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INSTITUTIONAL DELIVERY SYSTEM OF AGRICULTURAL CREDIT IN BANGLADESH

M. A. MAJID MOLLA
CHIEF OFFICER
AGRICULTURAL CREDIT DEPARTMENT
BANGLADESH BANK
HEAD OFFICE
DACCA

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- M. A. MAJID MOLLA -

INTRODUCTION:

Bangladesh (formerly, East Pakistan, liberated and emarged as a new independent country on December 16, 1971) comprising a total land area of approximately 55126 square miles is more than 90% rural. Over 90% of the country's total population of about 80 million live in some 65,000 villages. The villages are grouped into 4,354 unions each one of which forms a unit of local Government and has an elected body called "Union Parishad" (council). Administratively, the whole country is divided into 4 divisions, 19 districts, 62 sub-divisions, 434 Thanas (Police Stations). The centres of rural supply and services are located at the headquarters of each thana which forms the basic administrative unit of the nation building departments of the Government. More than 85% of the people of Bangladesh depend for their livelihood on agriculture and related economic activities in rural areas. Agriculture which is the main vocation and source of income of the rural people contributes about 60% of the GDP and 80% of the export earnings. Agricultural labourers constitute about 70% of the total labour force of the country. The average density of population is 1337 per square mile. The land-man ratio is one of the lowest in the world. The average landholding per farm family is 1 to 3 acres. Of the total farming population, 30% are landless, 35% own land upto 1.5 acres while 56% own land upto 2.5 acres. The average holdings are too small, fragmented and widely scattered for proper management and economical use of irrigation and other facilities. Though land is fertile, productivity is comparatively low due to poor cultural practices. Due to lack of proper and adequate infrastructure needed for application of improved and modern technology, subsistence farming has been the continuing feature of agriculture. Great majority of the farmers are poor, illiterate and below subsistence level. Efforts have been made since pre-liberation

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* The author is the Chief Officer, Agricultural Credit Department, Bangladesh Bank, Head Office, Dacca, Bangladesh.

1 Micro fed
2 rural employment

time to develop infrastructure and create facilities for development of agriculture and its various sub-sectors, so as to reach self-sufficiency in food and reduce rural unemployment. An Agricultural Development Corporation (BADC) was set up for arranging supply and services of various agricultural inputs throughout the country. Also, a Water Development Board was set up for development of water resources and taking protecting measures like flood control, construction of drainage channels etc.

For dispensing credit and providing financial services to the rural people there were (a) credit cooperatives which were organised at Government initiative. Besides, a specialised Agricultural Development Bank was set up by the then Government for providing term capital finance to individuals and organisations engaged in agricultural operations and/or related activities in rural areas.

With the development of infrastructure and creation of these facilities, cropping intensity increased resulting in higher agricultural production. Yet, the condition of the teeming million of the rural poor did not improve. Now about one-third of the rural population have become landless and they remain mostly under-employed or unemployed throughout the year. Therefore, the major thrust of the present policy is to create institutional facilities for integrated rural development with emphasis on equitable distribution and improvement of the position of the poorest of the poor. The present agricultural credit delivery system has to be considered in this context.

AGRICULTURAL CREDIT SYSTEM:

Before liberation of the country, there was a multi-institutional system through which credit used to be delivered to farmers by the financial institutions directly as well as through financial intermediaries like cooperatives. The main sources of credit were (1) the Government (2) the Central Bank, (3) the Agricultural Development Bank, (4) the Cooperative Banks/Associations. The Government used to distribute what was known as

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"Taccavi" loans at nominal rate of interest among farmers affected by natural calamities like flood, cyclone etc. to tide them over difficulties for agricultural purposes. Most of these loans used to remain unrecovered for years together and Government would hardly take any effective measures for recovering the loans. The Taccavi system did not strictly follow any norms of institutional credit and as such it created a bad precedent and credit indiscipline which ultimately affected the loaning operations of other credit agencies as well. It was, therefore, decided to abolish the Taccavi loan system altogether but it continued to operate though on a much reduced scale.

The Central Bank (the then State Bank of Pakistan - SBP) used to make loans and advances at concessional rate to two institutions, namely, (i) the Agricultural Development Bank of Pakistan (ADBP) and (ii) the Apex Cooperative Bank for on-lending to agricultural sector through their branches/intermediaries. The Central Bank was also statutorily responsible for formulating agricultural credit policy and providing a machinery for control supervision and coordination of the activities of agricultural credit institutions operating in the field. In fact, the Agricultural Development Bank as well as the cooperative banking system both being financially weak organisations were almost entirely dependent for their agricultural credit operations on borrowings from the Central Bank.

A. D. B. P.
Before liberation:

The Agricultural Development Bank (ADBP) was created in early 1960's by merging 2 institutions namely Agricultural Development Finance Corporation (ADFC) and Agricultural Bank of Pakistan (ADBP) set up earlier by the then Government for the purpose of providing credit facilities to agricultural sector. It was a Government sponsored bank; its share capital of Rs. 200 million was contributed entirely by the Government and its management was entrusted to a Board of Directors (constituted by the Government) who were responsible for framing rules and regulations for the bank's credit operations within the overall credit policy formulated by the Central Bank. The bank was intended to adopt development oriented policy for financing agriculture, sericulture, horticulture, pisciculture, dairy, poultry, animal husbandry, bee-keeping, rural cottage and agro processing industries directly through its branches. The bank established a network of branches throughout the country; in the territory comprising Bangladesh, the Bank had a total number of 75 branches as on the date of liberation. The Head Office of the Bank at Karachi (West Pakistan) used to issue policy directives to be executed by the branches. Of course, there was a subordinate Regional Office of the Bank at Dacca for maintaining a liaison between the Head Office and the branches in the then East Pakistan (now Bangladesh). The Regional Office had little to do with policy formulation which was the exclusive responsibility of the Head Office. The bank pursued a security oriented credit policy which generally served the interest of the comparatively big farmers. Thus the bulk of the short term credit supplied by the bank in the then East Pakistan went for financing tea estates and cold storage owners. Medium term loans given by the bank for purchasing agricultural machinery like tractors, power tillers, shallow tubewells etc. also largely benefitted the big farmers. The medium term loans given for purchasing plough animals went to medium and big farmers.

COOPERATIVES
Before liberation:

During pre-liberation time, there were two separate systems of cooperatives in the country (1) the 3-tier system (now known as the traditional system) which originated in British India in the early part of this century and (2) the 2-tier system (known as the Comilla system) evolved by the Academy for Rural Development at Comilla. The traditional credit cooperatives under the 3-tier system consisted of (i) one apex bank, (ii) 62 central cooperative banks at the secondary level, (iii) over 4000 Union Cooperative Multipurpose Societies (UCMPS) at the primary level and (iv) 16 Cooperative Land Mortgage Banks (also at the primary level). The apex Cooperative Bank was organised in 1948 at a time when there was no other rural credit institution in the country. The bank which was then known as the East Pakistan Provincial Cooperative Bank(EPPCB) was at Dacca with operational jurisdiction extended over the whole province of East Pakistan (now Bangladesh). Initially, the Bank started loaning operation with its own fund and small financial support from the Government. The EPPCB established a line of credit with the then Central Bank of the country (State Bank of Pakistan) for the first time in 1958 and since then the cooperative banking system became the purveyors of the Central Bank's credit to rural sector.

At the secondary tier there were 62 Central Cooperative Banks (CCBs) and a few Central Cooperative Associations affiliated with the Apex Cooperative Bank. There was one CCB at each sub-divisional headquarter with operational jurisdication over the sub-division. In a few sub-divisions there were more than one CCB located at the Thana headquarters. Membership of Central Cooperative Bank was restricted to cooperative Societies only (no individual could be member of the CCB). At the base (i.e. primary) level there were Union based societies called Union Cooperative Multipurpose Society (UCMPS) and Village based society called Krishi Samabaya Samity (KSS). The KSSs were specially organised under Thana Irrigation Project (TIP) and Deep Tubewell Project in certain areas. These KSSs were federated into Thana Associations (TCCAs). The Cooperative Land Mortgage Banks which were directly affiliated with the EPPCB were at the district headquarters for providing term finance to their farmer-members direct for such purposes as land development, purchase of agricultural machineries redemption of debts, release of mortgage properties etc. Fishermen and sugarcane growers had their own cooperative societies both at primary and secondary levels through which the apex bank used to channelise credit to their members. These cooperatives for farmers, fishermen and other rural producers were formed at Government initiative mainly for the purpose of providing institutional credit and other services needed by the people of respective professions at minimal cost. The Government officials who organised the cooperatives initially with the help of rural power structure enlisted all classes of people including

Coops: Top down ↓ so ultimately dominated by rural elite

This guarantee requirement impeded credit expansion because the Government would not recommend loan to be sanctioned by the Central Bank without making adequate provision for meeting the guarantee liability out of the Government revenue budget. In view of the Government's financial involvement in the agricultural credit operations of the Cooperative Banking System, it was decided to involve Government officials in their management as well. Government officials were, therefore, made the Chairmen of the Managing Committees of the Cooperative Banks. The Registrar of Cooperative Societies himself was made the Ex-officio Chairman of the EPPCB while the Deputy Commissioners and/or Sub-Divisional Officers were made the Chairmen of the Managing Committees of the CCBs so that they could have some control over the management of funds. Neither the EPPCB nor the CCBs had adequate staff. Government officials (of the Cooperative Department) who had no professional background and banking experience were seconded to these banks as Executive Officers to run the administration with a few poorly paid and untrained employees. The primary cooperatives which were affiliated with the CCBs at the delivery end of the outlet did not have any paid Managers; they were run by Honorary Secretaries elected from among the members.

The cooperative banks did not generally have any dealings with non-members and their only business was to dispense agricultural credit to their members on fixed rates of interest. The Central Bank (State Bank of Pakistan) used to give loans to the Apex Bank at concessional rate of 2% below the Bank Rate. The Central Bank's loans used to be retailed by the Apex Bank to CCBs through primary cooperatives to individuals on interest margin @ 1%, 2% and 3% respectively. These interest margins at different tiers were considered to be just sufficient to cover the administration cost and normal risk of bad debts but the default rate was so high that the institutions concerned could hardly make any real profit out of the business after meeting the bad debts. The Apex Bank was required to repay the Central Bank's loans fully with interest on due dates and as there was always short-fall in recovery, the Government were required to redeem their guarantee liability by giving loans to the Apex Bank on interest rate higher than that of the Central Bank. As the Apex Bank's interest rate was fixed and no penal interest could be charged to the ultimate borrowers i.e. the individual members of the cooperatives, the difference used to be realised by the Apex Bank by way of collection charge. Thus although the Apex Bank could square up its loan accounts with the Central Bank it remained heavily indebted to the Government. The Apex Bank's outstandings with the Government on this account stood at Tk. 115.1 million as on the date of liberation.

During pre-liberation period i.e. from FY 1958-59 to 16.12. 1971 the EPPCB issued loans amounting to Tk. 649.5 million out of which Tk. 429.1 million were realised upto 16.12.1971 and Tk. 220.4 million were outstanding as on 16.12.1971.

All loans given to farmers through the cooperative system were secured at the ultimate borrowers' level by mortgage of property (usually agricultural land). So, the credit facilities extended by the Central Bank (SBP) through the cooperative banking system could be enjoyed only by those individual members of the primary societies who could mortgage encumbrance free land in favour of the society. The landless farmers and share croppers who did not have any land in their own name could not avail of the credit facility because of their inability to offer such security which was a must for obtaining loan from the cooperatives. No tangible securities were, however, required to be given by the EPPCB to the Central Bank (SBP) and by the CCBs to the EPPCB for their respective borrowings for issuing loans to the primary societies for on-lending to their individual members. Only Pro-notes signed by the CCBs in favour of the EPPCB and endorsed by the latter to the Central Bank were required for drawal of loans by them.

The new type 2-tiered system of cooperatives as mentioned earlier, were evolved by the Pakistan (now Bangladesh) Academy for Rural Development at Comilla, after carrying out long experimentation in Comilla Kotwali Thana (using it as the laboratory). Under this system, primary cooperatives at the grass root level were formed with one village or a number of villages (but not with a union like the UCMPS). These village based societies (Agricultural Cooperative Societies) were federated into Central Associations at Thana level and were named as TCCAs (Thana Central Cooperative Associations). The other important features of this new type of cooperatives distinguishing them from the traditional cooperatives are (1) compulsory regular deposit of certain minimum amount by individual members, (2) regular attendance of members at weekly meetings and (3) training of model farmers and village accountants. This system of cooperatives was spread over all the Thanas in Comilla District.

After liberation, the Apex Cooperative Bank (EPPCB) was named as Bangladesh Jatiya Samabaya Bank (BJSB) now renamed as Bangladesh Samabaya Bank and a new bank out of the former Agricultural Development Bank of Pakistan (ADBP) was created and named as Bangladesh Krishi Bank (BKB). The credit delivery system through these two major institutions, however, continued to remain the same as it was before liberation. There has, however, been significant changes in the policy, procedure and operations during the post-liberation period, particularly since the induction of commercial banks in the field in 1973-74. The paragraphs that follow give a general review of the loaning operations of different agricultural credit institutions including commercial banks during the last 5 years.

BANGLADESH KRISHI BANK (BKB):

At the time of liberation, the former ADBP in Bangladesh had only 75 branches with which the BKB started operations from 16th December, 1971. The number of branches of the Bank now stands at 197. Besides, 61 small rural branches have been opened during the last 6 years so as to make the bank's credit facilities available to the farmers at their door steps.

During 1971-72, the BKB disbursed loans to the tune of Tk. 96.4 million as compared to Tk. 69.7 million disbursed by ADBP in the previous year. The increase was 38.30% and it was due to introduction of a simplified procedure for disbursement of loan of upto Tk. 1000/- from April, 1972. The simplified procedure enabled the Bank to increase the number of borrowers by 91% and volume of credit by 85% by disbursing Tk. 179 million in the following year (1972-73). The following table shows the bank's share in the total volume of institutional credit supplied to agricultural sector during the years 1973-74 to 1976-77 :-

(Taka in Million)

YEAR	Total credit by all institutions	Credit by BKB	3 as percentage of 2
1	2	3	4
1973-74	341.8	135.7	40
1974-75	366.9	176.3	48
1975-76	462.9	185.2	40
1976-77	886.4	388.4	44

SOURCE: Agricultural Credit Department, Bangladesh Bank.

BKB advances short-term, medium-term and long-term loans to farmers. Short-term loans are given to meet the seasonal needs of the farmers for agricultural operations while medium-term loans are given for purchase of agricultural implements, draft animal-, bullock/buffalo carts, dairy, poultry, pond fishery etc. Long-term loans are given for purposes such as development of orchards/fruit gardens, inland fisheries, acquisition of farm machineries, construction of warehouses etc. The bank charges interest at 11 percent for short-term loans (except for tea and jute finance for which interest rate is 10.5%) and at 11.5 percent for medium and long term loans. The following table shows the term wise break up of the loans disbursed by the bank during the years from 1972-73 to 1976-77 :-

(Taka in Million)

YEAR	Short-term	Medium-term	Long-term	Total
1972-73	56.1	121.9	1.0	179.0
1973-74	66.9	68.3	0.5	135.7
1974-75	94.6	81.0	0.7	176.3
1975-76	111.2	73.8	0.2	185.2
1976-77	266.9	119.4	2.1	388.4
TOTAL:	595.7	464.4	4.5	1,064.6

SOURCE : Bangladesh Krishi Bank's Annual Reports.

It would be observed that short term loans disbursed by BKB in 1976-77 (upto end June, 1977) was more than double of the amount disbursed in the previous year. This was mainly due to the bank's participation in what is known as "Tk. 100-Crore Special Agricultural Credit Programme (SACP)" launched in mid-February, 1977. For disbursing credit ~~under this programme~~ BKB was allotted 835 unions. It disbursed a total amount of Tk. 165.33 million representing 27.24% of the total disbursement of Tk. 606.85 million made by all the participating banks upto 31st December, 1977. The bank obtained refinance from Bangladesh Bank at concessional rate of 6%, as usual, and charged interest to the borrowers at 11% per annum (compounded annually) as fixed uniformly for all the banks participating in this programme.

The bank from its inception enunciated a policy to give preference, as far as possible, to the credit needs of small farmers. In this context it would be of interest to analyse the bank's loaning operations according to size of loans during the years from 1972-73 to 1976-77. In 1972-73 the bank disbursed a total amount of Tk. 179 million among 175,289 loanees and in 1976-77 it disbursed a total amount of Tk. 388.4 million to over

225,000 loanees. In 1972-73, 55 percent of the total number of loanees receiving loans ranging upto Tk. 1000 accounted for 42 percent of the total loan disbursed during the year. In 1976-77, however, because of the introduction of Tk. 100-Crore SACP, 79 percent of the total loanees received loans upto Tk. 1000 and accounted for 54 percent of the total loans of that year indicating marked preference for the small farmers. Loans upto Tk. 500 accounted for 38% of the total loanees and 17% of the total loan amount in 1972-73 and 32% of loanees and 33% of loan amount in 1975-76. The table below shows the percentage of the bank's borrowers by size of their land holdings. This also shows an increasing trend of preference to small farmers:

Borrowers by size of land holdings		1971-72	1972-73	1973-74	1974-75	1975-76
i)	Landless	0.77	2.22	0.01	0.02	0.02
ii)	Upto 3 acres	45.59	54.23	58.55	63.00	58.96
iii)	Over 3 upto 12.5 acres	47.32	37.23	38.05	33.76	38.50
iv)	Over 12.5 upto 50 acres	5.26	6.07	3.25	3.06	2.47

SOURCE : BKB's Annual Reports.

The deposit liabilities of the Bank increased substantially during the last 5 years as may be seen from the following table :

Taka in Million

Type of deposits	AS ON				
	30.6.73	30.6.74	30.6.75	30.6.76	30.6.77
Fixed deposits	19.4	38.8	92.9	102.4	164.8
Savings Deposits	21.6	25.0	23.9	32.2	38.4
Current and other A/cs.	33.8	16.1	17.4	21.2	54.7
TOTAL :	74.8	79.9	134.2	155.8	257.9

BKB's rates of interest on deposits are 1% higher than those of the commercial banks. BKB has been allowed to pay 1% higher rate to enable it mobilise rural savings. The deposit resources of the BKB which have come mostly from organised sectors are, however, yet too small in relation to its requirement of financial resources for investment in rural areas.

The following table shows the trend of recovery of loans by BKB in relation to its overall outstanding and overdues during the last 5 years :

(Taka in Million)

YEAR	Disbursement	Recovery	Outstanding	Overdue	Percentage of overdue to outstanding
1972-73	179.0	67.2	612.3	258.4	42.20
1973-74	135.7	119.0	671.4	300.6	44.77
1974-75	176.3	200.0	717.5	328.9	45.83
1975-76	185.1	274.8	742.1	326.1	43.94
1976-77	388.5	294.9	903.3	339.8	37.61

COOPERATIVES :

After liberation both of the cooperative systems, the traditional system and the Comilla System, continued to exist. The Comilla System, of course, as decided by the Government, has been rapidly expending under the Integrated Rural Development Programme (IRDP) - although the traditional system has not been abolished anywhere so far. The credit cooperatives under the traditional system consist of Apex Bank (Bangladesh Samabaya Bank), 62 Central Cooperative Banks (CCBs) and their affiliated Primary Societies (UCMPSs and KSS - as mentioned earlier) and the 16 Land Mortgage Banks. The Managing Committees of the Cooperatives under this system have been fully democratised. This system is continuing to remain as one of the major channels for delivering credit issued by the Bangladesh Bank (Central Bank of the country) to farmers who are members of these cooperatives at the grass root level. Bangladesh Bank with a view to increasing credit flow through the cooperative system decided as a matter of policy to accept Government guarantee at a reduced flat rate of 30% for all types of loans for any amount to be given to Bangladesh Samabaya Bank. Since liberation, BSB (formerly BJSB) has been carrying on agricultural credit operations financed by Bangladesh Bank at concessional rate of interest which is 2% below the Bank Rate.

During the post-liberation period, (upto end June, 1978), BSB disbursed loans aggregating Tk. 80.04 crores (i.e. Tk. 800.4 million), out of Bangladesh Bank loans amounting to Tk. 75.72 crores and own fund Tk. 4.32 crores. The year-wise position of its loan operations during the years 1971-72 to 1977-78 is shown in the following tables :

(a) Year-wise loan operations of BSB during Fiscal Year 1971-72 to 1977-78.

(Taka in Million)

YEAR	Loan disbursed	Loans recovered	Loans outstanding	Loans overdue
1971-72	96.4	41.6	290.3	204.4
1972-73	142.5	67.3	365.4	217.9
1973-74	77.4	84.5	358.3	244.2
1974-75	94.1	92.2	360.2	242.1
1975-76	106.2	121.0	345.4	211.4
1976-77	113.3	105.2	353.6	229.5
1977-78	170.5	140.4	374.1	229.4
Total:	800.4	652.2		

(b) <u>Year-wise position of BSB's loan operations with Bangladesh Bank</u>

(Taka in Million)

YEAR	Drawal	Repayment	Outstanding	Overdues
1971-72	98.0	34.3	16.95	9.00
1972-73	148.2	63.0	25.47	10.78
1973-74	65.0	129.2	19.05	7.46
1974-75	86.7	133.1	14.41	3.15
1975-76	94.4	107.9	13.06	1.13
1976-77	109.2	115.5	12.43	1.74
1977-78	155.7	104.7	17.53	3.87
Total:	757.2	687.7*		

* Out of the total repayment of Tk. 687.7 million, a total amount of Tk. 486.6 million was the repayment out of recovery and Tk. 201.1 million out of guarantee money paid by the Government.

Presently, the Bank Rate being 8%, Bangladesh Bank has been giving loans to Bangladesh Samabaya Bank (BSB) at 6% (minimum) per annum, which is not compounded, for on lending to farmers, (through the CCBs and Primary Cooperatives) at maximum 12% per annum (simple). The interest rates and margins retained by the Cooperatives at different tiers are as follows :

	Interest Rate	Margin
i) BSB to CCB/Association	7% (Simple)	1%
ii) CCBs/Association to Primary Cooperatives	9% (Simple)	2%
iii) Primary Cooperatives to individual borrowers	12% (Simple)	3%

Interest on cooperative loans are not compoundable. A Collection Charge at 4% is, however, realised on all overdue loans by the Cooperatives at all tiers.

THE COMILLA SYSTEM OF COOPERATIVES:

As mentioned earlier, the Comilla System of Cooperatives incorporated certain features which have been generally absent in the other system (traditional cooperatives) used for channelising institutional credit to farmers. The most important of these features is that it provided for a credit system to be coordinated with systems for providing (1) information about and guidance in the introduction of more productive farming and inputs and (2) supplies of the improved inputs. The system also provided for more adequate credit supervision and strict repayment discipline. After the system was found suitable to be spread over to other thanas, Integrated Rural Development Programme (IRDP) was established and given the mission to spread the system all over the country. As of September, 1977, IRDP had affiliated 200 TCCAs each located at the respective Thana headquarters and these TCCAs had affiliated 22,929 Primary Cooperatives called KSS with a total membership of over 700,000 farmers. Since 1973-74, Sonali Bank (one of the nationalised commercial banks) has been providing credit to the TCCAs (at concessional rate of interest) for channelising through the KSSs to their farmer-members. The volume of loans disbursed by these cooperatives during the years from 1973-74 to 1977-78 (upto September, 1977) was as follows :-

YEAR	DISBURSEMENT
1973-74	Tk. 24.56 million
1974-75	Tk. 39.30 "
1975-76	Tk. 45.30 "
1976-77	Tk. 61.99 "
1977-78 (Upto end September, 1977)	Tk. 30.70 "

The deposit liabilities of the IRDP Cooperatives as in September, 1977 equalled Tk. 25.85 million.

The overall loan recovery performance of IRDP-TCCAs leaves much room for improvement. In 1973-74, they collected 78.4% of the loans (principal) that were due for collection including those which were already due at the beginning of the year and the loans that fell due during the year. In 1974-75, 1975-76 and 1976-77, the respective percentages were 57.5, 58.3 and 57.9.

The IRDP-TCCAs got loans from Sonali Bank (one of the nationalised commercial banks) at 7.5% and disburse those loans among farmer-members of their affiliated KSSs at 17.5% (including service charge at 5%), the spread being as follows :

i) Sonali Bank to TCCA - 7.5% compounded quarterly

ii) TCCA to KSS - 12.5% (includes service charge 2%)

iii) KSS to Farmers - 17.5% (includes service charge 2% Manager's commission 1%).

Like the traditional cooperatives, the IRDP-Cooperatives are also dominated by comparatively well-to-do farmers and rural elites. Due to the influence of these people and due to the provision of compulsory deposits to be made by the members, the poor farmers are not getting access to these cooperatives. TCCAs have been established in 200 Thanas but the Primary Cooperatives (KSSs) under them have not been able to enroll in their membership even 30% of the farmers in these areas as yet. Providing members education and training in more productive farming, a feature which distinguished this system of cooperatives from the traditional ones are now conspicuously absent from the cooperatives under IRDP. Even the training of model farmers are found to have been losing effectiveness in motivating other farmers to take to improved and more productive farming practices. The Government have increased the strength of extension officials and a new extension system known as Training and Visit (T&V) System which has been found effective in a neighbouring state of India has been introduced with

IDA (World Bank) finance in the north-western region of the country. The Government Extension Staff have not been allowed, as a matter of policy, to be involved in the credit operations, even for supervising the end-use of credit on the ground that such involvement might hamper their extension work.

In view of the Government's decision to spread IRDP-TCCAs all over the country, both the World Bank and the Asian Development Bank (ADB) have accepted these cooperatives as the only suitable institution for dispensing credit in the following projects financed by them :

(1) Rural Development (RD) Project-I covering 7 Thanas (4 in Bogra and 3 in Mymensingh Districts) financed by World Bank (IDA).

(2) Serajgonj Project financed by ADB.

(3) Intensive Jute Cultivation Scheme - financed by IDA. The IRDP-TCCAs are enjoying absolute monopoly for providing agricultural credit in those projects.

NATIONALISED COMMERCIAL BANKS:

Historically, the commercial banks in this country played no significant role in the strategy of development of rural economy which was of crucial importance for overall economic development of the country. The commercial banks originated in the urban areas, were urban based and urban oriented and they served mostly the interest of the big industrialists and commercial magnates who were also the owners of these banks. In the early 1960's the then Government initiated work for infrastructural development in rural areas through various programmes and pumped in money for such work. The commercial banks took this opportunity and started opening their branches in the semi-urban areas with the sole object of bringing these government funds into their coffers so as to inflate their deposit resources. The banks also mobilised rural deposits through various intermediaries like the cooperatives and syphoned the monetary resources so mobilised, to urban areas for profitable investment in trading and commercial enterprises. They paid little attention to the needs of the farmers and other rural producers as they considered such investment as less remunerative, more costly and highly risky. Very little was done by the then Government or even by the Central Bank to bring about a change in the attitude and policy of the commercial banks. As a result, the entire bank credit was once concentrated in the hands of a few families who controlled the economy of the country. Immediately after liberation, a Presidential Order called "Nationalisation of Banks Order" was passed and 6 new commercial banks were created with the organisation and structure of 12 privately owned commercial banks which existed in the country upto the date of liberation. Even after the change of ownership the banks did not change their attitude and most of them were still hesitating to extend their services to farmers and other producers in the rural areas. To get over this situation a decision was taken by the Central Bank (Bangladesh Bank) to induct the nationalised commercial banks [illegible] the end of 1973. The banks were [illegible] in their Head Offices as [illegible] with proper personnel to deal specially with [illegible]

[illegible] for providing credit to the agricul- [illegible] through any intermediaries like the cooperatives. [illegible] preference primarily for indirect approach [illegible] safer and easier. One of the commercial banks [illegible] for retailing its credit, with TCCAs at the [illegible] at the delivery end. Another commercial bank took [illegible] financing of individual farmers [illegible] banks were still hesitant. These two banks enter- [illegible] acceded to the loan requests of the Sugar [illegible] loans to Sugar Mills for financing [illegible] factories also received concessional [illegible] commercial banks for financing their registered [illegible] Bank in order to give incentive for agricul- [illegible] to pay interest subsidy at 1.5 percent to those [illegible] provide agricultural credit from their own [illegible] to give them refinance at concessional rate [illegible] such refinance would be necessary to [illegible] problem. Even so, the commercial banks' credit [illegible] did not expand significantly. Distribution [illegible] by areas (urban and rural) as on December [illegible] the share of rural areas in bank advances was [illegible] of 9.4% to bank deposits. Therefore, [illegible] a reasonable part of rural savings mobilised by [illegible] increasing flow of credit to rural sector, [illegible] programme, called Tk. 100-Crore Special

Agricultural Credit Programme (SACP) involving all the six nationalised commercial banks (NCBs) and Bangladesh Krishi Bank (BKB) has been launched from Mid-February, 1977. The Government allocated the credit target district-wise and crop-wise and fixed the credit norms. This allocation was again sub-divided union-wise and crop-wise and the unions were allocated among participating banks for disbursing credit under a very simplified procedure. Under this programme, loans are to be disbursed by banks to farmers as near to their villages as possible by opening booths, if necessary, at convenient places. No collateral is required for these loans which are given by the banks to any person who is identified as genuine farmer having land under his cultivating possession, by any respectable person of the locality. The loans are given to individuals or groups against crop lien and personal surety or group surety. A farmer cultivating his own land or others' land as tenant or share cropper is eligible for loan under this programme provided he can satisfy the bank about his means and capacity of producing the crop for which he wants finance. One of the objectives of this programme is to change the banks' security oriented loaning policy to make it production oriented for agricultural finance. Another objective is to increase the coverage of small farmers for which credit ceiling has been fixed for financing any crop upto a maximum of 3 acres. Initially, the commercial banks being new in the field did not have sufficient staff to handle such a massive programme in an unfamiliar environment. The Local Government officials Members/ Chairmen of Union Parishads were, therefore, involved for providing necessary assistance to bank's staff in disbursing as well as in recovering loans under this programme. A Lead Bank System has been introduced for coordination purpose. For every district one commercial bank has been designated as the Lead Bank whose function is to maintain coordination among all the participating banks through the District Committee set up at the district headquarters with the Deputy Commissioner as Chairman and Managers of the participating banks and representatives of other concerned agencies as Members. The programme is being monitored by Bangladesh Bank who also issues operational guidelines/instructions to be followed by the banks implementing the programme. In the first year, over 60% of the disbursement target was achieved, upto the terminal date. The performance of the participating banks in respect of recovery of the loans disbursed under the programme has not been satisfactory as upto 30th June, 1978, they could recover only about 46% of the total amount disbursed during the calendar year 1977.

Apart from disbursing credit under this Special Agricultural Credit Programme (SACP), the commercial banks as well as BKB carried on agricultural credit operations under their Normal Programme (NP) simultaneously. The cooperative systems remaining outside the SACP, also disbursed credit according to their Normal Programme (NP). As a result, the volume of credit supplied to agricultural sector by different institutions increased considerably during the last 2 years as may be seen from the following table :

(Amount, crores* of Taka)

Agency	Credit disbursed in 1976-77			Credit disbursed in 1977-78			% of increase
	N.P.	SACP	Total	N.P.	SACP	Total	
BJSB	11.33	-	11.33	17.05	-	17.05	50.49
BKB	31.68	7.12	38.80	37.29	17.84	55.13	42.09
NCBs	21.94	15.87	37.81	36.54	52.08	88.62	134.38
	64.95	22.99	87.94	90.88	69.92	160.80	82.80

* 1 crore = 10 million

Consequent upon taking of the above measures, disbursement of agricultural credit rose by 47.4% in 1976-77 over that of 1975-76 and by 82.8% in 1977-78 over 1976-77. Share of agricultural credit which constituted 4.33% of the total bank credit in 1975-76 also rose steadily and stood at 6.75% in 1976-77 and at 10% in 1977-78.

The study team of M/s. Robert R. Nathan Associates, Inc., U.S.A. undertook a field level sample survey for an evaluation of the SACP. They are processing the data for preparing final Evaluation Report. Meanwhile they have submitted a preliminary report which reveals some interesting facts about this programme. Some of their observations are noted below :

" Relative to the national land ownership pattern, the data (in respect of a sample of 158 borrowers) presented here show a disproportionate representation of large farmers among those who received loans under the programme.

Nearly 38 percent of the borrowers owned more than 5 acres of land and received about 54 percent of the credit that was disbursed.

About 41 percent of the borrowers owned 2-5 acres of land and received 31 percent of the credit.

About 21 percent of the borrowers owned less than 2 acres and received about 15 percent of the credit.

None of the 158 borrowers owned no land.

To put the above information in perspective it should be understood that small farmers and landless farm laborers depend very heavily for their livelihood on being employed as hired laborers by farmers with larger land holdings. On the average, borrowers owning less than 2 acres indicated that 31 percent of their family's livelihood was obtained from working as hired laborers for other farmers. The landless must depend even more heavily on being employed by others. The welfare of the rural poor requires more intensive (employment generating) operations on all farms - on large farm as well as small ones. The solution to the problem does not lie in denying credit to the larger farmers.

The data do not indicate that small farmers - as compared with others - are more inclined to repay their loans when they fall due. Of the borrowers who had received loans under the programme for Aus, Aman or Jute 50 percent of those owning less than 2 acres, 54 percent of those owning 2 - 5 acres and 61 percent of those owning more than 5 acres were indicated to have repaid their loans for those crops before the time when they were interviewed in April.

Nevertheless, because they were more numerous and their loans were larger the borrowers who owned more than 5 acres of land accounted for more than one-half of the money that was overdue on loans made under the programme for Aus, Aman and Jute. Borrowers owning 2-5 acres accounted for 34 percent of the money that was overdue on such loans, and farmers owning less than 2 acres for only about 10 percent.

Supervision in the use of the credit was very lax. Only 60 percent of the borrowers indicated that the Union/Village Agricultural Assistant, a bank employee or a member of the Union Council checked to see how the borrower used his loan.

There would appear to be little doubt that the programme had a favourable impact on agricultural production. The use of fertiliser among borrowers owning less than 2 acres increased by 46 percent. The respective increases for borrowers owning 2 - 5 acres and borrowers owning more than 5 acres were 13 percent and 22 percent.

However, the impact of the programme on production was constrained by difficulties borrowers experienced in obtaining supplies of fertiliser, improved planting seed and pesticides. Seventeen percent of the borrowers indicated that they experienced difficulty in obtaining fertiliser; 8 percent indicated that they had difficulty in obtaining planting seed and

15 percent indicated that they had difficulty in obtaining pesticides or spraying equipment."

In the absence of precise data relating to operational cost of the banks and loan cost of the borrowers, it is not possible to say whether the interest rate fixed at 11% for these banks has been realistic.

CONCLUDING OBSERVATIONS :

It would not be easy in trying to draw some definite conclusions from the above discussions on the existing institutional delivery system of agricultural credit. It would be far more difficult to suggest any recommendation on it individually. Hence I would refrain from attempting any. I would, however, like to draw the learned attention of the distinguished participants here on three issues which, to my mind, appear to be crucial for a viable and effective rural credit delivery system in Bangladesh.

The first issue is of the (1) accessibility of the rural poor to institutional credit. It is a well known fact that despite multiplicity of agricultural lending institutions existing in the country the majority of the rural poor have very little access to credit offered by these institutions. Their efforts to get some credit money for production from these institutions mostly founder due to their inability to offer adequate collateral or to have any effective say in a credit cooperative dominated by their fellow affluent farmers and village money lenders. Attempts from the Government to undo this set-up did not have much effect so far.

The second issue is of the (2) profitability of credit money which leads to the question of appropriate interest rates for rural lending. The profitability should be considered from the point of view of both the lender and the borrower. The lending institutions must find the interest rate sufficient to cover cost of credit including cost of its administration and a reasonable profit margin. The borrowers also must find it attractive enough to generate additional income from investing the borrowed sum in farming so as to be able to pay for it and also increase his networth. An ideal interest rate will be one which is able to satisfy the aspirations of both the lender and the borrowers simultaneously.

The third issue is how (3) to minimise loan delinquency and work out an effective mechanism for prompt repayment. We are aware that a number of methods have been tried with varying success in different developing countries of the Third World. In Bangladesh also a few methods are being tested, but an effective recovery system is yet to be found. Without going to the depth of the problem it can be said that the demise of a rural credit institution is often brought about by high rates of loan default. In this country the demise of such institutions is being prevented so far through 'artificial respiration', that is to say, through heavy interest subsidy, counter-finance, invoking of Government guarantee and similar other measures. Unless a self-financing credit system to the benefit of both lender and borrower can be found, these 'artificial' measures can only defer the eventual demise of these institutions.

With a view to finding proper solutions to these three burning issues and to develop an effective model to be replicated subsequently for a desired delivery system of agricultural credit in the country, a project styled "Rural Finance Experimental Project" is going to be field-tested very shortly under USAID assistance. The future of agricultural development in the country in general and that of the small and marginal rural borrowers in particular may be largely influenced by the success of this Project.