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**RURAL CREDIT FORGIVENESS
PROGRAMS 1984 & 1985**

**A STUDY
BY**

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RURAL CREDIT FORGIVENESS PROGRAMS
1984 & 1985

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LIST OF ABBREVIATIONS

ACD	Agricultural Credit Department
ACSF	Agricultural Credit Stabilization Fund
ADBP	Agricultural Development Bank of Pakistan
ADRF	Agricultural Debt Relief Fund
AGM	Assistant General Manager
ARGF	Agricultural Rural Guarantee Fund
B.Bank	Bangladesh Bank
BKB	Bangladesh Krishi Bank
BSBL	Bangladesh Samabaya Bank Ltd
CMLA	Chief Martial Law Administrator
d.t.w	Deep Tube Well
DGM	Deputy General Manager
DMD	Deputy Managing Director
GB	Grameen Bank
GM	General Manager
IRCP	Intensive Rabi Crop Production
ITAP	Intensive Transplanted Aman Program
MD	Managing Director
MOF	Ministry of Finance
NBP	National Bank of Pakistan
PO	Principal Officer
RCD	Rural Credit Department
RCF	Rural Credit Fund
SACP	Special Agricultural Credit Program
SBC	Sadharan Bima Corporation
s.t.w	Shallow Tube Well
WAPDA	Water and Power Development Agency

Taka One Crore = Taka Ten Million

Taka One Lac = Taka One Hundred Thousand

In this report, the terms 'government' and 'government officials' denote persons in the service of the government who obtain their remuneration from the government exchequer and does not include the financial institutions or their employees.

Best Available Document

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RURAL CREDIT FORGIVENESS PROGRAMS 1984 & 1985

SUMMARY AND RECOMMENDATIONS

Background

With the onslaught of unprecedented countrywide flooding in 1984, President Ershad announced a program of interest exemption. Borrowers were given one years waiver of interest on loans taken for four specific crops damaged by the flood. The loans were rescheduled, with no penal interest during the rescheduled period.

A similar announcement of interest forgiveness was made by the President after the cyclone/tidal bore of May, 1985.

Both these programs were designed to give relief to distressed borrowers and financial institutions would be the vehicles of this relief.

Objectives

An object of the study was to trace the impact of the two announcements of interest forgiveness of July 1984 and of May 1985.

The following issues were to be addressed:

1. the size and nature of the program :
 - its cost (explicit and implicit) to the banking system
 - the extent of its coverage (geographic as well as borrower coverage)
 - impact on the banking system - effect on bank surplus, loan recovery rates and so on.
2. the decision making process - how, why and when were the decisions taken. Were the decision-makers aware of the implications and the size of the program? Were the actual implementers (the financial institutions) at all aware that such an announcement was forthcoming?
3. impact of the program - on the borrowers, in particular, and the changes in attitude due to the announcement.
4. plausible alternatives to such forgiveness programs.

Methodology

We divided our period of study into four phases:

Phase I : Meetings at Headquarter Levels.

Detailed discussions about the two programs were held with officials at the headquarters. Many of the remarks and observations made by them have been incorporated in this report. Existing records and documents were reviewed at this stage.

Phase II: Field Study

Three financial institutions (BKB, Sonali and Pubali) were selected for detailed field level study. BKB and Sonali because of their volume of lending, and Pubali because we wanted the views of a private sector bank affected by the program.

The field work areas were selected to include waterlogged as well as river flooded regions. The borrower sampling was designed to draw insights into and to affirm general corroborations of findings drawn from other studies.

Phase III:

Field level findings were compared with the data and observations at the headquarters. Further discussions were held with the persons interviewed in Phase I.

Phase IV:

Comprise the preparation and submission of the report.

Analysis of Findings

The decision to exempt interest was apparently taken spontaneously. Most bank officials heard of it on media.

An estimate of the loss due to interest exemption has been supplied in the report. However, we believe that the actual cost to the financial system is probably less than the official estimate because the interest loss has not been calculated as a percentage of the "normal" loan recovery pattern of particular financial institutions.

The interest exemption announcements may not have achieved their objectives for various reasons. The financial institutions suffered explicitly as well as implicitly. Explicitly, because they had to bear the cost of the program (loss of interest income, increased administrative costs...) and implicitly because financial discipline had been disrupted. There were also indirect effects such as the excessive ITAP loan disbursements in 1984.

We felt that the programs had limited effect in the borrowers' minds. A subsistence oriented farmer is unable to feel the impact of implicit relief (such as an interest exemption on his loans). In times of distress he would really prefer relief in cash or kind.

The branch managers, who were the actual implementors of the program, faced the problems brought forth by a set of incomplete instructions. Some official clarifications did arrive after long delays. In the meantime, the managers had to execute the program according to their own interpretation of the official circular.

It was difficult to get any concrete data to compare inter-bank performances since there is no uniformity in accounting practices.

Our field study high-lighted the actual problems that result from a "blanket" exemption. Several unaffected villages as well as borrowers were included in the program. But it is probably not cost effective to separate the two categories (i.e. the affected borrowers and the unaffected ones).

It is too early to judge the impact of the program on future loan repayments. However, it is our presumption that the program will adversely affect future loan recovery. The "good" borrower who has repaid his loan together with interest that was exempted (there is no official provision to refund the interest thus paid by him) will be wary before making future repayments. The "bad" borrower will not repay anyway. And all borrowers will await the next announcement of forgiveness.

Plausible Alternatives

We feel the cost of the program could be adjusted from :

- the funds at the disposal of the Bangladesh Bank - ACSF and RCF
- the reserve fund maintained by financial institutions
- the government, i.e. its share from the annual surplus from, the banking sector or from funds under the Ministry of Relief and Rehabilitation.
- a nationwide crop or crop-credit insurance program
- the ARGF proposition of the World Bank or other similar debt relief funds.

Recommendations

Based on this study we recommend that:

- uniformity in accounting practices be established among all financial institutions
- commercial banks be relieved of all social welfare functions which are not a part of their normal operations
- a cut-off date up to which interest would be exempted be announced for the repayment of the 1984 rescheduled loans
- devise a method to help the marginal farmer other than through the commercial banking system
- financial institutions take immediate steps to close the information gap that exists between their different offices
- to improve the rate of loan recovery we recommend that interest free loans be given out for a number of years to fully acquaint the borrowers with the methodologies of formal institutions
- conduct a study to look into borrower behaviour - his apathy towards repayment of formal loans and his awareness of informal ones
- it is probable that financial institutions will continue to be drawn into social-welfare programs. We suggest, therefore :
 - (a) the setting up of a Standing Committee consisting of the representatives of financial institutions and some relevant Ministries. The Committee would meet periodically and be responsible for policy guidelines, implementation and monitoring of disaster programs. The banking system would thus become a part of the decision making process for executing social welfare programs which the government wants them to participate in.
 - (b) an alternate instrument be devised to protect the banking system from having to bear the cost of social welfare programs. This could be achieved through the imposition of special taxes on bank surplus or the establishment of special tax-exempt funds.
- the launching of an ARGF-like fund be considered in view of the above recommendations.

RURAL CREDIT FORGIVENESS PROGRAM OF 1984

A STUDY

THE BACKGROUND

The early onset of monsoons together with unusually heavy rainfalls from May to August in 1984 caused extensive damage to the boro, aus, b.aman, t.aman and jute crops in about 338 out of 469 upazilas (72%) of 53 districts. This crop damage was caused by : (a) water - logging resulting from incessant rainfall with very little let up between showers and (b) flash floods and the breaching of river embankments. During the month of May there was a record 35 inches of rainfall in most of the eastern districts (Comilla, Sylhet etc). HYV boro, which was then ready for cutting, aus, b.aman and jute which had been newly sown were all seriously affected. Even replantation of damaged crops was difficult under the prevailing weather conditions. There was no relief from the downpour in June and the monsoon was in full swing in July and August. The basin of the Ganges and the Brahmaputra overflowed inundating most of the country.

The Ministry of Agriculture issued a country-wide flood situation report on May 16th, 1984 which indicated that about 388,000 acres sown with foodgrains, 31,000 acres sown with jute and 6000 acres sown with vegetables were submerged and probably lost. By June an additional 980,000 acres of land sown with foodgrain, 180,000 acres sown with other crops were damaged. The crop damage was further aggravated by the fact that drought in the months of March and April had delayed the sowing of many crops which were then unable to withstand the heavy monsoon rainfall. In addition to crop damage there was loss of livestock, property and even lives. There was concern and panic - was the country going to experience a repetition of the 1974 famine?

A crop rehabilitation program was taken up by the Ministry of Agriculture. Their strategy was determined by the type of land affected in these floods and provided :

- cash relief to grow boro, wheat or mustard on low-lying lands,
- cash relief to plant HYV aman on the higher lands,
- seeds and fertilizers were to be issued in kind.

At the same time MOF instructed the financial institutions to :

- reschedule loans for obtaining and replanting of seedlings,
- extend fresh loans including IRCP loans to those farmers genuinely affected by floods even though they may be on the defaulters list.

In the wake of such widespread loss, President Ershad on July 3rd 1984 announced the exemption of interest on four crop loans (boro, aus, b.aman, jute) in the flood affected areas. He also extended the time limit for repayment of these crop loans for a year and excused penal interest on them. The public announcement was made by him while visiting Salikha upazila in Magura district, one of the worst affected areas of the country. (Annexure 1).

DECISION MAKING PROCESS

There are no official records indicating the exact dates or the sequence of events within the official circle which would fully explain the decision making process. The proceedings were primarily verbal in nature. An account of what the concerned officials could recollect of the events that took place more than a year ago was obtained for this study. There was a high-level meeting at the CMLA's secretariat which was presided over by the President and was attended by, among others, the Secretary MOF; Joint Secretary in the CMLA's secretariat and the Governor of Bangladesh Bank. The Managing Directors of the commercial banks do not recall having been present in this meeting. Apparently some policy decisions were taken. There is controversy as to whether the long-run and short-run implications were discussed at this meeting. But all the persons interviewed stated that no paper was prepared before the meeting nor was there any record kept of the proceedings. As a result none of them could say, with any degree of certainty, whether the President had already made the announcement at Arpara in Salikha upazila (on July 03, 1984) and then this high-level meeting was summoned or vice versa. However, at that point in time it was not apparent to the interviewees what the approximate size of the financial involvement would be. The Governor of Bangladesh Bank drafted a letter, obtained the President's approval to its contents, and then had it issued to all other financial institutions. The announcement over national television was made on orders from the CMLA's secretariat.

RATIONALE

Officials in the Finance and Agriculture Ministries and the CMLA's secretariat felt that the relief aspect of the program had been "over emphasised" when the policy was developed. However, they did cite a number of instances where interest exemption had been granted to industrial borrowers who were facing financial difficulties and said that such exemption for agricultural borrowers was justified. They were not in favor of cash relief and said that as the loans were a burden to the farmers, the interest exemption would be "a welcome measure of relief for them". They added that this interest exemption would have no effect on production levels. The financial institutions were of the opinion that interest exemption was a purely government decision taken without consulting them. As such they were under no compulsion to justify this policy. Informally they were ready to opine that the policy was an unsound one and were very aggrieved that they had not been consulted before the policy was formulated.

INTEREST EXEMPTIONS IN THE PAST

Interest and loan forgiveness on agricultural loans has a long history in Bangladesh. The present structure of the rural credit system is the gradual evolution of a chain of policies and programs having historical roots in British India. Taccavi loans began operating in 1885. These loans were authorized by the Agricultural Loan Act of 1885 and were basically distress loans. Borrowers regarded such loans as relief payments to compensate them for natural disasters and as such felt that they were not obligated to repay these loans. The Agricultural Credit Committee in 1904 was created to protect the rural poor from non-formal market lenders. Village level cooperatives were established to give interest-free loans all over Bengal. By 1947 there were 26,664 rural credit cooperatives in the area now comprising Bangladesh.

Bankers remarked that at one time or another there was interest exemption for weavers credit (1964?) and for disaster hit areas, the most notable of which was after the cyclone of 1970. On that occasion the Agricultural Development Bank of Pakistan (whose successor is the Bangladesh Krishi Bank) provided interest free agricultural loans to affected farmers in the coastal areas. We were fortunate in being able to interview two officials of BKB who had been directly involved in that particular program. On that occasion ADBP had received interest-free refinancing from the Central Bank to the extent of agricultural loans disbursed in the designated disaster areas. As these were interest-free loans, the question of computation of interest by the disbursing agent did not arise at all. One can argue that, from the point of view of the financial institution, this was not a case of interest exemption as is generally understood.

After the creation of Bangladesh in 1971, repayment of agricultural loans had greatly declined. BKB had exempted interest and loans for a sizable number of borrowers whose assets, created out of their pre-Liberation loans, had been destroyed during the Liberation War. But generally speaking, repayment of agricultural loans was almost nil until 1977. (See Table 1). Borrowers had been over-heard to say that the pre-Liberation loans did not have to be repaid as the loans had been taken from Pakistani banks. The successor institutions to the Pakistani banks - Sonali, BKB and the Cooperative bank - were greatly perturbed by this attitude particularly because of the large volume of outstanding agricultural loans. This generated such concern that a government announcement was made in 1977. Official records of this announcement were obtained from BSBL and it was found to relate solely to government's policy on pre-Liberation loans (Annexure II). Although this note speaks only of cooperative loans it was also applicable to BKB. The gist of the announcement was that if the defaulting borrowers repaid 50% of their pre-Liberation loans - principal plus interest - the remaining half of the loan would be forgiven. If the borrower repaid the principal portion only, the interest portion would be forgiven. In either case a cut-off date (June 30th, 1977) for realising the benefits of the announcement was set. This announcement resulted in improved partial recovery of pre-Liberation agricultural loans. But apparently it was not good enough. So in 1979 the financial institutions involved with these loans were asked to furnish the government a statement indicating the status of the loans. In July 1979 a fresh circular was issued by Bangladesh Bank to the commercial banks (Annexure III). Some modalities were introduced:

- Interest on agricultural loans upto Tk.3000/- was totally exempted if the principal amount was repaid.
- Interest charges on loans greater than Tk.3000/- would be reduced by 50% if the loans were repaid.
- The cut-off date was extended upto June 30th, 1981.

A clarification to this circular was later issued, since there was some confusion regarding the date from which the interest would be waived. The cut-off date was again extended upto June 30th, 1982. The amount of loan that would be eligible under the "compromise formula", as it came to be known, was limited to Tk.50,000/- per borrower (Annexure IV). A BKB official informed us that government had extended pre-Liberation loan facilities to the borrowers upto June 30th, 1985 but BSBL was apparently unaware of this. Their outstanding pre-Liberation loans as on the dates indicated were:

Table 1

Pre-Liberation Loans

(in million Takas)

		BKB	BSBL
Balance as on	December 15th 1971	Tk. 372.8	-
	December 31st 1971	-	178.2
	June 30th 1972	458.5	-
	June 30th 1977	-	107.5
	June 30th 1982	154.1	72.2
	June 30th 1984	195.1	-
	June 30th 1985	220.0	67.0
		*	**

* BKB's estimate includes principal plus interest.

** BSBL's estimate includes principal only.

Records show that there was some recovery of the pre-Liberation loans due to these announcements. The general consensus of the interviewees was that a majority of these loans would have to be written off completely as bad debt in the absence of such measures. This was basically a recovery drive and had little undertones of relief or rehabilitation. We note the opinion of some bankers who were interviewed that their institutions were waiving interest and rescheduling loans all the time since they were required to execute government policies to promote exports, fund trading in jute and other marginally viable commercial operations through rebates and concessional lending terms.

NATURE OF THE 1984 LOAN FORGIVENESS PROGRAM

The nature of the program is officially defined in a circular issued by Bangladesh Bank on August 8th, 1984 (Annexure V) . . The salient features of the circular were :

- only borrowers of flood affected areas were covered,
- farmers who had defaulted on their '83-84 t.aman loans were made eligible for '84-85 t.aman loans,
- boro , b. aman , aus and jute loans were granted interest exemption for one year,
- boro , b.aman , aus and jute loans for '83-84 were rescheduled with no penal interest during the rescheduled period.

Financial institutions receiving this circular informed their regional/zonal offices of its contents between August 13 and 22nd. Uttara Bank , whose agricultural loan exposure was very small (4%), did not feel the necessity of informing their field offices about the circular . On the other hand, BSBL who were an affected institution did not receive Bangladesh Bank's circular at all . The manager of BSBL had to personally contact the B.Bank authorities for his institution's copy .

Most financial institutions reportedly first heard of this program on media and it took them almost a month to receive a written communication of the decision from the appropriate authorities .

The bankers at the headquarters said that they had had no interpretational problems regarding B.Bank's circular and had clearly understood what the message conveyed . This makes sense since their function was merely to pass on the circular to their regional / zonal offices repeating, ad verbatim , B.Bank's instructions .

There was considerable confusion at the field level . Officials there had questions regarding, inter alia -

- the geographical extent
- date from when the exemption was valid
- accounting procedures , etc.

Meanwhile in a separate program on August 27th, 1984 Bangladesh Bank issued a circular identifying flood affected areas where land mortgage loans were to be granted. These loans were meant for flood affected borrowers in order to prevent distress selling of assets.

The majority of the rural bank managers accepted this as the official list of flood affected areas where interest on agricultural loans were to be exempted. This was not a correct interpretation of the circular by the branch managers. Bangladesh Bank in a subsequent circular pointed out that the land mortgage areas were the "severely affected" regions and interest exemption was to be granted to additional areas of which the land mortgage areas constituted only a part.

At the same time, on August 22nd '84, the banks were asked to provide new loans for cattle purchase on priority basis. The earlier loans for the same purpose were to be rescheduled and the affected borrowers were allowed exemption of interest on their cattle loans for one year.

A clear definition of the disaster areas was not forthcoming till the end of January '85 (Annexure VI). Under these circumstances most banks designated all their rural branches as covering flood affected areas. Sonali included the whole of Bangladesh except the district of Chittagong Hill Tracts and Pubali considered all of its 183 branches handling agricultural credit as dealing in the disaster areas. Bankers now feel that even if the geographical extent is defined for them at this stage it would not be worthwhile to recompute the financial impact of the program. The actual problems that arose out of incomplete instructions were faced by the rural branch managers who had to implement the program. These problems are elaborated later on in the section dealing with the 'Field Work', and in "Response of Branch Managers". (Annexure XV)

FINANCIAL ASPECTS : OF THE PROGRAM

Bangladesh Bank sent to the MOF on November 29th, '84 a provisional estimate of the financial loss due to exemption of interest. This was an approximate calculation and was later revised by several banks after they had received field/branch level data. B.Bank officials felt that this provisional estimate (Annexure VII) was on the 'higher' side but they were mistaken as later calculations were to show.

Total interest loss was estimated at Tk.440.6 million of which BKB's share was Tk.226.2 million or more than half. Sonali followed with Tk.123.6 million. Uttara had very little involvement as did Pubali. Sonali's estimate was partial since BRDB's loans were not included here. BSBL's estimate does not appear in this list as B.Bank had not asked them for it nor had they sent BSBL their circular about the exemption program. When asked why BSBL's figures were not included, the B.Bank official said that it was not made "available to them". It was

felt by B.Bank that an ' external authority ' making a decision such as this would ' naturally ' affect the banking system adversely . The announcement was viewed as a problem - the greater the disbursement the more acute the problem of loan recovery . The cost is believed to be smaller than what it might have been had t.aman been in the fields , since t.aman has the largest acreage under cultivation .

The figures furnished to B.Bank by the other financial institutions were based largely on head office calculations of the amounts of loans disbursed for the four eligible crops . All bankers found it difficult to get data from their field offices . Table 2 reveals the figures given to us from the head offices of the financial institutions .

Some comments about the figures in Table 2 :

- Sonali's estimate to B.Bank was for the SACP loans only . It was a hastily prepared estimate and that was why BRDB crop loans were left out . Later this was pointed out by us and the official could not explain why this should be so since interest exemptions were valid for the BRDB loans also . These estimates formed a sizable amount . Sonali officials were genuinely concerned because of their long-term agricultural loan commitments and programs with IDA and BRDB, since this meant that they could not reduce their volume of lending in the agricultural sector.
- Janata has revised its estimate upward .
- Agrani has maintained the same estimate, but an official of the bank complained of the problem of getting accurate statements from their out-lying branches . The figures are therefore somewhat suspect .
- Rupali's original calculation showed the country-wide position and was later revised (on our request) excluding the four unaffected districts .
- Pubali's figure remained unaltered since the bank found it more cost effective to consider all their branches dealing in agricultural credit to be within the affected zones . They think that all these loans are a complete loss to them since they have formally withdrawn from the agricultural sector wef July 1985 and think that farmers will have no motivation for repaying these loans as no future loans would be forthcoming from their institution .
- Uttara's estimate is slightly higher since they were able to incorporate the disbursement figures for b.aman and jute.
- BKB's figure remained unchanged .
- BSBL's estimate is provided here as they were kind enough to furnish it to us .

Table 3 compares the two estimates prepared by the respective financial institutions.

The estimate vis a vis total agricultural loans disbursed and the amount of loans affected due to interest exemption appears in Table 4 .

It is difficult to say which one of the particular institutions was more affected since the figures supplied by them are not always consistent. Agrani's figures, for example, includes irrigation as well as crop loans and other advances in the rural sector. BKB's estimate is based on SACP loans as well as total agricultural credit disbursed by them. This was relatively easy for BKB because they keep their records in such manner. BSBL's estimate is for short term crop loans including wheat rabi and sugar cane. Some banks had difficulty in clearly identifying the specific loans disbursed by their rural branches since all items under agricultural credit are compiled together. Based on the revised figures, Sonali's involvement is the largest with about 50% of their agricultural loans involved in this particular program. BKB's total disbursement in this sector is much greater but only 23% of their entire volume of loans are affected by this program.

Penal Interest Loss & Opportunity Cost of Capital : There has been no calculation of loss of penal interest since these rescheduled loans did not come into the penalty period. However it is almost certain that had these loans not been rescheduled, most of them would have become overdue and penal rates of interest would be applied to them. Table 5 shows penal interest loss assuming all the rescheduled loans would have default. A more realistic calculation would have been possible if a standardised and accurate recovery rate for each of the financial institutions was available. Without such information opportunity cost of capital cannot be calculated - and bankers do not seem overly concerned about this - because there is no way of knowing what rates to apply.

Some comments on the size of loss : It was interesting to note that B.Bank was using an estimate based on the 'higher side' as a bargaining tool during negotiations with the government for recovering the costs incurred because of interest exemption. The revised estimates furnished by the individual financial institutions turned out to be Tk.55.5 million higher than the original calculation used by B.Bank during its negotiations. If the amount of penal interest loss is added to this, the amount would be $Tk.496.1 + 187.73 = Tk.683.83$ million. Any figure close to this is a large amount and the relevant question is - who bears the cost of this exemption?

However, the interest loss question is slightly more complex. One year's interest loss is calculated here, and the calculation assumes that the entire amount is lost to the banking system. This would be true only if all borrowers defaulted on their rescheduled loans. But this is not so. Under 'normal' circumstances, a financial institution follows a particular recovery pattern (which may be 40% during the first year, 20% during the second year and so on until they are left with the unrecoverable portion).

One way of calculating this cost would be to :

- for each of the crop loans, calculate the weighted average recovery rate for the first year of loan disbursement over the last ten years,
- apply this rate to each of the eligible crop loan dues in 1984 to calculate the amounts that the banking system can reasonably claim to have lost.
- penal interest loss can be calculated in a similar manner.

Given the poor rate of loan recovery, the cost to the financial institutions is probably not as large as originally estimated. If the cost is smaller than presently calculated, and if the system is healthy enough to have transferred Tk.2300 million to the government exchequer in 1984, then one can argue that the banks are in a position to bear the cost of the 1984 exemption program.

Some peculiarities about the banking sector came into focus as we tried to gauge the impact of the announcement and should be mentioned briefly before the issue of cost bearing can be discussed .

Table 6 shows the net surplus occurring to the financial institutions during the last three years . We wanted to know if there had been any decline in profitability due to the loss incurred as a result of this interest exemption program . It does not seem to have had any appreciable effect on the banking system. A banker remarked that the banking system was strong enough to have shouldered a loss of above Tk.440.6 million.(Annexure VIII). But these figures do not reflect the real situation nor can one judge in any manner the institution's financial performance by then. There is no aging of loans and as a corollary no write off of bad debts . Accrued interest receivable is treated as a part of income thereby distorting all their financial statements . An official from Janata Bank doubted that any bank would show a surplus on their books if their loans had been classified realistically . For Janata Bank, itself, 50% of its total loans outstanding may be classified as doubtful . B.Bank, allows classification of loans as doubtful only if remain overdue for five years without any repayment .

Impact on the rate of loan recovery: An attempt was made to determine if the program had any impact on the loan recovery rate. If so, it might be reflected in borrower attitudes . For instance , on the positive side :

- the borrower might feel motivated to repay since he is grateful for the relief received through interest exemption or
- on the negative side :

- the borrower might choose not to repay at all thinking that as interest has been exempted, at some future date the principal portion will be forgiven / exempted as well .

The relevant data was furnished by the institutions (Table VII). There was a problem here since each one of them had their own way of calculating the rate of recovery . A banker even pointed out that they calculate this rate in several different manners using different criterias to suit the occasion or the need. Our comments on the figures in this table are :-

- Janata : rate of loan recovery fell from 50% to around 30 - 35% in 1984 and their officials believe this was an effect of the exemption program .
- BKB : initially supplied a list of its loan recovery rates during the past few years. (Table VIII). On special request (and after several trips to different departments) the data was supplied and is reproduced in Table IX .
- BSBL : the cumulative recovery rate is 72 % . But their recovery against due and overdue averaged 4 % in their monthly statement of September 1985 .
- Pubali : officials feel that their liquidity has been adversely affected due to this low rate / non-recovery of loans .
- The rates against demand appear relatively high for Agrani , Sonali and Rupali .

It is a matter of some concern that these rates may not be the correct reflections of the real situation . Accounting and computing practices differ from institution to institution and what is more astounding , between branches of the same institution , as our field study revealed . It seems safe to assume that had loans been realistically aged , and had recovery figures been calculated against demand (due + overdue) loans only , the recovery rate would have been dismally low . Partly, this dismal situation reflects the burden of loans long overdue which should have been written off at sometime in the past. A better recovery rate would be one which weighs annual recovery against due + overdue less suspense account in which loan suspense aging criteria is the same for all banks. The recovery / demand that some banks currently use brings in the cumulative overdues since inception of their rural credit program . All loans are treated as overdue in the absence of aging . Bankers have found that this is the best that they can do as far as calculation of the recovery rate is concerned.

Do we know whether there was an impact on the recovery rate or not ? No , this will not be apparent at least until 1986 when these rescheduled loans will become overdue and the actual recovery rate for the 1984 loans can be compared against the weighted average recovery rate of loans of the previous years . B.Bank believes they have salvaged a lot of these loans through their " action recovery plan " (Annexure VIII) which in brief

tried to increase agricultural loan recovery in 1985 . The loss due to interest exempted loans that defaulted was made up by recoveries from other rural sector loans thru a recovery drive . Disbursement in 1985 was Tk.11,320 million. Targeted recovery was Tk.6000 million against which actual recovery was Tk.5750 million.

Accounting for the exempted interest : B.Bank did not issue any instructions to the institutions as to how the amount of interest accruing against these loans should be accounted for . As a consequence each institution dealt with this issue in the manner they deemed best . Considerable anomalies exist in the accounting procedures of the interest that was exempted . Some institutions (BKB , Agrani and Sonali) issued specific instructions to their regional / zonal offices about what to do with the exempted interest . These instructions are enclosed in Annexure IX & X . Sonali's instructions were :-

- to apply interest and service charges as usual to the loans eligible for interest exemption ,
- treat it as accrued interest receivable and
- include it as part of income .

This was their solution for keeping the books of account 'right'.

BKB's instructions were in considerable detail. They required their branches to open "contra" accounts to deal with the interest that was exempted. Thus their attempt was to try and keep their books of accounts in the same manner as would have been necessary had the borrowers repaid their loans with interest. Their instructions required that each account be identified and every loanee informed of the amount exempted . During the field survey we did not come across any BKB borrower who remembered receiving such information from his bank. In fact, Manikganj district, the majority of the BKB borrowers were unaware of the 1984 exemption program.

Agrani wanted each interest-exempt borrower account clearly identified in the ledger with a rubber stamp indicating the amount of principal rescheduled and the amount of interest exempted .

Janata and Rupali requested their branches to estimate and identify the eligible loans in a separate register .

Pubali , Uttara and BSBL issued no instructions about the accounting procedure for the exempted interest . Uttara has allowed their branch managers to use their own judgement about what to do with this exempted interest .

Sonali alone has treated this exempted interest as income .

MOF has cleared all the balance sheets of these financial institutions thereby accepting the accounting anomalies .

Cooperatives under BRDB (RD-1 and RD-2 Programs funded, among others, by the World Bank)

An official in the Credit Department of BRDB informed us that the majority of the loans (boro, aus, b.aman only, since jute loans are not given out by BRDB) affected by the exemption program were already due, and a large proportion had been repaid when the 1984 announcement of exemption was made. There was considerable confusion at the field level after this particular announcement. Some borrowers got an interest exemption, but others did not. The BRDB official had no estimate of the total amount of interest exempted and thought the amount would be very small. All flood affected crop loans were, however, rescheduled and a World Bank official corroborated this.

The World Bank officer responsible for the RD-1 & RD-2 under BRDB could not recollect receiving a circular from the Bangladesh Bank informing him of the interest exemption program. In fact, he was unaware of such a program and loans were rescheduled only. BRDB's performance criteria is based on loan recovery. This is calculated as :

Annual Recovery / Demand (due + overdue)

Current recovery rate is about 40 % . In 1985 total demand (as defined above) equaled Tk.695 million . Recovery was Tk.278 million of which the proportion of recovery against rescheduled loans was Tk.59 million or 21 % . This is an estimate of recovery of rescheduled loans as a percentage of total demand.

WHO BEARS THE BURDEN ?

The cost of the interest exemption program has so far been borne by the respective financial institutions . Most bankers interviewed do not expect this issue to be ever resolved . BSBL's manager remarked that the interest exempted on pre-Liberation loans was still being maintained in a separate account because there has been no government decision regarding its disposal. Bankers believe that the amount will ultimately have to be written off as bad debt . Pubali and Uttara , who are private sector banks , feel strongly that they must be reimbursed for a loss that affected them due to a government decision .

MOF felt that it was their responsibility to see that the viability of financial institutions was not affected because of a decision taken by the government to provide relief to a disaster hit area. They felt that it would be unreasonable to expect the financial institutions to bear the entire cost, but at the same time they would like them to 'pick up a part of the bill'.

Negotiations are continuing between the MOF and B.Bank regarding this issue . B.Bank's proposals can be seen in Annexures XI & XII . The central bank feels that the government should bear the major portion of the cost and have suggested certain ways by which this could be done . Annexure XII also closely reflects the manner in which Sonali Bank dealt with the exempted interest. MOF did not accept the first proposal sent by B.Bank since they saw no justification for bearing the entire cost in a system where most loans are not recovered by the institutions . MOF and the financial institutions talk at cross purposes because the bankers believe that they have been saddled with bad loans made at the behest of the government . Suggestion 'B' of Annexure XIII states :

" B. A certain percentage may be deducted from the interest amount as provision for bad debt and the rest may be adjusted by the NCB's / BKB out of surplus profit to be transferred to government. The percentage of such anticipated bad debt may be determined in consultation with the banks concerned. Same principle may be applied in case of Pubali Bank Ltd. and Uttara Bank Ltd. for making reimbursement of exempted interest

This appears to be a reasonable way to resolve the issue , but complications will probably arise regarding the percentage of anticipated bad debt that will have to be written off from the books of the individual institutions.

FIELD WORK

A statistically valid random sample was not the intent of this study. Such a sample would have been possible only if we had more time, manpower and finances. Instead, the field work was designed to draw insight into banker-borrower attitude and to affirm findings drawn from other studies.

BKB, Sonali and Pubali were selected for detailed field level study. BKB and Sonali were chosen because of their volume of loan disbursements in the agricultural sector. Pubali was chosen because we felt that a private-sector bank, affected by the announcement, should be represented in the survey.

The basis of selecting the areas to be surveyed was the nature or manner by which the borrowers were affected by the disaster. As mentioned in the beginning of the report, the damage in 1984 was caused by :

- a) River flooding due to the overflowing of river beds and the breaching of embankments. The areas selected were the districts of Tangail and Manikganj.
- b) Waterlogging, in poor drainage areas, due to excessive rainfall - what some people in the district of Jessore referred to as the "flood from above". The areas selected were the districts of Jessore, Jhenaidah and Magura.

It seemed appropriate, in the given context, to select areas which were flooded in these two manners and to compare banker - borrower response from them. Borrowers have been divided into two groups - those that were affected by river flooding and those that were affected by water-logging. We had originally intended to classify borrowers according to the size of their loans (small, medium, large loanees). But this was not practical since :

- borrowers were not forthcoming about the total amount of loans they had taken. Most were uncertain about how much they owed the bank and how much they had actually borrowed so far.
- in most cases the bank data and the borrower statement contradicted one another.

Instead, therefore loanees were classified as small, medium and large farmers according to the following criteria :

0.16	-	< 2.50	acres	:	small farmer
2.50	-	< 7.00	acres	:	medium farmer
More than		7.00	acres	:	large farmer

Most of the borrowers were small to medium farmers . This was a puzzle for a while . Why were there so few large farmers on the borrower list ? We later realised that large farmers do not take short-term loans, which is what these crop loans were , since they do not want to be bothered by the extra complications an institutional loan brings in the form of paper work , interest rate computations etc . They do not require these loans as generally they have sufficient liquidity to tide over their immediate needs . The RFP consultants informed us that the average size of loans taken by the large farmer is greater than Tk. 10,000, whereas short-term crop loans are usually between Tk.800-2500. Our sample was designed to survey short term crop loanees. We could not therefore expect to find many large farmers. When they do need short-term loans, the large farmers probably go to the informal market . There is also a statistical explanation for having found such poor representation of large farmers in the sample. The RFP findings indicate that only 5% of the farmers take 50% of the total volume of credit. These are the large farmers whose average loan size is greater than Tk. 10,000. The remaining 95% are the small and medium farmers whose average loan size is Tk. 800/-. Our findings indicate that there were only 6 large farmers out of our sample of 105 farmers (5.5%).

Rationale for selecting branch managers : We intended to interview the manager of the branch from where our sampled borrowers had obtained their loans . This was possible in most cases as Annexure XIX reveals . In a few instances the manager was not available and could not be interviewed .

On the other hand there were bank managers, whose borrowers were not a part of our sample survey , but who readily volunteered to be interviewed . Their enthusiastic response to this study was difficult to interpret. . It is debatable whether it was the topic we were researching that appealed to them , or whether it was the novelty of being interviewed by a woman that brought them forward . Whatever the reason, we were happy to talk to them and to record their views .

In all nineteen branch managers were interviewed . Part A of the questionnaire required some input directly from their books of accounts . Most managers needed time to prepare Part A and agreed to either mail the completed form to their head-office or to us directly . Only one manager was uncooperative . The data from the eighteen completed questionnaires is being presented in this study. The questionnaire used for this study is in Annexure XIV. The list of branch managers interviewed appears in Annexure XIX.

Branch Managers : We summarize below some of our field level findings . Details of our interviews are in Annexure XV .

The majority of the managers had heard of the Presidential announcement of interest exemption on media (radio and television), One of them was posted in Arpara in Salikha Upazila and was present when the President made the announcement. The

over twelve years and some for five - eight years.

The interest exemption circular from the head office was received more than a month after the announcement had been made. The contents of the circular were vague and raised more questions than it answered. The managers wondered :

- from what date was the exemption valid ?
- did their branch fall within the affected area ?
- what was to be the accounting procedure for the exempted interest ?

Official clarifications arrived later and in the meantime the managers were compelled to deal with the program according to their best judgement. The majority of the managers felt that the land mortgage loans had helped the borrowers more than the interest exemption program by preventing 'distress selling'. Some managers remarked that the program did not have the desired effect on the borrower since :

- it did not help to maintain production levels,
- distressed borrowers would default on their loan anyway,
- subsistence oriented farmers cannot feel the impact of implicit relief and seemed unaware of the exact benefit conferred on them.

Reactions were mixed regarding the impact of the program on future loan recoveries. Some expected no effect while others expected the recovery rates to fall. The reasons they gave for non-recovery of loans were :

- low selling price of cash crops,
- poverty and illiteracy,
- wilful default,
- diversion of loans,
- lack of proper credit analysis and loan supervision.

It is too early to judge whether the announcement has had any effect on the branches' loan recovery rate. Most branches showed a falling recovery rate. This could be because the record-keeping procedures of these banks had been updated and therefore gave a more realistic picture of the situation. We found inconsistencies in the criteria for calculating the recovery rates within branches of the same institution. BKB was the only institution to show overall consistency in this respect.

There were several instances of loans eligible for interest exemption that were repaid with interest before or during the exempted period. None of these borrowers had been refunded their interest portion as there is no official provision for doing so. Thus the 'good' borrower is penalised for having repaid his dues in time.

The branch managers identified several costs to the system other than purely financial ones and related to administrative and psychological effects of the program. All of them were emphatic about the fact that the government should bear the cost of the program since the decision to exempt interest was taken without consulting them.

The Borrowers

Borrower selection was done by:

- direct random selection from the branch bank ledger,
- selection from branch bank supplied borrower list,
- sequential progressive sampling (without any borrower list) from the affected villages.

Responses were analysed according to the size of the farmer holdings in the different areas. Similarities and differences between medium size farmers in water-logged villages were compared to medium size farmers in river flooded villages.

Jessore, Magura and Jhenaidah were water-logged areas. Farmers from Arpara (Salikha Upazila of Magura district), Majgram (Magura Upazila) and Islampur (Jessore Upazila) appeared to be very badly affected. The villages are in a depression and drainage is very poor. In Islampur the borrowers were mostly settlers from Comilla district, and were facing problems of assimilation as well.

Farmers in Manikganj and Tangail presented us with a different problem. Manikganj borrowers, although eager to be interviewed, were under the mistaken impression that we could, in some manner, forgive their loans. Hence the large turn-out there. Most BKB borrowers in Manikganj were unaware of the program. Borrowers in Tangail were knowledgeable and enlightened. The villages visited were close to Maulana Bhashani's home and his influence is apparent in the manner and views held by the borrowers there. In a particular village in Tangail (Natiapara), the borrowers who had gathered for the interview, began to move away as soon as they heard the nature of questions being asked. It is possible that they were chronic defaulters and did not want to talk of their dues, or else they realised that there would be no material gain in talking to us.

Respondents	River Flooded Areas	Water-Logged Areas
Large Farmers	3	3
Medium Farmers	12	33
Small Farmers	20	34
	<u>35</u>	<u>70</u>

The borrower questionnaires are enclosed in Annexures XVI and XVII. The borrower list appears in Annexure XX. Details of our interviews with the borrowers appear in Annexure XVIII.

All the large farmers as well as the majority of the medium and small farmers were aware of the interest exemption program. They had heard of it at the time of its announcement. Sources included, inter alia, hearsay, media and the President himself. Among the small farmers we found a number of borrowers who were unaware of the program. At the same time, there were borrowers who knew of the program but did not get an interest exemption. A small proportion of borrowers had repaid their rescheduled loans. Several farmers complained that they had repaid their interest-exempted loans with interest. A borrower remarked " if they don't exempt the interest, what can I do ? "

The large and medium farmers most frequently spoke of the low price of jute this year when explaining their default. The small farmers and some of the medium farmers mentioned the presence of " other loans " which had to be paid off first as reasons for default. The problems peculiar to the small farmers were extreme shortage of food and financial liquidity. Some complained of high production costs and one of them remarked " Do I pay the bank or the hired help ? ". Amongst the borrowers, the medium farmers were most anxious to have their loans rescheduled. The majority of the borrowers believed that the program was designed to grant them relief from the disaster. However, a typical comment was " how can I tell what is in the President's mind ? " when asked what they thought was the reason why they were given this particular form of assistance. Some farmers, particularly in the water-logged areas felt that the program did not help them and their comments were to this effect: "How can the program help me? When I am in distress the bank loan is the last thing in my mind" and "no use exempting the interest, can't repay the loan anyway."

Repayment trend among the large farmers was the poorest. Several borrowers in the small and medium farmer group who had repaid the interest-exempted loan with interest, have not been given a refund so far.

The river flooded farmers would have preferred cash relief instead of an interest exemption. The water-logged borrowers would have liked their loan to have been converted to an interest-free one or to have the principal amount forgiven.

Non-formal market borrowing was common among the small and medium farmers. Common sources were relatives and the majority of these loans were repayable in cash and were interest-free.

The water-logged area had a large porportion of borrowers who had taken loans for the first time during the 1983-84 season. They were now defaulting on these loans. The river flooded area borrowers had more experience in working with the formal financial institutions.

Borrowers mentioned the high cost of obtaining funds from the institutions. They were also conscious that they were diverting loans from the purposes for which the loan had been sanctioned and that this was not legal.

For a majority of the borrowers interviewed, farming was not the only source of income, but among the small and medium farmers, in particular, it was one of a number of sources of livelihood. We observed that the borrowers in the water-logged areas were more adversely affected by the disaster of 1984.

A BRIEF ANALYSIS

Under nationalised banking conditions, the government can and often does, choose the manner in which the financial institutions will implement their policies. Bankers are called upon to maintain and even increase profitability while executing government policies which may be welfare-oriented. This creates organisational tensions which affects their efficiency.

No decision has as yet been taken by the government about sharing the cost of the pre-Liberation interest-exempted loans. Financial institutions have so far borne this loss. It is therefore doubtful if the government is going to assume even a partial burden of the 1984 announcement. It has been suggested that if the upper estimate of the loss to the financial institutions due to this 1984 program is in the region of Tk.440 million and if during the same financial year they were in a position to transfer Tk.2300 million as surplus to the government exchequer, then the exemption program is not really a burden for them. This may be true but should the financial institutions be made to bear the cost in the first place? It can be argued that they should not be made to do so in such manner because :

- financial institutions are not social welfare organisations. Their motive is to raise profits for their owners,
- financial institutions are not organisationally designed to handle such assistance programs and to force them to do so detracts them from operating efficiently in their primary function,
- the exemption program was an external decision, and there is no justification for bearing the cost of a decision taken without their concurrence.
- we are skeptical about the reported claim of the banking sector to have generated a surplus of Tk.2300 million. We think actual bank profit would be considerably smaller if loans were properly aged and bad debts periodically written off.

We were able to identify four types of "costs" to the banking system which were effects of the exemption program and these are:

- explicit cost ie. loss of interest income including penal interest,
- administrative costs in the form of time, increase in accounting procedures and additional paper work,
- excessive ITAP loan disbursements. The program was an off-shoot of the interest exemption program announcement. (Details are discussed below)
- implicit (psychological) cost ; effect on the borrowers and the bankers.

It is too early to say whether the interest exemption program has had any effect on borrower repayment habits or even on future borrowing trends. However, we can surmise from our field work and interviews that it will adversely affect future loan recovery. The 'good' borrower now penalised for having repaid with interest will probably be wary before making repayments in future. The 'bad' borrower will not repay anyway. All borrowers will live with the expectation of the next announcement of forgiveness.

The official circulars from the different institutions were late in reaching the branches. When they finally did arrive they were vague and incomplete in addressing the problems that the branches were going to handle. It was our impression that some of the branch managers were still not clear as to the exact intent of the Presidential announcement.

Of great concern to the bankers was the ITAP loan announcement on media on August 2nd, 1984. A copy of the announcement is enclosed in Annexure XX followed by our translation in the next page. In particular, branch managers did not want to begin disbursing t.aman loans to flood affected farmers before getting their official circular/instructions from their head office. The media announcement compelled them to begin immediate disbursement. A manager we interviewed, said he was at his head office on the day of the announcement when a martial-law official took him in his jeep to his branch so that he could commence disbursement right away. Pressure to disburse loans was so great that there was no opportunity for the managers to conduct any form of credit analysis. Disbursements were therefore far in excess of target allocations and there was evidence of considerable misuse of loans. An estimate of the disbursement of these ITAP loans furnished by Bangladesh Bank shows :

ITAP LOANS - 1984
(in million Takas)

Banks	Allocations	Disbursements
Sonali	355.0*	751.1
Janata	110.0	255.0
Agrani	105.0	241.1
Rupali	50.0	115.5
Pubali	20.0	66.5
Uttara	9.5	2.6**
BKB	410.5	660.9
BSBL	90.0	63.2
	<hr/>	<hr/>
	1150.0	2125.9

* includes SACP as well as BRDB loans

** Uttara's allocations had been set before the institution was denationalised. It had withdrawn from the agricultural sector at the time the ITAP announcement was made. The figure shown above was the amount disbursed before the newly denationalised bank put an end to the program.

As it gradually became apparent that ITAP loan disbursements had been far greater than targeted allocations, the Principal Finance Secretary to the Government requested the Bangladesh Bank for an explanation. His letter to Bangladesh Bank, as well as their evaluation of the ITAP program as a reply to the Principal Finance Secretary's letter is enclosed in Annexures XXII & XXIII.

When profits of financial institutions are to a great extent "book" profits and recovery is low, bankers like to find a scapegoat in the government by blaming them for the policies that they are being asked to implement. This is not without substance. Once financial discipline breaks, it is difficult to reinforce it. When borrowers feel that they can get new loans even though they are defaulters or that their interest dues can be exempted by non-bank personnel, the credibility and financial discipline of the bank is undermined. Bank-borrower relationship is the first casualty.

It is very difficult to get any concrete data in order to compare bank to bank performance. There is no uniformity in their accounting procedures. Unless this situation is immediately rectified it will not be possible to conduct a fair and realistic quantitative analysis of their performance.

The borrowers - the end-users towards whom this program was directed felt little impact of the announcement. We think the program had limited effect because :

- the nature of the relief was in an implicit form and therefore no tangible effects of the program was felt by the borrowers,
- many of them said that the program did not help them. Perhaps one can reasonably infer from this that they had no intention of repaying their loans in the first place. Or else, they had repaid the exempted dues and the program was of no assistance to them.

We saw the technical problems brought forth by an announcement of " blanket " forgiveness. There were unaffected borrowers as well as unaffected villages in both surveyed regions. However, given the extent of the damage and the nature of the program it was probably not cost-effective to specifically identify and classify each of these categories.

It is a matter of serious concern that no provision has been made nor any procedure enumerated whereby eligible borrowers who had paid up the interest could be given a prompt refund.

The bankers appeared to us to be a dispirited, unhappy group of workers. They were unable to see any tangible/positive effect of their work on the economy or society. Consider what one of them said, " It is irrelevant to maintain records. All these loans will be forgiven when the time for election comes - all that the borrower has to do is to ask for loan forgiveness and it will be granted. We shall then put aside the old ledger and begin in a fresh one. It is as simple as that. "

PLAUSIBLE ALTERNATIVES TO THE PROGRAM

Ideally such interest exemption announcements should be avoided . They interfere with financial discipline . Given the fact that the government may make such pronouncements, the best that can be done is to look for viable alternatives or solutions. Can this interest loss due to exemption come from somewhere else other than the commercial bank's balance-sheet ? It must be borne in mind that administrative reforms cannot solve political problems. Thus the success of the alternatives being suggested is debatable.

Bangladesh Bank : Statutes 60 & 61 of their Ordinance mentions the creation of two special funds viz , the Agricultural Credit Stabilization Fund (ACSF) and the Rural Credit Fund (RCF) . The former was set up to help the apex Cooperative Bank (BSBL) and its salient features were -

- the initial capital of Tk.25 lacs would be placed by the government to start the Fund,
- a portion of B.Bank's surplus would be added to the fund annually,
- the Fund would be used to advance loans to BSBL . These loans were to be of special nature ; used to salvage BSBL when the cooperative defaulted in respect of bills of exchange , promissory notes etc .

The ACSF was never used nor were its mode of utilization clearly spelt out . Funds have been moving into the ACSF from B.Bank's surpluses from time to time. In 1983-84 an amount of Tk.150 million was placed with the Fund to bring its current balance to about Tk.700 million as of June 1984 .

The salient features of the RCF were -

- it was begun with an initial capital of Tk.50 lacs by the government,
- appropriations from B.Bank's surplus were to contribute to the annual growth of the fund,
- it was to provide medium term loans to cooperatives and both medium and long term loans to rural credit agencies including some of the scheduled banks,
- rescheduling and refinancing of loans to cooperative societies or to farmers dealing in agricultural inputs,
- the loans were to finance guarantees to cover, partially, the losses incurred by the scheduled banks.

The RCF has never been utilized and has a current balance of around Tk.700 million .

Other Financial Institutions : Bangladesh Bank directs all other financial institutions to maintain a designated Reserve Fund . This fund could be upto an amount of 7 % of overdue loans at the end of each accounting year . The amount of fund that has accumulated with some of the institutions is tabulated below -

Sonali	Tk.217.00 million	Reserve Fund
	Tk.190.00 million	Rural Credit Fund
Rupali	Tk. 14.50 million	Reserve Fund
BKB	Tk. 22.90 million	Special Reserve

Sonali uses the RCF to put aside an arbitrary amount every year as provision for bad debt . But they have a sizable amount in both the Funds and the officials were not sure if either has ever been used . One remarked that the interest exemption could be adjusted through these Funds .

Pubali does not have a Reserve Fund . They said that the fund was amalgamated with some other assets at the time their net worth was calculated - he was referring to the time the bank was denationalised . The fund has not been reestablished since then .

The Government - Apparently the Ministry of Relief & Rehabilitation has a sizable amount of fund which is meant to be used for relief to affected farmers . It seems that funds are transferred to the governments account from financial institutions as government's share of their surplus . The amount so transferred in 1984 was about Tk.2300 million .

Funds Set-up by External Donors - Most bankers and government officials interviewed mentioned that the setup of such a fund would be helpful . However , there is considerable controversy about who should have control over it . B.Bank feels that it should be setup as a Trust and that the funds should be channelled through them . Government officials remarked that if such a fund is setup it must be under government's control .

Agricultural Rural Guarantee Fund (ARGF) : The need for such a Fund was originally mentioned in the 'Agricultural Credit Review' (Vol. II, p.34) a study jointly sponsored by the World Bank and the Government of Bangladesh in August of 1983 . The Fund is now a proposition being actively considered by the World Bank on the basis of the suggestions in the Review which were -

- the credit guarantee fund was to be set-up for the protection of the financial institutions operating in the rural sector ,
- the scheme envisaged increased flow of credit to small farmers while covering the risk of the involved financial institution,
- all financial institutions lending to agricultural and rural sector programs were eligible for membership to the Fund on payment of a guarantee fee ,
- participation was voluntary ,
- borrower eligibility was restricted to small and landless farmers ,
- a Board of Trustees were to be in-charge of managing the Fund . Other eligible purposes for which the credit could be advanced would be determined by them ,
- variations in the amount of guarantee cover would depend on the cropping pattern , intensity of cropping etc ,
- periodical inspections were to be carried out by B.Bank
- quick settlement of claims ,
- basis of claim settlement will be a ratio of actual bad debt provision of the institution to the potential bad debt.

A member of the IPC-13 team of the WB who was in Dhaka recently said that ARGF has remained a ' notion'. However, it was recently brought to our notice that negotiations had begun towards the end of November 1984 between the WB and the Bangladesh Bank. A proposal that addresses issues such as sources of contribution to this Fund, geographical extent of the program and the amount of coverage to be provided is being prepared by Bangladesh Bank. This scheme appears to be what the system needs - help for the marginal farmer and risk protection for the lending agency . However , there are too many details which need sorting out and some institutional as well as policy-related changes are essential before the scheme can be launched on a pilot basis. A few of the pitfalls that need to be avoided:

- a method for determining the guarantee fee which would include (a) average annual increase in debt, (b) bad debts being written off, (c) average annual increase in overdue loans
- but the criteria assumes uniformity of accounting practices and the correct aging of loans. We know that this criteria cannot be met.

Other details that need to be worked out include :

- what should be the size of the fund ? and geographical extent ? specific peril or multi-peril coverage ?
- the amount of maximum indemnity payable (%) ,
- the deductible portion of the guarantee if any ,
- the criteria for fixing of the fee has to include the average annual increase in bad debt ,
- improved credit analysis to restrict flow of credit to fictitious and undeserving borrowers .

Crop Insurance Program (CIP) : In principle, crop insurance is a simple concept. Its aim is to help the farmer in bad years and to let him pay back in good ones. However, there are difficulties at the implementation levels. Critics speak of high administrative costs specially if the size of holdings is small and fragmented. Crop insurance has been a publicly supported program in many countries - Sri Lanka , Mexico and Japan. But crop insurance addresses only yield risks. Its contribution to income stability is therefore limited, where yield variations are not the prominent factor in income fluctuation. An example is the high yield and low market price of jute this year.

In 1977, Sadharan Bima Corporation of Bangladesh launched a pilot project for crop insurance during the t.aman season. Membership was restricted to farmers in 18 districts where IRDP (now known as the BRDB) was in operation. Maximum sum insured was 80% of the value of the crop and the area was 3000 acres. As membership increased a disturbing trend emerged. Instead of a reduction in cost due to a diffusion of risk, costs were rising. Indemnities paid far outweighed the premiums received. A review committee in 1981 made the following observations :

- the experiment had been running at a loss ,
- the ratio of claims to crop values insured as well as that of claims to premium was rising. The insurers were handling only the risk-prone crops and areas ,
- there was a lack of accurate data on production per acre; cyclical behavior of natural hazards and of land records ,
- there was also claims adjustment due to moral hazards of insured farmers ,
- it was recommended that area coverage be increased in order to spread the risk. The logic was that large insured acreage will increase premiums and offset claims .

Sadharan Bima Corporation's crop insurance scheme suffered tremendous losses. One of the reasons for the failure of the scheme was the fact that insurers were stuck with the problem of "adverse selection". As it was a voluntary scheme, only the high risk farmers bought policies. The result was that indemnities paid far outweighed premiums received.

Sadharan Bima is currently trying to restructure itself by bringing 50,000 acres under their scheme. They are also planning to introduce a link-up of crop insurance with agricultural credit. The main features of the new Bima scheme are :

- banks will take out insurance policies for their borrowers thereby making the institution the insured party,
- policies will be issued within a month from the date of sowing of crops,
- if institutional credit is delayed and borrowers are unable to sow their crops in time, the property will remain uncovered,
- with crop insurance, the genuine farmer will be helped to claim his indemnity,
- the institutional credit will be insured. The surplus, if any, after adjustment will go to the farmer.

Theoretically, crop insurance sounds ideal for our purposes. But one should be wary. Experiences in other countries - Japan, Brazil, USA - have not been favorable. The scheme can exist only in the presence of government subsidies. Once established a subsidy becomes difficult to remove and nowhere is the program self-financing. There are other problems. Crop insurance is unlikely to be of value to the marginal or subsistence farmers who are least able to pay a cash premium. It can be effective only if :

- the types of risk are carefully selected to avoid losses arising out of moral hazards,
- the type of risk selected permits easy and objective

Agricultural Debt Relief Fund (ADRF) : The Registrar, Cooperatives suggested the setting up of such a fund. Its main features are :

- it would be administered by the Ministry of Relief & Rehabilitation,
- it would be funded by grants received from the government, Bangladesh Bank, other financial institutions and interested donor agencies,
- the main objective of the fund would be protection for the borrower as well as the lending agencies,
- the suggested initial capital for the fund was Tk.500 million,
- the district administration would be entrusted with the responsibility of executing the program along with the field office of the Ministry of Relief & Rehabilitation. Losses suffered by a distressed borrower would be ascertained by them. The relief money awarded to the affected borrower would be credited to the appropriate account of the borrowers bank. The credit institution would be insulated against loan defaults in this manner.

The drawbacks of this proposal are that :

- it is bureaucratic in nature, and we can foresee unnecessary delays as applications pass from one desk to another,
- it is likely to become highly politicised and thus lose sight of its original objectives,
- the size of the fund has perhaps been set arbitrarily and the program is likely to be too large to be implemented effectively in the manner envisaged,
- it is not designed to protect the financial institutions against wilful default by borrowers.

RECOMMENDATIONS

This study has led us to make the following recommendations :

- uniformity in accounting practices should be established among all financial institutions. There may be other important anomalies but the ones that caught our attention have to do with the manner in which the rate of loan recovery is calculated ; the way interest receivables are accounted for and the absence of realistic classification of loans.
- a cut off date be announced for the repayment of the rescheduled loans of 1984.
- borrowers should be informed that no interest would be charged if they pay up by the given date ; we feel that this may be the only way to salvage some of the loans lost due to the program,
- to improve the rate of loan recovery, we suggest that interest-free loans be given out for a number of years - use this period to fully acquaint the borrowers with the methodologies of formal financial institutions,
- a rigorous system be established to ensure speedy disposal of certificate cases. The district administration needs to be made more effective for this purpose.
- devise some method to help the marginal farmer other than through the commercial banking system. Grameen Bank may have indicated one method of doing so.
- commercial banks be relieved of all social-welfare functions which are not an integral part of their normal operations as it interferes with financial discipline,
- conduct a study to look into borrower behavior , particularly borrower apathy towards repayment of formal i.e. institutional loans as against his acute awareness regarding timely repayment of non-institutional loans,
- the financial institutions take immediate steps to close

the information gap that exists between their different offices. This is a purely management problem and should be handled accordingly,

- given our administrative and political structure it is likely that financial institutions will continue to be drawn into social-welfare programs. Keeping this possibility in mind it may be necessary to :
 - (a) set-up a standing committee where representatives of financial institutions and the relevant Ministries (eg. MOF ; Ministry of Relief & Rehabilitation ; the Ministry of Agriculture etc) could meet periodically. Policy guidelines, implementation and monitoring methods could be discussed and finalised here. The banking system would then become a part of the process of decision-making for disaster programs,
 - (b) protect the financial institutions from having to bear the financial burden of these programs as a part of their 'normal' operations. The alternatives to this may be :
 - (1) imposing special taxes on the institution to mop up the surplus once these have been correctly accounted for. The amount thus raised may be ear-marked for specific disaster programs.
 - (2) activating the special funds eg.ACSF and the RCF of the Bangladesh Bank and for providing tax-exempt contributions to these funds. Once this has been done, the financial institutions can be persuaded to transfer a part of their surplus to this fund periodically.
- the launching of the ARGF through the commercial banks should be reconsidered in view of the above recommendations.

: CROP CALENDER

Crop	Production season		Due date for recovery	Final repayment date after which penal int. is applied
	Disbursement	Harvesting		

Aus

a) Local	March-1	June-15	July-1	Aug.-31	End September	End December
b) HYV	Feb.-15	May- 31	July-1	Aug.-31	End September	End December
B. Aman	March-1	May- 15	Nov.-1	Dec.-31	End February	End March

Boro

a) Local	Oct.-15	Jan.-31	Apr.-15	June-30	End July	End September
b) HYV	Nov.-15	Mar.-15	May- 1	June-30	End July	End September
Jute	March-1	Apr.-15	June-15	Sep.-15	End Oct.	End December

Table - II : Revised estimate supplied by the Banks (FY-83-84 (Tk. in millions)).
(after receipt of field level data, October, 1984)

Boro	Aus 1	B. Aman 3	Jute 4	Total 5	Inter- est(12%)	Service charge(4%)	Total	
Sonali SACP	281.73	116.21	2.3	372.3	772.5	92.7	30.9	123.6
BRDB	235.4	84.99	-	-	320.3	38.4	12.8	51.2
					1092.8	131.1	143.7	174.8
Janata	124.9	36.00	15.7	1.2	177.8	21.3	7.1	28.4
Agrani	171.3	44.1	1.6	2.1	219.1	26.3	8.8	35.1
Rupali	51.4	12.7	.1	.8	65.00	7.8	2.6	10.4
Pubali	70.8	8.6	.1	.1	79.6	9.5	3.2	12.7
Uttara	6.4	1.7	2.2	.01	10.31	1.23	.41	1.6
Total	941.93	304.3	22.0	376.6	1644.6	197.2	65.7	259.4
BKB	1295.8	103.7	3.9	2.1	1405.5	168.7	56.2	225.
BSBL	47.	26.1	→(Aus, B. Aman, Jute) -		73.1	8.8	3.	11.7
Total	2284.7				3123.01	374.8	1249.5	496.1

Table - III :

	Original estimate (Tk. in millions)	Revised estimate
Sonali	123.6	174.8
Janata	30.9	24.8
Agrani	35.1	35.1
Rupali	10.7	10.4
Pubali	12.7	12.7
Uttara	1.4	1.6
Total	214.4	259.4
BKB	226.22	225.0
BSBL	-	11.7
Total	440.6 million	496.1 million

Difference between revised and original estimate :-

496.1

440.6

55.5 million

Table - IV : Affected loans as a percentage of total Agricultural credit disbursement of the institution (1984). (Tk. in millions)

	Agrani	Sonali	Pubali	Uttara	Janata
Total amount of agri. credit disbursed	843.5	2232.6	600	24.8	865.5
Amount eligible for exemption	219.1	1092.8	79.6	10.3	177.8
% of total agri. credit	26	49	13	42	21

	Rupali	BSBL	BKB	BKB
Total amount agri. credit disbursed	700	219.7	1993.4	5924.3
Amount eligible for int. exemption	65	73.1	1405.5	1405.5
% of total agri. credit	9	33	70	23

- SACP loans only
- Total agricultural credit

Table - V :

	Total amount of loans due for interest exemption (in million)	Penal Interest loss (at 6% / year)
Sonali	1092.8	65.5
Uttara	10.31	.6
Rupali	165	3.9
Pubali	79.6	4.8
Janata	177.8	10.7
Agrani	-219.1	13.1
BKB	1405.5	84.3
BSEL	73.1	4.4
	<u>3123.01</u>	<u>187.3</u>

Table -VI : Impact on bank surplus (Tk. in million)
(Net profit after appropriations, before taxes).

Yearly surplus	1982	1983	1984
Agrani	90.0	118.7	170.9
Scnali	481.0	504.5	550.3
Rubali	20.3	5.3	5.5
Uttara	61.7	50.5	32.1
Janata	171.3	192.7	230.9
BKB	92.3 ('81-'82)	112.9 ('82-'83)	169.5 ('83-'84)
BSBL	NA	10.39	24.27
Rupali	64.5	85.2	115.6

Source : Bangladesh Bank (Banking Control Department - BCD)

Table - VII : Average rate of loan recovery in agricultural sector(1984).

<u>Name of Institution</u>	<u>Average Rate</u>	<u>Criteria</u>
Agrani	60%	Recovery/Demand
Rupali	50%	Recovery/Demand
Sonali	60%	Recovery/Demand (% of total credit)
Rubali	10% - 15%	Recovery/Demand
Janata	50% - 53%	Outstanding/Disbursement
	30% - 35%	Recovery/Demand
BKB	60%	Recovery/Target
	20%	Recovery/Demand
Uttara	40%	Recovery/Demand
BSEL	72%	Cumulative recovery/ Demand (since inception)
	4%	Recovery/Demand (Monthly) September, 1985.

Table - VIII:

YEAR-WISE RECOVERY POSITION
BANGLADESH KRISHI BANK (BKB) (Tk. in millions)

Year	Amount advanced	Annual recovery Target	Recovery achieved	Percentage	Overdue	Outstanding
1979-80	141.49	70.00	74.73	107%	57.51	247.02
1980-81	209.74	90.00	131.08	146%	62.19	364.32
1981-82	271.04	190.00	197.03	104%	93.49	497.26
1982-83	400.81	240.00	202.24	84%	153.64	785.54
1983-84	592.43	414.00	307.96	74%	308.25	1253.38
1984-85	614.73	614.00	364.72	59%	506.13	1735.67

Table - IX : On special request the following table was supplied.

BANGLADESH KRISHI BANK
YEARWISE RECOVERY POSITION • •

Year	Recovery/Demand •	Recovery/Outstanding
1982-83	56 %	26 %
1983-84	50 %	25 %
1984-85	42 %	21 %

• due + overdue (BKB officials refer to it as " amount recoverable")

• • Percentage calculations are based on estimates supplied by the statistics Department, BKB.

Agri loan

Ershad visits flood-hit areas

Agri loan interest to be exempted

MAGURA July 1 (BSS) : The President and Chief Martial Law Administrator Lt. Gen H.M. Ershad today said that interest on agriculture loans taken by farmers in the flood-hit areas would be exempted.

The President was addressing a spontaneous gathering at Salikha upazila here when he visited the area—one of the worst flood affected part of the country.

He said that the time limit for repayment of agriculture loans had also been extended by a year. He declared amid big applause that the penalty clause with regard to repayment of agriculture loans had also been withdrawn for the flood-hit areas.

President Ershad told the listening crowd that seeds distribution centres would be opened

in every selected upazila within a week's time from where required quantity of seeds would be sold to the farmers at subsidized rate. Those who were not in a position to buy the seeds would be provided with money out of government grant to enable them to buy the same, he added.

He said that the agriculture rehabilitation programme of the government would entail a government subsidy of Taka 32 to 34 crore.

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President Ershad said that he had been frequently visiting the flood affected areas to meet the people and know their problems on the spot. He said that excessive rainfalls preceded by prolonged drought had caused colossal losses of crops in the vast tract. Terming this as a national problem, he said, despite the losses, there would not be any shortage of food in the country. All possible help would be provided to the affected people to mitigate their sufferings and for their rehabilitation, he added.

The President said that he had expected the political parties to come forward and extend help to the distressed people in the affected areas instead of making it a political issue. He said that they could still come forward to provide help to the affected people without giving lip-service alluring to the cities and towns. He called upon all sections of the society to supplement the government efforts to provide succour to the flood victims.

He asked the students to stand by the distressed people in the affected areas and help them avail of the facilities offered to them by the government. He also asked them to be watchful so that the relief materials were properly distributed to the affected people.

President Ershad immediately after his arrival at Salikha visited a flood affected village. He walked along muddy village in the visiting some homesteads and farms. He talked to the people who greeted him on his

President Ershad announced a grant of Taka two lakh and ten thousand maunds of wheat for test relief in Salikha upazila in Magura district and another Taka two lakh and nine thousand maunds of wheat for Manirampur upazila in Jessore district. He visited the Manirampur Upazila complex and reviewed the progress of development activities in the area. While talking to the upazila officials he appreciated that some development projects had been successfully implemented in the upazila. He directed the officials to gear up their efforts for development of the area.

The President found one official absent without permission and ordered for his immediate suspension.

Reviewing the family planning activities President Ershad asked the concerned officials to further intensify the population control activities. He said we must control the unbridled growth of population for our survival.

The President went round the upazila complex and visited the agriculture project. He talked to the employees there and enquired about the project.

The Zonal Martial Law Administrator, Zone 'E' Major General Sadiqur-Rahman Chowdhury, accompanied the President during the visit.

Meanwhile, with the recession of the flood waters from the affected areas, the farmers started taking all preparations with renewed vigour to go for the next crop. The visit of President Ershad, his assurances to the local people and the measure announced by him for flood rehabilitation, created a new sense of confidence among them. The farmers now look forward for a new harvest and good days ahead surmounting the days of distress they passed due to the floods.

Paper cutting from
Bangladesh Times dt 25/3/77

taken according to G. M's verbal order
for use in loan section.
4/50/3/77

Govt waves 50pc pre-'72 agri loan

The Government has decided to waive 50 per cent of agricultural loan (including interest) taken in the pre-liberation period, if the loanees repay rest of the amount (including interest), by June 30 next, reports BSS.

A Press Note issued by the Ministry of Finance in Dacca on Thursday said that if a co-operator repays in full the principal amount of the loan taken in the pre-liberation period by June 30 next, the recovery of the outstanding interest will be waived by the Cooperative Bank.

The Press Note said: A substantial amount of agricultural loans advanced in the pre-liberation period to the farmers by the Government and to the members of the Cooperative Societies through the Jatiya Samabaya Bank are still outstanding for repayment. However, the Govern-

ment has not so far taken strong measures to realise these outstanding dues from them.

In order to extend some relief to them and thus to facilitate the settlement of these long outstanding accounts, to enable all concerned to concentrate on current activities and to improve the finances of the cooperative societies for more agricultural credit, the Government had taken the

following decisions:

If the person who took agricultural loan from the Government in the pre-liberation period pays 50% of the amount (including interest) by the 30th June, 1977, the recovery from him of the remaining 50% (including interest) will be waived;

If a member of a Co-operative Society repays in full by the 30th June, 1977, the principal amount of the pre-libera-

tion loan still outstanding, the recovery of the outstanding amount of the interest will be waived by the Co-operative Bank.

It is hoped that in their own interest as also for wider interest of the nation, all concerned will pay their outstanding dues by the 30th June, 1977 and avail of this concession.

It is, however, to be mentioned in this context that persons who borrowed from the Government or the Co-operatives are under legal and moral obligation to repay the loan with interest. It is, therefore, expected that loans taken after the liberation will be repaid by the loanees strictly in accordance with the terms of the loans and the concerned agencies will take strict action to realise all pre-liberation loan outstanding after the 30th June, 1977 and all post-liberation loans.

Heavy fighting in Burma

BANGKOK, March 24: Thailand's Interior Ministry today reported heavy fighting going on between Burmese and Karen rebel troops near the Thai border yesterday, killed between 25-50 Thais, reports AFP.

The Ministry report said fighting was still going on between the two forces today (Thursday) at noon near the village of

Ban Wangka, in Mae Sod district of Trat province, 20 miles north-west of Bangkok.

An unknown number of villagers have been killed by mortar fire which landed across the border in Thai territory, the Ministry report said.

Thai Interior Minister Sornak Sundharyaj said Thai observers are being sent to the area.

Bangladesh Times dt 25/3/77

TELEGRAM
D. NUL. BANKBANGLADESH BANK
HEAD OFFICE
POST BOX NO. 325
DACCA.AGRICULTURAL CREDIT
DEPARTMENT

ACD. CIRCULAR NO. 16/79-

Dated the 12th July, 1979THE MANAGING DIRECTORS OF
ALL NATIONALISED COMMERCIAL BANKS
AND BANGLADESH KRISHI BANK
HEAD OFFICE
DACCA.

Dear Sir,

REMISSION OF INTEREST ON PRE-LIBERATION
AGRICULTURAL LOANS AND ADVANCES.

With a view to providing relief to the farmers who have outstan-
 agricultural loans due to pre-liberation period, the following
 decisions have been taken by the Government vide their letter No. MF.
 Inv.-IV/BKB-58/79/174 dated the 5th July, 1979 (copy enclosed).

- i) Interest on agricultural loan upto Tk. 3,000/00 (Taka Three thousand), due for the Pakistan period will be totally waived, if the principal amount is repaid by 30th June, 1981 and
- ii) Interest charges on loans exceeding Tk. 3,000/00 (Taka three thousand) for the same period will be reduced by 50%, if the loan is repaid by 30th June, 1981.

You are, therefore, requested to issue necessary instructions to your branches concerned accordingly.

Please acknowledge receipt.

Yours faithfully,

G. Rahmat
 (Shafiqur Rahman)
 SENIOR DEPUTY CHIEF OFFICER.
 of date. *12/7/79*

Endt. No. ACD.45(7)/-1548

Copy forwarded for information and necessary action to :-

1. The General Manager, Bangladesh Samabaya Bank Ltd., 9/D, Motijheel Commercial Area, Dacca.
2. The Director-General, Integrated Rural Development Programme 24-25, Dilkunha Commercial Area, Dacca.
3. The Registrar of Co-operative Societies, Government of the People's Republic of Bangladesh, 1/D, Motijheel Commercial Area, Dacca.
4. The Secretary, Ministry of L. G., R.D. and Co-operatives, Government of the People's Republic of Bangladesh, Dacca.
5. The Secretary, Ministry of Agriculture and Forests, Government of the People's Republic of Bangladesh, Dacca.
6. The Secretary, Ministry of Finance, Banking and Investment Division, Investment Wing (Attention Mr. A.F.K. Shamsuddin Ahmed, S.O. Government of the People's Republic of Bangladesh, Dacca with reference to their letter No. M.F. Inv.-IV/BKB-58/79/174 dated the 5th July, 1979.

Contd.....2.

in reply to circular no. 666/91 to all banks
CA. 23/11/81

BANGLADESH BANK
HEAD OFFICE
DACCA.

BANKING CONTROL DEPTT.

CIRCULAR LETTER NO. BCD(C. 666/ 47) 11th November, 1981.

The Managing Director,
Sonali/Rupali/Janata/Agrani/Pubali/Uttara Bank,
Head Office,
Dacca.

Dear Sir,

Waiver of interest on pre-liberation
outstanding loans upto Tk. 50,000/-
Compromise formula.

Please refer to our Circular letter No. BCD(C) 656/9 dated the 27th February, 1981 in terms of which banks could allow waiver of interest on pre-liberation outstanding loans upto Tk. 50,000/00 under compromise formula till 30th June, 1981.

2. It has now been decided that the facility of waiver of interest under the above compromise formula will be available upto 30th June, 1982. Banks are, therefore, requested to bring this to the notice of their constituents so that outstanding cases, if any, may be finalised within the stipulated date.

Please acknowledge receipt.

Yours faithfully,

[Signature]
(MD. BUZRUCH MEHER)
ASST. CHIEF OFFICER

P. T. O.

783080)
TESORAM
BANGLABAND
PHONE: 852931

BANGLADESH BANK

HEAD OFFICE
POST BOX NO. 988
DACCA-2.

AGRICULTURAL
CREDIT
DEPARTMENT

Ref No. - ACD(PULY)1911/25- 768

Dated the 28th Jan - 1985.

The Joint Secretary,
Finance Division,
Ministry of Finance,
Government of the People's
Republic of Bangladesh,
Bangladesh Secretariat,
Dhaka.

Attention: Mr. Kh. Abdus Sami, Section Officer

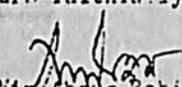
Dear Sir,

LIST OF FLOOD AFFECTED DISTRICTS

Please refer to your letter No. DF/INV-IV/HKB-1/24-27 dated the 20th January, 1985 on the above subject.

So far we understand, 60 districts out of 64 had been affected by the last flood (list enclosed). But detailed list of all the flood affected areas is not available with us. We have already written to the Agriculture and Forests Division for the same which is still awaited. However, the matter is being pursued and on receipt, the same will be furnished to you.

Yours faithfully,


(Mr. Abdur Rahim)
AGRICULTURAL CREDIT OFFICER
Phone:- 235000/622.

28



25. Chittagong
26. Khulna
27. Pishor
28. Kuriga
29. Kusht
30. Lalma
31. Lalma
32. Pado
33. Magu
34. Mota
35. Saba
36. Saba
37. Saba
38. Saba
39. Saba
40. Saba
41. Saba
42. Saba

LIST OF DISTRICTS AFFECTED BY FLOOD IN 1984

Sl. No.	Name of the district	Sl. No.	Name of the district
1.	Bagerhat	58.	Sylhet
2.	Bandarban	59.	Tangail
3.	Barguna	60.	Thakurgaon
4.	Barisal		
5.	Bhola		
6.	Bogra		
7.	Brahmanbaria		
8.	Chapai nababgonj		
9.	Chandpur		
10.	Chittagong		
11.	Chowmadanga		
12.	Comilla		
13.	Cox's Bazar		
14.	Dhaka		
15.	Dinajpur.		
16.	Faridpur		
17.	Feni		
18.	Gaibanda		
19.	Gazipur		
20.	Gopalganj		
21.	Habiganj		
22.	Jessore		
23.	Jamalpur		
24.	Jhalkhati		
25.	Jhainadaha		
26.	Khulna		
27.	Kishoregonj		
28.	Kurigram		
29.	Kushtia		
30.	Lalmonirhat		
	Madaripur		
31.	Laxmipur		
32.	Madaripur		
33.	Magura		
34.	Manikgonj		
35.	Meherpur		
36.	Moulavibazar		
37.	Munshiganj		
38.	Chittagong <i>Chittagong</i>		
39.	Narail <i>Narail</i>		
40.	Narail		
41.	Narayanganj		
42.	Narshindi		
43.	Natore		
44.	Netrokona		
45.	Nitphamari		
46.	Noakhali		
47.	Pabna		
48.	Patuakhali		
49.	Perojpur		
50.	Rajbari		
51.	Rajshahi		
52.	Rangpur		
53.	Satkhira		
54.	Sharirtpur		
55.	Sherpur		
56.	Sirajgonj		
57.	Sunamgonj		

District not affected by flood

- 61. Chittagong Hill Tracts
- 62. Joypurhat
- 63. Khagrachari
- 64. Panchagar.



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2

LIST OF FLOOD AFFECTED AREA OF 1984.

(Ambarishy 7/11)

Sl.No.	Name of affected Districts	Name of affected Upazilla
1	2	3
1.	DHAKA	1. Savar 2. Dhamrai 3. Karanigonj 4. Nawabgonj 5. Dohar
2.	NAKAYANGONJ	6. Bandar 7. Araihasar 8. Rupgonj 9. Sonargaon
3.	NARSINGDI	10. Narsingdi 11. Raipura 12. Monohardi 13. Polash 14. Shihpur 15. Belabo
4.	MANIKGONJ	16. Manikgonj 17. Singair 18. Saturia 19. Shivalaya 20. Hariampur 21. Ghior 22. Daulatpur
5.	GAZIPUR	23. Kapasia 24. Sreepur 25. Kaliakair
6.	MUNSHIGONJ	26. Munshigonj
7.	TANGAIL	27. Sedar 28. Dasail 29. Ghatail 30. Kalihati 31. Nagerpur 32. Gopulpur 33. Mirjapur 34. Madhupur 35. Shakhipur 36. Bhuapur 37. Dildua
8.	MYMENSINGH	38. Fulpur 39. Halughat 40. Bhaluka
9.	KISHOREGONJ	41. Karingonj 42. Astagram 43. Nikle 44. Itna 45. Mitamor 46. Katiadi 47. Kishoregonj 48. Hossainpur 49. Kuliarchar
10.	NETROKONA	50. Sedar 51. Purbadhala 52. Durgapur 53. Dhubaora 54. Kalmakanda 55. Berhatta 56. Mohangonj 57. Atpara 58. Medan 59. Kendua 60. Khaliajuri,

11.	JAMALPUR	61. Sadar 62. Sarishabari 63. Madargonj 64. Melandah 65. Dewangonj 66. Islampur 67. Bakohigonj
12.	SERPUR	68. Sadar 69. Broobardi 70. Holitabari 71. Nakhla 72. Jinalgati
13.	RAJSHAHI	73. Haghmara 74. Durgapur 75. Kadugari
14.	SUNAMGONJ	76. Sunamgonj 77. Chutek 78. Daurabazar 79. Bisumbarpur 80. Jaralgonj 81. Dhamaresha 82. Taherpur 83. Dhirai 84. Jugannathpur 85. Salla
15.	FARIDPUR	86. Sadar 87. Bhanga 88. Boalmari 89. Nagarkanda 90. Sadarpur 91. Alfedanga 92. Modhukhali 93. Charbhadrahan
16.	RAJBARI	94. Sadar 95. Pungsha 96. Belladanga 97. Goalanda
17.	MA DARIPUR	98. Madaripur 99. Rajai 100. Shibchar 101. Kalkini
18.	GOPALGONJ	102. Sadar 103. Moksedpur 104. Kashiani 105. Tongipara 106. Kotalipara
19.	SARIATPUR	107. Sadar (Palong) 108. Narin 109. Damudie 110. Bhedergonj 111. Goshairhat 112. Jajira
20.	COMILLA	113. Chandinu 114. Debidwar 115. Muradnagar 116. Deulhendi 117. Honu 118. Sadar 119. Burichang 120. Brahman Para. 121. Laksem 122. 14-Gram 123. Nangolcot 124. Barura.

21.	CHANDPUR	125. Chandpur (Sadar) 126. Haimohar 127. Matlab 128. Hajigonj 129. Shaharasti 130. Kookha
22.	BHARHARBARIA	131. Br. hmanbaria 132. Sorail 133. Kasimnagar 134. Nabinegar 135. Kasba 136. Akhaura
23.	FENI	137. Feni 138. Chagolnaiya 139. Dagonbhuiyan 140. Parashuram 141. Sonuzesi
24.	SYLHET	142. Kotwali 143. Compunygonj 144. Goinghat 145. Balagonj 146. Bishvanath 147. Fenchugonj 148. Golopgonj 149. Jaintapur 150. Kanaighat 151. Bianibazar 152. Zakigonj
25.	HABIGONJ	153. Hebigonj 154. Madhabpur 155. Chunareghat 156. Daniachang 157. Nabigonj 158. Bahubal 159. Lakhal 160. Ajmirigonj
26.	MOULVIBAZAR	161. Moulvibazar 162. Rajnagar 163. Kulaura 164. Sreemotal 165. Kamalgonj 166. Baralekha
27.	JESSORE	167. Sadar 168. Sarsha 169. Monirampur 170. Bagherpara 171. Chowgacha 172. Avaynagar 173. Jhikargacha 174. Kashebpur
28.	MAGURA	175. Sadar 176. Sreepur 177. Mehanmadpur 178. Salika
29.	JHENAI DAH	179. Sadar 180. Kotchandpur 181. Kaligonj 182. Mohehpur 183. Sailkupa 184. Harinokunda
30.	NARAIL	185. Narail 186. Lohagora 187. Kalu

31.	BARISAL	188.	Sadar	
		189.	Dabugonj	
		190.	Uzirpur	
		191.	Bukhergonj	
		192.	Gournadi	
		193.	Agailjara	
		194.	Moladi	
		195.	Rizla	
		196.	Mahendigonj	
32.	JHALAKATI	197.	Sadar	
		198.	Nalchati	
		199.	Kazipur	
		200.	Kathalia	
33.	PEROJPUR	201.	Sadar	
		202.	Kowkhali	
		203.	Sarupkati	
		204.	Banaripara	
		205.	Nazirpur	
		206.	Bhandaria	
		207.	Mathbaria	
		208.	Indorkani	
34.	BHOLA	209.	Sadar	
		210.	Borhanuddin	
		211.	Daulatkhan	
		212.	Lalmohan	
		213.	Tazumuddin	
		214.	Charfashan	
		215.	Monpura	
35.	KHULNA	216.	Rupshe	
		217.	Daulatpur	
		218.	Fultala	
		219.	Terokhada	
		220.	Dumuria	
36.	BAGERHAT	221.	Sadar	
		222.	Fakirhat	
		223.	Mollahhat	
		224.	Kachua	
		225.	Morrargonj	
		226.	Shoronkhala	
		227.	Chitolmari	
37.	SATKHIRA	228.	Satkhira	
		229.	Kalaroa	
		230.	Kaligonj	
		231.	Tala	
		232.	Debhatta	
38.	DINAJPUR	233.	Kotwali	
		234.	Birole	
		235.	Birgonj	
		236.	Bochingonj	
		237.	Kaharole	
		238.	Khanshama	
		239.	Chirirbandar	
		240.	Phulbari	
		241.	Birampur	
		242.	Mawabgonj	
		243.	Hakimpur	
		244.	Parbotipur.	
39.	BOGIRA	245.	Sadar	249. Gaptali
		246.	Sariskandi	250. Sherpur.
		247.	Sonstola	251. Shibgonj.
		248.	Dhunat	

1	2	3
40.	JOYPUKHAT	252. Sadar 253. Khetlal 254. Patchbibi
41.	CHITTAGONG	255. Fatikohari 256. Hathazari 257. Rowzan 258. Sitakunda 259. Patiya 260. Sandip 261. Marrersarai 262. Chandanailsh
42.	NATORE	263. Natore 264. Singra 265. Gurudaspur 266. Baraigram 267. Lalpur
43.	NOAGAON	268. Menda 269. Atrai 270. Noagaon 271. Raninagar 272. Mohadebpur 273. Dhemurhat 274. Badalgachi 275. Patnitola
44.	KUSHTIA	276. Sadar 277. Khaksha 278. Kumarkhali 279. Mirpur 280. Bheramara 281. Daulatpur
45.	CHUADANGA	282. Chuadanga 283. Alamdanga 284. Damurhuda 285. Jibannagar
46.	MEHERPUR	286. Meherpur 287. Gangni
47.	PABNA	288. Sadar 289. Atgharia 290. Iswardi 291. Chetmahar 292. Bhengura 293. Faridpur 294. Sattia 295. Bera 296. Sujanagar.

1	2	3
48.	BERAJONGJ	297. Sadar 298. Raiganj 299. Ullapera 300. Shahajadpur 301. Kasipur 302. Balkuchi 303. Chauhali 304. Tarash 305. Kamarkhanda
49.	KUNOPUR	306. Kotwali 307. Kaonia 308. Gangaohara 309. Mithapukur 310. Pirgunj 311. Pirgaoha 312. Bedarganj
50.	KUNIGRAM	313. Sadar 314. Chilmar 315. Ulipur 316. Bhurmgamari 317. Rajurhat 318. Fulbaria 319. Roumari 320. Rajibpur 321. Nageshwari
51.	GAIBANIA	322. Sadar 323. Palashbari 324. Gobindagonj 325. Sundargonj 326. Sadulapur 327. Fulchari 328. Bhagata
52.	LALMONICHAT	329. Sadar 330. Aditmari 331. Laligonj 332. Hatibandha
53.	NILPHAMARI	333. Sadar 334. Seidpur 335. Dimla 336. Jaldhaka 337. Damar

BANGLADESH BANK

HEAD OFFICE
POST BOX NO. 325
DACC/ -2.

30000
TELEGRAM
ANGLABANK
HONS 1 252931

Dated the Nov. 29, 1984.

ref No. ACD(POLY)911/84-7161

The Secretary,
Finance Division,
Ministry of Finance,
Government of the People's
Republic of Bangladesh,
Bangladesh Secretariat,
Dhaka.

Dear Sir,

EXEMPTION OF INTEREST IN FLOOD AFFECTED AREAS - DEFICIT
IN GOVERNMENT REVENUE BUDGET

Please refer to your Memo. No. FM/FD/INV-2/INV-4/84-288 dated the 9th August, 1984 on the above subject.

Latest statistics made available to us by the banks indicate that a total amount of Tk. 44.06 crore may be involved on account of interest exempted by the Government in view of the recent flood. Detailed position is given below

(Taka in crore)

Name of the banks	Loan disbursed					Interest @ 12%	Service charge @ 4%	Total interest @ 16%
	Borp	Aus	B.Aman	Jute	Total			
Sonali Bank	28.77	11.62	0.23	37.23	77.25	9.27	3.09	12.36
Janata Bank	15.01	4.03	0.20	0.02	19.31	2.32	0.77	3.09
Agrani Bank	17.13	4.41	0.16	0.21	21.91	2.63	0.88	3.51
Rupali Bank	5.18	1.40	0.04	0.08	6.70	0.80	0.27	1.07
Pubali Bank	7.08	0.86	0.01	0.01	7.96	0.95	0.32	1.27
Uttara Bank	0.73	0.15	-	-	0.88	0.11	0.03	0.14
	<u>73.80</u>	<u>22.52</u>	<u>0.64</u>	<u>37.55</u>	<u>134.01</u>	<u>16.08</u>	<u>5.36</u>	<u>21.44</u>
B K B	130.40	10.37	0.39	0.21	141.37	16.96	5.66	22.62
	<u>203.70</u>	<u>32.89</u>	<u>1.03</u>	<u>37.76</u>	<u>275.38</u>	<u>33.04</u>	<u>11.01</u>	<u>44.05</u>

This estimate has been furnished by the banks based on their total disbursement for the crops in question. Banks are reported to have been collecting information from their field level which may take some more time to complete. The estimate of Tk. 44.06 crore may, therefore, be taken as provisional.

Such loss of revenue to the banks has given rise to questions regarding adjustment/compensation for the same as costs are involved in fund generation and in lending operation of the banks. In view of this, we like to propose the

ACTION PLAN FOR RECOVERY OF
AGRICULTURAL LOANS - 1985

You are aware that overdue of agricultural loans have reached an unsustainable level. Recovery situation has worsened due to floods, droughts which necessitated rescheduling of loan repayment. With the recovery of agricultural production and income, it has been decided by the Government to launch recovery drive immediately. The following action plan to that end is suggested for your consideration and implementation. You may make such improvement on the action plan as you may consider appropriate :-

i. Target for recovery:

All banks will fix up a target of collecting, within a period from January to March, 1985, 80% of loans which will have become overdue by 1st February, 1985 (including previous overdues) of each branch.

ii. Rebate:

Farmers may be allowed a rebate on service charge @ 2% if the whole amount, of dues is repaid within the final due date of repayment. Similarly, a rebate on penal interest @ 2% may be allowed if overdue amount is repaid within 31st March, 1985 or within the quarter of its becoming overdue, whichever is applicable.

iii. Incentive to Staff:

In order to provide incentive to the bank officials/field assistants, a proposal for introducing monetary benefit for better recovery is being worked out in Bangladesh Bank which would be finalised in consultation with you.

iv. List of Defaulters,

List of defaulters may be regularly exchanged once a quarter between bank branches within the Upazila specially between BKB branches and commercial bank branches of the respective areas. Such a list should also be given to the Union Parishad and be displayed in local hats and bazars. This will create social and psychological pressure specially on big farmers/influential groups who may be defaulting payments of loans wilfully.

v. Publicity:

Each bank should consider printing leaflets/handouts and distribute them through the branches requesting the loanees to repay their loans in time and assuring them of future loans at the time of their requirement. Similarly, publicity could be made through beating of drums in the local hats and bazars. Suitable publicity through other mass media will be arranged centrally by Bangladesh Bank separately.

vi. Visits/tours of the senior officers of the banks:

Senior officers of the banks should visit the different branches and hold meetings at Upazila level for impressing upon the bank/local administration. They should explain the importance of regular repayment and its impact on the credit operation. Each branch should be visited by them in connection with the recovery drive as often as is considered necessary.

vii. Crop loans to non-farmers:

It has been reported that a considerable amount of crop loans has been granted to non-farmers. Banks are advised to identify such fake borrowers with the help of Union Agricultural Assistants/UACC. All such non-farmers should be debarred from all future lending unless the loans are repaid by them.

(contd...p/3)

viii. Realisation through certificate cases:

Attention of the banks is drawn to Secretary, Cabinet Division's recent circular on certificate cases (copy enclosed). I am drawing the attention of the Deputy Commissioners to this letter with request to take active interest in both recovery and disposal of certificate cases. The progress of disposal of certificate cases as well as of recovery should be pursued by your officers with Upakula Mirbahi Officers and occasionally with Deputy Commissioners. The Secretary of the District Committee is also being advised to send regularly the progress of disposal of certificate cases to the Chief Officer, Agricultural Credit Department, Bangladesh Bank, Head Office, Dhaka each month.

Please advise your branches accordingly on priority basis.

BANGLADESH KRISHI BANK
 HEAD OFFICE
 84, MOTIJHEEL COMMERCIAL AREA
 DHAKA-2.

CENTRAL ACCOUNTS & FUNDS MANAGEMENT DIVISION

Circular No. Accounts-56/84

Dated 16-9-1984

All Divisional/Zonal Managers,
 All Regional Managers,
Bangladesh Krishi Bank.

Subj:- Accounting of Exempted interest and rescheduling of repayment of loan in the flood affected areas.

Attention is drawn to Head Office, BA & BDD circular No. 116/84 dated 13-8-84 on "Exemption of interest and rescheduling of repayment of loan in the flood affected areas" and Operation circular No. 132/84 dated 22-8-84 on the subject "Disbursement of cattle loan in flood affected areas".

2. In view of the instructions contained in above circulars the branches should take following actions for the flood affected loanees.

2.1 Transplanted Aman(1983) Crop loan in respect of flood-affected loanees.

The period of repayment of the above loans should be rescheduled upto 31-1-85. For that purpose branches shall change the existing due date of repayment to 31-1-85 in the loan ledgers /loan case file. The individual borrowers should be informed of the revised due date as per specimen of notice at annexure-"A".

2.2 Penal interest should not be charged on these loans for the rescheduled period upto 31-1-85.

3. Boro, Aus, B. Aman and Jute(1983-84) crops loan in respect of flood-affected loanees.

3.1 The period of repayment should be rescheduled upto a period of one year from their existing due dates and necessary action to that effect should be taken on the line as at 2.1 above.

3.2 Interest including service charges in respect of the concerned loan for these crops is exempted for the year 1984-85.

3.3 The individual borrowers should be informed of the above decisions as per specimen notice at Annexure-"B".

3.4 Branches will account for the interest and Service Charges exempted on the following line.

3.4.1 The interest and service charges for the year 1984-85 will be calculated at the time of Annual Closing of Accounts as on 30-6-85 and will be booked to individual loan accounts under proper head with contra credit to "610-Outstanding Interest and Service Charges of Flood affected-Loanees" account at the first instance. Thereafter, the amount of interest and service charges so debited to loanee account will be reversed to the debit of "1210-Interest and Services Charges of Flood affected Loanees-Exempted"

Contd....P/2.

account with contra credit to individual loan account on the same date.

3.4.2 However, if any flood-affected loanee approaches the bank to repay his dues during 1984-85 such loanee will be given benefit of exemption of interest and service charges for one year ending on the date of repayment of the loan. In such a situation the branches will first find out the period of exemption of one year ending on the date of repayment, then calculate interest and service charges on the balance as on 30-6-84 for the proportionate period of exemption falling during the year 1984-85 and on the balance as on 30-6-83 for the proportionate period of exemption falling during the year 1983-84.

3.4.3 The amount of exempted interest and service charges so calculated for the period falling during 1984-85 will be debited to appropriate loan account with contra credit to "610-Outstanding Interest and Service Charges of Flood Affected Loanee" at the first instance.

3.4.4 Thereafter, the amount of interest and service charges so debited to the loanee's account as on the date of repayment will be reversed to the debit of "1210-Interest and Service Charges on Flood Affected Loanee-Exempted" with contra credit to the loanee account and at the same time the interest for the proportionate period of exemption falling during 1983-84 and already debited to the said loanee account as on 30-6-84 will also be reversed to the debit of "131-Accounts Receivable/11E-Interest and service charges exempted to Flood affected loanee" with contra credit to the concerned individual loan accounts.

3.4.5 Debiting and crediting of loan Accounts on the above line will help the branches to keep record of the period of exemption and the amount of interest and service charges exempted in the individual loan accounts.

3.4.6 In case, however, a borrower makes repayment of loan before completion of one year from the date of disbursement he/she will be entitled to get exemption of interest and service charges for the actual period the loan amount remained outstanding and will be accounted for on the line mentioned above.

3.4.7 Penal Interest should not be charged for the rescheduled period.

4. Cattle loan in respect of the flood affected loanees.

4.1 The due date of repayment of such loans falling due during Jan-Dec., 1984 should be rescheduled upto 31-12-85 and for that purpose the branches shall change the existing due date of repayment to 31-12-85.

4.2 Interest for the year 1984-85 in respect of the concerned loan is exempted.

4.3 Individual borrowers will be informed of the revised due dates and exemption of interest for one year as per specimen of notice at Annexure "C".

4.4 Branches will account for the interest exempted to the concerned loan accounts on the line indicated in para 3.4.1 to 3.4.6 above.

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সোনালী ব্যাংক
প্রধান কার্যালয়, ঢাকা।
পল্লী ঋণ বিভাগ,
(স্পেশাল প্রোগ্রাম ডিপার্টমেন্ট)।

নং: পল্লী ঋণ ইন্স্ট্রুমেন্ট পত্র নং: ২৪৮

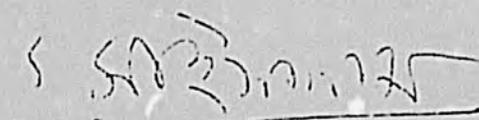
তারিখ: ১৮/১২/১৯৮৪ ইং

বন্যায় ক্ষতিগ্রস্ত এলাকায় সুদ ও সার্ভিস চার্জ মওকুফ করা প্রসংগে।

অত্র বিভাগ কর্তৃক প্রেরিত বিগত ১৩/৮/৮৪ ইং তারিখের ২৩৮ নং ইন্স্ট্রুমেন্ট পত্রের প্রতি সাত মাসের সুশিট আবেদন করা যাচ্ছে।

উপরোক্ত ইন্স্ট্রুমেন্ট পত্রের মারকত বন্যায় ক্ষতিগ্রস্ত এলাকায়-গভর্নমেন্টের বোরো, আউস, বি-আনন ও পাট কমলের জন্য বিতরণকৃত ঋণের উপর বিতরণের তারিখ থেকে এক বৎসরের সুদ ও সার্ভিস-চার্জ-মওকুফ করার নির্দেশ প্রদান করা হয়েছিল। কিন্তু সম্প্রতি বর্ধগড় সিদ্ধান্তে নিয়োজিত যে শাখা সমূহ তাদের সকল কৃষি ঋণ হিসাবের উপর (মওকুফ করতে হবে এমন হিসাব সহ) সুদ ও সার্ভিস চার্জ যথার্থীতি প্রয়োগ করে চলতি বৎসরের পরাপনাতে লাভ ক্ষতির হিসাবে আয় আকারে দেখাবে। তবে কোন অবস্থাতেই যেন ঐ সকল ঋণ গ্রহীতা যারা সুদ ও সার্ভিস চার্জ মওকুফের আওতায় পড়বে তাদের কাছ থেকে তা (সুদ ও সার্ভিস চার্জ) আদায় করা না হয় সেদিকে লক্ষ রাখতে হবে। উক্ত প্রয়োগকৃত সুদ ও সার্ভিস চার্জ প্রধান কার্যালয়ের পরবর্তী নির্দেশ না পাওয়া পর্যন্ত ঋণ গ্রহীতাদের একাডিকে অনাদায়ী হিসাবে দেখাতে হবে। পরবর্তী পর্যায়ে প্রধান কার্যালয়ের নির্দেশ মোতাবেক উক্ত হিসাব সমন্বয় করা হবে।

উপরোক্ত সিদ্ধান্তের আলোকে শাখা সমূহকে প্রয়োজনীয় পদক্ষেপ গ্রহণ করার নির্দেশ দেয়া যাচ্ছে।



সহকারী মহাব্যবস্থাপক।

স্বাক্ষর/

Sonali Bank's instructions —

— Translation of Annexure XI

"

Dated, 18-12-1984

Ref : Interest and service charge exemption in flood affected areas.

" The authorities concerned have recently taken a decision to the effect that all branches should continue applying interest on their loans (including loans eligible for interest exemption). The interest portion thus applied will be shown as income in the current financial years profit and loss statement. But under no circumstances should interest and service charge be collected from loanees eligible for interest exemption.

The interest portion of the loans will be shown as "receivable" in the borrower's account until further instructions are sent from the head office.

A.G.M.

Rural credit division "

(100)
TELEGRAM
BANGLABANK
PHONE: 252931

BANGLADESH BANK
HEAD OFFICE
POST BOX NO. 325
DACCA-2.

ANNEXURE - XII

DEPARTMENT

Contd..from Annexure-VII

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Dated the.....19

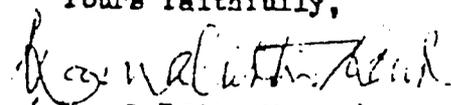
following modalities:-

1. The banks concerned should, as usual, charge their interest (even in the cases of exemption) by debiting the respective borrowers' accounts without ~~with~~ collecting this part of interest and treat it as income in preparing their respective profit and loss accounts.
2. They should, however, also prepare a statement of the interest to be exempted and debit the total amount, to be so exempted, to the Profit and Loss Appropriation Account (on account of Government's share of profit) and recredit the respective borrowers' accounts (to offset the debit entry) as Government's contribution (exemption).
3. The net amount of profit, to be available, after payment of income tax and the aforesaid appropriation (contribution/exemption), payment of incentive bonus to the employees and other usual appropriations, should be paid to the Government as their share in the profit. If the profit income of any bank is not enough to cover the total amount of exempted interest (which is unlikely), the residual portion of the exempted interest should be carried over as a suspense liability to the next year for adjustment from Government's share of profit in the above stated manner.
4. As regards Uttara Bank and Pubali Bank Ltd. which have now gone to the private sector, the actual amount of interest to be exempted, should be reimbursed by the Bangladesh Bank, by debiting the same to Government account under authority to be obtained from the Ministry of Finance.

If the above procedure be adopted for adjustment of the exempted interest, the operational results and the accounts of the concerned banks, including Bangladesh Bank, would remain straight and unaffected. There would not be any need for interest-free refinancing by Bangladesh Bank, no loss of profit for the financing banks concerned, no loss of incentive bonus for their employees, no loss of income tax for the Government and also no loss of income for the Bangladesh Bank.

We will appreciate Government's views/decision in this regard at an early date. Concerned banks are also being asked to offer their views in this regard.

Yours faithfully,


(Kamal Uddin Ahmed)
CHIEF OFFICER.

TELEGRAM
BANGLABANE
PHONE 1 852831

BANGLADESH BANK

HEAD OFFICE
POST BOX NO. 888
DACCA-8.

ANNEXURE -XIII

DEPARTMENT

Ref No AGD(POLY)911/85- 3542

Date of Issue - July 22 - 1985.

The Joint Secretary,
Finance Division,
Ministry of Finance,
Government of the People's
Republic of Bangladesh,
Dhaka.

Dear Sir,

Attention: Mr. M. Abdus Sami, Section Officer

EXEMPTION OF INTEREST IN THE FLOOD AFFECTED AREA

Please refer to your letter No. F.INV-4/BKB-44/85-163 dated the 7th May, 1985 on the above subject.

The issue has further been examined and the modalities already suggested vide our letter dated the 29th November, 1984 appears to be appropriate and rational.

There may be no denying that a certain percentage of the loans becomes bad. In this context Government may consider that banks should bear portion of the exempted interest involved in such bad debt. But until passing of a considerable period of time, say 4/5 years, it would not be possible to ascertain the extent of bad debts in respect of the loans on which one year's interest has been exempted by the Government. The issue may be resolved in either of the following two ways:-

- A. Banks may go on adjusting the interest as the amounts of loans in question are realised i.e. adjustment will be made over a period of a few years. Bad debts will thus be left to the banks to be dealt with. This procedure, however, may not be feasible in view of the fact that it will create various complexities in connection with maintenance of necessary records. Besides, banks may be required to continue this arduous job for years together.
- B. A certain percentage may be deducted from the interest amount as provision for bad debt and the rest may be adjusted by the NCBs/BKB out of surplus profit to be transferred to Government. The percentage of such anticipated bad debt may be determined in consultation with the banks concerned. Same principle may be applied in case of Pubali Bank Ltd. and Uttara Bank Ltd. for making reimbursement of exempted interest. This appears to be the better way.

RECEIVED
CREDIT
DEPARTMENT

✓ 100)
TELEGRAM
RANGLABANE
PHONE : 252031

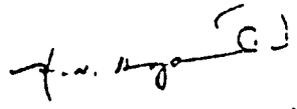
BANGLADESH BANK
HEAD OFFICE
POST BOX NO. 888
DACCA 2.

Dated the _____ 19

Ref No _____

11 2 11

The banks are reported to have been facing difficulties in preparing and completing their final accounts in the absence of any decision from the Government in regard to exempted interest. We would, therefore, request you to convey Government decision to us in the matter early.

Yours faithfully,

(E. N. Majumder)
GENERAL MANAGER.

RECEIVED
CREDIT
DEPARTMENT

**Questionnaire
for
Bank Managers**

Bank name and address _____

Manager's name _____

Banker for _____ years

Joined this branch in _____

PART-A

1. When was this branch set up ? Year _____ Month _____

2. (a) When was the branch last audited by external auditors ? Year _____ Month _____

(b) Copy of audited Balance Sheet and P/L statement available ? Yes No

3. Net profit in :
1982-83 Tk.
1983-84 Tk.
1984-85 Tk.

4. Amount of Agricultural loans disbursed during :

	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>
Boro			
Aus			
B.Aman			
Jute			
Livestock			
All others			
Total			
Amount of interest due			
Amount of interest collected			
Amount of interest exempted.			
Amount of principal rescheduled.			
Loan recovery rate (%)			

5. How do you calculate your rate of loan recovery ?

- | | |
|---------------------|--------------------------|
| i) Historical basis | a) Recovery/Target |
| ii) Annual Basis | b) Recovery/Demand |
| iii) Monthly basis | c) Recovery/Outstanding |
| | d) Recovery/Disbursement |

6. Where any Boro, Aus, B.Aman or jute loans for 1983-84 repaid partially/fully before the announcement ?

	Yes	No
--	-----	----

7. If yes then :

(a) What was the amount repaid ? Tk.

(b) What steps have been taken to refund the repaid amount to the borrowers ?

(c) How much has been recredited to the borrowers accounts to date? Tk.

8. (a) What was your accounting procedure regarding this interest exemption ?

(b) Was any instruction issued to the branches on how to account for these exemptions ?

	Yes	No
--	-----	----

(c) If yes, then when was it received by the branch ? Date _____

- date from which the branch was fully conversant with the exact intention of the President's announcement ?

4. (a) Have there been such announcements in the past ?

Yes No

(b) If yes, when ?

(c) What was the occasion ?

(d) Branch's views of the past experience.

Did not repay at all.

Repaid at a slower rate

No change in repayment rate.

5. (a) Has the President's announcement achieved its purpose in providing relief to the borrowers ?

Elaborate :

Yes No

	Yes	No
Allowed production levels to be maintained		
Prevented distress selling.		
Saved from starvation		
Others (Pl. specify)		

6. Branch's opinion on the effect of this announcement on future loan repayments :

Will adversely affect loan repayment.

Will not adversely affect loan repayment.

No effect.

7. What do you think are some of the reasons for loan default ?
 - a)
 - b)
 - c)
8. Effect on bank's operations :
 - a) Financial
 - b) Administrative
 - c) Social
9. What are the alternatives to such an announcement to provide help to affected borrowers ?
10. Since the announcement of interest exemption and loan rescheduling has already been made, what can now be done to improve loan recovery ?

ANNEXURE XV

Response of Branch Managers

The questionnaire used to interview the branch managers is in Annexure XIV . Most of the branches had been established between 1962 to 1979 . The managers came from a mixed group . Some had been bankers for over twelve years (ten managers) and some for five to eight years (seven managers). One of the managers had been a banker for less than two years . Five managers had been serving at their present branches at the time of the announcement of interest exemption . The table below indicates the volume of loans disbursed eligible for interest exemption as a proportion of total agricultural loans disbursed during the same period :

F Y - 83/84 (Taka in millions)					
Branch At	Sonali	BKB	Pubali	Rupali	Janata
Arpara	2.18/6.7 (31%)	0.32/4.5 (7%)	-	-	1.9/2.25 (84%)
Magura	3.84/3.9 (98%)	4.2/12.1 (35%)	0.14/1.2 (12%)	-	-
Jessore	-	6.1/25 (24%)	-	-	-
Chachra	-	-	-	-	1.7/1.96 (87%)
Qasimpur	-	-	0.32/0.8 (40%)	-	-
Jhenaidah	-	3.6/11.3 (32%)	0.04/0.2 (20%)	-	-
Manikganj	-	1.5/17.7 (8%)	0.02/0.7 (3%)	-	-
Nalshuda	-	-	0.83/0.84 (99%)	-	-
Tangail	4.2/4.7 (89%)	0.1/4.5 (2%)	*	**	-

* No crop loans disbursed

** Lead bank in the area ; could provide consolidated figures of all banks only.

Total branches surveyed = 18

Comments :

Some of the branches were less seriously affected by this program because :-

- they had disbursed less than normal loans that year eg. Pubali in Magura
- they were semi-urban branches eg. BKB in Jessore which normally provides mostly industrial and cattle purchase loans.
- they disbursed selected crop loans only , either as a matter of policy or because the lead bank of the area advised them to do so.

In two of the branches (Sonali/Magura & Pubali/Nalshuda) all of the agricultural loans disbursed that year were eligible for interest exemption .

Impact on loan recovery : This could not be compared because the method of calculation varies from institution to institution and sometimes even within branches of the same institution . The next section brings this into focus . The following table shows the loan recovery rates of the last two years of the branches surveyed .

Branch At	Sonali		BKB		Pubali		Rupali		Janata	
	83	84	83	84	83	84	83	84	83	84
Arpara	25	20	46	78	-	-	-	-	20	05
Magura	40	34	33	70	12	06	-	-	-	-
Jessore	NA	32	32	44	-	-	-	-	-	-
Chachra	-	-	-	-	-	-	-	-	30	10
Qasimpur	-	-	-	-	31	07	-	-	-	-
Jhenaidah	-	-	33	61	33	17	-	-	-	-
Manikganj	-	-	42	79	40	15	-	-	-	-
Nalshuda	-	-	-	-	31	20	-	-	-	-
Tangail	NA	-	24	28	NA	-	17	09	-	-

Loan recovery rates of all the branches show a declining trend except in BKB's case , but BKB has a unique method of calculation where loan repayment is matched against an arbitrarily set targeted figure .

Calculating the Rate of Loan Recovery : The table below reveals how different branches of the same financial institution calculate their rate of loan recovery.

Bank	At	Criteria	Basis
Sonali	Tangail Arpara	Recovery / Disbursement	Annual/Monthly
		Recovery / Demand	Annual/Monthly
BKB	All 6 br.	Recovery / Target	Annual
Pubali	Manikganj Nolshuk'a	Recovery / Outstanding	Annual
		Cum Recovery / Cum Demand	
	Tangail	-Same-	
	Magura	Recovery / Disbursement	
	Qasimpur	Recovery / Disbursement	
	Jessore	-Same-	
	Jhenaidah	Recovery / Outstanding	Annual/Monthly
Rupali	Tangail	Recovery / Demand	Annual/Historic
Janata	Arpara Chachra	Recovery / Disbursement	Annual/Monthly
		Cum Recovery/Cum Outstanding	"

BKB was the only bank to show consistency within the system. Our immediate impression after discussion with the World Bank and RFP researchers was that the loan recovery rate provided to us would at best be cumulative in nature. The bank managers revealed that this was not so except where it is defined specifically as such. All other calculations were based on disbursements during that particular reported year or loans that fell due during the year and so on. This could be a reason why the recovery rate shows a decline. But then their method of calculating recovery rate is unique within the financial sector and therefore does not lend itself to comparison with other institutions.

Loans Repaid with Interest Before / After the Announcement :

Sonali & Rupali - the managers could recall no such borrower. However the Rupali manager said that there may be a stray case or two.

BKB - of the six managers interviewed five said 'none' to this question and one replied that he did not know. We found two borrowers who had repaid with interest their eligible loans. This was then pointed out to the manager who assured us that the interest portion would be refunded. He added that notices had already been issued to the eligible borrowers asking them to collect the excess amount that they had repaid. But it was from us that the borrowers actually learnt that they had repaid more than they should have.

Pubali - one manager replied in the affirmative but did not elaborate about how many borrowers were involved . The excess repayment amounted to Tk.2252/- and to date no steps had been taken to refund the amount to the borrowers .

Janata - both managers replied that they had borrowers who had repaid with interest before the announcement and after the announcement as well . N refunds had been made to the twenty borrowers involved . One of the managers remarked that as none of the borrowers had come forward to claim a refund , the question of refunding does not merit discussion !

It seems that those borrowers who have made partial payments of their loans are at an advantage because of bureaucratic foulups. Their interest portion would be adjusted when they come in to make future repayments . It is only the good borrower who will be penalised for having made full and prompt repayments !

Instructions from the Head Office : All of the Sonali and BKB managers who had been interviewed had received instructions from their head office . BKB's instructions required that each borrower be informed of the amount owed to the bank, indicating also the interest component, by means of a written notice. None of the managers could recall having informed the borrowers thru a written notice but they did remember receiving the notice from the head office . BKB borrowers confirmed this situation . One Pubali manager recalled getting some kind of instruction but the head office gave the impression that none had been sent out . Except Sonali , whose instructions arrived at the branches between November 11th and December 18th , 1984 all other branches received their instructions from their respective head offices in the month of August 1984 .

The Announcement : The first time the branch managers heard of the interest exemption was -

	# of managers
Radio	10
T.V & Radio	6
President Ershad	1
Hearsay	1
Total	<hr/> 18

The manager who replied "hearsay" was at the head office at the time of the announcement . One manager was posted at Arpara in Shalikhya upazila and was personally present to hear the President make the interest exemption announcement .

The official order was received in the form of a :-

	# of Managers
Head Office Circular	16
Telegram then Circular	1
Letter	1
Total	<hr/> 18

The Circular - Problems of Interpretation : The President made the interest exemption announcement on July 03, 1984. The circulars were received by the branch managers between Aug. 13th and Dec. 13th, 1984. The circular which repeated ad verbatim the B.Bank circular created numerous problems for the branches.

Some of these problems were -

- what date was the exemption valid from ?
- did their branch fall within the affected area ?
- who were eligible for this relief ?
- what were the guidelines for rescheduling ?
- what was to be the accounting procedure for the exemptions ?

Some of the managers sought clarification by telephoning their zonal / head offices . None was immediately forthcoming . The clarification did finally arrive but meanwhile borrowers continued to pressure the managers for the exemption . In the absence of specific instruction , the managers were forced to use their best judgement . One of them refused to provide any exemption . He said that during that particular year the area within his jurisdiction was affected by a drought and his borrowers were complaining that there was insufficient water to ret their jute ! However, after the announcement borrowers did meet him and asked to be exempted from paying interest . He then pointed out to the borrowers that their area was not affected in any way. They accepted his ruling . He was , however , concerned that in the adjoining village , which fell within the jurisdiction of another bank , interest may be exempted although that village too was a drought affected one .It was much later that he received the circular stating the land-mortgage areas and found that he was within a 'severely affected' region . Within Magura upazila itself there were parts which were not affected but borrowers continued to claim exemptions along with non-SACP loanes. Some wanted to know if interest for the 1983-84 ITAP loans were also forgiven .

Some managers who did not receive any instruction from their head office on how to account for the exempted interest did not bother to calculate the interest amount at all . In one case a manager was afraid to collect any interest though the exempted period is over - he was concerned about the borrowers making a fuss about it . Another was not clear whether the exemption was valid during the rescheduled period or not . Two of them were still not clear about the exact intent of the announcement and what they should have done about it .

Most managers felt that production levels were not maintained due to a diversion of funds . They added that the land-mortgage loans helped the borrowers more by preventing distress selling . Two of the managers remarked that the announcement had had no impact on the borrowers attitudes towards loan repayment . This seemed probable because :-

- due to the flood ,the borrower would default on their loans anyway and for the institution there was the added problem of calculating which borrower got how much exemption
- the borrowers were not aware of the exact benefit , in financial terms , that they were getting and therefore were somewhat indifferent to the program.
- it is difficult for the subsistence farmer to feel the impact of relief granted in an implicit manner .

Impact on Future Loan Recoveries : Eight of the managers were of the opinion that the program would adversely affect future loan recoveries . Five expected it to improve and four felt that it would have no effect . The group of managers who fear an adverse impact think that psychologically the borrower will expect and hope that the exemption will occur again. So why make any repayment ? Indeed some borrowers did respond to our questions with the hope that the interest on the rescheduled loans will also be forgiven if it has not already been done so . Reasons for loan default , according to the managers , include :-

- poverty ; as directly related to crop failures and natural calamities.
- low selling price of cash crops
- wilful default by indisciplined borrowers who are under the influence of the village 'mattabar' or 'mohajan'(village leader).
- disbursement of loans without proper credit analysis
- lack of proper loan supervision.
- misutilization of loans.
- illiteracy

Effects on Bank Operations : The consensus among the managers was that the interest exemption announcement would -

- impose liquidity constraints
- cause loss of income
- result in loans being ultimately written off and the loss will be borne by the bank
- create accounting problems.
- lead some borrowers to feel that their disaster relief was being channeled thru banks and raise unwanted expectations
- cause confusion in the borrowers mind ; as some made queries as to whether the ITAP loan interest had also been exempted .

The Burden & Some Alternatives : The managers views were to the effect that -

- the Ministry of Relief & Rehabilitation has sufficient funds and should foot the bill
- an external agency could channel the funds to them thru the government
- as it was a decision taken solely by the government they should bear its costs.
- government machinery should be activated fully to recover loans particularly from chronic defaulters who have the means to repay including issue of body warrants
- restructure loan disbursement procedures
- permanent field officers should be hired
- moral persuasion along with wide publicity
- form a separate cell in the banks to deal with recoveries
- exempt the '84 SACP loans altogether
- extension of time to readjust the loans.

Questionnaire for Borrowers

Name : _____ Bank name : _____
Address : _____ Address : _____

Part A

1. How did the floods of 1984 affect your crops ?

Total loss - _____

Partial loss - _____

Crop name - _____

2. How did the floods of 1984 affect your livestock and your house ?

Loss of cattle (No.) _____

Loss of poultry (no.) _____

Partial/total damage to dwelling - Tk. _____

3. (a) Do you know that the President has exempted you from repaying the interest and has ordered rescheduling of any loans taken for Boro/Aus/B.Amai./Jute in 1983-84 ?

Yes _____

No _____

(b) If yes, when did you hear of it ?

(c) Source : News paper Radio
 Television President himself
 Hearsay Bank official
 Any other _____

4. (a) Have you repaid any of the agricultural loans taken in 1983-84 whose interest has been exempted by the President ?

Yes _____

No _____

(b) If yes, when did you make the repayment ?

for what amount Tk. _____ (break up into interest and principal, if possible).

5. a) Will you be able to repay the principal amount for the 1983-84 rescheduled loans ?

Yes _____

No _____

b) If no, elaborate why not

6. Why do you think such an announcement was made ?

7. In future if there is a natural disaster in your area or locality, will you hesitate in repaying the interest on your agricultural loans hoping that a similar exemption will be provided to you ?

Yes _____

No _____

8. Is this the best form of assistance that could have been given to you ?

Yes _____

No _____

9. What other way could you have been given help to overcome such a natural disaster ?

10. a) Do you know of anyone who had partially/fully repaid his loan before the announcement ?

Yes _____

No _____

b) If yes, was he reimbursed ?

Yes _____

No _____

c) If no, what should he do now ?

11. Do you know of anyone who did not deserve interest forgiveness or loan rescheduling but has benefited from this announcement ?

Yes _____

No _____

12. Since interest exemption applies only to banks, in future will you try to borrow from the banks ? (less from relatives)

More _____

Less _____

Same amount _____

Part B :

1. (a) Since when have you been borrowing from formal financial institutions ?

Date _____

(b) Since when have you been borrowing from this bank ?

Date _____

2. How much have you borrowed from this bank in :-

Years	Borrowed	Repaid so far	Due	Remarks
1. 1981-82				
2. 1982-83				
3. 1983-84				
4. 1984-85				
<hr/>				
Total				
<hr/>				

3. a) Are you able to repay the loans taken so far ?

Yes _____

No _____

b) If yes, when do you intend to clear your oldest dues ?

Date _____

c) If no, please explain why you will not be able to repay them.

4. Do you borrow from friends/neighbours/relatives/others ?

Yes _____

No _____

5. If yes, how much have you borrowed so far and how much extra did you have to repay ?

(break-up year-wise/crop-wise, if necessary)

Year	Crop	Source	How much	Paid back	remarks
------	------	--------	----------	-----------	---------

6. a) How much land do you own ? _____

b) How much land do you sharecrop in ? _____

7. Do you own any livestock ? (number) _____

8. a) Do you have any other source of regular income ?

Yes _____

No _____

b) If yes, please elaborate indicating annual amounts received.

Tk _____

9. How much crop (in maunds) do you harvest in a good year ?

	Food grain	Jute	Others
--	------------	------	--------

From own land.

From share-cropped land

Total

শ্রী শ্রীমান্নী শ্রীমান্নী

নাম

ব্যাংক নাম-

ঠিকানা-

ঠিকানা-

ক কার্য

১। গত বছরের (১৯৮৪ইং) বন্যাগু আপনার শস্যের কি পরিমাণ
কটি হয়েছিল ?

সর্ব মোট কটি

আংশিক কটি

শস্যের নাম

২। গত বছরের (১৯৮৪ইং) আপনার গবাদি-পশু এবং ঘর-বাড়ী
কি পরিমাণ কটি হয়েছিল ?

গবাদিপশুর সংখ্যা -----

হাসপুত্রগীর সংখ্যা -----

ঘরবাড়ীর কটির আংশিক/মোট
পরিমাণ টাকা -----

৩। (ক) প্রেসিডেন্ট সাহেব গত বছরের (১৯৮৪ইং) বোরো আউস, বোনা আমন
আমন ও পাটের জন্য বেওয়া জনের সুদ এক বছরের জন্য যতটুক
(মার্ক) করেছেন, এবং এ সকল শস্যের জন্য বেওয়া জন পরিশোধের
সময়সীমা এক বছরের জন্য বাড়িয়ে দিয়েছেন। আপনি তা জানেন কি ?

হ্যাঁ না

(খ) যদি হ্যাঁ হয় আপনি তা কবে শুনলেন ?

তারিখ -----

(গ) কি জবে (পুর) ?

লোকস্বর্ষে সংবাদ পত্র

রেডিও টেলিভিশন

ব্যাংক সরকারী কর্মচারী

সমন্বিত প্রেসিডেন্ট সাহেব

অন্যান্য (নাম) -----

৪। (ক) আপনি কি গত বছরের (১৯৮৪ইং) বেওয়া কোন কৃষি জন
(যার সুদ যতটুক হয়েছে) পরিশোধ (কেন্দ্র) করেছেন ?

হ্যাঁ না

(খ) যদি হ্যাঁ হয় কবে পরিশোধ করেছেন ?

তারিখ -----

(গ) কত টাকা (সুদ ও আসল) জানা থাকলে দেবেন ?

টাকা -----

৫। (ক) গত বছরের (১৯৮৪ইং) যে সকল জন পরিশোধের মেয়াদ এক
বছর বাড়িয়ে দেওয়া হয়েছিল, সেগুণের আসল (চলধন)
আপনি কি পরিশোধ করতে পারবেন ?

হ্যাঁ না

(খ) যদি না হয় কে পরিশোধ করতে পারবেন না বিচারিত তথ্য :-

৬। আপনার মতে, কোন এ ধরনের একটি ঘোষণা করা হয়েছিল ?

৭। যেহেতু গত বছর বন্যার পরিপ্রেক্ষিতে মুদ মওকুফ করা হয়েছে, তাইযাতে আপনার এমাল্য বন্যা বা এ ধরনের প্রাকৃতিক দুর্ভোগ হোলো কি আপনি মুদ মাক হবে এবং ঋনের মেয়াদ বাড়িয়ে দেওয়া হবে, সেই আশায় ঋন পরিশোধ করা তখনকার জন্য বন্ধ করে দেবেন কি ?

হ্যাঁ না

৮। এটাই কি আপনাকে নাহায়া করার জন্য সবচেয়ে উত্তম(ভাল)উপায়? হ্যাঁ না

৯। এরকম প্রাকৃতিক দুর্ভোগ থেকে আপনাকে রেহাই দাওয়ার জন্য আর কি অন্য কোন উপায় হোলো পারে ?

১০।(ক) আপনি কি এমন কাউকে চেনেন যিনি এই ঘোষণার আগেই তার ঋন আংশিক/সম্পূর্ণ ভাবে পরিশোধ করেছিলেন ?

হ্যাঁ না

(খ) যদি হ্যাঁ হয় তবে এই ঘোষণার পরিপ্রেক্ষিতে তাকে কি সুদের টাকা ফেরৎ দাওয়া হয়েছিল ?

হ্যাঁ না

(গ) যদি না হয় তবে তার এখন কি করা উচিত ?

১১।(ক) আপনি কি এমন কাউকে চেনেন যার মুদ মওকুফ বা ঋনের

হ্যাঁ না

মেয়াদ বাড়ানোর দরকার ছিল না(অর্থাৎ তার চেমন হুডি

হয় নি) তত্ত্বও সে এই সুবিধা পেয়েছে ?

(৬) যদি হয় তাহ তর বাব ও ঠিকানা :-

১২। যেহেতু কেবল দাত্রি বাবই মুদ্রের টালা বন্ধ করি এই কারণে
আপনি কি উদ্দিষ্টে বাব থেকে

যারও বেশী
কম
একই পরিমাণ

টালা ধার করতে চেষ্টা করবেন ?

ধ-প্রশ্ন

১।(ক) আপনি কবে হতে অর্থনৈতিক সংস্কারমোহর(বাব) থেকে জন
গ্রহন করছেন ?

তারিখ -----

(খ) এই বাব থেকে কবে হতে জন গ্রহন করছেন ?

তারিখ -----

২। আপনি কত জন নিয়েছেন এই বাব থেকে -

ক্রমিক সংখ্যা	বংশ	জন গ্রহন(টাকা)	জন পরিশোধ(টাকা)	পাতনা	মন্তব্য
১	১১৮১-৮২				
২	১১৮২-৮৩				
৩	১১৮৩-৮৪				
৪	১১৮৪-৮৫				
৫	মোট				

৩।(ক) আজ পর্যন্ত যে সকল জন নিয়েছেন সেগুলো কি পরিশোধ
করতে পারবেন ?

হ্যাঁ না

(খ) যদি হয় তবে আপনার সবচাইতে পুরানো(আগে নেওয়া)
জন সম্ভবভাবে পরিশোধ কবে করতে চান ?

তারিখ -----

(গ) যদি না হয় তবে কেন পারবেন না তা বুঝান :-

- ৩। আপনি কি বন্ধু/বান্দর/আত্মীয়/সুজন/বান্ধা-বন্ধনী/আত্মবন্ধ !
ইত্যাদির কাছে থেকে জন গ্রহন করেন ?
- ৪। যদি হ্যাঁ হয় তবে দশা - জন কতটা বিয়েছেন এবং বাড়ি কতটা
আপনার কে রেখে দিতে হয়েছিল ?

সংখ্যা	দশা	উৎস (কোন কাছ থেকে নেওয়া)	জন্মের গণিস্যাব	কর্তৃত্ব দেওয়ার গণিস্যাব	যত্ন

- ৬। (ক) আপনার ছবি-দশা কতটা আছে ?
- (খ) আপনি কতটা ছবিতে বর্ণা খাটেন ?
- ৭। আপনার কি কোন গবাদি - পশু আছে ?
- ৮। (ক) আপনার আয়ের অন্য কোন উৎস (উপায়) আছে কি ?
- (খ) যদি হ্যাঁ হয় তবে বার্ষিক আপনার কতটা আয় হয় ?
- (গ) ভাল সময়ে আপনি কত ঘন দশা ঘরে জোলে বা পান ? (কয়মন) :-

	খাদ্য দশা	পাট	অন্যান্য
বিভিন্ন ছবি থেকে			
বর্ণার ছবি থেকে			
মোট			

FIELD LEVEL FINDINGS - THE BORROWERS

THE LARGE FARMERS :

Water-logged - 3
River-flooded - 3

- ° All farmers in this category were aware of the announcement. They had heard of it from multiple sources.
- ° Five out of six farmers had suffered from total loss of their crops last year.
- ° Most crops were eligible for interest exemption.
- ° Five had not repaid their rescheduled loan.
- ° Only one had made a partial payment

Other problems included :

- a) Low price of jute - common to both groups.
 - b) Crop failure.
 - c) High production costs (pesticides, fertilizers, oil for STW).
 - d) Diversion of loans.
 - e) Liquidity crisis.
-
- ° All believe the announcement was made to assist them overcome the distress. But none expected that loans would be forgiven every time.
 - ° When asked what was the best way to help them in times of distress the river-flooded farmers wanted cash or loan-related relief in the form of :
 - a) Interest free loans
 - b) Forgiveness of principal
 - c) Fresh loans with interest
 - ° Farmers of water-logged areas wanted :
 - a) Total interest exemption
 - b) Fair prices for jute, fertilizers and pesticides.

- ° Since the sample size was small the borrowers inclination for future borrowing was not clearly established. About half of them (3 borrowers) did not want to borrow any more from banks. They consider their debt to be an added hassle they could do without (interest calculations, bank notices). All farmers except one has been borrowing from financial institutions for over 2 years. Median of amount borrowed in river-flooded area is much higher than that of water-logged areas (Tk.4333/- as opposed to Tk.1500/-) because of their irrigation loans (the average amount of irrigation loans is Tk.8000/- to Tk.10,000/-). We found no DTW or STW in the water logged areas. Only a few hand pumps were available.
- ° Two farmers from each region - Four out of six borrowers interviewed have made no repayments on their loans. Their rescheduled loan as well as previous loans are overdue and, therefore, are chronic defaulters.
- ° Informal market borrowing was not very common among the large farmers at least during the last three years. Only one farmer from each region spoke of borrowing from neighbours. One borrower would return in cash at 10% interest per annum. The other had borrowed for consumption needs in cash and kind (rice) and was expected to repay it in a like manner.
- ° Alternate source of income :
All the three farmers had alternate sources of income in river-flooded areas and one farmer sharecropped. None share-cropped in water-logged areas. They owned livestock and land was their only source of income. Alternate sources of income in river-flooded areas included running of a rice mill, selling of produce, etc. Farmers in river-flooded areas were economically better off and also appeared less worried about their personal financial conditions.

MEDIUM FARMERS

Water-logged area - 33
River-flooded area - 12

Extent of loss :Crops :

28/33 borrowers from water-logged areas and 9/12 borrowers from river-flooded areas suffered total damage to their crops. The others had partial damage, and were all eligible for interest exemption.

Livestock, poultry and property :

	(Number of borrowers)		
	<u>Livestock</u>	<u>Poultry</u>	<u>Property</u>
Water-logged area -	11	1	10
River-flooded area -	2	0	1

Damage was much greater in water-logged areas, and median of property repair costs was at Tk.2700/-.

Were they aware of the announcement ?

	<u>Yes</u>	<u>No</u>	<u>% unaware</u>
Water-logged -	28	5	6
River-flooded -	10	2	17

Most farmers were aware of the announcement and had heard it at :

	<u>Time of announcement</u>	<u>Recently</u>	<u>Don't remember</u>
Water-logged	26	0	2
River-flooded	9	0	1

Their sources were :

	<u>Hearsay</u>	<u>Media (Radio)</u>	<u>President</u>	<u>Bank</u>	<u>*Multiple sources</u>
Water-logged -	14	4	4	3	1
River-flooded -	1	3	0	0	6

* media + bank, media + hearsay.

Most borrowers in both regions were aware of the announcement. The majority in water-logged areas (14) had heard from hearsay. Four borrowers had come to the Presidential meeting at Salikha. Others said they had wanted to come but were unable to do so because of the distance (their village was 8 miles from Arpara). Borrowers of BKB (Rupdiya) said their manager had refused to exempt any interest on their crop loans. We would have liked the manager's views on this

matter, but he was unavailable at his office, and could not be interviewed. Borrowers dared not pursue the matter, as they were unable to repay their loans. A borrower who was unaware of the exemption announcement in the water-logged area said he often came to the bank, but the bankers had never informed him of it - Sonali/Arpara.

Repayment of the rescheduled loan :

Had they repaid it ?

		<u>Yes</u>	<u>No</u>	<u>In full</u>	<u>Partially</u>
Water-logged	-	3	30	2	1
River-flooded	-	2	10	1	1

Of those who had repaid their rescheduled loans :

A Sonali borrower did not get a bank receipt on repayment of his loan. He claimed he had paid with interest, and had taken a crop loan, bought a cow, sold the cow to repay the loan.

A BKB borrower said he had repaid (probably with interest) in November 1984 and remarked, "if they don't exempt the interest, what can I do" ?

Number of borrowers aware of how much they owed the bank :

	<u>Knows P&J</u>	<u>Knows I</u>	<u>Knows only P</u>	<u>Don't know</u>
River-flooded			6	6
water-logged	1		2	27

One borrower in Tangail thought his interest rate was 13%. None of the borrowers knew the interest component of their loans.

In the water-logged area, the majority of the borrowers did not know what the amount of their total loans taken so far were.

Are they able to repay the rescheduled loan ?

	<u>Yes</u>	<u>No</u>	<u>Have repaid</u>	<u>Don't know</u>
Water-logged	- 5	25	3 (2 fully, 1 partially)	
River-flooded	- 3	5	2 (1 fully, 1 partially)	2

In the water-logged area 2 borrowers repaid their loans with interest.

Those who could repay in the near future said :

- they could pay in instalments after the aman harvest
- could repay only the principal amount
- wanted the loan rescheduled.

In other words they need more time.

Those unable to repay, said their problems included :

Water-logged area :

- low price of jute
- "other" loans (informal market loans)
- crop failure this year - loss of aman due to drought, and due to pests.
- liquidity shortage.

River-flooded area :

- low price of jute
- crop failure due to pests
- consumption needs, distress selling of trees and livestock due to liquidity shortage.

All farmers had been affected by the price of jute this year, and suffered from liquidity shortage. They complained of food shortage at home, and of bad crops this year. The water-logged area farmers were more badly affected.

Why was the announcement made ?

		<u>Relief</u>	<u>Don't know</u>
Water-logged	-	23	10
River-flooded	-	9	3

Of those saying they didn't know why the announcement was made, one of them remarked, "we are illiterate, how are we to know ~~what~~ what is in the President's mind " ?

Did it help ?

		<u>Yes</u>	<u>No</u>	<u>Don't know</u>
Water-logged	-	26	4	3
River-flooded	-	7	5	

One of the borrowers (water-logged) saying "no" claimed he had got no exemption, having repaid his loan with interest, and receiving no receipt for the payment.

Will they expect another such announcement in future ?

		<u>Yes</u>	<u>No</u>	<u>Don't know</u>
Water-logged	-	2	26	5
River-flooded	-	0	12	-

Two borrowers will expect another announcement of forgiveness when there is a natural disaster, and another borrower said, "it would be a good thing if they forgave interest everytime".

The best way to help the distressed borrowers :

	<u>Fresh loans/ rescheduled old loans</u>	<u>Total forgiveness (P + 1)</u>	<u>Further/Total exemption of interest</u>
Water-logged	5	15	3
River-flooded	2	3	2
	<u>Alternate source of income (employment)</u>	<u>Relief in kind</u>	<u>Fair price</u>
Water-logged	0	1	8
River-flooded	1	0	0
	<u>Interest-free loans</u>	<u>Don't know</u>	<u>This is enough</u>
Water-logged	0	1	5
River-flooded	1	0	0

45% of the borrowers in water logged areas wanted a total forgiveness of their loans, 24% wanted fair prices (decrease in the prices of fertilizers and pesticides, increase in price of jute). It is our observation that borrowers here were unable to repay their loans, they lack the capacity to do so. None wanted cash relief.

None of the borrowers recalled of knowing anyone who had repaid his eligible loan with interest.

Asked if any borrower known to him was unaffected by flood and yet got an interest exemption .

	<u>Yes</u>	<u>No</u>
Water-logged	1	32
River-flooded	0	12

One of the water-logged farmers recalled a man in his village (Jessore district) who had not suffered because of the flood. However, this man was not a bank borrower. A borrower from Manikganj said none in his village were aware of the interest exemption.

Future borrowing trends :

	<u>More</u>	<u>Less</u>	<u>No more</u>	<u>Same amount</u>	<u>Don't know</u>
Water-logged	2	3	24	1	3
River-flooded	4	3	2	1	2

- * owes rescheduled loan + previous and/or subsequent loans.
- ** has repaid rescheduled loan, owes previous or subsequent loan.

One of the borrowers in the river-flooded area had repaid "fully" with interest his share of a joint loan.

All borrowers were aware that their period of exemption was over in the water-logged area. They spoke of diversion of loans (received ITAP loan when there was no time to cultivate it, so he used it to buy cattle). One borrower expects to sell land to repay.

Ability to repay :

		<u>Can repay</u>	<u>Cannot repay</u>	<u>Don't know</u>
Water-logged	-	17	14	1
River-flooded	-	9	3	

A water-logged farmer had repaid in full all his debts, claims having repaid with interest. However, it is not clear whether this is so, since he spoke once of repaying "after aman, if God wills" and then again that he did not owe the bank any money.

Those who were unable to repay any of their loans spoke of :

- ° crop failure
- ° high production costs
- ° low price of jute
- ° distress selling of fruit trees
- ° food shortage, death of livestock
- ° liquidity shortage due to lack of alternate source of income.

Both groups were suffering from liquidity shortage, and were affected by the price of jute. A water-logged borrower was angry - "do we pay the bank or the hired help? Market prices are lower than production costs". He was referring to jute prices.

Those who could repay needed more time (rescheduling of loans) and could only repay in instalments. This was a common sentiment in both regions. Some borrowers said they would never be able to fully repay their loans, and some wanted their loans to be forgiven.

Informal market borrowing (last 3 years) :

		<u>Yes</u>	<u>No</u>
Water-logged	-	20	13
River-flooded	-	7	5

<u>Source :</u>		<u>Friend</u>	<u>Relative</u>	<u>*Multiple</u>	<u>**Other</u>
Water-logged	-	3	13		4
River-flooded	-	2	4	1	

- * relative and friend
- ** money lender, etc.

Farmers in water-logged areas did not want to borrow any more from banks (73%). Some comments made by them were :

"The more you borrow the more complicated is the calculation".

"It (the debt) is like a burden of sin - if my crop is good this year, I will not borrow any more".

Some farmers in both regions who wanted to borrow less worried about repayment of current loans and wished jute prices were more favourable.

Those who wanted more loans needed it for the purchase of livestock. This was common in both areas. Some borrowers in river-flooded areas needed more loans for consumption purposes.

Has been financial institution borrowers for :

	<u>1 - under 2 yrs.</u>	<u>2-under 3yrs.</u>	<u>3-under 4 yrs.</u>	<u>More than 4 years.</u>
Water-logged -	8	14	4	5
River-flooded -	3	1	1	7

Water-logged area has a large proportion of new borrowers who borrowed for the first time in 1983-84, mostly from BKB and Sonali, Arpara. They felt they had needed the loan because of crop failure in 1983. Two borrowers could not recall how long they had been borrowing for.

River-flooded area had borrowers some of whom began borrowing with the inception of ADBP (BKB) in 1962. Another claimed he had been borrowing since "British period".

Most loans in river-flooded area were taken for cattle purchase. The water-logged area had a large number of land-mortgage loanees.

The debt :

	<u>No payments at all</u>	<u>Owes rescheduled loan only</u>	<u>Resched- uled + others</u>	<u>*only others</u>
Water-logged	20	15	5	
	Partial payment			
	12	5	7	
<hr/>				
	<u>No repayments</u>	<u>Owes rescheduled loan only</u>	<u>** rescheduled + others</u>	
River-flooded	6	3	3	
	Partial payment			
	5	3		2 (only oth
Full repayment (no debt)	1			

	<u>Secured</u>	<u>Borrowed once</u>	<u>Borrowed multiple times</u>	<u>Ret.in kind</u>	<u>Ret. w/int in cash</u>	<u>Ret.with out int. in cash</u>
Water-logged	0	17	3	1	2	15
River flooded	4	5	2	0	0	7

High proportion of informal market borrowing :

- ° 61% in water logged and
- ° 58% in river-flooded areas.

Sources were mostly relatives (cousin, son-in-law) where repayment was in cash, interest-free but some were secured (land). Some water-logged borrowers took loans from village money-lenders (10% interest per month) while an acquaintance charged 60% per year.

These loans were taken because of :

- ° insufficiency/absence/delay of bank loans, absence may be due to earlier default on loans,
- ° served immediate needs of borrowers (consumption, weddings, investment such as purchase of land).

One borrower takes money from the informal market regularly.

Financial position of farmer :

		<u>Owns livestock</u>	<u>Has alternate source of income</u>	<u>Share-crops in</u>
Water-logged	--	22	6	15
River-flooded	-	10	8	4

Alternate sources of income had a median (office job, sale of produce) of Tk.6000.00 per year in water logged areas and Tk 4158.00 per year in river-flooded areas (source - pension, money sent by children).

	<u>Water-logged</u>	<u>River-flooded</u>
Median of formal market loans/time	2475/-	2052/-
Median of informal market loans/time	2000/-	2000/-

Both groups split their monetary demands between the two markets often in almost equal proportions.

THE SMALL FARMERS

Water logged area	-	34
River flooded area	-	20

	<u>Total damage</u>	<u>Partial damage</u>
Water logged	- 30	4
River flooded	- 18	2

All crops damaged in water-logged areas were eligible for exemption. 2 farmers in river flooded area also had crops partially damaged that were not eligible for exemption.

Number of borrowers losing :

	<u>Livestock</u>	<u>Poultry</u>	<u>Property</u>	<u>Median of repair cost</u>
Water-logged	12	1	10	2500/-
River flooded	7	3	7	1285/-

Four borrowers in water-logged areas had their houses as well as live-stock damaged.

Were they aware of the announcement ?

	<u>Yes</u>	<u>No</u>	<u>% unaware</u>
Water logged	-	29	15
River flooded	-	16	20

Some borrowers (slightly smaller % in water-logged area) were unaware of the announcement.

	<u>Source</u>				
	<u>Hearsay (only)</u>	<u>Media (only)</u>	<u>President</u>	<u>Bank</u>	<u>*Multiple source</u>
Water-logged	14	4	9	2	0
River-flooded	5	0	0	2	9

* radio, hearsay, bank employee.

The water logged borrowers of Salikha had come to see the President when he made the announcement of forgiveness in Salikha. Many other borrowers had wanted to come, but could not do so due to the distance.

When did they hear of the announcement ?

	<u>Time of announcement</u>	<u>Recently</u>	<u>Don't remember</u>
Water-logged	23	3	3
River-flooded	13	3	0

Have they repaid their rescheduled loan ?

	<u>Yes</u>	<u>No</u>	<u>Don't remember</u>
Water-logged	2	32	0
River-flooded	6	12	2

Are they able to repay ?

	<u>Yes</u>	<u>No</u>	<u>Don't know</u>
Water-logged -	3	30	1
River-flooded -	9	6	3

Of the 3 borrowers of water-logged areas who said they were able to repay 2 had already repaid their rescheduled loans. One repaid with interest from money obtained from the sale of two cows.

In the river-flooded areas, of the farmers who said "yes",

- ° three had repaid partially,
- ° one had repaid his share of a joint loan (with interest, he claimed),
- ° one borrower claimed he had already repaid his rescheduled loan with money from the sale of a fruit tree. He repaid his loan with interest to his village leader so that he could repay to the bank. The money has not been heard of ever since, nor does the bank have any record of the payment.

Both areas had borrowers who claimed having repaid with interest within the exempted period.

Problems included (due to which they are defaulting) :

- ° crop failure (aman damaged) - both areas,
- ° liquidity shortage - common to both,
- ° consumption needs - common to both areas,
- ° low price of jute,
- ° high production costs (pesticide, fertilizers) - common to both.

A water-logged borrower thought money from the sale of aman will go into consumption, and cannot be used for repayment of loan. Others complained of loss of livestock. A very common complaint in water-logged areas was that of food shortage. Other farmers here said they had nothing left to sell. Crop failure and loss due to flood were repeated over and over again.

Why was the announcement made ?

	<u>Relief</u>	<u>Don't know</u>
Water-logged -	24	10
River-flooded -	16	4

A water-logged farmer said, "how can I tell what is actually in the President's mind" ?

Did it help ?

	<u>Yes</u>	<u>No</u>	<u>Don't know</u>
Water-logged	3	24	7
River-flooded	10	2	2

Majority of water logged farmers said the exemption did not help them. A borrower remarked, "when in distress, my bank loan is the last thing in my mind". Also, "no use exempting interest, can't repay the loan anyway". "We don't want an exemption; and we don't want a "flood".

Best way to help distressed borrower :

	<u>Cash relief</u>	<u>Fresh loans</u>	<u>Timely receipt of loans</u>	<u>Total interest forgiveness</u>	
Water-logged	0	1	1	4	
River-flooded	17	4		2	
	<u>Total loan forgiveness</u>	<u>Fair prices</u>	<u>Relief in kind</u>	<u>Rescheduling of loans</u>	<u>Don't know</u>
Water-logged	13	1	2	1	3
River-flooded	1		1	1	

There is a marked difference here. The water logged farmers want a loan forgiveness, the river flooded borrowers want cash relief when in distress (they also want fresh loans which indicates their demand for cash). Both areas had farmers who wanted a total waiver of interest. Cash relief was needed for cattle and rehabilitation.

Two borrowers in river-flooded areas knew of other farmers who had got an interest exemption but had not really needed it.

Future borrowing trends :

	<u>More</u>	<u>Less</u>	<u>No more</u>	<u>Same amount</u>	<u>Don't know</u>
Water-logged	5		3		26
River-flooded	8	4	6	1	1

The water-logged borrowers - some wanted more loans so that :

- ° they could repay their "other loans" .
- ° The river-flooded borrowers needed money for farming and for cattle purchase.
- Others felt they must borrow in order to survive, and a large portion of them in both areas consider their debt to be a "burden".

Repayment habits :

<u>Repayment so far :</u>	<u>owes</u>		<u>* owes</u>	<u>**</u>
	No repayments	Rescheduled loan.	Rescheduled other loans	only others
	29			
Water-logged	Partial repayment	16	12	1
	5	1	1	3
Full repayment - 1	(sold cow to repay loan)			
River-flooding -	No repayment	owes rescheduled only.	Rescheduled + other	Only other
	10	7	2	1
	Partial repayment			
	9	7	1	1

Full repayment - 1 (sold cow to repay loan).

*Rescheduled + previous or subsequent loan. ** only previous or subs.loan.

Very poor repayment trends. 85% of the water, and 50% of the river flooded borrowers have defaulted. The majority in the river flooded areas owe their rescheduled loan only. Borrowers spoke of :

- diversion of loans (took a potato loan, got it too late, plated boro or cattle loans used for consumption - very common).
- bribery :
- repayments by "adjustment" (in both areas)

Most river-flooded borrowers had taken loans for livestock, consumption, crops and irrigation.

Can they repay ?

	<u>Yes</u>	<u>No</u>	<u>Don't know</u>
Water-logged -	9	24	1
River flooded -	14	5	1

71% of water-logged borrowers are unable to repay. The majority (70%) of river-flooded borrowers remarked that they could repay. However, they needed time. They would like

- their loan partially and
- their interest fully exempted.

Their common problems included :

- liquidity crisis - need money for **consumption**
- low jute price
- distress selling of livestock

Water-logged farmers spoke of

- large proportion of informal market loans which had to be paid off first
- death of livestock

Has been borrowing from financial institutions for :

	<u>1G - under 2 yrs.</u>	<u>2-under 3 yrs.</u>	<u>3-under 4 yrs.</u>	<u>Over 4 yr</u>
Water-logged	13	7	5	9
River-flooded	2	5	6	7

Most of the river-flooded borrowers have been taking loans for a long time. One recalled beginning with ADBP in Pakistan.

Informal Market Loans : (last 3 years)

			<u>Source</u>			<u>Multiple sources</u>
	<u>Yes</u>	<u>No</u>	<u>Relative</u>	<u>Friend</u>	<u>Other</u>	
Water-logged	20	14	14	4	2	2
River-flooded	9	11	5	1	2	1
	<u>Multiple time.</u>	<u>Ret.in kind</u>	<u>Secured</u>	<u>Ret.in cash with int.</u>	<u>without interest</u>	<u>Ret.in cash and kind</u>
Water-logged	2	0	1	3	15	2
River-flooded	3	1	2	0	8	0

* "Mahajan", charging 10% month interest, or neighbour

** friend and relative

59% of the water-logged farmers and 45% of the river flooded farmers borrow from the informal market. Both groups borrow most often from relatives (brother, father-in-law, daughter). 23/29 or 79% of the loans are interest free.

Median of loan (taken at a time)

	<u>Formal loan</u>	<u>Informal loan</u>
Water-logged	- 2133/-	600/-
River-flooded	- 3000/-	2000/-

Amount of loan taken by the water-logged farmer is much less than that of river-flooded farmer.

Water-logged farmer borrows :

- ° when bank loan is insufficient/absent
- ° short-term liquidity shortage

River-flooded farmer borrows :

- ° for consumption
- ° cultivation

Both groups complain that bank loans are insufficient.

Financial status of farmer :

	<u>owns livestock</u>	<u>sharecrops in</u>	<u>has alt.source of income</u>
Water-logged	14	18	2
River-flooded	12	13	15

Two river flooded and one water-logged farmers who sharecrop in are landless. Alternate sources of income include practice of Ayurvedic medicine in water-logged and ownership of grocery store, taxi driving, daily laborer, mechanic of deep tubewell, ferry man, small trading, rickshaw pulling in river-flooded areas.

THE BRANCH MANAGERS INTERVIEWED :

<u>Name</u>	<u>District</u>	<u>Upazila</u>	<u>Bank/Branch</u>
Mr. M.A.Amin	Magura	Salikha	BKB/Arpara
Mr. Y. Miah			Janata/Arpara
Mr. A. Rahman			Sonali/Arpara
Mr. M.A. Rashid	Manikganj	Manikganj	BKB/Manikganj
Mr. A. Sufian			Pubali/Manikganj
Mr. L. Rahman	Tangail	Tangail	BKB/Tangail
Mr. M. S. Islam			Pubali/Tangail
Mr. H. Talukder			Rupali/Tangail
Mr. N. Amin			Sonali/Tangail
Mr. Z. Hussain			Pubali/Nalshuda
Mr. M. N. Ali	Jessore	Jessore	Pubali/Kashempur
Mr. S. M. Ali			Janata/Chachra
Mr. M. A. Shabbir			BKB/Jessore
Mr. M. R. Mollah	Jhenidah	Jhenidah	BKB/Jhenidah
Mr. M. Qutubuddin			Pubali/Jhenidah
Mr. S. Hussain	Magura	Magura	BKB/Magura
Mr. C. A. Hannan			Sonali/Magura
Mr. A. Islam			Pubali/Magura

Flood affected area - Total 18 branch managers

=====

Mr. M. Rahman	Feni	Sonagazi	Sonali/Sonagazi
Mr. Rahmatullah			BKB/Sonagazi

Cyclone affected area - Total 2 branch managers

=====

BORROWERS INTERVIEWED

<u>District</u>	<u>Upazila</u>	<u>Bank/Branch</u>	<u>Number of villages</u>	<u>Number of borrowers</u>
Magura	Salikha	BKE/Arpara	9	15
		Janata/Arpara	2	2
		Sonali/Arpara	7	14
Tangail	Tangail	Rupali/Natiapara	2	3
		BKB/Tangail	3	3
		BKB/Santosh	2	2
		Sonali/Tangail	5	8
	Delduar	Pubali/Nalshuda	4	6
Manikganj	Manikganj	BKB/Manikganj	6	13
Jessore	Jessore	BKB/Jessore	1	10
		Sonali/Churamankathi	2	11
		Sonali/Rupdiya	5	7
		BKB/Rupdiya	2	2
Magura	Magura	BKB/Magura	1	3
		Sonali/Magura	2	6
Total		15 branches	53	105

ITAP, Loan Announcement on media-1984 তারিখ: ২-৮-৮৪

ব্যাংকসমূহের ব্যাংকিং এবং বিজ্ঞপ্তিতে বলা হয়েছে যে চলতি মৌসুমের রোপা-
আমনের উপ প্রদান ত্বরান্বিত করার জন্য সরকার ব্যাংকসমূহের মধ্যে বর্ধিত নির্দেশ দিয়েছেন।

- (ক) বন্যা উপদ্রুত অনুন্নতির যে সকল ক্ষয়ক পত ব্যংকের রোপা আমনের জন্য
পূর্বে উপ পরিশোধ সীমা তার হওয়া সত্ত্বেও তা পরিশোধ করতে পারেননি,
তারাত চলতি মৌসুমের জন্য রোপা আমন উপ প্রদান করতে পারবেন।
- (খ) ঠিকমতে পত ব্যংকের রোপা আমন উপ পরিশোধের সময় সীমা ১৯৮৫ সালের
৩১শে জানুয়ারী পর্যন্ত বর্ধিত করা হইল।
- (গ) বন্যা উপদ্রুত অনুন্নতির যে সকল ক্ষয়ক চলতি মৌসুমে আটম-আমন, ইরি-রোপা
বহুতর জন্য উপ প্রদান করেছেন (যে সকল উপ বর্তমান রোপা-আমন মৌসুমের
মধ্যে পরিশোধযোগ্য যোক বা না যোক) তারাত বর্তমান মৌসুমের রোপা-আমন
উপ প্রদানের জন্য যোগ্য বলে বিবেচিত হবেন। ঠিকমতে উপ কোন অবস্থাতেই
এমন কোনও কন শর্ত হবে না এবং সন্তোষিত সুদ আদায় করা হবেন।
- (ঘ) উক্ত বলা ক্ষেত্রে পত্র যে সরকার ইতিমধ্যেই চলতি মৌসুমের ইরি, আটম,
বেহরার ক্ষয়ক সুদ শতকৃৎ করে দিচ্ছেন এবং উপ পরিশোধের সময় সীমা
১ শতক বাড়িয়ে দিচ্ছেন। উপ প্রদানকারী ব্যাংকসমূহের প্রধান কার্যালয়
ক্ষেত্র বিজ্ঞপ্তির জন্য অপেক্ষা না করে ব্যাংক শাখাসমূহকে এই নির্দেশ অনুযায়ী
উপ বিতরণ করতে বলা হইল।

Best Available Document

ITAP Loan Announcement

- Translation of Annexure XXI

"

Dated 2-8-84

A Bangladesh Bank circular indicates that in order to facilitate speedy disbursement of T.Aman loans for the current production season, the gov't has instructed the financial institutions to the effect that :

1. Flood affected farmers who had defaulted on their previous year's T. Aman loans were also eligible for fresh T.Aman loans this year.
2. Repayment date on previous year's T. Aman loan has been extended.
3. Flood affected farmers who had taken loans for boro, Jute, aus-aman for the current season (and which should have been repaid by the T. Aman season) would also be eligible for T. Aman loans. Under no circumstances would such borrowers be regarded as defaulters nor should penal interest be charged on their overdue crop loans.
4. We would like to remind you that the gov't has already exempted one year's interest on boro, aus, b.aman and jute. These loans have been rescheduled with no penal interest being charged during the rescheduled period.

Branches of financial institutions are hereby instructed to begin disbursing loans without awaiting the official circular from their head office "

Best Available Document

MINISTRY OF FINANCE

....

It appears from available reports that distribution of ITAP loans was 145% of the target. This looks unusual. In all previous years, actual disbursement was below the target, and any programme at its best can only achieve the target. It is unusual for any credit programme to exceed the target.

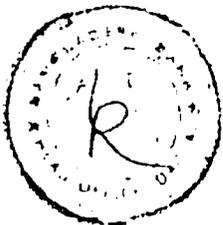
It is, therefore, necessary to investigate whether the reports of the participating banks are correct. At the same time it will be necessary for the banks to ensure that the loans have been used for the productive purposes. I shall be grateful if a report in the matter is obtained from the NCRs/EKB and sent to us with the comments of the Bangladesh Bank.

(M Syedurrahman)
13.10.1984

Principal Finance Secretary

Janab M Nurul Islam,
Governor,
Bangladesh Bank.

U/O. Note No. 577/PFS&A(S)/84 dated 13.10.1984



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EVALUATION OF ITAP LOAN - 1984

A credit target of Tk. 115.00 crore was fixed for the ITAP programme 1984. Total disbursement under the programme amounted to Tk. 202.00 crore as against last year's total disbursement of Tk. 84.00 crore, thus recording an increase of about 140% over last year's disbursement and exceeding the current year's target by almost 75%. This phenomenal increase in the flow of credit was mainly attributed to higher demand generated by a sort of crash programme launched by the banks, at the instance of the Government to extend credit facilities/concessions to the farmers following flood.

To ascertain the pattern of the credit flow, as well as its utilisation, a sample survey was conducted by taking two unions from one Upazilla each of 16 districts. The Upazillas and unions were selected on the basis of maximum and minimum disbursement performance. Within the surveyed area a total number of 1559 borrowers were interviewed. Total credit availed by them for production of transplanted Aman was reported to be around Tk. 43.62 lac and the total area covered under the credit was 2546.75 acres, 1016.75 acres for HY variety having irrigation facility and the rest 1530.00 acres for Local variety being non-irrigated area. The prescribed credit norms for the irrigated (HYV) and the non-irrigated (Local) areas were Tk. 2,000/- and Tk. 1,000/- per acre respectively. On the basis of these norms total flow of credit would have been around Tk. 35.62 lac as against the actual disbursement of Tk. 43.72 lac which reflects over financing to the extent of 22%. Detailed position has shown in the Annexure.

The survey revealed that majority of the borrowers had not availed any T. Aman loan in previous year. Due to the last flood, they were compelled to take this loan to overcome the loss they suffered. As regards utilisation of the loan money, the teams discerned that on an average about 25% to 30% of the loan amount were diverted for other purposes. There were also quite a few cases of complete diversion of the loan money. 57 cases within the survey area, of providing loans to previous defaulters were also

The general findings of the study teams are enumerated below :-

1. Demand for credit for T. Aman loan increased manifold due to loss caused by the last flood. Large number of the borrowers who were not required to avail of bank loan for their production activities in the past years, were compelled to take bank loan this year to overcome the loss they suffered due to the flood.
2. Extension of credit concessions/facilitation and its wide publicity by different quarters prompted farmers particularly to avail of the T. Aman loan.
3. In good many cases, bank branches disbursed loans without following the credit norms which resulted in over financing. It was found that branches disbursed the T. Aman loan at the rate of Tk. 2,000/- per acre even in cases of local variety production (non-irrigated areas) for which the prescribed credit norm was Tk. 1,000/- per acre. In many cases the maximum credit limit was also not observed.
4. Bank Managers were under pressure to disburse loans without giving sufficient time to verify the genuineness of the loanees and their demands. Lists of loanees were not submitted to the banks well in time. But as soon as the lists were submitted, pressures were created for early disbursement of loan as per those lists by the district and local authorities leading to indiscriminate disbursement.
5. Substantial amount of the loan money had been diverted to other purposes.
6. Cash and kind component of credit was paid in cash violating the credit norm. In many cases, it was gathered that farmers initially sold their fertilizer to the dealers at lower prices and re-purchased the same from the dealers at a higher price later on. In Pabna and Natore, the fertilizer dealers did not supply fertilizer timely on various plea and compelled the farmers to receive cash at discount.

7. A good many farmers availed of ITAP loan both from the allotted bank for the union as well as from BKB. In such cases, where the unions were not allotted to them, BKB should have taken required steps to avoid double financing. This kind of irregularity was found particularly in Luban and Hatore. In some cases, loanees having previous loans with one bank, availed of fresh loans from another by suppressing their indebtedness on previous loans.

8. Non farmer groups were also provided with credit in violation of credit norms.

9. Many farmers took the ITAP-1984 loan on the supposition that they got it as flood relief and would not be required to pay back the same.

10. In many cases, banks resorted to the practice of adjusting previous outstanding loan accounts by showing fresh disbursement of ITAP-1984 loan without having actual cash disbursement.

Conclusion:

Demand for current T. Aman crop had genuinely been high during this year compared to the previous years. Had the banks been allowed to follow their normal procedure by keeping them free from the reported pressure, over-financing could have been avoided to a large extent. Concerned agencies should take note of this aspect. So far the banks are concerned, they should ensure that credit is disbursed by its branches as per prescribed procedures and norms and any deviation therefrom should be properly dealt with. Banks should also ensure regular supervision and follow up of the loan cases to restrict diversion/mis-utilisation of the loan money.

ANNEXURE XXIV

In connection with this study, the following persons were interviewed :

1. Mr.M.M.Rahman	Secretary	Finance Division Ministry of Finance
2. Mr.A.R.Amin	Deputy Secretary (formerly Deputy Secretary ; Section ; Ministry of Finance)	Ministry of Agriculture Investment
3. Dr.S.A.Samad	Joint Secretary (formerly Joint Secretariat)	External Resources Div Ministry of Finance Secretary ; CMLA's
4. Mr.S.Hossain	Registrar	Co-operative Societies
5. Mr.N.Islam	Governor	Bangladesh Bank
6. Mr.M.A.Beg	Executive Director	
7. Mr.K.U.Ahmed	Chief Officer	
8. Mr.M.A.Rahim	Agri.Credit Officer	
9. Mr.A.Huq	Managing Director	Sonali Bank
10.Mr.M.I.Miah	Asst.Gen.Manager	
11.Mr.N.A.Khan	Asst.Gen.Manager	
12.Mr.A.Samad	Principal Officer	
13.Mr.M.A.Haque	Managing Director	Rupali Bank
14.Mr.M.Hasan	Asst.Gen.Manager	
15.Mr.A.Hannan	Senior P. Officer	
16.Mr.M.Zakaria	Principal Officer	

17. Mr. A. Islam	Managing Director	Pulxali Bank
18. Mr. Q. M. Mustafa	General Manager	
19. Mr. S. M. Masun	Principal Officer	
20. Mr. Q. Huda	Dy. Mang. Director	Uttara Bank
21. Mr. S. R. Chowdhury	Dy. Gen. Manager	
22. Mr. S. E. Haque	Principal Officer	
23. Mr. M. Tahiruddin	General Manager	Janata Bank
24. Mr. S. Ahmed	General Manager	
25. Mr. A. Hussain	Asst. Gen. Manager	
26. Mr. M. Mohsin	Principal Officer	
27. Mr. H. Rahman	Dy. Gen. Manager	Agrani Bank
28. Ms. A. A. Khanun	Principal Officer	
29. Mr. A. Q. Siddiqui	General Manager	B.K.B
30. Mr. J. R. Chowdhury	General Manager	
31. Mr. S. H. Rahman	Dy. Gen. Manager	
32. Dr. J. C. Saha	Dy. Gen. Manager	
33. Mr. J. R. Tribedi	Senior Officer	
34. Mr. E. A. Khan	General Manager	B.S.B.L
35. Mr. N. Z. Dhuiyan	Manager	
36. Mr. F. Rahman	Senior Assistant	
37. Mr. Mozammel Huq	General Manager	Grameen Bank
38. Mr. Z. Huq	Manager	Sadharan Bima Corp.

39. Mr. D. Hughart	Senior Economist	The World Bank
40. Mr. K. Loganathan	Project Officer	
41. Mr. D. D. Gupta	Economic Officer	
42. Mr. I. Ahmed	Program Officer	
43. Dr. L. Armstrong	Project Director	Rural Finance Project
44. Mr. M. Mollah	Consultant	
45. Mr. A. O'Donnell	Consultant	
46. Mr. O. Chowdhury	Consultant	

LIST OF ANNEXURES
(CYCLONE AFFECTED AREAS)

Letter to MOF from the CMLA Secretariat	I
Nature of the 1985 Program (B.Bank circular)	II
Accounting Instructions - Agrani Bank	III

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BIBLIOGRAPHY

RURAL CREDIT FORGIVENESS PROGRAM

1985

Background and the Nature of the Program

In May 1985, the coastal districts of Bangladesh were affected by a tidal bore/cyclone. There was almost total destruction of crops, lives, livestock and property. While visiting an affected area the President announced one year's interest exemption on agricultural loans.

In the manner of the flood disaster program of 1984, this decision was also taken internally and the financial institutions were then informed of it. The proceedings of the high level meeting were not recorded. Officials have cited the same rationale for granting an exemption to borrowers of cyclone affected areas as they did for flood affected ones. A letter (Annexure -1) from the CMA Secretariat was received by the Bangladesh Bank through the Principal finance Secretary in August 1985. The letter demarcated the cyclone affected zones.

The B.B. in turn issued the official circular to the financial institutions on August 22nd, 1985 (Annexure-II). The salient features of the circular were:

- Interest on agricultural loans of affected borrowers was exempted for a year.
- A list of seriously affected districts and Upazilas was furnished to the institutions. There were 5 affected districts and 10 Upazilas.

This circular differed from the 1984 interest exemption circular in several ways:

- a) The flood-affected exemption circular had mentioned the crops eligible for exemption. This circular merely said, "agricultural loans". There was some confusion as to what particular loans were eligible for exemption.
- b) The areas were clearly demarcated so there was no controversy regarding the geographical extent of the program.
- c) This circular does not mention rescheduling of loans nor of exemption of penal interest during the rescheduled period.

The regional/zonal offices received their circulars from their respective head offices between 9-29-85 to 10-16-85. Uttara did not and does not intend to issue a circular to its district offices. Rupali and BSBL had not sent any circular to Regional/Zonal branches/societies at the time of interview.

Problems of Interpretation:

The circular does not mention what agricultural crops were to get interest exemption. Bankers at the head office level were confused as to what directives they were to give their outlying offices. Clarifications from the B.B. were sought.

The same manner of information gap exists here, the branch managers are executing the program without knowing its exact intent.

One of the managers interviewed had rescheduled the exempted loans while the other branch manager in the same Upazila had not rescheduled loans since the official circular did not make any mention of this.

The size of the loss:

The bankers were surprized, but not unduly worried about the program since many of them had little or no involvement in these areas.

However, it was almost impossible to get any data regarding this program at the headquarter level. Bankers were somewhat unconcerned about it and remarked that they would ask for field level data when the B.B. would ask for an estimate from them. Thus what we were able to get from some institutions at the head office were estimates based on assumptions and approximations of the size of loss. They are tabulated below:

Approximate size of the Program (in million Tk.)

Bank	Number of branches affected	Amount of loans affected	Name of loans	Amount of int. exempted
Agrani	3	NA	NA	.005
Rupali	6	.563	*	.09
Uttara	2	NA	NA	NA
Pubali	NA	.036	**	.006
Sonali	NA	NA	NA	.NA
Janata	NA	3.0	***	.48
BKB	All 5 districts	764	****	122.24
BSBL	All 5 districts	10.42	*****	1.67

* Boro
 ** Shrimp
 *** Aus, B. Aman, Jute, fisheries, Shrimp, salt.
 **** Shrimp and frog legs, salt, horiculture, boro, shrimp culture.
 ***** Boro, Aus, B. Aman, Jute, Med. term cattle loan.

The points to be noted are:

- Agrani expects very little effect due to this cyclone interest exemption program. Only Aus was affected in one district where they have involvement.
- Sonali is still seeking clarifications regarding the exact agricultural items eligible for exemption. They are having interpretational problems and say the circular applies to all affected "crops and all current loanees", but not sure as to the exact connotation of "affected crops".
- Janata has a large list of affected agricultural loans. Salt production started in March, whereas the cyclone was in May. Janata borrowers who had stored their salt before the cyclone claimed an exemption on their salt loans saying that it had all been washed away!!
- BSBL has given the figure maintained at their head office and shows their maximum possible exposure.

Accounting for the exempted interest:

Most officials at the headquarters are still unacquainted about this program. However, instructions regarding accounting procedure were sent to outlying offices by Agrani, Sonali and BKB. The instructions required that the branches treat the exempted amount in the same manner as they treated the exempted interest of flood affected areas.

- Agrani requested its branches to identify every loan account eligible for exemption by affixing a rubber stamp on them indicating the amount of interest exempted on that particular loan. They also asked for a branch wise statement of the amount of loans outstanding as on May, 31st and the amount of interest and service charge exempted on those loans (Annexure III).
- Sonali asked the branches to apply interest as usual upto December 1985 (end of accounting year) and to bring it into income.
- BKB made a temporary arrangement by placing the exempted interest in a "suspense account". Interest was treated as income by Sonali.

The Field Work:

We visited some of the branches of Sonali, BKB and Pubali in Feni district. Letters of authorization were sent out to the regional/zonal offices from the headquarters here informing them of the nature of our study. They were also required to prepare a borrower list of 25 - 30 borrowers from some of their outlying branches in the following format:

<u>Borrower name</u>	<u>Amount of loan</u>	<u>Amount outstanding/</u>
----------------------	-----------------------	----------------------------

Sonali is the lead bank in that area. Field work was conducted between the 25th - 30th November and the 4th - 9th December. We tried to delay this portion of the study as long as we could since we hoped for more data but this was not possible after all. We were informed that Noakhali's outlying branches had suffered no damage. Therefore Sonagazi was selected.

The area selected:

Sonagazi lies south of Feni along the coast of the Bay of Bengal. Most of the area is low-lying. The Upazila is partially protected by Muhuri dam (constructed '84-85) and partially by a WAPDA embankment. Muhuri dam proved to be counter productive during this cyclone. The tidal bore found an obstruction in Muhuri dam. Its course was deflected and it went on to hit the WAPDA embankment with tremendous force. The embankment was breached and water flowed into the adjoining villages. Once the water had entered the area it found no drainage channel to go out. The embankments prevented the normal recession of the water into the sea and the entire region was water-logged for a long time damaging crops and livestock.

Branch Managers: Questionnaire is in Annexure XIV

We had gone with the intention of interviewing the Sonali and BKB managers since Pubali had said they did not have a branch there. We were therefore, suprized to find a Pubali Bank in Sonagazi, and went to see the manager. However, the branch there only dealt with industrial loans (small traders and retailers). There is enough money in the Upazila to make it cost effective to have such a branch there. On enquiry we were informed that there was a large influx of 'middle East wage earner' dollars into the Upazila.

BKB/Sonagazi had been set up 16 years ago, and Sonali has had a branch in that area for the last eight years.

The official circular from their head office arrived on 29.9.85 for Sonali (4 months later) and on 16.10.85 (5 months later) for BKB, after the managers had heard of the program on media.

Agricultural loans due for interest exemption (BKB/Sonagazi and Sonali/Sonagazi): (Taka millions)

	Boro	Aus	B. Aman	T. Aman	Potato	Fish eries	Live stock	Total	Int. exen pted
BKB	.319	.044	0	0	.001	.464	2.95	3.78/ 4.1*	.6
Sonali	.441	.151	.413	.169	-	-	-	1.17/ 1.17*	.168
Total								4.95/ 5.27	.788

- Total amount of loans disbursed that year.
- Almost all of Sonali's loans (93%) were affected. All of BKB loans that year became eligible for exemption.
- Loan recovery rates were calculated by :

BKB	- Annual and monthly basis	Recovery/target
Sonali	- Annual basis	Recovery/outstanding
- BKB had a large proportion of borrowers who had repaid their loans with interest before the announcement of exemption. We realize that this is possible because many villagers obtained funds from abroad. The manager had discussed with his Regional Manager as to what should be done about these borrowers but no refunds have so far been made. There is no official circular regarding such borrowers. All these farmers had fully cleared their debts.
- Specific circulars had been received from head office of both banks instructing them about the accounting procedure of the exempted interest.
- These were received by BKB on October 27th 1985 and by Sonali on November 21st 1985. BKB received their accounting procedure circular a month after receiving the interest exemption circular. Sonali received their's two months after the receipt of the interest exemption circular.
- Both managers had heard of the announcement on media (radio, newspaper).
- There was confusion at field-level regarding:
 - a) What specific loans were due for exemption.
 - b) An Upazila-wise geographical list is insufficient. There were unaffected villages in many areas.
- Both managers remembered occasions of interest exemption in the past. Sonali's manager spoke of the exemption on pre-liberation loans. BKB manager recalled having gone as a part of a relief team to Noakhali in 1970 and had witnessed the disbursement of interest-free new loans and the rescheduling of old loans.
- The announcement has provided temporary relief to the borrowers.
- Effect on future loan repayment:

Some borrowers who had repaid before the announcement will now be wary. This will adversely affect loan recovery. The other

manager thought that the relief the borrower is getting will motivate him to repay.

- Reasons for which loans default were cited as:

- a) Diversion of loans
- b) Natural calamities
- c) Wilful default

They both felt their volume of work had increased because of the announcement. Their existing staff was not large enough to deal with the implementation of such a program (increased paper work, identification of distressed borrower etc.).

- Alternatives to such announcements of forgiveness:

- a) Financial institutions could directly reimburse the borrower. Banks in turn should be reimbursed by the government.
- b) Such announcements affect credit discipline. A more effective way to help borrowers would have been a "food for work" kind of program supervised by the Ministry of Relief and Rehabilitation.

- The managers complained of the delay in the disposal of certificate cases and remarked that they need Government help to deal with wilful defaulters. they suggested the setting up of a separate commercial court in each district whose functions would be limited to the disposal of certificate cases.

The Borrowers (11 borrowers): Questionnaires are in Annxs. XVI & XVII

- All borrowers claimed they suffered total loss of crops due to the cyclone.

- Loss of: (number of borrowers)

Poultry -	0
Property -	4
Livestock -	2

- Were they aware of announcement?	<u>Yes</u>	<u>No</u>
	10	1

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- Source:

Hearsay - 5
 Bank - 2
 President - 1
 Media - 1
 *Multiple sources - 1

One borrower was unaware of announcement

*Multiple sources included hearsay and bank employees, and the majority had heard from hearsay.

Repayment of rescheduled loan. Have they repaid?

<u>Yes</u>	<u>No</u>
6	5

of the six who have repaid, two have done so partially.

- Only one borrower knew how much he owed the bank.

- Can they repay their rescheduled loan?

4 had already repaid. The others said:

<u>Yes</u>	<u>No</u>
5	2

Most of them intended to repay but required from 7 - 12 months to do so.

- They were defaulting because of:

- Crop failure
- Distress selling of cattle
- Loss of assets due to cyclone

- They all believe that the announcement was the Government's way of providing relief to the distressed borrower.

- None except an interest forgiveness every time there is a natural calamity.

Did it help them?	<u>Yes</u>	<u>No</u>	<u>Don't know</u>
	8	2	1

- Best way to help distressed borrowers:

- a) Relief in kind for production purposes
 - b) Total loan (P+I) forgiveness
 - c) Relief in kind (cattle for ploughing)
 - d) Total interest exemption.
- 3 borrowers knew of others who had repaid their loans with interest before the announcement of exemption.
 - 1 borrower knew of someone in his village who was unaffected by the disaster yet had received an interest exemption.
 - None of the borrowers wanted anymore bank loans. They spoke of the hassle of interest calculations and bank notices which are sent to them whenever they default.
 - Some borrowers had been borrowing for a long time - one borrower since 1970, another since 1977. The majority had taken loans for the first time in 1984 when they were affected by the cyclone.

Median of amount/loan was Tk 4000/-

- Can they repay loans taken so far?

<u>Yes</u>	<u>No</u>
10	0

- 1 borrower has no debt.

- Do they borrow from the informal market?

<u>Yes</u>	<u>No</u>	<u>Relative</u>	<u>Friend</u>	<u>Neighbour</u>	<u>Other</u>
8	3	3	1	1	1

- a) "other" includes village money-lender, acquaintances, etc.
- b) Only 1 loan was secured (land-mortgage)
- c) 2 money-lenders charged interest at 10% per month while the third money-lender's loan was interest-free. One borrower had borrowed, and was to repay, in cash and kind.

One of the borrowers had borrowed from the informal market to repay his bank loan.

Financial status of the farmer:

<u>Owms livestock</u>	<u>sharecrops in</u>	<u>has alternative</u>	<u>source of</u>
			<u>income</u>

5

6

4

Alternative source of income included ownership of village grocery store (2) and money from relations abroad (2)

- Median of informal market borrowing Tk 3600/- each time
Median of formal market borrowing Tk 4000/- each time
- Our sample included: 3 large, 3 medium and 5 small farmers.

Some comments:

It is too early to make an analysis of the effect of the interest exemption program in tidal bore/cyclone affected areas. The impressions we got from interviews at the headquarters, and branches of the financial institutions and our field visits were:

- Damage within the official list of affected districts and Upazilas was neither universal nor uniform. Villages lying along the coast-line were almost totally affected. Others that were further inland were more fortunate. A Sonali official in Noakhali informed us that none of Sonali's branches there had been affected, and there had been no remision of interest for Sonali borrowers in Noakhali.
- The program seems to have benefited some farmers who were unaffected by the disaster. An official pointed out that most borrowers in Sonagazi were wealthy and did not require an exemption. This was not entirely true but there are technical problems about sorting out genuinely needy borrowers.
- There is no official circular regarding reimbursement to borrowers who had repaid with interest before the announcement. These borrowers with good repayment habits may now be wary about making future loan repayments. Some of them were puzzled because they could not benefit from the program.
- Most borrowers wanted relief in kind in the form of seeds, fertilizers, cattle, etc. or total loan or interest exemption.
- The small farmers were badly affected.
- Bankers were not overly worried about the announcement. Nor were they as upset or surprized as they had been about the 1984 announcement of interest exemption.

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MOST IMMEDIATE.

Chief Martial Law
Administrator's Secretariat
Old Sanghad Bhaban
Tejgaon, Dhaka
Telephone : Civil - 311295
August 1985

13

7151/5/Impl-2/556

Principal Finance Secretary
and Advisor
Ministry of Finance

WAIVAL OF INTEREST ON AGRICULTURAL CREDIT IN THE CYCLONE AFFECTED
AREAS

Reference :

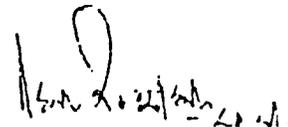
A. Principal Finance Secretary and Advisor's U.O. Note No.
285 P.AA(B)/85 dated 01 June 1985.

1. As desired vide reference 'A' above, following are the seriously affected Upazilas due to the recent cyclone/tidal bore where interest on agricultural credit may be waived for one year as directed by the Hon'ble President and CMIA.

<u>District</u>	<u>Upazila</u>
a. Cox's Bazar	a. Kutubdia b. Moheshkhali
b. Chittagong	a. Sandwip
c. Bholâ	a. Monpura, b. Tazumuddin c. Charfassion
d. Noakhali	a. Noakhali Sadar (Shudhuran) b. Hatiya c. Companyganj
e. Poni	a. Sonagazi

2. Kindly acknowledge receipt.

CFE


MUSTAFAZ AHMED
Lieutenant Colonel
for Principal Staff Officer

TELEGRAM
'BANGLABANK'BANGLADESH BANK
HEAD OFFICE
POST BOX NO. 325
DHAKAAGRICULTURAL CREDIT
DEPARTMENT

CIRCULAR LETTER NO. ACD(POLY)911/85-3965(5)

Dated the 22nd August, 1985.

The Managing Director,
Sonal/Janata/Agrani/Rupali Bank/
Bangladesh Krishi Bank,
Head Office,
Dhaka

Dear Sir,

EXEMPTION OF INTEREST ON AGRICULTURAL LOAN IN THE CYCLONE/
TIDAL BORE AFFECTED AREAS

In view of the losses caused to the agricultural loanes by the cyclone/
tidal bore that hit the coastal areas of the country some time back, Govern-
ment has decided that interest on the agricultural loans in the following
seriously affected Upazilas will be exempted for one year:-

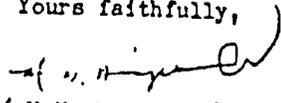
<u>District:</u>	<u>Upazilas:</u>
i. Cox's Bazar	a) Kutubdia b) Moheskhalia
ii. Chittagong	a) Sandwip
iii. Bhola	a) Monpura b) Tazumuddin c) Charfassion
iv. Noakhali	a) Noakhali Sadar (Shudharam) b) Hatiya c) Companygonj
v. Feni	a) Sonagazi

The facility of interest exemption will not, however, be allowed to
the chronic defaulters. The exemption may be allowed on the outstanding loans
as on 31st May, 1985.

You are, therefore, requested to issue necessary instruction to your
branches in this regard under advice to us. The amount involved in such exemp-
tion may please be furnished to us at the earliest.

Meanwhile please acknowledge receipt.

Yours faithfully,


(H.N. Majumder)
GENERAL MANAGER.

Encl. No. ACD(POLY)911/85-3965(100)

of date.

Copy forwarded for information and necessary action to :-

1. The Principal Staff Officer to the CMLA, CMLA's Secretariat, Old Sangshad Bhaban, Dhaka.

P.T.O.

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AGRANI BANK
RURAL CREDIT DIVISION
HEAD OFFICE
DHAKA

ANNEXURE -

The Asstt. General Manager,
 The Zonal Manager,
 Agrani Bank,
 Zonal Office,
Chittagong (South)/Dhola/Noakhali (E)/Noakhali (W).

RCD/WI/285E
 Dated: 22.9.85.

Sub: Exemption of interest on Agricultural loan
in cyclone/tidal bore affected coastal areas.

Dear Sir,

In view of the losses caused to the Agricultural loans by the cyclone/tidal bore that hit the coastal areas of the country some-time back and as informed by Bangladesh Bank vide their circular letter No. ACD(Poly)911/85-396(5) dated 22.8.85, Government has decided that interest on the agricultural loans in the following seriously affected Upazilas will be exempted for one year.

District	Upazilas
1. Cox's Bazar	(a) Kutubdia (b) Mohakhali
2. Chittagong	(a) Sandwip
3. Bhola	(a) Monpura (b) Tazumuddin (c) Charfassion
4. Noakhali	(a) Noakhali Sedar (Shudhoram) (b) Compenygonj (c) Hatiya
5. Feni	(a) Sonogazi

The facility of interest exemption will not, however, be allowed to the chronic defaulters. The exemption may be allowed on the outstanding loans as on 31st May, 1985. The amount involved in such exemption should be furnished to us branch-wise immediately in the following proforma for onward transmission to Bangladesh Bank.

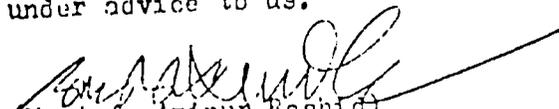
Name of branch	Name of union	Amount outstanding as on 31.5.85.	Amount of interest and service charge to be exempted.
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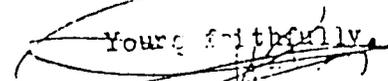
For correct calculation of interest to be exempted, step as under may be followed by the concerned branches:

A rubber stamp with the following words may be prepared and affixed on each and every loan account of the borrowers.

Interest and service charge amounting Tk. _____ exempted on the outstanding loans as on 31.5.85 as per Bangladesh Bank circular letter No. ACD(Poly)911/85-396(5) dated 22.8.85.

Please issue necessary instruction to your branches accordingly under advice to us.


 (Mustafa Aminur Rashid)
 General Manager.


 (Habibur Rahman)
 Deputy General Manager.

C.c. to:

1. Managing Director's Sectt., Agrani Bank, H.O., Dhaka.
2. General Managers' Sectt. (Central/Northern/Southern) Agrani Bank, H.O., Dhaka.
3. General Manager's Sectt. (Eastern Circle), Agrani Bank, Laldighi East Branch Building, Chittagong.

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Chowdhury and
Quasem " Impact 1984 Floods-Impressions from field visits" BIDS, 1984.
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- o Ministry of Agriculture.
- o Bangladesh Bank.
- o Agrani Bank.
- o Sonali Bank.
- o Janata Bank.
- o Rupali Bank.
- o Pubali Bank Ltd.
- o Uttara Bank Ltd.
- o Bangladesh Krishi Bank (BKB).
- o Bangladesh Samabay Bank Ltd.
- o Sadharan Bima Corporation.