

FINAL REPORT

Agricultural Credit Department
Bangladesh Bank

US AID Project No 388-0037

VOLUME 5
PAPERS ON SAVING MOBILIZATION II

Prepared by

Robert R. Nathan Associates, Inc

with

**National Council of Savings Institutions
Washington, D.C.**

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**S.F. Ahmed & Co
Dhaka, Bangladesh**

SEPTEMBER 1986

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Paper on Saving Mobilization

Volume 5

Table of Contents

1	Comprehensive Savings Mobilization Action Planning for Rural Bangladesh	1
2	Contract Savings and Credit Scheme	35
3	Savings Mobilization Schemes of the Bangladesh Bank	83
4	Savings/Deposit Constraint and Restrictions	101
5	Status of National Savings Schemes in Bangladesh Jan 1986	189

11

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COMPREHENSIVE SAVINGS MOBILIZATION
ACTION PLANNING FOR RURAL
BANGLADESH

A RURAL FINANCE PROJECT REPORT

DECEMBER 1985-

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TABLE OF CONTENTS

SAVINGS MOBILIZATION ACTION PLANNING

	PAGE NO.
Introduction	3
Program Risk Analysis	3
Model Savings Programs:	5
One : Youth Market	6
Two : Branch Banker Involvement	7
Three: Go to the Depositor	9
Four : New Emphasis on Existing Products	11
Five : Contract Savings	12
Six : Educate without Teaching	14
Seven: Other Programs	17
Risk Analysis of Described Programs	18
Viability Analysis of the MBF Concept	22
Action Planning Flow Chart for Savings Mobilization	30
Role for Technical Assistance in Savings Mobilization Promotion	32
Conclusion	33

COMPREHENSIVE SAVINGS MOBILIZATION ACTION PLANNING

Introduction:

Under the terms of the Rural Finance Project Subtask A-6, the Savings Advisor was required to produce a comprehensive savings mobilization action plan. In this report we describe a wide series of activities that can be undertaken to improve savings mobilization in the Bangladesh rural bank branch system.

The term "comprehensive" is interpreted in two ways. First, a series of possible savings mobilization activities are described briefly. Second, one of the more complex of those activities is described in considerable depth as it is subjected to a conceptual, financial, operational and judgemental analysis to which every product delivery program that a bank develops should be subjected.

PROGRAM RISK ANALYSIS

One of the first considerations of a banker in appraising any new venture is a determination of the level of risk involved which must be weighed against the potential rewards. On the basis of this determination there follow such decisions as whether to lend or not, to levy a moderate or high interest rate, to require a stiff level of collateral, etc.

The first focus of risk evaluation is at the consumer level. Is there a present consumer need or demand for the product? The answer requires only quite simple research in the first instance. If the answer is clearly negative, the idea may be abandoned so that full energy can be devoted to more likely prospects. The savings mobilization programs discussed in this paper received high marks in our extensive discussions with rural branch bankers. Preliminary results of the Rural Finance Project's Rural Bank Branch and User Survey (RBBUS) also favored some of the savings mobilization ideas which will be described herein.

Even when a product concept passes the consumer appeal test it may still deserve rejection depending on how it checks out on ease of implementation and follow-up monitoring. The following MODEL PROJECT RISK PROFILE provides a simple matrix of levels of risk. Although a simple model, it makes some valid and important points.

Risks of implementation are found in the degree of difficulty and expense faced in placing a product in the market. The higher the expense, the greater the necessary payback to justify the expense.

Any new venture should be monitored rigorously, particularly during the early stages. A well managed monitoring program can reduce investment risk in a variety of ways. First, if the program is not working and cannot be made to work, it can be stopped, saving waste of additional funds and manpower. If the program is working but not up to expectation, monitoring can point to modifications that may rescue the program.

MODEL PROJECT RISK PROFILE

IMPLEMENTATION		MONITORING TASK	
ACTIVITY	EXPENSE	EASY	DIFFICULT
SIMPLE	LOW	LOW RISK	MODERATE RISK
SIMPLE	HIGH	MODERATE RISK	HIGH RISK
COMPLEX	LOW (UNLIKELY)	MODERATE RISK	HIGH RISK
COMPLEX	HIGH	HIGH RISK	UNACCEPTABLE RISK

While all of the programs described in this report meet acceptable risk levels, any organization considering implementation should, nevertheless, undertake an extensive financial analysis such as the analysis performed in evaluating the Mobile Banking Facility scheme later in this report.

There is no substitute for careful analysis and realistic budget appraisals. Even the most experienced businessman can be fooled by an apparently large revenue stream if he has not taken the time and effort to evaluate the risk level inherent in the activity. Fortunately, in banking, monitoring activities are often easier (at least they are conceptually more straightforward) than in many other businesses. Quality monitoring, combined with decisiveness will mitigate the risks of implementing the programs suggested below.

MODEL SAVINGS PROGRAMS

Four guidelines should be considered from the outset. They are:

- 1) Programs must appeal to the young for the future and to adults for the present;
- 2) The blend of programs must be of reasonable cost in order to keep deposit interest expense plus related program administrative costs within a level acceptable to rural bankers;
- 3) The programs must have the potential for reaching new deposits as well as obtaining additional monies from current depositors;
- 4) The programs must have some appeal for branch managers and branch personnel.

The programs described on the following pages attempt to motivate individuals and mobilize savings by inculcating thrift habits in the young, by motivating branch personnel to reach out to potential depositors not currently involved in the banking system. Each

banking organization has unique characteristics. Programs that work best for one will not always be best for another. Potential advantages and disadvantages of the following Model Savings Mobilization programs should be weighed carefully by each organization.

I. PROGRAM ONE: THE YOUTH MARKET

Programs aimed at children may take the form of the following products:

A. Individual Coin Savers

In this program children are provided with a small box with 2 to 3 slots into which coins of varying denominations can be inserted. The boxes can be personalized with a child's name. When the container is filled, it should be brought to a bank to open a youth account. As an incentive, a bank can add a predetermined amount to the account to complete the box. Subsequent refilling of the box by the child and depositing the coins in the bank would obtain for the child additional incentive amounts from the bank.

B. Group Coin Savers

This program is similar to the program for individual children but can be organized through schools or youth groups. Competitions can be organized among student, classes or schools with rewards to groups which gather the most savings.

C. Advantages

Approximately half the Bangladesh population is under the age of fifteen. It is important to establish the saving 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 amounts of money. However, the important thing is to familiarize the young with banks and bankers in the hope that saving through the banking system will become a lifetime habit.

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 their goals.

The most obvious type of reward is financial compensation according to some scale of recognition for accomplishment in some extraordinary fashion.

A. Savings Growth National Recognition Award

The assumption behind this program is that branch officers would drive themselves to the limit for a truly national award for helping Bangladesh to grow, prosper and reduce its dependence upon donor agency funding.

Branch Managers should be told in regional meetings about the program, its objectives, and its implications for their villages, command area, and the country's future. They would be asked to sign an agreement committing themselves and their branches to participation in a national deposit mobilization program. Some training on deposit gathering

methods should be made available to the managers in order to build up their confidence and remove doubt from their minds regarding how to increase deposits. All aspects of the program must be positive and oriented toward present and future improvement in the quality of life of the people of Bangladesh. The program must give the managers and their staffs a proud feeling that they are on a mission for their country that only they can perform. The recognition for unusual achievement must be worthy of the importance placed on this program.

The program should 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. To make the program an even larger success it should, if possible, 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 entire staff must feel part of the achievement. Better yet, the town political leaders might hold a recognition ceremony for the entire branch staff. It is possible to have many categories of achievement: most new accounts, greatest growth in new deposits, awards for new branches, or greatest deposit growth in a rural command area. The keys to this program are that it must receive strong initial promotion and the reward must be presented from the highest level of either the banking system or government in order to justify the emphasis placed on the program.

B. Advantages

Savings mobilization is an issue of national 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 and should readily lend itself to a test marketing.

C. Disadvantages

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 is really quite necessary to show support for the very real achievements of those who do not make it to award dinners.

I. PROGRAM THREE: GO-TO-THE-DEPOSITOR VIA AN MBF

In order to increase bank deposit portfolios the banking system must be prepared to use any and all means within practicality costwise to reach potential depositors from remote areas who are unable or not sufficiently motivated to spend hours getting to a branch bank to utilize its services.

If it is determined that a significant volume of discretionary funds are available for being mobilized in rural, distant, and inconvenient places, these would make a useful mobilization target. A program should be developed that takes the banking system to potential customers in such outlying places.

A. The Mobile Bank Facility

This scheme envisages a team consisting of a driver, guard, cashier and bank official who travel to pre-determined rural areas in a secure van to conduct basic banking business. The potential customer would no longer have the excuse of distance for not utilizing normal bank branch

services, and he has the reinforcement of watching and learning from friends and neighbors what bank business is all about. Making of loans, loan collections and deposit account openings would be clearly emphasized.

B: Advantages

The clear advantage of this program is that it takes the bank directly to the target market.

It is also possible that over time the program could be functionally expanded to 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 to the locals than a typical bank branch.

This type of program is test marketed on paper and evaluated for cost effectiveness in a later section of the report.

C. Disadvantages

This maybe an expensive way to mobilize deposits. It may be necessary to develop additional revenue producing activities for Mobile Banking Facilities in order to spread costs over a broader income base. MBFs might also deliver health services, for instance.

MBFs should be clearly identified with the banking company to which they belong. Customers must be convinced their deposits and withdrawals will be honored by local branch bank if the mobile program is altered or discontinued.

It also must be very clear to bank employees that they will be indemnified from personal liability if a Mobile Bank branch is robbed.

As will be shown, it appears that to break even an MBF must do somewhat more business than an average rural bank branch. If it can do as much as two branches, it would always be profitable assuming average success in deposit gathering and loan collection operations. If the introduction of an MBF obviates the need for more than two branches the MBF becomes extremely beneficial.

Therefore, the risk of this project is in the assumption that building branches in remote areas can be avoided by using MBFs instead.

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 to come. Some of those are:

A. Deposit Pension Scheme (DPS)

The Deposit Pension Scheme is young but already well established. It is being promoted by all members of the banking system. Program details are found in RFP Report No.3. The only need is to advertise this product and its uses even more strongly in print media, radio, and television. It seems knowledge of its availability is quite enough to sell it. Less costly promotion would be by word of mouth campaign conducted in the branch banks by having staffs discuss it with every potential account holder who enters the branch over a given time period with rewards to the winning branches.

B. Advantages

The primary advantage of emphasising an existing product is that the banking system and its 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 branch managers know all the characteristics and advantages of that product.

C. Disadvantages

1. Large scale advertising campaigns can be costly.
2. Few managers are, as yet, so marketing oriented that they can be counted on to get behind a word-of-mouth campaign.

V. PROGRAM FIVE: CREATE NEW PRODUCTS-CONTRACT SAVINGS

In order to attract new depositors to the banking system and encourage existing depositors to increase their deposits, it is necessary to develop and to test market new products. Contract Savings will be relatively new and offer much potential in rural Bangladesh. Typical products are:

- A. Home Equity Deposits, Marriage Deposits, Education Fund Deposits, etc. Such products as these have in common the appeal of saving for a future desired purpose. Contracts can be varied as the things different individuals want or need to make their future lives 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 would be utilized as equity to purchase a home while the bank that held the deposit would grant a mortgage on the purchase.

Programs in preparation for the education of children or for a future marriage are of the same nature. All products

meet future needs of individuals or families.

B. Advantages

It is a system that depends on people's self interest in favorable future circumstances. Only pure fatalists get left out.

Should the government desire to subsidize education or housing activities it can tie such subsidies to successful completion of savings contracts.

C. Disadvantages

Any new program takes time and money to introduce to a market. Branch bank personnel must be trained to market 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. The best use of this type of program is in the fulfillment of a lifetime desire. To further demonstrate usefulness of contract savings programs, an example of a hypothetical application follows.

1. Purchase of an Ox Cart

The depositor would make regular periodic deposits to a bank account over a specified period of time. At the conclusion, the depositor would have compiled an agreed equity amount, say 50 percent of the capital requirement to buy an ox cart and to qualify for a bank loan to cover the remaining cost of the ox cart.

Successful participants in such a program are guaranteed a loan by the bank with which they hold their savings contracts and they should receive their loans at favorable rates.

2. Advantages in re: the example:

- Creates a long-term relationship between the depositor/borrower and the bank.
- Places 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 relationship for the bank.
- The earlier increased productivity of the borrower through use of the ox cart will more than offset the loan and interest repayment requirements.

3. Disadvantages

Contract savings must provide for careful review of each application and monitoring of use 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 high illiteracy rates in rural areas.

When a 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 would reach the adult population through 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 underlying this program calls for developing

an illustrated booklet with an 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 presented in the form of a coloring book (an idea predicated on children having some experience with 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

In order to make this concept work, one must obtain the active support of the elementary school teacher. 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 the banks. 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 its people 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 could 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 comments, and that they are willing to release their rights to this work.

E. 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 ultimate printing would reduce the unit cost for the banking participants to a minimum.

F. Program Six: Advantages

- The program introduces positive banking ideas to children for the future.
- The program provides an opportunity to reach some illiterate adults at a cost no greater than reaching their children.
- It ought to motivate teachers to present positive banking concepts.
- The cost for the program would be small considering its scope.

G. Program Six: Disadvantages

To obtain the desired results, the program requires some committment from the entire banking community.

VII. OTHER PROGRAMS

A. Selected Direct Advertising

Occasionally, it is feasible to promote savings activities by direct distribution of savings promotion material to targeted individuals.

Promotional materials could be handed to individuals paying utility bills at the bank, for instance.

B. Lotteries

Banks can, on occasion, run lotteries among pools 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 advantages of special activities is that they can be timed to coincide with holidays or other special events in the countryside.

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 may not be repeatable. They can never replace continuous type promotional programing, but only supplement it. As such, the one-time programs may divert attention from the activities that must continually go on if financial viability is to be achieved by the banking system.

RISK ANALYSIS OF DESCRIBED PROGRAMS

Early during the Rural Finance Project the Consultant team travelled to the northeast, northwest and southeast areas of Bangladesh and visited over 40 rural bank branches. The impressions made by the banks and their environs on the team members inspired consideration of the savings programs described earlier. Preliminary information from RBBUS supported our decision to include a given program or to reject one.

Much emphasis has been given in carrying out Subtask A-6 to the concept of risk in presenting these programs. This could be called the "intellectual" risk. In business settings, the risk is often manifest in discussions where the concluding comment goes something like this: "We tried this before and it did not work" or "We have already tried this", "Why should we try it again?" It is very likely that some or even all of the programs described in this report have been tried in this market place at one time or another. The point that needs to be made is that while there are many ways to increase bank deposits, those ways are finite. The programs described in this report are not wed to past success or failure of deposit mobilization schemes; namely, increasing rural bank branches in large numbers over a short period of a few years, has worked quite well.

It is not possible to determine at this point why some savings mobilization programs may have failed in the past. We only have hearsay evidence. The criteria used for success or failure is unclear. The quality of monitoring that was done, if any, is not known. The management approach is not recorded. This report offers a series of programs that have been utilized in various places around the world at various times that have sometimes been found to be useful. When we believe that the conceptual risks are acceptable, and after we have convinced ourselves that the target consumers of the product would be willing to buy, analysis must be

done to ensure that we appreciate all the factors (operational, financial, managerial, etc.) that could impede the success of the project. We try to do this regarding the Mobile Banking Facility examined later in this report.

It is possible to take the seven general programs which have been previously described and subject them to a conceptual risk analysis to determine the mix of implementation and monitoring concerns. In doing so, the following table evolves:

SEVEN PROGRAM RISK ANALYSES

	Implementation		Monitoring task	Risk level
	Activity	Expense		
I Coin Savers	Simple	Moderate	Easy	Moderate
II Recognition	Simple	Low	Easy	Low
III Go to Depositor	Complex	High	Easy	High
IV Structured Marketing	Simple	Low	Easy	Low
V Contract Savings	Moderate	Moderate	Easy	Moderate
VI Educate	Moderate	Low	Difficult	Moderate
VII Other Programs				

DISCUSSION OF PROGRAM ANALYSIS

Risk, like beauty, is in the eye of the beholder. It is not necessary that everyone agree with the specific risk analysis values presented in the above table. It is necessary from a banking perspective that an organization perform some type of analysis in order to determine what level of risk its program concepts have and what level of risk they are willing to accept. The thought process behind the table listings are as follows:

I COIN SAVER PROGRAM

This program is fairly simple in design. There would be some initial expense in manufacturing the coin saver boxes but some economies of scale would exist to hold unit costs down. Clearly, there would be the ongoing expenses of travelling from school to school. Reporting on this would appear to be simple. The challenge would be in keeping the initial manufacturing costs low and to make travel routes as efficient as possible. For the size of expected deposits, which would be relatively small, the cost of obtaining the deposits would probably be moderate. Poor monitoring, however, could drive the risk into the high or possibly unacceptable range.

II RECOGNITION PROGRAM

This is a type of program that has nearly no risk associated with it. The program could be introduced by circular and during regional managerial visits. If some training in marketing of deposits was given in the area, a cost would be generated but the level of cost could be monitored from existing reports. The incentive to increase deposits might fade over time but the program would still carry little risk in implementation and monitoring.

III GO-TO-THE-DEPOSITOR PROGRAM

This program is fraught with all types of risks. It is a complex concept to implement. Transport for the bankers may be a prohibitive expense and there is no basis for estimating how the market will accept it. Monitoring should be no more difficult than for one of Sonali Bank's "Krishi Shakas". For this type of risk level to be acceptable, a high level of revenue and other potential benefits must be available and reasonably assured. Since this was the highest risk program, it was chosen for comprehensive analysis and development into an action plan.

IV STRUCTURED MARKETING - The Deposit Pension Scheme

This type of program involves the marketing of existing products to a wide group of individuals in a short period of time. It is simple to implement because the bankers already know the products and there is no real cost to develop the program. The biggest challenge would be to motivate them to remember the program and perform the number of obligatory calls on groups or individuals in the command area. A unique reporting form would be required but it need not be complex. This appears to be a relatively low risk management challenge.

V CONTRACT SAVINGS

This type of program involves the modification of existing deposit products into forms that appear more appealing to potential depositors. The point of the modification is to give the banker an approach that makes it easier to explain why a deposit account is useful to a potential customer who may only consider land, gold or animals to be useful assets. Most of the complexity in this type of program is in the initial design to be given to the branch bankers. The branch banker would need to be taught the elements of the program but that could be done with a quality bank circular for details containing a series of detailed examples. The major expense of this type of program would be in staff time needed to design it and the cost of design and printing of forms. Monitoring can be done with some unique format which need not be complex. This type of program appears to contain moderate conceptual risks with most of them located in the design phase.

VI This is a simple type of program which has more risk than one might initially suppose. Like most of the programs, there are some design risks in the concept which would have to be overcome. The expense of implementation would also appear to be low to moderate and relatively easy to control. The hidden problem

in this program lies in the monitoring aspect. The real point of this type of program is to teach children and parents about banking and remove their fears or concerns about using banks. This is a sound conceptual idea but it is difficult to see how the results of the effects of this program could be easily measured. This type of monitoring problem increases the risk of an otherwise low risk program.

VII OTHER PROGRAMS

For the purpose of including all types of deposit mobilizing techniques, short term programs and special purpose programs need to be included. The risks inherent in these types of programs should be carefully analyzed. The design effort for a short term program can be as difficult and involved as for a long term program. However, the longer term or permanent program may offer less risk of not being unprofitable than a short one which may have to cover its expenses quickly. Short term programs tend to have a novel effect which does not last for long. Monitoring these programs is usually not too difficult but the short time available for cost recovery leaves these programs in the moderate to high risk category.

VIABILITY ANALYSIS OF THE MBF CONCEPT

In the following pages are budget and revenue estimates for the Mobile Banking Facility concept. The key revenue assumption for the Mobile Banking Facility is that a successful MBF operation can make it possible to avoid building a fixed bank branch in the market served. An MBF should be able to handle at least the same level of deposits as an average rural branch bank. Also, an MBF should be able to collect outstanding loans at least as well as the average rural branch. Thus the basic frame of reference for appraising MBF viability is its ability to match the cost and revenue structure of an average fixed branch bank.

Average rural bank deposits are relatively easy to estimate as are loan disbursements but estimating the value of loan recoveries is much more complicated. An MBF may recover loans that would have been repaid on time without it. It may recover some loans that never would have been repaid without, and it may speed the recovery of some loans that would have been repaid at a later time. How to estimate the value of a loan recovery? If the loan would have been repaid at the same time regardless of the activities of the MBF, then the MBF wouldn't add to additional value. If the loan never would have been paid, the MBF added the principal value of the loan and the earning power of those funds forever. If the repayment was made earlier by, say, a year, the funds become available for relending and therefore earning that much earlier. For purposes of present calculations it is assumed that the repayments are advanced by a year and the value is the earning power of those funds at the average earning rate of the earning asset component of a given bank's financial statement.

A final assumption evolves from the previous discussion. From the first calculations done in analysis of the MBF concept it was clear that deposit mobilization alone would not support the cost of the activity. Collecting loans was also necessary to make the concept viable. If at least one branch can not be replaced or made unnecessary by an MBF, the concept will not work.

MBF Expense Assumptions

Expense estimates are based on the following: For example, the salary and benefit structure for bank personnel are known because they are completely standardized; 2 branch officers, 2 clerks, 1 cashier and 1 guard; thus, an annual cost of about Tk.100,000.

A vehicle such as a Toyota land cruiser with four wheel drive, costs approximately Tk.73,125.

Various other expenses are based on experience of rural bank branches.

In the budget that follows, it should be kept in mind that the figures do not include any additional cost for expatriate technical assistance, training or management.

MBF
Annual Operating Budget

Vehicle - Capital Expense	Taka	73,125
- Modifications		5,000
- Operation + Maintenance		41,600
- Repairs + Parts		10,000
Salaries and Benefits		100,000
Insurance (Liability + Theft).		7,900
Supplies		20,900
Postage + Shipping		3,000
Site Signs		600
		<hr/>
		262,225
Contingency Provision @ 10%		26,223
		<hr/>
Total MBF Local Expenses	Taka	288,448

Note: MBFs must have home bases at which some accounting and clerical staff time would be needed. It is estimated that 2 accounting clerks are needed for each fixed branch replaced or avoided. The total annual expense for each clerk is estimated at Taka 20,000 x 2 = Taka 40,000.

Therefore: If no branches are avoided the expense of the MBF would approximate Taka 288,448; if one branch is avoided, Taka 328,448; if two branches avoided, Taka 368,448, etc.

MBF Revenue Estimates

In order to reduce some of the uncertainty that is inherent in making revenue estimates on new projects, it is best to base as many assumptions as possible on factual information that derives from readily available secondary sources which can be discovered through direct research. All three approaches are used in these revenue estimates.

FACTS FROM RBBUS DATA

From early returns of the RBBUS it was noted that the average Sonali Bank rural branch had administrative expenses of Taka 220,000 per year and average "profits" of approximately Taka 100,000 per year, deposits of Taka 5,120,654 and recoveries of Taka 985,529 per year.

FACTS FROM SONALI BANK ANNUAL REPORTS

From Sonali Bank Annual Reports for years ending in December 1981, 1982 and 1983, key information was extracted. Average earning assets over the 3 years were determined and compared with Gross Interest Income and Net Interest Income. This indicated that Sonali's earning assets grossed 8.33% and netted, after funding costs, a significant 3.08%. These figures are used to estimate roughly the value of MBF activities over the span of a full year of operations.

The calculations are as follows (Taka figures in Millions):

<u>Earning Asset Category</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Total</u>
Advances	9,997	14,734	16,144	40,895
Investments	1,630	3,358	4,134	9,122
Call money	426	590	1,810	2,826
Bills	1,858	2,097	866	4,821
	<u>13,911</u>	<u>20,779</u>	<u>22,954</u>	<u>57,644</u>

<u>Profit Category</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>Total</u>
Interest income	882	1,668	1,252	4,802
Net interest income (Interest income minus interest expense)	706	599	468	1,773

Average Annual Gross + Net Funding Cost Formula

$$\frac{\text{Total period profit}}{\text{Total earning assets}} = \frac{4,802}{57,644} = 8.33\%$$

$$\text{And the net calculation:} = \frac{1,773}{57,644} = 3.08\%$$

This calculation provides a simple and conservative estimation of earnings rates from MBF operations.

REVENUE ESTIMATES FROM SONALI BANK INFORMATION

If it is assumed that all deposits that Sonali collects are converted into earning assets, it is possible to roughly calculate annual value of those deposits. The average Sonali rural branch has deposits of Taka 5,120,654/- which at 3.08% for one year is worth Taka 157,716/-.

If it is assumed that the MBF accelerates collection of some loans and collect others that might never have been collected, a conservative calculation of the value of these funds being mobilized over a year can be estimated by using the derived value of the Sonali earning assets, namely, 8.33%, and applying it to the loan recovery amount. Average loan recoveries of Taka 985,529/- at 8.33% per year would be worth Taka 82,095/- to Sonali Bank.

MBF SCENARIOS

The following pages contain a series of scenarios that focus on various alternative levels for an MBF activity in order to determine the strengths, weaknesses and limits of the approach.

The results of all five scenarios are compared with average rural Sonali Bank performance as discovered through examination of early RBBUS results. The left column assumes that a certain number of rural branches are not necessary to develop in a banking area because the MBF can serve the function. For each bank replaced, the average administrative cost is compared to MBF cost. A summary of estimated net benefits under each scenario is presented followed directly by each of five detailed scenarios.

Summary of Net MBF benefits under varying Scenarios regarding assumptions about average deposits and loans collected against number of branches assumed to be avoided.

Branches Avoided	Net MBF benefits					Tk.000
	Collects av. deposits only	Collects av. number of loans only	Collects av. deposits and av. loans	Collects of av. deposits and av.loans	Collects av. deposits 2 x av. loans	
	(Scenario-1)	(Scenario-2)	(Scenario-3)	(Scenario-4)	(Scenario-5)	
0 (No branch)	(230)	(306)	(148)	(227)	(66)	
1	(50)	(126)	32	(47)	114	
2	187	35	351	193	515	
3	425	197	671	434	917	

Reference Scenarios 1 - 5 at pages 15 through 18

It may be seen from the above table that out of the five different Scenarios (assumptions), an MBF is most viable with a combination of activities such as collection of average deposits and loans and when it avoids at least one branch as seen at Scenario 3. Scenario # 5 where MBF gathers average deposits and collects twice the average loans is felt to be too optimistic. Scenarios 1 and 2 indicate that MBF is not viable when merely used for deposit mobilization or loan collection.

Scenarios in Detail

SCENARIO-1 : MBF COLLECTS AVERAGE DEPOSITS, COLLECTS NO LOANS AND AVOIDS BRANCHES.

(Taka 000)

Branches Avoided	Average branch expense/ year	MBF expense/ scenario/ year	MBF scenario benefit (deficit)	MBF gathers average deposits valued @ 3.08%	MBF colle-cts on loans	MBF pro-fit (loss)	Average branch profit	Net MBF benefit (deficit)
0	-	288	(288)	158	-	(130)	100	(230)
1	220	328	(108)	158	-	50	100	(50)
2	440	368	72	316	-	388	201	187
3	660	408	252	474	-	726	301	425

ANALYSIS

It is very clear in scenario-1 that an MBF is weak when it stands as an independent entity and only collects deposits. When it is able to replace the building of new branches, the concept becomes more valuable. Once two branches are avoided, reasonable success in deposit gathering can generate appreciable benefits in comparison with a rural branch.

SCENARIO-2 : MBF COLLECTS AVERAGE NUMBER OF LOANS, GATHERS NO DEPOSITS, AND AVOIDS BRANCHES.

(Tka 000)

Branches Avoided	Average branch expense/ year	MBF expense/ scenario/ year	MBF Scenario benefit (deficit)	MBF gathers no deposits	MBF colle-cts valued at 8.33%	MBF pro-fit (loss)	Average branch profit	Net MBF benefit (deficit)
0	-	288	(288)	-	82	(206)	100	(306)
1	220	328	(108)	-	82	(26)	100	(126)
2	440	368	72	-	164	236	201	35
3	660	408	252	-	246	498	301	197

ANALYSIS

If one does the same analysis as scenario 1 but assumes the MBF is only in the field to recover loans, the concept is still weak.

SCENARIO-3 : MBF COLLECTS AVERAGE DEPOSITS + LOANS, AND AVOIDS BRANCHES.

(Taka 000)

Branches Avoided	Average branch expense/ year	MBF expense/ scenario/ year	MBF scenario/benefit (deficit)	MBF gathers av. deposits valued @ 3.08%	MBF colle- cts loans valued at 8.33%	MBF pro- fit (loss)	Average branch profit	Net MBF benefit (deficit)
0	-	288	(288)	158	82	(48)	100	(148)
1	220	328	(108)	158	82	132	100	32
2	440	368	72	316	164	552	201	351
3	660	408	252	474	246	972	301	671

ANALYSIS

When collects average loans and deposits and avoids one fixed branch it generates significant benefits as compared with fixed branches.

SCENARIO-4 : MBF COLLECTS ONE HALF AVERAGE DEPOSITS, COLLECTS AVERAGE LOANS AND AVOIDS BRANCHES.

(Taka 000)

Branches Avoided	Average branch expense/ year	MBF expense/ scenario/ year	MBF scenario/benefit (deficit)	MBF gathers ½ av. depo- sits valued @ 3.08%	MBF colle- cts av. lo- ans valued at 8.33%	MBF pro- fit (loss)	Average branch profit	Net MBF benefit (deficit)
0	-	288	(288)	79	82	(127)	100	(227)
1	220	328	(108)	79	82	53	100	(47)
2	440	368	72	158	164	394	201	193
3	660	408	252	237	246	735	301	434

ANALYSIS

The concept is weaker than scenario No.3 but does show a profit when two branches are avoided.

SCENARIO-5 : MBF COLLECTS AVERAGE DEPOSITS, COLLECTS DOUBLE AVERAGE LOANS, AND AVOIDS BRANCHES.

(Taka 000)

Branches Avoided	Average branch expense/year	MBF expense/scenario/year	MBF scenario/benefit (deficit)	MBF gathers av. deposits valued @ 3.08%	MBF collects 2x av. valued at 8.33%	MBF profit (loss)	Average branch profit	Net MBF benefit (deficit)
0	-	288	(288)	158	164	34	100	(66)
1	220	328	(108)	158	164	214	100	114
2	440	368	72	316	328	716	201	515
3	660	408	252	474	492	1218	301	917

ANALYSIS

Scenario 5 benefits would be spectacular compared to those of existing fixed branches but the scenario is undoubtedly too optimistic marketingwise.

ACTION PLANNING OUTLINE FOR SAVINGS MOBILIZATION

With the foregoing concept testing completed resulting in a potentially favorable outcome as regards the possibility of implementing MBFs, it would then be important to follow a logical sequence of planning and implementing steps. As noted, the MBF is a relatively complex banking service to implement. But no matter whether complex or simple, planning discipline must be equally rigorous. No step should be omitted.

A fundamental series of planning steps is suggested in the following detailed flow chart which is, in turn, followed by a more generalized estimation of time requirements for carrying out a test marketing of a Mobile Banking Facility. For simpler projects, the time frames would be shorter but the steps no fewer.

ACTION PLANNING FLOW CHART-BANK PRODUCT INTRODUCTIONS

<u>Steps</u>	<u>Action by</u>	<u>Type of Action</u>	<u>Stage</u>
1	Planning Team (PT)	Prepares Project Paper for Savings Mobilization by Various Product. Types	Preparatory
2	(PT)	Prepares General Action Plan Outline for Various Products	Identification
3	(PT)	Prepares Specific Action Plan in Detail for any one of the Proposed Products	Formulation
4	Agricultural Credit Department (ACD/BB)	Circulates Action Plan Recruit Sponsor Bank	Approval, Selection, etc.
5	ACD/Sponsor	BB Approval (License)	Regulatory
6	Sponsor Bank	Staff Induction Staff Development - Orientation & Training Policy Record Keeping Security	Development
7	Sponsor Bank	Inauguration, Implementation	Startup
8	Sponsor Bank	Marketing & Publicity Recording Operating	Operational
9	Sponsor Bank	Feed Back	Monitoring
10	ACD/BCD *	Evaluation	Assessment
11	ACD/Sponsor Bank	Adjustment Replication	Termination

* BCD = Banking Control Department/BB

MBF TEST MARKETING TIME REQUIREMENTS

	<u>Time Necessary</u>
Determine MBF Location	1 month
Work with the Area Manager	1 month
MBF Staff Selection	1 month
Design the Training	1 month
Test-marketing Development	1 month
Monitoring of Operational Program	12 months
Evaluation and Final Decisions	2 months
<hr/>	<hr/>
Total	19 months

While timeline determinations of this type are subjective, it is difficult to imagine the last two steps taking less than 14 months for a program as complex as the MBF. Any time gains would have to come from the early steps.

ROLE FOR TECHNICAL ASSISTANCE IN SAVINGS MOBILIZATION PROMOTION

Technical assistance or the use of additional expertise could be helpful, if not indispensable for the test marketing of any new bank services product, but especially so for a complex product such as an MBF. Technical assistance could be applied at many points along the way from a decision to test market through to completion of an operational test period such as the 19 months estimated above for introducing an MBF into rural Bangladesh.

Bangladesh rural bankers are already hard pressed for time to perform their routine responsibilities satisfactorily and could find it impossible to cope with new product development short of recruitment of additional staff or employment of expert consultants. It seems likely that one donor agency or another would be interested in assisting the BB or an NCB test the viability of the MBF product as well as some of the other products identified earlier in this report.

Basically, what would be very desirable is a professionally educated services marketing specialist, especially one with relevant experience in expanding the market outreach of banks operating under circumstances at least moderately similar to those existing in rural Bangladesh.

CONCLUSION

This paper has attempted to develop two themes. First, seven potential savings mobilization products were outlined in satisfaction of the RFP requirement that a comprehensive list of savings mobilization products be identified. Second, a complex method of gathering potential savings in rural areas (the MBF) was subjected to unique analysis and evaluation in order to satisfy the RFP requirement that a specific program be developed in comprehensive detail.

An MBF is also the subject of RFP Report Number 7 where it is treated in much greater detail and appraised by standard business project feasibility analysis methods. The result is a marginal 12.5% (after tax) internal rate of return after five years including recovery of capital cost of the vehicle which would be replaced in the fifth year.

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CONTRACT SAVINGS and CREDIT SCHEME

- Action Plan for -

Savings Mobilization and Credit Expansion
among the Bangladesh Rural Poor

A RURAL FINANCE PROJECT REPORT

June 1986

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(under USAID Project No. 388-0037)

TABLE OF CONTENTS

	<u>PAGE NO.</u>
EXECUTIVE SUMMARY	38
I INTRODUCTION	41
II WHAT IS CONTRACT SAVINGS	41
III CONTRACT SAVINGS BENEFITS	42
IV TYPE OF CONTRACT SAVINGS RECOMMENDED	44
V RATIONALE OF CSACS	45
VI MINIMIZING DUPLICATION & OVERLAPPING	47
VII CSACS MANAGEMENT AND COORDINATION	50
VIII ECONOMICS OF CSACS	51
IX SOURCES OF FINANCING CSACS CREDITS	52
X ESTIMATED FINANCIAL SCOPE OF CSACS	53
XI SUGGESTED GUIDELINES FOR CSACS PILOT PROJECT	57
Selection of CSACS Account Holders	58
Opening of CSACS Accounts	60
Monthly Deposit Installments	61
Closure & Reallocation of CSACS Accounts	61
Transfer of Accounts	62
Sanction & Disbursement of Loans	62
Loan Repayment	62
Loan Security	63
CSACS Accountholder Fund Management Controls	64
CSACS Accounting, Monitoring and Supervision	65
Administration and Coordination of CSACS	65
XII TRAINING & IMPLEMENTATION	67
XIII SUMMARY AND RECOMMENDATIONS	68

LIST OF ANNEXURES & APPENDICES

AGRICULTURAL CREDIT DEPARTMENT CIRCULAR NO. 26/84 DATED 09.12.1984	ANNEXURE - I 71
INTEREST RATE STRUCTURE OF BANK DEPOSITS	ANNEXURE - II 73
COMPARATIVE CHART OF MAJOR BANKING DEPOSITORY PRODUCTS	ANNEXURE - III 74
COMPUTATION OF INTEREST ON CSACS DEPOSITS	ANNEXURE - IV 76
CSACS PROFITABILITY ESTIMATES	ANNEXURE - V 77

Contract Savings and Credit Scheme

Executive Summary

1. A Contract Savings and Credit Scheme is proposed for the purpose of mobilizing savings of the Bangladesh rural poor, and for directing the resulting resources into small scale economically productive medium term projects for the benefit of the same rural poor. A project loan obligation of a rural bank branch is tied to each savings contract by a qualified member of the rural community. Qualification criteria include:
 - a. On a degree of rural remoteness scale, participating bank branches must be in the more rural half of the scale, not be located in district or upazila head towns, and not possessing savings portfolios in excess of Tk. 3 million.
 - b. CSACS account holders may not have annual household incomes exceeding Tk. 25,000/; nor histories of poor loan repayment, nor hold positions in governmental or financial institutions, nor hold more than one CSACS account at a time, nor have more than one account within a single family household.
2. The CSACS is to be introduced on an experimental basis by way of a 40 rural bank branch Pilot project and, depending upon how successful the launch, gradually expanded. Several initial operational guidelines are subject to adjustment if they are found wanting or unachievable. They include:
 - a. A monthly savings installment of Tk. 100/ over a
 - b. thirty (30) consecutive month period.
 - c. Application of established fixed interest rates to the contract savings accounts with compounding on a bianual basis, the rates declining from 14.5% to 12% depending on the number of months any installment remains deposited.
 - d. A maximum loan obligation on the part of the bank of 1.5

times the original earning asset (Tk.3000/) plus its fixed interest earnings (Tk.590/) or a total of Tk.5385/. Total financing thus becomes Tk.8975/. (5385 + 3590).

- e. At the beginning, banker and CSACS account holder agree in general on an income generating project to be funded when the savings contract has been fulfilled. The general terms of agreement are elaborated and made specific in a formal action plan before the project is permitted to be implemented.
 - f. The bank's loan obligation and the account holder's savings plus interest are disbursed simultaneously and proportionally whether in a single lump sum or in a series of installments. Repayment schedules are negotiated on a case to case basis, depending on the nature of the particular project.
3. Several possible project funding and repayment schedules are appraised and all yield positive gross rates of return that are comparable to rates historically experienced by the NCBs and BKB.
 4. Types of project are unlimited except in terms of amount of funding available through CSACS, which is modest. However, project selection may include (a) new production, (b) expansion, or (c) maintenance, repair and replacement types of projects.
 5. It is submitted that CSACS offers the rural banking sector a very attractive means by which to:
 - a. locally generate inexpensive investable funds,
 - b. persuade people regarding the virtue of bank savings and the merits of self reliant action planning of one's future,
 - c. develop effective banker-customer partnership relations, and most important,

- d. make significant progress in development of the Bangladesh rural economy as the participants learn to use project financing successfully and become able to move on to larger and more sophisticated income earning projects.

RURAL FINANCE PROJECT

CONTRACT SAVINGS AND CREDIT SCHEME (CSACS)

(A scheme for mobilizing small savings and financing modest projects in rural areas)

I INTRODUCTION

1. The RFP study report on savings mobilization (May 1985) defined six potential savings programs which might be helpful in the mobilization of savings through the banking system. A Contract Savings and Credit Program is one of those six. The others: a Youth Market Program; a Branch Bank Involvement program; a Go-To-The-Depositor Program (Via MBF); an Emphasizing Existing Products (such as the Deposit Pension Scheme); and an Educate Without Teaching program. A follow-up RFP report (December 1985) basically examined the level of risk involved in developing the several programs using the Mobile Banking Facility (MBF) as the analytical model. The risk evaluation indicated that contract savings type schemes will entail a moderate level of risk for the banks while the monitoring of such schemes should be simple. The MBF program was found to be most risky.

This report is intended to develop a conceptual framework for an action plan for "Contract Savings and Credit Scheme (CSACS)" for implementation by rural bank branches in Bangladesh.

II WHAT IS CONTRACT SAVINGS ?

2. Theoretically all deposits (including current deposits which are for financing current transactions) involve some kind of contract. The banker is obliged under law to repay the principal amount with or without such interest accretions to the deposits as are agreed upon with the depositor or as are dictated by law and current banking practices. While, most rural bank deposits are voluntary in nature, the depositor having the option of making or not making deposits, the
-

banker-depositor relationship is nevertheless contractual. But these are not the kind of Contract Savings under consideration here. Nor are forced savings schemes (such as Provident Fund contributions) the kind of Contract Savings scheme as is being proposed here.

3. For this proposal, Contract Savings can be described as a distinct banking service involving depository accounts of individuals where the depositor agrees to make deposits, but to make no withdrawals, over a specific period of time of specific sums of money at periodic intervals, say, weekly, fortnightly, monthly, or quarterly, until such time as :
 - a. the deposit target in TAKA term has been reached as agreed upon between the banker and the depositor;
 - b. the total number of agreed installments or deposits are complete; and the
 - c. total length of time (say, 30 months) has elapsed.

III CONTRACT SAVINGS BENEFITS

4. From the saver's point of view the advantages in opening CS accounts might include:
 - a. Psychological benefits: Many people desperately want to save but lack the required will-power or personal discipline. Contract savings schemes encourage and support the habituation of saving (regular saving of money in a bank account) because they automatically penalize failure to make installments and/or the making of "late" installments by with-holding crediting of interest to the accounts during the time period in which the installments become due.
 - b. Attractive fixed term interest rate schedule is applied to C.S. accounts.

- c. The purpose (i.e. "project") for which the CS account will be used is negotiated with the banker and, therefore, must be in the interest of both account holder and banker because otherwise neither would enter the contract. Contract savings are not "forced savings".
 - d. When extending loans, bankers generally favor their own term depositors. Contract savings involve term accounts that are low commitment and attractive to both sides.
5. Benefits to the banker are obvious. Contract Savings will increase his loanable funds in the short and long run. Also, the banker can reasonably expect to improve the quality of his customer lending base. Currently, customer bases of rural banks are extremely weak partly due to the prevailing poor loan repayment situation, but also because of the lack of promotion of customer friendly banking services and accounts such as Contract Savings.
6. Considerations for the nation in favor of Contract Savings include the exploitation of savings potentials in rural areas and the prospects for involving more rural people in the formal financial sector at the expense of informal sector money lenders. This need was recognized in the Second Five Year Plan (1980-85) where it was observed that "there are very few attractive savings instruments for collecting small savings"* and it was emphasized that commercial banks should introduce attractive special deposit schemes. But perhaps most important of all, is that Contract Savings can not help but encourage and strengthen the habit of saving in the rural population.

* Paragraphs 4.10 and 4.51 of the Second 5 Year Plan pages IV-3 and IV-4.

IV TYPE OF CONTRACT SAVINGS RECOMMENDED

7. This paper recommends the linking of Contract Savings with authorized lines of credit for the Contract Saver. Eligible individual village residents would deposit a modest amount, say, Tk. 100 monthly** into C.S. accounts at particular participating rural bank branches. Such deposits would continue for a period of, say, 30 months. In return, upon meeting this target, the branch concerned would be obliged to advance credit to the depositor to a maximum of 1.5 times the sum accumulated in the depositor's account including interest. By the CSACS original agreement such credit would be used for carrying out gainful economic activities of types defined in the attachment to ACD Circular No. 26/84 dated 9.12.1984 (annexure - 1). CS deposits would attract interest as per rates applicable to fixed deposits. Current fixed deposit rates are 12% for three months and up to, but less than six months; 13% for six months, but less than 1 year; 14% for 1 year, but less than 2 years; 14.5% for 2 years, but less than three years; and 15% for three years and above. (annexure - II)
8. The interest on credit lines linked to CS accounts would be set as per rates prescribed for rural finance projects in ACD Circular No. 26/84 dated 9th December 1984. Those rates include one at 13% interest plus a 3% service charge for short term crop financing, and another at 12% interest plus a 4% service charge for term financing.
9. Promotion of Contract Savings is not an entirely new concept for deposit mobilization in Bangladesh. The Deposit Pension Scheme (DPS), a contract savings scheme, has been in operation through the banking system since 1983. DPS is targeted towards individual savers with regular sources of income who do not have the opportunity of being subscribers to an

** According to the Bangladesh Bureau of Statistics the average monthly savings of a rural household was Tk. 88.51 in 1981-82. In proposing a monthly deposit instalment of Tk. 100, a rise in the income level of rural households from 1982 to 1986 has been assumed. (Refer Table 14.24 Page 873 of the Statistical Year Book of Bangladesh 1984-85).

employers' pension programme, or who want to supplement such pensions with additional savings. The duration of DPS accounts is fairly long (10 to 20 years), and does not provide for meeting current credit needs of the depositors. The DPS is, basically, an individually financed social security system for the general public. In no way does it address the depositor's need for interim credit. Nor does it promote income raising activities by its membership.(annexure - III)

10. In contrast with DPS, the proposed CSACS is intended to combine within one plan schemes for mobilizing small savings from rural people with a scheme for meeting the credit needs and raising the income generation potential of the depositors; and, in turn, raise their future savings potential.

V RATIONALE OF CSACS

11. Creating specific bank deposit products to mobilize rural savings has never been a priority of the banking system in Bangladesh. There is not a single identifiable depository banking product meant exclusively for rural people. Rural branch managers have told RFP researchers of the embarrassment they face when they are asked questions by the rural people such as "What special (or different) facilities do you have to offer us for our money?" "Deposit accounts are same with all branches. Tell us why should we deposit our money with your branch?". It seems therefore, that there exists a need for a banking product which can be marketed directly to rural people and which will allow bankers more flexibility in meeting savings and credit needs of rural people.

12. On the credit side, also, rural bank branches have little to boast about. Most programmed lending by the banks in the past have met with little success as measured by loan recovery. Large scale credit disbursements and subsequent loan recovery problems have overwhelmed savings mobilization efforts and undermined them to a large extent. According to various observers, cheap concessional rural credit refinancing by the Bangladesh Bank in the past has adversely affected the institutional impetus to mobilize small savings from the rural areas. On the other hand, in meeting the government's requirement for making numerous credit disbursements in short time frames, more or less on a regular basis, rural bank branches in general have not yet been able to build up dependable customer bases made up of borrowers who regularly deposit, borrow and repay. CSACS is intended to tackle these issues relating to both depositing and lending on at least a limited scale.
13. This CSACS has been designed to mobilize small scale savings on an installment basis. The targeted market is small and would be expected to include small scale agriculturists, industrialists and businessmen. As each savers deposit money into their CSACS accounts over time, branch managers will be provided the opportunity to accurately appraise their credit-worthiness, financial management competence and moral character. Where deficient in any respect, bankers will have an opportunity to provide guidance to the account holders in the management of their financial affairs. From the small scale operator's point of view, CSACS accounts should be appealing. Their savings will be secure, and will grow at maximum permissible rates of interest. Furthermore, even though they are small scale operators, they can be confident of being provided attractive credit services by banks which normally would resist lending to them.

References:

- i) Paragraph 94 page 62 'Domestic Resource Mobilization through Financial Development' by Pradumna B. Rana of Asian Development Bank; February 1984.
- ii) Paragraph 26 'Rural Deposit Mobilization : An Alternative Approach for Developing Rural Financial Markets' by Richard L. Meyer (1985).
- iii) 'Do Rural Financial Savings Matter?' by Dale W. Adam's 1984.

14. From the Community's point of view, CSACS accounts will mean that more locally generated funds will be invested locally in economically productive activities or capital. This is so because Contract Savings account linked credit must be used for purposes agreeable to both banker and account holder which will almost invariably be local purposes.

VI MINIMIZING DUPLICATION & OVERLAPING

15. The success of a CSACS will partly depend upon minimizing duplication and overlap with existing savings schemes. Government acceptance of CSACS will be enhanced if it does not draw current or prospective customers away from other schemes. With this in mind, the following policies and regulations may need to be observed :
 1. If the CSACS achieves its objective of targetting exclusively on the poorer half of the rural Bangladesh community, then there is little need to worry about duplication or overlapping with other savings or credit schemes. This is because no successful savings schemes aimed at the rural poor have been designed or implemented, and the only credit programs designed for them have been of the SACP short term crop production type. Differences between the long-term, retirement oriented DPS and the medium term CSACS have already been noted (Paras 9 + 10, above). Actually, it is not expected that CSACS will be attractive to any one in a position to make relatively large deposits at any point in time. If one can afford to deposit Tk. 3,000/- at one time at one fixed rate there can be no logical reason for depositing it in 30 equal installments at periodically declining fixed rates. Nevertheless, money is fungible and if it can be diverted from its intended purposes by corrupt forces in rural Bangladesh, it will be. Therefore, extreme vigilance will need to be observed in making sure that the rural poor for whom CSACS is designed actually become the beneficiaries.

• See " The Net ", BARC, Dhaka, 1983

- ii. Promotion of CSACS accounts should not be at the expense of other savings and investment accounts held by clients unless, of course, the CSACS accounts serve the same interest of the clients more effectively. Bankers should receive training in customer account portfolio planning and management. If necessary, bankers could control misguided transfer of funds by clients between banks and from account to account by rejecting transfer checks or other transfer instruments.
- iii. During the introduction phase of the CSACS scheme, there is the possibility that branch banks might give all their attention to this scheme for promoting savings mobilization. If it is feared that CSACS accounts might prove too popular, a directive could be issued limiting the number of such accounts each bank branch would be allowed to open, to say, 15 per month, initially. This limitation could be treated as an experimental variable in the course of introducing a CSACS. Such a directive could remain in effect until the longer range potential of the scheme could be estimated; and, incidentally, faults in the scheme, if any, could be detected and corrected. The directive should be cancelled when no longer useful or needed.
- iv. On the other hand, some branch staff may not be motivated to promote a new savings mobilization scheme. To guarantee adequate motivation of all branch level staff qualified to "sell" savings instruments some form of honorarium should be provided. One type of honorarium for consideration is granting to individual account initiators Tk. 20 for each account which remains open and paid up for six months, and an additional Tk. 10 per each account which survives to maturity. This will encourage account officers to get close to and follow "their own" customers. As in the case of limiting the number of accounts to be opened by branches per month, this honorarium should be treated as an experimental variable during the introductory stage of a CSACS.

- v. As clearly implied in the foregoing paragraphs, the introductory stage of a CSACS should be closely monitored and experimentally controlled. Two control variables have already been identified in Paras iii and iv, above. The selection of participating bank branches should also be controlled. Because a major CSACS objective is serving the savings and production credit needs of small scale rural producers of all kinds whom banks normally look upon as non-viable customers, selection of branches should be limited to more remotely located, truly rural ones. Specific controls to achieve this objective are suggested in Paras 36 (a through d) and 37 (a through f). Also, consideration should be given to introducing CSACS accounts exclusively through bank branches in which RFP (successor to RFEP) lending is still going on successfully.

- vi. Equitable distribution of CSACS accounts within rural communities is an important objective of this program. To assure this, it may be necessary to limit the number of CSACS accounts any single family or household may open. The tendency of village power elites to gain control of financial programs designed to serve the poor must be forestalled. A limit of one CSACS account per household is suggested at least at the inception stage of the scheme.

- ii. No person with one or more loan accounts in arrears should be allowed to open a CSACS account. If possible, persons with past histories of loan repayment delinquency should be denied access to the CSACS (or any other credit for that matter) until they are able to provide adequate evidence of their reformation. However, persons should not be denied access to a CSACS if other accounts they hold (a) have been maintained in good standing and (b) such other accounts are not similar in design and purpose to a CSACS account. For example, a person should be allowed to hold both a

CSACS near-term account (30 months) and an RFP short-term production loan account, simultaneously. Being a CSACS account holder certainly should not limit one's access to, say, a seasonal crop loan or to access to a retirement pension scheme account if the person is able to meet his payment obligations.

VII CSACS MANAGEMENT AND ORGANIZATION

16. There is a need at national and at regional bank office levels for official oversight, promotion and coordination specifically for rural banking sector savings and credit programs. The chance of success of a CSACS, or any other innovative rural banking sector program, would be greatly enhanced if such formal recognition could be accorded to them. A sub-committee on Rural Bank Savings and Credit Programs (RBSCP) might be established under the auspices of the Bangladesh Bank or the National Savings Committee, for example. Such a committee would be ideal as a Steering Committee to provide sponsorship and on-going back-up support to operations of the proposed CSACS. Wherever located, some such Steering Committee for the introduction and monitoring of CSACS type programs needs to be established even if only as constituted by a group of GMs of Rural Credit Departments of participating banking components including Bangladesh Bank ACD, ICD and RCPD representation.
17. Then, again, the success of specialized programs like CSACS call for specialized project oriented leadership and coordination at the field level. Such project coordination should be provided by Special Program Coordinators (SPCs) located in regional or district offices of the participating banking companies. More detail on the responsibilities of the Steering Committee and these SPCs is included in section SUGGESTED GUIDELINES FOR CSACS PILOT PROJECT, below, under "Administration and Coordination: of CSACS", Paragraph 47.

18. It is assumed that the Rural Credit Departments in the head offices of participating banks will have final operational and administrative responsibility for a CSACS as they do for other special credit programs. However, CSACS is as much a savings program as it is a credit program, and it will be important for the banks to assure that the savings aspect be given its due attention by establishing some form of liaison facility between Rural Credit and Savings Mobilization offices within each bank's headquarters.

19. Other than the modest organizational support facilities, suggested at Paragraphs 16, 17 & 18, a CSACS can readily be operated under existing manpower and physical facilities of the rural banking system. In short, the only additional inputs suggested, herein, are to be recommended whether or not a CSACS were being introduced. All special rural savings and credit programs would be enhanced by the suggested organizational modifications.

VIII ECONOMICS OF THE CONTRACT SAVINGS AND CREDIT SCHEME

20. Basically, the economics of the scheme in terms of costs versus benefits to the society will be measured in terms of increase or decrease in deposits mobilized and interest income earned on loans. The average cost to the bank of money deposited by CSACS account holders will be about 7.87% while the interest on CSACS loans will be at a gross effective rate of return of at least 14.2% (15% plus, depending on duration) including service charges. If administrative costs can be contained within 3-4%, the remaining spread will be between 3% and 5%. This should be achievable given proper management of the scheme by promoters, regional coordinators and dedicated bank branch level management and staff.

The ratios of other expenses (all expenses other than interest expense) per year to earning assets over the years 1981, 1982, 1983 and 1984 for BKB and NCBs were as follows: BKB 2.4%, Sonali 2.1%, Janata 2.7%, Agrani 3%, and Rupali 3.3%.

21. Exceptional start-up costs will include expenses for training, marketing, promotion, and preparation of necessary forms and accounting materials including legal assistance. On-going costs will relate primarily to effective supervision of loanees by branch personnel, and accurate financial accounting and scheme monitoring which are normal banking tasks. Even CSACS regional project coordinators should be available within the ranks of underutilized middle management cadres employed by the scheduled banks, today.
22. It is not considered possible to realistically estimate overall costs of either the start-up or early operational phase of the scheme (other than the cost of funds). However, dependable estimation of operational costs of the CSACS is expected to emerge out of the pilot study and should be available to the authorities for their use in deciding whether or not to introduce CSACS as a national banking program.

IX SOURCES OF FINANCING CSACS CREDITS

23. When fully operational it is anticipated that the CSACS will be as self-financing as any credit scheme designed for the rural poor. It may be that it cannot ever be profitable in the conventional sense, but, like Grameen Bank, Swanirvar, or the RFEP it may at least be able to transfer knowledge, discipline and good financial management habits required for people to become commercially bankable customers. In the meantime, CSACS will actually get "project" financing to the rural poor through the scheduled banking system, a feat which no other scheme has been able to accomplish with any significant success, to date.
24. Three sources of funds may need to be accessed.
 - a. CSACS deposits. These will, of course, rapidly become the major source of funding. But, especially with first-time bank customers, there will be failures, unanticipated obstacles, and action plan adjustments to be made. Nevertheless, a positive gross margin can be expected from early-on. The major task for participating banks

will be reducing administrative costs and containing external ones such as taxes, levies, reserve requirements, and so forth.

- b. Support funding from Head Office sources or transfer of idle funds from surplus operating areas and branches to deficit ones, as is done normally.
- c. If necessary, concessionary refinancing specifically for the CSACS through a special BB credit facility. This would be used only to defray individual bank CSACS related deficits. If as time passes the scheme is otherwise successful but continues to be dependent upon heavy Head Office and/or BB concessionary funding, policy level decisions would need to be taken as to whether to eliminate all but BKB (a DFI) participation, or to abandon the scheme entirely. The main reason for initiating this scheme on a pilot project basis is in order to develop optimal procedures and facilities before embarking on a nationwide program. Actually, it is believed start-up funding requirements will be quite modest. But they may be uneven in timing and in the quality of individual branch bank performance. In the aggregate the scheme will approach self-sufficiency early, although there will be some branch banks which will have more difficulty achieving viability than others.

ESTIMATED FINANCIAL SCOPE OF CSACS WHEN FULLY OPERATIONAL

- 25. While it is proposed to initiate CSACS on a Pilot Study or experimental basis, an estimate of its overall potential for savings mobilization and credit extension is in order. These estimates are based on certain explicit assumptions and will be as reliable as these assumptions are realistic. The purpose of the pilot study approach is to determine the reality of the assumptions.

26. It is assumed that up to one half of the number of rural bank branches could eventually participate in the CSACS; that would be about 1650 RBBs after disqualification of highly urbanized rural branches possessing large-scale deposit portfolios. The average RBB total deposit portfolio is nearly Tk. 5 million. The average for CSACS RBBs is not expected to exceed Tk. 3 million in total deposits.
27. It is purely a "guesstimate" that the average number of CSACS accounts per RBB will be one hundred. This is merely the number prescribed for the pilot phase and it may or may not be a good guess for the long run. The pilot phase limitation is imposed in order not to let CSACS introductory operations overwhelm the banks.
28. The pilot phase may or may not support the decision to set the monthly individual account holder deposit level at Tk. 100 and the number of installments at thirty (30). However, for the present these are the guidelines upon which RFP consultants are basing a projection of full scale CSACS operation and are prescribing for the pilot phase.
29. If successful, the CSACS can be expected to become a dominant factor in rural fixed-deposit mobilization. There are no published statistical data that disaggregate fixed vs. current deposit accounts by rural vs. urban depository facility. However, it is the "common wisdom" that fixed deposits are almost exclusively an urban and, at best, rural elite phenomenon. It is anticipated that the CSACS focus on remote rural bank branches with deposit portfolios not exceeding Tk. 3 million, will cast the Scheme in a pioneering role in the communities where it will be introduced as far as mobilization of fixed deposits is concerned.

The deposit portfolio of the average RBB in 1985 was Tk. 4.86 million.

30. Thus, it is foreseen that an average RBB may be able to mobilize Tk. 120,000 in one year (Tk. 100 x 12 x 100 accts) and Tk. 300,000 in 30 months (2.5 x Tk. 120,000). With 1650 RBBs achieving this level of operation, nearly Tk. 50 Cr. of deposits would be added to rural bank savings which stood at Tk. 1615 Cr. for all RBBs and all categories of deposits as of 30 June, 1985*. That would be about 3.0 percent of all categories of rural deposits and probably a much higher (at least 15%) proportion of RBB fixed deposits.
31. The cost to an individual RBB of generating a basic 100 CSACS deposit portfolio (worth Tk. 300,000 in principal) will be at a rate of 7.87 percent per year, the gross expenditure at fixed interest rates over 30 months being Tk. 59,000 (annexure - iv) divided by two and half years (2.5) yields Tk. 23,600 at 7.87% per annum.
32. It is assumed that RBBs will be able to lend out locally the Tk. 300,000 proceeds at the prevailing interest rate which presently stands at 16% (14.2% gross effective rate of return equivalent estimated at annexure iv) including service charges. Assuming CSACS loans will be scaled at 1.5 times the amount of the individual CSACS deposit including fixed interest earnings at maturity, it is expected that the most common loan will be in the amount of Tk. 5385 (Tk. 3000 + 590 x 1.5 = 5385).
33. RBB earnings on CSACS project type loans will, of course, vary depending on their duration and repayment schedules. Some probable common earning schedules are set out below. In all examples, the gross effective interest (14.2%) is compounded monthly; Tk. 5385, is the principal amount, and repayment intervals are equal :

* The Schedule Banks Statistics, Bangladesh Bank, April - June 1985

Expected yields at varying repayment schedules
(per CSACS account)

<u>Duration of Loan</u> (Mos/Yrs)	<u>Repayments</u> (No.)	<u>Interest amount</u> (Tk.)	<u>Gross yield Percent</u> %	<u>Total Return</u> (P + I)	<u>Yield per Annum</u> %
6 Mos	1	394	7.31	5779	14.62
1 Yr	1	816	15.16	6201	15.16
2 Yrs	1	1786	33.20	7171	16.60
3 Yrs	1	2891	53.70	8276	17.90
3 Yrs	2	2420	44.90	7805	14.98
3 Yrs	3	2489	46.20	7875	15.40
2.5 Yrs	4*	2007	37.30	7392	14.90
<u>Av.= 2.143 Yrs</u>		<u>Av.= 1829</u>	<u>Av.= 33.96</u>		<u>Av.= 15.85</u>

- * 1st payment at 12 months, thereafter, every 6 months.

Assuming 15.85 percent per annum as the probable average yield, then, an RBB could expect an annual yield of up to Tk. 853.52 per CSACS loan, or Tk. 85,352 for the 100 loans assuming a 100% recovery.

These earnings may be compared with annualized costs of raising the CSACS funds as under :

$$\begin{array}{r}
 7.87\% \text{ Interest Cost} \\
 + 3.13\% \text{ Administrative Cost} \\
 \hline
 11.00\% \text{ Total Cost}
 \end{array}$$

Thus the annualized cost of generating Tk, 5385 at 11% compounded monthly equals Tk. 632.41 or Tk. 63,241 per 100 such loan funds and the net yield to an RBB would be Tk. 221.11 per loan which in percentage terms equals 4.1% on each loan. The net gain for 1650 RBBs would be Tk. 3,64,83,150 (3.65 crore). The projected interest gain in one year added to the annual principal gain (Tk. 19.8 cr.) equals

Tk. 23.45 cr. which is 1.45 percent of total RBB deposits as of June 1985. When the first full wave of CSACS accounts have matured and been loaned out and returned, the total revenue will approximate 58.625 crore or 3.6% of RBB deposits as at June 1985.

35. CSACS profitability estimates per loan account under varying assumptions relating to disbursements and repayments have been presented in annexure v. The Scenarios indicate that individual CSACS accounts will have positive net earnings. The average rate of return on loans disbursed annually will be within historical ranges experienced by BKB and the NCBs, and they may perform even better.

XI SUGGESTED POLICY GUIDELINES FOR CSACS PILOT PROJECT

36. Selection of Branches

- a. All scheduled banks with significant rural commercial banking operations should be invited to participate. This will include BKB, the NCBs and hopefully some private banks.
- b. To assure that the Pilot project focuses on the most rural sector of the economy certain arbitrary selection criteria should be observed :
 - i. Upazila level branches should be excluded.
 - ii. Branches with deposit portfolios in excess of Tk. 3 million as of project start-up date may also be excluded.
 - iii. Branches located on major transportation routes or in large scale permanent Bazaars should be avoided.
- c. Each participating bank is encouraged to identify initially only 8 but later at least 100 but not more than 200 branches. Each bank is to assure that all four regions of the country are fully represented.

- d. To whatever degree possible self-selection by branch bank managers should be encouraged. In the first instance, an attractive brochure describing the CSACS should be distributed to qualified branch managers. Interested managers would be able to identify themselves by requesting further information or even by filling in an application. Group briefing/training sessions would be arranged subsequently at region level bank offices and/or perhaps at BB zonal offices.

37. Selection of Prospective CSACS Account Holders

- a. Until the Project is running smoothly no more than 100 CSACS accounts should be opened per bank branch and these should be opened only at a rate not to exceed fifteen accounts per month.
- b. Again, given strict adherence to certain basic selection criteria, self-selection should be encouraged. To draw the attention of the poorest of the poor, and usually illiterate persons, the most effective mode of communication will be by word-of-mouth campaigns initiated by bank field staff, elementary school teachers, public health and other kinds of rural welfare workers, etc.
- c. The target customer base for the CSACS should be constituted as follows :
 - i. Essentially landless agriculturalists 10% to 20%
 - ii. Owners and/or tenants of up to, but not more than two (2) acres of land 20% to 30%
 - iii. Village store and eatery owner/operators 10% to 15%
 - iv. Traditional village craftsmen 5% to 10%
 - v. Employed village women, female household heads 10% to 15%
 - vi. Salaried professionals & skilled workers 5% to 10%
 - vii. Informal sector financial intermediaries, traders, etc. 5% to 10%
 - viii. Daily wage laborers - peons, chokidars, rickshaw pullers, brick crushers, etc. 10% to 15%

d. Persons to be excluded include:

- i. Those with annual incomes in excess of Tk. 25,000/-.
- ii. Persons with currently overdue loans or histories of poor loan repayment.
- iii. Persons holding governmental positions in the community, or directorships in banks or other local financial institutions.
- iv. Persons in possession of other CSACS accounts.
- v. Persons under 18 years of age & undischarged insolvents.

All applicants will be expected to sign a declaration signifying their freedom from any of the disqualifications mentioned herein. This will be subject to routine verification by the branch management like any other credit program.

- e. Only one person per family/household is eligible for CSACS participation. A family comprises persons who live together and take their meals from the same kitchen.
- f. Initially, no joint or group accounts will be allowed under the CSACS. Nor will individuals be allowed to open more than a single CSACS account at one time.

38. Opening of CSACS Accounts

- a. Interested persons should be provided with application forms and information concerning eligibility. Applications should be in writing addressed to a branch bank manager in the command area where the applicant is resident. Bank staff should assist applicants in filling out application forms. The application form must provide full identification of the applicant (name, current and permanent addresses, occupation, father's name, etc.) Additionally, it should list all places the applicant has been a resident since coming of age. It should list any other bank accounts, present or past, of the applicant. Finally, the application should describe the size, composition, dependency structure, sources of income and the capital assets of the applicant's household.

- b. Applicants must reach an agreement in principle with the branch manager regarding the general purpose to which any CSACS loan will be put. The general purpose must be an economically productive one. A list of eligible types of loan purposes is maintained by the Bangladesh Central Bank. This general agreement shall be documented in the original CSACS application. It can only be changed with the mutual agreement of the applicant and the branch manager. And, as is normally the case, before any loan will be actually sanctioned, the CSACS account holder will have provided to the Branch Manager an acceptable production plan including appropriate feasibility analysis. Account holders should be encouraged and assisted in preparation of such production plans during the 30 months depository period in order that they shall be ready to act when they become eligible for the CSACS loan. Types of projects may include new production, plant expansions, replacement and repairs, etc.

39. CSACS Monthly Deposit Installments

- a. Preliminary estimates of the viability of a CSACS have been posited upon monthly installments of Tk. 100/- per account holder. Unless or until experience indicates that this instalment amount is more or less than optimal, it should remain in effect.
- b. In order to maximize banker CSACS customer contacts, all installments should be paid in person at the bank branch.
- c. Installments will be due during the first week of each month and must be paid by then in order that interest shall be earned for the month involved.
- d. In case a depositor fails to make a monthly deposit, he/she may double up the deposit for the following month. Nevertheless, a penalty will be applied, namely, every month of delay in payment shall be matched by a month's delay in becoming eligible for CSACS loan sanctioning following completion of the 30 month depository period.
- e. Depositors may make advance payments into their accounts, say, of Tk. 25 per week. However, such deposits will earn interest at the rate applicable for the month in which these advance payments are actually due.
- f. All CSACS account holders shall be provided with special CSACS Deposit Passbooks and (later) with CSACS Credit Passbooks in which all CSACS transactions shall be recorded. These Passbooks will be in addition to any other passbooks that may be required by the banking system.

40. Closure and Reallocation of CSACS Accounts

- a. CSACS accounts will stand closed when a depositor fails to make an installment into his account over a period of three (3) consecutive months.

- b. In cases of CSACS account closures, fresh accounts may be opened in the name of the next person on the CSACS waiting list. Insofar as account openings will be restricted to only four per month, waiting lists are definitely a possibility. The original allottee may be listed again at the bottom of the waiting list unless he has been disqualified for reasons other than having failed to meet the installment schedule.
- c. Closed account depositors will be eligible for refunds of principal along with interest reduced by 2% reflecting early withdrawal penalty.

41. Transfer of Accounts

- a. Branch bank managers shall have the right but not the obligation to refuse transfers of active CSACS accounts into or out of their branches.

42. Sanction and Disbursement of Loans under CSACS

- a. Managers of all participating bank branches shall be empowered to sanction CSACS loans.
- b. Branch managers and loan officers shall closely follow new loanees and guide them in improving their credit worthiness.
- c. Loans should be disbursed, as far as possible, in kind or in payment of third party receivables rather than in the form of cash transfers.

43. Loan Repayment

- a. Generally, in the case of crop loans and other short term loans where the borrower receives full compensation for the product of his investment at one time, loan repayment should be in lump sum form. If, of course, it is possible for such borrowers to strategically market their product over a period of time in order to take advantage of price trends, instalment repayment should be permitted,

and usually encouraged. Bank managers should encourage good marketing management on the part of their clients. In case of longer term loans, repayment by instalment will be common but duration of loans and number of instalments should always be carefully planned so as to be as economic as possible to both parties.

- b. The loan limit of the CSACS account holder is to be treated like a line of credit. Once a loan is fully repaid with interest, and on time, the account holder becomes automatically eligible for another loan up to the amount of his original limit, and, of course, negotiable beyond that limit depending upon how successfully he has managed his first CSACS loan in the opinion of the sanctioning branch bank manager.
- c. Loan repayments will be accomplished with "pay-in-slips" to be issued by the branch banks. All transactions will be recorded in the CSACS Credit Passbooks as mentioned previously.
- d. Every precaution is to be taken to prevent CSACS loanees from opening new loan accounts at any bank as long as his/her CSACS loan remains outstanding. Exceptions may be made where CSACS loans are mid or long term while the additional desired loan is a very short term loan calling for immediate lump sum repayment.

44. Loan Security

- a. Crops, land, capital equipment, and any other assets financed by the bank shall remain mortgaged to the bank as security until loans are fully repaid.
- b. Notarized personal guarantees of repayment shall be obtained from all CSACS loan applicants prior to loan sanctioning.

- c. CSACS loan applicants shall obtain from reputable peer group members signed personal guarantees of repayment on their behalf in case of their default for whatever reason. At least two such guarantees shall be submitted to the lending bank branch in each case. Such guarantors should be from the same village but not from the same household as the loanee.
- d. Loanees may be required to deposit with the bank branch land receipts, original homestead deeds, mutation certificates, rent payment receipts, and such other valuable instruments as may be available and appropriate for the purpose of assuring security of the loan.

45. CSACS Account Holder Funds Management Controls

- a. Early withdrawal from a CSACS depository account shall automatically terminate the account. There is also an early withdrawal penalty (see Para 41.c).
- b. CSACS account holder project financing shall be provided proportionately from his accrued Contract Savings fund and from the loan fund/credit line obligated by the bank branch at up to 1.5 times the accrued contract savings.
- c. If the agreed upon project requires less financing than is available in the combined depository and loan accounts, the amount of financing that is needed should be drawn from each account proportionally thereby providing to the account holder some balance in both his deposit and his credit-line accounts. As soon as financially in a position to do so, such account holders should be encouraged to begin building up their CSACS accounts again for financing of new projects.

46. CSACS Accounting, Monitoring and Supervision

- a. Normal accounting procedures and standards prescribed for scheduled banks should be followed. Any accounting reforms which may be promulgated in the future by the government or by the Bangladesh Bank should be adopted by banks participating in the CSACS.
- b. CSACS accounts should be recorded in independent ledgers at the branch bank level. Cross referencing between a CSACS participant's depository account and his/her loan account should be made as simple as possible, perhaps by maintaining individual records on opposing pages in the same ledger.

47. Administration and Coordination of CSACS

- a. CSACS Regional Bank Office Coordinators (normally they should be the Regional heads) shall be assigned by each participating banking corporation. Their main responsibilities shall include monitoring branch bank level CSACS performance and coordinating the recording and reporting of the same.
- b. Brief quantitative/statistical operations reports shall be submitted by each bank branch to their respective regional office coordinators on a monthly basis. The regional offices shall consolidated these data and submit results to the Rural Credit Departments at their Head Offices.
- c. Detailed CSACS operations reports covering numbers and types of accounts opened, volume of transactions, status of loan disbursements and repayments, interest earnings and expenditures, administrative costs, and promotional and marketing activities shall be submitted to Bank Head Offices and to concerned sponsoring agencies on a quarterly basis by the regionally based CSACS Coordinators. These reports should identify and describe problems being encountered and recommend solutions to the committee identified in the following item.

- d. Finally, there should be established a National CSACS Steering Committee to oversee establishment and operation of the Scheme and to respond to quarterly reports submitted by the CSACS Regional Coordinators.

Note : Success of CSACS will depend on intensive supervision of accounts by branch personnel. These accounts offer unique scope for the branches to promote thrift and improve the economic well-being of the account holders through participation in bank savings and credit programs. Branch managers should assume personal responsibility for success of the program by getting close to new-to-banking CSACS account holders and guiding them in the development of good management of their financial affairs.

48. CSACS can be introduced and sponsored by the Bangladesh Central Bank although it could be introduced by one or more banks independently if sanctioned by the Central Bank. RFP consultants recommend the former, and that the BB seriously consider establishment of a new department which would be exclusively responsible for all matters related to savings and investment resources mobilization. CSACS would be an appropriate project to be undertaken by such new department. That department could look to an integrated external advisory committee such as the National Savings Committee for policy guidelines and review.
49. As no such operational base for savings mobilization presently exists in the BB (or any of the banks, for that matter) it seems that the best approach would be the creation of an inter departmental technical

and operational unit within the BB to introduce and supervise implementation of CSACS. Such a unit must include both agricultural and industrial project financing expertise which must take the lead during a pilot phase of CSACS program introduction. The BB departments of Agricultural Credit, Industrial Credit, and Research are suggested as most promising participants for the savings mobilization technical unit mentioned above. The unit chief should be drawn from the Research component.

XII TRAINING AND IMPLEMENTATION

50. No extra manpower is required for implementation of the scheme at the branch bank level. Since the fundamental objectives of bank branches are to receive deposits and make loans, the CSACS should create no additional responsibility. The only difference under CSACS is the introduction of systematic performance controls for both the depositor and the bank branch, and the integrating of savings and borrowing operations at the level of the individual customer.
51. Participating bank branch managers and loan officers should be provided intensive training in areas and topics of the following nature :
 - a. Purpose and value of the CSACS
 - b. Eligibility requirements of CSACS depositors/borrowers
 - c. Execution of CSACS contracts and other forms
 - d. CSACS promotion and marketing techniques
 - e. CSACS accounting and reporting.

XIII SUMMARY AND RECOMMENDATIONS

52. This CSACS proposal is designed as an experimental action plan; a pilot project. Although dependent upon the correctness of several assumptions, the Scheme shows acceptable levels of operational and financial feasibility as a pragmatic method for mobilizing small savings and making project type term loans in rural areas among the rural poor. CSACS terms of financial intermediation compare well with those of other current depository banking schemes. Intentionally lending to individuals who are also depositors is based on simple and sound banking principles. The scheme has been designed as far as possible to avoid overlapping and duplication with existing depository banking schemes, and to maintain its focus on a special target group, namely, the rural poor who are in a position to make monthly deposits over a 30 month period; and who can conceive and implement modest productive projects to be financed by a combination of their contract savings and their bank's related loan obligation.

53. Key assumptions include:

- a) The rural poor do, in fact, possess the requisite savings potential, that is, the capability of depositing Tk. 100 each month over a 30 month period.
 - Approximately 10% of all rural bank savings accounts fall in the range of Tk. 3,000 to Tk. 10,000 today. Another 35% fall in the range of Tk. 1,000 up to Tk. 3,000 some of whose owners might be able to participate in CSACS. Therefore, even if the 52 plus percent of rural people who are only able to maintain accounts of under Tk. 1,000 are eliminated, there appears to remain a sizeable base that may be able to participate in CSACS without including the less than two percent of the rural populace who own accounts in all ranges Tk. 10,000 and above.

- b) Remote rural bank branch depositors (current and prospective) will be able to conceive and implement bankable income producing projects of a scale that can be financed with funds amounting to approximately Tk. 8,500/- 9,000.
- It is believed this is possible, however, advisory assistance by loan officers and technical assistance from other public sector or NGO sources may be required by some CSACS participants.
- c) Truly rural NCB and EKB bank branches can be recruited for cooperation in the initial project which possess sufficient organizational and staff capability to introduce and manage a new program like CSACS.
- A subsidiary assumption is that the BB can and will exert any needed encouragement to assure the requisite level of cooperation.
- d) It will, indeed, be possible to prevent corruption of CSACS in the sense that the rural elite will not be permitted to usurp from the rural poor opportunities for participation.

The purpose of the pilot project is to test these assumptions and make adjustments where necessary.

54. It is recommended that forty rural bank branches participate in the initial pilot phase introduction of CSACS. Each bank (EKB and 4 NCBs) should choose two branches from each of four "old" districts to be selected purposively by CSACS Project management. The four major rural regions of the country should be represented by the districts that are represented. Thus, there would be forty (40) rural branches in the initial pilot study; ten (10) in each of four (4) "old" districts. The purpose of this initial concentration is to permit optimal conditions for monitoring, assisting and adjusting the CSACS in its early stages.

55. When it is evident that the Contract Savings aspect of the program is adjusted and under control, say, after 1½ to 2 years, the pilot project should be expanded to 200 branches of each of the five participating banks along the lines suggested in paragraph 36. Private banks should be invited to participate in this expansion.

 56. Any further expansion should be postponed until the first forty accounts are well into their loan programs and related project implementation. Then the dimensions of expansion should follow guidelines set by the earlier expansion mentioned in Para 53, above.

 57. In the absence of any provision for savings mobilization in the organization or operational planning of the Bangladesh Central Bank, it is recommended that introduction of CSACS be assigned jointly to the BB Agricultural Credit, Industrial Credit, and Research departments to be administered by a joint technical unit under the direction of an appropriately trained and experienced project manager selected from the Research Department. Of course, should a Savings Mobilization Department ever be established in the BB as recommended elsewhere by the RFP manager that is where responsibility for implementation of CSACS belongs.
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COPY

ANNEXURE - 1

TELEGRAM
'BANGLABANK'

BANGLADESH BANK
HEAD OFFICE
POST BOX NO. 325
DHAKA

AGRICULTURAL CREDIT
DEPARTMENT

ACD CIRCULAR NO. 26/84

DATED THE 9TH DECEMBER, 1984

The Managing Director
Sonali/Janata/Agrani/Rupali/
Pubali Bank Ltd./Bangladesh Krishi Bank,
Head Office,
Dhaka

Dear Sir,

EXPANSION OF OUTLETS FOR FINANCING OF TARGET
GROUPS UNDER RURAL FINANCE PROJECT

Please refer to our Circular Letter No. ACD(RFP)407/29/83-71 dated the 24th March, 1983. It may kindly be recalled that five rates of interest viz. 12%, 18%, 24%, 30% and 36% on loans for on and off-farm activities of the disadvantageous group were experimented under RFEP to develop a viable rural financial system. Based on the findings, we subsequently took up Rural Finance Project covering general agricultural lending. The banks were, however, advised to continue credit operation of RFEP through their existing outlets to the target groups of people in project areas at 18% interest per annum vide our circular letter under reference. In partial amendment of the above arrangement, it has since been decided that -

- a. All the participating banks will expand their area of operation to cover the target groups in other areas also by lending through all of their branches. For financing the target groups bank branches should follow the same criteria and guidelines as followed under the RFP (definition of the target group is attached).
- b. The bank will apply a uniform rate of 13% interest and 3% service charge (or 12% interest and 4% service charge which ever is applicable). Banks will also apply penal interest at a flat rate of 6% per annum on all overdues.
- c. Refinances will be admissible to the extent of 80% at an interest rate of 8.5% per annum, if banks face liquidity problem. This facility of higher rate of refinance will be provided for financing the target group only.
- d. The above modifications will come into force from the 1st January, 1985.

You are, therefore, requested to issue necessary instructions to your branches in this regard under advice to us.

Yours faithfully,
Sd/-
(Kamal Uddin Ahmed)
CHIEF OFFICER P.T.O

TARGET GROUP DEFINITION

Target group definition will be determined on the basis of the following criteria :-

1. Rural Dwellers of 18 years of age or older (male or female) having permanent residence in the area.
2. Land ownership: (a) not more than 2.0 acres of cultivated land, excluding homestead.
(b) Landless are eligible.
3. Income — Annual gross cash income from all sources does not exceed Tk. 6,000 before loan is made.
4. Borrower has no outstanding loan with any lending institution.

Instructions related to target group definition:

1. Only one person may borrow from each "economically separate household". An "economically separate household" means a household with the members living together and having their meals from a common kitchen.
 2. Loans may be made for :-
 - (a) Crop production (for food, oil, pulses, vegetable crops, jute, sugarcane, tobacco, cotton, etc).
 - (b) Other agricultural production (for livestock, poultry, duck raising, fish production, milk cow, fattening cattle, goat rearing, etc.)
 - (c) Non-agricultural activities (for material and equipment for cottage industry such as basket or mat making, cloth weaving, fishnet making, pottery production, blacksmith, carpentry, tailoring; for food processing such as oil processing (Ghani) Paddy husking, fish drying etc.; for transportation including bullock carts or boats etc.
 3. Special considerations related to joint families — A joint family, in the social sense, may include more than one economically separate household. In this context, an economically separate household may be identified by one or more of the following criteria:
 - (a) The landed and other property of the socially joint family is divided among the family members; this division of property may or may not be registered but is well demarcated within the family.
 - (b) The responsibility for work, expenses and income are separate.
 - (c) Cooking is separate.
-

THE INTEREST RATE STRUCTURE OF BANK DEPOSITS IN BANGLADESH

Annexure - II

	(Per cent per annum)					
	December, '71 to June, '74	July, '74 to March, '76	April, '76 to April, '77	May, '77 to October 15, '80	October 16, '80 to December, '84	From January 1, '85 onwards
A. BANK RATE	{ 5.00 upto June 20, '74 8.00 from June 21, '74	8.00	8.00	8.00	10.50	{ 11.00 upto Sept. 15, '85 11.25 from Sept. 15, '85
B. Scheduled Banks' Interest Rates on Deposits						
a) Call Deposits	-	-	-	-	4.50 Oct. 16, '80 to Dec. 1, '82	-
b) Special Notice accounts:-	-	-	-	-	4.50	4.50
i) Withdrawable at notice of 7 to 29 days	3.00	4.00	5.00	4.00	-	-
ii) Withdrawable at notice of 30 days or over	3.25	4.25	5.25	4.25	-	-
c) Savings bank accounts with chequing facilities	4.00	5.00	6.00	{ 6.00 upto July, '77 4.50 from Aug. '77 to Oct. 15, '80	{ 8.50 9.50 for rural areas w.e.f. July, '84	{ 8.50 10.50 for rural areas
d) Savings bank accounts without chequing facilities	4.50	6.00	7.00	7.00 (7.75)	10.00	{ 10.00 11.00 for rural areas
e) Fixed Deposits:-						
i) For 3 months and over but less than 6 months	4.50	6.00	7.00	7.00 (8.50)	12.00	12.00
ii) For 6 months and over but less than 1 year	4.75	6.50	7.50	7.50 (8.50 & 9.00)	13.00	13.00
iii) For 1 year and over but less than 2 years	5.00	7.25	8.25	8.25 (9.25)	14.00	14.00
iv) For 2 years & over but less than 3 years	5.50	8.25	9.25	9.25	14.50	14.50
v) For 3 years and over	6.00	9.25	10.25	10.25	15.00	15.00

Notes:- i) Figures within parentheses indicate interest rates for deposits accounts opened by individuals in rural areas effective from 1-10-'78 to 15-10-'80. Rate for term deposit in rural areas for 6 months or over but less than one year was 8.50 from 15-12-'77 to 30-3-'78 and 9.00 from 1-10-'78 to 15-10-'80 and the rate for term deposit in rural areas for one year and over but less than 2 years was 9.25 from 15-12-'77 to 15-10-'80.

ii) Branches situated outside the municipal areas are rural branches.
iii) Bangladesh Krishi Bank and Bangladesh Shilpa Bank were allowed to pay interest on term deposits (excl. banks and financial institutions) at 1% above the prescribed rates w.e.f. July 1, 1974 to October 15, 1980.

Source: Statistics Deptt., Bangladesh Bank

A COMPARATIVE CHART OF MAJOR BANKING DEPOSITORY PRODUCTS

Deposit Accounts	Product Purpose	Product Characteristics	Target Market	Marketing Emphasis
Current	Business Deposits	a) Attracts no interest b) No deposit ceiling c) Withdrawable any time during banking hours d) Normally banks realise service charges from the account holders etc. e) No provision for credits	Businessmen, Firms, Companies, Corporations, etc.	Business Liquidity
<u>Savings</u> - W/checking - W/o checking	Individual Deposits	a) Attracts interest b) Maximum ceiling of Deposit is Tk.500,000. c) Withdrawals per week are restricted with regard to maximum amount and also number of times of withdrawal. d) Normally service charge is realised e) No provision for credits	Individuals with short term liquidity excess	Personal Liquidity with interest income
Fixed Deposits	Medium, Term Deposits from individuals in Business	a) Attracts interest at varying fixed deposit rates.	Individuals, Firms, Companies, Corporations, etc. with large idle sums to invest on medium term.	Quality Long Term investments

Annexure -III(Contd.)

Deposit Accounts	Product Purpose	Product Characteristics	Target Market	Marketing Emphasis
Deposit Pension Scheme (DPS)	Long term individual Deposits	<ul style="list-style-type: none"> b) No additional deposit is permitted in the same account. c) Premature withdrawals are discouraged. d) No service charge is realised, from the account holder e) Collateralized credit allowed 	Individuals with sums to invest on long term.	Security in old age.
Contract Savings And Credit Scheme (CSACS)	Medium Term Deposits & loans to medium small individuals(businessmen & agriculturallists)	<ul style="list-style-type: none"> a) Attracts interest at maximum fixed deposit rates. b) Additional deposits other than agreed instalments not allowed. c) No withdrawal is permitted except by way of closing the account. d) No Service charge is realised from the account holder. e) No provision for credits 	Rural individuals who can commit funds on medium term to enhance their business opportunities.	Near term income producing activities.
		<ul style="list-style-type: none"> a) Will carry interest at fixed deposit rates. b) Will call for regular deposit of equal amounts. Additional deposits not allowed. c) No withdrawal will be allowed except by way of closing the account. d) No service charge to be realised, from the account holder e) Specific provision for credit 		

Computation of interest to be paid on a CSACS Account by RBB as
per current fixed deposit rates

Annexure - IV

No. of instalment	Amount of instalment Tk.	Month for which instalment is invested	Applicable fixed int. rates	Interest					Grand total			
				From 1st to 6th month Tk.	From 7th to 12th month Tk.	From 13th to 18th month Tk.	From 19th to 24th month Tk.	From 25th to 30th month Tk.	Principal Tk.	Interest Tk.	Total Tk.	
1	100	30	.145	7.248								
2	100	29	.145	6.040								
3	100	28	.145	4.832								
4	100	27	.145	3.624								
5	100	26	.145	2.416								
6	100	25	.145	1.208								
			Sub-total	<u>25.368</u>	<u>45.339</u>	<u>48.626</u>	<u>52.152</u>	<u>55.993</u>	<u>600</u>	<u>227.478</u>	<u>827.478</u>	
7	100	24	.145		7.248							
8	100	23	.14		5.835							
9	100	22	.14		4.668							
10	100	21	.14		3.501							
11	100	20	.14		2.334							
12	100	19	.14		1.167							
			Sub-total		<u>24.753</u>	<u>43.733</u>	<u>46.794</u>	<u>50.070</u>	<u>600</u>	<u>165.350</u>	<u>765.350</u>	
13	100	18	.14			7.002						
14	100	17	.14			5.835						
15	100	16	.14			4.668						
16	100	15	.14			3.501						
17	100	14	.14			2.334						
18	100	13	.14			1.167						
			Sub-total			<u>24.507</u>	<u>43.716</u>	<u>46.776</u>	<u>600</u>	<u>114.999</u>	<u>714.999</u>	
19	100	12	.14				7.002					
20	100	11	.13				5.415					
21	100	10	.13				4.332					
22	100	9	.13				3.249					
23	100	8	.13				2.166					
24	100	7	.13				1.083					
			Sub-total				<u>23.247</u>	<u>40.511</u>	<u>600</u>	<u>63.758</u>	<u>663.758</u>	
25	100	6	.13					6.50				
26	100	5	.12					5.00				
27	100	4	.12					4.00				
28	100	3	.12					3.00				
29	100	2	-					-				
30	100	1	-					-				
			Sub-total					<u>12.50</u>	<u>600</u>	<u>12.50</u>	<u>612.50</u>	
Grand total	<u>3000</u>			<u>25.368</u>	<u>70.092</u>	<u>116.866</u>	<u>165.909</u>	<u>211.850</u>	<u>3000</u>	<u>590.085</u>	<u>3590.085</u>	

Total interest for 100 Accounts is Tk.59,000 (Tk.590 X 100).

CSACS PROFITABILITY ESTIMATES

Revenue and cost assumptions

1. The effective rate of return (gross) per unit of depository fund loaned at a nominal 16% rate will be as under :

<u>Unit of deposit to be loaned out:</u>	<u>Tk. 100.0</u>	<u>Earnings on the asset</u>
i. <u>Less</u> statutory reserve (.02x100)	<u>2.0</u>	@ zero interest rate
	98.0	
ii. <u>Less</u> cash reserve (.01x100)	<u>1.0</u>	@ zero interest rate
	97.0	
iii. <u>Less</u> liquidity reserve (.22x100)	22.0	@ 10% p.a. or Tk. 2.2
iv. Loanable balance	75.0	@ 16% p.a. or Tk. 12.2
v. Total earnings on the Tk. 100 asset =		<u>Tk. 14.2</u>
vi. Effective Rate of Return (gross) is	Tk. 14.2/100 = 14.2%	

2. It has been estimated that, on average, a Rural Bank Branch (RBB) will incur interest costs to the extent of 7.87% per annum on account of CSACS deposits. It has also been estimated that the overall deposit mix of RBBs will change and CSACS deposits would constitute about 3.0 percent of all categories of rural deposits. Therefore, the true interest cost would be 7.87% plus 3 percent of 7.87% which adds to 8.106%. The latter figure has been applied for CSACS profitability estimates (Ref: Paras 30 & 31).
3. The administrative costs and the provision for loan loss reserves have been assumed to be 3% and 1%, respectively, of the maximum loan entitlement of Tk. 5,385 as assumed at 4 and 5, below.

Annexure - V (Contd.)

4. Over a 30 month period a CSACS account holder will accumulate a balance of Tk. 3,590 by way of his monthly deposits (@ Tk. 100 per month)⁹ of principal and accrual of interest thereon at applied fixed deposit interest rates.
5. The credit entitlement of an account holder under the Scheme is negotiable upto a maximum of 1.5 times of the terminal deposit balance, or Tk. 5,385 (Tk. 3,590 x 1.5).
6. For the purpose of cost and revenue comparisons, it has been assumed that a CSACS loan duration, just like the suggested deposit making tenure, will be 30 months. In reality, however, a CSACS loan may have maturities shorter or longer than 30 months.
7. The entire loan of Tk. 5,385 do not have to be disbursed all at one time. Rather the disbursements may take place in phased manner.
8. The periodic repayments into individual CSACS accounts are not likely to have any given pattern. Some accounts may record daily transactions (withdrawals and deposits) if the loan is a working capital financing type. On the other extreme, some accounts may be scheduled to be repaid in lump sum after the implementation of, and on adequate cash generation by, the approved projects. The repayment schedules can indeed be many.
9. To consider these possibilities roughly, the following three CSACS costs & returns Scenarios have been developed :

Scenario - 1 : CSACS term-loan for financing new projects

It is assumed under this scenario that CSACS credit financing will be extended for setting up new projects of relatively long gestation period. Pisciculture (fish cultivation) may be one of this type of projects. It is assumed that the initial disbursement equivalent to 1/3rd

of the CSACS loan will be made in the first month for meeting expenses for development and preparation of the pond. The disbursement of the second installment will be made in the eleventh month for purchase of seedlings/fingerlings, fertilizer, etc. The third and final disbursement of the loan will be made in the twenty first month for meeting feed and maintenance expenses. The quantum of disbursements and the disbursement intervals are national, and hence variable. No repayment is assumed within the initial 30 months from the first credit disbursement.

Scenario - 2 : CSACS working capital financing

This scenario includes CSACS financing of working capital for existing small scale rural business units. The financing requirement of an existing small village grocer, stationer, food shop owner, producers of handicrafts in cottages and the like will be modest in general and mostly for working capital purposes. The funds requirement of a small cultivator will also be modest, and will be basically seasonal in nature. The disbursement of CSACS loan to this category of CSACS account holders has been assumed to exceed not more than one third (Tk. 1,795) of the maximum CSACS loan limit of Tk. 5,385. The loan will be repaid within a year (between 11th and 12th month). Once the loan is repaid the borrower will be eligible for a fresh disbursement of Tk. 1,795, and the process will continue.

Scenario - 3 : CSACS financing for upgrading existing production operations

CSACS credit financing may be made also to existing rural small scale production units. Existing production operations of say, village iron smiths, carpenters, potters, and the like may require an initial capital investment in tools, equipments, roofing, etc., for balancing and expansion of their operations, and then funds will be needed by way of additional working capital to sustain the increased production capability so attained. The disbursement of the total loan of Tk. 5,385 will be made in three equal installments of Tk. 1,795 each. The first and the second disbursements will be made in the first and the eleventh month, respectively. It is assumed that during this period the project will be implemented, and it will start generating revenue. The project will repay an amount equivalent to 50% (or Tk. 2,692.5) of the total loan in the sixteenth month. The third disbursement of Tk. 1,795 will be made in the twenty first month for meeting working capital needs. The entire loan will be repaid after the thirtieth month.

**THE RBB PROFITABILITY FORECASTS
(on account of CSACS)**

On the basis of the assumptions the cost and profitability in respect credit operation of works out as under :

	Per CSACS account revenue and cost over 30 months		
	Scenario - I (Tk.)	Scenario - II (Tk.)	Scenario - III (Tk.)
A Interest revenue	1412	655	830
B Interest cost of funds	762	365	431
C Gross revenue (A - B)	650	290	399
D Administrative cost	162	162	162
E Net revenue (C - D)	488	128	237
F Loan loss reserve	54	54	54
G Net surplus (E - F)	434	74	183
H Annual rate of return (On average loan disbursed over 30 months)	4.8%	1.6%	2.0%

Comments:

- 1) Depending on the amounts of disbursements of CSACS loans and the repayment schedules as may be agreed on with regard to individual projects to be financed, the returns to RBB on individual CSACS accounts will vary.
- 2) Returns under each scenario are positive. The rate is the highest in the accounts (such as in case of scenario - 1) where a larger quantum of loan remains invested for a longer period of time.
- 3) The range of the ratio of the annual average interest income on the earning assets of four NCBs and EKB over the years 1981, 1982, 1983, and 1984 was between 3.1% (EKB & Sonali) and 1.7% (Rupali). The ratios estimated for the CSACS at H above under various scenarios seem to at least conform to historical patterns in the same banks and has a prospect for performing even better.

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SAVINGS MOBILIZATION SCHEMES
OF THE BANGLADESH BANK

A RURAL FINANCE PROJECT REPORT

July 1986

by

RFP Staff

- Prepared for -

The Bangladesh Bank - Agricultural Credit Department
(Under USAID Project No. 388-0037)

SAVINGS MOBILIZATION SCHEMES OF THE
BANGLADESH BANK (RFP SUBTASK A-5)

by

RFP Staff

Recognising the need for mobilizing large amounts of domestic resources so as to reduce the country's dependence on foreign aid, the Bangladesh Bank is expected to play a significant role in mobilizing domestic savings.

A brief review of the Bangladesh Bank's savings mobilization policy and its effects on the growth of bank deposits during the Second Five Year Plan (SFYP 1980-85) is given below. A few additional measures for further increasing financial savings are suggested in the paragraphs that follow:

REVIEW

The Bangladesh Bank as the central bank of the country is responsible for formulating and proposing monetary and credit policies within the framework of overall economic objectives of the country. While formulating monetary and credit policies the Bank is required to consider carefully that, in the absence of a well organized capital market, the banking system provides the only significant source of financial intermediation between savers and investors. Thus, Bank Policy to focus on increasing savings was adopted so that the domestic credit and investment requirements could be satisfied, as far as possible, out of savings mobilized by the banks. The various policy measures which Bangladesh Bank has promulgated to encourage savings and mobilize them through the banking system include:

- a. Interest Rate Policy
- b. Branch Expansion Policy
- c. Refinancing Policy
- d. Implementation of Special Savings Mobilization Schemes

- a. Interest Rate Policy: This is one of the major instruments through which central banks usually influence the availability and flow of credit and investment in the economy. Bank interest rates in Bangladesh remained quite stable during the post-liberation period upto mid-October 1980. Then, major upward interest rate revisions were introduced on both deposits and advances, effective from October 16, 1980.* The specific changes are shown in the statement at Annex I. The behaviour of the Deposit/GDP ratio is one yard stick by which to measure the impact of interest rate changes. The Deposit/GDP ratio which averaged 11.83 for the five years preceding the interest rate revision (i.e. 1976-1980) increased to an 16.73 average for the five years following the interest rate revision (i.e. 1980-1985) apparently in impressive correlation.
- b. Branch Expansion Policy: In the mid-'70s a policy decision was taken by the GOB and the Bangladesh Bank to expand rural scheduled bank branch networks so as to cover the entire country within a reasonable period of time. The main objective of the policy was to extend credit facilities and other banking services and to mobilize previously untapped resources in unbanked areas throughout the country.

Although not formally declared as an official policy implementing control, it is widely asserted that BB licensors required banks to establish two rural branches for each new urban branch it might desire. In 1977, under encouragement of the Bangladesh Bank, the NCBs and the BKB initiated branch expansion programs aimed at specific rural areas allocated to them by the BB for dispensing agricultural credit under the SACP. The total number of bank branches which stood at 3821

* For example, deposit rates in terms of weighted averages, rose from about 5% to 8.13%. See Annex 3, "Interest Rate Structure of the Banking Sector in Bangladesh"

in June of 1980 (of which 64% were in the rural areas) increased to 4963 by June 1985 (of which 67% were in the rural areas). The relatively larger expansion of bank branches in rural areas was correlated with an increasing share of rural deposit in the total deposits, up from 9.6% in June 1976 and 16% in June 1980 to over 17% by end of June 1985.

c. Refinance Policy: Bangladesh Bank policy has been to use liberal refinance rates selectively to encourage use of credit as needed in targeted production programs such as exporting, labor intensive small scale industry, etc. Until 1983, there is no evidence that the Bank concerned itself about the potential impact of the refinance rate on deposit mobilization by the banking system. In short, if the refinance rate is lower than a bank's cost of generating depository funds, then, the bank will likely access the refinance window and bypass pressing for deposits. As of September 1983, the Central Bank became concerned about this problem and introduced a new matrix of refinance rates intended to keep them high enough so as not to discourage bank efforts to mobilize deposits. The matrix is reproduced in Annex A, below, in an ACD Circular.

To our knowledge, the 1983 agricultural sector refinancing rate matrix has never changed which could mean that it has not needed to be changed or that the impact of refinancing rates on savings is once again being ignored. The issue seems not to have been empirically studied. Of course, as there has been no change in agricultural lending rates, and only one depository rate change solely effecting rural non-checking savings accounts in the interim, there may have been no need for adjusting or experimenting with agricultural refinance rates. The highest slab rate matches the "Bank Rate".

Thus, in the case of refinance rates as in the case of interest rates in general (item "a", above), an active policy is

difficult to discern. Indeed, an Interest Rate Advisory Committee came into existence only as a result of RFP negotiations during 1984 and it has met only twice up to August 1986, although the RFP Interest Rate Advisor did complete his sub-project assignment early in 1986. A true indication that interest rates are accepted by the Central Bank as a dynamic instrument for the day to day management of the monetary system would be appointment of a full time Interest Rate Advisor at the organizational level of no less than General Manager to take full charge of the Interest Rate Technical Unit.

d. Savings Mobilization Scheme The Bangladesh Bank, itself, has so far instructed NCBs to introduce three schemes for mobilization of deposits from the general public as well as institutions both in the public and private sectors. These are:

- (1) Deposit Pension Scheme
- (2) Deposit Insurance Scheme
- (3) Bearer Certificates of Deposit Scheme

(1) Deposit Pension Scheme (DPS): Under GOB directive a "Deposit Pension Scheme" was introduced for implementation by the nationalised banks with effect from September 1983. The scheme is intended to provide a new source of old age benefit to certain elements of the general public against modest investments out of their income during their earning years. All persons who have attained the age of 18 years are eligible to participate in the scheme. According to this scheme, investors are required to deposit Tk.100 or a multiple thereof subject to a maximum of Tk.500 per month for a period of 10 or 20 years. On completion of the selected term, the depositors are entitled to receive payment either in lump sum along with accrued interest (15% compounded annually), or in monthly installments until completion of an agreed period of time.

DPS has taken off impressively as shown below:

DPS Performance Inception to June 1986 (Tk in Crore)

Year	<u>Number of Accounts</u>	<u>Total Deposits</u>	<u>Annual Accounts Growth</u>	<u>Annual DPS Deposit Growth</u>
9/83 12/84	132,124	24.06	-	-
1985	200,197	59.70	52%	148%
6/30/86	<u>538.453</u>	<u>109.24</u>	<u>169%</u>	<u>83%</u>

It will be important to analyse the above data in terms of rural-urban, socio-economic, and demographic characteristics of subscribers.

- (2) Deposit Insurance Scheme: The Deposit Insurance Scheme was introduced with effect from 11 August 1984. All scheduled banks in existence on that date, and any banking company certified to be a scheduled bank, thereafter automatically become insured banks. In the event of any bank going under, every depositor is guaranteed to receive payment from Bangladesh Bank of an amount equal to his deposit up to a maximum of Tk. 60 thousand. Every insured bank is liable to pay to Bangladesh Bank a premium at the rate of four paisa p.a. per one hundred taka of deposits on half-yearly basis.

As the NCBs were GOB insured anyway, this may not have encouraged their potential depositors much, but it should have influenced private banks favorably. In any case there have been no bank failures to date.

- (3) Bearer Certificates of Deposit Scheme: A savings scheme in the form of bearer certificates of deposit (BCD) has been introduced from August 21, 1982 with the object of creating a money market and bringing idle funds under the control of banking system. For the present, BCDs are set for fixed maturities of 3 months, 6 months, 9 months, and 12 months. The face value of BCDs will be for Tk.100,000, Tk.50,000

and Tk. 25,000. The rate of interest will not be pre-fixed. It will be determined by the BB on the date of issue of the BCD Bonds based on the demand and supply of the funds in the money market. Banks may not change the authorized rate. Participation of banks in the scheme is voluntary. So far 12 banks have introduced the scheme with gross sales estimated at Tk.39.27 crore.

Performance to date is as follows:

a. Amount of BCD's issued annually in Crore Taka

<u>Period</u>	<u>BCD Value</u>
8/83 - 12/83	.05
1984	7.17
1985	22.07
6/1986	8.98
Total	<u>39.27</u>

b. Participating Banks:

Sonali, Janata, Agrani, American Express Bank Ltd., Grindlays Bank plc., BCCI (O) Ltd., Banque Indosuez, Standard Chartered Bank, Arab Bangladesh Bank Ltd., IFIC Bank Ltd. United Commercial Bank Ltd. and City Bank Ltd.

Detailed instruction regarding introduction of the above schemes were issued by BB's BCD* to the scheduled commercial banks.

* BB's BCD = Banking Control Department

Comments and Observations

Correlates of Bangladesh Bank's efforts to mobilize savings through the banking system are reflected in the table at Annex-2 which shows annual, rural and urban growth of deposits, GDP and numbers of bank branches during the period 1975/76 to 1984/85. The growth during the years since 1980 and 1983 when interest and refinancing rates, respectively, were increased is impressive.

Bangladesh Bank's expansive rural branch licensing policy prior to 1980/81, up 197% from 1976, is associated with an increase in bank deposits of 280%. During the same period urban branching grew by only 43% while urban deposits grew by 108%. The period 1981 to '85 found both rural and urban bank branching sharply declining to 17% and 7%, respectively. By contrast, the rate of increase of urban deposits grew to 194% during this period while the rate of increase of rural deposits fell to 189%.

Annex-2 also finds average urban branch bank savings portfolios increasing more rapidly than rural ones. The comparison for the whole period is 278% for rural compared with 357% for urban. The table compares rural and urban deposits in terms of the share of GDP each represents. Urban deposits represent approximately 19.5% while rural deposits are just over 4% of GDP, at the end of overall time period. To get to this level, rural deposits grew 310% while urban deposits grew 85% from 1976.

Note: the foregoing growth figures are nominal ones. In real terms they are not so dramatic. For example, the overall rural deposit growth rate (1420%) amounted to only 228% in real terms. Finally, it appears that the growth of rural deposits as a share of total deposits occurred mostly before 1980/81 when it grew from 9.6% to 16.3%. Since that time it rose a little

in 1982-83 but declined again to its 1981 level in 1984/85. In the overall picture it may be that up until 1980 the increase in rural bank deposits was a function of rapid increase in a number of banks in the rural area. It is less clear what may have encouraged the continuing rapid increase in bank deposits during the second period. Possibly it has been that one or more of the major banks has begun to promote savings mobilization more effectively.

The present state of capital market in Bangladesh suggests that the banking system, as the prime mobiliser of the country's financial savings will continue to be predominant in the years to come. But, if it is to play the role properly, it will need to be given more autonomy, permitted to introduce new incentives such as commission based compensation pay schedules, and many problems of inefficiency must be overcome.

The low deposit/GDP ratio in Bangladesh indicates that potential still exists for mobilizing more financial savings and it is the prime task of the Central Bank to lead the way by using various policy instruments available to it. The Central Bank may take steps along the lines indicated below to augment deposit mobilization by the banking system.

Recommendations:

- (i) Bangladesh Bank should control concessional refinancing facilities to the scheduled banks to a degree that does not undermine deposit mobilization while also not jeopardizing its traditional function of controlling liquidity positions of the banks. The refinance rate matrix should ensure consistent spreads between refinance and loan rates so that the objective of fixing 'slab' or different refinance rates may not be defeated.
- (ii) The banking system should guarantee real returns on financial savings and assets.

- (iii) Bangladesh Bank should re-establish a reasonably financed Banking Publicity Board' or some such technical unit to support institutional level savings mobilization and loan recovery propaganda campaigns.
- (iv) The DPS and BCD schemes appear to be successful. Other innovations of such merit should be encouraged.
- (v) The BB Interest Rate Technical Unit should be (a) strengthened appropriately in staffing and management, (b) raised organizationally to where it is located in Central Banks which control their nation's monetary systems on a day-to-day basis, (c) provided the autonomy and authority to formulate and implement interest rate strategies and tactics that are consistent with GOB and Central Bank general policy guidelines.
- (vi) The policy of fixed absolute bank savings and lending rates should be abandoned in favor of rates with flexibility within stipulated ranges which might be gradually loosened as the Banks become adept at working with market forces.
- (vii) Positive rates and rate spreads in real terms should be adopted as a highest level priority policy of the GOB and the Central Bank.

TABLE—XVI
THE INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH
(December, 1971—October 15, 1980)

(Per cent per annum)

	Dec., 1971 to June, 1974 (1)	July 1, 1974 to Mar., 31, 1976 (2)	Apr. 1, 1976 to Apr., 30, 1977 (3)	May 1, 1977 to Oct., 15, 1980 (4)
A. Bank Rate	5.00	8.00*	8.00	8.00
B. Scheduled Banks' Interest Rates on Deposits :				
a) Special notice accounts withdrawable at notice of 7 to 29 days	3.00	4.00	5.00	4.00
b) Special notice accounts withdrawable at notice of 30 days or over	3.25	4.25	5.25	4.25
c) Savings bank accounts with chequing facilities	4.00	5.00	6.00	6.00+
d) Savings bank accounts without chequing facilities	4.50	6.00	7.00	7.00 (7.75)
e) Fixed Deposits :				
i) For 3 months and over but less than 6 months	4.50	6.00	7.00	7.00 (8.50)
ii) For 6 months and over but less than 1 year	4.75	6.50	7.50	7.50 (9.00)
iii) For 1 year and over but less than 2 years	5.00	7.25	8.25	8.25 (9.25)
iv) For 2 years and over but less than 3 years	5.50	8.25	9.25	9.25
v) For 3 years and over	6.00	9.25	10.25	10.25
C. Scheduled Banks' Lending Rates :				
a) Normal Lending Rate	9.50-10.00	12.00-13.00	12.00-13.00	11.00-12.00
b) For advances against jute, raw goods and tea	8.50 ²	10.50	10.50	10.50
c) For export credit in respect of items other than jute, jute goods and tea	—	—	11.50 ^{2*}	10.50

Notes: Figures within parentheses indicate interest rates for deposit accounts opened by individuals in rural areas effective from 1-10-78 to 15-10-80. Rate for Term Deposit in Rural Areas for 6 months or over but less than one year was 8.50 from 15-12-77 to 30-9-78 and 9.00 from 1-10-78 to 15-10-80 and the rate for term deposit in rural areas for one year and over but less than 2 years was 9.25 from 15-12-77 to 15-10-80.

Rural branches are branches situated outside the Municipal areas.

The Bangladesh Banks' concessional lending rate to the Bangladesh Rural Bank and the Bangladesh Jute Storage Bank (Appex Co-operative Bank) was 2% below the Bank Rate.

Bangladesh Khatib Bank and Bangladesh Shilpa Bank were allowed to pay interest on term deposits (local banks and financial institutions) at 1% above the prescribed rates w.e.f. July 1, 1974 to October 15, 1980.

* Effective from June 21, 1974.

² Reduced to 4.50 w.e.f. August 1, 1977.

⁺ Withdrawn domestically: ... in ...

⁺ 7.50 for the year ended June 30, 1974.

⁺ Effective from July 1, 1976.

TABLE—XVI (Concl'd.)
THE INTEREST RATE STRUCTURE OF THE
BANKING SECTOR IN BANGLADESH
(From October 16, 1980 onwards)

From October 16, 1980

A. Bank Rate	11.00 ¹
B. Scheduled Banks' Interest Rates on Deposits :	
a) Call deposits and special notice accounts	4.50 ²
b) Savings bank accounts with chequing facilities	8.50 ²
c) Savings bank accounts without chequing facilities	10.00 ³
d) Fixed Deposits :	
i) For 3 months and over but less than 6 months	12.00
ii) For 6 months and over but less than 1 year	13.00
iii) For 1 year and over but less than 2 years	14.00
iv) For 2 years and over but less than 3 years	14.50
v) For 3 years and over	15.00
C. Scheduled Banks' Lending Rates	
a) Agriculture (Production) including forestry and fishery	12.00 ^{4*}
b) For industry (all manufacturing industries including assembling, processing, milling, crushing and transport industry)	14.50 ⁺⁺
c) For specified industries in less developed area	13.00
d) For export credit in respect of	
i) traditional items i.e. loose tea, jute & jute goods excluding carpets	12.00 ⁵
ii) non-traditional items including packet tea and jute carpets	9.00 ⁶
e) Loan extended in pursuance of Socio-economic objective, and loans given to the less developed areas including Chittagong Hill Tracts	13.00
f) For construction of houses in rural areas (with effect from January, 1981)	5.00
g) Advances for internal trading purpose	11.00 and 18.00 ⁵
h) Advances against FDR (w.e.f. 1st December, 1984)	20.00 ⁵
i) For loans and advances other than those specified above	16.00 ^{5*}

* i) For all advances against jute goods including those relating to internal trade rate of interest is 12%.

ii) For all advances against raw jute including those relating to internal trade rate of interest was ... upto 25.12.81; since then it is 12% for external trade and 16% for internal trade.

iii) Loose tea is included and carpet is excluded w.e.f. July 1, 1983.

@@ i) Rate was 12.00 upto June, 1982 which was reduced to 11.50 w.e.f. July, 1982 and further reduced to 9.00 w.e.f. July 1, 1983.

ii) For all advances against tea including those relating to internal trade rate of interest was 12% up to 24.5.1981.

iii) Jute carpet and packet tea (instead of loose & packet both) were included w.e.f. July 1, 1983.

++ 14.00 from October 16, 1980 to July 31, 1981.

oo 15.50 from October 16, 1980 to December 4, 1981.

@ No interest on call deposits w.e.f. December 2, 1982.

@ Service charge at 4% over the normal interest of 12% on short-term loans ... w.e.f. September 29, 1983.

1. 10.50 upto 31st December, 1984.

2. In the rural areas the rate was 9.50 with effect from July, 1984 which was further raised to 10.50 with effect from January, 1, 1985.

3. In the rural areas the rate is 11.00 with effect from January 1, 1985.

4. Upto limits Tk. 1 lac the rate is 11.00 and that for exceeding limits Tk. 1 lac is 18.00 with effect from January 1, 1985.

5. Upto limits Tk. 1 lac the rate is 3% above the rate allowed on the relevant FDR w.e.f. 1st March, 1985.

ANALYSIS OF BANK DEPOSIT MOBILIZATION: 1976-1985 (TAKA IN MILLION)

Year (as at 30 June)	Bank Deposits				Average Branch Deposit Portfolios		GDP	Deposits to GDP		Number of Bank Branches	
	Total	Urban	Rural	Rural/ Total %	Rural	Urban		Rural Share of GDP %	Urban Share of GDP	Rural No.	Urban No.
1975/76	11000	9937	1063	9.6	1.28	10.4	107458	10.99	09.25	826	953
1976/77	13256	11704	1552	11.7			105361	01.47	11.11		
1977/78	16998	14682	2316	13.6			146365	01.58	10.03		
1978/79	21134	17593	3541	16.8			172819	02.05	10.18		
1979/80	24737	20695	4042	16.3	1.65	15.17	197985	02.04	10.45	2457	1364
1980/81	31930	26331	5599	17.5	1.96	17.24	233263	02.40	11.29	2851	1527
1981/82	35326	29388	5938	16.8			265144	02.24	11.08		
1982/83	45420	36876	8544	18.8			288423	02.96	12.79		
1983/84	69022	56808	12214	17.6			349922	03.49	16.23		
1984/85	93563	77404	16159	17.3	4.85	47.5	397746	04.06	19.46	3335	1528
GROWTH RATE COMPARISONS:											
1976-1980	225%	108%	280%		29%	45%		106%	13%	197%	43%
1981-1985	193%	194%	189%		147%	175%		69%	52%	17%	6.6%
1976-1985	751%	679%	1420%*		278%	357%		310%	85%	303%	97%

Source: Various issues SBS.

* In real terms, 228% increase overall. Nominally, the growth averaged 158% annually or 35% in real terms.

THE INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

(Per cent per annum)

	December, '71 to June, '74	July, '74 to March, '76	April, '76 to April, '77	May, '77 to October 15, '80	October 16, '80 to December, '84	From January, 1, '85 onwards
A. BANK RATE	5.00 upto June 20, '74 3.00 from June 21, '74	8.00	8.00	8.00	10.50	11.00 upto Sept. 15, '85 11.25 from Sept. 16, '85
B. Scheduled Banks' Interest Rates on Deposits						
a) Call Deposits	-	-	-	-	4.50 Oct. 16, '80 to Dec. 1, '82	-
b) Special Notice accounts:-					4.50	4.50
i) Withdrawable at notice of 7 to 29 days	3.00	4.00	5.00	4.00	-	-
ii) Withdrawable at notice of 30 days or over	3.25	4.25	5.25	4.25	-	-
c) Savings bank accounts with chequing facilities	4.00	5.00	6.00	6.00 upto July, '77 4.50 from Aug. '77 to Oct. 15, '80	8.50 9.50 for rural areas w.e.f. July, '84	8.50 10.50 for rural areas
d) Savings bank accounts without chequing facilities	4.50	5.00	7.00	7.00 (7.75)	10.00	10.00 11.00 for rural areas
e) Fixed Deposits:-						
i) For 3 months and over but less than 6 months	4.50	6.00	7.00	7.00 (8.50)	12.00	12.00
ii) For 6 months and over but less than 1 year	4.75	6.50	7.50	7.50 (8.50 & 9.00)	13.00	13.00
iii) For 1 year and over but less than 2 years	5.00	7.25	8.25	8.25 (9.25)	14.00	14.00
iv) For 2 years & over but less than 3 years	5.50	8.25	9.25	9.25	14.50	14.50
v) For 3 years and over	6.00	9.25	10.25	10.25	15.00	15.00

Note:- i) Figures within parentheses indicate interest rates for deposits accounts opened by individuals in rural areas effective from 1-10-75 to 15-10-80. Rate of return deposit in rural areas for 6 months or over but less than one year was 8.50 from 15-12-77 to 30-12-78 and 9.00 from 1-10-78 to 15-10-80 and the rate for term deposit in rural areas for one year and over but less than 2 years was 9.25 from 15-12-77 to 15-10-80.

ii) Branches situated outside the municipal areas are rural branches.

iii) Bangladesh Krishi Bank and Bangladesh Shilpa Bank were allowed to pay interest on term deposits (excl. banks and financial institutions) at 1% above the prescribed rates w.e.f. July 1, 1974 to October 15, 1980.

THE INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

: For cent per annum :

	December, '71 to June, '74	July, '74 to March, '76	April, '76 to April, '77	May, '77 to October 15, '80	October 15, '80 to December, '81	From January 1, '82 to onwards
C. Scheduled Banks' Lending Rates						
a) Normal lending rate	9.00-10.00	12.00-13.00	12.00-13.00	11.00-12.00	{ 15.50 up to Dec. 4, '81 16.00 from Dec. 5, '81	16.00
b) For advances against Jute, jute goods & tea whether domestically traded or exported	{ 8.50 7.50 July, '73 to June, '74	10.50	10.50	10.50	-	-
c) For export credit in respect of items other than jute, jute goods & tea	-	-	11.50 w.e.f. July 1, '76	10.50	-	-
d) Agriculture (producer including forestry and fishery) (Service charge at 4% over the normal interest of 12% on short-term loans are applied w.e.f. Sept. 29, 1983)	-	-	-	-	12.00	12.00
e) For industry (all manufacturing industries including assembling processing milling crushing and transport industry)	-	-	-	-	{ 14.00 upto July, '81 14.50 from August, '81	14.50
f) For specified industries in less developed area	-	-	-	-	13.00	13.00
g) For export credit in respect of						
i) Traditional items i.e. loose tea, Jute & jute goods excluding carpet (carpet is excluded and loose tea is included w.e.f. July, 1983)	-	-	-	-	{ 12.00 16.00 for internal trade of raw jute w.e.f. 26-12-1981	{ 12.00 16.00 for internal trade of raw jute
ii) Non-traditional items including packed tea & jute carpet (for all advances against tea including those relating to internal trade rate of interest was 12% upto 24.5.1981. Jute carpet and packed tea (instead of loose & packet both) were included w.e.f. July 1, 1983)	-	-	-	-	{ 12.00 upto June, '82 11.50 July, '82 to June, '83 9.00 w.e.f. July, '83	9.00
h) Loans extended in pursuance of socio-economic objectives and loans given to the less developed areas including Chittagong Hill Tracts	-	-	-	-	13.00	13.00
i) For construction of house in rural areas (w.e.f. Jan. '74)	-	-	-	-	5.00	5.00
j) Advances for internal trading purpose	-	-	-	-	-	{ 16.00 upto limit Tk. 1 lac 18.00 exceeding limit of Tk. 1 lac
k) Advances against FIP w.e.f. Dec. 1, '84 (Upper limit Tk. 1 lac the rate is 2% above the rate applicable on the relevant F.I.P. w.e.f. 1st March, 1985)	-	-	-	-	20.00	20.00

Annex 3b

-96-

1. The Bangladesh Bank's concessional lending rates to the Bangladesh Krishi Bank and Bangladesh Juteya Samabaya Bank (Apex Co-operative Bank) was 2% below the Bank rate.

• Recent changes in term lending rates given in Annex 3(c)

TELEGRAM
'BANGLABANK'BANGLADESH BANK
HEAD OFFICE
DHAKABANKING CONTROL
DEPARTMENT

BCD CIRCULAR NO. 20

7TH JULY, 1986.

ALL SCHEDULED BANKS
IN BANGLADESH.

Dear Sirs,

BANK RATE.

This is to advise that effective from the 1st July, 1986 the Bank Rate has been reduced from 11.25% to 10.75% per annum.

2. Interest on term loans will be as under effective from July 1, 1986 :-

		<u>Rate of Interest</u>
Debt : equity	60:40	12% per annum
Debt : equity	70:30	13% per annum
Debt : equity	80:20	13.5% per annum

3. Rate of interest on working capital loans to jute mills including jute spinning mills will be 9% p.a. with effect from 1st July, 1986.

4. Rate of interest on export credit for tea will be 9% p.a. with effect from 1st July, 1986. Segregation of advances for internal trade from those for export sale in such cases will as usual be made from the date of auction of tea.

5. Interest on all advances against raw jute will continue to be charged at 15% p.a. with provision for refund of interest on the basis of actual shipment as indicated below. For shipments effected upto 30th June, 1986 refund of interest should be allowed at 4% p.a. for a period of 4 months as per procedure prescribed vide BCD Circular No.25 dated 20th December, 1981. However, effective from 1st July, 1986 rate of refund will be 7% p.a. For example, if shipment is effected on 15th July, 1986, refund of interest will be allowed @ 4% for 3½ months and @ 7% p.a. for 15 days. For shipments effected on 31st October, 1986 or thereafter refund for the entire period of 4 months will be allowed @ 7% p.a.

6. The existing deposit rates and other lending rates will remain unchanged until further instructions.

Please acknowledge receipt.

Yours faithfully,

S. R. Karmaker
(S. R. KARMAKER)
GENERAL MANAGER
PHONE: 255220

ENDT.NO.BCD(P)661

OF DATE

Copy forwarded for information to :-

1. All Heads of Departments, Bangladesh Bank, Head Office, Dhaka
2. All Section of Banking Control Department, Bangladesh Bank, Head Office, Dhaka.
3. The General Manager/Dy.General Manager, Bangladesh Bank, Motijheel, Dhaka/Chittagong/Khulna/Rajshahi/Bogra/Sylhet/Sadarghat, Dhaka.
4. The Joint Director, Department of Banking Inspection, Bangladesh Bank, Chittagong/Khulna/Bogra/Rajshahi.
5. The Private Secretary to the Governor, Governor's Secretariat Bangladesh Bank, Head Office, Dhaka.
6. The Officers attached to Dy.Governor/Economic Adviser.
7. The P.As. to the Executive Directors, Bangladesh Bank, Head Office, Dhaka.
8. The Secretary, Ministry of Finance, Finance Division, Govt. of the People's Republic of Bangladesh, Dhaka.
9. The Economic Adviser, Economic Adviser's Wing (Shed No.27) Ministry of Finance, Finance Division, Govt. of the People's Republic of Bangladesh, Bangladesh Secretariat, Dhaka .
10. The Chief of Mission, Resident Mission, World Bank, 222, New Eskaton Road, Dhaka.


ASSISTANT DIRECTOR
Tel.No.235000/417.

are the lack of availability of resources and lack of incentive to apply own resources to lending in the agricultural sector. With a view to encouraging the lending institutions to finance an increasing proportion of their need for funds from their own resources, it has been decided to apply variable interest rates of refinance as per the undernoted matrix :-

Refinance Rate (in percent)	Refinance Scale in Percentage of Disbursement		
	Commercial banks	B.K.B.	B.S.B.L.
6.0	-	-	30 to below 50
7.0	-	-	50 to below 70
7.5	30 to below 50	30 to below 50	-
8.0	-	-	70 to below 80
8.5	50 to below 60	50 to below 80	80 to below 90
9.0	-	-	90 to below 100
9.5	60 to below 80	80 to below 95	-
10.5	80 to 100	95 to 100	100

However, the refinance against the financing of irrigation equipments will be admissible to the extent of 90% at an interest of 8.5%.

This supersedes all previous instructions in this regard and will come into effect from 1st October, 1983.

You are requested to issue necessary instructions to your branches accordingly under advice to us.

Yours faithfully,

(Kamal Uddin Ahmed)
Chief Officer

- CONSULTANTS -

Prime Contractor:

Robert R. Nathan Associates
Economic Consultants
Washington, D.C. USA

Sub-contractor:

S.F. Ahmed & Co.
Chartered Accountants
Dhaka, Bangladesh

SAVINGS/DEPOSIT CONSTRAINT
AND RESTRICTIONS

A RURAL FINANCE PROJECT REPORT

August 1986

- Prepared by RFP Consultant -

Md. Omar Chowdhury

- Prepared for -

The Bangladesh Bank
(under USAID Project No. 388-0037)

**SAVINGS/DEPOSIT CONSTRAINT
AND RESTRICTIONS**

ABBREVIATIONS

ACR	= Agricultural Credit Review, 1983
AR	= Administrative Restrictions
BB	= Bangladesh Bank
BBI	= Banks Book of Instructions
BCD	= Banking Control Department of BB
BCO	= Banking Companies Ordinance 1962
BIBM	= Bangladesh Institute of Bank Management
BTI	= Banking Training Institute
DIS	= Deposit Insurance Scheme
DPS	= Deposit Pension Scheme
FDR	= Fixed Deposit Receipts
GNP	= Gross National Product
GOB	= Government of the People's Republic of Bangladesh
IR	= Institutional Restriction
LIC	= Low Income Countries
LR	= Legal Restrictitons
MR	= Market Restrictitons
NGO	= Non Government Organizations
NCB	= Nationalized Commercial Banks
OR	= Organizational Restrictions
RBB	= Rural Bank Branches
RBBM	= Rural Bank Branch Managers
RBBUS	= Rural Bank and Bank Users Survey
RFP	= Rural Finance Project
SBa/c	= Savings Bank Account

Table of Contents

	Page
Executive Summary	106
<u>CHAPTER-I Study Background Purpose and Scope</u>	111
1. The study background	111
2. Purpose	111
3. Methodology	111
4. Assumptions & definitions	112
5. Classification of restrictions	113
6. Study limitations	115
7. Presentation	116
<u>CHAPTER-II Legal Restrictions</u>	117
1. Opening of new branches	117
2. Changing bank locations	119
3. Lending against funds mobilized	120
4. Recruitment and promotion	124
5. No Specialized Training	124
6. Limited use of FDR as security	125
7. Private and personal loans	126
8. Income tax on interest	127
9. Jamuna (Bridge) levy	127
<u>CHAPTER-III Procedural Restrictitons</u>	129
1. Introduction of an account	129
2. Opening of account of an illiterate person	130
3. Opening of account women who wear veil	131
4. Opening of account in the name of a minor	132
5. Maintenance of minimum balance	132
6. Rate of interest	133
7. Withdrawals	133
8. Maximum balance	134
9. Banking hours/working days	134
10. Cash in vault and at the counter	135

	<u>Page</u>
<u>CHAPTER-IV Institutional Restrictions</u>	136
1. Number and location of branches	136
2. Business priority	137
3. Few deposit products	137
4. Fewer other banking services	138
5. Quality of services	138
6. BB Credit policy	138
7. Credit & Restrictions	139
8. Attitudinal constraints	139
9. Branch furnishings	140
<u>CHAPTER-V Market Restrictions</u>	141
<u>CHAPTER-VI Bank Branch Managerial Operations Restrictions</u>	145
1. Savings impediments relating to RBB operations	146
2. Indirect savings impediments	147
<u>CHAPTER-VII Conclusions and Recommendations</u>	149
<u>APPENDIXES</u>	150
1. Extracts from Samuel A. Sherer Report (July 1985)	Appendix - I 153
2. Deposit Insurance Scheme	Appendix - II 155
3. Reorganization of BTIs Directive	Appendix - III 162
4. Summary of Credit Restriction	Appendix - IV 166
5. Deposit Procedures	Appendix - V 179
6. Interest Rate Structures	Appendix - VI 185
7. Campaign for opening S/B a/c (Agrani)	Appendix - VII 186
<u>REFERENCES</u>	

Executive Summary

This report on savings/deposit constraints and restrictions is presented in response to Sub Task A-3 of the Bangladesh Bank/USAID Rural Finance Project (RFP) Terms of Reference calling for review of deposit regulations and procedures 'to see whether they can be modified or relaxed to encourage additional rural savings'.

Study Purpose and Methodology

1. There is evidence that there is scope for further increasing mobilization of savings by RBBs. But because of various constraints, often informal and indirect, RBBs fail to fully exploit the savings potential of rural people. This study attempts to identify savings impediments of a more conspicuous nature as reflected in (i) Bangladesh banking law and legal practices, (ii) contemporary technical literature, (iii) preliminary findings of the RBBUS, and (iv) extensive discussions with over 100 rural bank branch managers during field trips and also during RFP conducted training courses. This is not exhaustive. Nor is the possible impact of individual restrictions measured quantitatively.

Findings:

2. The terms 'savings mobilization' and 'deposit mobilization' are used synonymously in this report. Deposit restrictions have been arbitrarily, and to some extent with overlapping, listed under five broad categories namely: (i) legal, (ii) procedural, (iii) institutional (iv) market, and (v) branch operational aspects of Bangladesh banking.
3. Legal aspects (Chapter III) cover restrictions which arise indirectly out of the Banking Companies Ordinance, 1962, and the Bangladesh Bank Order, 1972. They include restrictions on (i) opening of new bank branches, (ii) shifting of location of an existing branch, (iii) lending of total amount of deposit mobilized, (iv) recruitment and promotion of bank employees, (v) employee training, (vi) lending against fixed deposit receipts, (vii) income tax on interest, and (viii) the Jamuna bridge levy. It is considered that all

these restrictions, while based on good intentions, nevertheless indirectly affect deposit mobilization efforts of RBBs negatively.

4. Procedural aspects (Chapter III) cover restrictions relating to (i) approval by an account holder, (ii) opening of an account by a "purdanashin" woman, (iv) opening of an account in the name of a minor, (v) maintenance of minimum balance, (vi) interest paid on deposits, (vii) withdrawals from savings accounts, (viii) maximum allowable account balance, (ix) banking hours/days, (x) maintenance of cash in branch vault and at the branch counter. It is contemplated that many of procedural restrictions owe their origin to legal restrictions, to the banker's responsibility to prevent fraud and forgery, and to the need to maintain safety and security of depositors' money. However, a separate set of somewhat relaxed procedures might be justified for rural bank branches without foregoing basic principles of sound banking. Currently procedures are similar for both urban and rural banks.
5. Institutional aspects (Chapter IV) cover restrictions which arise at head office management level and which nevertheless impact rural banking. These relate to (i) number of new branch openings and selection of locations, (ii) lesser priority to mobilization of small savings in rural areas, (iii) limited number of approved depository products, (iv) fewer other banking services at rural branch level, (v) lack of effort to improve quality of RBB services to customers, (vi) the major preoccupation of RBBs, namely, BB/head office programmed lending, (vii) lack of authority of RBBs to make loans on their own, (viii) aversion towards mobilization of small deposits, and (ix) improper branch locations and inadequate branch furnishings. It is submitted that institu-

tional constraints are a manifestation of overall money and banking policy of the country and of the failure of individual bank managements to emphasize rural banking, in general.

5. Market aspects (Chapter V) deal with general inefficiencies of formal rural financial markets of Bangladesh which are more or less similar to those obtaining in other lower income countries. Legal, procedural and organisational restrictions mentioned earlier add to market imperfections. Coverages of the formal rural financial market by the RBBs has not yet been correctly assessed. Many RBBs, themselves, have not yet surveyed the potential of their respective command areas. Information about the operation of informal rural money markets, believed to be significant, is scanty. RBB officials are tied to their desks compiling a large number of routine as well as adhoc reports and statements. As a result, the RBBs play a less significant role in the rural financial market than otherwise might be possible.
7. Chapter VI reports deposit restrictions as experienced by RBB managers. The list has been compiled by scrutinizing answers to relevant RBBUS branch manager questionnaires. The constraints, internal to RBBs, range from lack of transport facilities, inadequate compensation, inadequate entertainment and publicity funds, staff shortages, to lack of proper understanding among branch officials and other employees. Some of the restrictions mentioned in earlier paragraphs are also mentioned by the RBE managers. The constraints which branch managers feel to be in operation beyond their control are those primarily related to market constraints summarized at para 6.

Recommendations

Recommendations evolving from this study include the following:

1. Rural branch bank licensing should be rationalized with a specific objective of optimizing rural outreach of banking services. It is not enough to simply open and shut the branching valve. That just results in clustering of banking services in the most urbanized of rural areas. Licensing should be used to control the distribution of banking facilities and services.
2. Certain policies and regulations which, while absolutely necessary under large scale, dynamic urban circumstances, should be judiciously relaxed under truly rural conditions:
 - a. The system-wide uniform statutory reserve requirement should be considered for relaxation.
 - b. Likewise, the Selective Credit Control measures should be relaxed concerning:
 - (i) Advances against fixed deposit receipts.
 - (ii) Advances against various other investment instruments such as Govt. Savings Certificates, Bonds, etc.
 - (iii) Prohibition of personal loans.
 - c. All banks should be provided greatly increased autonomy in matters related to selection, recruitment, and compensation and promotion of branch employees. All efforts should be made to raise the level of competence of RBBs through training and motivation.
3. Frequent consultations should take place among the banks management, the BB and the GOB on all policy matters concerning current and future aspects of mobilization of rural savings.

4. A reasonably upward revision of deposit interest rates should be made to make the real rate of return on deposits attractive to the RBB depositors.
5. Social innovations directed at encouraging and facilitating use of rural banking services by illiterate, purdanashin females and other similarly disfranchised persons should be planned and implemented such as:
 - a. Recruitment of specially trained bank officers.
 - b. Arrangement of specialized (separate if necessary) facilities within bank branches.
 - c. Accessing educational assistance of various NGOs as intermediaries between banks and potential new-to-banking clients.
6. Branch banks should be provided with a special manual of instructions on dealing with procedural rigidities which discriminate against potential depositors.
7. Rural banks should be encouraged to experiment with innovative deposit mobilization schemes, such as the RFP Contract Savings and Credit Scheme.

Chapter I

Study Background Purpose and Scope

1. Introduction

- 1.1 Sub-task A-3 of the RFP proposal states, 'families and individuals are capable of saving a portion of their income and, in fact, they often do save'. But it has been a common experience in most societies that savers do not necessarily and automatically deposit their savings in the formal banking system. The institutional framework often fails to attract savings in the form of bank deposits because of various difficulties or restrictions imposed upon individuals who might use formal banking facilities. Such restrictions again are 'often artificial' and may not operate in the whole but only in part of the formal banking system. In any case, many difficulties or restrictions are unnecessary and could be avoided by more thoughtful rationalization of the system.
- 1.2 The study of savings restrictions is a specific RFP subtask under the topic Rural Savings Mobilization wherein it is required to study deposit regulations and procedures 'to see whether they can be relaxed or modified to encourage rural savings'. The approach of this study has been to identify and define savings restrictions that appear to influence directly or indirectly, mobilization of deposits by RBBs.
- 1.3 Methodology: The methodology of this study included the following: a) reference to available laws, GOB directives, and technical literature, b) direct personal interviewing of rural bank branch managers independent of RBBUS, and c) by accessing information obtained through the RBBUS.

- 1.4 Assumptions, definitions and classification: The study of savings restrictions is meaningful to pursue only if there exists a possibility of increasing financial asset holding by rural households in the form of bank deposits. According to an estimate relating to the 1960s (Alamgir & Rahim) only 18% of household savings were held in form of financial assets. Recently, household savings, themselves, have been estimated at from near zero to 30% of total household income, depending on the socio-economic status of the particular households represented. A general conclusion is that if only a small portion of total savings goes into financial asset holding now, there exists that much greater scope for increasing the bank deposit share of total savings.
- 1.5 There is evidence of financial deepening having taken place since the '60s in Bangladesh, although there has not been any fundamental improvement in the financial savings rate. Financial savings were 22.7% of GNP in 1981 and 22.6% in 1973. In the interim years financial disintermediation took place as the ratio actually fell several times. The lowest level reached was 10.5% in 1975 (O. Koropecy & N. Chowdhury). A possibility for increasing mobilization of savings by the Rural Bank Branches (RBBs) would seem to lie in encouraging greater use of formal financial intermediation.
- 1.6 The phrase 'savings restrictions' is too general and ambiguous to be useful. The word 'savings' lends itself to several generally acceptable definitions, and can be described from more than one perspective. The word 'restrictions' carries with it an air of legal authority while in reality many restrictions may be quite indirect and informal, although they may harbor more pervasive negative impact on savings mobilization as compared with actual legal restrictions.

- 1.7 Restrictions: These are viewed as any impediments, disincentives, bottlenecks, problems, etc., formal and explicit, (mostly relating to legal and administrative regulations affecting Bangladesh banking) and informal and implicit (relating to procedural difficulties in deposit making plus socio-economic environmental constraints) that have the potential for hampering deposit mobilization by the formal financial system operating in the rural areas of Bangladesh.
- 1.8 Savings: From a commonly accepted economic point of view, it represents the surplus of current income (individual, household or institutional) over current consumption expenses. One accounting period, generally a year, is the cut-off time for savings estimations.
- 1.9 For the purpose of this paper it is assumed that bank deposits at any point in time represent abstinence from consumption by the depositors. The deposits represent cash savings irrespective of the time and manner of their accumulation. Increases in bank deposits, other things remaining the same, represent an increase in the rate of financial savings as compared to non-financial savings in real assets. An increase in financial savings should have the effect of increasing financial intermediation which in turn should increase bank deposits. Therefore, increases in institutional savings mobilization has largely the same connotation as deposit mobilization by RBBs. Savings restrictions thus include all impediments which militate not only against mobilization of savings of individuals and households by RBBs but also against overall financial intermediation and monetization of the economy.
- 1.10 Classification of restrictions: Within the general framework of the topic as outlined in the foregoing paragraphs, this study of savings restrictions will focus on the more conspicuous laws, banking policies, procedures, practices, etc.,

that explicitly or implicitly impede or confine rural bank mobilization of deposits by individuals and households. The following broad categories have been adopted for classifying deposit restrictions: (i) Legal restrictions; (ii) Administrative restrictions; (iii) Institutional restrictions; (iv) Market restrictions; and (v) Restrictions at RBB management level.

- i) Legal restrictions (LRs) imply those permanent banking guidelines and disciplines as prescribed under the relevant laws, legislature or administrative orders of the country which indirectly affect deposit mobilization.
 - ii) Administrative restrictions (ARs) imply general guidelines and procedures for conducting depository transactions as prescribed by bank management for regular compliance by operational staff including RBB managers and, of course, bank customers. The intent of ARs is prevention of fraud and forgery, ensuring operational uniformity, etc. But in the process of doing so, they may also undermine deposit mobilization efforts of RBBs.
 - iii) Institutional restrictions (IRs) refer to individual bank overall organisational policies which directly or indirectly affect mobilization of rural deposits.
 - iv) Market restrictions (MR) imply impediments arising out of financial market imperfections which tend to influence adversely deposit mobilization efforts by the RBBs.
 - v) Restrictions at RBB management level are those encountered by rural bank branch managers as distinct from urban managers in matter of deposit mobilization. In effect they are the practical problems faced by rural managers because of the particular social, political and economic environment in which they work.
- ↓11 The categorization of restrictions as formulated above do not represent watertight compartments. A restriction in one cate-

gory may be either a cause or a result of a restriction in another category. Particular deposit restrictions can be put under more than one category. For example, most of the identifiable procedural restrictions relating to conduct of depository accounts trace back to legal restrictions. The law says that no minor can enter into a valid contract. In compliance with this legal restriction written procedures of banks also restrict opening of accounts by minors themselves. Then again, more than one restriction may be operative in a particular rural locality simultaneously but independent of each other. A particular rural community does not have enough savings to generate deposits (market restriction); where there is no rural bank branch to accept deposits (institutional restriction); where most of the savers are illiterate, but they cannot open and operate accounts (assuming availability of a bank branch) without undergoing a discriminatory procedural drill (as referred to at para 3.5 under "procedural restrictions"). Also many restrictions apply equally to rural and urban banking.

- 1.12 This report has several obvious limitations. (a) It does not list all possible restrictions that may affect rural savings mobilization. (b) It also avoids quantification of the impact of particular restrictions on deposit mobilization because of the enormous difficulty involved in doing so. However, some degree of quantification of problems cited by the branch and regional managers is possible through use of RBBUS data. (c) It intends not to be rigid in the interpretation of the impact of any particular savings restriction on deposit mobilization by RBBs. For example, interest rates on deposits which are explicitly prescribed by the Bangladesh Bank represent fixed ceilings on returns that a bank can pay to a saver for his deposits. Hence, interest rate ceilings may be considered to be a prominent restriction, which would normally

affect all depositors similarly. But interest rates may have little affect at all on at least three types of depositors:

- i) Those who decline to accept interest on religious grounds.
- ii) Those who deposit their money with a RBB exclusively for security, and are not concerned about or aware of interest income on their deposits.
- iii) Those who are more interested in liquidity than profitability (e.g. current depositors).

1.13 The number or proportion of savers who are indifferent to interest rates is not known. However, RBBUS data reveal that according to RBB managers a significant number of savers are indifferent and unknowledgeable about the amount of interest they receive periodically on their deposits. However, it is clear that people with cash savings are attracted to profitable outlets for their money and critically compare interest rates offered by banks with returns they can expect to obtain from alternate outlets.

The presentation

1.14 The remainder of this paper is divided as follows: Chapter II identifies and discusses several deposit restrictions of a legal derivation; Chapter III discusses more evident administrative and procedural restrictions; Chapter IV deals with institutional restrictions; Chapter V summarizes market restrictions and Chapter VI presents a list of problems that rural branch managers are reported to face in mobilization of deposits. Chapter VII summarizes significant conclusions and frames a number of recommendations.

Chapter II

Legal Restrictions (LRs)

- 2.1 No banking law in Bangladesh has been specifically enacted to hinder deposit mobilization by RBBs. Also, there is no other major law which should hinder mobilization of savings in Bangladesh (Samuel Sherer). There are, however, certain laws which restrict the modus operandi of (a) savings bank account; (b) account of a deceased person, and (c) maintenance of confidentiality of operations of banking accounts. Samuel Sherer in his RFP research report on Legal Aspects of Rural Banking (November 1985) opined that none of the above restrictions should pose any serious problems to depositors (extracts in appendix-1).
- 2.2 However, there seem to exist several indirect restrictions of a legal derivation which may have negative bearing on rural deposit mobilization. Thus, any person is legally competent to put his surplus cash in a depository bank account if the person is:
- i) an adult (18 years plus) of sound mind;
 - ii) not adjudged as an insolvent (by a court)
 - iii) capable of completing the procedural formalities of making a deposit and subsequently, upon opening of an account, agreeable to abide by the bank's rules about conducting the account; and also if the person:
 - iv) can find a licenced bank branch to receive his deposit;
 - v) has money to make a deposit with a bank;
 - vi) has the intention of making the deposit; and
 - vii) is able to approach the bank for making a deposit on a banking day and during the banking hours.

2.3 All the above are prerequisites for entering into a legal contract with a banker for making and operating a depository bank account are so obvious and taken for granted that it may seem irrelevant to recite them here. But a closer examination of (iii) through (vii) reveals that many of the general requirements for making deposits can, by themselves, restrict making of deposits with the formal banking system operating in rural Bangladesh. And, in fact, it is possible to identify several other LRs that are operative to greater or lesser degree. They are as follows:

Restriction on opening of new branches

2.4 The section No. 28 of the Banking Companies Ordinance 1962 (BCO) specifically restricts opening of a new branch by any bank without first obtaining prior permission in writing from the Bangladesh Bank. The Ordinance outlines the procedure for making application to the BB for a new branch opening. The BB considers the application for opening of a branch on the basis of its latest (ad hoc or undefined) branch licencing policy.

- Comments: i) The banks are not free to open a branch at will even where the deposit potential exists, assuming they have been able to identify the same.
- ii) Since the emergence of Bangladesh, the increase in RBBs seems to have maintained a positive correlation with increases in rural bank deposits. In 1976 46% of the total number of bank branches (1979) were rural and deposits per rural branch was Tk. 1285,000. By end-June 1985 67% of total bank branches were rural. Per branch deposits averaged Tk. 4860,000.
- iii) The BB played a dominant role in increasing the number of RBBs by supporting an expansionary branch licensing policy. But one would like answers to the following questions:

- i) Was viability of the new rural branches given any consideration whatever? (Refer para 4.1).
- ii) Were the banks actually 'encouraged' or 'compelled' by BB to open rural bank branches without proper assessment of market potentials?
- iii) What actions can be taken now to provide financial services to rural areas still unbanked? (about 50% of the total number of 4,500 unions may still be unbanked)
- iv) What are fundamental criteria that the BB should observe henceforth in according permission to banks for opening new branches - rural or urban? Study of the branch licensing situation is a separate RFP sub-task.

Restriction on shifting of location of an existing branch

2.5 The section No. 28 of the BCO also restricts shifting the location of an existing branch, other than within the same city, without obtaining prior permission in writing from the Bangladesh Bank.

Comments: In practice, banks have to live with unprofitable rural branches for a long time before it is possible to convince the BB of the need for changing their location (or closing down) unprofitable branches. It is known from BCD/BB that frequent requests are received from banks for shifting location of existing branches. In 1985-86, the BB accorded permission for change of location for as many as 105 existing branches. The questions are:

- i) To avoid the waste involved in shifting the location of a branch, wouldn't it be possible to ensure correct location at the stage of original licencing?
- ii) Should not NCBS seek closure of unprofitable branches instead of shifting location (which may be for the worse) just

to retain its numerical strength.

- iii) What action needs to be taken by all concerned to ensure that a change of location of a RBB, if allowed, will not be for the worse?

Restriction on making loans with the entire deposit mobilized

2.6 Banks must maintain a cash reserve partly internally in cash and near-cash items, and partly in a non interest bearing current account with the BB. The aggregate account value must equal at least two per cent of a bank's time liabilities and five per cent of its demand liabilities (section 22 of BCO). In addition, banking companies must maintain liquid assets in cash, gold or unencumbered securities (including cash reserves) a sum equivalent to not less than twenty five per cent of its demand and time liabilities* (section 29 of the BCO).

Comments: i) The statutory reserve requirement of banks are meant to ensure their liquidity and the safety of depositors money. In effect, however, it reduces total loanable funds of RBBs and thereby their profitability. Since the cost of mobilizing small deposits is high, banks cannot be considered irrational if they are not too enthusiastic about mobilizing small deposits. A direct approach to face the issue is to find means for making mobilization of small deposits more profitable to the banks. One action that can be suggested is to increase ratio of loanable funds mobilized by RBBs by way of small deposits by relaxing the reserve requirement: Refer to sub para 2.6(iii), below,

ii) Currently small deposits with RBBs are overwhelming both in terms of number of accounts, and also in terms

* The liquid ratio in respect of total time liabilities was reduced from 25% to 23% with effect from August 16, 1984 (BB Annual Report 1984-85)

of Taka value of deposits. For instance, more than 88% of the total rural bank deposit accounts of four NCBs and BKB were below Tk.3,000 range. In terms of value, depositors below Tk.3,000 range contributed 32.67% of the total rural deposit of Tk.10,666.0 million as of June 1984. The number of rural bank deposit accounts below Tk.10,000 in size constituted over 97% of the total. The volume of those deposits constituted over 53% of total deposits as shown at tables 1 and 2 given at page 12 and 13.

- iii) Deposit Insurance Scheme (DIS) is operative since September 1985 (appendix II) under which the BB guarantees payment in case of bank failure to each depositor of a bank an amount equal to his deposit subject to a maximum of Tk.60,000. Banks must pay a premium @ Tk.0.04 per one hundred Taka on all deposits. Out of the premiums so received the BB is building up a Deposit Insurance Fund. It would thus seem possible to relax the reserve requirement in respect of small deposits of RBBs which will increase the loanable funds of the banks to that extent for lending specifically to the rural areas. If the RBBs can get an additional 2% margin on their lending of rural deposits upto Tk.50,000 range (which included 77.69% of total deposits as of June 1984) their profit should go up by Tk.251.00 million or by Tk.75,285 per branch in terms of rural bank branch deposit level (Tk.16159 million) and the number of branches (3335) as of June 1985.**

Bangladesh Bank Statistics, June 1984 data.

Scheduled bank statistics, April - June, 1985.

Table-1

NUMBER OF RURAL BANK ACCOUNTS
JUNE 1984

Size Range (in thousand Taka)	Agrani	Janata	Rupali	Sonali	BKB	Total	
							%
0 - 1	547,190	617,051	226,255	459,325	777,514	2,627,335	52.70
1 - 3	371,054	387,964	177,920	735,838	109,247	1,782,023	35.74
3 - 10	88,883	97,980	48,247	164,025	35,531	434,666	8.72
10 - 25	19,080	23,461	12,109	35,824	10,674	101,148	2.03
25 - 50	4,107	4,857	3,609	11,767	1,537	25,877	0.52
50 - 100	2,202	1,879	1,314	3,549	433	9,377	0.19
100 - 500	652	1,038	347	1,764	193	3,994	0.08
500 - 1000	65	120	14	124	16	339	0.01
1000	57	94	18	90	9	268	0.01
Total	1033,290	1134,444	469,833	1412,306	935,154	4,985,027	100.00

Source: Bangladesh Bank.

Table - 2

VALUE OF RURAL DEPOSITS
JUNE 1984
(IN MILLION TAKA)

Size Range (In thousand Taka)	Agrani	Janata	Rupali	Sonali	BKB	Total	
							%
0 - 1	352.35	405.89	148.60	295.35	327.35	1529.99	15.20
1 - 3	547.58	634.37	286.66	117.21	173.29	1759.11	17.47
3 - 10	406.96	461.07	266.56	790.90	196.90	2124.39	21.10
10 - 25	289.07	345.73	174.32	564.25	159.61	1532.98	15.23
25 - 50	140.48	166.24	120.36	396.93	51.19	875.20	08.63
50 - 100	153.62	126.95	82.37	236.72	28.51	628.17	06.24
100 - 500	112.75	183.26	55.63	308.93	39.66	700.23	06.96
500 - 1000	43.47	81.65	10.27	87.06	9.81	232.26	02.31
1000	174.56	240.83	49.20	206.14	13.55	684.28	06.80
Total	2220.84	2647.99	1193.97	3003.49	1000.32	10066.61	100.00

Source: Bangladesh Bank

Restrictions on recruitment and promotion of employees of NCBs

2.7 The GOB has in past embargoed, from time to time, the recruitment and promotion of employees. Such embargoes, a total one, was reportedly in force until June 30, 1986. Emergent staff recruitments could, however, be made after obtaining special clearance from the Ministry of Finance. Such a process has to be costly for the banks in terms of time spent on, and annoyance of the Ministry, incurred.

- Comments: i) Managing directors of some of the NCBs have acknowledged, during meetings with the RFP consultants that there is a shortage of staff at rural branch level (also complained by RBB managers: para 6.11) and that an autonomy for the banks in matter of recruitment and promotion of personnel is essential to successfully implement any major banking programs including a program for mobilization of rural deposits. The issue has assumed further significance for the NCBs as the newly created private sector banks drew profusely on experienced NCB officials with better compensation packages.
- ii) Trained, experienced and devoted employees are an absolute necessity for growth and development of the rural banking sector. But it takes time and careful planning to develop a well groomed cadre of devoted rural bank branch officials. The process will be accelerated if more autonomy to banks is available to hire (and fire) its employees. The issue thus deserves consideration of the GOB.

Restriction on arrangement of training

2.8 GOB has recently taken steps to reorganise the training institutes of the NCBs. In the process, six of the regional training centers of Sonali Bank and all the regional training centers of Agrani Bank have been ordered to close down (IMF Banking Wing letter No. MF(FD)/Banking-1(13)-2/85/62 dated 1.2.1986) (Appendix III).

Comments: Training is very important for acquiring knowledge, upgrading of professional skills and for developing motivation. This is particularly true in case of approximately 20,000 RBB employees (estimated @ 6 employees per RBB) who need more training in special functional areas such as deposit mobilization. Regular refresher and follow-up courses for bank officers are also needed. Bank regional training centers can and have provided this kind of training successfully although on a limited scale. Closure of regional BTIs will seriously curtail the training capabilities of the banks.

Restriction on advances against FDR, etc

2.9 As per BCD Circular 45,54 of 1984 and 11 of 1985, there are partial restrictions on advances against security of Fixed Deposit Receipt(FDR) and other financial assets like Sanchaya Patra, ICB Unit Certificate, Wage Earners Development Bond, Insurance Policies, etc.

- Comments:
- i) Emergency cash requirements by depositors is a common occurrence. Availability of a short term bank loan secured by savings in FDRs, savings certificates or other financial assets should be a normal expectation of savers. For the bank branch such loans are easy to make profitable, and are usually 100% secure.
 - ii) Restriction on use of financial assets for supporting loans to meet temporary cash needs may lead rural bank depositors to the money lender or to liquidate his savings, a disincentive for future investment in financial assets.
 - iii) While it is necessary that BB administers selective credit control measures, cautious relaxation of restrictions in respect of small depositors from rural areas (upto say Tk. 25,000) should be favorably considered.

A summary of current credit restrictions compiled by BB is presented in Appendix IV.

Restriction on private and personal loans

2.10 Grant of private and personal loans by banks to private individual except demand loans against pledge of gold or gold ornaments, FDR and other financial obligations is prohibited (BCD Circular Nos. 15 of 1972 and 45 of 1984).

- Comments: 1) Possibility of receiving financial assistance from banks in time of need is a major motivation for individuals to become banks' deposit customers (para 6.8). In rural areas of Bangladesh this need arises to households with a predictable regularity linked up with crop and non-crop seasons. Any conscientious branch manager would least like to see that one of his depositors approaching a money lender just because he cannot help former to overcome the his temporary financial strain, and that in the process the branch is risking to lose in him a long standing depositor. It would thus seem appropriate for a RBB manager to have some degree of authority to use his best judgement, subject to a specific number of depositors and a specific sum of money, in extending temporary loans to the existing depositors in the best interest of the branch.
- ii) There is no evidence that the BB undertakes a detailed assessment about possible long term implications of a selective credit control measure on mobilization of rural deposits. It is desirable that the impact of a credit restriction on mobilization of rural savings is carefully studied before imposing it and then its continuation beyond a specific time period (say a quarter of a year) should be well justified. Meanwhile an exercise should be undertaken to study the impact of all existing credit restrictions now in force may be reexamined in the same context.

Income tax on interest

2.11 In June 1985 GOB imposed a 10% direct tax on interest income on all bank deposits. The tax was supposed to be paid directly to the government by banks out of accrued interest on all bank deposits. The decision had a devastating impact on the confidence of the depositors, and large scale withdrawal of bank deposits was taking place as a result of which the government had to withdraw the levy.

- Comments: i) The tax in question does not exist now. But its impact looms large in the minds of the depositor.
- ii) Many relatively large depositors had reasons to be concerned about the attempt of the Government to meddle into their bank accounts. It would have violated the principle of confidentiality about operations of deposit accounts and also it would have paved the way for embarrassing income tax queries.
- iii) For the less informed small depositors of RBBs, this was too much of an unexpected show of power on the part of GOB that it is in a position to capture the entire deposit if it so decides (para 6.19). There are interested individuals to mislead the rural ignorant by misinterpreting the GOB decision. Therefore, any GOB decision to interfere with the bank deposit accounts should precede: (i) serious evaluation of its pros and cons, and (ii) detailed consultations with the bankers.

Jamuna bridge levy

2.12 Subsequent to withdrawal of tax on interest on bank deposit, a 4% levy was imposed (with effect from October 1985) on interest to be paid on all types of bank deposits and Government savings instruments and also on dividend income of shares and stocks.

Comments: According to the local press Jamuna bridge levy has not been quite wellcome by the depositors. Identical rate is applicable for both big and small depositors, and also for short and long term deposits. Because of its retrospectivity, the long term investors with impending maturity of their investments are the most aggrieved group. Jamuna levy in itself would not have much affected deposit mobilization climate had it not been preceded by GOB announcement and its subsequent withdrawal of the decision to tax interest on bank deposit. A speculation is growing that GOB may ultimately use the level of bank deposits as one of the criteria for assessing income tax liability of a depositor. Monetary authorities should not decide on actions arbitrarily and impose a decision which may give rise to rumors and gossips to the detriment of deposit mobilization in general, and that of small rural deposits in particular.

Chapter III

Administrative and procedural restrictions

- 3.1 A brief resume of administrative and procedural aspects of deposit banking is given in annex V.
- 3.2 The depository accounts are opened and operated under prescribed banking procedural drills. The basic instructions in this regard are laid down in the Bank's Book of Instructions (BBI) of individual banks. A BBI is a basic official document of a bank containing, in digest, laws and practice of contemporary banking for guidance and reference of the operational bank staff. In that way the BBI is supposed to ensure uniformity of actions over time and across the bank branches. Administrative orders to supplement the BBI are issued by the banks' head offices from time to time to take care of exceptional circumstances.
- 3.3 Several BBIs including that of the Sonali Bank (in line with which BBIs of other NCBs appear to have been drafted) have been studied. It has been found that more or less similar procedures have been prescribed in the BBIs of each bank in matter of opening and operating depository accounts. According to BBIs, rigors have to be exercised by bank branches in several basic areas in matter of opening and operating account in the name of an individual. The prominent procedural restrictions are listed below :

Introduction of accounts

- 3.4 At the time of their opening all depository accounts are required to be properly introduced by another account holder, or by a senior official of the branch. A savings account holder cannot normally introduce a current account. But a current account holder can introduce a savings account.

Comments : The requirement of obtaining introductory references is a common banking practice everywhere. But in the context of enhancing mobilization of small savings in bank deposits the practice would seem to have been acting largely as a deterrent. Villagers are poor and illiterate. About half of them are women. Under the circumstances a potential RBB depositor in these groups has to look for an introducer, or has to approach a branch official for help. A small depositor may have difficulty in overcoming his psychological inhibitions in approaching a banker in the first place. Once he approaches a bank, there is no assurance that the banker will welcome him (refer para 3.8).

Opening account of an illiterate person

3.5 Extra caution is to be exercised by banks in matter of opening account of an illiterate person. Signature card and the passbook (in case of savings account) are duly attested by the branch manager, and witnessed by, at times, more than two outside persons known to the bank branch. No cheque book is to be issued to an illiterate account holder. Withdrawals can be made by him on production of passbook and on bank's prescribed deposit withdrawal form to be issued only at the time of withdrawal. A withdrawal has to be witnessed by another outside person known to the bank branch.

Comments: The current depository procedures severely handicap an illiterate potential depositor in matter of his making deposits with a bank branch, and also in matter of his making withdrawals from his deposit account. Under the current circumstances an illiterate rich will be more motivated to keep his money with other needy villagers as loans, and thereby act as a money lender rather than as a bank depositor. On the other hand an illiterate poor will find it more convenient to deposit his money with the illiterate rich in the hope, among others, of borrowing from him when needed most.

Opening account of purdanashin women (ladies who wear veils)

3.6 There is no restriction on opening accounts in the names of literate non-purdanashin women. But there are restrictions by way of account opening procedural rigidity in case of educated but purdanashin ladies. Opening of accounts in the individual names of illiterate purdanashin ladies is totally discouraged. Illiterate ladies are encouraged by RBBs to open a joint account with a literate male member of her family, if they approach the bank branch at all for this purpose.

- Comments:
- i) Implication of this restriction is that the rural women in general are not in position to avail of banking services. And they constitute about half of the rural population ! Many of the women folk are gradually involving themselves in income generating activities at cottage level. Unless banking services can be made available to them, they will be deprived of benefits and convenience of formal financial intermediation.
 - ii) Ladies branch, ladies counter at RBBs, lady branch officials mobile banking, etc., may be a partial answer to the problem. Relaxation of rigidity on both sides would also help to improve the current situation. Spread of literacy and education is the ultimate solution to this problem. Meanwhile the NGOs and voluntary social service organizations may be accessed for educational assistance.

Note : RFP research findings include, among others, existence of women money lenders in the rural Communities of Bangladesh (C. Maloney).

Opening account in the name of a minor

- 3.7 Special caution is to be exercised while opening accounts in the names of minors. Current account opening proposals in the names of minors need to be referred to head office in many banks.

Comments: This restriction would certainly complicate meaningful deposit promotion schemes like school banking, coin savers, etc. More pervasively, minors will not learn about banking until they have become adults and until they are well past their best time to grow habit of financial savings.

Maintenance of minimum balance

- 3.8 The minimum balance to be maintained in a savings account (both chequing and non-chequing) is Tk. 10. The same for the Deposit Pension Scheme (DPS) is Tk. 100. The fixed deposit is not entertained below Tk. 100. The unwritten minimum balance requirement for current account is also Tk. 500. However, except for DPS, flexibility is applied with regard to meeting the minimum balance requirement.

Comments : The requirement of maintaining minimum balance, though notional, may affect a small saver in two ways (i) A RBB may not welcome a small depositor who may want to open an account with the minimum prescribed balance. On the other hand, a small depositor himself may not be able to overcome his psychological barriers to put his money in a bank account (ii) A RBB may force a small depositor to close down his account once it hits the minimum balance and stays at that level just for sometime.

Deposit-promotional activities by RBBs, personal behavior of RBB employees and their favorable attitude towards small depositors should greatly help to improve the situation.

Rates of interest to be applied and mode of interest calculations

3.9 The interest rates on various types of depository accounts are specified by the BB. No exception can be made by any bank in this regard. A historical interest rate chart is given at appendix VI. The rates are fixed by the Bangladesh Bank subject to approval by the Ministry of Finance.

Comments: Interest payments are the major compensation a bank is in a position to pay to its depositor. But there is little evidence that the small depositors have any significant sensitivity towards interest they receive on their deposits. Smallness of deposit and unattractive rates may be the reasons for this (para 6.18). The implication of this is rather far reaching. The RBBs cannot use interest rate as a leverage for mobilizing deposit. And without this they are virtually left with nothing. It may thus be recommended to adopt a positive interest rate policy, e.g., a reasonably upward adjustment of deposit rates for commercial banks and other financial institutions would make the real rate of return on deposits adequately attractive and provide a promising outlet for substantial amount of private savings; in the rural areas.

Withdrawals

3.10 Withdrawals from the savings bank account for more than 25% of the deposit, or Tk. 10,000 whichever is less and for more than twice a week requires a week's prior notice in writing from the depositors. Withdrawals from fixed deposit accounts can be made only after foregoing accrued interest to the extent as specified. No withdrawal is allowed from a DPS account other than by way of closing the account.

Comments: If not to others, the possibility remains that the withdrawal restrictions can be severely applied by RBBs in matter of operating accounts of small depositors. Small depositors on the other hand may be inclined to withdraw from his account a sum more than necessary to meet his current requirement. One would, therefore, wonder whether withdrawal restriction on savings accounts of RBBs is really useful.

Maximum balance

3.11 There is no maximum balance limit for current account deposits. But a savings account can not have a balance exceeding Tk. 500,000 in a single or in joint names. In DPS accounts the maximum contribution allowable is Tk. 500 per month.

Comments: This restriction would appear to be irrelevant in the context of mobilization of small savings by RBBs. But it does provide a scope to the branch managers to pursue big deposits by deemphasizing the potential of mobilizing small deposits.

Banking hours/working days in a week

3.12 The bank hours and working days are governed by the Negotiable Instrument Act 1882. Schedules are uniform for both urban and rural bank branches.

Comments: Many branch officials have observed that the current banking hours and the working days to RBBs are not quite suitable for rural banking (para 6.12). The issue needs to be studied seriously. If necessary, flexible banking hours, and variable working days may be allowed for deserving rural bank branches.

Cash in vault and at the counter

3.13 Procedures are laid down by each bank about the maximum amount of cash that can be retained at the counter (during transaction hours) and in the vault of a rural bank branch. The rationale behind fixing cash retention ceiling is safety and security. Insurance policies are obtained accordingly. Cash exceeding the limit has to be transferred by the concerned RBB to the designated branch. Shortage of cash on any day is met by obtaining replenishment also from designated cash feeding branch.

- Comments:
- 1) Cash retention ceiling is fixed arbitrarily, and is kept at that more or less permanently. Many RBB managers complained that they feel greatly inconvenienced because of smallness of the cash retention limit of the branch. But, according to them, the controlling office would not recognize the fact and raise it.
 - ii) Cash shortage at a branch is annoying if not indeed alarming to a depositor. At times of urgency it may be frustrating to a depositor. Cash shortage is embarrassing to RBB managers. It tarnishes image of the branch. It particularly affects the potential saver who may give a second thought to making a deposit with a RBB which usually keeps a depositor waiting for cash replenishment to arrive (para 6.10).
 - iii) It appears that the adverse impact of this restriction can be tackled to a large extent by proper cash planning, better communication with controlling office, and good public relations. Many RBBs lack in these.

Chapter IV

Institutional Restrictions

Number and location of bank branches

4.1 The central management of a bank at Dhaka decides on opening of additional number of its branches and the physical locations of new branches within localities on the basis of its branch expansion policy. Actual opening of a branch is dependent on accordance of permission by BB. The BB is, in turn, guided by its overall branch licencing policy as may be operative from time to time.

Comments: 1) Opening of a branch by a bank is not a matter of an independent decision by that bank (para 2.4). The BB plays a major role in the overall bank branch expansion in the country. Historically opening of rural branches as such has not received priority from the bank management, but for BB policy (once operative) to allow opening of one urban branch by a bank in the event of its opening two rural branches. Given the option it seems that many rural bank branches may be transferred to urban locations or closed down or transferred to other NCBs as it happened in the past in case of Uttara and Pubali Banks when they handed over so called unprofitable rural branches to BKB and NCBs in 1982. The World Bank - GOB Joint Agricultural Credit review indicated that about 50% of the rural bank branches out of a sample of 2522 were non-viable with highest proportion of non-viable rural branches being 88% in case of a particular NCB.

ii) Once permission to open a branch is accorded by BB, the physical location of the branch is very important from customers' service point of view. Many managers of relatively isolated RBBs feel that they could have done better had the location of their branch been more close to main business centers (para 6.9).

Business priority

4.2 The banks have two main tasks: acceptance of deposits, and making of loans. Normally loans should be made out of deposits mobilized. In matter of making loans to the rural areas banks depended more on BB refinance at concessional interest rates than on their own efforts for deposit mobilization. The mobilization of small savings as such, not to speak of those from rural areas, was not an urgent business priority with the banks (Rana and others).

Comments: Mobilization of small savings from rural areas is expensive compared to big deposits from small number of depositors. Besides, refinance window of the BB did not particularly encourage the banks to feel the need for raising more expensive deposit money. The banks act rationally on cost considerations, and place lesser emphasis on borrowing at a higher rate from small depositors when a lower rate is available from the BB, foreign lending agencies, etc. Hence BB refinance arrangements for banks need to be reviewed and made more compatible with the potentiality of RBBs for mobilization of deposits.

Few depository products

4.3 Depository accounts are finite. The categories of depository accounts are : a) Savings Accounts - (chequing and non-chequing); b) Fixed Deposit Accounts; c) Current Account; d) Deposit Pension Scheme; e) Short Notice Term Deposit Accounts, etc.

Comments: There exists a scope for marketing depository products specific to rural savers (para 6.5). The issue may be resolved through financial innovations and more effective marketing of the existing products. The RFP has recommended several new products including the Contract Savings and Credit Scheme which may be experimented with.

Fewer other banking services

- 4.4 Because of physical and infrastructural limitations a rural bank cannot offer all the services commonly available with its urban counterparts. Telegraphic funds transfer arrangements are not available with most rural branches. Then there are inadequacies of furniture, office space, W/cs, electric fans, etc. (BIBM Survey 1985 and RBBUS 1986 and paras 6.6 and 6.7 of this report).

Comments: Improvement in rendering overall financial services by RBBs is essential. This can be achieved through training and motivation of the employees on the one side, and improvement in availability of infrastructural support on the other.

Quality of services

- 4.5 Quality of services has not yet been a major issue in rural banking (BIBM Survey - 1985). But it may be considered to be a natural expectation of the rural depositors for more of the existing services and also new services to suit their needs and tastes.

Comments: Improvement in overall financial services is essential. This can be achieved, among others, through training and motivation of RBB employees.

Bangladesh Bank credit policy

- 4.6 Banks operate within the overall credit policy of the BB. The RBBs are the main outlets for disbursement of various rural credits. Most of the time and efforts of RBBs are spent in achieving the credit and recovery targets (RBBUS). Mobilization of deposits is affected in that way (para 6.4).

Comments: The RBBs should ultimately grow as independent profit centers planning and executing their own business targets including provisions also for disbursement of credits and recovery of dues and overdues. The overall branch performance evaluation guidelines to this end may be formulated at the head office by involving the regional and branch offices in the process.

Credit restrictions

4.7 When this research was going (March - June 1986) on many RBBs were reportedly under credit restrictions from their respective Head Offices. Some branches were not allowed to lend (upon exhaustion of their small credit allocations for the particular period). Some branch managers were not allowed to sanction loans beyond a certain limit (usually complained to be inadequate).

Comments: There seems to exist scope for a scheme which links up deposit mobilization and credit disbursement (para 5.3 v). So far development of composite deposit and credit schemes at local RBB level is yet to take place. Besides, loan ceiling of branches, and loan sanctioning limit of a branch manager need constant review by the bank management for periodic adjustments depending on need and circumstances.

Attitudinal constraints

4.8 In the context of the requirement for the RBBs to meet deposit targets, credit restrictions, limited scope for diversified lending, availability of refinance facilities from the Bangladesh Bank, etc., whether or not to collect small deposits from the rural areas has become an attitudinal issue for banks. Scope of rural deposit mobilization in general has not yet been seriously studied by any bank. Of course adequate reasons are yet show up for the RBBs to feel particularly motivated to mobilize small savings when they can achieve their periodic deposit targets (which they have to) quickly by mobilizing big savings.

Comments: Attitude of the bank management towards mobilization of small deposits from the rural areas is very important for meaningfully involving the RBBs in the task. Some banks (Agrani) are experimenting with setting periodic deposit targets for RBB officials in terms of minimum amount of total deposits as well as minimum number of accounts and minimum deposit per account achievement of which will qualify them to get accelerated promotion. Such innovative ideas for employee motivation are essential (Appendix VII).

Branch furnishings

4.9 These are governed by banks' overall policy. Economy appears to be the main considerations. Appropriateness and adequacy of internal furnishings of RBBs appear to have received secondary consideration so far.

Comments: Interior furnishings of a branch do play a role alongwith others, in attracting deposits (BIBM survey - 1985). Hence appropriateness of physical location and also requirement of the interior furnishings and customer facilities should be carefully studied keeping in view, among others, improvement in customers services before setting up of a branch. For the existing ones ? It is perhaps time for renovation of many.

Chapter V

Market Restrictions

- 5.1 It is the common wisdom that formal rural financial markets (FRFMs) in low income countries (LICs) are not as efficient as they should be in financial intermediation. Specialists in LIC FRFMs agree on the causes for inefficient operations of FRFMs which are much the same from one FRFM to another. FRFMs of LICs are characterized by inadequate deposit services (Adams); financial repression through price distortions including interest rates and foreign exchange rates (Meyer); extensive use (or misuse) of the formal financial institutions (commercial and specialized banks) to push farm loans at subsidized rates neglecting or deemphasizing the savings mobilization side of financial intermediation (Vogel); very few attractive opportunities or incentives for depositors (Adams); etc.
- 5.2 Bangladesh is a LIC. The rural bank branches (RBBs) of Bangladesh operate within the RFP constraints mentioned at 5.1. In addition the preceding sections of this report have mentioned several restrictions that bear up on operations of the RBBs in the RFMs. The basic ones to repeat (i) RBBs lack access to rural households; (ii) procedural rigidities prevent serving large section of the rural people (the illiterate and the women), and (iii) the lack operational flexibility. As a matter of fact, these are the three basic characteristics, namely, accessibility, procedural simplicity and operational flexibility which allow the informal financial market, dominated by money lenders, to thrive (Bouman).
- 5.3 An informative paper (1985) on mobilization of rural savings in Bangladesh was presented at the ESCAP Workshop on Domestic Savings Mobilization in Bangladesh. It singles out poverty, unemployment, illiteracy, and population pressure, as the fundamental constraints in the RFMs of Bangladesh. With regard to the deposit mobilization role of banks and other financial institutions the following inadequacies are mentioned in that paper :

- (i) Failure of banks to focus on securing of deposits
- (ii) Lack of motivational training of bank employees
- (iii) Unplanned and inefficient geographical distribution of rural bank branches
- (iv) Procedural bottlenecks and excessive transactional paper work (which the illiterate rural population is unable to handle)
- (v) Lack of integration between deposit and credit facilities
- (vi) Negative or zero rates of return on deposits
- (vii) Poorly adapted financial savings instruments (products)
- (viii) Lack of incentives for the RBBs as small deposits are costly to mobilize
- (ix) Weak publicity, advertising public relations, etc.

.4 It may be observed that many of the restrictions on mobilization of deposits as listed above already came up for discussions in the preceding chapters of this report. The repetition is considered unavoidable because of difficulty in determining exact cause and effect relationship (para 1.12). Besides, it is perhaps appropriate to get a restriction identified and mentioned in one chapter under one perspective by reiterating it as far as possible, in another chapter of this report as has occurred with some in this chapter under a different perspective though. Such repetitions are intentional.

.5 It would seem that one of the basic issues of RBBs is one more relating to marketing of bank services than to any other. Marketing is seemingly an overlooked or undermined concept in rural banking. Little attempt is made to generate 'more reliable supplies of funds through deposit mobilization' (R. Meyer). There is absence of depository products suited to the rural savers, and no definite strategy to market the existing ones is evident. Assessment of market requirement, and market potentials is lacking seemingly due to lack of knowledge and understanding of the concept of marketing at the RBB level, if not at the banking sector in totality.

- 5.6 The major segment of RBBs in Bangladesh has been created and are operating in a market condition which is grossly imperfect for the reason of existence of tremendous amount of market information gap and lack of effective efforts so far to narrow it down. Which are the unbanked areas (unions, say) of the country? No body knows it precisely. Not even Bangladesh Bank which is the supreme authority for giving permission to open a bank branch! No wonder, therefore, that there has been unjustified clustering of RBBs (which had same ownership until very recently namely, the Government) in some localities while many existing branches are suffering from isolation both from other outlets and from the customers they are supposed to serve. This fact has been substantiated by the relevant responses to this effect of the RBB managers to RBBUS Survey questionnaires.
- 5.7 The RBBs management seem to have developed & maintained very little information about their own command areas. No survey of the locality (systematic or otherwise) preceded such sweeping remarks made in RBBUS questionnaires by many RBB managers relating to poor state of deposit mobilization as 'the area is deficit', 'there is no business potentiality in the area' and so on. Most of the RBB managers expressed their ignorance about existence of informal money market within their command areas not to speak of its scale and mode of operation. This is the impression gathered during visits made by RFP banking researchers to about 40 rural bank branches in 1985.
- 5.8 The controlling offices of RBBs including their head offices are in no better position. Most of the Head Offices of the NCBs cannot cent percent classify their urban and rural outlets. Most of the Regional Offices of banks act rather as post offices with very little contribution to make by them in mobilization of deposits and loan recovery to be made by RBBs.

- 5.9 A large number of reports and statements have to be prepared by RBBs for its regional and head offices. Many RBBs are still grappling with loan monitoring format ACDL 1 - 6 which had to be introduced because of poor management information system at the banks head offices. These are all adding to RBB work load and inefficiencies of the RBBs.
- 5.10 RBBs are significant operators in the RFM of Bangladesh. But they are yet to play their role properly because of interference by remote control mechanism in such basic areas as interest rate (explicitly fixed). Lending (targetted); normal credits (controlled); loan sanctioning power (limited); deposit mobilization (budgeted and fixed arbitrarily) depository products (finite), etc.

Chapter VI

Constraints faced by RBB Managers in Deposit Mobilization

- 6.1 Rural Bank Branch Managers (RBBMs) have to carry on with deposit mobilization activities within overall deposit constraints in whatever manner the constraints are grouped or categorized. They are the persons affected most by deposit constraints. Interestingly the RBBMs have not been found to feel, or view deposit restrictions in order of classifications made in chapters II through V of this paper. It was, therefore, considered pertinent to produce this chapter containing knowledge gathered from the RBBMs about the restrictions that they feel to have been affecting them most in matter of mobilization of deposits.
- 6.2 Three approaches were used to gather information on deposit restrictions from the RBBMs, as under :
- a) Through RBBUS questionnaire by posing specific questions about major problems faced by RBBMs in mobilization of rural deposits.
 - b) Through personal interviews with about 50 RBBMs at various parts of the country, independent of RBBUS, during the field trips made by the RFP banking consultants from time to time.
 - c) Through intensive classroom discussions with about 60 RBBMs on deposit restriction as a specific topic during various rural credit courses conducted by the RFP from late in 1985 to the middle of 1986.
- 6.3 Reactions of the RBBMs on the topic of deposit restrictions have been carefully listed, significant ones sorted out, summarized and presented under two broad categories :
- Saving impediments relating to day-to-day branch bank operations; and
 - The general impediments which indirectly but substantially influence the scope of deposit mobilization operations of the rural branches.

Savings impediments relating to branch operations

- 6.4 The branch personnel are overburdened with routine banking operations of the branch. The emphasis determined by their head office in the past on rural credit disbursements kept them, and the current emphasis on loan recovery, also determined by this head office, is keeping them absorbed so much that they hardly get time to promote savings.
- 6.5 Even when the branch personnel want to use their own time beyond office hours to contact the potential depositors and promote savings they are handicapped because of the following :
- a) lack of transport facilities, inadequate or absence of travelling allowance, etc., for branch personnel;
 - b) lack of funds at the disposal of branches for entertainment of potential customers, initiating deposit promotion programs by way of advertisement and sales campaign;
 - c) inability of the branches to offer even token incentives to the highest depositor, or to the depositors who maintain consistently high deposit balances over extended period of time;
 - d) no separate arrangements are available at branches for women depositors;
 - e) no specific or special depository products to sell to the rural savers.
- 6.6 Inadequate physical facilities at the branches: lack of office space, office stationery, office decoration, electricity, telephone, etc.
- 6.7 Absence of a separate depositors' section at the branch for individualized treatment to the depositors.

- 6.8 Loan facilities are limited. Most of depositors who transact with the branches in the hope of receiving credit facilities get frustrated and the same is transmitted to the potential savers.
- 6.9 Branch locations were not chosen from commercial considerations point of view. Inconspicuous locations and locations inconvenient to the depositors in general impede deposit mobilization.
- 6.10 Inadequate cash limit at branches' vaults (maximum amount of cash that a branch is permitted by their controlling offices to retain at their vaults) tells upon the confidence of the depositors. The weakness is easily detected by a depositor as the branch seeks replenishments frequently from its currency feeding branch by keeping him waiting at the branch on flimsy pretexts.
- 6.11 Staff shortage and lack of trained staff for deposit mobilization.
- 6.12 Transaction hours (timing) and banking days are not particularly suitable for rural banking as such.
- 6.13 Lack of proper understanding between the branch officials and other members of the staff in matter of mobilization of savings, etc.

Indirect savings impediments

- 6.14 Widespread illiteracy and ignorance. Cultivators and other villagers engaged in various small trade, professions and occupations are psychologically oriented to believe that the banks are meant to serve the rich and the educated people only.
- 6.15 There is a serious lack of knowledge among the village population about the role of banks, activities they are involved in, and services they are capable of rendering to the community. This coupled with low savings capacity of the village individuals make them disinterested in depositing their money with the banks.

- 6.16 Cost per account for mobilization of small deposits in large number of accounts is expensive for the branches. Therefore, the general impression among the bank branch personnel is that nothing much is lost by the rural branches if small deposits are not earnestly sought for.
- 6.17 Too many branches are concentrated in small areas. As such inter-bank branch competition for deposit mobilisation is too keen. Bank branches of Sonali Bank handling treasury functions, have competitive edge over others in matter of soliciting deposits.
- 6.18 The current interest rates on deposits are not attractive to the savers.
- 6.19 Govt. decision to tax interest (since withdrawn) did alarm many potential depositors who seem to have developed a misunderstanding that such actions on the part of the government is an indication that ultimately the Govt. may capture the entire savings of the depositors.
- 6.20 Currency notes of big denominations (for example currency notes of 500 Taka denominations) allow the savers to store larger purchasing power in cash with himself well secured and concealed thereby meeting the urge and need for security of the money which is one of the significant benefits that a rural bank branch is supposed to offer.

Chapter VII

Conclusions and Recommendations

Conclusions

Conclusions from the study include the following :

1. Banking law enacted, and banking practices developed, over time are directed to meet the requirement of largescale branch banking system of Bangladesh. They apply uniformly over urban as well as rural branch banking network. It has been found that the requirements prescribed under certain sections of relevant banking law indirectly act as constraints in matter of mobilization of savings by the rural bank branches. In order to ensure better deposit mobilization performance by RBBs relaxation of some of the legal restriction will be helpful.
2. The procedural restrictions owe their origin mostly to legal restrictions, to the banker's responsibility to prevent fraud and forgery, to the need to maintain safety and security of depositors' money etc. Deposit banking procedures are similar for both urban and rural banks. Without foregoing principles of sound banking a separate set of somewhat relaxed procedures may be justified for rural bank branches.
3. Institutional restrictions which arise at the head office management level of banks do impact rural banking. It is submitted that the institutional restrictions are manifestation of overall money and banking policy of the country, and of the failure of individual bank managements to emphasize rural banking in general.

4. Market restrictions arise out of inefficiencies of the formal rural financial market of Bangladesh which are more or less similar to those obtaining in other lower income countries. Legal, procedural and institutional restrictions add to market imperfections. Rural bank branches themselves have a number of shortcomings. Consequence of all these are that the RBBs play a less significant role than otherwise might be possible.
5. Deposit restrictions internal to RBBs experienced by the rural branch managers range from lack of transport facilities, inadequate compensation, inadequate entertainment and publicity funds, staff shortages, to task of proper understanding among the branch officials and other employees. The constraints which the branch managers feel to be in operation beyond their control are those primarily related to overall constraints obtaining in the rural financial market of Bangladesh

Recommendations

Recommendations evolving from this study include the following :

1. Rural branch bank licensing should be rationalized with a specific objective of optimizing rural outreach of banking services. It is not enough to simply open and shut the branching valve. That just results in clustering of banking services in the most urbanized of rural areas. Licensing should be used to control the distribution of banking facilities and services.
2. Certain policies and regulations which, while absolutely necessary under large scale, dynamic urban banking circumstances, should be judiciously relaxed under truly rural conditions :
 - a. The system-wide uniform statutory reserve requirement should be considered for relaxation.

- b. Likewise, the Selective Credit Control measures should be relaxed concerning :
 - (i) Advances against fixed deposit receipts.
 - (ii) Advances against various other investment instruments such as Govt. Savings Certificates, Bonds, etc.
 - (iii) Prohibition of personal loans, etc.
 - c. All banks should be provided greatly increased autonomy in matters related to selection, recruitment, and compensation and promotion of branch employees. All efforts should be made to raise the level of competence of RBBs through training and motivation.
3. Frequent consultations should take place among the banks management, the RB and the GOB on all policy matters concerning current and future aspects of mobilization of rural savings
 4. A reasonably upward revision of deposit interest rates should be made to make the real rate of return on deposits adequately attractive to the RBB depositors.
 5. Social innovations directed at encouraging and facilitating use of rural banking services by illiterate, purdanashin females and other similarly disfranchised persons should be planned and implemented such as :
 - a. Recruitment of specially trained bank officers.
 - b. Arrangement of specialized (separate if necessary) facilities within bank branches.
 - c. Accessing educational assistance of various NGOs as intermediaries between banks and potential new-to-banking clients.

6. Branch banks should be provided with a special manual of instructions on dealing with procedural rigidities which discriminate against potential depositors.

7. Rural banks should be encouraged to experiment with innovative deposit mobilization schemes, such as the RFP Contract Savings and Credit Scheme.

EXTRACTS FROM "RURAL FINANCE PROJECT - LEGAL ASPECTS" (JULY 1985) BY SAMUEL A SHERER (PP 30,31)

"Unlike the area of rural credit, the main problems connected with rural savings mobilization for the formal banking system appear to be with regard to marketing and the providing of better and more secure banking service. More aggressive approaches which tied depositing to preferential treatment in receiving loans and the introduction of a mobile banking system, especially to collect the savings of women, as well as the targeting of different types of contract saving for different areas would seem to be the main points of such a program. Each of these types of programs have been discussed many times before in Bangladesh and have been tried on at least a limited basis. However, as with so many other things, there does not appear to be the incentive and administrative system in place for the sustained effort required nor has the banking system yet been able to overcome problems of integrity as viewed from the local level.

Thus there are no major laws or regulations which should hinder savings mobilization in Bangladesh. However, there are three areas of potential restrictions that merit discussion. They are:

- 1) restrictions on withdrawal
- 2) use of account by heirs of account - holder
- 3) confidentiality of account information

B. Restrictions on Withdrawal

At present, a depositor can only withdraw upto 25% of his balance with a maximum of Tk.10,000 per week without notice and a higher amount only with 7 days' notice. However, this does not appear to be a problem in practice. The recent survey by the Bangladesh Institute of Banking Management (BIBM) for the National Commission on Money, Banking and Credit 1/ did not discover that borrowers had significant problems in the making or withdrawing of deposits.

1/ BIBM, Summary of Findings of the Surveys on the Appraisal of Customer Services of Scheduled Banks of Bangladesh and Some Recommendations (Draft: June 1985).

C. Use of Account By Heirs of Account-Holder

However, the BIBM study did mention the problem of heirs withdrawing money from the account of an account holder after his death until he has gone to court to prove that he is indeed the heir under the Succession Act, 1925 (Act XXXIX of 1925), as amended. That procedure can indeed take a considerable time but it is important to safeguard the rights of other potential heirs. The BIBM study suggests that some expedited procedure be found by which the account holder designated an heir with regard to that account at the time that the account is opened. Given the general lack of passage of most property by will in Bangladesh, such a recommendation should be considered. However, such designation will not overcome the general presumptions of both Muslim and Hindu law regarding the passage of property by inheritance. Further, it is possible now to set up nominee accounts, joint accounts, custodian/guardian and trustee accounts if one wants money to be under the control of one heir to the exclusion of others. The present system by which bank accounts are transferred on death by either the general wishes of the deceased as expressed in a will or under the relevant laws of inheritance is preferable as a protection to all parties involved

D. Confidentiality of Account Information

The RFP Report on savings mobilization in Bangladesh noted that its field visits indicated the method of making deposits and withdrawals and the keeping of account records was very public and that branch managers were worried that this lack of confidentiality was keeping some potential customers from opening accounts. In addition, the recent action requiring the deduction of 10% of the interest earned on fixed deposits as a tax has worried depositors about the confidentiality of their accounts. Generally, such confidentiality is protected by common law precedents and by the Negotiable Instruments Act, 1881. However, a specific regulation of the Bangladesh Bank in this area would be welcome along the lines of the recent statement that the names, addresses and account numbers of depositors who had fixed deposits would not be divulged to the head offices of the banks or to any other agencies."

TELEGRAM
'BANGLABANK'

BANGLADESH BANK
HEAD OFFICE
DHAKA.

BANKING CONTROL
DEPARTMENT

BCD CIRCULAR NO.39

29TH SEPTEMBER, 1984

All Scheduled Banks
in Bangladesh.

Dear Sirs,

DEPOSIT INSURANCE SCHEME

1. We forward herewith a copy of " The Bank Deposit Insurance Ordinance 1984 " (Ordinance No. LIII of 1984) promulgated by the Government on August 11, 1984 for your information (Annexure - A).
2. The Ordinance provides that every scheduled bank in existence on August 11, 1984 and any banking company notified to be a scheduled bank thereafter will automatically become an insured bank and in the event of winding up of such a bank, every depositor is guaranteed to receive payment from Bangladesh Bank of an amount equal to his deposit subject to a maximum of Taka sixty thousand only.
3. Every insured bank is liable to pay to Bangladesh Bank premium at the rate of four paisa per annum per One hundred Taka on its deposits. Such premium will have to be paid on a half yearly basis (Jan - June and July - Dec) within fifteen days from the beginning of the half year on the basis of position as on the last working day of the preceding half year.
4. Premium for the period, August 11 to December 31, 1984 will be determined on the basis of position as on June 30, 1984 and paid within October 15, 1984.
5. For the purpose of determining the amount of deposit on which premium is to be calculated, every scheduled bank will take into account all its demand and time liabilities in Bangladesh (as per classification given in Circular letter No. BCD(0)160/72-540 of June 6, 1972 as amended from time to time). However, deposit from the Government of the People's Republic of Bangladesh, any foreign government, and any financial institution as defined in Article 50(a) of the Bangladesh Bank Order, 1972 (for example; Sadharan Bina Corporation, Jiban Bina Corporation, Bangladesh Shilpa Rin Sangstha, House Building Finance Corporation, Investment Corporation of Bangladesh etc.) as well as all

inter bank items will be excluded for the purpose of determining premium liability.

6. From the deposit determined on the above basis, an amount equal to the minimum amount of liquid assets required to be maintained under Section 29 of the Banking Companies Ordinance, 1962 or actual amount of liquid assets maintained, whichever ever is lower, will be deducted to arrive at the assessable deposits.
7. Premium at the prescribed rate will be calculated on the assessable deposits and paid within due date to the Deposit Accounts Department of Bangladesh Bank, Motijheel Commercial Area, Dhaka for credit to the Deposit Insurance Fund Account. The premium will be paid by every bank by charging its expense account. In case an insured bank defaults in making payment of premium within due date, Bangladesh Bank will assess the premium liability on its own and realise the premium by debiting the account of the bank maintained with it. In such cases, no subsequent claim on the ground of excess assessment will be entertained.
8. Every insured bank, while making payment of deposit insurance premium, will submit to the Banking Control Department (Policy Section) a statement (in the enclosed proforma given as Annexure -B) showing details of premium calculated and paid by it.
9. In case an insured bank is wound up, the claims of the depositors of that bank will be met by Bangladesh Bank in accordance with the provisions laid down in Section 6 of the Ordinance.
10. All scheduled banks are advised to take necessary steps for meticulous compliance of the instructions given above.
11. Please acknowledge receipt.

Yours faithfully,

(MOHD. RUHUL AMIN)
SENIOR DEPUTY CHIEF OFFICER
Phone : 281944

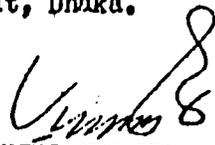
R. A. Khan

ENDT. NO. BCD(P) 661/

OF DATE

Copy forwarded for information to :-

1. All Heads of the Departments, Bangladesh Bank, Head Office, Dhaka.
2. The Manager, Bangladesh Bank, Dhaka/Chittagong/Khulna/Bogra/Rajshah./Sylhet/Sadarghat, Dhaka.
3. The Deputy Chief Officer, Department of Banking Inspection, Bangladesh Bank, Chittagong/Khulna/Bogra/Rajshahi.
4. The Section Officer/Asst. Section Officer, Governors/Deputy Governor's/Economic Adviser's Secretariat, Bangladesh Bank, Head Office, Dhaka.
5. The P.As. to Executive Directors, Bangladesh Bank, Head Office, Dhaka.
6. The Secretary, Ministry of Finance (Finance Division), Government of the People's Republic of Bangladesh, Dhaka.
7. The Economic Adviser, Economic Adviser's Wing, (Shed No.27), Ministry of Finance, Finance Division, Bangladesh Secretariat, Dhaka.


BANKING OFFICER

Registered No.DA-1.

ANNEXURE 'A'

THE
BANGLADESH GAZETTE

Extraordinary
Published by Authority

TUESDAY, AUGUST 14, 1984

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH
MINISTRY OF L.W AND JUSTICE

NOTIFICATION

Dhaka, the 14th August, 1984

No. 736-Pub.- The following Ordinance made by the President of the People's Republic of Bangladesh, on the 11th August, 1984, is hereby published for general information :-

THE BANK DEPOSIT INSURANCE ORDINANCE, 1984

Ordinance No. LIII. of 1984

AN

ORDINANCE

to provide for the insurance of bank deposits

WHEREAS it is expedient to provide for insurance of bank deposits and for matters connected therewith ;

NOW, THEREFORE, in pursuance of the Proclamation of the 24th March, 1982, and in exercise of all powers enabling him in that behalf, the President is pleased to make and promulgate the following Ordinance :-

1. Short title.- This Ordinance may be called the Bank Deposit Insurance Ordinance, 1984.

2. Definitions.- In this Ordinance, unless there is anything repugnant in the subject or context,-

- (a) "Bangladesh Bank" means the Bangladesh Bank established under Article 3 of the Order ;
- (b) "deposit", in relation to a scheduled bank, means the aggregate amount of the unpaid balance due to its depositors, other than the Government, a foreign Government, or a financial institution, in respect of all their accounts, by whatever name called, including credit balance in any cash credit account but does not include any amount due outside Bangladesh ;
- (c) "financial institution" shall have the same meaning as is assigned to it in Article 50(c) of the Order ;
- (d) "insured bank" means a scheduled bank insured under this Ordinance ;
- (e) "Order" means the Bangladesh Bank Order, 1972 (P.O. No.127 of 1972) ;
- (f) "premium" means the sum payable by an insured bank under section 4 of this Ordinance ;
- (g) "scheduled bank" shall have the same meaning as is assigned to it in Article 2(j) of the Order.

12/84

3. Scheduled banks to be insured banks.- Notwithstanding anything contained in any other law for the time being in force,-

- (a) every bank established after the commencement of this Ordinance shall, on the date it is notified as a scheduled bank, stand insured with the Bangladesh Bank ;
- (b) every scheduled bank in existence immediately before the commencement of this Ordinance shall, on such commencement, stand insured with the Bangladesh Bank.

4. Payment of premium by insured banks.- (1) Every insured bank shall pay to the Bangladesh Bank a premium on such of its deposits as may be determined by the Bangladesh Bank at the rate of four paisa per hundred taka per annum :

Provided that the rate of premium may be varied by the Bangladesh Bank with the previous approval of the Government.

(2) The premium shall be paid by the insured bank by charging its expense account.

(3) The premium shall be payable at such time and in such manner as the Bangladesh Bank may direct from time to time.

(4) Where an insured bank makes default in the payment of premium, the Bangladesh Bank may recover the premium by deducting the amount from the account of the defaulting bank maintained with the Bangladesh Bank.

5. Action against defaulting insured banks.- Where an insured bank is found to be a defaulter in the matter of payment of premium on more than one occasion, the Bangladesh Bank may, after giving the insured bank an opportunity of being heard, by order notified in the official Gazette, direct the bank not to accept any further deposit for such time as may be specified in the order.

6. Liability of Bangladesh Bank.--(1) Where an order for the winding up of an insured bank is made, the Bangladesh Bank shall pay to every depositor of that Bank, in accordance with the provision of this section, an amount equal to the amount of his deposit in that bank, but not exceeding sixty thousand taka, at the time when such order is made :

Provided that the ceiling in respect of the amount payable under this sub-section may be raised by the Bangladesh Bank with the prior approval of the Government.

(2) Where a liquidator, by whatever name called, has been appointed in respect of an insured bank which is ordered to be wound up, the liquidator shall, within a period of three months from the date of his assuming office, furnish to the Bangladesh Bank a list of depositors, in such form and manner as may be specified by the Bangladesh Bank, showing the amount of deposit of each depositor and the amount that may be claimed by the insured bank by way of set off against him.

(3) The Bangladesh Bank shall, within two months from the date of receipt of the list of depositors under sub-section (2), arrange payment of the money payable to each depositor under sub-section (1).

(4) For the purpose of this section, the amount of deposit of a depositor shall be determined after deducting from his total deposit any ascertained sum of money which the insured bank may be legally entitled to claim by way of set off against him in respect of that deposit.

AM

7. Deposit insurance fund.---(1) The Bangladesh Bank shall maintain a Fund to be called the Deposit Insurance Fund, hereinafter in this section referred to as the Fund.

(2) All amounts received by the Bangladesh Bank as premium from the insured banks shall be credited to the Fund.

(3) The Fund shall be utilised by the Bangladesh Bank to make payment to depositors under section 6 and to meet charges in connection with the maintenance of the Fund.

8. Power to exempt.--- The Government may, on the recommendation of the Bangladesh Bank, by notification in the official Gazette, exempt any scheduled bank from the operation of this Ordinance.

H M ERSHAD, ndc, psc.
LIEUTENANT GENERAL
President.

DHAKA;
The 11th August, 1984.

MD. ABUL BASHAR DHUIYAN
Deputy Secretary(Drafting).

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ANNEXURE In

STATEMENT SHOWING DETAILS OF PREMIUM
PAID ON ACCOUNT OF DEPOSIT INSURANCE
FOR THE HALF YEAR ENDING.....

	Taka
Deposits as on (excluding inter bank items)
Less : Deposits held in the name of the Government, foreign governments and financial institutions
Insured deposits
Less : Liquid assets as per Section 29 of the Banking Companies Ordinance, 1962 (Pluses indicate actual or minimum)
Assailable deposits
Premium liability for the half year
Amount of premium paid
Date of payment

Authorized Signature
Seal of the Bank

(TRANSLATED FROM BENGALI)

Government of the People's Republic of Bangladesh
Ministry of Finance
Finance Division
Banking Wing
Section-1

No. MF(AFD)/Banking-1 (13) - 2/85/ 62

Dated: 1-2-86

From: Md. Abdul Latif Mandol
Deputy Secretary

To : Governor
Bangladesh Bank
Head Office
Dhaka

2. Managing Directors, Nationalised Commercial Banks/Loan giving agencies,
Head Office,
Dhaka

Subject: Reorganisation of the training institutes/centers of the Nationalised Commercial banks and loan giving agencies and regarding syllabus/duration of training

Dear Sir,

I have been directed to inform you that the following decisions have been taken by the Government regarding the reorganisation of the training institutes/centers of the Nationalised Commercial banks and loan giving agencies :

- (a) Sonali Bank will retain their existing 7 training Institutes/Centers (after closing down 6 training Institutes at Rangpur, Dinajpur, Pabna, Faridpur, Noakhali and Mymensingh)
- (b) Agrani Bank will close down its Zonal Training Centers. Its Training Institute(s) located in Dhaka will be strengthened to meet the total requirements of training of officers and other employees of the Bank.
- (c) Other NCBS/DFIs will retain their existing Training Institutes/Centers
- (d) The NCBS will earmark one of their Training Institutes/Centers only for training their officers. These institutes will be residential and be located outside Dhaka, Chittagong and Khulna. The NCBS/DFIs having their own land and building at Dhaka, Chittagong and Khulna for Training Institutes/Centers need not shift those Institutes/Centers.
- (e) At present, duration of the Foundation Courses conducted by the NCBS is only 4 weeks, which is considered absolutely inadequate. Hence the duration of this course shall be between 16 to 20 weeks.

- (f) Bangladesh Bank will formulate uniform guideline of course syllabus for imparting training to different levels of officers/employees of the NCBs; all in consultation with the Ministry of Finance.
- (g) In order to determine the seniority of the Probationary Officers the marks obtained in the Foundation Course should be added to the marks of their entry examinations. The training course reports should be included in the dossiers of the officers. All the NCBs/DFIs must ensure full utilisation of the facilities existent in their training Institutes/Centers.
2. They are requested to implement the above decisions and submit their implementations reports to this Division.

Yours sincerely'

Md. Abdul Latif Mondol
Deputy Secretary

No. MF(FD) Banking-1(13)-2/85/62

1-2-86

Copy : Joint Secretary (Investment), Finance Division, Bangladesh Secretariat.

1-2-86

(Md. Abu Bakar Siddiqui)
Section Officer

Phone No: 235111/3627

TELEGRAM
BANGLABANK

BANGLADESH BANK
HEAD OFFICE
DHAKA

BANKING CONTROL
DEPTT.

BCD CIRCULAR NO. 35

DATED THE 15TH OCTOBER, 1985

ALL SCHEDULED BANKS
IN BANGLADESH.

Dear Sirs,

SUMMARY OF CREDIT RESTRICTIONS
AS ON THE 30TH SEPTEMBER, 1985

We forward herewith a summary of credit restrictions existing as on the 30th September, 1985 for information and guidance of the banks. Banks are requested to circularise the summary of credit restrictions among their branches and sanctioning officials concerned to ensure that no violation of the credit restrictions occurs at their end.

In this connection, it may also be mentioned that the summary of credit restrictions has been prepared for ready reference and convenience of the banks. For detailed instructions in various matters, contents of relevant BCD Circulars and Circular letters should be carefully noted for compliance to avoid any confusion.

Please acknowledge receipt.

Yours faithfully,

Enclo: 7(Seven)

Sd/- xxxxxxxxxx
(Md. Buzruch Meher)
Deputy General Manager
Ph: 281944

Contd...P/2

ENDT. NO. BCD(C)

DATED.

COPY FORWARDED FOR INFORMATION TO :-

1. All Heads of Departments, Bangladesh Bank, Head Office, Dhaka.
2. All Sections of Banking Control Department, Bangladesh, Head Office, Dhaka.
3. The General Manager/Dy. General Manager, Bangladesh Bank, Motijheel, Dhaka/Chittagong/Khulna/Bogra/Rajshahi/Sylhet/Sadarghat, Dhaka.
4. The Joint Director, Department of Banking Inspection, Bangladesh Bank, Chittagong/Khulna/Bogra/Rajshahi.
5. The Private Secretary to the Governor, Governor's Secretariat, Bangladesh Bank, Head Office, Dhaka.
6. The Officers attached to Deputy Governor/Economic Advisor.
7. The P.As to the Executive Directors, Bangladesh Bank, Head Office, Dhaka.
8. The Secretary, Ministry of Finance, Government of the People's Republic of Bangladesh, Dhaka.
9. The Economic Adviser, Finance Division, Economic Adviser's Wing (Shed No. 27), Ministry of Finance, Govt. of the People's Republic of Bangladesh, Bangladesh Secretariat, Dhaka.
10. The Chief of Mission, Resident Mission, World Bank, 222 New Eskaton Road, Dhaka.

Sd/- xxxxxxxx
(MD. BAZLUR RAHMAN)
ASSTT. DIRECTOR
PHONE: 235000/411.

SUMMARY OF CREDIT RESTRICTIONS
AS ON 30TH SEPTEMBER, 1985

1. Private & Personal Loans:

Grant of private and personal loans by banks to private individuals except demand loans against pledge of gold or gold ornaments FDR and other financial obligations is prohibited. The loan limit against gold/gold ornaments is Tk.1500/- per tola of pure gold and the maximum loan limit per borrower is to be determined on the basis of 15 tolas of pure gold. The rate of interest on such advances is 16% per annum.

(BCD Circular Nos.15 of 1972 & 45 of 1984)

2. Advances against FDR and
Other financial obligations

Banks may grant advances against the security of FDR and other financial obligations viz Govt. Sanchaya Patra, ICB Unit certificate, Wage Earner Development Bond, Insurance Policies etc. subject to the following stipulations:

- a) Purpose:- Advances may be made for productive purposes as far as possible.
- b) Interest:- rate of interest is 16% per annum. In the case of advances against FDR upto Tk.1.00 lac the rate of interest is 3% above the rate allowed on relevant FDR while in the case of advances beyond Tk.1.00 lac the rate of interest is 20% p.a.
- c) Margin:- Minimum margin requirement is 20%. Subject to this minimum margin requirement, actual margin is to be determined by banks on the basis of normal banking considerations.
- d) Valuation:- For the purpose of advances, valuation should be made as under:-
 - i) For FDR-Face Value.
 - ii) For Govt. Sanchaya Patras, Wage Earner Development Bond-current value i.e. face value plus interest as may accrue as per rules.

iii) For ICB Unit certificate - face value or market value whichever is lower.

iv) For Insurance policy-surrender value.

Grant of advances against 2-year Special Treasury Bond was prohibited w.e.f. 28-11-1984.

(BCD Circular Nos, 45, 54 of 1984 and 11 of 1985)

3. Advance against NFCD under Wage Earners' Scheme.

Advances against the security of NFCD receipt may be granted by banks to the holder thereof only in the case of genuine hardship subject to minimum margin requirement of 25% at official rate of exchange. The rate of interest on such advances is 10% p.a.

(BCD Circular No.45 of 1984)

4. Advances against Foreign Currency Accounts under Wage Earners' Scheme.

Advances may be granted by banks against the balances in Foreign Currency Accounts under Wage Earners' Scheme to the account holders only upto 50% of the taka value thereof at official rate of exchange at an interest rate of 10% per annum. The period of repayment is 15 days from the date of advance. Advances to members of stock exchange or nominees of foreign currency account holders against balances in foreign currency accounts are prohibited.

(BCD Circular Nos.45 of 1984 & 27 of 1985)

Contd....P/3

5. Advances against Shares:

Advances against shares quoted in the Stock Exchange may be allowed by banks to the members of Stock Exchange only upto 80% of the face value or market value thereof, whichever is lower, subject to retirement within 30 days from the date of advance. The rate of interest on such advances is 16% per annum.

(BCD Circular No.15 of 1984)

6. Clean Advances:

Grant of clean advances or advances secured by guarantee except for financing exports without any limit or under Small Loan Scheme upto a maximum limit of Tk.25,000/- per party or under Duty Draw-back Credit Scheme is prohibited.

(BCD Circular No.17 of 1977, 10 of 1983)

7. Advances for Hire Purchase or Instalment Plans:

Advances to finance operations by banks under hire purchase or installment plans except for machinery, equipments (imported or indigenous) which are used for industrial or agricultural production and commercial vehicles in the private sector, are prohibited.

(BCD Circular No.15 of 1972)

8. Advances against Real Estate:

Banks will not extend loans/advances against real estates as primary securities except in the following cases:-

- 1) Credit facility to contractors in connection with works undertaken by them for supply of goods and services.

- ii) In the case of financing an industrial project the land and building which form part of such project may be accepted as primary security alongwith other assets of the project;
- iii) Advances for construction of residential houses against real estates as primary securities may be allowed by banks upto Tk.5.00 lacs per party (including cost of land) minus any loan taken from BBFC for the same purpose, from not more than one bank. Banks may also allow such advances beyond Tk.5 lacs per borrower subject to the prescribed stipulations with prior approval of the respective Board of Directors. The rate of interest for house building loans is 16% per annum and repayment period is 15 years.

Banks may also grant house building loans to their employees and employees of financial institutions who have obtained loans from their respective organisations under Staff House Building Advance Scheme, but could not complete construction. The maximum credit limit in such cases shall be Tk.5 lacs inclusive of the amount of advances availed of under staff house building advance scheme. Clearance from Bangladesh Bank will have to be obtained in the case of bank employees before sanction of the loans. Rate of interest on such additional house building loans outside the staff house building advance scheme is 16% per annum and maximum repayment period is 15 years.

- iv) Banks may grant advances for construction of commercial buildings against real estates at a rate of interest of 16% per annum with a maximum repayment period of 12 years subject to other prescribed stipulations.

(BCD Circular Nos. 15 of 1972, 9 of 1976, 12 of 1963, 22, 28, 32 or 1984 and 4 of 1985 and Circular letter No. BCD(C)650/12 dated 29-1-77).

9. Advances against the security of Foodgrains and other Essential Commodities:

Advances from banks against foodgrains and the following essential commodities except to Government, Semi-Govt., Autonomous, Semi-autonomous

Bodies and sugar mills are prohibited:-

- a) All foodgrains and pulses;
- b) Wheat and wheat-flour;
- c) Oil seeds;
- d) Edible oil (refined, unrefined and hydrogenated);
- e) Sugar;
- f) Kerosene;
- g) Onion and Chillies.

(BCD Circular Nos. 15 of 1972 & 7 of 1979)

However, in the private sector, exemptions are available in the following cases:-

- I) Advances to Rice and Flour Mills against the security of rice and paddy, wheat and wheat-flour may be allowed by the banks to meet their working capital requirements only, Such advances are subject to 30% margin requirement and each advance is to be adjusted within 21 days from the date of advance;

(BCD Circular Nos. 15 of 1976 and 23 of 1982)

- II) Advances against oil seeds and edible oil may be allowed by banks to Oil Mills for the purposes of:-
 - a) lifting of oil seeds/oil allotted by the govt.
 - b) importing oil seeds from abroad, and
 - c) purchasing locally produced oil seeds (credit facility admissible upto 30-11-85) as also against finished products;

The above credit facilities are subject to the following stipulations:-

- a) Margin:
 - i) for lifting of Govt. allotted oil seeds/oil, the marg'in requirement should not be less than 25%.
 - ii) for opening letter of credit for import of oil seeds (mustard and rape seeds only) the rate of margin should not be less than 5% nor should exceed 25% of L/c. value.

- iii) for allowing credit facility against imported oil seeds, margin requirement should not exceed 25%; and
 - iv) for purchase of locally produced oil seeds against the security of the same and finished products, the rate of margin should be 25%.
- b) Retirement:
- i) Advances against Government allotted quota of oil seeds/oil should be adjusted within 45 days from the date of advance;
 - ii) In case of LIM/CC facilities against bulk import of oil seeds by oil mills retirement period may be extended by banks upto a maximum period of 6(six) months from the date of advance;
 - iii) Advances against locally produced oil seeds and finished products should be adjusted within 45 days and 30 days respectively from the date of advance;
- c) Credit extended for lifting of Government allotted oil seeds/oil or for import of oil seeds should be covered by the allotment letter from the Government or confirmed letter of credit as the case may be. In respect of locally purchased oil seeds working capital requirement of oil mills is to be determined on the basis of the following prescribed norms:-
- i) Number of ghanis in actual operation in the mills;
 - ii) Actual operational daily requirement of seeds with a maximum of a maunds per ghani per day for 45 days;
 - iii) Holding of finished products for not more than 50 days' production;
 - iv) Actual cost of seeds/finished products at market/Government price, as the case may be.

(BCD Circular Nos. 13 of 1979, 8 and 29 of 1984 and 17, 21 of 1985)

Contd...P/7

III) Advances may be allowed by banks to various parties in private sector for lifting of Government allotted sugar as well as sugar allotted by sugar mills in Bangladesh against pledge of the same subject to prescribed margin requirement of 50% and adjustment within 45 days from the date of advance. Credit facility to government approved dealers for lifting of sugar allotted by Govt. Food Department directly from the sugar mills for distribution to the ration shops may be allowed at a margin of 30% subject to the same terms & conditions regarding security and repayment period as mentioned above.

(ECD Circular Nos. 4 of 1978, 10 of 1982, 9 of 1983 & 11 of 1984).

10. Advances against general merchandise:

Banks may grant advances against general merchandise subject to the following stipulations:-

A. Internal Trading:

I) Margin:

Advances against all kinds of general merchandise except raw jute, wherever admissible in the private sector, including those under Small Loan Scheme for the purpose of internal trading are subject to 50% margin requirement. The margin requirement for advances for internal trading by the sole distributors of pharmaceutical products imported by TCB on account of the sole distributors of these products in Bangladesh from the concerned foreign manufacturer is 25%.

II) Retirement period:

1) Advances against the commodities listed below in both private and public sectors are required to be retired within 60 days from the date of grant of relative advance:-

- a) Iron & Steel Products - all sorts including C.I. Sheets, M.S. Billets, Rods, Bars, Angles etc.;
- b) Dyes and Chemicals and Pharmaceutical products;

- c) Cement;
 - d) Electrical goods;
 - e) Consumer durables including Refrigerator, T.V. and Radio etc.;
 - f) Coconut Oil;
 - g) Spices - all sorts;
 - h) All kinds of Baby/Invalid foods (Tinned or otherwise, and Glucose);
 - i) Soap/Soda Ash; and
 - j) Miscellaneous manufactured consumer goods.
- ii) Advances in the private sector against locally produced cotton and synthetic yarn, textile/twine/hosiery goods are required to be retired within 45 days from the date of advance.

The above restrictions are, however, not applicable to the advances to the manufacturing concerns against the above items in respect of their working capital loans.

III) Rate of Interest:

The rate of interest on advances for internal trading against limits upto Tk.1.00 lac is 16% p.a. and against limits exceeding Tk.1 lac is 10% p.a.

(BCD Circular Nos.26 and 30 of 1974, 8 of 1977, 8 of 1978, 9 of 1983 and 1, 60 of 1984).

**B. Advances against imported goods
(LIM/C.C. facilities for commercial imports).**

Advances against all imported commercial items including consumer goods to commercial importers are subject to margin requirement of 25% and are required to be retired within 45 days from the date of arrival of the goods in Bangladesh. For pesticides, the retirement period is, however, 90 days from the date of arrival of the goods in Bangladesh. The rate of interest on such advances is 10% p.a.

Grant of post-import finance facility by banks such as LIM/CC against the following imported commodities to commercial importers is, however, restricted:-

- i) C.I. Sheet
- ii) Second-hand clothes
- iii) Palm Oil
- iv) Sugar
- v) Oil seeds & edible oil

(BCD Circular Nos. 17 of 1977 and Circular letter No. BCD(C)661/32 dated 17-4-80 and BCD(C)650/34 dated 22-9-1981, BCD Circular Nos. 43 & 58 of 1984 and 9 & 17 of 1985)

C. Valuation of the commodities mentioned at 10(A) and (B) above to be pledged or hypothecated to banks for advances shall, in no case, exceed —

- a) The landed cost at the port of entry as assessed by the Customs in the case of imported goods;
- b) The ex-mill/factory price in the case of domestic manufactured commodities; and
- c) In the case of all other commodities not covered by (a) and (b) above, the wholesale price fixed by the Government and where no such wholesale price is fixed by the Govt., the ruling market price to be ascertained by the banks.

(BCD Circular Nos. 28 of 1974 & 46 of 1984)

11. Advances against goods banned for import:

No fresh advances can be made nor any increase in the existing advances can be allowed against goods banned for import.

(BCD Circular No. 15 of 1972)

Contd...P/10

12. Advances against existing capacity/capital assets:

Advances against existing capacity and capital assets e.g. a running bus, truck, car and all other types of vehicles or launch or plant and machinery and inventories of a factory in production including abandoned/taken over properties being disinvested by the Govt. are prohibited. Advances may be allowed by banks to transport operators for creating additional capacity such as acquisition of new buses, trucks, launches etc. subject to prescribed stipulations.

The above restriction however does not apply in the case of taxies as well as for repair of water transport vessels (both passenger and cargo) which are lying idle.

This restriction is also not applicable on advances for meeting genuine working capital needs against charge on the concerned items.

Banks may also extend credit facility to transport operators for purchase of imported reconditioned minibuses from importers. Terms & conditions pertaining to margin requirement, security and repayment period for such credit will, however, be determined by the banks themselves on usual banking considerations.

(BCD Circular Nos.29 of 1974, 10 of 1976, 14 and 17 of 1977, 14 of 1980 and Circular Letter Nos. BCD(C)650/10-32 dated 25-11-80, BCD(C)650/10-35 dated 31-12-80, BCD Circular No.6 of 1984 and 10 of 1985).

13. Advances against lizard/reptile skins:

Grant of advances by banks against the security of lizard/reptile skins is prohibited.

(BCD Circular No. 32 of 1982)

14. Advances to salt crushers:

Banks may extend working capital finance to salt crushers subject to the prescribed stipulations. Each drawing against such advances is to be adjusted at least within 3 months from the date of its drawal.

(BCD Circular No.13 of 1983)

15. Margin restriction on opening of L/c. for imports under Cash/Credit/Sarter & WES/Secondary Exchange market.

- i) Opening of letters of credit on account of industrial importers in the private sector for import of items mentioned in their pass books as also for import of machinery and mill works (including spinning frames for Jute Mills), ball bearing and power generators is subject to a margin requirement of not less than 5% and not more than 25%. Similar margin requirement of minimum 5% and maximum 25% will also apply for opening letters of credit for import of crude degummed soyabean oil by the vegetable oil refiners' belonging to the vegetable oil refiners group in the private sector.
- ii) Opening of letters of credit on account of commercial importers in the private sector for import of specified essential items is subject to a margin requirement of not less than 5% and not more than 25%.
- iii) Opening of letters of credit on account of commercial importers in the private sector for import of items other than the specified essential items referred to above shall be subject to a minimum margin requirement of 15%. Margin requirement for opening letters of credit for import of salt-refined, textile fabrics excepting grey cloth, cocoanut oil, spices and betel nut is, however, minimum 50%.
- iv) The margin requirements mentioned above also apply to imports under deferred payment basis. Such margin requirement shall not, however, apply to those cases where letters of credit for import of raw

materials on deferred payment basis are opened against export letters of credit by 100% export oriented readymade garment industries. In other words, letters of credit in such cases can be opened even without margin at the discretion of the banks, on the basis of usual banking considerations.

- v) The margin requirement for credit facility for import of old ships for scrapping purpose under the Wage Earners' Scheme should not be less than 25% of purchase price of vessel at IP rate subject to adjustment within 12 months from the date of advance.
- vi) No advances will be allowed by the banks for import of (a) Air-conditioners (b) Complete By-cycles (c) Domestic Refrigerators (d) Electric Ceiling, Table and Pedestal Fans (e) Motor Cars-new or reconditioned (f) New or second-hand/reconditioned trucks, buses etc. under the Wage Earners' Scheme. Banks may, however, allow advances to the importers for import of truck and bus chasis only under the Wage Earners' Scheme upto an amount equivalent to 50% of the price in foreign exchange subject to usual banking considerations.
- vii) Opening of letters of credit for imports in the public sector is subject to a margin requirement of not less than 5%.

(BCD Circular Letter No. ECD(C)650/30 dated 5-8-81 and BCD Circular Nos.8, 31 and 36 of 1982, 3 of 1983, 2, 30, 51 of 1984, 2 & 23 of 1985).

16. Adjustment of forced overdraft:

Restriction has been imposed on opening of fresh letter of credit by defaulting importers having previous forced overdrafts with the banks unless the same are adjusted by the parties concerned.

(BCD Circular No.1 of 1976).

Contd...P/13

17. Loans and advances to bank
employees for business purposes:

Grant of any loans and advances to bank employees or to the member of their families dependent on them for the purpose of carrying on business while in the employment of the banks, is prohibited. Other secured advances to bank employees, except the staff advances are subject to prior clearance from the Bangladesh Bank.

(BCD Circular letter No.BCD(C)650/329 datad 5-2-75).

18. LOANS AND ADVANCES TO RELATIONS OF
SANCTIONING OFFICIALS OF BANKS.

No loans and advances should be granted by the sanctioning officials of a bank to the relations (as defined) including wives, children and parents of the sanctioning officials of the banks or to the firms and companies in which their relations are interested as proprietor, partner, director or guarantor without prior approval of the Board of Directors of the respective bank in each individual cases.

(BCD Circular Nos. 25 of 1975 and 5 of 1979).

19. LOANS AND ADVANCES TO THE RELATIVES
OF DIRECTORS OF A BANK

No loans and advances should be granted to the relations (as defined) including wives, children and parents of the Directors of the banks or to individuals, firms and companies in which their relations are interested as proprietor, partner, director or guarantor without prior approval of the majority of the Directors of the respective bank in each individual case, excluding the Director involved.

(BCD Circular Nos.25 of 1975 and 5 of 1979).

Deposit Procedures

Characteristics of banks - deposit aspects

Deposits are the main source of funds for a bank. One of the major functions of a bank branch is therefore to collect deposits. The other major function is to make loans (unless there is an embargo on fresh sanctions). Deposits are mobilized through various depository accounts. Normally an annual and also a semi-annual deposit targets are set by the head office through the regional offices for each branch and also for its individual employees. The procedure of setting up target is largely arbitrary. Branch managers are not meaningfully consulted, nor the deposit potential of the area is studied before finalising the deposit target.

Achievement of targets by a branch attracts money rewards from the head office. As such almost all the employees tend to work more or less for deposit mobilization. The tendency is however to pursue small number of potentially big depositors who can substantially contribute to achievement of a branch's deposit target. Preference seems to have been given by the branches to attract fixed deposits and enticing deposit accounts of other neighboring bank branches.

Types of deposit accounts

The rural bank branches just like urban branches, maintain the following broad categories of depository accounts :

1. Savings Accounts
 - Chequing
 - Non-chequing
2. Current Accounts
3. Fixed Deposit Accounts: For 3,6,12, 24 and 36 months and over

4. Deposit Pension Scheme Accounts
5. Various Short Term Deposit Accounts such as call deposit, earnest money deposits, etc.

Types of depositors

Various types of depositors such as individuals, businessmen, firms, companies, government organizations and government departments may maintain accounts with a bank. The purpose of making deposits may also be varied. Demand deposits in current accounts are made to meet day to day money transaction needs. Savings and fixed deposit accounts serve the purpose of the depositors to keep funds which have no immediate use to them and earn a return.

Procedure for opening an account

To open a deposit account the depositor has to fill-in; (a) the prescribed application form of the bank; (b) provide specimen of signature to be used for withdrawal on prescribed specimen signature cards. The application forms are different for individuals, joint accounts, partnership firms, limited liability companies etc. Similarly, it is different for different categories of accounts

In addition to completing application forms and furnishing specimen signature, pertinent legal documents such as deed of partnership for partnership firm, memorandum and articles of association, resolution of the board of directors, certificate of incorporation in case of limited liability company, etc., have to be furnished to the bank branch.

Introduction of an account

Identification of a depositor is considered very important. Normally a bank official, or an existing account holder introduces a new account. Usually second officer of the branch verifies regularity of an application in terms of compliance of account opening procedures. Then the application form, specimen signature card and relevant other papers are placed before the manager for his signature. Once the manager signs the application, the cashier receives the payment against a pay-in-slip the counter-foil of which is returned to the depositor. A cheque book (in case of chequing accounts) is issued soon after

the deposit is posted in the ledger, and an account number is awarded.

Opening an account typically involves at least three bank employees the manager, the ledger keeper and the cashier. Half an hour is the maximum that a branch manager would like to spend to open an account.

Initial deposits, minimum balance, etc.

The following table indicates the minimum initial deposits, minimum balance, rate of interest etc. for type of deposits.

Table

Minimum initial deposit, minimum balance to be maintained, restriction on withdrawals for various types of deposit accounts

<u>Sequence</u>	<u>Type of accounts</u>	<u>Minimum initial balance</u> Tk.	<u>Minimum balance to be maintained</u>	<u>Restriction on withdrawal</u>	<u>Rate</u>	<u>Frequency of computation</u>
1.	Savings Accounts					
	- Chequing	10	NS ^{1/}	Twice weekly	8.5%	Monthly but recorded semi-annually
	- Non-chequing	10	NS	Twice weekly	10.5% ^{4/}	-do-
2.	Fixed Deposits for:					
	3 months	NS	NS	No restriction	12%	On maturity
	6 months	NS	NS	-do-	13%	-do-
	12 months	NS	NS	-do-	14%	-do-
	24 months	NS	NS	-do-	14.5%	-do-
	36 months & over	NS	NS	-do-	15%	-do-
3.	Current Account	100	Tk. 100 ^{2/}	-do-	-	-
4.	Deposit Pension Schemes	100	-	-do-	15%	Annually
5.	Short notice term deposits	NS	NS	-do-	4.5% ^{3/}	On maturity

^{1/} NS = Not Specified

^{2/} This varies from bank to bank and flexible to a large extent

^{3/} Miscellaneous other short term deposits may carry very nominal or no interest

^{4/} 11% for rural areas.

It may be noted that requirements relating to minimum initial deposits and minimum balance are not strictly adhered to except in case of DPS. Flexibility practised in this regard reportedly facilities rendering better customer service, and the is not seriously questioned by the bank's auditors.

Notification time for withdrawal

1. Savings Accounts(S.As) : Withdrawal from savings deposit accounts for more than 25% of the balance outstanding requires seven days' notice in advance. This is not strictly adhered to, Back-dated notices given and accepted on the day of larger withdrawals take care of this. This account cannot be overdrawn.
2. Fixed Deposits (F.D.As) : Fixed deposits can be withdrawn (encashed) at any time. But premature withdrawals, or withdrawal before expiry of six months(for 1 year or more term-deposits) will subject the depositor to forego interest for the incomplete six months.
3. Current Accounts (C.As) : No notification is needed. But to draw for more than the outstanding credit balance calls for prior arrangements to that effect with the banker.
4. Deposit Pension Accounts : Can be withdrawn by closing the accounts any time (during banking hours) and amount deposited is withdrawable on written application.
5. Short term Deposits : No restrictions exist on withdrawal from STD. However, contra deposit accounts are not withdrawable before completing elaborate formalities.

Procedures for making deposits

Cash deposits: A depositor has to fill-in the pay-in-slip which basically provides columns for date, name of the account, account number, amount to be deposited, signature of the depositor, etc. The filled-in-slip alongwith money to be deposited is handed to the cashier over the counter. The cashier counts the money, stamps "received cash", signs, gets signature of an authorised officer, and returns the counterfoil to the depositor. Normally, the operation takes 5-10 minutes. Posting to the account is made on the same day.

Deposits by cheques: Procedure similar to cash deposits is followed for deposits by cheques/drafts except that a different pay-in-slip is used for deposits by cheques, drafts, etc. Difference may be in shape, size, color with very minor variation in content. No credit is made to the account until the proceeds are realised. Usually three employees namely the cashier, ledger keeper and an officer are involved in each deposit operation.

Procedure for making withdrawals

Withdrawals are made by cheques in case of chequing accounts, and by withdrawal slips (kept available for use only at the branch) in case of non-chequing savings accounts. The completed cheque is handed over to the counter clerk who makes initial verification about regularity of the instrument and delivers a token (a serialised small brass metal disc) to the depositor. The cheque then travels to the ledger keeper who gives a closer look at the cheque before posting the withdrawal figure in the ledger and then he passes it on to the cashier for payment with a stamp on it "pay cash". The whole operation may take 5 minutes to 30 minutes depending on whether it is a lean or a rush hour of the day.

THE INTEREST RATE STRUCTURE OF THE BANKING SECTOR IN BANGLADESH

Appendix VI

(Per cent per annum)

	December, '71 to June, '74	July, '74 to March, '76	April, '76 to April, '77	May, '77 to October 15, '80	October 15, '80 to December, '84	From January 1, '85 onwards
A. BANK RATE	(5.00 upto June 20, '74 15.00 from June 21, '74	8.00	8.00	8.00	10.50	(10.00 upto Sept. 15, '85 10.25 from Sept. 16, '85
B. Scheduled Banks' Interest Rates on Deposits						
a) Call Deposits	-	-	-	-	4.50 Oct. 15, '80 to Dec. 1, '82	-
b) Special Notice accounts:-					4.50	4.50
i) Withdrawable at notice of 7 to 29 days	3.00	4.00	5.00	4.00	-	-
ii) Withdrawable at notice of 30 days or over	3.25	4.25	5.25	4.25	-	-
c) Savings bank accounts with chequing facilities	4.00	5.00	6.00	(6.00 upto July, '77 4.50 from Aug. '77 to Oct. 15, '80	8.50 9.50 for rural area w.e.f. July, '84	(5.00 10.50 for rural areas
d) Savings bank accounts without chequing facilities	4.50	6.00	7.00	7.00 (7.75)	10.00	(10.00 10.00 for rural areas
e) Fixed Deposits:-						
i) For 3 months and over but less than 6 months	4.50	6.00	7.00	7.00 (8.50)	12.00	12.00
ii) For 6 months and over but less than 1 year	4.75	6.50	7.50	7.50 (8.50 & 9.00)	13.00	13.00
iii) For 1 year and over but less than 2 years	5.00	7.25	8.25	8.25 (9.25)	14.00	14.00
iv) For 2 years & over but less than 3 years	5.50	8.25	9.25	9.25	14.50	14.50
v) For 3 years and over	6.00	9.25	10.25	10.25	15.00	15.00

Notes:- i) Figures within parentheses indicate interest rates for deposits accounts opened by individuals in rural areas effective from 1-10-75 to 15-10-80. Rate for term deposit in rural areas for 6 months or over but less than one year was 8.50 from 15-12-77 to 31-12-77 and 9.00 from 1-10-75 to 15-10-80 and the rate for term deposit in rural areas for one year and over but less than 2 years was 9.25 from 15-12-77 to 15-10-80.

ii. Branches situated outside the municipal areas are rural branches.
iii) Bangladesh Krishi Bank and Bangladesh Skilpa Bank were allowed to pay interest on term deposits (excl. banks and financial institutions) at 1% above the prescribed rates w.e.f. July 1, 1974 to October 15, 1980.

• The Bank Rate is 10.75% w.e.f. from July 1, 1986

Source: Statistics Dept., Bangladesh Bank

AGRANI BANK
HEAD OFFICE
MOTIJHEEL
DHAKA

GM/CC/16/85
APRIL 10, 1985.

To all Rural Branches
Agrani Bank
Bangladesh.

Dear Sir,

Re:- Campaign for opening S/B
A/C from Rural families.

It has been decided by the management to launch a Savings Account opening Campaign from Rural families with immediate effect. The Campaign will start from 1st April '85 and continue upto 30th September '85. The Campaign will be known as " Rural Savings A/C Opening Campaign"

All rural Branch Managers including the officers and staff working there will be eligible to participate in this Campaign. The salient features of the Campaign are as under :

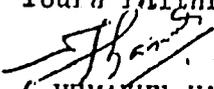
"If a Branch Manager can procure atleast 2200 new Rural Savings account with an average balance of not less than TK.500/- in each account, he would be given out of turn promotion. The other officers and members of the staff of the Branch will also be suitably remunerated by the management."

In view of the declaration as above given by the Management, it is expected that all rural Branch Managers will accept the challenge and qualify themselves worthy of the out of turn promotion and thus build up their future career.

All branch managers will be required to maintain list of such accounts opened during the Campaign period in a separate ledger and record their day-to-day performance so that representative from Head Office who might visit their Branches can check up their performance for awarding reward as declared above.

This is important and urgent.

Yours faithfully,


(HUMAYUN HAMID)
GENERAL MANAGER.

For information copy to :-

1. The M.D.'s Sectt., Agrani Bank, H.O., Dhaka.
2. All GMs Sectt., Agrani Bank, H.O., Dhaka.
3. All Zonal Heads.

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STATUS OF
NATIONAL SAVINGS SCHEMES
IN BANGLADESH - JAN, 1986

A RURAL FINANCE PROJECT REPORT

- June 1986 -

- by RFP Senior Consultants -

Omar Chowdhury

Raka Rashid

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- Prepared for -

The Bangladesh Bank - USAID Project No. 388-0037

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Dhaka, Bangladesh

GLOSSARY

AD	=	Assistant Director
AD	=	Audit Department (under MF)
AGP&T	=	Accountant General, Post and Telegraph
BA	=	Bonus Account
BB	=	Bangladesh Bank
BPO	=	Bangladesh Post Office (synonym for GPO or General Post Office)
BSC	=	Bonus Savings Certificate
DG	=	Director General
DSC	=	Defence Savings Certificate
DSO	=	District Savings Office
EDA	=	Extra Departmental Agent
EDBO	=	Extra Departmental Branch Office
EDDA	=	Extra Departmental Delivery Agent
EDSO	=	Extra Departmental Sub-Office
FDA	=	Fixed Deposit Account
FY	=	Financial Year
5YBSC	=	5-Year Bangladesh Savings Certificate
IFIC	=	International Finance Investment and Commerce Bank (Ltd.)
IRD	=	Internal Resources Division
ISV	=	Ideal Savings Village
MF	=	Ministry of Finance
MPTT	=	Ministry of Post, Telegraph & Telephone (synonym for Ministry of Communication)
NSB	=	National Savings Bureau
NSC	=	National Savings Committee
NSD	=	National Savings Directorate (Also referred to as Department of National Savings or Directorate of National Savings).
NSS	=	National Savings Schemes (Synonym for NSD product)
ODS	=	Ordinary Deposit Account
PB	=	Prize Bond
PDO	=	Public Debt Office

Contd...P/2

PLI	=	Postal Life Insurance
PMG	=	Post Master General
PO/POD	=	Post Office/Post Office Department
POSB	=	Post Office Savings Bank
RDNS	=	Regional Directorate of National Savings
SC	=	Savings Certificate
SP	=	Sanchaya Patra (Bangla for Savings Certificate)
TFYP	=	Third Five Year Plan
TSO	=	Thana Savings Officer
WEDB	=	Wage Earner's Development Bond

Tk.1 crore = Tk.10 million.

Tk.1 lac = Tk.100 thousand.

TABLE OF CONTENTS

<u>Section</u>		<u>Page</u>
	Executive Summary	.. 194
1.	Historical Background	.. 201
2.	The National Savings Directorate (NSD)	.. 201
3.	The National Savings Committee (NSC)	.. 206
4.	NSD - Distribution Channel	.. 207
5.	Remuneration of Distribution Agents	.. 217
6.	Receiving the NSD products	.. 222
7.	NSD Products - A profile of National Savings Schemes (NSS)	.. 224
8.	Summary of NSS Interest Rates	.. 236
9.	Summary of Returns and Benefits of NSS	.. 237
10.	NSS Growth Rate	.. 240
11.	New Products	.. 242
12.	Sale of NSD Products	.. 242
13.	Encashment of NSD Products	.. 262
14.	Annual Investment Targets	.. 263
15.	Awards to NSD Employees	.. 264
16.	NSD Budget for Advertizing and Publicity	.. 264
17.	Operational Cost of NSS	.. 266
18.	Monthly Statements	.. 267
19.	Some Comments on the NSS	.. 268
20.	Recommendations	.. 273

LIST OF TABLES

<u>#</u>	<u>Title</u>	<u>Page</u>
1.	Organizational Set-up of the Central Directorate of National Savings.	.. 202
2.	Structure of National Savings Organization in Bangladesh	.. 204
3.	Channels of Distribution (of NSD Products)	.. 208
4.	POSBs and Commercial Banks - Outlets, Rates and Products	.. 218
5.	Channels of Distribution (indents and delivery of NSD Products)	.. 223
6.	Current Products/Programs offered by the NSD	.. 225
7.	National Savings Schemes (NSS)	.. 226
8.	List of Ideal Savings Villages (ISV)	.. 227
9.	Gross and Net Investment in Defence Certificates (DSC)	.. 243
10.	Gross and Net Investment in Bonus Savings Certificates (BSC)	.. 244
11.	Gross and Net Investment in 5 Year Bonus Savings Certificates (5YBSC)	.. 245
12.	Outstanding Balance on NSD Products	.. 246
13.	Performance of POSBs during the last 5 years	.. 247
14.	Gross and Net Deposit in ODA of POSBs	.. 248
15.	Gross and Net Deposit in FDA of POSBs	.. 249
16.	Gross and Net Deposit in BA of POSBs	.. 250
17.	Statistical information on WEDBs	.. 251
18.	Statistical information on PBs	.. 252
19.	Statistical information on PLI	.. 253
20.	Total Investment in NSD Products (yearwise sale by operative agents)	.. 258
21.	Total Sale of NSD Products (by product category)	.. 259
22.	National Savings Schemes in Rural and Urban Areas.	.. 260

LIST OF ANNEXURES

<u>Title</u>	<u>Annex. #</u>	<u>Page</u>
Organizational set-up of the NSD in 1982	1	277
Revised organigram as recommended by the Martial Law Report of 1982	2	278
Government Circular on the Establishment of the National Savings Committee (NSC)	3	279
Minutes of the NSC meeting of August, 1985	4	281
Number of Post Offices and extra departmental offices as on 30.6.85	5	290
Government order vesting all extra departmental offices with POSB powers	6	291
Payment of commission to commercial banks and post offices for the sale of FBs.	7	292
Commission to scheduled banks for the sale of Savings Certificates	8	293
Total Operating cost of NSD vis-a-vis investment in NSD products	9	294
Bank advances and deposits by region and locality	10	295
NSD Promotional activities during 1984-85	11	296
Government directive regarding savings certificates purchased in 1971 (excerpt from Bangladesh Gazette)	12	297
Bibliography	13	298

EXECUTIVE SUMMARY

I. Study Objective and Methodology :

There are two parallel and interacting bureaucratic organizations in Bangladesh with similar responsibility for mobilizing the population's cash savings or "surplus" earnings. They are :

1. The scheduled banking system with over 5000 bank branches, of which about 3325 are believed to be located in rural areas, and
2. The National Savings Directorate (NSD) which is in charge of mobilizing deposits under National Savings Schemes (NSS) through the "sale" of savings certificates, stamps, bonds, and Post Office Saving Bank depository account services.

It is the objective of this report to: 1) comprehend salient organizational characteristics and scope of operations of the NSD/PO savings program, and 2) to focus on the program's interfacing with the banking sector saving system by identifying points of redundancy, friction, complementarity and areas for cooperation between the two systems.

From any viewpoint, NSSs have not been very successful. In spite of NSD's access to the vast rural postal network, the evidence is clear that NSD strength, such as it is, is predominantly urban rather than rural; the vast majority of its sales value is institutional rather than individual. While NSD Post Office Savings Banks account for the largest share of NSS business, NSS could hardly survive without the nearly one-third of its business that comes through the banking system. Yet even with negligible operating and overhead costs, NSD revenue as a percentage of total bank deposits during the last three years has been weak and growing weaker amounting to only 4.3% in 1984/85, down from 4.8% in 1983/84, and 5.6% in 1982/83.

To some extent, the NSD competes inequitably* with the banking system but very ineffectively. Does it serve any useful purpose? If not, wouldn't savings mobilization be improved if all inputs were brought under the authority of the Bangladesh Bank and the banking system?

The research for this report involved examination of existing literature on the history of the savings movement in Pakistan and Bangladesh, reference to official documents (government gazettes, circulars, memorandums), interviews with NSD, Post Office, scheduled bank, BB and NSB officials; and by several field visits.

II. Description of the Situation

1. The Subject Organization is the National Savings Directorate (NSD). It is:

- a bureaucratic entity of the GOB, which functions
- under authority of the Ministry of Finance and performs its services and "sells" its products
- directly through four (4) National Savings Bureaus (NSB)
- and indirectly through
 - the banking system - Nearly 5000 possible agencies
 - the post office system (about 1300 offices belonging to the Post Office Department of the Ministry of Communications - P & T, 6325 extra departmental agencies of the POD, and through an unknown number of NSD authorized Post Office Savings Banks (POSB) operating through the POD offices and agencies.**
 - and through independent Commission Agents (CA) authorized only since 1985, of whom there are at present about 30.

* Higher deposit interest rates, tax rebates and exemptions, etc. are granted to NSSs.

** In all, some 7624 P.O. outlets are authorized to function as POSBs. It is just not known how many actually do so. No records are kept.

2. The purpose of NSD is nation-wide savings mobilization directly for the GOB's general fund account, the proceeds being defined as government borrowings from the public. Returns to owners of NSD products are tax exempt.

3. The Business of NSD is officially stated to be:
 - preparation of receipt and expenditure budgets for NSS
 - formulation and promotion of National Saving Schemes (NSS)
 - prescription, supervision and review of annual targets for field officers
 - coordination and monitoring of distribution services rendered by the NSB, the CAs, and the banking and post office systems
 - all under consultative advisement of the National Savings Committee (NSC) whose chairman is the Governor of the Bangladesh Central Bank (BB)*

4. NSD Services and Products include:
 1. Defence Savings Certificates (DSC)
 2. 5 Year Bangladesh Savings Certificates (5YBSC)
 3. Bonus Savings Certificates (BSC)
 4. Wage Earner Development Bonds (WEDB)
 5. Prize Bonds (PBs - actually, lottery tickets which retain their face value even if never drawn).
 6. Post Office Savings Bank (POSB) Services
 - a. Ordinary Deposit Accounts (ODA)
 - b. Fixed Deposit Accounts (FDA)
 - c. Bonus Accounts (BA)
 7. Postal Life Insurance (PLI)
 8. Savings Stamps

Membership is listed in Annex 3.

5. Remuneration of Distribution Factors:

- a) NSD employees are compensated on straight salary basis only. However, they, and they alone, receive prizes when area or product-wise targets are met or exceeded.
- b) Bangladesh Bank, where all NSD accounts are serviced, receives a "management and floatation fee."
 - Management fee is Tk.1000 per each Tk.10 million sales
 - Floatation fee is Tk.2000 per each Tk.10 million sales
- c) Commercial Banks receive a commission of 1% of proceeds on the sale of NSD products to individuals and Tk.0.25 per sales transaction with institutions.
- d) Independent Commission Agents (CA) receive 1% of the face value of their sales to individuals. They are not permitted to make institutional sales. CAs do not inventory product. Rather, they bring customers to a bank or post office which disburses the product. The sales slip is sent by DSO to BB for payment. BB sends payment back to DSO for collection by CA.
- e) The Post Office Department (POD) receives Tk.1.5 for each POSB depository transaction, Tk.1.00 per transaction involving sales of Savings Certificates; and for PLI, Tk.2.00 per policy at the time of sale and Tk.1.00 per annum during the life of the policy.
- f) The POD and Banks receive 1% and 0.5% on sales of new and reissued Prize Bonds, respectively.
- g) Individual Bank and Post Office employees receive no compensation personally for selling NSD products. District level NSD staff receive awards for mobilizing savings even though only the NSB staff actually do any direct selling.

6. Gross Sales of NSD products in 1984-85 were:

Tk.1547.0 million of which:

	<u>Post Office Savings Accounts</u>	
	<u>Included</u>	<u>Not Included</u>
Banks sold about	30%	48%
POS sold about	57%	31%
NSBs sold about	14%	22%
Total	100%	100%

Cost of NSD product sales in 1984-85 was reported as Tk.21.0 million or 1.36% of gross sales. This astonishingly low ratio may help explain why NSD savings mobilization is so pitiful as compared with banking sector savings.

7. NSD national annual sales targets are set by the Ministry of Finance. The Assistant Director of the NSD Statistics Department is officially responsible for maintaining current records of all sales and encashments and for "prescribing annual sales targets for all Field Officers." Data for these purposes is obtained from a multitude of sources such as 6 offices of the Bangladesh Bank, the office of the Post Master General, the NSB Section of the NSD, RDNSs and DSOs.
8. NSD operating costs are borne by the MOF which also determines rates of interest applicable to the several NSD products, the ceiling set for all investments except WEDBs and DSCs (sold to individuals), and the allocation of the NSD budget.
9. All NSD accounts are located in and managed by the Bangladesh Central Bank. Such accounts are held in the name of individual NCBs, DFIs, other Banks, NSBs, the NSD, and the P.O. Dept; the latter on behalf of all post offices, branches, agencies and POSBs.
10. In sum, it appears that a 400 plus employee bureaucracy has been established whose only tangible responsibility has been the promotion (advertising and public relations) of N.S. Schemes, at least until recently when the NSBs and free lance Commission Agents began generating significant sales. But policy making, product planning and design, authorizing of sales targets, primary data collection and processing, and accounts management (deposits, encashments, etc.) are all handled externally by the IRD/MOF, the BB, and the Post Office Department. These questions must be asked, "Is the NSD necessary? Is it cost effective?" Would the who'

operation be more efficient and more productive if brought under the authority and management of a single governmental organization ?

III. Recommendations:

1. It is clear to the producers of this report that the scheduled banks are much more adept than the Post Office network at mobilizing savings in the form of depository accounts or in the form of interest bearing certificates. However, if the Post Office system is to remain in the business of national savings mobilization, it is considered imperative that appropriate training be provided to all Post Office employees and agents who are expected to serve the saving and investing public. They must also be provided incentives if they are to assume such responsibility with any degree of enthusiasm. Logically, the training should be obtained from the BIBM. And existing empirical evidence indicates that an individualized incentive system should be introduced that is based on remuneration by modest but realistic commissions also applicable to scheduled bank staff who move national savings products cost effectively.
2. The Rural Finance Project Manager, speaking independently and exclusively for himself adds specific recommendations. In summary, he recommends:
 - a. Establishment in the BB of a Deputy Governor (DG) or at least an Executive Director (ED) who would have exclusive responsibility for overseeing all matters pertaining to national savings and investment mobilization.
 - b. Establishment of a BB Savings Mobilization Department (BESMD) whose General Manager would report directly to the DG or ED for Savings Mobilization.

- c. Abandon the NSD but retain the NSC as an advisory committee to the BBSMD after assuring adequate representation thereon of the IRD/MF, including its chairmanship.
- d. Bring under the authority and budget of the BBSMD all existing facilities and personnel of the NSBs and DSOs including existing free lance Commission Agents.
- e. Conduct an in-depth marketing and cost-benefit study of the National Post Office in specific respect to its past and present performance and potential capacity to perform cost-effectively as a "contract operative agency" to the BBSMD.
- f. Immediately develop and begin conducting specialized training programs via BIBM in Savings and Investment Planning, Marketing, Mobilization and Accounts Management.
- g. Contract out to a competent Public Relations and Advertising agency all promotional operations, maintaining within the BBSMD only a small, professionally manned PR + Advertising Section responsible for controlling the quality of the work of the external agency and managing the agency contract.

NATIONAL SAVINGS SCHEMES

1. Historical Background - Pre-Bangladesh^{1/}

National Savings Schemes as a formal program was introduced into British India in 1943. However, National Savings instruments such as Post Office Cash Certificates had existed in the sub-continent since 1917. A National Savings Bureau (NSB) based in Simla, India, was established in 1943 to coordinate and administer the national savings program. The basic purpose of the bureau was to provide funds for financing World War II.

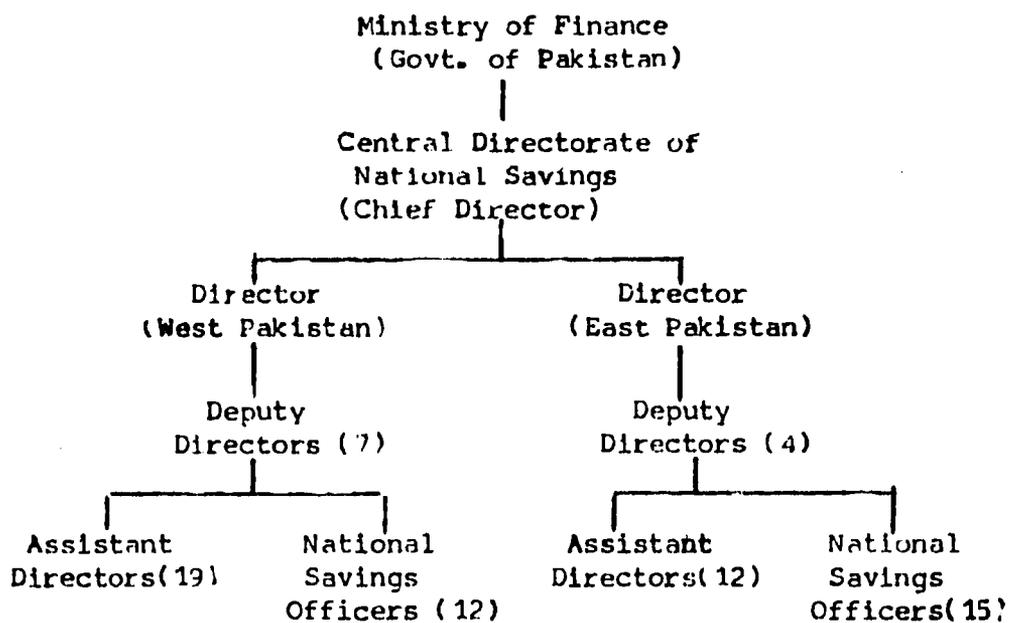
After the partition of British India in 1947, the original NSB was bifurcated and partially transferred to Pakistan. It was adopted by Pakistan as the Central Directorate of National Savings. It operated there as a department within the Ministry of Finance, headed by a Chief Director of National Savings (of Joint Secretary status in the Government of Pakistan). The organizational set-up of the Central Directorate of National Savings is in Table 1. The Central Directorate lasted until 1971.

2. The National Savings Directorate (NSD) - Post-Bangladesh

2.1 Following the emergence of Bangladesh in 1971, operations of the former Central Directorate were simply continued by the same organization. But its name was changed to the National Savings Directorate (NSD) or Directorate of National Savings (DNS). In this report, the terms NSD, DNS, and NSS (National Savings Schemes) denote the same program and are used interchangeably, as appears to be the official custom. The organizational structure of the NSD remained the same as the Central Directorate until 1982.

^{1/} An informative account of the historical evolution of NSS in Bangladesh can be found in a paper entitled "National Savings Organization and Movement" by M. Sharafat Ali (Please see bibliography 1).

Organizational Set-up of the Central
Directorate of National Savings (as
of 1971)

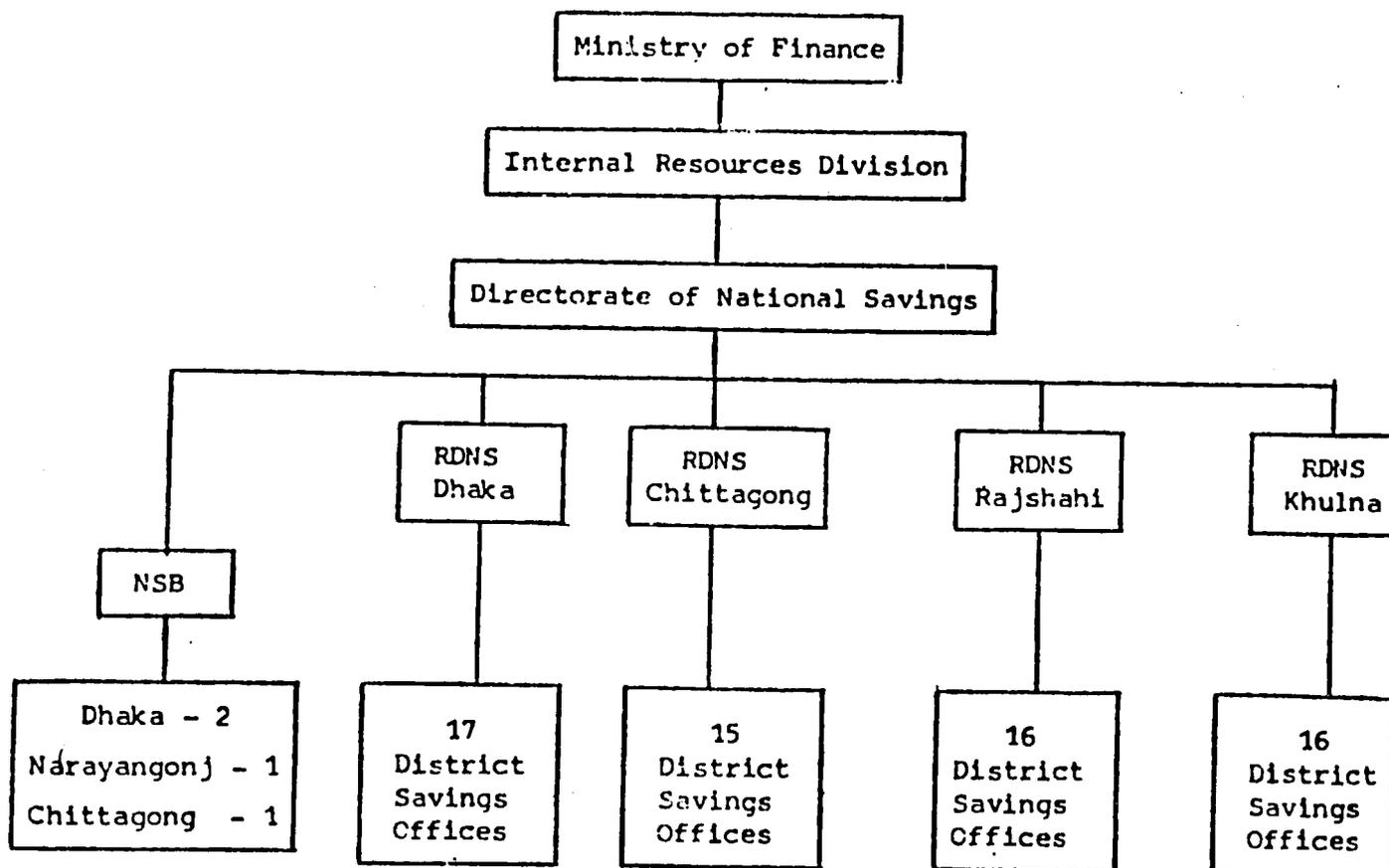


- 2.2 In 1982, a "Report of the Martial Law Committee on the Organizational Set-up of the Department of National Savings" (Popularly referred to as the "Enam Committee Report") recommended an organizational revision. The original organizational structure and the recommended one are reproduced in Annexes 1 and 2.
- 2.3 In 1984, a special committee headed by the Cabinet Secretary submitted its report on the NSD. The basic organizational structure was retained to a major extent. The objective of the Committee was to recommend changes within the NSD so that it could serve better the needs of 44 newly created districts. As recommended by the Committee the number of Assistant Directors was increased from 39 (as in Annex 2) to 72. To offset this increase, 27 posts of Thana Savings Officers (Annex 2) were abolished. The number of clerks was reduced from 2 to 1 in each of the district offices. The Committee, in fact dissolved all Thana Savings Offices (TSOs) making the District Savings Offices (DSOs) the smallest administrative unit of the NSD. It is believed that some of the employees dislocated during the 1984 reorganization are still awaiting absorption within some Ministry of the GOB. A copy of the 1984 report was not available.
- 2.4 Current organizational structure of the NSD is shown in Table 2. As the table indicates, it is a directorate administered by the Internal Resources Division (IRD) of the Ministry of Finance, Government of Bangladesh.

There are 69 purely administrative^{1/} offices comprising a Head Office in Dhaka, 4 Divisional Headquarters (RDNS) and 64 offices at the district level (Table 2). There is one Director, and one

^{1/} These administrative units do no marketing. The NSBs which are the operational disbursing wings of the NSD are not included here.

STRUCTURE OF NATIONAL SAVINGS ORGANISATION
IN BANGLADESH



RDNS = Regional Directorate of National Savings.

NSB = National Savings Bureau.

Source: National Savings Directorate, Dhaka: January, 1985.

Senior Deputy Director (both based at the Dhaka Head Office) and 4 Deputy Directors, one for each of the Divisional Offices, including one for the Dhaka Divisional Office. The District Savings Offices (DSOs) are headed by Assistant Directors.

The NSD had 376 employees as of December, 1985. They are distributed as follows:

-	Officers	Class I	78
		Class II	66
		Sub-Total	144
-	Clerical Staff		155
-	MLSS (Members of the Lower Subordinate Service)		77
		Total	376

The average number of employees per office is 5.4. Clerical and other staff are 1.6 times the number of officers. Although the average number of officers per office is 2, there is reportedly a number of offices where there is no officer at all.

2.5 Functions of the NSD:

The functions of the Directorate are:

- a. To draft new savings schemes for the Government.
- b. To prescribe annual promotional targets for all field officers.
- c. To maintain liason with the Bangladesh Bank and the Bangladesh Post Office. These institutions function as operative sales and disbursement agents in the case of financial assets (SCs, PBs, WEDBs, etc) and transfer agents in the case of savings depository accounts (the POSBs only).

- d. Preparation of receipt and expenditure budgets connected with the NSD. By "receipt", NSD refers to its gross and net yearly investments.
- e. Promotion of sales of NSD products through advertizing and public relations work.

It is important to note that as in (e), the main role of the NSD is conception, advertisement and promotion of governmental savings products as distinct from banking sector products. All sales and distribution are conducted by agents (except the 4 NSBs). The entire proceeds go directly into a government account. All buyer/depositor earnings are disbursed from that major Account (Government non-food Account Number 1).

3. The National Savings Committee (NSC)

- 3.1 The NSC was constituted by the Investment Wing, Finance Division of the Ministry of Finance in January 1977 with 18 members (raised to 19 in 1985). Its purpose is to act as an advisory or steering organization to banking and non-banking sector organizations involved in the mobilization of national savings. Notification of its formation is annexed hereto in Annex 3. Until 1985, the NSC remained mostly inactive. Reportedly, there were no meetings of the NSC from October 1982 to January 1985. No records of any earlier meetings were to be found at the NSD office.
- 3.2 The NSC met twice in 1985 - once in March and once in August. At the 14 August meeting, the Committee faced a large agenda as the annexed minutes indicate (Annex 4). The Secretary of the Committee is charged with monitoring progress in implementation of NSC suggestions, recommendations and decisions. No notable progress appeared to have been made in the matter of implementing the March meeting or earlier NSC resolutions. For example, the Postal Department had not sent its savings performance reports to the

Internal Resources Division (IRD) as was decided at the March meeting. Similarly NSD had not yet received the report on a proposal to establish a new Savings Bank reportedly prepared under the auspices of the Commission on Money, Banking and Credit. The matter remains on the agenda of the next NSC meeting "to be held soon."

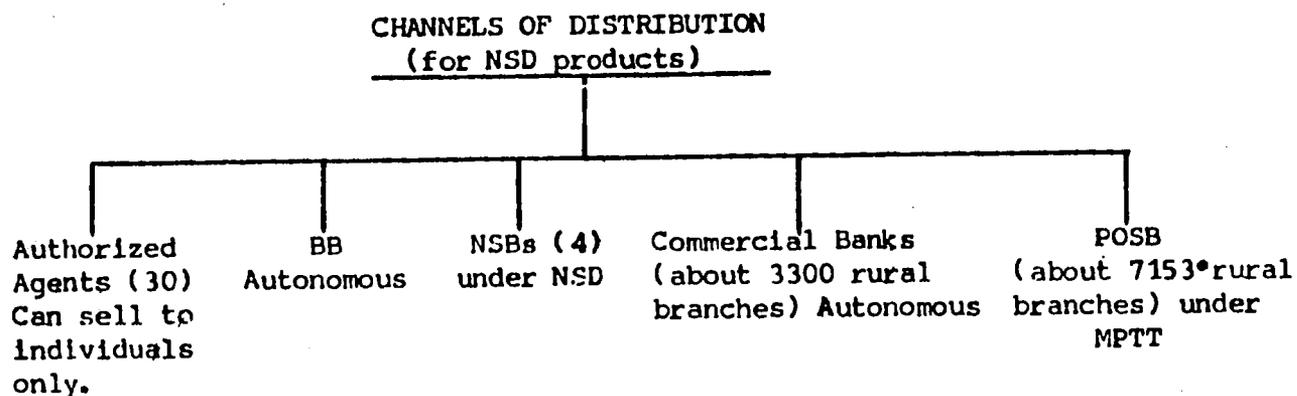
3.3 The NSC committee is broad based with a large membership (19) comprising representatives from various organisations/institutions. It is in a position to make useful recommendations to the GOB in matters of savings mobilization. On the other hand, one may be skeptical as to whether such a large committee with a diverse membership comprised of busy executives, led by the chief executive of a non-policy making body and lacking authority to enforce implementation of its decisions, can really be operationally effective (Annexes 3 and 4).

3.4 No further NSC meetings have been held in Dhaka as of writing this report (April, 1986). It is believed, however, that NSC meetings at the district level are held regularly (i.e. every 3 months).

4. NSD - Distribution Channels

Table 3 shows the five channels through which transaction of NSD products takes place. They are briefly described below.

4.1 The Bangladesh Bank: The Public Debt Office (PDO) of the Bangladesh Bank is responsible for the printing, control, storage, management and sales of Prize Bonds and Wage Earner Development Bonds. The BB sells NSD products and also looks after their encashment. Reimbursements/commissions to agent banks are sourced by debiting the NSD account maintained with them and by crediting the accounts of the individual banks maintained at the Bangladesh Bank. The BB takes care of reimbursing



- BB = Bangladesh Bank
- MPTT = Ministry of Posts, Telephone and Telegraph
- NSB = National Savings Bureau
- NSD = National Savings Directorate
- NSS = National Savings Schemes
- POSB = Post Office Savings Banks

• Number of POSBs as on 30.6.85 was 7624 of which:

Head Offices	=	70
Upazila Sub-Offices	=	401
Sub-Offices	=	816
Extra departmental sub offices	=	341
Branch Offices	=	12
Extra departmental branch offices	=	5984

Based on this estimate, the number of rural POSBs is 7153. Please see Annex 5 for details.

commission agents and the Bangladesh Post Office. The AGP&T directly liases with the BB. All encashed certificates and bonds are stored within Bangladesh Bank premises for about sixteen years when they are finally destroyed. This causes pressure on the limited storage space available. The Bangladesh Bank does not receive a commission/fee for the sale of NSD products. Instead, it gets a "Management and floatation charge" which is discussed in section 5.1.

- 4.2 The National Savings Bureaus (NSBs): NSBs comprize the only disbursement units that are directly under administrative control of the NSD. Generally, a NSB is staffed by 3 NSD employees - one officer and two clerical employees. However the NSB visited by the authors (within Sonali Bank premises) had one officer and three clerical employees, 4 in all. The officer-in-charge pointed out that there were more employees in that particular NSB since it was a very busy office. And in fact the NSD Director remarked that the particular NSB sales were greater than the total sales of the other three bureaus combined.

To date, NSD has been able to establish only four NSBs-two at Dhaka, one at Narayanganj and one at Chittagong. These bureaus are all housed on Sonali Bank premises. The overall plan is to open at least one NSB in each of the 64 districts. Existing district offices would come to function as NSBs. The NSD official interviewed mentioned an immediate plan for the establishment of six more NSB offices by June 30th, 1986. Selected locations are in Bogra, Dinajpur, Jessore, Sylhet, Dhaka and Mymensingh. Three of these NSBs would be housed within Bangladesh Bank premises (Sylhet, Bogra, Dhaka) and the rest would be District Savings Offices (DSOs) converted into NSBs.

The NSB official interrogated mentioned various problems that arise out of having to operate an independent office within the premises of an external host institution. The problems are magnified because the host is selling the same products. It appears that the NSD does not set any "target" or quotas for its NSBs. Therefore, NSB officials are not eligible for the prizes NSD grants annually to its "best" employees. The NSB is allowed to maintain a Tk.5000/- fund always on hand for the purchase/encashment of Prize Bonds. If none are on hand, the NSB official simply purchases them from another bank and resells them. Interest rate calculations are done at NSB offices by the employees. No system of auditing NSB books of accounts has been established.

- 4.3 NSD product sales by NCBs, BKB, BSB, BSBL and Private banks: NSD sales are also conducted by autonomous banks. The exact number and locations of banks selling NSD products is unknown, although theoretically all banks are eligible to do so. Bangladesh Bank records (Prizes Bond & Securities Section) reveal that all NCBs in addition to Pubali, Uttara, Grindlays, Standard Chartered, United Commercial, American Express, BCCI, BSB, and the BB actively sell NSD products. There are probably several more commercial banks dealing in NSD goods, which a thorough search of the P.B. and Securities Section books would reveal. Of a total of 5000 bank branches in the country (as on June 1985, Bangladesh Bank Statistic) there are about 3325 bank branches serving in rural areas.

Commercial banks must pay for the Prize Bonds they order. Consumers have been heard to complain that the banks win the majority of Prize Bond awards. This is a legitimate claim, since all PBs are paid for by the banks. Those that are not sold and remain in the bank's vault are eligible for prizes. Consumers have also complained of the apathy of commercial banks to sell NSD products. The NSD is aware of the situation, but unable to take any action

It is reported that targets were set for the first time for NSBs in FY '85-'86.

to compel them to sell the products since banks are autonomous bodies. NSD officials believe that very few commercial banks (except Sonali) carry NSD products.

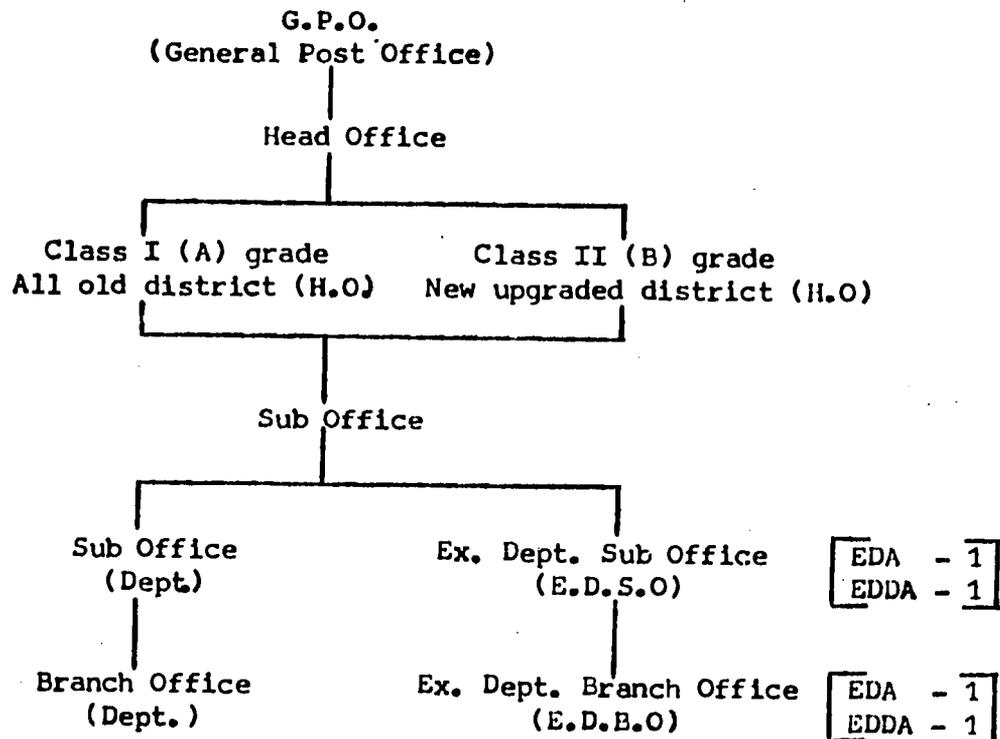
- 4.4 Individual Commission Agents: Individual Commission agents are being used by NSD since June, 1985. The appointment of these agents was based on a recommendation by the Chairman of the NSD. The function of such agents is limited to the sale of three NSD products only-DSCs, BSCs and 5YBSCs. The program is on an experimental stage. The original plan had been to appoint 44 commission agents (2 in each of the 20 former districts and 4 in Narayanganj industrial area). It was not possible to make all of the appointments for various reasons. Also, many of the original appointees were dropped as they were unsuccessful in mobilizing any investment within 2 months of their appointment (as per the agency contract rules). Current number of commission agents is about 30. They are appointed by the NSD, but may not be selected from among NSD employees. The Post Office is reported to be using 4 such agents (2 each in Chittagong and Sylhet districts). However, unlike the NSD agents, these are P.O. employees working on a salary cum commission basis.

The position of commission agents is unique among NSD's disbursement agents. These agents do not handle cash, nor carry any NSD products personally. Their role is simply to persuade an investor to buy one of the 3 products they are eligible to promote. The potential investor is brought by the agent to any institution (a bank, a POSB or a NSB) selling NSD products. The relevant institution will in turn certify that the particular agent has been responsible for mobilizing the sale. This certificate is the basis on which the agent receives his commission. The system is represented graphically in section 5.3. Once the sale is completed, the agent's role comes to an end. The investor must go directly to the institution of sale for any subsequent withdrawals or encashments he may want to make.

Commission agents sign a fidelity bond on appointment. Their appointments are based on the recommendation of the Govt. District Chairman and the Assistant Director of the District Savings Office. They are allowed to mobilize savings of individuals only. The reason for this is probably the fact that agents are paid on a percentage basis (1% of sales). Sale to an institution would bring an abnormally large commission to them. Also institutions may not need individual sales person assistance. They automatically invest directly in NSD products on a regular basis partly because of the favourable tax treatment carried by such investments. The NSD is expecting to appoint about 40 similar commission agents from among the members of the Dhaka Stock Exchange. The decision is based on a resolution taken at the August NSC meeting (Annex 4).

- 4.5 The Post Office Savings Banks: The organizational chart of the postal department is presented below. Annex 5 exhibits the number of post offices as on 30.6.85. It is govt. policy to introduce one post office per 2000/population. Of the total number of 7624 post offices in the country, about 7153 (if one excludes the Head Offices and the Upazila Sub-offices as being "urban") are in rural areas. The number of post offices under the Post Office Department is about 1299. The remaining 6325 are agencies, referred to as "extra-departmental" sub-offices or branch offices.

Organizational Structure of the Postal Department



- G.P.O. - 4 G.P.Os Sr. Scale Officers
- Head Office - Class I (A) grade all old district H.O. class one gazetted officer.
- Head Office - Class II (B) grade new upgraded district H.O. Junior level officer.
- Sub Office - Dept. Office in account with a H.O.
- Extra Dept. Sub Office - In account with a H.O. but headed by an Extra Departmental Agent (EDA)
- Branch Office (Dept.) - In account with a Sub Office (any kind) headed by a Dept. Official
- Extra Dept. B.O.(EDBO)- In account with a Sub Office headed by an Extra Dept. Agent.
- EDDA - Extra Departmental Delivery Agent.

Source: Published book of the Postal Department, 1982.

Theoretically, all post-offices including the extra-departmental ones have been vested with "Savings bank powers" since February, 1980 (Annex 6). It is to be noted that when the Post Office refers to "branch offices" as in the letter in Annex 6 it connotes extra-departmental offices as well. However, the NSD officials are under the impression that extra-departmental offices do not function as POSBs. Field visits were undertaken partly to clarify the discrepancy between the statements of the Post Office and the NSD officials.

4.5.1 Visit to Manikganj District H.O., Postal Dept., Manikganj:

The Manikganj Head Office was established in 1955. Currently it has 17 sub offices reporting to it. It has one Post Master who is a gazetted officer. There is also one Assistant Post Master (APM), 2 Inspectors and 12 clerical staff. The APM looks after the POSB operations.

The Manikganj H.O. sells most of the NSD products. (It appears that BSCs and ODAs are very popular products in that region). The certificates are ordered by means of an indent (please see Table 5) made to the Controller of Depot of that region ("circle") which is Dhaka, in this case. The certificates are insured, and sent to the Manikganj Head Office. It is considered to be a "transfer" within the Postal system. No money changes hands. Certificates are sold at face value to customers. Monthly statements are sent to the Offices of the Post Master General and the Director General at the G.P.O. in Dhaka. All statements of accounts are sent to the office of the Accountant General, Post and Telegraph (Dhaka) for maintenance of records.

Interest rate calculations (including those of the sub offices) are done at the Manikganj Head Office. However, there is no individual especially designated to manage

POSB account calculations. Monitoring of sub-office accounts is done by a check of the deposit and encashment slips sent with the daily statements received from the sub-offices. Monitoring is also achieved through monthly tours by the District level Postal Inspector (Mails). However, it must be noted that POSBs are not a priority responsibility of Post Office employees.

There is no direct communication between Regional or District Postal Offices and the NSD. All NSD correspondence is via the P.M.G. or the Director General of the Bangladesh Post Office, Dhaka.

4.5.2 The extra departmental sub-office and the extra departmental branch office (EDSO and EDBO): Each EDSO or EDBO is manned by 2 bonded agents, namely:

- 1) An EDA (Extra Departmental Agent) and
- 2) An EDDA (Extra Departmental Delivery Agent or Post Man)

An "allowance" paid to EDAs and EDDAs of EDSOs and EDBOs by the Bangladesh Post Office, Dhaka is allocated in the following manners:

for EDSOs - Tk.440/- month each for the EDA and the EDDA

for EDBOs - Tk.320/- month each for the EDA and the EDDA

In some areas where mail traffic is heavy an employee of the Postal Department is likely to be assigned as EDDA. In this case he earns far more than the EDA. Working hours of these agencies is not fixed. (Please see the organogram of the Postal Department in Section 4.5). The permission to establish an extra departmental office once obtained does not require renewal.

4.5.3 Gorpara EDSO and ISV - an example of NSD outreach:

Gorpara is located about four miles north of Manikganj town. It is easily accessible by car although most of it is a dirt road. An Inspector (Mails) from the District Postal Head Office visits the EDSO once a month as a part of his normal touring program. Gorpara is also an NSD Ideal Savings Village (ISV - Section 7.10). It is regularly visited by an NSD official (every two months). Two female voluntary NSD agents mobilize resources in the Gorpara ISV. These voluntary agents receive no form of remuneration whatsoever other than occasional prizes for effort.

The EDSO is housed in a spare room of the Union Council Office. There is no sign board indicating that it is an EDSO. Working hours are reportedly from 9:00 - 2:00 P.M. The EDA has been here since 1965. The EDDA (Post Man) is a Post Office employee.

The EDSO visited handles only ordinary Deposit passbook accounts (ODAs). There are 79 ODA holders. Present deposit size (principal only) is about Tk.800/-. No interest calculations are done at the EDSO. Daily statements are sent to the District Head Office. No cash is stored on premises. All deposits are transferred to the District Head Office (Manikganj in this case) and withdrawals are also brought from there.

4.5.4 Summary of remarks about POSBs: The niche in which POSBs fit in the National Savings Schemes network is mentioned in the "Rules of Business" of the GOB. In the Rulebook, the IRD has been designated with the responsibility of internal resource mobilization. The Post Offices and banks have been named as operative agents in charge of mobilizing domestic savings through the sale of NSD products.

It appears that all 7624 post offices may operate as POSBs. The EDSO visited was a POSB even though it operated only one kind of passbook account and sold no NSD certificates. Table 4 has tried to project the availability of NSD products by types of organizations within the postal system. Projections have been based on the Author's experience during her field visit and on discussions with post office officials. However, no establishment records are maintained and no P.O. or NSD officials are aware of the location and number of operating POSBs. Nor does anybody know what NSD products they are selling.

5. Remuneration of Distribution Agents

The agents are reimbursed in the following manners:

5.1 The Bangladesh Bank receives a "management and floatation" allowance from the government NSD account maintained in the Bangladesh Bank. This amounts to Tk.2000/- per Tk.10 million of sales/investment of NSD products as a floatation charge, and Tk.1000/- per Tk.10 million of sales as a payment for "managing" NSD accounts.

5.2 Remuneration of POSB operators is in the form of a fee for "reimbursement of working expenses." All NSD products are supplied to the Post Office (except Prize Bonds) on credit. NSD "reimbursements" to the Post Office is credited to the account of the Accountant General Post and Telegraph (AG, P&T) and debited to the NSD account at the BB. The fee schedule is Tk.1.50 per savings depository transaction by the POSB and Tk.1.00 per transaction (sales/encashment) of savings certificates.¹ Total

1/ The higher fee of Tk.1.50 per transaction of POSB accounts is probably meant as an incentive to promote savings bank accounts. However, the intention is self defeating. A higher fee for POSB accounts does not benefit the individual actually working at the POSB.

POSBs and Commercial Banks - outlets, terms and products

Product	Rate of r.	Commercial banks (about 5000 branches)	Post Offices (about 7524)					
			70 H.O.	401 Upazila S.Os.	816 S.Os.	341 EDSOs	12 B.Os	5984 EDBOs
Defence Saving Certificate	.21	x	x	x	x			
Bonus Saving Certificate	.22	x	x	x	x			
5 Years Bangladesh Saving Certificate	.18	x	x	x	x			
Prize Bond	Prizes	x	x	x	x			
WEDB ^{1/}	.23	x						
Savings Stamps			x	x	x	x		
Call deposits (inter bank lending)	.045	x						
Current (checking)	0	x						
<u>Fixed Deposit Accounts -</u>								
3 months through < 6 months	.12	x						
6 months through < 1 Years	.13	x						
1 Year	.15		x	x	x			
1 year thr < 2 years	.14	x						
2 Years	.155		x	x	x			
2 years thr < 3 years	.145	x						
3 years	.16		x	x	x			
> 3 years	.15	x						
Bonus Accounts (6 years)	.22		x	x	x			
Postal Life Insurance	Bonus ^{2/}		x	x	x			
Deposit Pension Scheme	.15 ^{3/}	x						
ODA (non-checking)	.115		x	x	x	x		
Savings/non-checking	.10 (urban) .11 (rural)	x						
Savings/checking	.085 (urban) .105 (rural)	x x						

Contd....

Notes:

- 1/ WEDBs are sold only at those financial institutions maintaining a foreign exchange account within Bangladesh and by all Bangladesh banks abroad.
 - 2/ A sort of periodic "dividend" payment to policy-holders made at the rate of approx. .042 (4.2%) for whole life policies, and .033 (3.3%) for endowment policies.
 - 3/ .15 = Compound interest. All other rates are simple interest rates unless otherwise stated.
- NSD refers to its rate of return as "rate of profit."
 - Despite a substantial amount of effort, it was not possible to arrive at a concrete value regarding the exact number and locations of NSD outlets.
 - An x indicates that the product is offered at that particular outlet.
 - Projections regarding NSD products offered by POSBs have been based on the Author's personal impression during her field visit and on conversations with Post Office officials in Dhaka. There are about 7153 Post Offices as against about 3325 bank branches in rural areas.

Source: Statistical Yearbook, Bangladesh Bureau of Statistics, 1984-85.

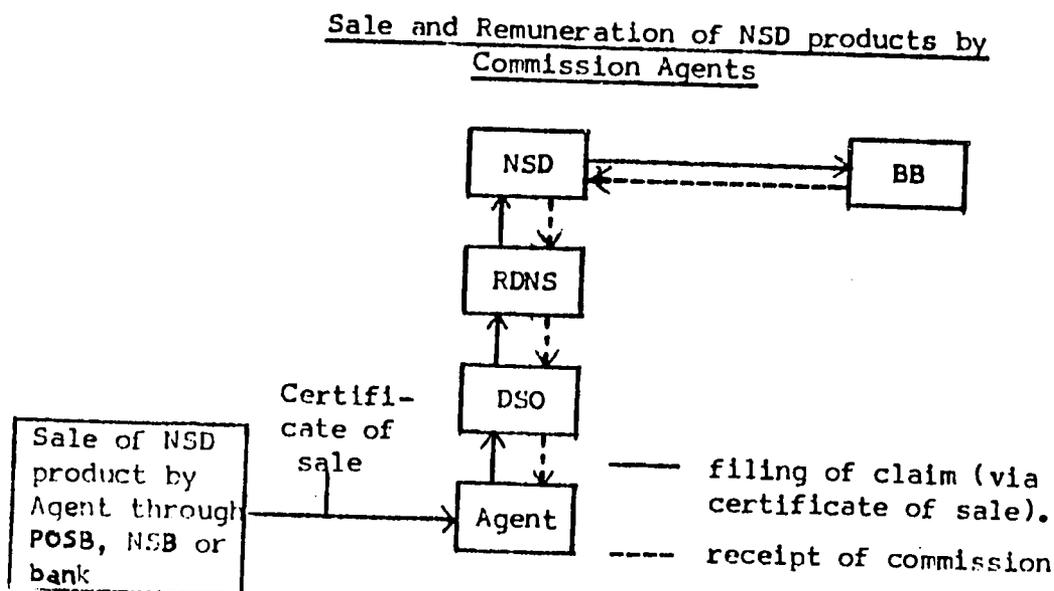
Economic Trends, Statistics Department, Bangladesh Bank, December 1985.

National Savings Directorate, Dhaka.

working expenses paid to the AG, P&T in 1984-85 was Tk.106.2 million (Annex 9). For the sale of Prize Bonds the Post Office receives 1% of sale price for fresh bonds, ½% of sale price for reissued bonds (Annex 7).

For the sale of PLI, the Post Office receives Tk.2.00 per policy at the time of sale and Tk.1.00 per year during the life of the policy. Any employee of the POD may additionally function as a PLI agent once he has purchased such a policy for himself. The PLI agent is remunerated over a two year period according to a fee schedule which normally does not exceed Tk.10.00 per policy.

5.3 Commission Agents receive 1% of sales proceed. These agents are paid directly by the Bangladesh Bank. It is to be noted that as of date, performance of the authorized agents has been very commendable. (Tk.8.5 million sales since their appointment in 1985). The following flowchart depicts the manner in which commission agents are remunerated.



5.4 The National Savings Bureau (NSB) officials are NSD employees and receive their salaries from the Auditor General's Office (under MF) like all other government employees.

Annex 9 exhibits the amount of remuneration paid by NSD to Banks and Post Offices in order to operate its savings schemes. It also shows NSD's total operating cost as a percentage of its total investment.

5.5 Commissions to scheduled banks are paid according to the following rate: 1% for the sale of certificates to individuals and Tk.0.25 for the sale or encashment of certificates to institutions (Annex 8). The difference between sales commission rates and institutional fees could mean either that:

1. NSD wishes to discourage the sale of its products to institutions, or
2. NSD believes that institutions will invest in NSD products anyway, so why pay more than Tk.25?

For the sale of Prize Bonds, banks receive 1% (of sale price) for the sale of new bonds. ½% (of sale price) for the sale of reissued bonds (Annex 7). Commercial banks must purchase the Prize Bonds they obtain from the Bangladesh Bank.

5.6 Remarks about Commissions paid to Post Offices and Commercial Banks: Contradictory statements regarding the amount and method of remuneration by NSD to its agents made necessary numerous trips to the Bangladesh Bank, the NSD office and the General Post Office to clarify issues. The objective was to locate the official order that specifies the exact rules. It was finally obtained from the NSD office. There are two separate orders, one for Prize Bonds, the other for Savings Certificates. They are reproduced in Annexes 7 and 8. The first is a GOB order. The second does not carry any official stamp. One was issued in 1976, the other carries no date. These are the official documents being followed by the B.B., the NSD and the commercial bank visited (IFIC). Any order prior to this one was not evident in the institutions visited. It appears that there is still a discrepancy between the official instruction and the manner in which commission is being given to the banks. The Bangladesh Bank grants to all agents a flat rate fee of Tk.0.25 for all encashments (institutional and non-institutional) of savings certificates. The official order prescribes a fee payment for institutional sales only. Neither NSD nor BB officials interrogated were aware of the correct schedule of commissions. The accuracy of the manner in which the Post Office is receiving its fee for the

sale of savings certificates and PBs could not be verified because the official order regarding payment to the Post Office was unavailable.

6. Receiving the NSD Products

Table 5 exhibits how NSD products are supplied to its various agents. All PBs and WEDBs are stored at the Bangladesh Bank. They are supplied from there whenever indents are placed. Regarding other NSD scripts, $\frac{1}{3}$ of all NSD scripts are stored in the Bangladesh Bank, $\frac{1}{3}$ in the NSD office and $\frac{1}{3}$ in the General Post Office.

Scheduled bank head offices and branches make indents exclusively to BB and receive the products from it. Other agents (GPO, NSBs and the BB) indent the NSD.

For banks, the indent to Bangladesh Bank is addressed to the Manager, Prize Bond Section. ("P.B. Section" is a misnomer since it handles all NSD products). A bank branch may make indents to the Bangladesh Bank or to its own Head Office. The products must be collected by the party requesting them.

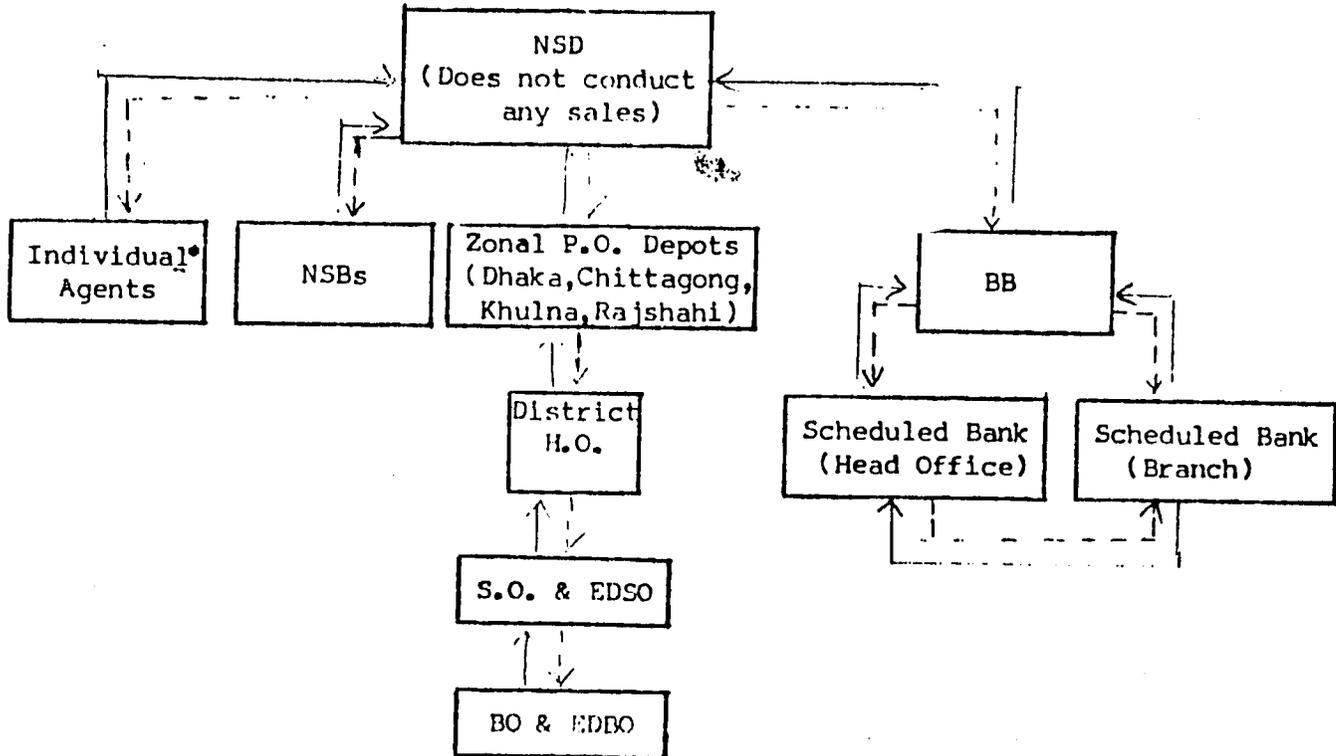
Post Office Depots (Dhaka, Chittagong, Rajshahi, Khulna) make indents to the NSD and collect products from it. The P.O. Depots, in turn, receive indents from their District Head Offices. Products are insured and mailed to the Post Office requesting them.

The Bangladesh Bank itself requests and receives NSD products from the NSD office.

Monthly inventory statements are sent to NSD by its distributing agents. However, there does not appear to be any strict monitoring. Products are usually supplied whenever a request for them is made.

Savings certificates are printed at the Govt. Printing Press. Only Prize Bonds are printed externally (abroad). There is an ample supply of products at the NSD office, the main Post Office depots and in the Bangladesh Bank vault.

CHANNELS OF DISTRIBUTION



- Indent for NSD Products
- - - Delivery of NSD Products

Note: As a matter of policy, 1/3 of the total amount of NSD scripts are stored with the Bangladesh Bank 1/3 with the GPO and 1/3 with the NSD.

- PBs and WEDBs are stored in BB premises and are supplied from there to the scheduled Banks, the P.O. Depots, and NSBs.
- Monthly statements regarding the status of NSD products are sent by the P.O. Depots, the NSBs, the Individual Agents and the BB to the NSD.
- All agents must collect the products themselves from the NSD (scheduled banks must collect from the BB). PBs are paid for on delivery.

- BB = Bangladesh Bank
- BO = Branch Office
- EDBO = Extra Departmental Branch Office
- EDSO = Extra Departmental Sub-Office
- NSB = National Savings Bureau
- NSD = National Savings Directorate
- PO = Post Office.
- HO = Head Office

• Commission (Individual) Agents do not carry any NSD Products with them. Their only link with NSD in this table is for claim & receipt of Commission (See Section 5.3).

7. NSD Products - A profile of National Savings Schemes

Tables 6 and 7 illustrate the various products offered by the NSD. In addition to these products, the NSD also has 40 villages under its Ideal Savings Village (ISV) program (Table 8).

Most NSD certificates carry an investment ceiling. There are two probable reasons for this :

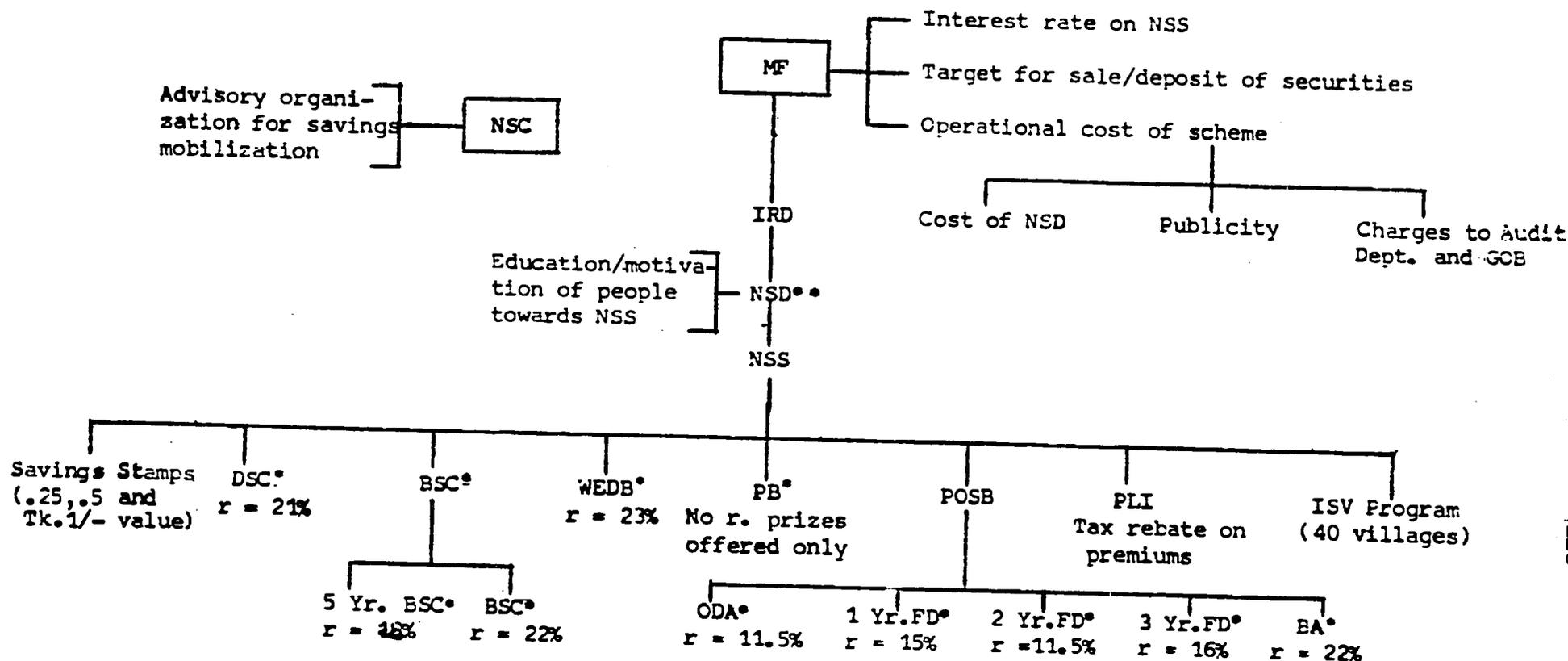
- 1) Since returns are tax-exempt, the ceiling had to be placed due to cost considerations on the part of the government.
- 2) NSD policy encourages the mobilization of individual savings, particularly, "small savings".

7.1 Defense Savings Certificate (DSC, Table - 9)

Issuing authority: BB, NSBs, POs and banks

The DSC was introduced in March, 1976. It can be purchased and retired at NSBs, POs and banks. The denominations for DSC are, of Tk. 5, Tk. 10, Tk. 50, Tk. 100, Tk. 500, Tk. 1,000, Tk. 5,000, Tk. 10,000 and Tk. 50,000. Certificates mature at 8 years from the date of purchase and carry a simple rate of interest of 21% per annum. The certificate can be retired before the date of maturity, but the holder has to sacrifice a proportionate amount of the interest. An Income Tax rebate is allowed based on the face value of certificates purchased in a year. The interest on the certificates is tax free. Such certificates can be used as collateral or security deposit for loans. In case such certificates are destroyed or lost they can be reissued. The purchaser may appoint a beneficiary in case he dies. An adult can also purchase these certificates on behalf of a minor.

CURRENT PRODUCTS/PROGRAMS OFFERED BY NATIONAL SAVINGS SCHEMES (NSS)



BA = Bonus Account
 BSC = Bonus Savings Certificate
 DSC = Defence Savings Certificate
 FDA = Fixed Deposit Account
 IRD = Internal Resources Division
 ISV = Ideal Savings Villages
 MF = Ministry of Finance

NSC = National Savings Council
 NSD = National Savings Directorate
 ODA = Ordinary Deposit Account
 PB = Prize Bond
 PLI = Postal Life Insurance
 POSB = Post Office Savings Banks
 WEDE = Wage Earner's Development Bond

* Returns are Tax-free
 ** Organizational Chart of NSD appears in Table 2.

NATIONAL SAVINGS SCHEMES (NSS)

ADMINISTERED BY NATIONAL SAVINGS DIRECTORATE

1. Defense Savings Certificate. (DSC)
2. Bonus Savings Certificate. (BSC)
3. 5 Year Bangladesh Savings Certificate. (5-YBSC)
4. Price Bond. (PB)
5. Wage Earners' Development Bond (WEDB)
6. Post Office Savings Bank (POSB)
 - i) Ordinary Deposit Account (ODA)
 - ii) Fixed Deposit Account (FDA) for
 - a) One year
 - b) Two year
 - c) Three year
 - iii) Bonus Account (BA)
7. Postal Life Insurance (PLA)
8. Savings Stamps

Source: National Savings Directorate, Dhaka, January 1985.

LIST OF IDEAL SAVINGS VILLAGES (ISV)

<u>Village</u>	<u>District</u>
Sharolia	Dhaka
Shibalaya	Dhaka
Islampur	Dhaka
Birampur	Dhaka
Moksedpur	Mymensingh
Bonali	Jamalpur
Kanaipur	Faridpur
Bedgram	Faridpur
Jhikorhat	Faridpur
Mirer Betka	Tangail
Pirozpur	Rajshahi
Nowhatta	Rajshahi
Rajarampur	Rajshahi
Ekdaia	Rajshahi
Nothurapur	Dinajpur
Protab	Rangpur
Mdla	Bogra
Gupinathpur	Bogra
Kulgaon	Chittagong
Balagata	Chittagong Hill

P.T.O.

Tracts	
Krishnarampur	Noakhali
Foleswar	Noakhali
Dulipara	Comilla
Datiara	Comilla
Moishadi	Comilla
Balikandi	Sylhet
Kadamtoli	Sylhet
Mohonpur	Sylhet
Arpin Nagar	Sylhet
Labsha	Khulna
Sreephol tola	Khulna
Satiantola	Jessore
Burabaduria	Jessore
Rasulpur	Jessore
Karnakhati	Barisal
Kanainagar	Barisal
Shikarpur	Barisal
Isanil	Barisal
Hazrahati	Kushtia
<u>Kalishankerpur</u>	Kushtia
Total	40

Source: National Savings Directorate, Dhaka: January, 1985

There is no investment limit on the DSCs (Table 9) purchased by individuals. It is said that a presidential order in 1976 exempted DSCs from having an investment ceiling. The order was never subsequently reviewed. However, there are varying limits for commercial banks, cooperative banks and societies, firms, and on purchases by employers for their employees. These limits are adjusted from time to time by the MF, GOB* through gazette notifications. For registered cooperatives and Cooperative Land Mortgage Banks the limit currently is Tk. 1,00,000; for Cooperative banks it is Tk. 5,00,000 and for all other banks (including BB), the corporated companies and registered firms, it is Tk. 25,000. If employers purchase for a single employee the limit is Tk. 25,000; if purchase is for all employees, it is Tk. 2,00,000. In the latter case the employer receives the tax rebate on purchase and the employee receives the return on maturity.

7.2 Bonus Savings Certificate (BSC, Table 10)

Issuing authority: BB, NSBs, POs and banks

BSCs were introduced on December 20, 1977. They can be purchased and retired at banks, POs and NSBs. The denominations in which these certificates are issued are Tk. 50, Tk. 100, Tk. 500, Tk. 1,000, Tk. 5,000 and Tk. 10,000. Interest rate is 22% simple interest per annum. Maturity is at 6 years. The certificates may be encashed before maturity, but only for completed years. Otherwise, interest has to be foregone by the investor.

Certificate earnings and cash-in-values are tax free. No rebates are allowed against the purchase value of certificates. They can be used as collateral for loans. A beneficiary can be appointed in case of death of the owner before the certificate matures.

* Notes: Interest rate fixing is not done by the Central Bank.

They can be replaced if burned or lost. Maximum ownership limits of these certificates are Tk. 50,000 for individuals and Tk. 1,00,000 for joint holders. They can not be bought by corporate bodies, political authorities, Non-Government Organizations (NGOs).

7.3 5-Year Bangladesh Savings Certificate (5-YBSC, Table 11)

Issuing authority: BB, NSBs, POs and banks

5-YBSC was introduced on October 1, 1973. They can be purchased and encashed in all operative units of NSD. The denominations of the certificate are Tk. 10, Tk. 50, Tk. 100, Tk. 500, Tk. 1,000, Tk. 5,000 and Tk. 10,000. The certificates mature at 5 years from the date of purchase and carry a simple rate of interest of 18%. The certificates can be retired with the issuing authority before maturity. In such case the holder foregoes proportionate part of the interest.

7.4 Outstanding balances on various kinds of NSD products are shown in Table 12.

Interest payment on these securities is tax free. An income tax rebate is given on the face value of the certificates in the year of purchase. The certificates are acceptable as collateral for loans. In case of loss or damage to the securities they can be reissued. The purchasees may appoint beneficiaries to receive the proceeds in case of purchasees' death.

7.5 Post Office Savings Bank (POSB) Depository Accounts and Savings Certificates (Table 13)

The POSB is an operative agent of the NSD. Since post offices are within reach of both rural and urban masses the GOB depends on these facilities for inculcating better savings habits among

the people, especially those in the low income groups. POSB facilities are reported to be available in about 7624 POs in Bangladesh. But as noted in the "Summary of remarks on POSBs" on page 16, no one knows how many active POSBs there are. The POSB rates are one percent above Scheduled Bank (SB) rates. However, the complicated marketing mechanism seems to reduce their appeal to savers. Withdrawals of deposits, other than from General or Head POs usually take 2-3 weeks time. Interest rates and all other rules and regulations governing the savings schemes are fixed by the MF, GOB.

The following are savings schemes of the POSBs:

i) Ordinary Deposit Account (ODA, Table 14)

This account can be opened by depositing only Tk. 2/- and maintaining a Tk. 1/- minimum balance. ODAs enjoy an interest rate of 11.50% per annum. Rules and regulations are quite similar to those of commercial banks. The maximum allowable balance is Tk. 1 lakh for individuals and Tk. 2 lakhs for joint holders.

ii) Fixed Deposit Account (FDA, Table 15)

FDAs are opened at terms of 1, 2 or 3 years with interest rates of 15%, 15.50% and 16%, respectively, per year. Interest can be withdrawn after every six months or redeposited into the same account. Maximum limits of such deposits are Tk. 2 lakhs for individuals and Tk. 4 lakhs for joint accounts held at Main and Divisional Sub-post offices and Tk. 25,000 for individuals and Tk. 40,000 for joint accounts in branch and Extra departmental Sub-post Offices. The minimum deposit is Tk. 1,000.

Minors can open Fixed Deposit Accounts on their own and adults can open them on their behalf. Local authorities e.g. Municipalities, Upazila Councils, registered cooperatives, etc. can open FDAs. Cooperatives, CBs and the BB can open such accounts for their employees. Money generated through provident funds can also be deposited by employers in POSB FDAs.

iii) Bonus Account (BA, Table 16)

These accounts have a fixed period of 6 years and carry a simple interest rate of 22% per annum. The deposited money can be withdrawn before the expiry of the six year period but the depositors will receive no interest if encashed before the expiry of one year. Returns on these accounts are exactly like those of the BSC. Interest earnings are tax free. Accounts can only be opened by individuals, joint holders, or by non-business/government organizations on behalf of their employees. The minimum amount of such deposits is set at Tk. 100. The maximum BA deposit limits is Tk. 50,000 for individuals and Tk. 1,00,000 for joint accounts. If the deposited amount and interest are not withdrawn at maturity, the account is automatically renewed for another 6 year period.

7.6 Wage Earner Development Bond (WEDB, Table 17)

Issuing authority: Scheduled Banks with Foreign Currency Accounts only:

In order to encourage remittance of hard currency earnings of Bangladeshi nationals working abroad and, coincidentally, reducing dependency on foreign loans for financing the country's development projects, the MF, GOB introduced WEDBs in 1981. The term of WEDBs is 5 years.

These Bonds are issued in denominations of Tk. 1,000, Tk. 5,000, Tk. 10,000 and Tk. 25,000, available from all Bangladeshi banks functioning abroad and authorized domestic banks (i.e. those having Foreign Currency Accounts). They may be purchased only in foreign currency by the Wage Earners, themselves, or by persons authorized by them against their foreign earnings. The Bonds carry simple interest @ 23% per annum. The holder has the option of drawing simple interest on a half-yearly basis, or drawing all of the interest compounded semi-annually along with the principal amount on maturity of the bonds. In addition, a death-risk benefit ranging from 30% to 50% of the total investment in these bonds is available, provided the wage earner purchases bonds at least in the amount of Tk. 25,000. The entire amount invested in these Bonds together with the interest earned on them is exempt from income tax. The holders of these bonds may obtain loans from any scheduled bank in Bangladesh. If the bonds are lost, stolen or destroyed, the holder or his/her designated beneficiary may obtain duplicate bonds. They may also be encashed for their principal value plus simple interest, prior to maturity, but not before a minimum of two years after purchase of the bond.

7.7 Prize Bond (PB, Table 18)

Issuing authority: BB, POSBs, NSBs and Scheduled banks

Unlike other savings bonds and certificates the PB holder does not receive any interest. Prizes of different amounts are awarded through lottery type drawings to Bond holders whose bond numbers are drawn. PBs were introduced originally on October 1, 1960 for Tk. 10 each. On July 24, 1964, a Tk. 5 denomination was introduced. After the liberation of Bangladesh the latter was discontinued but reintroduced on June 1, 1974. The first post liberation drawing was held on September 14, 1974. Currently PBs are issued by the BB in denomination of Tk. 10 and Tk. 50 only. Draws are

held every alternate month. These Bonds can be bought, sold or transferred openly. They are available in banks, POs and NSBs. Prize Bonds are issued in Series Identified by letters — A, B, C, (KA, KHA) etc. Additionally each bond has a serial number. Each PB series is worth Tk. 75 thousand. There are 100 prizes in 5 categories.

The prize categories for each series are as follows:

	<u>Taka</u>
One prize of Tk. 50,000	50,000
One prize of Tk. 10,000	10,000
Four prizes of Tk. 1,000 each	4,000
Four prizes of Tk. 500 each	2,000
Ninety prizes of Tk. 100 each	<u>9,000</u>
Total 5 categories	75,000 per draw.

This is speculative in nature. Prize winnings are tax free. Only bonds which have been issued in the market at least one month before the drawing date are qualified for prizes. Series numbers as well as serial numbers (e.g., series A, numbers 100-180) are means by which a bond-holder may identify whether his bond is included in a particular drawing or not. All drawings are held publicly, and the winning numbers are announced on media.

7.8 Postal Life Insurance (PLI, Table 19)

Issuing authority: POs only

There are six major types of policies all of which are ordinary or individual policies. Premiums can be paid on a monthly or yearly basis. Current bonus rates on policies are 4.2% per annum of the insured amount for whole life insurance policies. All insurance policies in this scheme are guaranteed by the GOB. All such policies are available only at head and Sub-Post Offices. The six types of policies are :

1. Whole Life Insurance Policy
2. Endowment Insurance Policy
3. Endowment Education Insurance Policy
4. Endowment Marriage Insurance Policy
5. Accidental Death and Disability Insurance Policy
6. Insurance without Medical Check-up.

There is an assessment of total income versus total expenditure every 2 to 3 years for the PLI program. The balance outstanding is distributed among all PLI policy-holders as a "bonus".

Bonuses, at present, are based on profits at 4.2% of premium values per annum for whole life policies, whereas, for endowment insurance policies they are around 3.3% per annum.

7.9 Savings Stamps

Issuing authority: POs and NSBs

Savings stamps are available in Tk. 0.25, Tk. 0.50 and Tk. 1.00 denominations. These stamps may be exchanged for a savings certificate or for a Prize Bond. They may also be used for opening a POSB account.

7.10 The Ideal Savings Village (ISV)

In 1978, the GOB introduced a village oriented savings drive - ISV aimed at the promotion of thrift and effective mobilization of savings in rural areas. It was targeted towards people of small income living below subsistence level. The plan was to select villages after collection of various data relating to population, number of households, income, etc. at the thana level (now upazila). Savings officers would periodically conduct savings campaigns in collaboration with local volunteers and local influential persons. They would personally approach each household and persuade its members to participate in the nation's savings

movement, in any manner they liked. Arrangement was also made to award prizes to villages that performed well. Unfortunately the program was not as successful as it should have been.

Probable reasons are :

- i) Lack of initiative and proper planning by the NSD, primarily because of lack of field staff.
- ii) Abolishment of Thana level Savings Officer posts in 1984 and non-replacement of the same by Upazila Savings Officers by GOB and, thereby, the loss of personal contact with potential rural savers. It should be noted that personal contact or on the spot and impromptu group discussion is very helpful for moulding habits and training the minds of rural poor.

The program was not extended any further. Table 8 lists the names of the existing number of ideal savings villages.

8. Summary of NSS Interest Rates

interest
Simple/ rates on various NSs is fixed by the MF, GOB. The current interest rate on different Schemes is shown below :

<u>NSS</u>	<u>Simple Rates of Interest</u>
8-Y DSC	21%
5-Y BSC	18%
6-Y BSC	22%
5-Y WEDB	23%
<u>POSB:</u>	
ODA	11.5%
1-Y FDA	15%
2-Y FDA	15.5%
3-Y FDA	16%
6-Y BA	22%

Interest is paid on Savings Certificates for completed years only. No interest is allowed for a broken period of a year. Redemption values are written on the face of each certificate. Thus, whenever the holders of SCs present their certificates to the POs or banks for redemption, the POs or the banks make payment of the redemption value which is written on the body of the certificate. Interest on POSB FDAs is paid for complete years. The interest on FDA is paid by the POs when the depositors approach the postal counter on completion of the term of their accounts. Interest on POSB ODA is, however, calculated by the Audit Department (AD), GOB on the basis of the balance outstanding to the credit of each account on the last day of each calendar year. Interest schedules are sent to the POs concerned for posting in the ledger and the relevant passbooks of the depositors. There is no integrated control over maintenance of POSB Accounts. Interest is calculated and ledger accounts are maintained both in Head POs and the AD, GOB. As a result of this dual control posting in the depositor passbooks is delayed and in some cases interest is not posted in the depositor passbooks for several years.

9. Summary of Returns and Benefits of National Savings Schemes (NSS)

Returns usually offered by the various NSS can be classified under two headings :

- i) Interest, and
- ii) Monetary and fiscal benefits.

The rates of interest and the other financial benefits associated with individual schemes are set forth below :

1. 8-Y DSC
 1. 21% simple interest or 13.11% compound interest, per annum
 2. Income tax rebate on purchase amount
 3. No income tax on returns
 4. Can be used as collateral for loans
 5. Can be used as security deposits
 6. Sold by banks, NSBs, Post Offices, and Commission agents.

2. 6-Y BSC
 1. 22% simple interest or 15.06% compound interest, per annum
 2. No income tax on returns
 3. Can be used as collateral for loans
 4. Can be used as security deposit
 5. Can not be purchased by any organization
 6. Sold by banks, NSBs, Post offices, and Commission agents.

3. 5-Y BSC
 1. 18% simple interest or 13.70% compound interest, per annum
 2. Income tax rebate on purchased amount
 3. No income tax on returns
 4. Can be used as collateral for loans
 5. Can be used as security deposit
 6. Sold by banks, NSBs, Post Office and Commission agents.

4. POSB:
 - i) ODA 11.5% compound interest per annum
 - ii) FDA:
 - One year 15% interest per annum compounded semi-annually
 - Two years 15.5% interest per annum compounded semi-annually
 - Three years 16% interest per annum compounded semi-annually
 - iii) 6-Y BA 22% simple interest or 15.06% compound interest per annum
No income tax on returns
Available only in Post Offices.

5. 5-Y WEDB
 1. 23% simple interest or 16.65% compound interest, per annum
 2. Death risk coverage to the extent of 30% - 50%
 3. No tax on returns or on amount of investment
 4. Sold only by those scheduled banks having a foreign currency account within Bangladesh and by all Bangladeshi banks abroad.

6. PB

1. Prizes offered:

Each series of Prize Bond is awarded 100 prizes in the following manner:

1 prize of Tk. 50,000	Tk. 50,000
1 prize of Tk. 10,000	Tk. 10,000
4 prizes of Tk. 1,000 each	Tk. 4,000
4 prizes of Tk. 500 each	Tk. 2,000
90 prizes of Tk. 100 each	Tk. 9,000
<hr/>	<hr/>
100	Tk. 75,000
===	=====

2. Prizes are tax free
3. Sold by banks, NSBs and POs.

7. PLI

1. Tax rebate on premiums
2. 4.2% simple interest (bonus) per annum on the insured amount for whole life insurance or around 3.5% compound interest per annum on annual premiums.
3. 3.3% simple interest (bonus) per annum on the insured amount for endowment insurance or 2.91% per annum compound rate on annual premiums.
4. Returns are tax free
5. Security against loss of benefit family of the insured due to death, disability or both
6. Wide range of policies
7. Guaranteed by the Government.

8. Savings Stamps

1. In denominations of Tk. 1, Tk. 0.50 and Tk. 0.25.
2. Sold by NSBs and Post Offices.

Compound interest rates of NSS range between 2.9% to 16.65%. The real financial return on NSS tends to be depressed depending upon the extent of inflation. If the compound interest rate of NSS is considerably above the inflation rate the NSS can be attractive to the investors. The table below shows the compound rate of interest on various NSS.

<u>NSS</u>	<u>Initial deposit</u>	<u>No. of years</u>	<u>Ending sum</u>	<u>Compound interest rate</u>	<u>Ranking</u>
DSC	100	08	268	13.11%	7
5-Y BSC	100	05	190	13.70%	6
BSC	100	06	232	15.06%	4
WEDB	100	05	214.97	16.65%	1
<u>POSB</u>					
OD	100	01	115	15.00%	5
FD	100	01	115	15.00%	5
	100	02	133.40	15.50%	3
	100	03	156.09	16.00%	2
BA	100	06	232	15.06%	4
<u>PLI</u>					
WLI	100	01	103.5	3.50%	8
ELI	100	01	102.91	2.90%	9

It may be observed that rate of return on most of the NSS is not very impressive given an inflation rate of 11.84% (TFYP, P. iii-17).

10. National Savings Schemes (NSS): Growth Rate

The growth rate of NSS has been measured on the basis of the average simple growth rate of the outstanding balances. For the measurement of growth rate, the NSS have been classified into following five heads :

- i) SCs (excluding PB and WEDB)
- ii) WEDB
- iii) PB
- iv) POSB
- v) PLI

From independence to 1982-83, the growth rate of PB, SCs and POSB Accounts were 688.67%, 587.28% and 138.86% respectively. The average annual growth rates of these schemes were 57.38%, 48.94% and 11.57%, respectively. WEDB grew at the rate of 204.25% per year since its introduction in 1980-81. Primary reasons for the high growth rate of WEDB include :

- i) It offers the highest interest rate (23% simple interest which works out to 16.65 at compound rate p.a) among the NSS.
- ii) It provides death risk coverage ranging from 30% - 50% of the investment for investment of Tk. 25,000 and over.
- iii) Absence from the country of the investors; thus, no withdrawals have been made so far.

In essence, as the wage earners are away from the country, the scope for making choice of reasonable investment avenues is limited. As the scheme is a new one with attractive benefit terms, most overseas wage earners appeared to favor it.

In terms of rate of growth, PB stands second. Although the average annual encashment of PB is 77% of the average annual investment, the factors responsible for a reasonable high growth rate seem to be :

- i) Attractiveness of Prize Bonds as gifts for social occasions.
- ii) Gambling and that "quick buck" syndrome.
- iii) Simplicity of the encashment procedure.

The average annual growth rate for SCs is lower than those of the PB and WEDB. The primary reasons appeared to be :

- i) In 1980, when the interest rate structure of NSS was re-organized; the rate of interest on 5-Y BSC was not increased. This drastically discouraged investment and actually, no investments in this scheme occurred in the years 1981-82 and 1982-83. However, the interest rate was raised in January, 1984, and sales have recommenced.

11. New Products

Three new NSD products are expected to be marketed shortly. They are:

1. A 3 year Sanchaya Patra (Savings Certificate) at 16% per annum.
2. An Automatic Pension Scheme similar to the Deposit Pension Scheme. Deposit limit will be from Tk. 100 to Tk. 1,000.
3. A social security scheme (under formulation).

12. Sale of NSD Products

12.1 Tables 9 to 11 depict some statistical information on individual NSD products. Among savings certificates, DSCs have the largest volume of investment in them. A very likely reason is the absence of an investment limit on DSCs.

Tables 12 to 16 show POSB sales by total volume and by individual products. There is an outstanding balance of Tk. 949.4 million (1984-85) on POSB accounts. This exhibits a slow but gradual growth. Savings Certificates sold by POSBs (Table 13) has often had a low or negative balance during the last 5 years. Of the various accounts offered by POSBs, ODAs (Table 14) have had a negative balance most of the time. Withdrawals are apparently not counter-balanced by a sufficient amount of deposits. FDAs (Table 15) appear to be more attractive. The Bonus Account (BA, in Table 16) also seems to have a volume of withdrawals disproportionate to its volume of investment.

WEDBs (Table 17) on the other hand have negative or minimal amounts of encashment and they sell very well. Prize Bonds (Table 18) are also popular with customers. NSD believes that its Tk. 50 PBs are preferred to its Tk. 10 denomination ones.

GROSS AND NET INVESTMENT IN
DEFENCE SAVINGS CERTIFICATES

(Taka in million)

Year	Gross investment	Net investment
1975-76	90.70	30.70
1976-77	134.00	179.30
1977-78	157.50	146.10
1978-79	213.50	137.00
1979-80	201.70	172.90
1980-81	523.80	351.00
1981-82	475.97	317.23
1982-83	589.00	361.23
1983-84	581.2	433.4
1984-85	553.3	287.1

Source: National Savings Directorate, Dhaka:

GROSS AND NET INVESTMENT IN
BONUS SAVINGS CERTIFICATE

(Taka in million)

Year	Gross investment	Net investment
1977-78	12.00	11.90
1978-79	30.90	23.90
1979-80	31.90	26.20
1980-81	57.90	39.70
1981-82	64.44	43.10
1982-83	62.30	40.50
1983-84	73.7	43.3
1984-85	78.7	29.7

Source: National Savings Directorate, Dhaka.

GROSS AND NET INVESTMENT IN
5 YEAR BANGLADESH SAVINGS CERTIFICATE

(Taka in million)

Year	Gross investment	Net investment
1977-78	16.70	16.70
1978-79	27.70	25.70
1979-80	32.10	23.00
1980-81	16.90	- 02.90
1981-82	3.99	- 12.96
1982-83	0.90	- 9.20
1983-84	33.1	12.6
1984-85	98.6	70.1

Source: National Savings Directorate Dhaka.

TABLE - 12

Outstanding balance on NSD Products

(Tk. in million)

FY	Post Office Savings Bank Deposit Account	Certificates PBs and WEDBs	Total
On 16.12.1971	276.30	280.90	557.20
1972-73	399.40	319.30	718.70
1973-74	424.10	368.70	792.80
1974-75	402.00	445.00	849.70
1975-76	430.20	567.40	997.60
1976-77	447.00	710.00	1157.00
1977-78	468.40	826.10	1294.50
1978-79	493.50	1022.90	1516.40
1979-80	532.90	1196.70	1729.30
1980-81	583.20	1481.90	2055.10
1981-82	591.00	1783.10	2374.10
1982-83	688.20	2146.80	2835.00
1983-84	809.50	2642.30	3451.80
1984-85	949.40	3040.20	3989.60

Note: "Outstanding balance" is a cumulative estimate of net investment as on a particular date.

Source: NSD. Annual Report, 1984-85.

TABLE -- 13

PERFORMANCE OF POSBs DURING THE LAST 5 YEARS

(Taka in million)

Year	Passbook Accounts			Savings Certificate		
	Deposit	Withdrawal	Net	Investment	Encashment	Net
1980-81	452.3	402.0	50.2	215.5	158.5	57.0
1981-82	467.4	459.6	7.7	186.5	139.3	47.1
1982-83	479.9	425.4	54.5	154.6	204.6	(49.9)
1983-84	621.5	500.2	121.3	168.8	154.3	14.5
1984-85	756.9	600.6	156.3	174.8	199.4	(24.6)

Source: Bangladesh Post Office, Dhaka.

GROSS AND NET DEPOSIT IN
ORDINARY ACCOUNT OF POST OFFICE SAVINGS BANK

(Taka in million)

Year	Gross investment	Net investment
1974-75	247.50	(15.90)
1975-76	209.10	(3.00)
1976-77	204.00	(7.20)
1977-78	213.30	4.40
1978-79	229.50	(9.00)
1979-80	269.60	13.40
1980-81	231.30	4.90
1981-82	279.57	(14.30)
1982-83	254.70	(21.30)
1983-84	274.8	(24.7)
1984-85	310.4	(20.3)

Source: National Savings Directorate, Dhaka.

GROSS AND NET DEPOSITS IN
FIXED ACCOUNT OF POST OFFICE SAVINGS BANK

(Taka in million)

Year	Gross investment	Net investment
77-78	16.20	1.70
1978-79	16.50	1.30
1979-80	21.70	2.60
1980-81	52.00	23.30
1981-82	75.56	35.32
1982-83	122.20	64.00
1983-84	236.8	142.0
1984-85	283.5	154.1

Source: National Savings Directorate, Dhaka.

TABLE - 16

GROSS AND NET DEPOSITS IN
BONUS ACCOUNT OF POST OFFICE SAVINGS BANK

(Taka in million)

Year	Gross investment	Net investment
1977-78	69.50	15.30
1978-79	61.00	32.30
1979-80	65.90	23.10
1980-81	119.00	21.00
1981-82	112.27	16.76
1982-83	103.10	11.30
1983-84	110.0	4.0
1984-85	106.5	(12.26)

Source: National Savings Directorate, Dhaka.

TABLE - 17

GROSS AND NET INVESTMENT AND OUTSTANDING
BALANCE ON WAGE EARNERS BOND

(Taka in million)

Year	Gross investment	Net investment	Outstanding balance
1980-81	4.70	4.70	4.7
1981-82	16.04	16.04	20.74
1982-83	33.5	33.5	54.09
1983-84	61.3	60.6	114.71
1984-85	58.4	51.8	166.51
1985-86 (as on 31.12.85)-		56.59	223.10

Note: "Outstanding balance" is a cumulative estimate of net investment figures. WEEDBs were introduced during FY 1980-81.

Source: National Savings Directorate, Dhaka.

TABLE - 18

GROSS AND NET INVESTMENT AND OUTSTANDING
BALANCE ON PRIZE BONDS

(Taka in million)

Year	Gross investment	Net investment	Outstanding balance
As on 31.12.72	-	--	15
1972-73	-	-	-
1973-74	-	-	-
1974-75	20.30	16.40	31.4
1975-76	14.70	9.00	40.4
1976-77	27.30	20.40	60.3
1977-78	30.40	17.00	77.3
1978-79	25.20	6.10	83.9
1979-80	31.40	3.30	87.7
1980-81	35.20	9.90	97.2
1981-82	34.46	4.33	101.6
1982-83	46.90	16.70	117.2
1983-84	43.1	16.2	133.4
1984-85	57.2	26.1	159.5
1985-86 (as on 31.12.85)	-	3.3*	162.8

Source: National Savings Directorate, Dhaka.

- NSD officials believe that the sale of their certificates and bonds (particularly, sale of PBs) has been adversely affected by the introduction of National Bonds (NBs). NBs (maturity between 2 and 5 years) were offered to individuals only between Dec. '85 and Mar. '86, later extended upto June 1986. They are of 2 types (bearer and registered) and carry no investment limit. Interest earned is tax exempt. Interest rates range from 13.5% upto 16% compounded annually.

STATISTICAL INFORMATION ON POSTAL LIFE INSURANCE.

1. POLICY ISSUED:-

<u>Year</u>	<u>No. of policy</u>	<u>Sum assured</u>
1971-72	4,404	1,99,80,000/-(for 6 months)
1972-73	14,452	6,80,19,000/-
1973-74	13,900	7,80,96,000/-
1974-75	12,243	8,05,06,000/-
1975-76	9,966	6,78,48,000/-
1976-77	11,547	8,64,13,100/-
1977-78	12,377	10,29,16,000/-
1978-79	16,858	15,67,68,000/-
1979-80	15,187	16,03,91,000/-
1980-81	19,347	21,66,60,000/-
1981-82	13,294	18,88,13,000/-
1982-83	10,918	16,29,86,000/-
1983-84	10,148	15,94,13,000/-

2. Premium income

PLI premium

<u>Year</u>	
1972-73	2,10,39,469
1973-74	1,41,83,200
1974-75	1,49,64,270
1975-76	1,41,90,928
1976-77	1,55,79,237
1977-78	1,97,99,368
1978-79	2,23,23,099
1979-80	3,50,94,114
1980-81	3,40,31,402
1981-82	4,82,48,505
1982-83	3,18,29,941
1983-84	3,48,30,000
1984-85	61,30,000

3. Balance of Funds:-

<u>Year</u>	<u>Amount</u>
1971-72	8,04,88,812
1972-73	9,10,81,818
1973-74	9,83,50,771
1974-75	10,92,91,504
1975-76	11,68,58,069
1976-77	12,42,25,788
1977-78	13,35,12,093
1978-79	14,28,54,733
1979-80	16,49,20,400
1980-81	17,18,84,566
1981-82	19,64,07,430
1982-83	20,78,51,372
1983-84	21,18,62,178

<u>4. Management cost:-</u>	<u>Management cost:-</u>	<u>Income on A/C of PLI Funds</u>
<u>Year</u>		
1972-73	30,90,421	54,07,443
1973-74	37,31,373	54,14,728
1974-75	45,15,755	61,47,700
1975-76	47,72,572	64,80,084
1976-77	48,31,989	66,42,507
1977-78	67,03,124	75,05,913
1978-79	82,02,585	79,82,968
1979-80	93,80,797	91,09,316
1980-81	1,02,60,321	98,39,420
1981-82	99,36,358	1,04,33,688
1982-83	1,41,28,789	1,18,85,584
1983-84	1,43,84,806	

<u>5. Claim Settled:-</u>	<u>No's of cases.</u>	<u>Amount paid.</u>
<u>Year</u>		
1972-72	1748	30,01,000
1972-73	3548	50,50,700
1973-74	2431	52,15,682
1974-75	2277	42,54,771
1975-76	3327	60,88,277
1976-77	5717	88,32,692
1977-78	4871	89,30,418
1978-79	4299	80,87,971
1979-80	4181	84,82,082
1980-81	4256	93,45,177
1981-82	4300	1,00,75,401
1982-84	5391	2,90,15,039
1983-84	5343	3,33,41,000

<u>6. Loan :-</u>	<u>No's of cases</u>	<u>Amount: paid</u>
<u>Year</u>		
1972-73		10,82,870
1973-74		11,33,806
1974-75		11,74,088
1975-76		11,44,330
1976-77		10,94,125
1977-78		13,19,020
1978-79		16,50,000
1979-80	1259	17,51,966
1980-81	1287	19,07,385
1981-82	1480	25,58,817
1982-83	1728	34,99,374
1983-84	1463	32,79,510

7. Policies information

<u>Year</u>	<u>No's of policies</u>	<u>Sum assured.</u>
1968-69	71,585	19,45,13,225
1969-70	80,008	23,83,56,909
1970-71	85,736	28,01,89,167
1971-72	84,778	27,52,23,058
1972-73	93,980	33,05,56,173
1973-74	1,00,933	38,90,39,919
1974-75	1,10,674	46,25,23,592
1975-76	1,09,076	49,05,64,503
1976-77	1,16,696	56,45,66,018
1977-78	1,24,044	65,10,00,242
1978-79	1,36,803	79,20,96,077
1979-80	1,47,589	94,40,04,995
1980-81	1,62,680	1,15,12,28,818
1981-82	1,71,578	1,32,99,66,417
1982-83	1,77,203	1,47,99,26,728
1983-84	1,82,008	1,60,59,98,728

Source: Bangladesh Post Office, April 1986.

S.C.Biswas/

3/12/84

Table 19 contains some statistical information on PLI. Postal Life Insurance business has been showing a decline in the volume of premium collected. The balance of fund position has shown little change from year to year. PLI happens to be the oldest insurance institution in the country. NSD feels that it lacks good management and supervision. These deficiencies have probably hindered its growth.

12.2 Table 20 exhibits the volume of sale of NSD products by its different distributing agents during the period 1980-81 — 1985-86 (upto December 1985). Table 21 shows the volume of each NSD product sold by the various disbursement agents.

Clearly, POSBs with their large network mobilize the bulk of NSD investments. Percentage wise break-down of NSD gross sales by its different agents in 1984-85 was :

Sale through banks (about 5000 outlets)	-	30%
through Post Offices (about 7624 outlets)	-	57%
through NSBs (about 4 outlets)	-	<u>14%</u>
Approx.		100%

An examination of Table 20 reveals some interesting facts. During the last 5 years, average percentage of net to gross investment of NSD products in banks has been 59%, that of POSBs only 11%, and of NSBs about 97%. Given the fact that net = gross - encashments, the following may be deduced :

1. POSBs probably contain a large proportion of small individual savers/depositors who continue to withdraw/encash their NSD products. This creates a low volume of net investment.

2. Commercial banks appear to contain some individual consumers who continue to encash/withdraw their NSD products. Banks also may have some institutional investors who purchase large volumes of NSD products but rarely encash them before maturity.
3. NSBs contain primarily institutional investments. These are hardly ever encashed before maturity. New certificates are purchased when older ones mature.

An interview with NSD officials revealed the following facts that further explain the situation. They are :

1. POSBs were established in the country in 1873 (Govt. Savings Bank Act, 1873). They have been offering savings certificate since 1941 (Post Office Savings Certificate Ordinance). There has been a great deal of encashment since then. This has decreased their net balance.
2. Commercial banks have been selling NSD products since 1966. There have necessarily been some encashments of certificates and bonds from them.
3. NSBs were established in 1980. There has hardly been any encashments of bonds and certificates from NSBs as most of these products have not yet matured (average terms of certificates and bonds are 5 to 6 years).

It is NSD's experience that only 20% of the entire amount of certificates and bonds sold are encashed before maturity.

The largest volume of DSC are sold by banks (Table 21). NSBs and Post Offices do not sell WEDBs.

Statement showing gross and net investment in various National Savings Schemes through Banks, Post Offices and National Savings Bureau during the period from 1980-81 to 1985-86 (Upto 31.12.1985)

(Sale by Agents)

(Amount in Million Taka)

Year	Through Banks			Through Post Offices			*Through National Savings Bureau			Total Investments		
	Gross	%(Net/ gross)	Net	Gross	%(Net/ gross)	Net	Gross	%(Net/ gross)	Net	Gross	%(Net/ gross)	Net
1980-81	358.50	47	169.70	669.80	16	108.40	57.80	99.8	57.70	1086.10	31	335.80
1981-82	336.20	55	183.50	654.20	8	55.10	71.90	98	70.40	982.30	31	309.00
1982-83	403.70	71	287.00	634.60	72	4.60	174.30	97	169.30	1212.60	38	454.90
1983-84	454.00	70	319.10	790.50	17	135.80	169.50	96	161.90	1414.00	44	616.80
1984-85	450.80	50	225.70	875.40	13	115.20	220.80	93	206.10	1547.00	35	547.00
1985-86 (Upto 31.12.85)	275.30	-	180.40	454.10	-	66.40	139.80	-	133.50	869.20	-	380.30
Average		59			11%			97%			36%	

* No. of National Savings Bureau is only 4.

Source: National Savings Directorate, Dhaka, April 1986.

TABLE - 21

TOTAL SALE BY BANK, POST OFFICE
AND SAVINGS BUREAU 1979-80 TO 1982-83

(Sale of Products by Agents)

(Tk. in million)

	Bank	Post Office	Bureau
1. Defence Certificate	239.3	137.3	94.2
2. Bonus Savings Certificate	19.3	29.6	6.7
3. 5 Year Bangladesh Savings Certificates	6.3	3.1	21.5
4. Postal Savings Bank -			
(a) General	-	271.3	-
(b) Fixed Account	-	67.9	-
(c) Bonus Account	-	100.3	-
5. Prize Bond	3.7	-	0.1
6. Wage Earner's Development Bond	23.5	-	-

Source: National Savings Directorate, Dhaka: January, 1985.

Note: PBs sold by Post Offices are included in the estimate of PBs sold by banks

: Figures in this table could not be reconciled with those in other tables
although the source remains the same.

NATIONAL SAVINGS SCHEMES IN
RURAL AND URBAN AREAS 1979-1980 to 1982-1983

(Tk. in million)

<u>Scheme</u>	<u>Rural</u>	<u>Urban</u>
Ordinary Account of Post Office Saving Certificates	197.26	1117.44
Prize Bond	3.56	164.5
Defence Saving Certificates	100.45	1903.52
Wage Earners' Bond	2.71	51.53
Fixed Account of Post Office Saving Bank	14.40	273.56
Bonus Account of Post Office Saving Bank	23.06	433.21
5 Yearly Bangladesh Saving Certificate	4.03	77.51
Bonus Saving Certificates	12.27	235.07

Source: National Savings Directorate, Dhaka: January, 1985.

Finally, if Postal Savings, PBs and WEDBs are eliminated, it is found that banks are by far the most successful vendors of NSS certificates. The Investigators feel that it is legitimate to exclude POSB accounts because bank savings accounts are not being included in the comparison. To do so would reveal that the ratio between PO and bank savings is about 9.6 to 1. Thus, with the exclusion of savings accounts sale of NSS certificates is about :

Sale of DSCs, BSCs and 5-Y BSC -

	<u>Taka in Million</u>	<u>%</u>
By Banks	265	48
Post Offices	170	31
NSBs	122	22
Total	557	100 •

12.3 POSBs offer higher rates of return on their savings bank accounts (Table 4) than those offered on bank deposits. Yet, given the number of POSBs in the country, their savings mobilization function is not as impressive as might be expected. This is a matter of concern and requires further study.

A very valid reason could be the apathy towards NSD products by Post Office employees. Such sales are not the primary responsibility of the P.O. employee. There is also no provision for rewarding Post Office employees who perform well

Consumers on the other hand may not be very enthusiastic about POSB accounts for the simple reason that the POSB is not a bank as such. It offers no banking services other than accepting deposits and processing withdrawals. POSB accounts are considered

• May not equal to 100 due to rounding.

by many not to be worth the "hassle". Disadvantages might have been overcome if real rates of return were sufficiently attractive. With a 12% rate of inflation (11.8%, TFYP, P. 111-17) the real rate no longer resembles what the nominal rate of return implies. However, the real rates are still positive and the banks have enjoyed great increases in their savings portfolios. So the cause of the POSB inferiority must be sought elsewhere.

Table 22 shows that the vast majority of NSD products are sold in urban areas. The majority of POSBs are located in rural regions (Annex 5).

13. Encashment of NSD products

13.1 The Prize Bond Section in the Bangladesh Bank receives deposits/encashment slips for all NSD products from NSD agents (with the exception of the Post Office Department).

1. In the P.O. Section the "dispatch clerk" checks the signature, seal, date, amount of interest applied, etc.
2. They are next sent to the Public Accounts Department (PAD) in the same Section where register entries are made. The 4% levy on accrued interest (govt. tax withheld at source for the construction of the Jamuna bridge) is deducted.
3. The balance is then credited to the individual disbursement agents account and debited to the NSD account.
"Claims" slips by banks at the time of sales are also dealt with in this section by the relevant desk clerk (in charge of "commission").
4. As mentioned earlier all deposit/encashment by post offices is handled by the office of the A.G., P & T.

13.2 Prize Bond awards are collected directly from the Bangladesh Bank counter by the prize winner. The commercial bank officer interviewed mentioned that a customer submitting his certificate for encashment is normally asked to wait for a few days. He is reimbursed only after the bank's account at the Bangladesh Bank has been credited with that amount.

14. Annual Investment Targets

NSD performance is measured by achievement of annual savings mobilization targets. A target for any particular year is stated as a percent of increase over the previous year's actual performance. NSD officials (the Director, the Deputy Director, four Regional Directors and the Assistant Director of the Statistics Section) prepare the annual target. Allocation of targets division-wise, district-wise and by field officers (DSOs) is also done during these NSD deliberations in Dhaka. The final authority in the setting of targets is the Internal Resources Division of the MF. The process is cumbersome. First NSD presents its target plans to the rarely meeting NSC which may or may not modify them before sending them back to NSD. NSD next forwards NSC approved targets to the IRD/MF which fixes them finally. In FY 85-86 targets were set for the first time for NSBs, banks, Commission Agents and the POs.

Funds mobilized under the NSS program constituted :

5.6%^{1/} of total bank deposits in June 1983
4.8%^{1/} of total bank deposits in June 1984
and 4.3%^{1/} of total bank deposits in June 1985

^{1/} Tk. in million : Tk. 2835 NSD investment/50980 bank deposits = 5.6%
Tk. 3452/71584 = 4.8%
Tk. 3989/93563 = 4.3%

Source : o Scheduled Bank Statistics, Bangladesh Bank, April-June, 1985.
o Table 12
o Annex 10

The fact that investment in NSD as a proportion of total bank investment is declining can only be explained by the recent rapid growth in banking facilities as well as the natural superiority of the banking institution in the field of finance, savings and investment. Perhaps also, many people feel more comfortable about investing in bank products where they have an idea of the manner in which the money is being deployed. On the other hand, there is no clear-cut policy indicating the uses to which funds mobilized under the NSS may be put.

15. Awards to employees for achieving/exceeding annual targets

The NSD awards annual prizes of Tk. 5,000 to its Assistant Director and Tk. 3,000 to its Savings Officers in the District Savings Offices (DSOs) for exceeding/achieving that year's set target. One can argue that such rewards are not entirely deserved since DSOs are not responsible for the actual sale of NSD products. DSOs are administrative bodies that are there to conduct promotional campaigns, advertize and perform public relations work. An NSC proposal (Annex 4) to reward Post Masters of POSBs that perform well has not yet been adopted. This is not an argument against officers of DSOs receiving rewards, but an attempt to point out the fact that such a system makes sense only if those individuals actually selling the products are rewarded as well.

16. NSD budget for Advertizing and Publicity

The NSD annual budget for promotion is based on performance over three preceding years. The proposed budget, prepared by the NSD is sent to the IRD and then for final approval to the Budget Wing of the MF. The Budget Wing may or may not modify the total amount. The "approved" allocation is then returned to the NSD and appears in the national budget as a "non-development" expenditure.

NSD Promotion and Publicity Budget Summary :

	(Tk. in Million)	
<u>FY</u>	<u>Allocation</u>	<u>Actual Expenditure</u>
1981-82	3.6	2.9
1982-83	2.5	2.5
1983-84	3.8	3.26
1984-85	3.5	3.4

Source : NSD Directorate

Any amount left unutilized (as in 81-82, 84-85) reverts to the Budget Wing. Annex 1 gives an account of NSD promotional activities during 1984-85.

Despite an inflation rate of about 12% and overall improved performance of the NSD, the annual promotion budget has been declining or showing no change. There does not appear to be any relationship between NSD's performance and its publicity budget. The Budget Wing pleads a shortage of funds. In FY 84-85 the NSD requested Tk. 5.2 million, but received Tk. 3.5 million, instead. The NSD budget of 1985-86 (as approved by the Budget Wing and received by the NSD via IRD) gives an idea of the break down of NSD's publicity expenditure.

	(Tk. in Million)
<u>Item</u>	<u>Expenditure</u>
Newspapers & advertizing	1.9
Radio/TV	0.4
Posters, brochures, etc.	0.6
Monthly savings magazine	0.3
Transport of publicity items	0.05
Awards	0.22
Seminars	0.08
Office sign boards	0.05
Maintenance of departmental transport	0.15
	<u>3.6</u>

Source : National Savings Directorate, Dhaka.

Adequacy of the NSD budget is highly questionable. Current media spot rates are :

- T.V. - 30 sec. news mid-break - Tk. 4850 + 15% tax
 - T.V. - 30 sec. film mid-break - Tk. 6975 + 15% tax
 - Radio - 1 min. - Tk. 784 + 15% tax (on holidays)
Tk. 392 + 15% tax (on weekdays)
 - Newspaper - from Tk. 54.9 - Tk. 95.5 + 10% tax for each column inch.
- Front page advertisement is 100 and often, 200% of these rates.

The NSD official remarked that many of the publicity programs utilized previously can no longer be pursued due to rising costs. The use of documentary films, a popular way to familiarize people with NSD products in the past, has been discontinued. Given current television spot rates, only about 11-12 "spots" (30 second ads) are possible per year. Radio and newspaper are the most common means of promoting NSD products. Other means of promotion are brochures, posters, leaflet house-to-house campaigns, and monthly magazines.

17. Operational Cost of National Savings Schemes

Annex 9 contains a yearwise break-down (from 1972 to 1985) of total operational costs of the NSD, and investment and operational costs of the schemes under it. Investment and expenditure in 1984-85 are reproduced below :

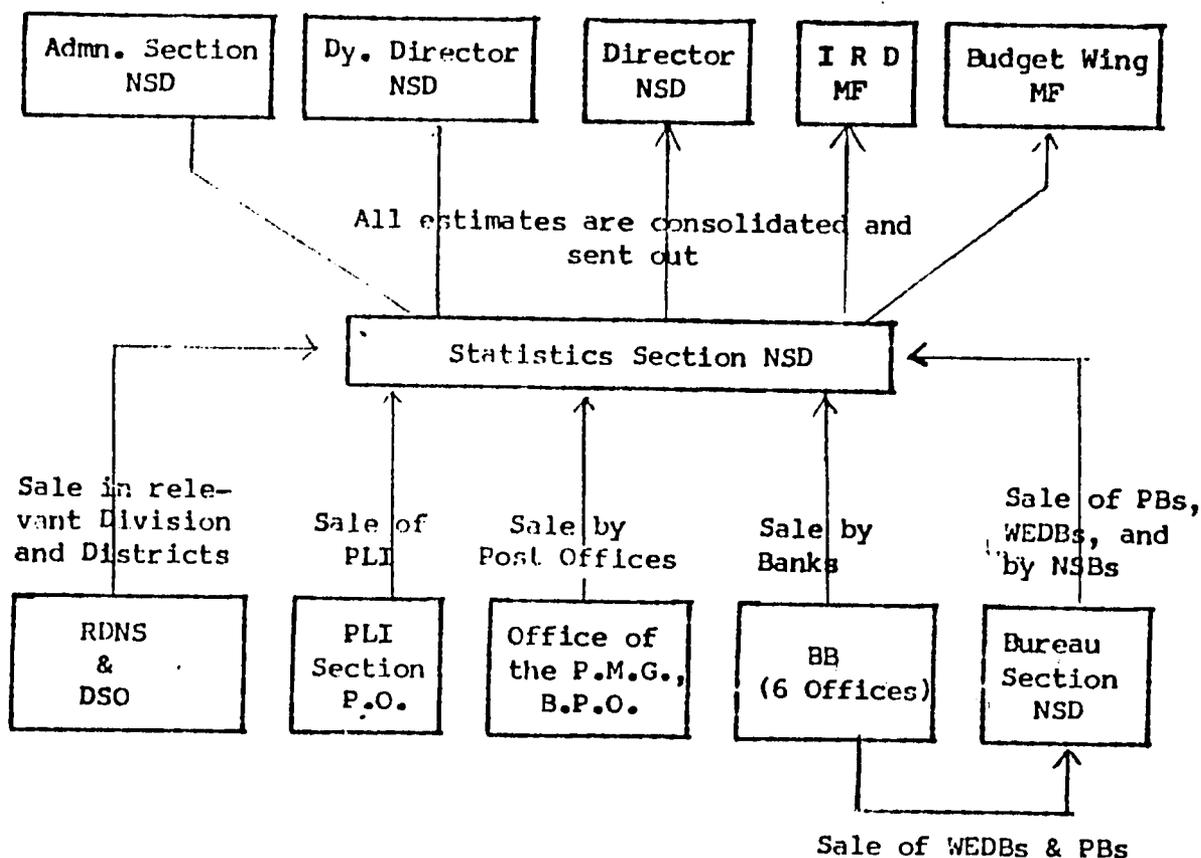
(Tk. in Million)							
<u>Cost of NSD</u>	<u>FY 84-85</u>		<u>Total</u>	<u>Investment*</u>			
1	Payments by NSD 2		Operating cost 3(1+2)	in NSD products 4	Gross 5	Net 6	
Total estab- lishment cost	8.83	Fee to Post Office	1.06	12.24	Sale by Post Offices	875.	115.2
Publicity expenditure	3.41	Commission to banks	0.89	8.76	Sale by banks	450.	225.7
-		Payment to MF Audit Dept.	6.81	-	Sale by NSBs	220.8	206.1
Total	12.24		8.76	21.01	Total invest.	1574.0	547.0

* From Table 20.

- o Cost of NSD/total investment = .8%
- o Total operating cost of NSS/total investment = 1.36%.

8. Monthly Statements

The following flowchart depicts the manner in which monthly statements of investment and encashment are received and sent out.



It is apparent that the Statistics section compiles and distributes secondary data only. Computations are done manually (by calculators). It was commented upon that although their own offices (RDNS and DSO) also supply the NSD office with field level data, these are not considered to be authentic. In other words NSD accepts as final, the data sent in by the other four sources. WEDB and PB sales are handled by the Bureau Section for reasons of "convenience" on the part the NSD. It is believed that the statements from the office of the P.M.G. are often received after substantial delays.

19. Comments

19.1 NSD's marketing strategy seems to be targeted towards the individual small saver. The reasons the Investigators believe so are the following:

1. Commissions paid to NSD agents are biased towards the mobilization of small savings; for example, scheduled banks receive 1% (of sales proceeds) for the sale of NSD products to individuals and Tk.0.25 for the sale of the same products to institutions. Commission agents receive 1% of sales proceeds for mobilizing the savings of individuals only. (Sections 5.3 and 5.5).
2. Several NSD products (5YBSC, ODA, etc.) have an investment ceiling. This is probably an attempt to discourage institutions (who are the "large" savers) from investing too heavily in NSD products.

The term "small savings mobilization" could not be identified as a specific govt. order or an NSD objective in any of the circulars available. However, small savings is stressed in most NSD seminar papers and publicity documents. A market for mobilization of small savings probably lies in rural areas. But in such areas NS Schemes are in direct competition with commercial bank, non-governmental organization (NGO) and semi-autonomous body programs, all clamoring for the limited amount of resources available in rural Bangladesh.

19.2 NSD officials complain that their savings mobilization efforts are handicapped by inadequate budget provisions for publicity. However, consumers are clearly aware of NSD savings scheme alternatives to banking system schemes. This was witnessed by consumer reaction to the MF's announcement in July 1985 of a 10% direct tax on bank deposit interest income* (subsequently withdrawn). There was an immediate and unusual rise in the volume of sales of NSD products. So dramatic was this growth that it was felt at that

*Text of budget speech, July 1st, 1985, Item # 52, a.

time that the NSD might be able to achieve its annual gross and net investment targets for 1985-86 (Tk. 1890 million and Tk. 772.5 million, respectively) in a matter of two to three months, as worried depositors shifted their deposits from banks to NSD schemes which remained exempt from this tax. The apparent possibility of having their names divulged to tax authorities by the banks also acted as an incentive causing depositors to transfer their money from bank accounts to NSD products. Such transferring of savings declined as soon as the new bank interest tax was withdrawn.

- 19.3 NSD officials allege that the NSD is weakened by its not being an independent, administratively autonomous body. Its principal operative agent is the Postal Department which is under a completely different Ministry - over which the NSD has no control. On the other hand the banks are autonomous bodies managed by their own boards and management teams, however, ultimately accountable to the BB.
- 19.4 NSD appears to suffer from bureaucratic intervention, inertia and confusion. Its proposed action programs are subject to approval by the NSC. It is responsible for implementing NSC resolutions while administratively, it remains accountable to the IRD/MF. Also, resolutions passed by the NSC must be approved by the IRD/MF before NSD can act upon them. Thus, implementation and follow-up actions are delayed. And NSC meets less than twice a year.
- 19.5 There is no central inventorying system regarding sale and distribution of NSD products. It is said that products are supplied whenever an "indent for them is made." No inventory checks are made and there is no existing method to compare the amount of sale vis-a-vis the amount of products supplied.

There is an investment limit on most NSD products (5YBSC BA, etc.). But it is virtually impossible to trace a customer

with several certificates of the same category purchased from different institutions.

- 19.6 Rural Post Offices far out number the number of rural bank branches, perhaps by over 125%. Nominally all post offices have been vested with POSB powers (Annex 6). However, it is unclear as to how many are actually functioning as POSBs since it is understood that many of them are reluctant to inventory NSD products (several EDBOs, for example). It is also unknown as to the number of banks branches that are selling NSD products.
- 19.7 POSBs appear to provide a substantial potential for mobilization of rural deposits. The vast network of Post Offices ought to make it possible to reach the "most rural" of savers in outlying areas, particularly in unbanked ones. The issue is therefore, not how much potential POSBs possess, but how cost-effective it is to mobilize rural savings through them.
- 19.8 There are several internal administrative problems with NSD. Some of them are:
1. Interest calculations on POSB ordinary Deposit Account (ODA) is done at the office of the Auditor General in Dhaka, and then sent back to the post offices. There are usually long delays before interest is finally applied to accounts. Waiting periods are between 3 months to 5 years. However, to close an account, the Post Master may calculate the interest and dispose of the case, on the spot. There appears to be a "power struggle" between the offices of the Auditor General (under MF) and that of the Accountant General, Post and Telegraph (under the Ministry of Communications).
 2. When Savings Certificates are destroyed or lost, applications must be sent to the A.G. P&T's office in the case of POSBs and to the NSD in other cases. The process of enquiries is cumbersome and customers must wait between 1 and 5 years before new certificates are issued to them.

3. NSD does not contain a Research and Development (R & D) unit.
4. Scheduled banks complain that commissions are credited to their accounts at least a month after they have made a claim for them to the Bangladesh Bank.
5. All compensations paid to the Post Office and the banks are credited to the institutions' account. But there is no remuneration for individual sellers except the meagre fee for PLI agents.

- 19.9 A serious deficiency among POSB and NSB employees is the absence of any training in the sale of NSD products. NSD had conducted a few courses for its employees at one time, but these have been discontinued. The training programs offered by the Postal Academy are oriented towards increasing the efficiency of mail delivery and other related postal services only.
- 19.10 It is alleged by many that commercial banks offer NSD products only when specific orders are received. Otherwise the meagre amount of commission they receive does not justify the costs involved. However, institutions as well as individuals may turn to NSD products because of the tax exempt status of their proceeds. Commercial bank officials are evasive on this issue, and it appears that banks do have reason to sell NSD products for the possibility of creating an interim "float" prior to final crediting of money into the NSD account. Another possible reason for banks to sell NSD products is the insufficiency of alternative investment opportunities for buyers as well as sellers in the country.
- 19.11 Compensation paid to the distributors of NSD products is under review by the NSC and compensation for the sale of various securities and Prize Bonds are in the process of being increased. As long as deposit mobilization by the Post Offices is rewarded by an insignificant fee, rather than by a competitive commission rate, the enthusiasm of POSBs for NSD savings is likely to remain negative. On the other hand, bank employees cannot be blamed if they

push their own savings products first rather than those offered by the NSD.

- 19.12 A proposed means for NSD to compete with banks is by increasing the number of NSBs. NSD currently proposes to increase the number of NSBs to 70 within a year or two. But the new NSBs, like the current ones will probably continue to be urban based.^{1/} This is therefore unlikely to have a significant effect on rural savings mobilization.
- 19.13 Clause IV of the Bangladesh Gazette (Annex) indicates that NSD certificates bought during the liberation war (1971) would not be honored by the Bangladesh Govt. The Bangladesh Govt. believes that proceeds from the sale of such certificates probably went into war financing (i.e. helped Pakistan to fight against Bangladesh), and the buyers should be penalized. Affected consumers on the other hand feel that if such is the case, then the government should also take no responsibility for all other deposits mobilized during 1971. The official order therefore is only partially justified. It is to be noted that other NSD products (such as PBs) purchased during 1971 were honored by GOB.
- 19.14 Small savers of rural areas may not be motivated to save despite the higher nominal rates offered by NSS. At least there is no evidence so far that small savers have taken to BSC like products. Statistics indicate that the NSD products appeal more to the tax conscious urban savers. If the EDSO visited, with a total deposit amount of only Tk.800/- (Section 4.5.3) is at all representative of other POSBs in rural areas, then it is time to ponder-what purpose are these rural POSBs serving? Are they helping the state, the individual saver, or the POSB as a system?

^{1/} An immediate approved project is the creation of six additional NSBs by June, 1986 (Section 4.2)

19.15 A substantial amount of disturbance is expected in the rural sector if a Savings Bank network (as per recommendation of a recent NSC meeting, Annex 4) is established. To the banks this will just mean one more competitor to face in mobilizing the limited quantum of savings in the rural areas.

19.16 A demand for NSD products, particularly in urban and semi-urban areas may always be expected due to their tax exempt status. NSD performance shows that Wage Earner Development Bonds (WEDB), the Tk.50 Prize Bonds and Defence Savings Certificates (DSC) perform very well.

20. Recommendations

20.1 Based on these findings the Investigators recommend that:

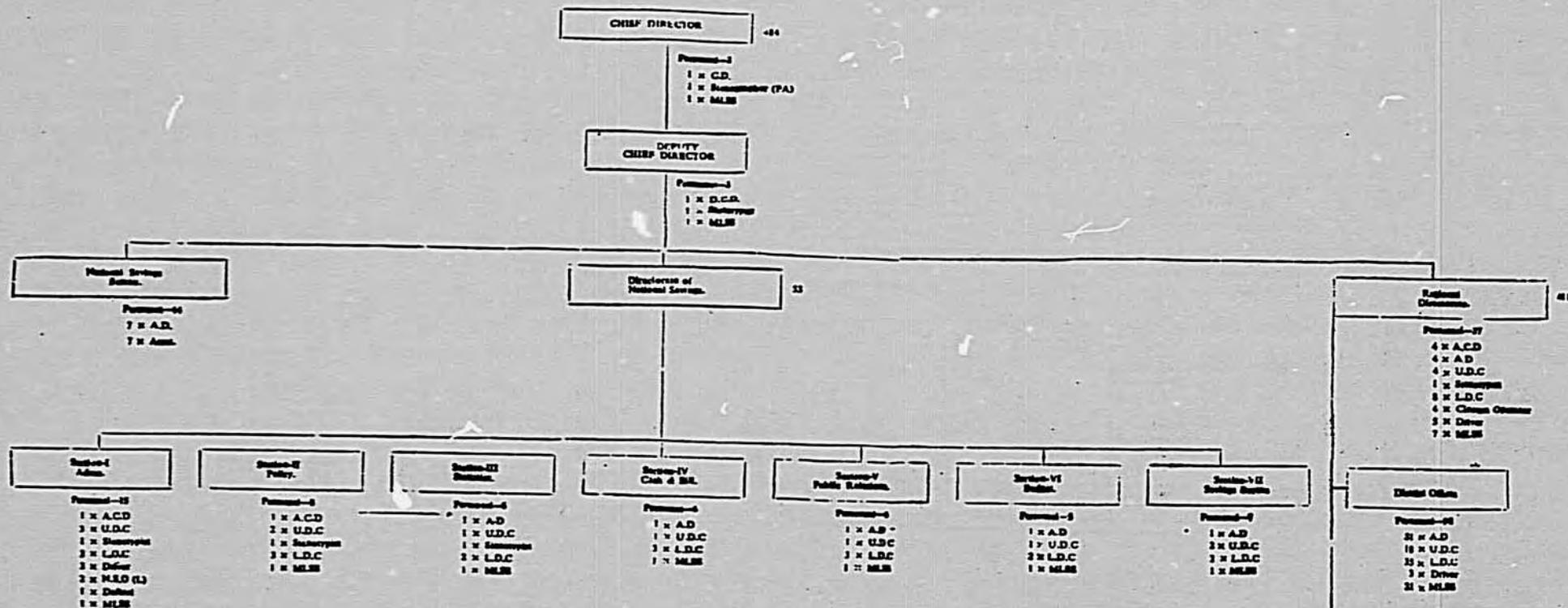
1. A study be conducted to look into the exact number and locations of NSD outlets so that their distribution can be rationalized.
2. An empirical study of the adequacy or competitiveness of NSD compensation to its distributing agents be conducted.
3. Transfer of calculation of interest on the ODAs to the Post Masters of the relevant PCSBs rather than with the office of the Auditor General in Dhaka.
4. A research and development (R & D) and product planning cell be introduced (in the NSD office),
5. Training programs be established for NSB and POSB officials and staff in order to familiarize them with selling of NSD type products and opening and managing savings accounts.

6. A study of the efficiency and the cost effectiveness of maintaining POSBs particularly in rural areas be conducted. It may prove to be worthwhile to channel all NSD savings certificate type products through commercial banks, whose staff are well acquainted with relevant mobilization and management methods.
 7. Determination by the GOB of a clearly articulated basic policy regarding the respective roles and relationships of the major institutions involved in national savings mobilization. Currently there is confusion and inertia among institutions and persons directly involved. The NSC meetings are rare, vague and often inconclusive. Its members understand that as a consultative body they do not influence government decision making process in a definitive manner.
 8. Rejection of any plan to create a P.O. related National Savings Bank network. This will only further undermine the current NSD and banking systems. The banks will continue to offer NSD products as long as there is a demand for them. Given more realistic incentives at the level of responsible field staff, all savings mobilization agencies can be expected to market NSD products as effectively as possible.
- 20.2 The Rural Finance Project Manager personally, independently, and speaking exclusively for himself, adds the following recommendations:
1. Responsibility for policy formulation, management and organization of National Savings Mobilization should be centered in one Governmental agency. The Bangladesh Central Bank is recommended. All efforts to establish a national savings company, corporation, agency, etc., that would be independent of the Central Bank should be resisted.

2. Savings mobilization should be accorded full departmental, if not divisional status in the Central Bank. Thus establishment of a Bangladesh Bank Savings Mobilization Department (BBSMD) is recommended.
3. Savings Mobilization should be accorded high policy level status in the Bangladesh Bank. Therefore, it is recommended that savings mobilization should be the most important, if not exclusive, policy level responsibility of a specific Bangladesh Bank Deputy Governor or Executive Director to whom the BBSMD/GM reports directly.
4. Eliminate the NSD. Continue and strengthen the mandate of NSC as an advisory committee to the BBSMD. Transfer its chairmanship to the head of IRD/MF.
5. Transfer existing qualifiable NSB and DSO professional personnel (also the free lance Commission Agents) to the BBSMD. Add sales responsibility to job descriptions of DSO staff. Provide all with specialized training in savings mobilization planning, marketing and accounts management.
6. The principle of locating BBSMD responsible savings mobilization coordinator/facilitator/sales persons at the district, if not upazila level, is logically sound and, therefore, recommended. Their employment remuneration should be based on a modest salary plus commission.
7. It is not possible at this point to make specific recommendations regarding the Post Office system and its relationship to Savings Mobilization. What is recommended is a thorough empirical study of the Post Office network system in order to assess its realistic capacity as an "operative" agency for savings mobilization and to determine the characteristics of a network system that would increase national effectiveness in savings and investment mobilization.

8. The survey recommended in item 7, above, should be extended to make possible market mapping of rural branch banking facilities as well as those of the P.O. network.
9. In the BBSMD, a single statistical information processing unit is recommended. As in the case of the Agricultural Credit Department's MIS on loan recovery, a similar MIS is recommended for savings mobilization.
10. No where in Bangladesh banking training is there a program dedicated to savings and investment mobilization. It is recommended that a comprehensive savings mobilization training program be developed and all employees and agents associated with this activity begin to receive basic training immediately.
11. It is recommended that public relations, advertising, publicity, and sales promotion, be eliminated as a budgetary responsibility of the Ministry of Finance and that this be transferred to the BBSMD. It is further recommended that instead of providing these services on an in-house basis, that they be contracted out to a qualified professional advertising agency; BBSMD to maintain only a small professionally staffed section to supervise the agency contract.

EXISTING ORGANISATION
DEPARTMENT OF NATIONAL SAVINGS
INTERNAL RESOURCES DIVISION
MINISTRY OF FINANCE AND PLANNING



ABBREVIATION

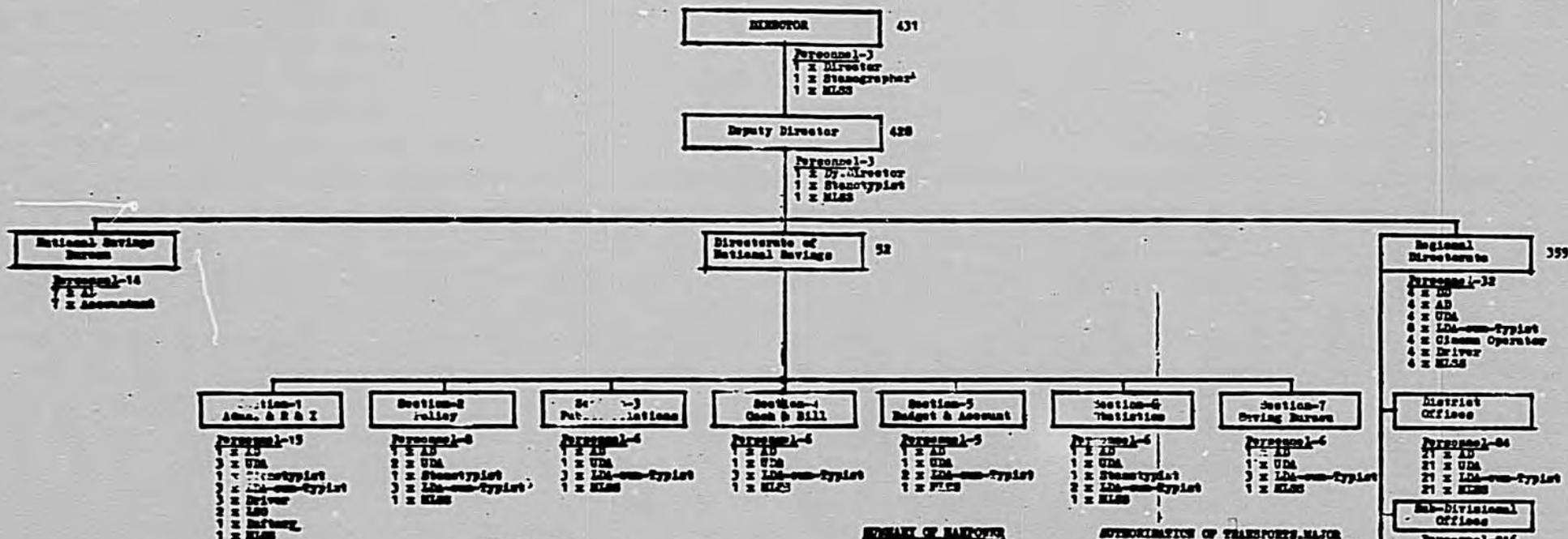
1 A.C.D. - Assistant Chief Director
2 A.D. - Assistant Director
3 M.S.O - National Savings Officer
4 M.S.O (L) - National Savings Officer (Lady)
5 ACCY. - Chief-cum-Assistant
6 U.D.C. - Upper Division Clerk
7 L.D.C. - Lower Division Clerk

SUMMARY OF MANPOWER

S. No.	Name of post	Sanctioned	Actual
I. Civil			
1	Chief Director	1	1
2	Deputy Chief Director	1	1
3	Assistant Chief Director	6	3
4	Assistant Director	37	30
		Total	45
5	Class-III	280	280
6	Class-IV	100	100
		Grand Total	430

Source: Report of the Martial Law Committee on Organisational Set-up Phase II, Volume VI (MF), Part 2 (ISD), Chapter III (Department of National Savings) July, 1982.

**REVISED ORGANIZATION
DEPARTMENT OF NATIONAL SAVINGS
INTERNAL RESOURCES DIVISION
MINISTRY OF FINANCE AND PLANNING**



Abbreviation

- A.D. - Assistant Director
- S.D.S.O. - Sub-Divisional Savings Officer
- T.S.O. - Team Savings Officer
- L.S.O. - Lady Savings Officer

SUMMARY OF EMPLOY

Sl. No.	Name of post	Man- aged	1970- 71	1971- 72
Class-I				
1.	Chief Director	1	1	-
2.	Director	-	-	1
3.	Dy. Chief Director	1	-	-
4.	Dy. Director	7	-	9
5.	Asstt. Chief Director/ Assistant Director	77	8	-
6.	Asstt. Director (720-1110)	32	25	39
Total				
		148	34	49
7.	Class-III	290	280	280
8.	Class-II	149	106	106
Grand Total		617	420	431

- Notes:**
1. Chief Director to be re-designated as Director.
 2. Deputy Chief Director (1190-1800) to be re-designated as Deputy Director.
 3. Assistant Chief Director to be re-designated as Deputy Director.
 4. The existing scales of pay to remain unchanged.

AUTHORIZATION OF TRANSPORTS, MAJOR EQUIPMENTS AND MISCELLANEOUS TOYS:

- PROPOSED:**
1. The Office is authorized:
 - a. 1 x Car.
 - b. 3 x Microbus.
 - c. 4 x Class Van.
 - d. 4 x Jeeps to be deposited with the Central Transport Pool.
 2. Private use of transports will be as per Government instructions issued from time to time.
 3. Office Equipment: The following office equipments may be retained by the Department.
 - a. 1 x Photo Copier,
 - b. 1 x Replicating Machine,
 - c. 1 x Fracking Machine,
 - d. 105 x Typewriters. At present it has only 70 x Typewriters. The additional 35 x Typewriters to be procured in phases.

[Extract from National Law Report as in Annex - 1]

Government of the People's
Republic of Bangladesh
Ministry of Finance
Finance Division
(Investment wing)

No. MF.Invest-4/Savings-1/77/39

Dated: January 22, 1977

In order to promote mobilisation of national savings, the Government is pleased to constitute a Committee on Savings consisting of the following members:-

- A.
- | | | | |
|---------|--|---|------------------|
| (i) | Governor, Bangladesh Bank | - | Chairman |
| (ii) | One Deputy Governor of Bangladesh Bank | - | Member |
| (iii) | One representative of the Ministry of Finance | - | " |
| (iv) | One representative of Planning Commission | - | " |
| (v) | Two Managing Directors of the Nationalised Banks to be nominated by their Consultative Committee | - | " |
| (vi) | Managing Director, Bangladesh Krishi Bank. | - | " |
| (vii) | Managing Director, Bangladesh Shilpa Bank | - | " |
| (viii) | Managing Director, Investment Corporation of Bangladesh | - | " |
| (ix) | Director General, Investment Rural Development Programme. | - | " |
| (x) | Divisional Commissioners | - | " |
| (xi) | Registrar, Co-operative Societies | - | " |
| (xii) | Chairman, Bangladesh Jatiya Samabata Bank | - | " |
| (xiii) | Director General, Post Offices | - | " |
| (xiv) | One representative of the Bangladesh Institute of Development Studies | - | " |
| (xv) | President of the Dhaka Stock Exchange | - | " |
| (xvi) | One representative of the Ministry of Information | - | " |
| (xvii) | One representative of the Chambers of Commerce-located in each Division | - | " |
| (xviii) | Chief Director, National Savings | - | Member-Secretary |
- B. The following shall be the terms of reference of the Committee:-
- To review the various modes and methods already employed for mobilisation of savings.
 - To identify the areas and sectors having significant savings potential.

- (c) To suggest additional methods and schemes to step up savings mobilisation, changes and improvement in the existing schemes, introduction of new savings schemes, and ways of enlistment of the support and active co-operation of the people for making it a movement.
- (d) To monitor implementation of savings schemes and progress in mobilisation of savings by both banking and non-banking sectors under various schemes in terms of specific targets set for them.
- (e) To form divisional and district committees with appropriate representation from concerned Governmental organisations as well as private sector ones.
- (f) To deal with any other matters incidental and relevant to national savings.

C. The Committee will meet at least once in every quarter and will report about its activities to Government.

Sd/- M.A. Malik
Joint Secretary

No.MF.Invest-4/Savings-1/77/39

Dated: January 22, 1977

Copy is forwarded for information and necessary action to:-

1. Governor, Bangladesh Bank.
2. Deputy Chairman, Planning Commission.
3. Director General IRDP.
4. Registrar, Co-operative Societies.
5. Divisional Commissioners, Dhaka, Chittagong, Rajshahi and Khulna.
6. Director General, Post Offices.
7. Chairman, Bangladesh Institute of Development Studies
8. President of Dhaka Stock Exchange.
9. Secretary, Ministry of Information.
10. Chief Director, National Savings.
11. Principal Information Officer, Press Information Department for giving wide publicity through the press, Radio, Television and other information media.

Sd/- A.F.K. Shamsuddin Ahmed
Section Officer-IV

24 October 1985

Minutes of the meeting of the Savings
Committee held on 14 August 1985 in the
Board Room of Bangladesh Bank

A meeting of the National Savings Committee was held on 14 August 1985 in the Board Room of the Bangladesh Bank. Mr. M. Nurul Islam, Governor, Bangladesh Bank and Chairman, National Savings Committee presided over the meeting.

The following members were present:

- | | | | |
|-----|---------------------------------|---|--|
| 1. | Mr. M. Nurul Islam | : | Governor, Bangladesh Bank and
Chairman, National Savings Committee. |
| 2. | Mr. Kazi Eadrul Alam | : | Deputy Governor, Bangladesh Bank. |
| 3. | Mr. M.A. Noor | : | Joint Secretary, Internal Resources
Division, Ministry of Finance. |
| 4. | Mr. H.R. Laskar | : | Additional Director General,
Bangladesh Postal Department. |
| 5. | Mr. Md. Selim | : | Director, Bangladesh Postal
Department. |
| 6. | Mr. M.H. Chowdhury | : | Joint Chief, Planning Commission. |
| 7. | Mr. M. Sekandar Ali | : | Managing Director, Investment
Corporation of Bangladesh. |
| 8. | Mr. Aminuddin Chowdhury | : | Additional Commissioner,
Dhaka Division. |
| 9. | Mr. M. Saidullah | : | General Manager, Bangladesh
Shilpa Bank. |
| 10. | Group Captain S A. Faiz | : | General Manager, Bangladesh
Krishi Bank. |
| 11. | Mr. Moniruddin Ahmed | : | Joint Registrar, Cooperative
Societies. |
| 12. | Mr. F.R. Chowdhury | : | Federation of Bangladesh Chamber
of Commerce & Industry. |
| 13. | Mr. B.A. Khan | : | General Manager, BSEL. |
| 14. | Mr. A.K.M. Mostafizur
Rahman | : | General Manager, Life Insurance
Corporation. |
| 15. | Mr. Daudur Rahman | : | Joint Director, ERDB. |
| 16. | Mr. N.C. Dutta. | : | Deputy General Manager, Sonali
Bank, Principal Office. |

17. Mr. Fariduddin Ahmed : Deputy General Manager, Agrani Bank, Principal Office.
18. Mr. Md. Anwaruzzaman : Senior Principal Officer, Agrani Bank, Head Office.
19. Mr. Ather Islam Khan : Director, National Savings Directorate and Member-Secretary, National Savings Committee.

The meeting confirmed the resolutions adopted at the meeting of the National Savings Committee held on 23 March 1985.

The members present in the meeting then reviewed the implementation, progress and the current status of the decisions taken at the meeting of 23 March 1985.

Co-obtaining new members to the Savings Committee

According to a resolution of the Committee The Federation of Chamber of Commerce and Industry was requested to nominate a member to the National Savings Committee. Accordingly, Mr. F.R. Chowdhury, Convenor, Finance Budget and Taxes Committee of the Federation was nominated to represent the Federation in the National Savings Committee. Mr. Chowdhury was present in the meeting.

The possibility of opening own transaction counter of the Savings Bureau of the National Savings Directorate within the premises of Bangladesh Bank was discussed. Similarly, the matter relating to opening of account of the National Savings Directorate with Bangladesh Bank for conducting direct transactions was also discussed. The chairman of the committee requested the representative of the Bangladesh Bank present in the meeting to expedite the matter.

It was resolved in the meeting that the Bangladesh Bank would finalise the matter on an urgent basis, and would convey to the National Savings Directorate (NSD) about the decision of the Bank within two weeks.

Contd....P/3

Appointment of approved Commission Agents and Postal Canvassors(CA&C)

The members discussed the progress made in matter of appointment of commission agents and postal canvassors (CA&C). The committee believed that the commission agents and canvassors would be able to make substantial contribution in mobilising small savings. In order to evaluate the performance of the CA & C the Member-Secretary would submit to the committee relevant statistics of investment mobilised by individual CA and C.

The representative of the Bangladesh Chamber of Commerce and Industries requested the members of the committee to consider whether it could be proposed to the Dhaka Stock Exchange to sell savings certificates on^a/commission basis. This would be quite in line with the information the members of the committee had that the National Savings Directorate and postal department had appointed commission agents on an experimental basis.

After discussions on the topic, it was decided that the Stock Exchange may be proposed to sell savings certificates on^a/commission basis to non-institutions i.e., to individuals only, and its opinion on the subject be obtained.

Formation of Divisional and District Savings Committees

In terms of the decision of the National Savings Committee, divisional and district savings committees had been be formed. Many district committees had already held meetings. The Committee believed that divisional and district committees would make remarkable contribution towards mobilising small savings.

Report on Postal Savings Bank

In response to a resolution of the committee adopted at the NSC meeting held on 23 March 1985, the Bangladesh Postal Department submitted a report on "Modernisation and Expansion of Post Office Savings Bank." The members of the committee discussed various facts, figures, and recommendations contained in the report. The opinion of the members was to implement its earlier decision

of transferring the function of calculating interest/profit on POSB deposits from the Auditor General's Office to the Postal Department. Similarly, detailed discussions were held on the increase in operational expenses of post offices, advertising matters, appointment of canvassors, distribution of prizes for mobilization of small savings, introduction of lottery system, etc. The Chairman of the Committee informed the members that within the mandate of the Money & Banking Commission a report on a proposal to establish a National Savings Bank had already been prepared which would be circulated among the members of the committee for discussion at its next meeting.

It was decided in the meeting that:

- a) necessary steps should be taken to implement the earlier decision of the Committee to transfer the function of calculating profit on ordinary savings bank accounts from the Audit Office to the Postal Department.
- b) if there was any proposal by the Postal Department to make advertisement and promote postal savings banking, such proposal should be forwarded to the National Savings Directorate. There should be more frequent contacts between the National Savings Directorate and the Post Offices in the matter of advertising and promotion.
- c) the proposal about lottery scheme was rejected.
- d) the committee agreed in principle about the proposal of awarding rewards for encouraging mobilisation of small scale savings in the rural areas. The post offices which would maintain at least 50 accounts with balances of Tk. 500 or above in a year the post masters of those post offices will be eligible for rewards.
- e) in view of the new pay scales announced by the Government, the committee decided that there was no scope for considering special allowances for the employees of post offices.

The committee decided that on the basis of the above mentioned recommendations, Bangladesh Postal Department would send a factual report to the Internal Resources Division (IRD) of the Ministry of Finance.

- 285 -

Report on Postal Life Insurance

According to the decision of 23 March 1985 the Postal Department submitted a report entitled "Postal Life Insurance". The members of the committee held a detailed discussion on facts, figures and recommendations contained in the report, various aspects of postal life insurance such as management, claims settlement, premia realisation etc. was deliberated on in particular comparison with those of Life Insurance Corporation. The members opined that the agents should not receive commission on the total amount of sum assured. Rather the commission should be paid on actual premia realised. The representative of the Postal Department narrated in detail about the accounting difficulties encountered in realising insurance premium through adjustment of the salary bills of the policy holders. He admitted that a huge number of claims were pending for settlement. However, the representatives of the Postal Department hoped that it would be possible to remove the difficulties in near future. The possibility of rewarding the agents who could exceed the pre-set targets in terms of their achievement was considered. The members of the committee discussed about taking various steps that could make postal life insurance policies as attractive as the policies offered by the Life Insurance Corporation.

After detailed discussions it was agreed that the Bangladesh Postal Department should prepare, in the light of above discussions, a proposal containing facts, figures, financial feasibility, etc., about postal life insurance, and forward the same to the Internal Resources Division (IRD) of Ministry of Finance for necessary action.

Discussions on Prize Bonds

Discussions were held also on prize bonds. The members made several suggestions to make prize bonds more attractive and to simplify its operational procedures. At one stage, the representative of the Bangladesh Chamber of Commerce and Industry narrated some of his experience while he was in the United Kingdom. He was requested to submit a proposal to simplify the operational procedure of prize bonds.

Discussions and resolutions on the report of the Member-Secretary

The members deliberated on the report of the Member-Secretary and review the statistics relating to the investment targets for 1984-85. The Postal Department was advised to make the savings accounts and bonus accounts more attractive. The members suggested to make efforts so that various organisations particularly the jute mills would make investments of the funds for employee benefits in savings schemes. For this purpose it was advised to seek help from the National Board of Revenue. The committee was informed that the NBR had already been approached in this regard.

After detailed discussions it was resolved that the Postal Department would make suitable recommendations to the Government to make savings account and bonus accounts attractive. National Savings Directorate, with the assistance of the NBR, would take necessary steps so that the organisations would invest their funds in Government securities (national savings schemes).

Discussions on the recommendations framed at the Workshop on National Savings.

The members of the committee was informed about the recommendations formulated at the workshop on "The Role of Savings on National Economic Development" organised by the National Savings Directorate on 15, 16 & 17 July 1985. The recommendations related mostly to organisational structure of National Savings Directorate (NSD), opening of NSD Offices at Upazila level, establishment of Savings Bureaus, opening of cells for training and research, construction of NSDs own office building, framing of new and attractive schemes, etc. Since the topics were administrative in nature, and not directly related to savings, the committee did not conduct elaborate discussions on these topics.

It was resolved that the NSD should examine the issues and forward its recommendations to the IRD for approval and necessary action.

Contd....P/7

Fixing of Investment targets of various Savings Scheme for 1985-86

The national budget for 1985-86 financial year fixed the gross and net targets for savings schemes at Tk. 189 crore and Tk. 77.25 crore, respectively. The members of the committee deliberated on the statement made by the Finance Advisor that there existed considerable potentiality for increasing the quantum of small savings. It was discussed in detail whether the savings targets could be achieved by increasing the quantum of small savings. The committee expected that some of the steps such as formation of divisional and district committees, appointment of commission agents, etc., taken at the instance of the committee should make it feasible to increase the gross investment to Tk. 200 crore and the net investment to Tk. 100 crore. The committee opined that introduction of Tk. 50 denomination of prize bonds as was being contemplated would make a significant contribution in this regard.

After detailed discussions on the topic ~~the committee~~ the committee approved the targets fixed for each district by the National Savings Directorate on the basis of targets and actual achievements for the last three years, savings potentiality of the district and assessment of local conditions (Annex). It was also decided that the District Committee would, in their turn reallocate the targets to the post offices and banks and would also adopt necessary steps to achieve the targets.

Discussions and resolution on increasing returns on Savings Certificates

The proposal of National Savings Directorate to raise the rate of return on Defence Savings Certificate, 5-year Savings Certificates and Bonus Savings Certificates from current 21%, 18% and 22% to 26%, 20% and 23% respectively was discussed at length. Since the Defence Savings Certificates and 5-year Savings Certificates were eligible for income tax rebate and since their returns were tax exempt the committee did not agree to the proposal for increasing the rates of return on them. The committee was, however, in favour of raising the rate of return on Bonus Savings Certificate as no income tax rebate was available to these certificates. After detailed discussions it was resolved that:

- a) there was no need to increase the rate of return on Defence Savings Certificates, and 5-year Savings Certificates.

- b) return on Bonus Savings Certificates may be raised but the actual rate may be determined by the Bangladesh Bank after a thorough examination.

Regarding sanction of entertainment allowances to entertain the investors at the Savings Bureau.

The proposal for sanctioning entertainment allowance for entertaining the investors at the Savings Bureau was considered in relevance with incomes and expenditures of the Bureau. But considering the possibility that there would be similar demand from the Postal Savings Banks also if entertainment allowance is introduced at the Bureau, it was resolved not to accede to the proposal.

Opening of Savings Bureau.

The committee discussed in detail the proposal submitted by the National Savings Directorate to open one Bureau at each of the former districts. The members agreed in matter of opening of Bureaus as such. It was discussed to allow the Bureaus to transact business after ensuring security arrangements similar to those now available to the Post Offices. After detailed deliberations it was decided that:

Savings Bureaus may be opened at 22 former districts with the officials and other employees of the Savings Bureau. The matter of security arrangements would be finalised in consultation with Bangladesh Bank.

Motivating banks and post offices to mobilise small savings

Postal Department submitted a separate proposal to motivate the relevant officials of the post offices. The committee agreed that time is appropriate to issue letter of appreciation to those officials of post offices and bank who would make, remarkable contribution in mobilising small

savings. The divisional and district committees would select from amongst the officials of banks, post offices and Savings Bureaus within their jurisdiction who were considered to have made substantial contribution in matter of small savings mobilisation. The eligible candidates would be issued letters of appreciation under signature of the Governor of the Bangladesh Bank.

Sd/- xxxxxxxx

(M. Nurul Islam)
Governor, Bangladesh Bank
and
Chairman,
National Savings Committee.

Translated from Bengali by Md. Omar Choudhury.

BANGLADESH POST OFFICE

NUMBER OF POST OFFICES AS STOOD ON 30-6-85

SL.NO.	NAME OF CIRCLE.	H.O.	UPAZILA S.O.	S.O.	EDSO.	B.O.	EDDO
1.	Central Circle, Dhaka.	13	86	215	98	-	1319
2.	Eastern Circle Chittagong.	17	105	303	99	6	1583
3.	Southern Circle, Khulna.	23	103	169	105	2	1932
4.	Northern Circle, Rajshahi.	17	107	129	39	4	1180
		70	401	616	341	12	5984

Total number of post offices 7,624

Handwritten signature and stamp:
Director General
P. O. Dhaka

**Section Officer(R&R)
Bangladesh Post Office,
Directorate-General,
Dhaka.-2**

Notes:

- There are approximately 1299 Post Offices/POSBs under the Postal Department of which about 828 (if one excludes the head offices and upazila sub offices as being in urban areas) are in rural areas.
- Number of extra departmental offices (agencies) = 6325
- Number of POSBs in rural areas = 828 + 6325 or 7153

(COPY)

ANNEX - 6

BANGLADESH POST OFFICE
OFFICE OF THE DIRECTOR-GENERAL, BANGLADESH POST OFFICE, DHAKA-2

NO. SAVINGS. 1-6/79

Dated Dhaka the 28th Feb 1980

To,

1. The Postmaster-General,
Central Circle,
Dhaka.
2. The Postmaster-General,
Southern Circle,
Khulna.
3. The Postmaster-General,
Northern Circle,
Rajshahi.
4. The Postmaster-General,
Eastern Circle,
Chittagong.

SUBJECT: VESTING ALL THE BRANCH POST OFFICE IN THE COUNTRY WITH SAVINGS BANK POWER.

The Hon'ble Minister for P.T.T. desires that all the Branch Post Offices in the country should be vested with savings bank power.

The undersigned is therefore, directed to request you kindly to take necessary action in the matter for implementation of the Hon'ble Minister order. Fortnightly progress reports on the matter may please be submitted to this office on the 5th and 20th every month till the order is fully implemented.

Kindly acknowledge receipt by return of post.

Sd/-

(M. Idris Ali)
Asstt. Director-General (P.T.T.)


Md. Salim
Director (Mails)
B. P. O., Dir-General
Dhaka.

Extract from "Procedure for Sale and Encashment of
Bangladesh Prize Bonds (MF, QOB)

26 :

31st December, 31st March and 30th June each year, The quarterly verification will be conducted by counting of bundles and packets with exception that during each verification 5% of the balances will be subjected to cent percent check which percentage may be increased at the discretion of the Verifying Officer; if he so considers necessary. After verification, a copy of the Verifying Officer's Report in Form PB-36 will be sent to the Prize Bonds Section (Central), Dhaca under advice to the Head Office.

XVIII. PAYMENT OF COMMISSION TO COMMERCIAL BANKS AND POST OFFICES.

44. Commercial Banks and Post Offices will be paid a commission @Tk.1/00 per cent on the value of Fresh Bonds sold to them. In addition to 1% commission on Fresh Bonds, the Commercial Banks and Post Offices will be allowed ½% commission on the value of Re-issuable Bonds sold to them. ✓
Claims for payment of commission will be submitted by them to the offices of the Bangladesh Bank showing the full (date-wise) details of the Bonds purchased by them. All offices of the Bangladesh Bank will maintain a Register of Prize Bonds sold to Banks/Post Offices in Form PB-9. The claims received by them will be verified from the above Register and the amount of commission paid to them by debit to Government Account under the major head "22-Interest on Debt and other Obligations - Interest on Ordinary Debt (1) Taka Debt - 4-Other items - Expenditure connected with issue of loan - Bangladesh Prize Bonds Section at the Public Debt Offices concerned. The local Prize Bonds Section at each Public Debt Office will advise the details of the commission paid by offices of the Bangladesh Bank under its jurisdiction to the Prize Bonds Section (Central) every month.

XIX. COMMISSION AND EXPENSES IN CONNECTION WITH THE MANAGEMENT OF
NATIONAL PRIZE BONDS

45. The Government will pay to the Bangladesh Bank, the following commission and expenses in connection with the management of Prize Bonds:-

- (a) Actual expenses incurred by the offices of the Bangladesh Bank on postages and telegrams.
- (b) Cost of printing of Prize Bonds
- (c) All expenses incurred by the Bank in connection with Prize Bonds.
- (d) Commission as is allowed in case of usual public borrowings.

Extract from "procedure for sale and encashment etc.
to be followed by the Scheduled Banks"

4. COMMISSION FOR SALE OF SANCHAYA PATRAS (Savings Certificates)

Scheduled banks will receive a commission of 1% on non-institutional investments made through them. In respect of institutional investments a remuneration of 25 paise per transaction will be admissible to the scheduled banks. In the case of applications from institutions, Sanchaya Patras should be sold in terms of the highest denomination applicable to the case of any individual/institutional

application for the purchase of Sanchaya Patras, unless otherwise asked for by the applicant, for example, for an application for the purchase of Sanchaya Patras worth Tk.66,785/00 the applicant will be issued:

One Sanchaya Patra of	Tk.50,000/00
One " "	Tk.10,000/00
One " "	Tk. 5,000/00
One " "	Tk. 1,000/00
One " "	Tk. 500/00
two Sanchaya Patras of Tk. 100/00 each	Tk. 200/00
one " Patra of	Tk. 50/00
three " Patras of Tk.10/00 each	Tk. 30/00
One " Patra of	Tk. 5/00
<hr/>	
Tk.66,785/00	

Commission and remuneration will be paid to the scheduled banks by the offices of Bangladesh Bank from where they have obtained their requirements of Sanchaya Patras. A proforma of the monthly statements to be submitted by the scheduled banks to the office of the Bangladesh Bank is enclosed. The Statement will be submitted to the concerned office of the Bangladesh Bank by the 7th of each month. On the basis of the sales shown in the Statement, commission and remuneration will be calculated and credited to the account of the Scheduled Bank maintained with the office of the Bangladesh Bank.

Statement showing investments vis-a-vis the cost of the
Operation of various National Savings Schemes in Bangladesh
(For the years 1972-73 to 1984-85)

(Figures in lakh Taka)

Year	Total establishment cost of the Savings Directorate including its field Offices,	Total expenditure on publicity	Total cost of the Directorate	Total working expenses paid to Post Office	Total working expenses paid to Banks,	Total charges paid to Audit Deptt.	Total working expenses paid to Post Office, Banks, Audit,	Total cost on operation of National Savings Schemes,	Total Deposit with post office (Net Deposit)	Total outstanding Sales of Savings Certificates including Prize Bonds since inception excluding P.L.I.	Total investment in National Savings Schemes, outstanding balances	Cost of Savings Directorate as percentage of total investment	Total operating cost as percentage of total Net investment,	
													OB for each year	Outstanding balance cumulative
1	2	3	4 (2+3)	5	6	7	8 (5+6+7)	9 (4+8)	10	11	12 (10+11)	13 ($\frac{4}{12} \times 100$)	14 ($\frac{9}{12} \times 100$)	
1972-73	5.42	2.67	8.09	10.98	2.30	11.07	24.55	32.64	3994.00	3193.00	7187.00	0.11		0.45
1973-74	12.13	14.60	26.75	9.88	2.57	10.09	22.54	49.27	4241.00	3687.00	7987.00	0.34		0.62
1974-75	23.49	14.16	39.65	11.35	2.34	9.10	22.79	62.44	4029.00	4450.00	8479.00	0.47		0.74
1975-76	21.21	24.62	45.83	11.69	2.56	7.94	22.19	68.02	4302.00	5674.00	9976.00	0.46		0.68
1976-77	22.49	23.66	46.15	11.94	1.72	8.07	21.73	67.88	4470.00	7100.00	11570.00	0.40		0.59
1977-78	28.19	24.75	52.94	24.37	2.01	8.10	34.48	87.42	4684.00	8261.00	12945.00	0.41		0.68
1978-79	29.71	32.50	62.21	7.84	1.53	19.89	29.26	91.47	4935.00	10229.00	15164.00	0.41		0.60
1979-80	40.86	34.88	74.86	6.49	1.47	21.46	29.42	104.28	5329.00	11967.00	17293.00	0.43		0.60
1980-81	47.98	32.36	80.34	7.07	2.49	16.64	26.20	106.54	5931.00	14767.00	20694.00	0.39		0.51
1981-82	52.74	29.23	81.97	8.00	4.57	22.90	35.47	117.44	6008.00	17780.00	23788.00	0.34		0.49
1982-83	63.49	25.56	89.05	10.61	4.29	22.57	37.47	126.52	6882.00	21712.00	28594.00	0.31		0.44
1983-84	64.13	32.62	96.75	6.73	6.80	26.70	40.23	136.98	8095.00	26423.00	34518.00	0.28	2.3	0.35
1984-85	88.33	34.16	122.49	10.62	8.83	68.14	87.59	210.08	9494.00	30402.00	39896.00	0.31	3.9	0.52

Source: National Savings Directorate, May 1986.

9.37—contd.

Bank advances and deposits by region and locality according to volume of transaction.

(Million taka)

Region (Former district)	Locality	Advances as on June 30					Deposits as on June 30				
		1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Khulna	Urban	1120.3	1345.5	566.1	1378.7	1923.9	1187.7	1342.5	1401.0	1648.4	1986.8
	Rural	131.9	186.1	236.2	333.1	605.0	140.1	229.4	234.4	303.6	450.8
	Total	1252.2	1531.6	802.3	1711.8	2528.9	1327.8	1571.9	1635.7	1952.0	2437.6
Kushtia	Urban	131.7	195.1	251.5	291.0	418.4	177.2	223.4	249.9	265.9	362.7
	Rural	76.2	122.2	168.0	248.5	419.1	111.1	148.1	174.7	221.9	318.9
	Total	207.9	317.3	419.5	539.5	837.5	288.3	371.5	424.6	487.8	681.6
Patuakhali	Urban	63.5	87.9	115.8	131.6	155.1	91.5	113.1	94.9	121.0	140.2
	Rural	66.1	84.5	114.6	161.7	238.0	37.1	54.3	53.9	83.6	138.6
	Total	129.6	172.4	230.4	293.3	393.1	128.6	167.4	148.8	204.6	278.8
Pangsha	Urban	126.8	197.7	262.0	380.8	491.6	248.3	314.7	360.2	454.4	587.1
	Rural	88.7	137.9	199.3	387.8	753.7	134.9	175.0	195.5	259.2	373.6
	Total	215.5	335.6	461.3	768.6	1304.3	383.2	489.7	555.7	713.6	960.7
Dinajpur	Urban	71.8	112.8	160.0	249.1	371.2	181.4	262.8	303.5	380.3	905.6
	Rural	160.6	221.4	269.5	439.1	748.9	117.9	166.2	159.0	234.2	357.2
	Total	232.4	334.2	429.5	688.2	1120.1	299.3	429.0	462.5	614.5	1262.8
Pabna	Urban	109.6	178.3	236.8	292.9	438.5	286.9	361.2	363.5	523.4	585.1
	Rural	94.7	144.0	226.1	461.2	905.8	145.1	200.5	213.6	321.1	459.2
	Total	204.3	322.3	522.9	754.1	1344.3	432.0	561.7	577.1	844.5	1044.3
Rajshahi	Urban	163.7	219.2	352.0	518.4	706.1	489.0	663.0	804.9	949.4	1197.7
	Rural	152.0	228.0	322.3	732.7	1281.6	226.9	320.6	352.9	496.3	813.1
	Total	315.7	447.2	674.3	1251.1	1987.7	715.9	983.6	1157.8	1445.7	2010.8
Rangpur	Urban	246.8	323.2	362.7	548.9	680.0	324.7	419.0	448.9	585.3	771.2
	Rural	199.9	275.9	364.7	725.8	1593.2	133.5	201.4	291.4	350.3	575.0
	Total	446.7	599.1	727.4	1274.7	2273.2	458.2	620.4	670.3	935.6	1346.2
Bangladesh	Urban	22871.0	29126.5	36774.8	40869.2	48685.2	24026.8	29636.8	32563.1	42436.5	59369.4
	Rural	2773.5	4125.5	5601.2	9340.7	16911.4	4041.8	5598.9	5937.9	8543.5	12214.6
	Total	25644.5	33252.0	42376.0	50209.9	65596.6	28068.6	35235.7	38501.0	50980.0	71584.0

Source: Bangladesh Bank.

48681.2
16941.4

Extract from National Savings Directorate
(Report for the year 1984-85) "

Activities during the year (1984-85)

- 3) In order to promote and popularise the various National Savings schemes the following measures were taken during the year 1984-85:
- a) Activities through various publicity media: Press, Radio, Television, Bell signs, posters, Brochures etc. were the principal media of publicity used to motivate the People to save and invest in various National Savings Schemes. Besides this, our field officers conducted special Savings drives to popularise the savings schemes effectively among the people. Documentary films on various National Savings Schemes were displayed in industrial and rural areas to educate the general people by the Regional Officers.
 - b) Motivations through Savings Stamps: In order to inculcate the habit of thrift and also to teach the subject of money management among the savers particularly the school children fifteen million new attractive savings stamps of Tk. 1.00, 0.50 and 0.25 Paise denominations were printed from abroad and were put on sale through the post offices and various National Savings Offices in Bangladesh. For affixing those new savings stamps colourful savings cards were also printed in the Bangladesh Govt. Press. Savings Stamp worth about Tk. 5.61 lakh were sold during the year under review.
 - c) Incentive for Field Officers: With a view to encouraging the field officers it was decided by the Government to give a cash prize of Taka 3,000/- and Tk. 5,000/- respectively to each savings officer and Assistant Director (Incharge of a District) who would be able to realise the prescribed target fixed for this purpose and with this end in view a committee consisting of officers of the Ministry of Finance, Bangladesh Bank and Directorate of National Savings with the Director, National Savings, as chairman has been constituted by the Government for selection of suitable officers for awarding prizes.
 - d) Motivation through Model Savings Village Scheme: The Directorate of National Savings had already embarked upon a new programme for motivation of rural people by opening a model savings village under each district. Under this Scheme voluntary savings workers were selected for personal contacts with each household. It was decided by the Government to give a gift of Tk. 150/- as an incentive to the best voluntary savings workers of each model Savings Village who would be able to procure an annual investment of Tk. 55,000/-.
 - e) Publicity of monthly magazine "The Sanchaya": In order to disseminate knowledge about National Savings and the activities of the National Savings Department among the general public, Publication of a monthly Journal under the title "The Sanchaya" started regularly in March 1979. 5,000 copies in respect of each issue are printed and distributed among the general public. "

3214 THE BANGLADESH GAZETTE, EXTRA., NOVEMBER 23, 1972 (PART I)

(iii) All certificates purchased before 26th March, 1971 by Bangladeshi nationals and not yet matured should stand terminated on 26th March 1971 and no interest would accrue to the purchaser for the period from 26th March 1971 to 16th December 1971. This period should not also be taken into account for the purpose of calculating the maturity of the Certificates. These Certificates should be revalidated with effect from 17th December 1971 and would be exchanged for Bangladesh Saving Certificates in due course. For the purpose of determining the unexpired period, the period from March 26 to December 16, 1971, should be excluded. These Certificates owned by individuals should be deposited with the Post Office/Bank of issue along with duly filled in Declaration and Receipt Form 'A' in duplicate within 15 days from the date of this Notification. The receiving Office/Bank will return a duly stamped and signed copy of this form back to the depositor/sender as token of receipt. The Certificates held by institutions may be kept in safe custody by the institutions concerned.

(iv) Certificates purchased between 26th of March, 1971 to 15th December, 1971 are not covered by this Order and Government takes no responsibility for these certificates.

(v) Savings Certificates purchased on or before March 25, 1971 out of provident fund of the employees working in firms, local bodies, etc. and held by Board of Trustees/Authority controlling such fund but not matured may be allowed to be encashed only to the extent necessary to pay off immediate liabilities as per authorisation to be issued by Post Masters-General after due verification.

(vi) Subject to above, Saving Certificates should be encashable from 1st July 1973.

(vii) Transfer of Savings Certificates from one person to another which is otherwise permissible under the existing rules, will, however, remain suspended temporarily until further orders.

(viii) A nationality certificate to be issued by any Gazetted officer must be produced by the holder of Savings Certificates at the time of encashment to show that he is a Bangalee.

(b) Prize Bonds:

Prize Bond holders belonging to Bangladesh should deposit their Bonds along with filled in Declaration and Receipt Form "B" in duplicate within a period of 15 days from the issue of this Notification to the Banks/Post Offices dealing with Prize Bonds. A duly stamped and signed copy of this form will be returned to the depositor as a token of receipt. After the expiry of this date these Bonds would not be acceptable for deposit in any manner. Government intends to issue Bangladesh Savings Certificates and other form of Bonds in lieu of the Prize Bonds in due course.

(c) ICB Mutual Fund.

Holders of Mutual Fund should deposit their certificates along with filled in Declaration and Receipt Form 'C' in duplicate within a period of 15 days from the issue of this Notification. No deposit of ICB Mutual Fund will be accepted

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Form:
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