggestions of respondent for mobilizing institutional savings :

bank : checking

 ordinary.....

 fixed

 pension deposit

Cooperative

National Savings Schemes

 Defence savings certificate

 Bonus savings certificate

 5-year Bangladesh savings certificate

 Prize bond

 Wage earners development bond

 Post office savings Bank :

 Ordinary account

 Fixed deposit account

 Bonus account

 Postal life insurance

credit union
 other org
 life insurance
 employer
 bepari/middleman
 friend/neighbour
 relative
 other
 cash
 16. Credit now :

<u>Self or household?</u>	<u>Approx amount</u>	<u>Purpose</u>	<u>Duration of loan in months</u>	<u>Annual rate of interest</u>
.....
.....
.....
.....

17. Attitude toward different types of institutional credit, and why.

1
 2
 3
 4
 5
 6

18. Attitude toward different types of non-institutional credit and why.

- 1
- 2
- 3
- 4
- 5
- 6

19. Repayment of institutional loans

100 crore ag. loan, other ag. loan, handloom credit, business/trade loan, cottage industry loan, other bank loan, other institutional loan, etc.

State: type of loan, whether overdue now, or if in past, when; by how long overdue, type of loan, rate of interest, how loan utilized, reason for non-repayment, whether others in the area had similar loan and did not repay, whether there was security and if any action was taken on it, any threat by loan institution, attitudes of bankers/loan organisation, and attitude of borrower about this incident, and if he expects to ever repay.

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The Bangladesh Bank
RURAL FINANCE PROJECT

(USAID Project No. 338-0037)

RURAL SAVINGS POTENTIAL
IN BANGLADESH

December, 1984

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RURAL SAVINGS POTENTIAL IN BANGLADESH

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Chapter 1

Introduction

Purpose of the Report

Little is known about our subject: the saving potential of rural households in Bangladesh. Saving in Bangladesh, 1959/60-1969/70 by Alamgir and Rahman, 1/ which quantified gross national savings and broke them down into, essentially, household savings, public-sector, corporate savings and government savings, is still useful and highly suggestive; but, it is about the last pre-liberation decade; and, it has never been brought forward. A paper by Alamgir in 1975 listed no less than eighteen areas where a major research effort on rural savings and investment in developing countries was required. Subjects of special interest to the Rural Finance Project on that list are :

- (a) the state of rural capital markets in different regions and their effectiveness and efficiency in mobilizing and allocating rural savings. How does an absence of an organized rural capital market affect rural capital formation ?
- (b) the flow of funds within rural areas and between rural and urban areas.
- (c) the determinants of financial asset acquisition in the rural areas. How could one transform non-productive financial asset acquisition by rural households into productive investment ?
- (d) the relationship between the income distribution and rural savings.
- (e) the influence of interest rates and price on rural savings.
- (f) from the point of view of policy making, what is the best mix of voluntary, contractual and compulsory saving for the rural areas ?

1/ M. Alamgir and A. Rahman, Saving in Bangladesh, 1959/60-1969/70, (The Bangladesh Institute of Development Studies, Dhaka, 1974).

- (g) human capital formation in the rural areas. What is the impact of human capital formation on productivity in rural areas? Is the return on human-capital investments greater than that on physical-capital investments? 2/

Actual saving in Bangladesh is reported to be very low. By implication, rural saving must be very low. The purpose of this report is to explore and better understand this problem; it is to discover if potential rural saving is very low as well. And, if the potential performance is higher than the actual one, how feasible, how realistic is the attainment of the potential ?

An introduction chapter will review the problem, concepts and likely determinants of rural savings. The second chapter, using an indirect estimate of private savings based on time series and macroeconomic data, will estimate a range for the rural private savings rate and discuss determinants. Also, in this chapter, using the most recently available Household Expenditure Survey, information on the household income distribution and an analytical model based on four socio-economic classes, the rural household savings ratio will be estimated. The potential for raising the ratio will be examined in detail. In the third chapter, the effect of financial development on savings will be explored, e.g. raising savings rates, inducing a substitution of saving in financial assets for saving in non-financial assets.

A fourth chapter will employ regression analysis to study the determinants of rural, financial-asset holding at the district level. A brief chapter of conclusions will close the report.

2/ Points (a) - (g) are taken from M. Alamgir "Aspects of Rural Savings and Investment in Developing Countries," (The World Bank, Development Economics Department, 1975) pp. 131-135.

Some Aspects of the Problem defined

The presence of a large non-monetized sector in the rural economy should not be viewed simply as an index of economic backwardness. In some part, it is very rational decision making in the face of uncertainty. In particular, non-monetized saving - investment is a safeguard against inflation.

For many rural households in a country like Bangladesh, there may be little left out of income after immediate consumption needs have been met to allow them to have any savings. There is, however, a part of their total household income which is received indirectly in the form of acquisition of non-tradeable capital assets. It is especially true of farm households. This income by definition constitutes also a part of the savings and investment of farm households. In the farm enterprise, the saving-investment decision is integrated into the production process and is also closely linked with allocation of resources, particularly own labour time. The simultaneous production-saving-investment activity originates in the use of own or family labour in the production of non-tradeable capital assets, e.g. land improvements, contour bunding, irrigation canals, farm buildings, storage sheds, etc. These are usually lumped together in national accounts under 'non-monetized' farm investment.

The magnitude of non-monetized farm investment, a characteristic feature of rural areas in the developing world, is quite significant in many cases. Evidence from Bangladesh indicates that as a proportion of total rural household savings, non-monetized physical asset acquisition by farm households comes to about 26 percent and as a proportion of total national savings to about 7 percent. 1/

1/ M. Alamgir and L. Berlage, Bangladesh : National Income and Expenditure 1949/50-1969/70, (Bangladesh Institute of Development Studies, Dhaka 1974), pp. 179-81. M. Alamgir and A. Rahman Saving in Bangladesh, pp. 58-59.

Other items in the saving-investment portfolios of rural households include, (i) monetized physical farm-capital acquisition of various types, e.g., pumps, tubewells, and other types of farm machinery, (ii) financial asset acquisition of currency, bank deposits, shares and securities, and bonds and (iii) off-farm investments in shop-keeping, transport equipment, and urban property. One further type of saving-capital formation needs to be stressed. It is the creation of human capital within the farm household, e.g., expenditures on health and child care (nutrition), formal education and improved farm skills.

The conceptual distinction between saver and investor often does not work in the context of the rural areas of developing countries. A farm household may not be aware that in certain instances it is at once saving and investing, that one decision covers both, that the two activities are in fact indistinguishable. Our pointing this out does not eliminate the need either for establishing or for improving organized rural capital markets. But, in terms of linking savers and investors, of capital formation, capital markets in the rural areas do not play the same key role that they do in urban areas.

Concepts

The definition of rural income and rural consumption is fraught with numerous theoretical and practical problems. To take one example, how meaningful is the distinction between consumption and investment in a situation where increased consumption may increase productive capacity - human productivity - as much or more than increased investment in physical capacity ?

Investment can take one of two forms : physical and financial. Physical investment is what is called capital formation - the creation of assets that in the course of time give rise to a flow of output and income. Financial investment represents investment only as far as an individual economic unit is concerned. It is not capital formation for an economy because the acquisition of financial assets does not create

productive capacity directly.

The savings of a rural household can be obtained from survey data by adjusting its physical and financial asset acquisition during a reference period, for changes in liabilities, net capital transfers and capital damages (capital gains and losses are ignored).

Physical asset acquisition would include the following items :

- (i) Land - Purchases minus sales.
- (ii) Livestock - Total births, purchases and gifts received minus total deaths, sales and gifts given.
- (iii) Land improvement and irrigation - Total expenditures (actual and imputed) on land improvement and irrigation minus sale of irrigation sources.
- (iv) Farm machinery and equipment and transport equipment - Net acquisition.
- (v) Farm houses (including residences), sheds etc.- Net acquisition.
- (vi) Net acquisition of non-farm assets.
- (vii) Net change in inventories (both farm and non-farm) -

Financial asset acquisition would include the following items. :

- (i) Change in currency holdings.
- (ii) Change in bank deposits (including postal savings deposits).
- (iii) Contribution to provident funds.
- (iv) Premiums paid to life insurance.
- (v) Net purchase of small savings certificates.
- (vi) Net purchase of bonds, shares and securities.
- (vii) Net purchase of gold and silver.

The difference between change in borrowings and change in lendings gives the change in financial liabilities of rural households. Borrowing from both institutional and non-institutional sources are included. Net capital transfers are measured as the excess of physical and financial asset inflows into a rural household over outflows.

Capital damage refers to losses or destruction of capital assets caused by cyclone, floods and the like.

Saving and investment can be either monetized or non-monetized. Monetized saving includes acquisition of both physical and financial assets; non-monetized saving includes acquisition of physical assets only. Non-monetized saving and non-monetized investment are one and the same, while monetized investments are a subset of monetized savings. Monetized savings and investments can be acquired through the market or can be created through the use of purchased inputs including labour and capital services. Non-monetized saving and investment on the other hand represent physical asset acquisition through the use of family labour or exchange labour with or without non-purchased inputs.

Asset acquisition (saving) can be classified as voluntary, compulsory or contractual. Examples of voluntary saving would be currency holding, bank deposits, shares and securities, physical investment. Those of compulsory saving would be compulsory provident funds, social security contributions and pension-scheme contributions. An example of contractual saving by households would be contributions to life insurance. Studies of the structure of private savings in developing countries show that voluntary saving is the most important of the three types of saving.

In rural areas, there is no compulsory saving of the kinds identified above. These are mostly relevant for urban areas. However, elements of compulsory or forced saving are found in areas where members of the household are persuaded by the community to contribute labour and other materials to the formation of social capital; also, in many areas co-operatives are used to organise forced saving programs. There is nothing approximating contractual saving in rural areas except that some members of rural households might take out life insurance. Thus, saving in rural areas is primarily voluntary.

In rural areas, most savings are directed towards self use (e.g., physical asset acquisition). A number of studies indicate very low figures

for savings directly or indirectly transmitted to others. In fact, direct transmittal is of least importance. This is understandable as rural capital markets hardly exist in most rural areas.

Modelling Rural Savings Behavior

Of the many determinants of rural savings whose precise relationship to rural savings might be examined by empirical research, let us consider only the following in our view :

- (a) income,
- (b) interest rates,
- (c) taxation,
- (d) demography, and
- (e) profitable investment opportunities.

We shall see that aggregative analysis of rural savings is only broadly useful for policy formulation. Savings should be disaggregated further. For policy formulation, it would be useful to try to isolate the determinants separately for monetized saving and non-monetized saving; monetized saving should be further divided into monetized saving in financial assets and monetized saving in physical assets. Ideally, three separate savings functions should be estimated.

Dale W. Adams and others have emphasized the role of interest rates in mobilising voluntary rural savings and allocating credit efficiently.^{1/}

^{1/} It is argued that higher (positive) interest rates would make the rural credit network viable and more interested in dispensing credit. Higher interest rates on deposits would help to mobilize rural savings. It is argued also that higher interest rates charged for loans would largely eliminate the crowding out of small farmers by politically more powerful, large farmers in pursuit of the cheap credit. But, for the last to be true, the set of investment opportunities facing both would have to be the same or the ability to pay of small farmers would have to be the same as that of large farmers.

Turning to taxation, if public sector savings substituted entirely for private-sector savings, there would be no net effect on total savings. But, if public savings were less than the reduction in private savings, then there would be a net negative effect.

In the context of developing countries, the dependency ratio performs better than the age of the head of household as a determinant of household saving. This result can be generalized to say that a high rate of population growth would lower savings rates.

The availability of profitable investment opportunity in rural areas can be considered a proxy for a number of other determinants. It introduces a dynamic element into the analysis of rural savings and investment behaviour. The existence of profitable investment opportunities should induce rural households to save more.

Chapter 2

Private Savings and Rural SavingsPrivate Savings in the Seventies and
the Estimation of Rural Savings

A set of unofficial estimates of savings at national level for the period of pre-1971 was made by Alamgir and Rahman.^{1/} There are three sets of estimates for the post-1972 period. Two of them are made by the World Bank^{2/} and the other by the Bangladesh Bureau of Statistics and the Planning Commission of the Government of Bangladesh.

In the present study, rural private savings rates are estimated by applying an indirect method of estimation. Gross domestic savings (GDS) are calculated by deducting the net import of goods and non-factor services (M-X); gross national savings (GNS) are computed by adding net factor income from abroad including remittances to GDS; foreign savings (FS) are computed by adding public unrequited transfers (foreign aid) to the net capital inflow and public savings are estimated directly. Private sector savings (PSS) are defined as the difference between GNS and public savings. Thus, private-sector savings are estimated indirectly. The private-sector savings ratio is defined as the ratio of this indirectly estimated PSS to GDP at factor cost.

It should be mentioned that GNS can be broken down into household, corporate and government savings. Data on such a breakdown are not available for the 1970s and the early 1980s. But the available evidence suggests that private, corporate-sector savings would have accounted for only an insignificant part of private savings in the post-1972 period. Therefore household savings would have represented the largest part of private savings, and hence of rural private savings.

1/ M. Alamgir and A. Rahman, Savings in Bangladesh 1959/60-1969/70, Bangladesh Institute of Development Studies, 1974.

2/ World Bank, Bangladesh : Recent Economic Trends and Medium - Term Development Issues, March 1983, P.119

In particular, private sector savings rate (PSSR) is the sum of weighted savings rates of rural and urban private sectors.

$$\frac{PSS}{Y} = \left(\frac{PSU}{Y_u}\right) \left(\frac{Y_u}{Y}\right) + \left(\frac{PSR}{Y_r}\right) \left(\frac{Y_r}{Y}\right)$$

$$\text{or, } PSSR = PSRU \left(\frac{Y_u}{Y}\right) + PSRR \left(\frac{Y_r}{Y}\right) \dots\dots\dots(1)$$

where, PSU = Private urban savings
 PSR = Private rural savings
 Y_u = Gross urban domestic product
 Y_r = Gross rural domestic product
 Y = Gross domestic product

$$\frac{Y_u}{Y} + \frac{Y_r}{Y} = 1$$

Equation (1) can be rearranged to get

$$PSSR = \frac{PSRU - \left(PSRU \left(1 - \frac{Y_r}{Y}\right)\right)}{Y_r / Y} \dots\dots\dots(2)$$

If one assumes, on the one hand, that PSRU (the urban private-sector savings rate) is never less than zero and, on the other, that it is never greater than PSRR (the rural private-sector savings rate), there are established an upper and a lower bound on PSRR. The necessary rural and urban income weights for equation (2) are computed from data in M. Alamgir's "Some Analysis of Distribution of Income, Consumption, Saving and Poverty in Bangladesh," (The Bangladesh Development Studies, October, 1974), and then extrapolated for the relevant period. The assumption of higher average (and marginal) savings propensities in rural areas than in urban areas is supported by studies carried out in some other developing countries; data obtained from household surveys in Bangladesh also tend to support this position.

Table 1 gives a range for the rural private savings rate in all the years from 1975 to 1981. Except for the two famine years of 1975 and 1976, minimum PSRR fluctuated between 6.3 percent and 7.5 percent of the GDP. In the same period maximum PSRR fluctuated between 10.7 percent and 12.1 percent of GDP. Taking the ten "observations" of the 1977-1981 period together their mean is 9.2 percent with a standard deviation of 2.5 percent.

Table - 1

Estimation of Rural Savings Rates

	Private Sector Savings Rate (ISSR) (as Percentage of GDP at factor cost)	Assumed Range of Private Sector Urban Savings Rate (PSRU)		Rural Income Weight Based on GDP	Urban Income Weight Based on GDP	Estimated Range of Private Sector Rural Savings Rate (as % of GLP at factor cost)	
		PSRU = 0	Equal to Private Sector Rural Savings Rate (PSRR)			Estimated minimum Savings Rate for PSRU=ISSR	Estimated maximum Savings Rate for PSRU = 0
1975	2.8	0	2.8	.64	.36	2.8	4.4
1976	2.2	0	2.2	.63	.37	2.2	3.5
1977	7.5	0	7.5	.62	.38	7.5	12.1
1978	6.4	0	6.4	.61	.39	6.4	10.5
1979	7.3	0	7.3	.60	.40	7.3	12.2
1980	7.0	0	7.0	.60	.40	7.0	11.7
1981	6.3	0	6.3	.59	.41	6.3	10.7

Source : Private sector savings rate is calculated from data provided in Pradumna B. Rana, Domestic Resource Mobilization Through Financial Development : Bangladesh, Asian Development Bank, 1984, i.6, 13, 1984; rural and urban income weights are computed from data provided in Mohiuddin Alamgir, "Some Analysis of Distribution of Income, Consumption, Saving and Poverty in Bangladesh," The Bangladesh Development Studies, October, 1974, P.741-42, and then extrapolated for the relevant period.

Determinants of Private Savings and Rural Savings

Although we are interested in examining the determinants of rural savings in Bangladesh, we have only the estimated range of the dependent variable. Minimum rural savings rate, $PSRR_{MIN}$, and maximum savings rate, $PSRR_{MAX}$, have been estimated in the previous section which can be used as dependent variables for the present purpose. In addition, private sector savings rate, $PSSR$, can also be used as a dependent variable to see what determines the savings rate in the private sector. Thus we have three dependent variables : $PSSR$, $PSRR_{MIN}$ and $PSRR_{MAX}$.

Limitations imposed by shortage of relevant data rule out the possibility of including all explanatory variables in the savings function. Therefore, six independent variables are being considered; three of them are income variables, two are interest variables and one variable is the foreign savings rate. Hypotheses can be formulated on the basis of a priori reasoning about the relationship between saving rates and these explanatory variables.

It has been argued since Keynes that income is one of the determinants of savings : $S = F(Y, X_1, \dots, X_n)$, where S stands for savings, Y for income and X_1, \dots, X_n for other explanatory variables. And it has been hypothesised for empirical investigation that S is a positive function of income, $F_Y > 0$. Since then, different functional relationships between S and Y have been empirically tested in both developed and less developed countries by taking both time series and cross section data.

In the context of the present study, the hypothesis is that the savings rate is a positive function of real income. A higher real income does not only increase savings in absolute terms, it also increases the rate at which income is saved.

Three income variables are included for the present study : (1) real GNP at market prices, GNP , (2) real gross agricultural product, GAP , and (3) real gross agricultural products, Crops, GAP_c . Among three

dependent variables, the relationship of PSSR will be examined with only one of the three income variables, GNP; the relationship of each of the two other rural savings rates will be investigated with both of the two other income variables, GAP, and GAPc; for rural savings rates are expected to be influenced by rural income, rather than overall income, while PSSR is expected to be related to overall income, rather than only rural income.

It is long perceived that the relationship between savings and interest rate is positive. Savings increase as the rate of interest rises. The hypothesis for the present study is that the rate of saving, private rural or simply private, is a positive function of real interest rate. Real interest rate, instead of a nominal one, is chosen because it is real, rather than nominal, interest rate which matters and provides an incentive for saving. Two kinds of interest rates are selected for the present study : real weighted average interest rate on deposits and scheduled bank's real interest rate on deposits for 1-2 years. The rationale of the former is obvious, and that of the later is that, beside the real interest rate on deposits, people tend to save and deposit money with financial institutions usually for one to two years, and therefore the latter is included as an explanatory variable.

One explanatory variable is external resources, called foreign savings rate, FS. Its influence on the dependent variable, private sector savings rate or rural savings rates, is debatable and will depend on the nature of its use for financing imports. If FS is used to finance modern technology and equipment for increasing production in both agricultural and industrial sector, it is expected to increase savings and even savings rates. On the other hand, if FS is utilized to finance such imports which are substitutes of locally produced commodity in both agricultural and manufacturing sectors, savings and even savings rates are expected to fall.

The statistical technique of correlation is applied to investigate the relationship between dependent and independent variables.

Data contained in Tables 2 and 3 are used for examining correlation among the variables. The results are presented in the Correlation

Coefficients Matrix of Table 4.

None of the correlations are high. The correlations between the private-sector savings rates and real GNP are all negative, which is not what a priori reasoning would have led us to expect. However, they are so low that it is best concluded that in the time period covered no correlation between the savings rates and real GNP appears to exist. The correlations between the two rural private savings rates, minimum and maximum, and two measures of real gross agricultural product, interestingly, are moderately positive. This suggests that the direction of influence of rural income on rural savings is as hypothesized but moderate. The correlations between the private-sector savings rates and the two measures of the real interest rate are positive, as hypothesized, but, again, they are moderate. The correlations between the savings rates and the rate of foreign saving are negative and very weak, suggesting no apparent correlation. A strong positive correlation would have meant complementarity between the two sources of savings; a negative correlation, substitutability.

The Households Savings Ratio

The Model : The household savings ratio measures the average propensity to save of households. The national ratio can be viewed as the weighted average saving propensities of all the socio-economic groups that compose the national society. In our case, it will be useful to distinguish between the saving propensities of urban and rural areas and, within each area, to distinguish further between the saving propensities of the "rich" and the "poor". Therefore, we have

$$s = s_1w_1 + s_2w_2 + s_3w_3 + s_4w_4 ;$$

The w's are the weights; their sum is equal to 1. It can be shown that the weights are defined by the proportion of total household income originating in each sector.

Table - 2

Gross National Products, Interest Rates and
Foreign Savings Rates for 1975-81

	GNP at market prices (in billion Taka)	Nominal weighted average interest rates on deposits	Scheduled banks' nominal interest rates on deposits for 1 - 2 years	Change in non-food price index	Real GNP at market prices (in billion Taka)	Real weighted average interest rates on deposits	Scheduled banks' real interest rates on deposits for 1 - 2 years	Foreign savings rate
1975	126.00	3.46	7.25	50.67	83.63	- 47.21	- 43.42	7.1
1976	107.60	3.80	7.50	6.80	66.87	- 3.00	0.70	12.1
1977	105.82	4.42	8.25	4.39	63.00	0.03	3.86	6.4
1978	131.52	4.17	8.25	9.49	71.51	- 5.32	- 1.24	8.7
1979	146.61	4.29	8.25	9.28	72.95	- 4.99	- 1.03	8.6
1980	178.34	4.41	8.25	14.60	77.43	- 10.19	- 6.35	12.9
1981	201.85	6.32	12.32	20.29	72.86	- 13.97	- 7.97	11.6

Sources : Data on GNP at market prices, nominal weighted average interest rates on deposits, change in non-food price index and foreign savings are taken from Pradumna B. Rana, Domestic Resource Mobilization Through Financial Development : Bangladesh, Asian Development Bank, February 1984, P.108; data on scheduled banks' nominal interest rates on deposits for 1-2 years are taken and weighted interest rates for the relevant years are calculated from A.T.M.I. Mridha, Country Paper on Rural Savings Mobilization in Bangladesh, Bangladesh Bank, nil dated, P.7.

Table - 3

Agricultural Products at Market Prices 1975-81

(in billion Taka)

Year	Nominal gross agricultural products	Nominal gross agricultural products, crops	Real gross agricultural products	Real gross agricultural products, crops
1975	78.623	67.401	41.10	33.01
1976	57.339	45.114	45.91	37.85
1977	53.671	40.172	44.50	36.35
1978	72.248	53.494	48.98	39.30
1979	78.745	56.604	48.76	40.03
1980	93.299	68.443	48.85	39.89
1981	95.434	70.113	51.50	42.31

Source : Nominal figures are taken from the World Bank, Bangladesh : Recent Economic Trends and Medium-Term Development Issues, March 1982, P.113; and the real figures are computed by deflating the nominal ones by sectoral deflators which have been rebased for the present purpose as 1973/74 = 100, for the deflators see the World Bank, *Ibid*, P.115.

Table - 4

Correlation Coefficient Matrix

Dependent Variables \ Independent Variables	Private Sector Savings Rate (PSSR) as percentage of GDP at factor cost	Estimated minimum rural savings rate as percentage of GDP at factor cost	Estimated maximum rural savings rate as percentage of GDP at factor cost
Real GNP at market prices	- 0.26	- 0.26	- 0.24
Real gross agricultural products,	- a/	0.56	0.60
Real gross agricultural products, crops	- a/	0.54	0.58
Real weighted average interest rates on deposits	0.51	0.51	0.51
Scheduled banks' real interest rates on deposits for 1-2 years	0.52	0.52	0.52
Foreign savings rate	- 0.14	- 0.14	- 0.10

a/ No correlation was calculated.

The weights are the weights; their sum is equal to 1. It can be shown that the weights are defined by the proportion of total household income originating in each sector.

The weights can be analysed further. They can be shown to be determined by the relative number of households found in each sector (the p_i 's) and the average household incomes of the four sectors relative to the average household income of any one of the sectors (the r_{i4} 's). The income of the rural poor was chosen as numeraire.

p_i : the proportion of total households in sector i ;

r_i : the ratio of the average household income of sector i to the average household income of sector 4, the rural poor.

r_{44} is, of course, 1. Then,

$$s = \frac{p_1 r_{14} s_1 + p_2 r_{24} s_2 + p_3 r_{34} s_3 + p_4 s_4}{p_1 r_{14} + p_2 r_{24} + p_3 r_{34} + p_4}$$

$$w_i = \frac{4}{\sum_1^4} \frac{p_i r_{i4}}{p_i r_{i4}}$$

$p_4 = (1-p_1-p_2-p_3)$. Therefore,

$$s = \frac{\sum_1^3 p_i r_{i4} s_i + (1-p_1-p_2-p_3) s_4}{\sum_1^3 p_i (r_{i4}-1) + 1}$$

This result is mathematically derived in the "Annex to Household Savings".

Estimation : This model contains ten parameters that require estimation:

$$p_1, p_2, p_3, r_{14}, r_{24}, r_{34}, s_1, s_2, s_3, s_4$$

In other words, to learn "s", the national household savings ratio, or either the rural or the urban household savings ratio, we must obtain estimates of all the parameters.

Estimation of the r_{i4} 's in 1976/77, the most recent household income distribution available, can be made from a table in an article on the

income distribution in Bangladesh by S.R. Osmani and A. Rahman. Taking the top 15 percent of households in both areas for the rich and the bottom 85 percent of households in both areas for the poor, in Table 5 we derive the r_{i4} 's in two years, 1963/64 (an earlier year used by the authors) and 1976/77.

The p_i 's are defined as below :

- p_1 : proportion of rich urban households;
- p_2 : proportion of poor urban households;
- p_3 : proportion of rich rural households;
- p_4 : proportion of poor rural households;

Let P_u stand for the proportion (percentage) of total households that are urban. Let q and q' stand for the proportions of total urban and total rural households, respectively, that are poor.

Therefore, we can write,

$$\begin{aligned} p_1 &= P_u \cdot (1-q) \\ p_2 &= P_u \cdot q \\ p_3 &= (1-p_u) (1-q') \\ p_4 &= (1-p_u) q' \end{aligned}$$

We do not know the value of p_u in 1977. However, average household size does not differ greatly between urban and rural areas; in the 1977/78 Household Expenditure Survey, average household size in the two was practically the same. In this case, p_u can be approximated by the percentage of total population that is urban. The two most recent population censuses were in 1974 and 1981. Interpolating from them,

	<u>1977</u>
P_u	0.12
$(1 - p_u)$	0.88

And, $q = q' = 0.85$. So, the p_i 's are now known.

Table 5

Real Average Household Incomes of Rich and Poor Households
in Rural and Urban Areas : Income Distributions in 1963/64
and 1976/77

(Taka per annum in 1963/64 prices)

Categorical Groups	1963/64				1976/77			
	Rural		Urban		Rural		Urban	
	In Taka	Relative to Rural Poor						
Top 15 per cent - Rich	3935	2.911	8272	6.118	3823	4.201	8372	9.200
Bottom 85 per cent - Poor	1352	1.000	1716	1.269	910	1.000	1339	1.471

Source : S.R. Osmani and A. Rahman, "Income Distribution in Bangladesh," Department of International Economic and Social Affairs of the United Nations Secretariat, Ad Hoc Expert Group on Income Distribution and Development, Paper No. 6, April, 1983, Table 5, P.7.

Taken together, the p_i 's and r_{i4} 's provide us with the following income weights

<u>Households</u>		<u>Income Weights</u>
Rich urban	$0.12 \times 0.15 \times 9.200 = 0.1656$	0.102
Poor urban	$0.12 \times 0.85 \times 1.471 = 0.1500$	0.093
	<u>0.3156</u>	<u>0.195</u> (.20)
Rich rural	$0.88 \times 0.15 \times 4.201 = 0.5545$	0.343
Poor rural	$0.88 \times 0.85 \times 1.000 = 0.7480$	0.462
	<u>1.3025</u>	<u>0.805</u> (.80)
	1.6181	1.000

Before turning to the estimates of the four average propensities to save, some space must be devoted to a discussion of the trend toward increasing income inequality and poverty in Bangladesh as these will have a bearing on the estimates. The thought of famine is never far from the consciousness of the vast majority of the population, especially the rural population. "Precarious survival strategies are mapped out in the quiet intervals, meager resources are garnered, dependency relations are set up, some sort of community web is created to ensure the flow of basic needs."^{1/}

There is no shortage of statistical support for these trends in the economic literature. While in terms of absolute numbers Bangladesh is the fourth largest agricultural society in the world, in relative terms (i.e. in terms of the proportion of the population living in the rural areas and directly dependent on agricultural activities for living) it is overwhelmingly more rural than the three larger agricultural economies, (China, India and Indonesia). The share of Bangladesh in the

^{1/} Bangladesh Rural Advancement Committee, Peasant Perceptions, Dhaka, Bangladesh 1984. Book A, p.1.

world's rural poor is even greater than its share of the world's rural population. The combination of a very unfavorable average resources endowment and a high degree of inequality has resulted in an unprecedented concentration of extreme poverty in rural Bangladesh today. ^{1/}

All those families who have levels of income inadequate to ensure a minimum diet are defined as poor. Adequate diet is not easy to define. A number of attempts have been made to define such diets for the poor nations of Southeast Asia. Although these diets are indeed minimum standards that even the poorest societies should attempt to achieve in the near future, they represent unrealistically high levels for a minimum income for Bangladesh. The minimum needs of a society as poor as Bangladesh must be based on a more modest dietary standard. This standard would merely provide enough calories without ensuring the adequacy of other forms of nutrients (e.g. protein, vitamins, etc.). However, in a paper by A.R. Khan, the absolute poverty level was defined as a figure that at the income corresponding to this poverty level only 90 percent of the calorie needs of the Bangladesh minimum dietary standard are satisfied. And, the extreme poverty level was defined as a figure that at the income corresponding to this poverty level only 80 percent of the calorie needs of the Bangladesh minimum dietary standard are satisfied.^{2/} The use of an extreme poverty line is a convenient additional statistic for revealing a characteristic of the distribution below the absolute poverty line.

Table 6 summarizes the situation from 1963-64 to 1975, showing four different years. The outstanding feature indicated in the table is the sharp increase in poverty in the decade. The increase in the proportion of the extremely poor is remarkable.

^{1/} Much of what follows is taken from A.R.Khan, "Poverty and Inequality in Rural Bangladesh," (Geneva, ILO, 1976; mimeographed World Employment Programme Research Working Paper).

^{2/} Khan, "Poverty and Inequality," p.140.

Table 6

Incidence of Poverty in Rural Bangladesh
(In percent)

Ye__	Absolutely Poor Households	Poor Population	Extremely Poor Households	Poor Population
1963- 64	51.7	40.2	9.8	5.2
1968-69	84.1	76.0	34.6	25.1
1973-74	86.7	78.5	54.1	42.1
1975(first quarter)	70.3	61.8	50.5	41.0

Source: A.R. Khan, "Poverty and Inequality in Rural Bangladesh,
(Geneva, ILO, 1976) Mimeographed World Employment
Programme Research Working Paper, Table 48, p. 147.

Very recently, Ahmad and Hossain also employed the calorie needs of a Bangladesh minimum dietary standard to define the absolute poverty level in the rural areas.^{1/} Their figure was a minimum, per capita, daily intake of 2087 calories. The consumption of meat, milk and sugar was excluded; and, later it was assumed that 50 percent of the vegetable consumption would be met from production in kitchen gardens. On this basis, the authors calculated poverty-line, monthly family incomes in current prices for four years : 1963-64, 1973-74, 1976-77 and 1977-78. The poverty-line, income estimates were first made on a per capita basis and then multiplied by average household sizes found in the Household Expenditure Surveys in respective years to obtain monthly, family incomes.

In 1977-78, the absolute, rural, poverty income was calculated to be Tk. 852/- per family, per month. In the Household Expenditure Survey of the same period, at least 85 percent of urban households fell below the rural poverty line as well.

In his book on the informal rural credit market, M.G. Hussain writes that "the loan repayment capacity of rural households is dependent on the pattern of use of loans on one hand, and the rates of interest to be paid on the other. The use of loan, in turn, depends to a large extent on the nature of demand. If a borrower household has less income than its minimum consumption requirement, it is most likely to use the loans for consumption."^{2/} He shows that in the post liberation period, about 60 percent of credit (from both institutional and non-institutional sources) was used for non-production purposes in traditional rural areas, most of it on family-related expenditures. In the same period, about 33 percent of credit (from both sources) was used for

1/ Q.K.Ahmad and M. Hossain, "An Evaluation of Selected Policies and Programmes for Alleviation of Rural Poverty in Bangladesh," Bangladesh Institute for Development Studies, September, 1984. pp. 4-8

2/ Md. Ghulam Hussein, An Analytical Review of Non-Formal Rural Credit Studies in Bangladesh, (Agricultural Development Council, Inc., Dhaka, Bangladesh, February, 1983), p. 91.

non-production purposes in the progressive rural areas.^{1/}

We concluded that the average saving propensities of the urban poor and the rural poor, s_2 and s_4 , respectively, were negligible. One further line of reasoning in support of this conclusion might be given. In some surveys, these two groups may appear to save a small percentage of their income, say 3-4 percent; but, given their extremely low levels of living, society could well be better off if they consumed this 3-4 percent of income, provided the increased consumption was in the form of nutrition, health, hygiene, housing, education and the like. The increase in productive capacity-labor productivity-from increased consumption of social development goods like the above at very low levels of living is very likely to be greater than the increase in productive capacity from saving at these levels channeled into physical investment.

The most recently available Household Expenditure Survey, that of 1977-78, was employed to estimate the average saving propensities of the urban rich and the rural rich, s_1 and s_3 , respectively. Based on the top 15 percent of urban households (the last four income classes in the Survey, numbers 11-14), s_1 was estimated to be 11.9 percent. And, based on the top 15 percent of rural households, (the last five income classes in the Survey, numbers 10-14), s_3 was estimated to be 19.6 percent.

The rural average savings propensity turns out to be higher than the urban average saving propensity, nearly twice as great. This is not surprising. In Patterns in Household Demand and Saving by Lluch, Powell and Williams, there is a report on an investigation of the savings behavior of Korean farm households and urban wage and salary earners in the period 1963-72.^{2/} The farm households were the poorer. The

1/ 1 bid., Table 5.2, p.96

2/ C.Lluch, A.A. Powell and R.A. Williams, Patterns in Household Demand and Saving, (Oxford University Press, New York, 1977), PP.98-103.

authors then state, "At the same time, farmers appear to be considerably more thrifty - their marginal propensity to consume is almost half that of urban consumers., (T)his paradox of thrift in relative poverty is probably explained in part by the consumer-producer nature of the farm household. With the high variability of income and direct link between today's saving and tomorrow's subsistence consumption, high marginal and average savings rates are required for subsistence over time. If interest rates paid by farmers tend to be higher than those available to urban dwellers, then farmers' marginal propensity to consume will be smaller". ^{1/}

The higher rural saving propensity could also be influenced by diminished "demonstration effects" in rural areas. Often, rural markets may not be open to goods and services originating in urban areas, in particular modern consumer durables. However, some would argue that demonstration effects do not have to have a negative impact on at least the volume of rural savings; on the contrary, farm households wishing to increase and diversify their consumption work harder, earn a greater income and save more.

Estimates of the national, rural and urban household savings ratios are presented in Table 7. In addition, four simulations with this model were made. These were the effect each of the ratios of reduced poverty, the effect of forced saving, the effect of reduced income inequality and the effect of increased urbanization.

In the case of the "effect of reduced poverty," the below poverty proportion of 85 percent of households which applied to both urban and rural areas, was replaced by one of 50 percent. To estimate the "effect of forced saving," both poor urban and poor rural households were assumed

1/ Ibid., p.99 and pp.101-102. Actual average household savings ratios during the period 1963-72 were 17.0 percent for farm households and 2.3 percent for urban households (wage and salary earners). See Table 5.4, p.103.

Table 7

National, Rural and Urban Household Savings Ratios:
Summary of Estimations

(In percent)

Estimates	National Ratio	Rural Ratio	Urban Ratio
Ratios for the Late 1970's	7.9	8.4	6.2
Effect of Reduced Poverty	14.6	15.8	10.3
Effect of Forced Saving	9.0	9.5	7.2
Effect of Reduced Income Inequality	6.4	6.6	5.5
Effect of Increased Urbanization	7.6	8.3	6.2

to save 2 percent of income. This might be brought about on a national scale by a scheme like that of the Grameen Bank. In the case of the "effect of reduced inequality," the r_{14} 's of the 1963/64 household income distribution were substituted for the r_{14} 's of 1976/77. The variation in relative terms among the average household incomes of the four socio-economic groups in 1963/64 was less than in 1976/77; household incomes were more equal relatively in 1963/64. In the "effect of increased urbanization," P_u (the proportion that urban households are of all households) was raised from 12 percent to 25 percent.

The impact on the rural savings rate of a reduction in poverty is significant. This effect can be compared with that of forced saving. One raises the ratio by over seven percentage points, nearly doubling it; the other raises it by a little over one percentage point.

The effect of reduced income inequality actually lowers the rural ratio from 8.4 percent to 6.6 percent. This happens because the share of income of those in the rural areas who save declines in going back to the earlier years, while the share of income of those who save little increases. The effect of increased urbanization has practically no effect on the rural ratio.

Annex to Household Savings : Mathematical Derivation
of the National Household Savings Ratio as a Weighted Average

$$\frac{\sum_i^n \left(\frac{H_i}{\bar{H}}\right) \left(\frac{Y}{\bar{Y}}\right)_i \left(\frac{S}{\bar{S}}\right)_i}{\sum_i^n \left(\frac{H_i}{\bar{H}}\right) \left(\frac{Y}{\bar{Y}}\right)_i}$$

Where H is number of households, Y is household income and S is household savings.

i is a socio-economic class; there are four classes .
 i = 1,2,3,4 ; n=4.

Let $\left(\frac{H_i}{\bar{H}}\right) = p_i$; $\left(\frac{Y}{\bar{Y}}\right)_i = y_i$; $\left(\frac{S}{\bar{S}}\right)_i = s_i$

$$\frac{S}{\bar{Y}} = \frac{p_1 y_1 s_1 + p_2 y_2 s_2 + p_3 y_3 s_3 + p_4 y_4 s_4}{p_1 y_1 + p_2 y_2 + p_3 y_3 + p_4 y_4}$$

Let $r_{14} = \frac{y_1}{y_4}$; $r_{24} = \frac{y_2}{y_4}$; $r_{34} = \frac{y_3}{y_4}$; $r_{44} = \frac{y_4}{y_4} = 1$

$$p_1 + p_2 + p_3 + p_4 = 1$$

$$p_4 = 1 - p_1 - p_2 - p_3$$

$$\frac{S}{\bar{Y}} = \frac{p_1 r_{14} s_1 + p_2 r_{24} s_2 + p_3 r_{34} s_3 + (1-p_1-p_2-p_3) s_4}{p_1 r_{14} + p_2 r_{24} + p_3 r_{34} + (1-p_1-p_2-p_3)}$$

$$\frac{S}{\bar{Y}} = \frac{\sum_{i=1}^3 p_i r_{i4} s_i + (1-p_1-p_2-p_3) s_4}{\sum_{i=1}^3 p_i (r_{i4}-1) + 1}$$

Chapter 3 Financial Savings in Bangladesh
During the Seventies

Introduction :

Policies relating to savings mobilization depend on the structure of the economy. Government savings - that is the excess of current revenues over current expenditures - in most developing countries rarely exceeds 2-3% of GDP and often is negative. Corporate saving, too, is limited because of the smallness of this sector. It is the savings of the non-corporate (household) sector that is of crucial significance in most middle and low income developing countries, because this is the only surplus sector in the sense that its savings exceed its investments.

Thus, the growth of the government and corporate sectors is critically related to the mobilization of savings from this surplus sector.

In a large number of developing countries potential savings of this sector is not mobilized because of a lack of sound financial structure, structure of institutions, instruments and interest rates.

The holding of savings in physical forms such as commodities, which is characteristic of the subsistence sector, is clearly unproductive beyond a point. Since monetization facilitates the transformation of savings in kind into monetary forms, it can be regarded as an integral part of savings policy. However, as an economy develops, the demand for suitable savings media must be necessarily satisfied by financial assets other than currency. The available evidence supports the view that financial intermediation, measured by the proportion of financial savings and by the number of bank offices per million of population, has a positive influence on national savings in the majority of developing countries.

The Neoliberal View

According to the neoliberal view, the level of financial development is extremely important as a determinant of household savings. The first step is measuring the degree of financial development is to distinguish

nominal from real monetary variables. Instead of nominal money balances, (M) , a better measure is real money balances or the value of the stock of nominal money in relation to a comprehensive price index of goods and services, (M/P) . Money, broadly defined to include time and savings deposits in addition to currency and demand deposits, (M_2) , is taken to be the dominant financial asset available to wealthholders in developing economies, since the securities and bonds markets which offer money substitutes are either nonexistent or insignificant.

Individuals adjust their real money balances to anticipated variations in the real return on money balances. It is necessary, therefore, to eliminate money illusion and to make a distinction between the nominal interest rate on deposits (d) and the real return on money balances. The latter can be approximated by deducting the expected rate of price inflation, (P^*) , from the nominal interest rate. Tangible physical assets, i.e., inventories of commodities of all kinds, are the principal alternative class of assets open to savers. It is the rate of change of commodity prices that wealthholders compare with nominal rates of interest on financial assets in deciding on their real money balances relative to their incomes and to their holdings of goods.

A state of financial repression is said to exist when demand for financial assets is inhibited by rates of return on money balances that become very low or even negative after allowing for inflation, and when the supply of funds loanable on these terms is held down by credit rationing. In such a case, when finance is "shallow", an economy depends heavily on the "tax" exerted by inflation and on foreign savings. The ratio of monetary liabilities (M_2 definition) to GNP is frequently used to measure the extent of financial repression or the real size of the monetary system of the economy.

Empirical research on the neoliberal view of financial development and household savings tends to confirm that household savings are

responsive to higher real deposit rates or to the rise in the broad money to income ratio. A high interest rate may not act as an inducement to save more; but, if the intention is to induce a shift in savings from informal credit markets, from goods or from precious metals to financial assets, the rates of return for these two alternatives should be comparable.

Financial Savings in Bangladesh in the Seventies

There is no study for any part of the post liberation era showing the division of household savings between financial and non-financial assets. Alamgir and Rahman, estimated the holdings of these two broad asset classes by the noncorporate private sector for the period 1959/60 - 1969/70. Saving in financial assets as a percentage of total saving ranged between 6 and 30 percent, averaging 18 percent in the period. There was no clear trend.^{1/}

In a recent Asian Development Bank report on domestic resource mobilization through financial development in Bangladesh, data in real terms indicated that compared with the period 1973-1975, when financial shallowing (disintermediation) took place, financial deepening has been occurring since 1976. The increase in M2B, (an indicator of financial asset holdings), and in (M2B-M1), (an indicator of interest-bearing asset holdings), are more pronounced in nominal than in real terms. These changes were occurring despite negative real returns on financial assets. As nominal deposit rates were changed by modest amounts in the period and then only twice, in 1974 and 1981, changes in the real interest rate were primarily the result of changes in the inflation rate. Real interest rates improved following the stabilization measures adopted by the Government in 1975; but, they fell sharply in 1980 and 1981 following the second oil shock.^{2/}

1/ M. Alamgir and A. Rahman, Saving in Bangladesh 1959/60-1969/70 (The Bangladesh Institute of Development Studies, Dhaka, 1974), pp58-59, Table 3.1

2/ PB Rana, Domestic Resource Mobilization Through Financial Development, Bangladesh, (Asian Development Bank, February, 1984) pp 16-21.

A series of regressions to test the importance of real interest rates and real Gross Domestic Product levels as determinants of the level of financial savings were estimated.

Both the interest rate and the aggregate income level had a positive effect on financial savings. However, none of the regressions seem to fit the data well; consequently, any forecasts or projections of potential financial savings made with them would be questionable and indeed may not seem plausible.

Table-8 presents the time series of four savings rates in the seventies: Gross Domestic Savings, Gross National Savings, Private Sector Savings and Financial Savings. All except Financial Savings have been defined previously. The first three savings rates were very depressed in 1973-76. Each rose somewhat in 1977, especially Private Sector Savings; since then, GDS and Private Sector Savings have tended to decline slightly, while GNS has tended to rise.

In Table 9, the correlation of two measures of real interest with each savings rate is shown. In the third row of the table, the correlation of the financial savings rate itself with each of the other three savings rates is given. All correlations are positive. The first measure of real interest has a moderate correlation with each of the four savings rates. The second measure has a weak correlation with the GDS and GNS rates but a moderate one with the rates of Private Sector Savings and Financial Savings. The financial savings rate exhibits a high correlation with GDS, GNS and Private Sector Savings rates, in particular with the last two.

A Review of the Saving Performance of Selected
Developing Countries in Asia, 1971-1980.

Three broad groups of countries were classified by real GDP per capita, real income growth, and degree of financial development. The group of low-income, low-growth countries is Group A, including Bangladesh, Burma, India, Nepal, Pakistan and Sri Lanka.

Table 8

Savings Rates in Bangladesh 1973-1981
(Percentages of GNP at current prices)

<u>Year</u>	<u>Gross Domestic Savings</u> ^{a/}	<u>Gross National Savings</u>	<u>Private Sector Savings</u>	<u>Financial Savings</u>
1973	0.3	1.1	.. ^{b/}	22.6
1974	1.5	1.7	.. ^{b/}	17.6
1975	0.8	1.0	2.7	10.5
1976	- 1.9	1.8	2.1	11.7
1977	3.2	3.6	7.1	17.7
1978	2.7	3.6	6.0	17.3
1979	3.0	4.2	6.8	20.3
1980	2.0	3.9	6.5	20.2
1981	2.3	5.1	5.7	22.7

^{a/} As percentage of GDP

^{b/} These two years are not available

^{c/} Financial saving is represented by M2B, currency outside banks, plus demand deposits held by non-bank public plus savings and time deposits at scheduled banks plus deposits at non-scheduled banks, cooperatives and post office savings banks.

Source: P.B. Rana, Domestic Resource Mobilization through Financial Development Bangladesh, Asian Development Bank, February, 1984. Table 2, P.5, Table P.6, Table 7, P.19.

Table 9

Correlations of Savings Rates in Bangladesh
with Real Interest Rates, 1975 - 1981.

	<u>Gross Domestic Savings</u>	<u>Gross National Savings</u>	<u>Private Sector Savings</u>	<u>Financial, Savings</u>
Real Weighted Average Inter- est Rate	.41	.60	.51	.56
Real One-Year Deposits Interest Rate	.20	.22	.52	.59
Financial Savings (M2B/GNP)	.61	.81	.79	-

Group A is characterized by heavy reliance on agriculture, slow employment expansion, extreme poverty, and inefficient financial intermediation. In sharp contrast, the Group C countries of Hong Kong, Korea, Singapore and Taiwan, reached per capita incomes in 1980 in excess of US\$1,500, and have maintained relatively high rates of income growth. Between these two groups are the middle-income, medium-growth countries of Group B, including Indonesia, Malaysia, the Philippines and Thailand.

Growth rates of real GDP, Gross Domestic Investment, Gross Domestic Savings, Private Savings, Government Savings, the Savings - Investment Gap and a measure of financial development for Bangladesh and the three groups of developing countries in 1971-1980 are brought together in Table 10. (Bangladesh is also included in the Group A figures). As indicated in the Table, in the majority of these economies domestic savings fell short of domestic investment in 1971-1980. These countries, by and large, depend on foreign savings for financing their economic development.

A good measure of the degree of financial deepening and of the potential for raising household savings through increased financial intermediation is the ratio of broad money to GDP. For Group A and Group B countries, the average M_2 /GDP ratios during the 1970s were 26 percent and 29 percent, respectively, low figures compared to that of the Group C countries (62 percent).

The potential for financial deepening in Bangladesh can be measured against the average ratio of either the "A" countries or the "B" countries.

Bangladesh	18.1
Group A Countries	26.1
Group B Countries	27.0

Neither difference is too great and would seem to be well within the country's ability to close.

Table 10

SAVINGS, INVESTMENT AND FINANCIAL DEEPENING IN SELECTED ASIAN DEVELOPING COUNTRIES, 1971-1980

	<u>Growth rate of Real GDP</u>	<u>Gross Dom. Investment GDP</u>	<u>Gross Dom. Savings GDP</u>	<u>Private Savings GDP</u>	<u>Govt. Savings GDP</u>	<u>Savings-Invest.Gap GDP</u>	<u>M(2) GDP</u>
<u>Group A: Bangladesh</u>	6.55 ^{b/}	7.2 ^{a/}	1.6 ^{a/}	0.1 ^{a/}	1.4 ^{a/}	- 5.6 ^{a/}	18.1 ^{b/}
Average	4.25	14.9	10.0	9.2	0.4	- 4.9	26.1
<u>Group B:</u>							
Average	7.18	23.8	23.7	22.3	1.5	- 0.2	29.0
<u>Group C:</u>							
Average	9.27	30.5	26.0	21.6	4.4	- 4.4	61.6

Notes : 1) M(2) refers to currency in circulation, demand deposits, savings and time deposits.
2) S-I gap was computed by subtracting savings from investment in the same year. Since the period averages presented for savings and investment do not always cover the same number of years, the resource gaps given here are not just the mere differences between the two average ratios.

a/ 1973-79 b/ 1974-80

Source : Wan-Soon Kim, Financial Development and Household Savings : Issues in Domestic Resource Mobilization in Asian Developing Countries, Asian Development Bank Economic Staff Paper No. 10, July 1982, Table 1, p. 15

The correlation between GDS/GDP and M2/GDP as one proceeds from the "A" group to the "C" group is evident, (the correlation coefficient is 0.67).

	<u>GDS/GDP</u>	<u>M2/GDP</u>
Group A .	10.0	26.1
Group B	23.7	29.0
Group C	26.0	61.6

But, the shape of the relationship raises questions. (Note the relationship between the incremental changes).

A divergence between the Private Savings ratio and financial deepening must be noted :

	<u>Private Savings</u> GDP	<u>M2</u> GDP
Group A	9.2	26.1
Group B	22.3	29.0
Group C	21.6	61.6

In Bangladesh, rural household savings would be a sizeable component of private savings; so, this result raises some doubt as to the effectiveness of financial deepening for mobilizing rural savings.

An Examination of the Quantitative Relationship in Bangladesh Between Financial Development and National Saving.

The fitted, regression equation below is borrowed from P.B. Rana ^{1/}

$$\begin{array}{rcll}
 \text{NS} & = & - 10.335 & + 0.129 \text{ GNPR} + 1.178 \text{ FIS3} \\
 & & (1.312) & (1.408) \quad (1.822) \\
 & & \text{DW: } 2.476 & R^2 \text{ } 0.375
 \end{array}$$

^{1/} P.B.Rana, Domestic Resource Mobilization Through Financial Development: Bangladesh, (Asian Development Bank, February, 1984) Appendix 1, P.107.

Where NS = National saving rate
GNPR = GNP deflated by non-food price index
FIS3 = $(\Delta M2B)/GNP$

The national savings rate (gross national savings is used) is determined by the level of gross national product, in real terms, and the change in financial development (savings, "deepening") relative to GNP (both in nominal terms). To examine the potential for raising the NS of Bangladesh, benchmark levels of real GNP and FIS3 must be established first.

GNPR	Tk. 74.84 billion	Both are 1981-83 averages to be found in Rana's Appendix 1.
FIS3	3.07 percent	

Employing the equation, NS is estimated as 2.9 percent.

It can be shown that

$$\frac{\Delta M2B}{GNP} = \left\{ \left(\frac{M2B}{GNP} \right)_t - \left(\frac{M2B}{GNP} \right)_{t-1} \right\} + \left\{ 1 - \left(\frac{1}{1+g} \right) \left(\frac{1}{1+i} \right) \right\} \left(\frac{M2B}{GNP} \right)_{t-1}$$

where,

M2B is equal to currency outside banks plus demand deposits held by non-bank public plus savings and time deposits at scheduled banks plus deposits at non-scheduled banks, cooperatives and post office savings banks.

Δ is the change in M2B between two periods.
 g is the real annual growth rate in GNP; and
 i is the annual rate of inflation
 t is the time period (year).

Further, let us assume that our benchmark level of $\frac{M2B}{GNP}$ is 18.1

percent. This figure is from Kim^{1/}; Rana finds an average $\frac{M2B}{GNP}$ of 16.8 percent for the same 1974-1980 period in Bangladesh. This slight difference may be due to a different definition of M2 employed by Kim and the fact that he places M2 over GDP, not GNP, the former being smaller. Also, let us assume that the inflation rate is going to be zero.

Let us examine the impact on NS in Bangladesh of three cases :

- (1) GNPR growth averages 6 percent per annum for the next 5 years and $\frac{M2B}{GNP}$ rises by 50 percent at the same time;
- (2) GNPR growth averages 6 percent per annum for the next 5 years but $\frac{M2B}{GNP}$ does not change;
- (3) No growth in GNPR occurs in the next five years but $\frac{M2B}{GNP}$ nevertheless rises by 50 percent.

In case (1), NS = 18.7 percent, representing a rise of 15.0 percentage points from the benchmark figure in five years.

In case (2), NS = 8.0, representing an increase on only 5.1 percentage points over the benchmark figure.

In case (3), NS = 10.0, representing an increase of 7.1 percentage points in the benchmark.

An Opportunity to Mobilize Financial Savings

Studies conducted during the pre-liberation period show that, based on loan amount, non-institutional sources of credit were dominant. In the studies of the post-liberation period, non-institutional sources of credit continue to occupy the dominant

1/ Wan-Soon Kim, Financial Development and Household Savings: Issues in Domestic Resource Mobilization in Asian Developing Countries, (Asian Development Bank Economic Staff Paper No.10, July, 1982, P.15, Table 1.

position in traditional rural areas, but institutional sources of credit are now more important in progressive rural areas.^{1/}

Over the years, friends and relatives have remained the dominant source of non-institutional credit, followed by moneylenders. More than half of the total non-institutional credit was furnished by friends and relatives. From the pre-liberation to the post-liberation period, the share of moneylenders increased by about 125 percent. Where in the former era, these informal lenders appear to have supplied only 12 percent of total non-institutional credit, in the latter, they appear to have supplied 27 percent. The next most important source was well-to-do rural people, their relative contribution remaining more or less constant over the years, accounting for about 13 percent of total non-institutional credit. Shop keepers' and marketing intermediaries' share of the total declined over time.^{2/}

Studies carried out between 1956 and 1982 show that one-third of the non-institutional loan contracts were without any form of interest attached. Loans with non-monetary interest were relatively popular with lenders in the 1950's and 1960's; but, successive studies made during the post-liberation years show a decline in the importance of these loans. Friends and relatives and shop keepers and marketing intermediaries provide most of interest free loan contracts. Only an insignificant proportion of loans from money lenders and well-to-do rural people have no interest attached.^{3/}

When this same question is viewed from total credit instead of total contracts (number of loans), two studies in the mid 1970's

1/ M.G. Hussein, Non-formal Rural Credit, PP. 43-45

2/ Ibid., P. 86

3/ Ibid., PP 108-109

indicate the following proportions.^{1/}

Credit Source	Percent	
	<u>Without interest</u>	<u>With interest</u>
All sources	25	75
Friends and relatives	45	55
Well-to-do rural people	29	71
Shop keepers and marketing intermediaries	7	93
Money lenders	3	97

Money lenders charge the highest rates of interest, followed by landlords, rural rich people, marketing intermediaries, shopkeepers, and friends and relatives.^{2/}

From his savings or surpluses, the rural moneylender makes relatively small, relatively risky loans; because of the riskiness of these "investments" and because he usually finds himself in a monopolistic position, he charges very high rates of interest. Few genuine investment opportunities promising profit, or the failure to realize a profitable investment opportunity, because complementary inputs were lacking, create "frustrated" savings. Could the rural moneylender be a case of the frustrated saver? What impact would high real interest rates have on him? The formal rural credit network stands in need of considerable improvement and development. Were this to happen, the rural moneylender could very well be willing to accept a somewhat lower real rate of return in exchange for lower risk.

1/ Ibid., p.113, Table 6.3

2/ Ibid., p.117, Table 6.4

Chapter 4 Determinants of Financial Asset Holding in Rural Bangladesh

In earlier chapters, we have attempted to obtain broad orders of magnitude relating to an aggregate savings rate for the rural areas of Bangladesh as a whole and to shed some light on how it has performed over a period of time. The time period under reference, viz. the period 1975/6 through 1982/3, is a short one. Going back a few years, say upto 1972/3, would have provided a more reliable time series, but would have, procedurally, begged several questions: 1972/3 through 1973/4 were years of reconstruction. 1974/5 witnessed one of the most devastating floods in the country's history. During these years the economy was in disequilibrium with both a typical behavior and disruption in the data collection. At any rate, the brevity of the time period under study was compounded by several limitations of available data affecting levels and determinants of the performance of rural savings. Indeed, a good deal of secondary data exist on the subject of financial savings of rural economic agents, mainly represented by holdings of bank deposits in Bangladesh during 1975/6-1982/3. The objective of this chapter is to identify some determinants of the level of such deposits.

Financial Deposits and Savings

A short digression seems in order so as to justify an attempt to cast an analysis of savings in terms of deposits. For a private economic agent, an act of opening a deposit account with a bank need not always represent an act of net financial saving; even less, an act of net real saving. What is deposited may previously have been saved but retained in a less liquid form. A fall in the transaction demand for money, at any given rate of consumption per capita, may well show up in the form of higher bank deposits. It is, of course, more evidently true that deposit activities do not necessarily represent acts of net savings. A case in point is when there exists a large public sector which is assured, perhaps by statute, of govern-

ment grants to finance, whether in full or in part, public sector revenue expenditure. A certain proportion of such grant is required, again by fiats, to be deposited with the banking system. Neither such grants nor the deposits they lead to, can be seen to represent acts of net financial savings. It is admitted that such considerations as these do call for caution in attributing empirical significance to the interpretation of financial savings behavior described herein.

In defence of the relevance of this body of data in our present context we point to two facts: first, the relevance of the second difficulty raised in the previous paragraph would not appear to be great in that we are dealing with rural bank and cooperative deposits and the public sector agencies implied by the statement under reference may be safely supposed to keep most, if not all, of their deposits with urban branches of banks. Second, it is difficult to be sure how much importance to attach to the first difficulty raised in the previous paragraph. It does not appear to be axiomatic that a decline in the demand for cash in hand has become a universal characteristic of rural households in Bangladesh. For, the opposite, namely, that people are increasing their holding of cash in preference of any hard evidence, either way. We may therefore pursue this discussion on the basis that we are talking about acts of financial saving on the part of rural agents.

The Level and Trend of District-level Financial Deposits

In rural areas of Bangladesh, as also elsewhere, there are essentially three types of instruments where people can deposit their savings: (a) deposits with the banking system; (b) deposits with the cooperative systems; (c) purchase of one or the other of certificates issued by Government. Data relating to (a) and (b) are available at district level for most recent years. Data relating to (c) are not available on a rural-urban basis. However, the magnitude of (c) at the national level must be adjudged to be quite small as against the sum of deposits with the banking and cooperative systems; in 1982/3, the percentage is only about 2.5%. This discussion is hence confined to a description of the trend in the level of the deposits in categories (a) and (b).

Rural Financial Deposits. Table 11 examines the pattern revealed by the change in the levels of country-wide rural deposits with the banking and cooperative systems, 1975/6 through 1982/3. As far as bank deposits are concerned, these are combinations of "current" and "savings" deposits with various maturities. In the current state of the published data, it is not possible to know the relative importance of either category. Bangladesh Bank publishes the magnitudes of combined deposits as of the end of each quarter. Such quarterly series are available since 1975/6. We have used these data in the present analysis. The data relating to cooperative deposits have been collected from records of the Registrar of Cooperative Societies.

Rural banking in Bangladesh was already an established feature of her banking system at the beginning of 1970s. In 1972/3, about 40% of bank branches were rural. In 1974/5, on a basis that subsequent events have turned out to be of dubious merit, a decision was taken to provide an impetus to rural branch banking. The specific form of the process was imposed in a decree issued by the Bangladesh Bank that public sector banks, scheduled as well as specialised, would only be allowed to open one urban branch if they were willing to open two rural branches. This order was first made effective in 1974/5. This led to a rapid multiplication of rural bank branches. The outline of this multiplication is presented, in terms of a particular aspect of it, in cols. 2-4 of Table 11. We find, for example, that the proportion of rural bank branches in the total rose from about half in 1975/6 to 66% in 1980/1.* The proportion of rural branches made a gain of 16 percentage points (an increase of 28%), in a period of five years. In contrast, the proportion of rural deposits in total deposits changed by 7 percentage points — from 9% in 1975/6 to 16% in 1980/1 — which represents a 78% proportional increase.

The question of whether rural branch banking policy has been successful, may be raised. Little credit ought to be claimed for the fact that the proportion of rural branches increased substantially. In an economy

* Given the Government directive that banks would be permitted to open one urban branch for each two rural branches opened, this growth pattern is about as would be expected and the Government strategy can be considered to have been successful.

with acute shortage of permanent, even temporary, job opportunities for university-returned graduates, the social pressure for the proliferation of employment outlets is very great. Further, the addition of branches is beneficial to all concerned : the officer issuing the order, the owner whose premises are hired or built for the purpose, the merchant who supplies the furniture, etc. What must be reckoned is that the increase of rural deposits as a proportion of total deposits has been disproportionate to the expansion of the number of rural outlets. Of the two indicators, surely, it is the deposits, in proportionate terms, that is more developmentally relevant. On that score, the result achieved from rural branch expansion appears at least to be mixed. Nevertheless, one authoritative appraisal of the banking system has found the expansion of rural branch banking to be wanting. 1/

The remaining columns of Table 11 project the movements, in both absolute and relative terms, of rural bank and cooperative deposits the years since 1975/6. Several things may be taken note of. First, in seven years, rural bank deposits have increased slightly less than seven fold. They have grown at an annual compound rate of 31%. Rural bank deposits have also grown relative to gross agricultural product of Bangladesh, and the relative increase — from 1.89% in 1975/6 to 6.06% in 1982/3 — is several fold. Such rates of growth are indeed impressive, so long as one takes no account of the opportunity cost of the resources which underpin this impressive deposit expansion.

In contrast, growth at an annual compound rate of 16.5%, of deposits with the rural cooperative system is much less impressive. As would be expected, cooperative deposits as a proportion of rural bank deposits have shrunk from about 6% in 1975/6 to 2.6% in 1982/3. The point to note is that of these two categories of financial assets, bank deposits account for nearly the whole. Another observation that can be made is that the sum of cooperative and bank deposits of rural areas as a

1/ Government of Bangladesh and World Bank, Bangladesh Agricultural Credit Review, August 1983, Vol. I.

Table - 11

Expansion of Rural Banking and some Aspects of Financial Deepening in Bangladesh,
1975/6 - 1982/3

Year	No. of bank branches		Rural as a % of total no. of branches	Rural deposits as a % of total deposits	Deposits with		Col. (6) as a % of gross farm product Bangladesh	Col. 7 as a % of col. 6
	Total	Rural			rural branches of banks ^a	rural cooperatives ^a		
1	2	3	4	5	6	7	8	9
1975/6		-	50	9	1033	64	1.89	5.9
1976/7	2065	1100	53	11	1470	69	2.74	4.7
1977/8	2757	1591	58	13	1894	70	2.62	3.7
1978/9	3261	1996	61	15	2339	86	3.73	2.9
1979/80	3820	2456	64	14	3713	94	3.98	2.5
1980/81	4436	2928	66	16	4909	112	5.14	2.3
1981/2	n.c	n.c	n.c	n.c	5770	151	5.64	2.6
1982/3	n.c	n.c	n.c	n.c	7139	187	6.06	2.6

Notes : a) These are annual averages over four quarters of every year. As such, they need not equal end-year deposits. The figures relating to cooperative deposits sum over the entire prevailing range of rural cooperative societies. n.c. stands for not calculated.

Source : Cols. (2) through (9) are from GOB/IDA, Bangladesh Agricultural Credit Review, Tables 28, 29. Col. 6 is calculated from various issues of Bangladesh Bank, Scheduled Banks Statistics. Col. 7 is calculated from records collected from the office of the registrar of Cooperative Societies. Gross farm product for Bangladesh is taken from World Bank Annual Economic Reports.

ratio of gross agricultural product has definitely risen through the 1970s. The financial deepening of the rural areas has thus proceeded at a considerable rate. 1/

Rural Bank Deposits at the District Level, 1975/6 - 1982/3

There are, as would be expected, some variations at the district level in terms of rates of financial deepening. It is important to examine the trend of rural bank deposits at the district level over this period, so that the influence of regional differentiation if any, can be isolated. This has been done in Table 12 and in the text below. One of the first trends to note is contained in col. 4. Rates of growth (compound) of rural bank deposits at district level between 1975/6 to 1982/3 are contained here. In calling attention to regional variation in rural deposit mobilisation, we may first compare the record as between the four divisions of the country. Chittagong division is found to have performed the most favourably in that it has registered a higher rate of growth than applies to the country as a whole (Table 13, col. 10) and is the only division that has done so. This means that Chittagong division has made up for the shortfall, vis-a-vis the national average, registered by the other divisions. All five

1/ Aside from stocks and shares, which are scarcely acquired by rural economic agents, a last category of financial assets which sometimes attract savers in rural areas are transacted by the National Savings Directorate under the Ministry of Finance. The instruments here are (a) Defese Savings Certificate; (b) Post Office Savings Deposits; (c) Prize Bonds, etc. Total deposits on account of all these various instruments in net terms (i.e. net of encashments, etc.) have risen from Tk. 153 million in 1975/6 to Tk. 309 million in 1981/2. The most popular among these are (a) and the Bonus Savings Certificate — both of which being tax-deductible financial investments. Hence they are so attractive. We may safely assume that the incidence of this entire range of assets in rural areas is quite minimal, probably equal to about 5%.

districts in the Chittagong division have also registered rates of growth in excess of all-Bangladesh rates. The division next to Chittagong in deposit growth is Dhaka, followed by Rajshahi and Khulna divisions (Table 13, col. 10), in that order.

The coefficients of variation (C.V.) of the rates of growth of the districts comprising the various divisions are of note. The greatest variability is seen in the case of Dhaka division, with a C.V. of 40%. The C.V. for the Chittagong division is 25%, while those for Khulna and Rajshahi divisions are 19% and 8%. The C.V. of the district rate of growth of rural bank deposits of the country as a whole is only 29%, and is seen to be intermediate to that variability for the constituent divisions.

Cols. 5 and 6 in Table 12 indicate change in the rate of financial deepening at the district level between 1977/8 and 1981/2. The selection of these two terminal years is dictated by the availability of the data with regard to district sectoral incomes, Tables 14-18. The figures in these two columns at the foot of the table are (simple) average rates of financial deepening in those two years. To be noted is the discrepancy in 1981/2 between the average rates of deepening over all the districts of the country, shown in the last row of Table 12, cols. 5 and 6, and the matched ratio for the country as a whole. While the average ratio of bank deposits to gross farm product over all districts is 3.8, the corresponding ratio for the country as a whole is 5.6. However, this is almost entirely due to the fact we have been unable to calculate the ratio for Dhaka and Chittagong — two of the financially most progressive districts. This has tended to understate the average.

The thrust of the evidence contained in cols. 5 and 6 of Table 12 is to show that Chittagong, Comilla, Noakhali, Sylhet, Dhaka, Jessore, Bogra, Kushtia and Pabna are among the financially more progressive districts of the country in relation to the rural deposits mobilisation effort. All these districts have ratios of rural bank deposits to gross farm product in excess of 4%. Sylhet is of course the doyen of this category with a ratio of 8.9 in 1981/2 having doubled it

Table 12

Financial Deepening at the District Level, Bangladesh, 1975/6-1982/3

Name of district	Bank deposits, rural		Rate of growth, deposits, 1975/6-1982/3	Rural bank deposits as a % of gross farm product		No. of rural bank branches		No. of bank branches per union	
	1975/6	1982/3		1977/8	1981/2				
	2	3		4	5	6	7	8	
Chittagong	113.	1106	38.5	6.8	n.a.	181	0.69		
Chittagong H.T.	4	92	56.5	1.2	n.a.	35	0.74		
Comilla	77	546	32.3	2.4	5.1	241	0.68		
Noakhali	50	320	30.4	1.9	5.6	157	0.91		
Sylhet	138	982	32.4	4.5	8.9	276	0.87		
Dhaka	115	978	35.8	5.8	n.a.	280	0.76		
Faridpur	99	200	10.6	1.4	2.4	132	0.43		
Mymensingh	68	238	19.6	1.4	1.8	157	0.47		
Tangail	17	182	40.3	n.a.	3.4	61	0.55		
Jamalpur	•	102	30.7	n.a.	2.3				
Barisal	46	234	26.2	1.6	3.3	127	0.57		
Jessore	52	296	28.2	2.8	5.7	147	0.63		
Khulna	36	250	31.9	1.4	n.a.	139	0.64		
Kushtia	24	190	34.4	3.2	5.3	93	0.87		
Patuakhali	20	66	18.6	1.0	1.7	51	0.51		
Bogra	29	224	33.9	2.4	4.0	127	0.91		
Dinajpur	35	194	27.7	1.8	3.4	118	0.61		
Patna	39	286	32.9	2.5	4.2	146	0.97		
Rajshahi	72	418	28.6	2.7	n.a.	199	0.73		
Rangpur	49	285	28.6	1.4	2.2	175	0.52		
All Bangladesh	-	-	31.0	2.6	3.3	-	-		

Table 13

District-wise Deposits with Commercial Banks, 1975/6-1982/3

Name of district	Rural Deposits								Annual Rate of growth (compound)
	1975/76	1976/7	1977/8	1978/9	1979/80	1980/1	1981/2	1982/3	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Chittagong	113	171	299	488	636	749	885	1105	38.49
Chittagong H.T.	4	16	32	40	51	72	84	92	56.51
Comilla	77	97	138	272	288	401	450	546	32.29
Noakhali	50	60	68	110	140	210	257	320	30.37
Sylhet	138	170	238	380	516	688	775	982	32.36
All: Chittagong divn.	382	514	775	1290	1631	2120	2451	3046	34.52
Dhaka	115	154	256	374	499	696	816	978	35.77
Faridpur	99	46	51	76	98	139	155	200	10.57
Mymensingh	68	72	96	100	129	172	192	238	19.60
Tangail	17	27	32	47	70	94	130	182	40.31
Jamalpur	-	-	-	35	41	70	76	102	30.66
All: Dhaka divn.	299	299	435	632	837	1171	1369	1700	28.18
Barisal	46	214	65	104	192	162	191	234	26.16
Jessore	52	66	79	114	125	176	226	296	28.20
Khulna	36	50	58	94	122	180	221	250	31.90
Kushtia	24	29	58	144	100	133	158	190	34.39
Patuakhali	20	18	20	28	33	46	56	66	18.50
All: Khulna divn.	178	377	280	484	572	697	852		28.64

Contd.. (Table - 13)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Bogra	29	36	64	84	106	150	172	224	38.92
Dinajpur	35	42	61	87	117	146	174	194	27.72
Pabna	39	50	71	101	142	167	198	285	32.93
Rajshahi	72	92	129	168	182	274	340	418	28.56
Rangpur	49	60	79	99	126	184	214	285	28.60
All: Rajshahi divn.	224	280	404	553	673	921	1098	1407	30.02

Notes: These numbers are annual average deposits, calculated by averaging published deposit figures corresponding to the four quarters. District-wise figures need not exactly equal the divisional total shown, due to rounding errors.

Source : Bangladesh Bank, Scheduled Bank Statistics (various issues).

Table - 14

Sectoral Gross Domestic Product at the District Level, 1977/8.

(Sectoral gross value added, 1977/8, Tk. million)

Name of the District	Agriculture	Industry		Construction, Power, Transport	Trade Service	Other	District GDP at Market Prices	District Population (million)
		Large	Small					
1	2	3	4	5	6	7	8	9
Chittagong	4370	1511	975	1298	1077	1471	10702	5.24
Chittagong H.T.	2564	196	167	123	441	188	3679	0.59
Comilla	5737	99	675	1326	910	2038	10785	6.70
Noakhali	3598	38	247	604	665	1124	6276	3.72
Sylhet	5310	346	314	1010	802	1664	9452	5.51
Dhaka	4405	2192	1254	2442	1234	2635	14162	9.20
Faridpur	4443	26	99	805	495	1114	6982	4.65
Mymensingh	6638	34	135	922	926	1740	10399	6.36
Tangail	-	-	-	-	-	-	-	-
Jamaipur	2066	37	16	318	303	619.25	3359	2.37
Barisal	3919	2	90	793	562	1296	6663	4.48
Jessore	2780	101	67	557	491	849	6046	3.94
Khulna	4131	442	95	906	734	1078	7396	4.24
Kustia	1617	145	79	296	272	540	3149	2.24
Patuakhali	1948	0.49	33	257	253	535	3026	1.73
Bogra	2692	82	26	398	400	685	4283	2.60
Dinajpur	3328	50	177	434	523	848	5360	3.04
Pabna	2534	116	144	520	417	773	4909	3.29
Rajshahi	4766	87	67	896	773	1140	7729	5.04
Rangpur	5808	63	131	863	943	1371	7365	6.36

Source : Bangladesh Bureau of Statistics, District Statistics (various districts)

Table - 15

Sectoral Gross Domestic Product at the District Level, 1978/9.

(Sectoral gross value added, 1978/9, Tk. million)

Name of the District	Agriculture	Industry		Construction, Power, Transport.	Trade Service	Other	District GDP at Market Prices	District Population (Million)
		Large	Small					
	2	3	4	5	6	7	8	9
Chittagong	4755	2072	1103	1500	1397	1649	12506	5.42
Chittagong H. O.	3138	207	178	175	551	231	4382	0.59
Comilla	5399	148	720	1728	1075	2492	12553	6.81
Noakhali	4315	51	264	737	771	137	7210	3.81
Sylhet	5654	399	335	1298	913	2050	10656	5.62
Dhaka	5267	2095	1375	2672	1534	2964	15907	9.46
Faridpur	5136	48	155	1052	631	1409	8380	4.73
Mymensingh	7473	5	144	1256	1114	2137	12217	6.48
Tangail	3012	17	130	514	463	573	4809	2.45
Jamalpur	2635	44	17	426	406	745.05	4273	2.42
Barisal	4503	3	96	1045	683	1534	7864	4.55
Jessore	3703	120	71	632	612	907	6812	4.05
Khulna	4458	468	104	901	883	1207	8019	4.25
Kushti.	2335	162	84	405	367	654	4008	2.30
Patuakhali	1987	0.41	35	342	275	656	3295	1.76
Bogra	3158	66	27	537	490	870	5148	2.65
Dinajpur	3870	62	189	595	638	1049	6463	3.10
Pabna	3305	168	153	655	505	935	5721	3.37
Rajshahi	5022	73	73	1091	907	1283	8449	5.17
Ranour	5017	62	143	983	1092	1530	3179	6.51

Source : Bangladesh Bureau of Statistics, District Statistics (Various districts)

Table - 16

Sectoral Gross Domestic Product at the District Level, 1979/80.

(Sectoral gross value added, 1979/80. Tk. million)

Name of the District	Agriculture	Industry		Construction, Power, Transport.	Trade Service	Other	District GDP at Market Prices	District Population (Million)
		Large	Small					
1	2	3	4	5	6	7	8	9
Chittagong	5507	2514	1338	1759	1685	1874	14677	5.60
Chittagong H.T.	3162	251	226	170	732	292	4833	0.60
Comilla	6904	179	914	1909	1159	3163	14238	6.97
Noakhali	4288	62	335	876	780	1734	8083	3.89
Sylhet	7222	483	426	1415	1315	2599	13465	5.75
Dhaka	6132	2542	1667	3250	1862	3360	18813	9.75
Faridpur	5205	58	128	1129	758	1726	9024	4.82
Mymensingh	8208	108	183	1323	1365	2693	13884	6.63
Tangail	3058	21	158	548	529	802	5116	2.50
Jamalpur	2797	54	21	454	486	936	4748	2.47
Barisal	5010	4	117	1112	884	1824	8956	4.53
Jessore	4144	114	77	702	761	1014	7000	4.17
Khulna	6007	567	126	1269	1206	1374	10549	4.46
Kushtia	2260	197	102	414	407	781	4161	2.38
Patuakhali	2331	1	44	366	372	835	3949	1.79
Bogra	3211	80	33	555	542	1087	5508	2.74
Dinajpur	4069	75	241	623	691	1326	7025	3.20
Pabna	3319	203	186	732	623	1115	6178	3.46
Rajshahi	5452	88	89	1325	1015	1481	9460	5.32
Rangpur	8422	75	174	1220	1561	1771	9827	6.67

Source : Bangladesh Bureau of Statistics, District Statistics (various districts).

Table - 17

Sectoral Gross Domestic Product at the District Level, 1980/81.

Name of the District	(Sectoral gross value added, 1980/81, Tk. million)									
	Agriculture	Industry		Construction, Power, Transport.	Trade Service	Other	District GDP at Market Prices	District Population (Million)		
		Large	Small							
1	2	3	4	5	6	7	8	9		
Chittagong	5260		1605	2558	1862	2316	16617	5.66		
Chittagong H.T.	4056	298	258	253	728	381	5974	0.77		
Comilla	7264	213	1043	2823	1344	3981	16668	7.10		
Noakhali	4390	74	382	1317	766	2174	9103	3.94		
Sylhet	8054	574	486	2135	1433	3267	15956	5.83		
Dhaka	5957	3040	2000	4999	2074	4168	22247	10.38		
Faridpur	5281	69	152	1686	809	2239	10236	4.93		
Mymensingh	8171	122	209	1920	1438	3400	15867	6.75		
Tangail	3162	25	187	810	533	1034	5751	2.52		
Jamalpur	3171	64	24	685	514	1176	5634	2.52		
Barisal	5469	5	139	1665	886	2340	10499	4.82		
Jessore	3982	139	94	865	759	1161	7790	4.15		
Khulna	6198		151	1909	324	1719	11981	4.50		
Kushtia	2599	23	121	610	466	999	5029	2.35		
Patuakhali	2614	1	50	542	420	1057	4684	1.90		
Bogra	3907	95	39	835	594	1384	6854	2.80		
Dinajpur	5215	90	275	905	880	1677	9042	3.31		
Pabna	3855	242	221	1121	682	1440	7561	3.53		
Rajshahi	5718	105	107	1599	1123	1888	10571	5.43		
Rangpur	3503	140	305	1820	1571	2631	15970	6.71		

Source : Bangladesh Bureau of Statistics, District Statistics (various districts).

Table-18

Sectoral Gross Product at District Levels, 1981/2.

Name of the District	(Sectoral gross value added, 1981/2, Tk. Million)								
	Agriculture	Industry		Construction Power Transport	Trade Service	Other	District Product at current Mar- ket prices	District Population (Million)	
		Large	Small						
1	2	3	4	5	6	7	8	9	
Chittagong ¹									
Chittagong H.T.	4527	332	294	682	773	437	7045	0.79	
Comilla	8858	237	1187	3553	1541	4584	19954	7.24	
Noakhali	4568	82	435	1665	762	2502	10023	4.01	
Sylhet	8686	640	553	2598	1480	3761	17722	5.95	
Dhaka ¹									
Faridpur	6499	76	168	2188	1006	2576	12513	5.02	
Mymensingh	10353	143	237	2234	1608	3902	18479	6.88	
Tangail	3810	27	207	1064	508	1193	6909	2.6	
Jamalpur	3228	71	27	902	499	1362	6059	2.56	
Barisal	5798	5	153	2225	895	2704	11776	4.91	
Jessore ¹	3972	167	113	1273	801	1464	-	-	
Khulna ¹									
Kushtia	2953	258	133	752	503	1157	5756	2.39	
Patuakhali	3203	1	57	663	488	1204	5616	1.93	
Bogra	4234	105	44	1045	654	1599	7681	2.85	
Dinajpur	5082	100	312	1111	824	1924	9353	3.37	
Fabna	4679	267	244	1299	780	1664	8933	3.60	
Rajshahi									
Rangpur	9701	154	337	2412	1533	3042	17179	6.83	

Note : 1) Relevant figures for these districts are not available as yet.

Source : Bangladesh Bureau of Statistics, District Statistics 1983 (various districts).

between 1977/8 and 1981/2.

What is behind the favourable performance of these districts and the relatively dismal showing of the others must be a moot question. The causal analytic framework in the next section will address this very question in some systematic detail. For the present, we shall merely suggest that this may be in part due to the easy accessibility of rural branches. Col. (8), Table 12, shows number of bank branches per union at district level. For the country as a whole, average number of branches per union is found to be 0.07. The corresponding number for the nine progressive districts is found to be 0.81, while that for the other eleven districts is found to be 0.60. Besides, while Sylhet, Noakhali, Dhaka are known to have among the highest incidence in their respective rural areas of migration to the Middle East, with the ensuing homeward remittances ending up as bank deposits, the other six districts, particularly Chittagong, Comilla, Bogra and Jessore are at the forefront of rural development activity in the country.

The Determinants of Financial Asset Holding in Rural Bangladesh

The evidence, examined above, indicating a measure of continuing financial deepening in rural areas of Bangladesh raises the specific question of what factors may be responsible for this process of deepening. This question has not been researched before, to the best of our knowledge. This exercise will be important to the extent it highlights some policy-conformable variables which can favourably affect deposits per capita at suitable levels of disaggregation. Again, such a causal framework of analysis may highlight particular dimensions of rural deposits creation which can become a frame of reference for the direction and methodology in subsequent stages of rural financial sector strengthening efforts of the Bangladesh government.

The Framework of Analysis While an appendix to this paper details our analytical framework, we here merely highlight its salient features.

The basis of the model lies in a behavioural line of reasoning which posits that individuals or economic agents have utility structures that may be captured by separable utility functions. An admittedly restrictive but attractively convenient version of the class of separable utility functions, namely of the Stone-Geary function, is then used to derive an estimating equation so as to explain inter-district variations in the holding of rural bank deposits. While in its purest form, the model applies to individual decision-making, certain interesting extensions can be made to it when, as in the present case, an aggregation over a suitable geographical or zonal area is done. The utility function of an agent is assumed to be of the following form :

$$U \left(\frac{C_1}{P_1}, \frac{C_2}{P_2}, \dots, \frac{C_n}{P_n}, \frac{(1 + r_1) S_1}{P_e}, \dots, \frac{(1 + r_m) S_m}{P_e} \right)$$

Where C_i , $i = 1, \dots, n$ are consumption commodities,
 P_i , $i = 1, \dots, n$ are price indices relating to commodity groups
 S_i , $i = 1, \dots, m$ are forms of savings
 r_i , $i = 1, \dots, m$ are rates of return for different forms of savings
 P_e = expected price level

In other words, utility is assumed to be a function of individual real consumption of various commodities and real yields obtained from various forms of savings. While $P_1 \dots P_n$ are expected to be commodity group specific price indices, P_e is assumed to be one and the same for all groups of assets. For convenience, in the above formulation, a two-period decision time-horizon is considered.

Let us assume that the utility function is separable, so that demand functions for consumer goods or forms of savings can be known once the distribution of income between savings and consumption is known; in other words, that two stage budgeting is possible.

In the first stage, the problem before the agent is to divide his income between savings and consumption. In the second stage, the problem is to allocate total consumption and savings among various commodities and forms of saving, respectively. Separability of the utility function means, in broad terms, that commodities can be partitioned into groups so that preferences within groups may be described independently of the quantities in other groups. (We are of course aware that while separability of preferences and two-stage budgeting are intimately related to each other, they are not equivalent to each other. However, separability of preferences can be shown to be the necessary and sufficient condition for the second stage of the situation of two-stage budgeting).

The first problem is the allocation of total income between savings and consumption. Let

$$U\left(\frac{C}{PN}, \frac{(1+r)S}{P}\right)$$

Where C = consumption of an economic unit, P = price index for consumption goods, N = size of the economic unit (family, or district), P_e = expected future price, r = rate of interest, S = Savings, i.e. assets of the economic unit.

We further assume that a part of aggregate savings, D , is due to institutional factors,

i.e. $D = S + S_1$, where S_1 = Savings due to institutional reasons, and is therefore outside the control of the economic unit

∴ Total income $Y = C + D + t$, where t = tax

∴ $Y - t = Y_A = C + D$

Economic units try to maximise $U\left(\frac{C}{PN}, \frac{(1+r)S}{P_e}\right)$

subject to $Y_A = C + D$

Utilising Stone-Geary utility structures, developed in greater detail

in the appendix, and following the chain of algebraic derivation there, we have

$$D = [p_2]Y - [p_2\bar{C}]pN - [(p_2S_1 - S_1)] \frac{p(1 + \pi)}{(1 + r)} \dots\dots(1)$$

Where the values within [] are the coefficients to be estimated.

An extension on (1) and making it stochastic gives us a possible final form of equation for estimation.

$$D = [(1 - p_2)a_1] + [p_2]Y - [p_2\bar{C}]pN - [S_1(p_2 - 1)] \frac{p(1 + \pi)}{(1 + r)}$$

$$S_1 = a_1L + a_2B + a_3TC \dots\dots(2)$$

Total rural financial savings, represented here by bank deposits, (D), depends on after-tax income (Y), price level (P), population size (N), average return on financial assets (r), inflation rate (π), literacy rate (L), number of bank branches (B), adoption of modern agricultural technology (TC). While this framework is a possible one, for reasons discussed in greater detail later we have actually estimated the following version wherein the coefficient signs are derived from the above general framework:

$$\frac{D}{P} = [(1 - p_2)a_1] + [p_2]\frac{Y}{P} + [(1 - p_2)a_2]L + [(1 - p_2)a_3] B + e$$

or on a per capita basis

$$\frac{D}{NP} = (1 - p_2)a_1 + p_2 \frac{Y}{PN} + (1 - p_2)a_2L + (1 - p_2)a_3 B + C$$

The Empirical Evidence

We are now in a position to present the evidence bearing on the determinants of district-level rural bank deposits. The evidence itself is presented in Table 19 through 21 below. The estimates of the coefficients obtained by both linear and log-linear specifications are presented. We first report and interpret the evidence resulting from applying a linear specification. The five year period

involved in the study is further divided into two sub-periods for the purpose of this presentation, namely, the three years 1977/78 through 1979/80, on the one hand; and 1980/1 -1981/2, on the other. This is done to scrutinize the evidence for any signs as to the existence of any asymmetry in the nature of the relationship involved. For the most part, however, we shall confine our observations to the interpretation of the evidence relating to the entire quinquennium.

The linear version of the equation is first taken up. We find that all the three coefficients have the expected signs, and two of them are significant. The adjusted \bar{R}^2 is, at 0.48, reasonably high, for a cross-section. Only four variables between them explain about half of the total variation. As for the relative influence of individual variables in the causation represented by the equation, the number of the district-wide rural bank branches is found to be the most important. The opening of an additional branch is hereby seen as likely to augment deposits by about Tk. 0.648 million in constant prices. The other variable which turns out to be significant is a hybrid between a sociological variable and a general policy variable. Districts which have a higher degree of material awareness than literacy entails are shown here to be better performers.

The coefficients of the equations relating to the individual sub-periods suggest that there are some minor differences while the coefficients of the variables presented in common for the two sub-periods have the same sign except in one case, some important differences exist with respect to the significance that should be attached to the former. The differences between these sub-periods, which are also occasioned when other specifications are examined, serve to under-score the fact that the empirical relationships reported here do not represent any immutable, timeless laws of deposit behaviour. What is being reported here is only a set of approximations to the true relationship.

Table - 19

Estimated coefficients of the Equation Involving
District Rural Bank Deposit, 1977/8 - 1981/2

Period	Type of equation	Constant term	Independent variables				
			No. of branches	Gross farm product	Adult literacy rate	\bar{R}^2	N
FY 1977/78 to 1978/79	L	- 53.9	+ 0.797 (6.4)	- 0.0059 (0.84)	+ 1.37 (1.30)	0.54	60
FY 1980/81 to 1981/82	L	- 137.6	+ 0.469 (2.9)	+ 0.027 (2.07)	+ 4.79 (2.9)	0.48	40
FY 1977/78 to 1981/82	L	- 87.8	+ 0.648 (6.3)	+ 0.0062 (0.9)	+ 2.93 (3.1)	0.48	100

Note : Figures in parentheses show the t-statistics. The t's exceeding 2.00 are significant at 5% level of probability, or better. These notes apply to the succeeding two tables, as well.

There are good reasons for moving now to an alternative, perhaps more appropriate, specification which posits that measures of rural bank deposits should be standardised for population. The resultant coefficients are presented in Table 20. One can rightaway see that as between the two sub-periods, there is a clear difference in the nature of the observed relationship. While in the first, the variables, most importantly, per capita farm product and number of rural branches explain only 24% of the total variation; in the second, the same variables, between them, explain a full 82% of the variation. Another salient difference is that while \bar{R}^2 drops drastically for the first sub-period versus the equation of Table 20, the exact opposite holds for the second sub-period. The implications of such intertemporal differences have already been drawn in the above. 1/

Overall, though, three significant positive coefficients can be isolated, viz per capita gross farm product, the number of rural bank branches and the literacy rate.

We also estimated the relationship in a double-log version. These coefficients are presented in Table 21 below. This estimated relation is manifestly stable in time, there being hardly any variation between the goodness of the fit corresponding to the sub-periods. All three variables have the expected positive sign and, in the overall relationship, the number of rural branches and literacy rate are significant. District farm product is not a significant determinant of rural deposits on this specification.

1/ There could also exist errors of measurement involving district population in this first sub-period, resulting in the apparent asymmetrical relationship observed in it.

Table - 20

Estimated coefficients of the Equations involving per capita
District level Rural Bank Deposits, 1977/8 - 1981/2

Period	Type of equation	Constant term	Per capita farm product	Adult literacy rate.	No. of rural branches	\bar{R}^2	No. of cases
FY 1977/78 to 1979/80	L	- 8.50	+ 0.01046 (3.75)	+ 0.334 (1.46)	+ 0.0824 (3.20)	0.24	60
FY 1980/81 to 1981/82	L	- 17.8	+ 0.0316 (15.8)	+ 0.389 (1.2)	+ 0.0758 (2.91)	0.82	40
FY 1977/78 to 1981/82	L	- 65.3	+ 0.0287 (16.6)	+ 0.182 (2.6)	+ 0.236 (5.92)	0.75	100

Out of these variables, of course, the one which is most clearly amenable to specific financial policies relates to the number of rural branches. The relationship between real rural deposits, whether measured in absolute terms or in per capita terms or proportionately and number of rural branches is significantly direct. However, it would not be warranted to conclude that expansion of the number of rural branches is the most potent way of stimulating deposits. This is in part because, as can be readily verified by examining the coefficients on the log-linear version, already by the second sub-period examined, the elasticity of real rural deposits with respect to the number of branches had fallen considerably from the preceding sub-period. It appears that the thesis that additional rural branches disproportionately attract rural deposits was more emphatically maintainable in the last part of the 1970s than in the early part of the 1980s. The support which this evidence may give to the "branch expansion" lobby within the banking system is therefore likely to be visible but not overwhelming.

However, as far as the rate of adult literacy is concerned, a relationship with rural bank deposit is consistently positive, quite irrespective of its specification for a particular equation. However, while policy can, of course, be tailored to take advantage of this relationship, it has to be recognised that raising literacy rate can not be achieved except in the medium term. Further, important categories of social liabilities are likely to be incurred, if raising literacy rate is attempted without trying to do anything about how to raise the demand for literate people in some kind of formal employment. We are saying this because attending schools, if only for attaining literacy, has been widely seen to inculcate a strong desire to acquire cash so that one can then acquire some of the incentive goods which being educated, whatever be its intrinsic merit, appears to bring in its wake.

In sum, then, our regression analysis has brought to the fore the stimulating effect of branch expansion on the mobilisation of rural deposits, although one has to note that the positive impact of the former is somewhat muted in more recent years.

Table-21

Estimated coefficients of the Log-linear
Equations Involving District-level Rural bank Deposits, 1977/8-1981/2

(percentage)

Period	Type of equation	Constant term	Independent variables				\bar{R}^2	N
			No. of rural branches	District farm product	Adult literacy rate			
FY 1977/78 to 1979/80	L-L	- 3.07	+ 1.219 (9.5)	+ 0.031 (0.6)	+ 0.384 (1.8)	0.66	60	
FY 1980/81 to 1981/82	L-1	- 4.2	+ 0.782 (5.0)	+ 0.437 (2.02)	+ 0.476 (2.27)	0.70	40	
FY 1977/78 to 1981/82	L-L	- 3.31	+ 1.068 (8.3)	+ 0.126 (0.7)	+ 0.427 (2.5)	0.64	100	

Note : L-L denotes log-linear

Conclusions

Rural savings are not easily defined nor are they easily measured. Certain aspects of rural savings must be kept in mind if strategies of rural savings mobilization through financial development are to be meaningful. One aspect is that, when a farm family's own labor is used to produce non-tradeable capital assets, e.g., land improvements, irrigation canals, farm buildings, etc., saving is simultaneously investment. Such savings cannot be monetized. Another aspect is the paradox that consumption may be investment. At low standards of living, increased consumption of the right kind, i.e., more nutrition, health, hygiene, housing, education and training, may be preferable to increased financial savings.

From our analysis of the period 1977-81 (where it must be remembered a series of strong assumptions were made), the ratio of rural private savings to GDP had a mean of 9.2 percent with a standard deviation of 2.5 percent, or, a range of approximately 7-12 percent. The rural private savings ratio was positively correlated with measures of real rural income and the real rate of interest.

Two factors are particularly influential in the determination of the national rural and urban household savings ratios.

- (1) that, absolutely and relatively, most saving is done by the top part of the household income distribution; and
- (2) that the relatively rich households in the rural areas save a higher proportion of income than the relatively rich households in the urban areas; in fact, the average saving propensity of the former in Bangladesh is nearly double that of the latter.

Based on our model (and like any model, it simplifies considerably), it seems that neither more equal household incomes among the four socio-economic groups (rural rich, rural poor, urban rich, urban poor) nor some form of forced saving program for the poor will raise the rural household savings ratio to the degree that a marked reduction in poverty will. More equal household incomes, as in 1963-64, actually lower the rural savings ratio in our model.

The evidence from Bangladesh, considering a period like 1975-81, and other Asian developing countries is that higher real interest rates and financial deepening seem to boost aggregate savings rates.

There is much room for financial development in Bangladesh even at its present stage of economic development. Bangladesh, when compared with a similar group of Asian developing countries in 1971/80, lies below the average of the group. Judged by the average performance of countries in Asia similar to it, Bangladesh's financial development, as measured by the ratio of broad money to GDP, has realized only two thirds of its potential. It could easily rise by 50 percent.

Looking at the developing countries of Asia stratified by level of economic development broadly defined, it is evident that a higher gross domestic savings rate goes hand in hand with financial deepening. This pattern is marred when the private-sector savings rate is considered; there is a slight decline in this rate from the middle to the highest strata even though the financial deepening has been appreciable.

Using two-stage least squares, a regression equation where the gross national savings rate (GNS) is a function of real GNP, a measure of financial deepening was estimated on a recent period for Bangladesh by the Asian Development Bank. We employed this equation to project the GNS, making various assumptions about growth and financial deepening. We found that the GNS would rise substantially if real GNS grew on average by 6 percent per annum in the next five years and if, at the same time, the ratio of broad money to GNP rose by 50 percent. While the rise in the GNS is greater if financial deepening progresses, but real GNP does not grow, than if real GNP grows, but financial deepening does not progress, neither of these two scenarios is as effective as the first scenario.

The rural money lender, who is by no means the only lender in the informal rural credit market, but whose operations bear the greatest resemblance to those of a formal financial intermediary, is in many respects a frustrated saver. In a more developed and improved rural credit network, he may be prepared to sacrifice his high returns for a reduced risk.

The period 1975/6 through 1982/3 is found to have experienced a visible degree of financial deepening within the rural areas of Bangladesh. However, as can be easily imagined, there are clear regional variations on this score within the country. Eight districts, viz Chittagong, Comilla, Noakhali, Sylhet, Dhaka, Jessore, Bogra, Kushtia and Pabna are found to be financially more progressive than the other districts in the country, with Sylhet being the doyen of this category.

A multi-variate regression analysis was used to isolate factors influencing district level rural deposit mobilisation. The number of rural branches is found to be a major positive influence. This was seen as a basis for impacting upon the operational methodology of the branch rationalisation step of the Rural Finance Project. The literacy rate and farm product were other positive determinants.

Derivation of Final Form of the Regression Equation

The purpose of this appendix is to elaborate on the derivation of the final form of the saving equation estimated. Assuming Stone-Geary utility structures (see Philips, 1974), we assume the utility function for a household to be of the form:

$$U_t = \beta_0 \left(\frac{C_t}{p_t^n} - \bar{c} \right)^{\beta_1} \left(\frac{A_t(1+r)}{p_e} - \bar{A} \right)^{\beta_2} \left(\frac{RA_t}{P_{ra}_t} \right)^{\beta_3} \quad (1)$$

where C_t = household consumption in current prices

p_t = price index of consumption

n = family size

\bar{c} = minimum necessary per capita consumption, in constant price

A_t = financial asset held at the end of period in nominal terms

\bar{A} = minimum level of financial asset

p_e = expected price index

RA_t = real assets, nominal terms

P_{ra}_t = real asset price index

$\beta_0, \beta_1, \beta_2, \beta_3$ are parameters

The budget equation is

$$Y_{at} + (1+r)A_t - 1 = C_t + A_t + T_t + I_t \quad (2)$$

r = interest rate earned on financial assets

Y_{at} = income from labour and real assets

T_t = taxes

I_t = direct investment in real assets

We can of course rewrite this equation as :

$$Y_{at} + rA_{t-1} = C_t + S_t + T_t \quad (\text{nominal}) \quad (2)$$

where S_t , saving, is the change in financial assets plus direct investment

$$S_t = (\Lambda_t - \Lambda_{t-1}) + I_t \quad (\text{nominal})$$

$$I_t = RA_t - RA_{t-1} \quad (\text{nominal})$$

The utility is generated from per capita consumption above minimum; financial assets above a minimum level, and real asset levels. The house hold starts the period with a given level of assets, and real assets and then determines consumption, saving, and asset portfolio composition at the end of the period.

The derivation of the demand function for financial assets depends upon the portfolio of direct investment possibilities. We take this as given - i.e. the necessary resources are taken off for the real projects which will obtain a sufficient rate of return. Furthermore, we take taxes as fixed. Then define :

$$Z = Y_{at} + (1+r)A_{t-1} - T_t - I_t \quad (2'')$$

The budget equation then becomes

$$Z = C_t + A_t \quad (3)$$

In effect we are saying all real investments judged feasible are made; there is always sufficient resources. The remaining decision is how to split the remaining desposable income between "financial saving" and consumption.

We now set up the Lagrangian as follows

$$\log \mathcal{L} = \log \beta_0 + \beta_1 \log \left(\frac{C_t}{pn} - \bar{c} \right) + \beta_2 \log \left(\frac{(1+r)A}{P_e} - \bar{\Lambda} \right) + \lambda [Z - C - A] \quad (4)$$

$$\frac{\partial \mathcal{L}}{\partial C} = \beta_1 \cdot \frac{1}{\frac{C_t}{pn} - \bar{c}} \cdot \frac{1}{pn} - \lambda = 0 \quad (5)$$

$$\frac{\partial \mathcal{L}}{\partial \Lambda} = \beta_2 \left(\frac{1}{\frac{(1+r)\Lambda}{P_e} - \bar{\Lambda}} \right) \cdot \frac{1+r}{P_e} - \lambda = 0 \quad (6)$$

$$Z - C - A = 0 \quad (7)$$

$$\text{from (5) } \beta_1 = p_n \cdot \lambda \left(\frac{c}{p_n} - \bar{c} \right)$$

$$\text{and from (6) } \beta_2 = \frac{\lambda p_e}{(1+r)} \left(\frac{(1+r)A}{p_e} - \bar{A} \right)$$

As we are free to apply a monotonic transformation to the utility function, we can take without loss of generality

$$\beta_1 + \beta_2 = 1$$

$$\therefore \lambda \left[p_n \left(\frac{c}{p_n} - \bar{c} \right) + \frac{p_e}{(1+r)} \left(\frac{(1+r)A}{p_e} - \bar{A} \right) \right] = 1$$

$$\text{or } \lambda = \frac{1}{c - \bar{c}p_n + A - \frac{p_e}{(1+r)} \bar{A}} \quad (8)$$

Substituting the value of λ in equation (6)

$$\beta_2 = \frac{A - \frac{p_e \bar{A}}{1+r}}{c - \bar{c}p_n + A - \frac{p_e}{(1+r)} \bar{A}}$$

$$\text{which leads to } \beta_2 c - \beta_2 \bar{c}p_n + \beta_2 A - \beta_2 \frac{p_e \bar{A}}{1+r} = A - \frac{p_e \bar{A}}{1+r}$$

or after deminature C using (7)

$$\beta_2 (z-A) - \beta_2 \bar{c}p_n + \beta_2 A - \beta_2 \frac{p_e \bar{A}}{1+r} = A - \frac{p_e \bar{A}}{1+r}$$

Finally, the financial asset demand function becomes :

$$\begin{aligned} A &= \beta_2 z - \beta_2 \bar{c}p_n - \beta_2 \bar{A} \frac{p_e}{1+r} + \bar{A} \frac{p_e}{1+r} \\ &= \beta_2 z - \beta_2 \bar{c}(p_n) - (\beta_2 \bar{A} - \bar{A}) \frac{p_e(1+\pi_e)}{(1+r)} \end{aligned}$$

where π_e = expected rate of inflation

Assuming expected rate as equal to next period actual,

$$\Lambda = [\beta_2]z - [\beta_2\bar{c}]pn - [\beta_2\bar{A} - \bar{A}] \frac{p(1+\pi)}{(1+r)} \quad (10)$$

where the value within [] are the coefficients to be estimated. Note that the only unknown in the equation is \bar{A} . Let \bar{A} be a linear function of some institutional, sociological and technological variables, like literacy rate (L), number of bank branches (B), adoption of modern technology (TC), etc.

$$\bar{A} = (a_0 + a_1 L + a_2 B + a_3 TC) \quad (11)$$

Substitution of (11) into (10) and making the resulting equation stochastic gives us the following:

$$\Lambda = [\beta_2]z - [\beta_2\bar{c}]pn - (\beta_2 - 1) (a_0 + a_1 L + a_2 B + a_3 TC) \frac{p(1+\pi)}{(1+r)} + e \quad (12)$$

We expect $p_2 < 1$, so we can re-write the equation as

$$\begin{aligned} \Lambda = a_1 z - a_2 pn + a_3 \frac{p(1+\pi)}{(1+r)} + a_4 \frac{p(1+\pi)}{(1+r)} L + a_5 \frac{p(1+\pi)}{(1+r)} B \\ + a_6 \frac{p(1+\pi)}{(1+r)} TC + e \end{aligned} \quad (13)$$

(where all parameters $a_i > \text{zero}$).

Over the entire country we treat the expected inflation rate and the interest rate earned on financial assets as common. We aggregate over the households in the district to obtain

$$\begin{aligned} \Lambda = a_1 [Y_t + (1+r)A_{t-1} - I_{t-1} - a_2 pn + a_3 p + a_4 pL \\ + a_5 pB + a_6 pTC + e \end{aligned} \quad (14)$$

Taking Λ_{t-1} , T , I_t as proportionate to incomes, as the aggregations up to the district, smooth variations in the immediate patterns of individual households we have

$$\Lambda = a_1 Y + a_3 p + a_4 pL + a_5 pB + a_6 pT - a_2 pN + e \quad (15)$$

where N is population.

This gives
$$\frac{A}{p} = a'_1 \frac{Y}{p} + a'_4 L + a'_5 B + a'_6 TC + a'_3 - a'_2 N + c \quad (16)$$

Total financial savings depends on after-tax income (Y); price level (P), population size (N), inflation rate (TT) and other institutional variables. The return on financial assets has been incorporated in the coefficients on the grounds that it shows little variation. There remains a final methodological step. In this paper, there is a case to be made for having an estimation framework that is cast mainly around policy variables, which may be immediately or ultimately subject to control. The manner in which population and price level appear as independent variables in the above is not very helpful from a policy or strategic viewpoint. For example, if (as is, in fact, the case) price level is found to significantly and positively influence the level of nominal deposits, this evidence does not hold out much promise to the strategist or policy-maker.^{1/} From a policy-maker's standpoint, the determinants of real bank deposits are more important than those of nominal bank deposits. We have therefore used the above framework to provide the likely signs on some more or less controllable variables and not as a basis for yielding a precise estimating equation. The version that we have here tested is the following :

$$\frac{D}{p} = [(1-p_2)a_1] + [p_2] \frac{Y}{p} + [(1-p_2)a_2]L + [(1-p_2)a_3]B + C$$

In other words, bank deposits are a positive function of disposable farm sector income, the rate of literacy, and the number of bank branches.

1/ In each of the alternative versions of the bank deposits function calculated in connection with the preparation of this paper, though not presented here, the district level price index variable had a consistently positive and usually significant coefficient (CV).

SAVINGS MOBILIZATION

IN BANGLADESH

A Preliminary Overview

Submitted to

BANGLADESH BANK

and

ROBERT R. NATHAN ASSOCIATES

PRINCIPLE CONTRACTOR

RURAL FINANCE PROJECT

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CHAPTER ONE

I. THE PROJECT

The Bangladesh Bank has undertaken a project to improve various aspects of banking performance in rural areas of the country.

The consulting firm of Robert R. Nathan Associates, Inc. with the National Council of Savings Institutions and the local accounting and consulting firm of S.F. Ahmed & Co. have provided the technical staff to perform the project tasks. The project, known as the Rural Finance Project, will last approximately two years and will study a number of banking topics including but not limited to Savings Mobilization, Loan Recovery and Monitoring, bank training and a review of commercial and banking legal issues.

II. SCOPE OF THIS REPORT

This preliminary report, prepared during the early days of the project, and, as such, currently unsupported by statistically valid data, attempts to examine the subject of Savings Mobilization as it relates to the rural areas of Bangladesh. It is assumed that the observations made in this report will be variously reviewed, modified, augmented and finally incorporated into the final project after detailed statistical information is gathered.

III. METHOD OF WORK

Under the work program for the Rural Finance Project, one of the early tasks was to review the methods of mobilizing savings that are currently in practice, to make preliminary comments on this practice, and to offer some proposals to augment these activities.

On a number of project tasks, in addition to the Savings Mobilization task, the Rural Finance Project has been able to call upon a number of team members to review and comment on issues not only in their terms of reference but in the terms or reference of other members of the team. During the preliminary review of Savings Mobilization the Rural Finance Project team had three bankers bringing approximately 65 years of savings, development and commercial banking experience to topic review.

The primary information gathering activity was conducted during an extensive series of visits to rural bank branches. These visits were aimed at finding branches that would give the team banking practitioners a view of daily rural branch life and a frame of reference to make

practical observations and suggestions. It has not been assumed that any statistical comment can be made concerning all the rural branches in Bangladesh from these visits, but it has given the banking professionals on the team food for thought. In total, 26 bank branches, 3 district/regional office and two credit cooperatives were visited during the extensive trips taken. Not all branches or districts were carefully examined but the average visit exceeded three hours. Twenty-two were the subject of a detailed interview process.

It is hoped that this report on branch bank visits will not only aid in the formulation of a Savings Mobilization program, now or in the future, but will assist other team members not as familiar with branch banking to develop a view of the branch banks that they might not have had previously. To that end, some additional comments are made concerning the banking environment that are outside the terms of reference for a Savings Mobilization program.

Before one begins an analysis of any aspect of this banking system, it is necessary to consider its unusual growth characteristics since 1975. In the year 1975-1976, the banking system in Bangladesh contained 854 rural branches and 1,745 branches overall. In the year 1983-1984 the system had 3,224 rural branches and 4,737 branches overall! The growth has been 277.6% in rural branches and 171.5% in overall branches since 1975-1976. Caution, therefore, is required of any comment concerning the branch system, as its individual characteristics may be changing and only when the growth pattern slows in the future years will a definitive analysis be possible. With an appreciation of this growth pattern we started our branch visits.

CHAPTER TWO

I. THE BRANCH VISITS

In order to obtain a line banker's view of the activities, strengths and weaknesses of the rural branch banks, it was necessary to develop a program of selected branch visits that would provide a framework for future discussions and analysis.

During the early visits, questions of a general banking nature were asked and evaluated by the team of G. Behymer, C. Choudhury and A. O'Donnell to determine the type and depth of answers that might be received. It was unclear at that time what the level of knowledge and sophistication of the branch managers and staffs might be and a great deal of time was spent by the visiting team determining that the level of appreciation was more than adequate to answer the detailed questions which were put to them.

It was clear after a number of visits that questioning of the branch manager and staffs could be as extensive and probing as the issues required and that the information we requested was usually available verbally or in formal records if we were able to spend the required time to extract it. In general, our visits contradicted the notion that the rural branch manager had a low level of skills or a lack of appreciation of banking issues or concerns. It was quite easy to discuss the topics of Savings Mobilization or the problems inherent in loan recovery in their area and they discussed at length their feelings concerning these topics. The team consensus was that the branch managers functioned with discipline and some fortitude in areas where daily management guidance was seldom available and often not possible.

II. THE EVENTS OF A TYPICAL VISIT

After a few visits, the team developed a general interview format^{1/} (analysis of the results of these interviews is in the next chapter and a summary of the interview results is annexed to this report). This interview format was used over twenty times, occasionally modified, and was supplemented by extracts of deposit and loan records to pre-test certain survey question and information gathering concepts.

^{1/} See Matrix, Annex @

The interview team, upon entering an area where the branch bank was located, would call on the district office for the given branch and present credentials to the district manager as a matter of protocol. Often the district manager would assign an officer from his office to accompany us on the branch visit.

Upon our arrival at the branch, a period of time was set aside for discussion of a general nature to allow the manager to become comfortable with our presence (some managers remained nervous throughout the interview process) and we began asking questions about him personally, his years with the bank, years with the branch, his training, and so on. Next, we would ask about his staff and their backgrounds, then about the area in which the branch was located, the physical premises and their reporting structure. Eventually, we asked in-depth questions concerning customers, the deposit base, loans and loan recovery, business possibilities and problems they felt they had in developing new business. This process was augmented by enumerators extracting a sample of deposit records and loan records from the books of the bank. The entire process took approximately four hours with improvements in technique as we developed our methods. The average was at least two-and-one-half hours per interview visit.

III. WHAT WE HAVE LEARNED FROM THIS ACTIVITY

The first major item that was clarified for the team was that there would be little difficulty in communicating the concepts that we wished to discuss. Early project apprehension concerning the level of appreciation the branch managers had related to our concerns for savings mobilization and loan recovery. It was a great relief to find out that the accounting was clear on loan and deposit practice issues and provided a solid base for policy issue discussions. It was also gratifying to determine that the branch managers were most able to discuss not only their daily activity issues, but issues of head office reporting, power structures and relationships in their area, customer base problems and expectations in their areas, and some ways to improve service to their customers.

The concensus among Mr. Behmer, Mr. Choudhury and Mr. O'Donnell was that it would be difficult to gather information from many branches because their physical locations are often remote and branch premises are often small, cramped and dark. However, once that is overcome, we have little doubt that survey material can be extracted from the deposit and loan records (they are often long but usually very complete), as only the will to make a strong effort is necessary.

It was clear from an examination of branch records that all the typical savings products--demand accounts, savings accounts and long-term

fixed accounts--were available in a variety of types. From this type of base, new products and services and variations on existing products can be introduced without complete re-education of bankers or customers. Marketing concepts might be found to be very useful in the final analysis.

CHAPTER THREE

I. REVIEW OF BRANCH VISITS (LIST OF BRANCH ATTACHED)

In an attempt to provide the Rural Finance Project team with a better appreciation of the branch banking circumstance that we encountered during our travels through the rural areas, a matrix has been developed which illustrates the answers we received to a variety of questions which were put to branch managers and staffs. There will be additional information relating to lending and loan recovery added to this matrix over time. The matrix to which the following comments refer is contained in the annexes attached to this report. This analysis relates to this group of branches only and is not considered a comment on the entire rural banking system.

II. BRANCH CHARACTERISTICS

The visits were made and data recorded in an orderly fashion at twenty-one rural branches and one credit cooperative.

The cooperative was created in 1914 and the average branch was opened in 1973.

A telephone was available in 82% of the branches and electricity in 91%.

The facilities were rented 86% of the time at an average rent of Taka 1,236/month for an average of 1,141 square feet.

The rent equated to Taka 130 per square foot per year.

III. STAFF CHARACTERISTICS

The average branch manager's age is 40, with 15 years with his bank.

There was a second officer at 95% of the branches and the average staff contained 13 people.

IV. PRODUCTION AND ACCOUNT CHARACTERISTICS

The branch and cooperative visits brought us to offices that held over 62,000 deposit accounts of all types. This averaged over 2,800 accounts per office.

Non-banking activity such as collecting utility bills was part of the business of 41% of the branches visited. One branch bank offered safety deposit boxes.

V. TRAINING ISSUES

Of the branch managers, 82% indicated that they had received some training by their organizations at one time or another. However, 91% indicated they had received no training at the Bangladesh Institute for Bank Management.

VI. ANALYSIS OF MATRIX INFORMATION

In a select sample of bank branches such as we have visited in the past few weeks it is dangerous to draw too many conclusions concerning an entire rural branch banking system. However, it seems reasonable to make some observations from experience and to review these observations at a later time when more significant data is available.

The first piece of information that was interesting was the age and years of experience that the average branch manager had in the rural branches. At an average age of 40 the managers had some maturity and with an average amount of bank experience being 15 years it would seem logical that they would at least have a strong appreciation for their jobs and the customers they serve. This information supported the visiting teams' impression that the managers might not be long in formal training but were very strong in practical hands-on experience. It also contradicted the notion that they were badly trained and unaware of their responsibilities and customers.

The average bank branch held over 2,800 deposit accounts. Keeping in mind that all the deposit operations were performed with manual operations methods, this number of accounts to maintain seems like a heavy workload for a rural branch. However, a workload of only 2,000 receipt and payment vouchers processed each month does not match the expectations one might have for branches with so many accounts which normally have monthly activity. It is likely that we missed some significant volume measures during these visits. This becomes a more important topic in the future if savings mobilization programs generate significant new transaction volume. A capacity planning and production management study might be in order to avoid overwhelming the branches with activity. they may not currently be capable of handling. In any event it is an important topic which should be considered in any eventual implementation plan.

The number of statements sent each month to district and head offices seems like a very large number. This was commented upon and was echoed by virtually every branch manager. A study on that topic alone might be worthwhile.

The impression the team received from the managers was that prize bonds sold well and had a reasonable margin of profitability.

Savings certificates lacked great appeal because of the effort expended in promoting and selling them. They were usually considered unprofitable and therefore easily dispensed with as a branch product.

To our surprise, most branch managers had received some formal training, mostly by head office training programs. While it is agreed that these programs were not necessarily extensive in an American sense, it still contradicts a notion that the managers are not schooled in their craft to some extent.

From our survey data it appears that this class of managers has missed the programs provided by the Bangladesh Institute of Bank Management.

To summarize the branch bank circumstance is difficult at this early stage of the Rural Finance Project. These results demonstrate that the branches have a large number of accounts of varying types with significant deposit volumes. The managers have at least significant practical experience with a great deal of on-the-job training through the years before becoming branch managers.

The major savings mobilization activity we observed comes from the head office setting deposit growth targets and providing some type of cash incentive for the manager and branch to reach the target. There appeared to be little marketing on a large scale and the savings products were quite uniform from branch to branch and from bank to bank. Many branches had just started to implement the deposit pension scheme.

It remains to be seen what consumer preferences are discovered by the survey data and what programs currently under review or new savings programs to be developed will meet their needs.

On a final note concerning the matrix, it appears to be a universal practice to rotate the managers from branch to branch within a three-year period. This is the accepted banking practice. It must be very difficult for branch managers to move their families every three years, or to leave them at home and only visit them on weekends or holidays. We believe that they demonstrate a great deal of fortitude under these circumstances. It must also be difficult to become familiar with a new customer base every three years. Criticism of their lack of detailed

customer knowledge may be somewhat unjustified under this type of rotation system.

CHAPTER FOUR

MODEL SAVINGS PROGRAMS

Overview to Program Development

Before one can present a program or programs to achieve any objective, it is of initial importance to develop a view of the objective that will put key elements of the program in perspective for the program designer and those who will review the programs. The views that have been taken into consideration in order to frame programs to mobilize savings are as follows:

- 1) Programs must be created to appeal to the young for the future and to adults for the present;
- 2) The blend of programs must be of reasonable cost to keep deposit interest expense plus related program administrative expense within an acceptable level;
- 3) The programs must have the potential to reach new depositors as well as obtain additional monies from current depositors;
- 4) The programs must have some appeal for branch managers and branch personnel as well as current and potential depositors.

With these views in mind the programs described on the following pages will attempt to motivate individuals and mobilize savings by inculcating thrift habits in the young, motivating branch personnel to obtain deposits, and to reach out to potential depositors not currently involved in the banking system. It is not intended that the programs described be considered as final recommendations or in any way complete. It is assumed that other programs ^{2/} will be considered as survey data is compiled and that the preliminary program concepts described in this paper will be discussed at some length before progress in designing an implementation program is attempted.

I. PROGRAM ONE: THE YOUTH MARKET

It is consistent with the goal of mobilizing savings to try to reach potential depositors at the earliest possible time in their personal

2/ See National Savings Scheme (NSS): An Overview

development within the limitation of reasonable expenditure. Programs aimed toward children might take the form of the following products.

A. Individual Coin Savers

This program would provide children with a small box with 20 to 30 slots into which coins of varying denominations would be placed. The boxes could be personalized with a child's name and when the container is filled initially could be brought to the bank to open a youth account. As an incentive the bank could add a predetermined amount to the account as an incentive to complete the box and bring it to open an account. Subsequent refilling of the box by the child and depositing the coins in the bank will obtain for the child additional incentive amounts from the bank.

B. Group Coin Savers

This program would be similar to the program for individual children but could be organized through schools or youth groups. Perhaps competitions could be organized among students, classes or schools to gather the most savings.

C. Advantages

Bangladesh has approximately half of its population under the age of fifteen. It is important to establish the savings habit in the young when it is easy for them to learn and when it is easiest for an organized program to reach them.

D. Disadvantages

It is easy to see that a program of this type is unlikely to generate large numbers of current deposits of any size. The key element is to make the young of the society familiar with banks and bankers in the hope that saving through the banking system will become a lifetime habit. Clearly, this would take a significant amount of time to evaluate.

II. PROGRAM TWO: BRANCH BANKER INVOLVEMENT

In order to mobilize savings in significant amounts within a relatively short period of time, it is necessary to involve a large number of individuals and units within the banking system in a program that meets savings mobilization objectives.

To meet any banking objective it is necessary to motivate individuals within the banking system to undertake useful program activities and to demonstrate significant success in achieving its goals.

The two most obvious types of rewards are financial compensation according to some scale or recognition of the accomplishment in some extraordinary fashion.

A. Savings Growth Recognition Award

The concept behind this program is that it is possible to enlist the cooperation of branch managers and branch staffs to help Bangladesh to grow, prosper and free itself to some degree from dependence upon donor agency financial contributions.

The branch managers would be told in regional meetings about the program, its objectives, methods, implications for their towns, rural areas, country's future. They would be asked to sign an agreement that they and their branches would participate. Some training on deposit gathering methods would be available to the managers to help them perceive ways to increase their deposit base and remove doubts from their minds that they couldn't participate because they don't know how to increase their deposits. All aspects of the program must be positive and oriented toward the present and future improvement in the life of the people of Bangladesh. The program must give the managers and their staffs a feeling of pride that they are on a mission for their country that only they can perform and the recognition for unusual achievement must be worthy of the importance placed on this program.

Perhaps the program would have as its reward a trip to Dhaka to receive a certificate and the thanks of the governor of the Bangladesh Bank at an awards dinner. If the program was a large success perhaps it would be possible to involve the participation of the president. At the dinner the award recipient would have his picture taken receiving the award and shaking hands with the governor or president. He would receive enough copies for himself, the branch, and the members of the branch staff. The manager gets to come to Dhaka and to shake hands but the entire staff must feel part of the achievement. Perhaps the town political leaders could hold a recognition ceremony for the entire branch staff. It is possible to have many categories for achievement: most new accounts, greatest growth in new deposits, awards for new branches or greatest deposit growth in a rural area. The program and its measurement standards are only limited by our imagination.

The keys to this program are that it must receive strong initial promotion and the reward must be presented from the highest levels of the banking system and government to dignify the emphasis placed on the program.

B. Advantages

Savings mobilization/growth is an issue of national or communal importance. It seems consistent, therefore, that the reward for helping the country attain success in mobilizing savings should be national recognition.

This program is relatively inexpensive in concept and should readily lend itself to a test marketing program to verify that fact.

C. Disadvantages

The participation of the highest level of banking and government officials is imperative. It is difficult to justify the preliminary claims of national importance if a minor official presents the award.

Needless to say, if some individuals are winning awards, some individuals who worked very hard are not. Some local recognition would probably be necessary to support the very real achievements of those who do not go to the awards dinner.

III. PROGRAM THREE: GO TO THE DEPOSITOR

In order to increase the deposit base it seems logical that the banking system must be prepared to use any and all means within reasonable cost constraints to reach potential depositors who are unable, unwilling, or not motivated to come to a branch bank to utilize its services.

If an analytical determination can be made that a significant amount of discretionary funds are available in rural, distant, or inconvenient places that would be a useful mobilization target. A program can be developed that takes the banking system to the potential customer.

A. The Mobile Branch Bank

It is possible to develop a team of perhaps a driver, guard, and bank official who drive to pre-determined rural areas in a secure van to conduct basic banking business. The potential customer would no longer have an obstacle in his path that keeps him from utilizing normal bank branch services, and he has the reinforcement of watching and learning from friends and neighbors what bank business is all about. Depositor collection and account opening activities could be clearly emphasized.

B. Advantages

The clear advantage of this program is that one takes the bank directly to the target market that we would like to impact and markets deposit services.

It is also possible that over time the program could be expanded to collect loans, obtain preliminary data on the feasibility of opening new rural branches, take loan applications and market new or existing products and services in an environment more familiar than a bank branch.

This type of program can easily be test marketed and evaluated for cost effectiveness.^{3/}

C. Disadvantages

Clearly, this is an expensive way to encourage deposits. Perhaps it will be necessary to develop other activities for the Mobile Bank Branch from the initial stage to justify the expense. This has to be considered.

It must be made very clear to the customer that once he obtains his receipt or notation in a passbook that his deposit is valid and will be honored by the local branch bank if the mobile program is altered or discontinued.

It also must be very clear to the bank employees that they are indemnified from personal liability if the Mobile Bank is robbed.

^{3/} See Test Market outline on following page.

OUTLINE: MOBILE BANK BRANCH

Test market of a mobile banking unit to designated areas on a one day per week basis for five separate participating banks for a period of one year.

A. UNIT

Equipped van with provisions for servicing bank transactions and the necessary staffing.

B. EQUIPMENT

1. Partitioned for cashier work space
2. Small safe for currencies and valuables
3. Small desk and chairs
4. Gas powered stove
5. Storage area for records and materials

C. STAFF

1. Cashier
2. Supervisor
3. Guard
4. Driver

D. MARKET AREA

1. District divided into 5 geographical sections
2. Assignment of market area to participants by means of lottery or common agreement
3. After selection of defined marketing areas, the participating banks must decide upon one site for the location of the unit. The bank could elect to have two sites if alternatives are available.
4. All sites agreed upon by the participating banks must be reported to the Bangladesh Bank.

E. STORAGE OF THE VEHICLE

The van would be stored nightly at a central location.

F. MAINTENANCE

1. Van is maintained by daily inspection.
2. Regular interval servicing.
3. All service requirements and suggestions of manufacturer will be followed.

G. MECHANICAL OR OTHER FAILURE

In case of accident or other disability of the van, the users daily schedule will continue.

If on Saturday it is Janata's van and the van blows a tire which takes all day to repair and on Sunday the van belongs to Sonali, Sonali gets the van on Sunday and Janata must wait until the next assigned turn.

H. OTHER USES

Facility could and should be used for any other useful activities such as recoveries, deposits, receipt of utility bill payments, prize bond sales, or any other activity that serves rural people and the bank.

I. SUPPLIES

Each bank participant would be responsible for its own materials and supplies.

J. TEST PERIOD

One-year test period with a quarterly progress review to evaluate transaction activity and deposit/customer growth.

K. BUDGET

Estimate of costs for operation and the obtaining of the capital equipment is in the process of being developed. Preliminary estimates of costs of maintenance and equipment for one year was taka 600,000. These figures did not take into account salvage values.

L. TEST MARKETING

It would be consistent with the program's objectives if marketing information on customers and business activity in the rural areas could be evaluated as a preliminary to discussion on opening a new branch.

IV. PROGRAM FOUR: NEW EMPHASIS ON EXISTING PRODUCTS

The banking system in Bangladesh has already created a number of banking products and services that should be able to be strongly marketed for many years.

This program would review the existing products with a view toward additional emphasis to target market groups.

A. Deposit Pension Scheme

The deposit pension scheme ^{4/} is well known and has been offered in various parts of the banking system for some time. The program details are found in the report appendix. The major program activity would be to advertise this product and its uses strongly in print media, radio, and television, in order to make the product's advantageous characteristics as well known to the average individual as possible. Another less costly way to promote the product would be to have a drive in the branch banks to obtain this type of account by discussing it with every potential account holder who enters the branch during a given time period.

B. Advantages

The primary advantage of placing new emphasis on existing products is found in the fact that the banking system and managers are familiar with and have already approved the product. The only real management challenge is in organizing an effective campaign to promote the given product and to assure that the branch managers know all the characteristics and advantages of that product.

C. Disadvantages

1. A large scale advertising campaign might be costly.
2. The manager might not feel that an established product needs a strong personal marketing campaign by branch personnel and the needed emphasis might not develop.

V. PROGRAM FIVE: CREATE NEW PRODUCTS

^{4/} See Annex - Deposit Pension Scheme

In order to attract new deposits to the banking system and to encourage existing depositors to increase their deposits with the banking system, it will be necessary over a period of time to consider and to test market products that serve the needs of the target market we seek to reach, as well as current participants in the banking system.

A. Home Equity Deposits, Marriage Deposits, Education Fund Deposits

All of the listed products have the nature of saving for a future purpose and serve a different need for an individual as they consider what will be necessary to make their life in the future more secure for themselves and their families.

As an example of a possible program for home equity: A young man or couple might open a deposit account where they are required to deposit a certain amount of money for a specified time period. At the end of the time period the deposit will be utilized as the equity to purchase a home and the bank that held the deposit will grant the mortgage to the individual or couple.

The other programs to prepare for the education of children or a future marriage have the same nature as the equity program. All the products meet a future need of an individual or family.

B. Advantages

Individuals and couples would be given additional reasons to deposit and participate in the banking system.

Should the government desire to subsidize education on housing activities it could tie the subsidies to successful completion or participation in one of these programs that builds a deposit and customer base for the banking system.

C. Disadvantages

Any new program takes time and money to introduce to a market.

Branch bank personnel would have to be trained to market the new products.

Test marketing would have to be done carefully to demonstrate that the new products brought new deposits to the system and did not merely redistribute the existing deposit mix.

D. Example

The best use of this type of program is in the fulfillment of a lifetime desire. To further demonstrate the possibilities within the

concept of contract savings programs, an example of a hypothetical application follows.

1. Purchase of an Ox Cart

The program would be developed so that the depositor would make a periodic deposits to a bank account at regular intervals over a specified period of time. At the conclusion of this contract period, the depositor would have the appropriate equity amount, 50 percent for example, to qualify for a bank loan for the remaining cost of the ox cart.

Successful participants in this program would be guaranteed a loan by the bank with which they held their contract deposits and they would receive their loans at a favorable rate.

2. Example: Advantages

- Creates a long-term relationship between the depositor/borrower and the bank.
- Places the the desired object in the hands of the desiring party at least 50 percent sooner than if he were hoarding his capital at home. The program develops a secured lending relationship for the bank.
- The increased productivity for the borrower by the utilization of the ox cart will more than offset the loan and interest repayment requirements.

3. Example: Disadvantages

The program will have to carefully review each application to assure that the funds are utilized for the application project and are not being siphoned off for other than the stated purpose.

VI. PROGRAM SIX: EDUCATE WITHOUT TEACHING

One of the significant problems of attempting to educate the general population concerning banking services and practice lies in overcoming the high illiteracy rate in rural areas.

When the high illiteracy rate is combined with limited access to television and radio broadcasts, the possibilities of developing active programs to reach the general population are limited.

If a program could be developed which could reach the adult population through our direct access to children in school, a relatively low cost solution might be found to this adult access problem.

A. Youth Entertainment and Adult Education Booklet

The concept of this program is to develop an illustrated booklet with emphasis on pictures that will introduce a child to the idea of what a bank is all about.

If the booklet were well done and perhaps presented in the form of a coloring book (an idea predicated on children having some experience of coloring pictures in school) it might well have a chance to enter the home of the child and be seen by the adults. Thus, we might be able to carry a positive educational banking statement to illiterate adults with no greater expense than the cost of presenting these concepts to their children.

B. Development of the Concept

It is clear that in order to make this concept work, one will have to have the active support of the elementary school teachers. A way to generate their interest and active participation might be to hold a contest among the teachers and schools to develop the booklet for us. Prizes of cash or gifts of some kind for both the teacher and the school could be offered as an incentive to participation.

C. The Booklet Message

A booklet of this type would have a simple message. The introduction of the word "BANK", the concept that the bank and the people there are friendly and that they protect your money would be a beginning for the booklet concept. Over time, perhaps a series of booklets could be developed on a variety of financial or social issues. The teachers' creativity would be challenged to make this idea work.

D. Contest Rules

There would be guidelines on the number and size of pages, the cover and interior would be designed by the teacher, color pages would be restricted and the rear page would remain blank for sponsor advertising via logo or illustration.

Upon entering the contest, the teacher would have to certify that the work was his or her product, that the design was submitted to their students for comment, and that they are willing to release their rights to this work.

F. Financing the Project

The Bangladesh Bank could sponsor the contest with the support of the banking community. The cost of the prizes should be nominal and

the large ultimate printing would reduce the unit cost for the banking participants to an advertising minimum.

F. Program Six: Advantages

- The program introduces positive banking ideas to children for the future.
- The program has an opportunity to reach some illiterate adults at a cost no greater than reaching their children.
- The teachers would be motivated to present positive banking concepts.
- The cost for the program would be small considering its scope.

G. Program Six: Disadvantages

To have the desired emphasis, the program requires some commitment from the entire banking community.

VII. OTHER PROGRAMS

It is possible that one might wish to incorporate other types of activities into a savings mobilization program. These could generate some diversity of approach and could be used tactically whenever it was thought they might be useful.

A. Selected Direct Advertising

Periodically, it might be feasible to promote savings activities by directly handing savings promotion material to individuals on whom it might be thought to have an impact.

Promotional materials could be handed to individuals paying utility bills at the bank, for instance.

B. Lotteries

Banks could, on occasion, run a lottery picked from the pool of existing or new depositors. The amount of deposits in your account would dictate the number of entries in your name that would exist in the prize pool. This activity might be most appropriate during holidays or other special times of the year.

C. Other Programs: Advantages

The major advantage of special activities is that they can be timed to coincide with holidays or special times in an area.

Often a program can be used to obtain particular attention for a given branch bank or area.

D. Other Programs: Disadvantages

These types of programs have a one time or selective nature. They will never replace the constant effort by the entire system to promote savings as an important element of the financial system in Bangladesh. As such, the other programs could divert attention from the activities that must continually go on if financial viability is to be achieved.

CHAPTER FIVE

I. PRELUDE

The fifth chapter of this report focuses on impressions that the team obtained during its travels around Bangladesh. While these topics are not specifically related to savings mobilization, loan recovery or practice, or other Rural Finance Project tasks, it seems reasonable that the highly experienced team that was active in the countryside would gather some comments related to what they saw.

The following pages capture the essence of those impressions.

II. RURAL BANK BRANCH DATA: DEFINITIONS

DISTRICT: Designated geographical area in Bangladesh which is organized for governmental administrative purposes

UPAZILA: Subdivision of a district

LEAD BANK: Designation of a local bank under various banking programs as the bank responsible for the coordination of program lending activities in a given area of Bangladesh

BRANCH: The smallest operating unit of a banking organization

DATE OPENED: The official date of license to begin operations for a branch

TELEPHONE/ELECTRIC: Answers the question of whether a branch is supplied with these services

BANKING AREA: The bank branch manager's estimate of the floor space available for banking activities

RENT/OWNED: Clarification of the status of ownership of the facility in which the branch can be found and the related leasing expense

ESTIMATED AGE OF BRANCH MANAGER/LENGTH OF SERVICE:
Estimate of the experience level of the manager with the bank

OTHER STAFF COLUMNS:
Quantification of branch staff by general areas

COMMUNICATIONS COLUMNS:

An attempt to quantify by branch manager the number of reports that must be periodically provided to District or Head Office departments of the bank

TRANSACTIONS: An attempt to quantify activity from bank records by counting accounting entries for funds received and paid over a period of time

DEPOSIT: Quantification of volume and number of various deposit accounts

AMOUNT/NUMBER PENSION:

Refers to the deposit pension scheme accounts in the various branch banks (Deposit Pension Scheme background information is contained in the annexes to this report.)

SAVINGS MOBILIZATION:

Illustrates direct incentives and rate structures for funding activities with head office which may or may not act as an incentive to find additional customer deposits to fund branch banking operations

NON-BANKING ACTIVITIES:

Activities performed by branch banks outside of ordinary customer deposit or loan activity which will generate additional deposits or fee income

LOANS: Quantification from branch records of the volume and number of various types of lending activities

SANCTIONING: Branch manager limit for granting loans under various programs

AUDITS/INSPECTION: Attempt to obtain a sense of the inspection or audit activity through a branch in the past year

TRAINING: Attempt to obtain a sense of the extent of training received by branch manager during their careers

FRAUD: Attempt to quantify the actual and potential losses from illegal activities perpetrated against the branch banks

III. DEPOSIT INFORMATION

<u>Deposit Type</u>	<u>Total Deposits</u>	<u>Total Accounts</u>
Savings	6,554,000	47,089
Current	46,403,000	19,315
Fixed	250,624,000	3,161
Deposit Pension	1,771,200	1,289
Call/Short Term	18,617,000	403
<u>Total</u>	323,969,200	62,257

IV. AVERAGE DEPOSITS

<u>Deposit Type</u>	<u>Per Branch</u>	<u>Per Account</u>
Savings	297,910	140
Current	2,209,667	4,500
Fixed	11,934,476	79,290
Deposit Pension	126,514	1,374
Call/Short Term	979,842	46,200

Note: Some calculations are rounded

With the total number of employees in the branches visited totalling 282, the average number of accounts per employee was 221 and the average deposit volume per employee was Taka 1,148,827.

The branches had an average volume of approximately 66 receipt and payment vouchers per day which came to approximately 2,000 per month.

From the numbers stated, without additional consideration for uncertain large qualifications by the branch managers, it is estimated that each branch sends about 136 statements to the reporting areas in their district and head offices. This figure is not really precise but it is indicative of a large number of reports being sent each month, thus justifying branch managers complaints concerning the time involved in this activity.

A large number of the branches (95%) indicated that they sold Prize Bonds and a large group (73%) reported they did not sell savings certificates.

V. GENERAL OBSERVATIONS

A. Government Bank Deposit Insurance

One issue that we noted during the branch visits that was a subject of some interest to branch managers was the subject of some form of bank deposit insurance backed by the Bangladesh Bank. Needless to say, any scheme of this type promotes additional confidence in the banking systems by potential depositors and participants.

However, we see this issue as an opportunity for the Bangladesh Bank to leverage the granting of bank deposit insurance participation subject to the member banks meeting specific performance criteria. This participation would be subject to performing under accounting guidelines and instituting reforms that are commonly agreed to be useful. Failure to comply would result in denial of bank deposit insurance which would create a competitive disadvantage for the bank who chose not to follow the Bangladesh Bank's guidelines. It would seem that the application process for this insurance and subsequent audit by the insurance department of the Bangladesh Bank would create an environment for useful change and monitoring of that change in the banking system in Bangladesh.

B. Bank Accounting

From the start of the team's assignment in Bangladesh, much has been read and heard concerning the deficiencies of the accounting methods that the banks use. Clearly, the accounting systems here are different from those commonly used in the Western world. However, in the branch visits it was clear that the managers and their accounting staffs could speak at length concerning their accounting methods and were very sure of the location of key figures in their accounts. It was also very clear that there was little in the way of guidance or policy concerning the accounting for pre-liberation, or past due loans or problem issues of any kind. We have the impression that in the absence of specific guidelines, the branches make their own rules, to some extent, on these issues. The team is confident that if the Bangladesh Bank or the individual head offices issued guidelines concerning these matters, the branch managers would see that they were implemented over a reasonable time period. We have confidence in the discipline displayed in the rural branch banking system to implement important guidelines. Prudent monitoring and follow up would guarantee implementation.

C. Physical Plant and Premises

It is well understood by the team that appropriate buildings and offices to house rural branch banks are limited. However, it was

observed by the team during our visits that many branches were not kept in a tidy fashion. Again, it is understood that there are limits to what can be done by a branch but there is really no reason for old vouchers to be lying on the floor or past accounting record books to be dust covered and lying in disarray in a corner. Banking is a business of building confidence in the public it serves and when the public sees the important records the bank keeps being treated poorly, the public loses some respect for the banker and the banking system. A little better care for the records in some branches and a coat or paint for most of them would go a long way to improve their professional image.

D. Confidentiality

During our branch visits we observed that the deposit making or withdrawal process was an extended procedure requiring an interface with a number of individuals performing bank tasks. A control register received an entry for transaction control, a deposit ledger had to be entered to note the change in customer balance and a cashier had to be informed to take or pay some money. The very nature of this process, along with the proximity of other bank employees and customers makes it very hard to maintain a confidential environment for banking transactions.

The branch managers commented that this lack of a confidential method of keeping accounting records leads to some concern among their customer base and to reticence to open deposit accounts. To recommend a change of practice to avoid this type of problem is an easy thing to write but a difficult thing to put into practice. This problem is likely to continue to inhibit deposit growth but a careful study and test program would be necessary to change the method.

RURAL BANK BRANCH DATA SHEET

BRANCH CODE	DATE OPENED	FACILITIES				STAFF								
		TELEPHONE	ELECTRIC	BANKING AREA (APPX) (Sft.)	RENT/OWNED (TK.)	EST. AGE BRANCH MGR.	LENGTH SERVICE (Months)	ROTATED (Years)	NUMBER					TOTAL
									SECOND OFFICER	OTHER OFFICERS	FRON/ TELES	GUARDS	NON OFFICER	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
01	27/12/75	Yes	Yes	1800	1500 P.M.	35	19	03	01	01	01	01	05	10
02	31/10/77	Yes	Yes	700	700 P.M.	45	157	03	01	01	x	03	x	06
03	1966	Yes	Yes	1100	1100 P.M.	36	149	03	01	01	01	02	17	23
04	1976	Yes	Yes	1200	700 P.M.	30	93	03	02	x	01	01	07	12
05	24/02/76	Yes	Yes	900	700 P.M.	35	146	03	01	x	x	01	06	09
06	15/11/80	x	Yes	500	400 P.M.	40	205	03	01	x	x	01	03	06
07	1977	x	x	400	400 P.M.	35	105	03	x	x	x	02	04	07
08	28/12/73	Yes	Yes	1134	OWNED	52	328	03	01	01	01	01	05	09
09	1977	x	Yes	900	1350 P.M.	35	103	03	01	01	x	02	04	09
10	1914	Yes	Yes	1800	OWNED	47	288	x	01 (MGR)	x	03	01	21	27
11	20/09/82	Yes	Yes	540	600 P.M.	44	233	03	01	x	01	01	05	09
125	27/06/74	Yes.	Yes	1350	750 P.M.	50	244	03	01	x	02	x	08	12
13	24/12/76	Yes	Yes	210	OWNED	25	60	03	01	x	01	01	03	07
14	1952	Yes	Yes	1000	1500 P.M.	50	329	03	01	09	02	03	12	28
15	1964	Yes	Yes	3600	3500 P.M.	50	279	03	01	02	02	01	08	15
16	30/06/79	Yes	Yes	1300	3500 P.M.	40	180	03	01	01	01	01	07	12
17	1067	Yes	Yes	2900	2880 P.M.	50	255	03	01	02	01	02	04	11
18	09/12/81	Yes	Yes	1075	1200 P.M.	35	108	03	01	01	01	01	04	09
19	25/04/66	Yes	Yes	1100	700 P.m.	33	216	03	01	x	01	01	03	07
20	1977	x	x	400	600 P.M.	35	105	03	01	x	x	01	02	05
21	1974	Yes	Yes	900	1000 P.M.	40	192	03	01	01	02	x	25	30
22	1978	Yes	Yes	300	500 P.M.	35	108	03	01	x	01	01	15	19

Note : Data were gathered over a period of about a month in April - May 1985.

'x' indicates information was not readily available or it does not apply to the column.

COMMUNICATIONS - HEAD OFFICE (H) DISTRICT (D)								TRANSACTIONS			DEPOSIT								
NUMBER								NUMBER DAILY			TYPE - NUMBER AMOUNT								
DAYS	WEEKLY	FORTNIGHT		QUARTERLY	SEMI ANNUAL	ANNUAL	TOTAL	REG. PT NUMBER	PAYMENTS	TOTAL	AMOUNT SAVINGS	NUMBER SAVINGS	AMOUNT CURRENT	NUMBER CURRENT	AMOUNT FIXED	NUMBER FIXED	AMOUNT PENSION	NUMBER PENSION	CALL - SHORT TERM - SECURITY
15	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35
03	05	x	20	04	06	50	88	70	55	125	2753	1890	1655	854	5398	70	244	109	457
1	15	x	40	52	58	68	234	20	15	35	572	841	272	261	1391	14	x	x	2693
2	07	35	100	150	155	155	574	78	102	180	4100	3752	1857	1122	2200	74	232	159	275
5	06	03	35	40	40	60	190	20	40	60	1041	2352	179	3903	28	1106	68	92	108
2	03	07	13	05	35	40	105	35	25	60	3448	2947	603	247	886	61	132	94	132
2	03	x	16	03	06	60	92	10	15	25	709	3089	109	166	345	29	55	55	04
5	09	x	50	11	11	100	186	07	08	15	574	1902	12	68	398	34	x	x	x
2	02	06	70	70	70	39	87	14	08	22	617	1976	147	31	182	23	0.20	01	01
2	x	01	06	01	x	03	11	20	10	30	797	1289	1516	123	2974	41	34	20	03
2	03	01	19	11	11	MANY	45 +	07	08	15	368	437	105	x	x	x	x	x	17
01	01	04	45	54	x	100	MANY 205	30	20	50	1729	1800	631	98	374	06	14	16	18
02	04	x	MANY	MANY	MANY	MANY	06 +	05	40	45	2931	998	221	109	67331	30	x	x	8209
x	01	02	20	05	01	30	59	50	50	100	10315	3536	15866	227	61469	192	x	x	2227
01	03	x	22	x	05	64	95	90	50	140	6397	2900	3631	300	8470	100	334	300	604
x	04	01	16	05	01	30	57	40	50	90	4256	1603	3172	304	24708	90	x	x	x
02	02	x	46	04	10	67	131	60	50	110	5035	3105	2625	505	41468	120	23	42	1287
02	01	01	20	01	40	40	105	50	50	100	7073	5245	10639	600	21191	903	235	39	1605
01	02	x	15	06	01	35	61	30	36	66	5065	1840	687	300	5918	127	150	70	580
01	05	x	15	17	03	78	119	07	20	27	2442	1823	196	266	2612	94	05	02	70
x	02	02	10	06	08	x	28	50	10	100	836	1243	2140	220	1910	73	x	x	152
06	05	03	22	40	40	50	166	20	20	40	2025	1700	140	166	760	60	235	200	176

GOVERNMENT SAVINGS PROGRAM			SAVINGS MOBILIZATION					NON-BANKING ACTIVITIES			LOANS					SECURED/NON SEC	
PRIZE BOND	CERTIFICATE SAVINGS	OTHER	INCENTIVES			TRANSFER RATES		UTILITIES	GOVT RECEIPT	STRONG	CROPS - AGRIC - NON-AGRIC/NUMBER AMOUNT					SHORT TERM NUMBER	
			GROWTH TARGET	INDIVIDUAL (TK.)	BRANCH (TK.)	HEAD OFFICE TO	FROM	GAS,ELEC TELE	PAYMENTS	LOCKERS	NO. SACP	AMOUNT	NO. AGRIC NON-SACP	AMOUNT	NO. NON AGRIC	AMOUNT NON-AGRIC	
	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54
Yes	yes	x	Z.O.	500	1300	12.5%	13%	x	x	x	44	81	x	x	02	110	55
Yes	x	x	Z.O.	PRIZE BOND	1000	12.5%	13%	x	x	x	x	x	x	x	x	x	04
Yes	x	x	Z.O.	150 for collecting of Tk. 1 lac deposit	2000	12.5%	13%	Yes	x	x	1203	2348	39	754	01	02	52
Yes	No supply	x	P.O.	Proportion	2000	12.5%	12.5%	Yes	Yes	x	x	x	x	x	x	x	1737
Yes	Yes	x	Z.O.	Varies	Cash Reward	12.5%	12.5%	Yes	x	x	1000	2294	x	x	x	x	x
Yes	x	x	Z.O.	Slab	Slab	12.5%	12.5%	x	x	x	1200	3253	x	x	x	x	09
Yes	Yes	x	H.O.	Slab	x	13%	14%	x	x	x	1312	4135	x	x	x	x	06
Yes	x	x	H.O.	Prize Bond	Cash	Av. cost + 1%	9.5%	x	x	x	x	x	406	1671	x	x	410
Yes	Yes	x	R.O.	Cash	Prize Bond	12.5%	13%	x	x	x	909	1933	x	x	01	65	01
x	x	x	x	x	x	x	x	x	x	x	x	x	626	7720	x	x	x
Yes	x	x	H.O.	Yes	Yes	10%	09%	x	x	x	x	x	269	675	x	x	x
Yes	x	x	H.O.	Yes	Yes	12%	12%	Yes	Yes	x	x	x	x	x	x	x	4000
Yes	x	x	H.O.	Yes	Yes	12.5%	12.5%	x	x	x	409	768	01	81	x	x	x
Yes	Yes	x	H.O.	Yes	Yes	8.5%	8.5%	x	x	x	1500	8824	30	63416	x	x	x
Yes	x	x	H.O.	Yes	Yes	12%	12%	x	x	x	N.A.	4400	N.A.	6245	x	x	x
Yes	x	x	H.O.	Yes	Yes	10%	09.5%	x	x	x	N.A.	14268	x	x	x	x	x
Yes	x	x	H.O.	Yes	Yes	14%	13%	Yes	x	Yes	N.A.	1663	N.A.	947	x	x	x
Yes	x	x	H.O.	Yes	Yes	12%	12%	Yes	x	x	N.A.	3152	N.A.	4045	x	x	x
Yes	x	x	H.O.	Yes	Yes	15.5%	13%	Yes	x	x	x	x	11	343	x	x	x
Yes	x	x	H.O.	Yes	1000 - 3700	12%	12.5%	x	x	x	57	77	02	160	x	x	x
Yes	Yes	x	R.O.	150 Prize Bond	15-20 Prize Bond	Cost of fund + 1%	09.5%	Yes	x	x	x	x	x	x	x	x	1025
Yes	x	x	R.O.	Yes	15	12%	12%	Yes	Yes	x	x	3400	x	x	x	x	x

AMOUNT (600)	REGULAR				SPECIAL				SUSPENDING				DEFERRED/CONTINGENT			PAYMENTS			FRAUD			
	NUMBER	AMOUNT (1000)	NUMBER	AMOUNT (1000)	NUMBER	AMOUNT (1000)	NUMBER	AMOUNT (1000)	NUMBER	AMOUNT (1000)	NUMBER	AMOUNT (1000)	AMOUNT (1000)	TYPE	INTERNAL	EXTERNAL	INTERNAL	EXTERNAL	INTERNAL	EXTERNAL	NO. OF CASES	AMOUNT (600)
	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	
7455	01	20	x	x	09	42	10	210	129	7920	15	20	CC	Yes	Yes	Yes	Yes	Yes	x	x	x	
478	x	x	x	x	x	x	x	x	04	458	x		x	Yes	Yes	Yes	x	x	x	x	x	
158	27	662	04	45	01	25	06	644	1333	7636	15	40	GEN. ADV. R.C.	Yes	Yes	Yes	Yes	Yes	x	x	15	165
09	x	x	6665	116	x	x	491	16	10893	141			SACF NON-SACF	Yes	Yes	Yes	Yes	x	x	x		
x	49	1011	x	x	06	140	16	579	1055	4024	4.7	200	SACF	Yes	Yes	Yes	Yes	x	x	x		
124	01	65	x	x	02	32	x	x	1212	3474	10		CD	Yes	Yes	Yes	Yes	x	x	x		
101	x	x		x	x	x	7	45	1325	4281	10		Ag. Loan Gen. Adv.	Yes	Yes	Yes	Yes	x	x	x		
1921	674	2065	52	911	x	x	x	x	1542	6471	25		SACF	Yes	Yes	Yes	Yes	x	x	x		
14	x	x	x	x	x	x	x	x	911	2012	40		CC PROJECT	Yes	Yes	Yes	Yes	x		x		
x	412	2029	x	x	x	x	x	x	1038	9749	20		CC ANY AMOUNT	Yes	Yes	Yes	Yes	x	x	x		
x	1	5231	30	867	x	x	x	x	2090	6773	x		x	Yes	Yes	x	Deptt	x	x	x		
12 45	x	x	x	x	02	33	x	x	4002	12378	50		CC TERM LOAN	Yes	Yes	Yes	x	x	x	x		
x	x	x	x	x	03	19	x	x	413	870	25		CC	Yes	Yes	Yes	Yes	x	x	x		
x	NA	66931	30	25277	x	x	x	x	1560	164443	10		GEN. ADV. PROJECT	Yes	x	Yes	Yes	x	x	x		
x	x	x		x		x	x	x	NA	1	25		Ag. LOAN	Yes	Yes	Yes	Yes	x	x	x		
x	NA	9386	NA	7881	x	x	x	x	NA	32133	50		GEN. ADV.	Yes	Yes	Yes	Yes	x	x	x		
x		161	NA	275	x	x	x	x	NA	3066	10		SECURED LOAN NORMAL AS. LOAN	Yes	Yes	x	Yes	x	x	x		
x	x	x	NA	1417	x	x	x	x	NA	8314	NO		x	Yes	Yes	Yes	x	x	x	x		
x	05	413	x	x	08	23	x	x	24	789	20		GEN. ADV.	Yes	Yes	Yes	Yes	x	x	x		
			x	x	x	x	x	x	60	165	NO		x	Yes	Yes	x	Yes	x	x	x		
995	200	7231	02	2819	x	x	02	6500	1929	18264	50		GEN. ADV.	Yes	Yes	Yes	Yes	x	x	x		
5160	x	x	x	x	x	x	x	x	x	5500	25		GEN. ADV.	Yes	Yes	Yes	Yes	x	x	x		
											05		SMALL LOAN	Yes	Yes	Yes	x	x	x	x		