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DEPOSIT MOBILIZATION IN BANGLADESH:
IMPLICATIONS FOR RURAL FINANCIAL INSTITUTIONS
AND FINANCIAL POLICIES

by

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**DEPOSIT MOBILIZATION IN BANGLADESH:
IMPLICATIONS FOR RURAL FINANCIAL INSTITUTIONS
AND FINANCIAL POLICIES**

INTRODUCTION

The recent expanded interest in rural savings mobilization in less developed countries (LDCs) has been prompted by constraints in the flow of foreign aid to finance domestic investments and the increasingly recognized need to strengthen rural financial markets. The World Bank (1983a) noted that economic activities in Bangladesh suffered significantly during the period 1980-82 because of resource constraints. The effectiveness of taxation, as a source of government revenue, has proved to be limited because of a small tax base and limited taxable capacity. Greater savings mobilization through financial markets offers one method of relaxing financial constraints.

Savings mobilization efforts in LDCs have often been confined to urban areas, primarily because of the neo-classical assumption that rural people have low incomes and can not save. This assumption appears to be erroneous. Recent literature amply documents that rural areas have savings that can be mobilized through rural financial markets (Adams; Agabin; Gonzalez-Vega; Meyer). Some research shows that the marginal propensities to save are higher in rural areas than in urban areas (e.g., Alamgir; Powell and Williamson).

Like many other LDCs, financial institutions in Bangladesh have extended banking facilities into rural areas primarily to

disburse agricultural credit as part of government agricultural development strategy. Rural savings mobilization seems to have been a secondary objective. The performance of rural financial markets in Bangladesh has been seriously questioned, however (e.g., World Bank, 1983b; Yunus). A World Bank study, for example, found that the overdue situation of agricultural loans had deteriorated. Overdues increased from 11 percent in 1977 to 57 percent in 1982 (World Bank, 1983b). This result has serious implications for the viability of rural bank branches. The same study estimated that 63 percent of commercial bank branches and 16 percent of Bangladesh Krishi Bank (BKB) branches in rural areas were not viable.

During the past decade, Bangladesh followed a supply-leading approach to rural finance. Rural loans increased about 87 times from 1975 to 1985 while rural deposits increased about 20 times. In 1975, the ratio of rural deposits to loans was 2.96 and by 1985 it had fallen to 0.63. Publications of the Bangladesh Bank (Central Bank) suggest there has been no specific rural deposit mobilization policy nor any analysis into the causes of the relatively slow growth of rural deposits compared to loans. Perhaps it has been assumed that the financial institutions themselves would resolve deposit mobilization issues, and that any programs applied in urban areas would also be appropriate for rural areas. Specific deposit mobilization policies may be required in rural areas, however, because of different social, cultural and economic circumstances.

The objective of this paper is to report on some recent analysis of bank deposits in Bangladesh. The first section contains a brief review of the institutional structure and the policies that influence deposit mobilization, especially in rural areas. The second section reports time-series data that show the evolution of total and rural deposits. An econometric analysis of the determinants of rural deposits is presented in section three. Section four contains a discussion of some of the key issues concerning rural deposit mobilization in Bangladesh.

INSTITUTIONAL STRUCTURE AND FINANCIAL POLICIES

The Bangladesh financial system is still in the early stages of development (World Bank, 1982). All banks and insurance companies, excluding foreign companies, were nationalized on March 26, 1972 and six commercial banks and two insurance corporations were created. Foreign banks were allowed to operate under restricted conditions. At the beginning of 1981, Bangladesh had sixteen banks including seven foreign banks. During the 1983-84 period, eight private banks were licensed including two denationalized commercial banks. The effects of bank privatization on rural resource mobilization are not yet known. At the moment, however, rural deposits are mobilized only by the nationalized commercial and specialized banks.

As in many LDCs, the government intervenes in the financial operations of the nationalized banks in order to attain socio-economic and political objectives. The finance literature

documents how such intervention affects bank performance and viability, particularly of rural branches. The Bangladesh Bank regulates the banking sector, and formulates monetary and banking policies under the guidance and direction of the Ministry of Finance. Three major policies - interest rate regulation, refinancing, and branch licensing - are expected to affect the mobilization of rural deposits.

Interest rates on both deposits and loans are regulated and the rate structure was revised three times in 1974, 1976 and 1980. The revision of interest rate structure in 1980 was more significant than the previous revisions. The range of increase was between 2-1/2 and 5-3/4 percentage points. Furthermore, interest rates on rural bank saving deposits were increased after 1980 so rates paid on rural saving deposits have been higher than those for urban saving deposits by roughly two percentage points (Table 1). Changes in rate structure, however, have not kept pace with inflation. The real weighted interest rate paid on interest bearing deposits was negative every year from 1976 through 1984 with the exception of 1976, 1982 and 1983. Thus depositors were penalized for saving with banks because the purchasing power of deposits plus interest when withdrawn from a bank has usually been less than the original deposit.

Rural branching policy has been pursued largely with the objective of supplying cheap credit to farmers. The Bangladesh Bank appears to consider two major factors when granting licenses for banks to open new branches: deposit potential, as a function

TABLE 1
INTEREST RATE STRUCTURE OF RURAL BANK DEPOSITS,
1971 TO PRESENT

	Dec 1971 to June 1974	July 1, 1974 to March 31, 1976	April 1, 1976 to April 30, 1977	May 1, 1977 to Oct. 15, 1980	Oct. 16, 1980 to Dec. 1, 1982	Dec. 2, 1982 to Dec. 31, 1984	Jan. 1, 1985 to Present
(Percent per annum)							
Call Deposits	none	none	none	none	4 1/2	none	none
Special notice accounts	3 - 3 1/4	4 - 4 1/4	5 - 5 1/4	4 - 4 1/4	4 1/2	4 1/2	4 1/2
Savings bank accounts with checking facilities	4.00	5.00	6.00	6.00 ^{d/}	8 1/2	8 1/2 ^{b/}	10 1/2
Savings bank accounts without checking facilities	4 1/2	6.00	7.00	7 3/4	10.00	10.00	11.00
Fixed deposits:							
1) For 3 months and over but less than 6 months	4 1/2	6.00	7.00	8 1/2	12.00	12.00	12.00
2) For 6 months and over but less than 1 year	4 3/4	6 1/2	7 1/2	9.00	13.00	13.00	13.00
3) For 1 year and over but less than 2 years	5.00	7 1/4	8 1/4	9 1/4	14.00	14.00	14.00
4) For 2 years and over but less than 3 years	5 1/2	8 1/4	9 1/4	9 1/4	14 1/2	14 1/2	14 1/2
5) For 3 years and over	6.00	9 1/4	10 1/4	10 1/4	15.00	15.00	15.00

^{d/} Reduced to 4 1/2 per cent with effect from August 1, 1977.

^{b/} In the rural areas, the rate was 9 1/2 per cent with effect from July 1, 1984

Source: Economic Trends, December, 1985, Bangladesh Bank.

of income, and degree of competitiveness. This general policy apparently created insufficient demand for rural branches so a "two-for-one" policy was introduced during the financial year 1977-78 whereby a bank needed to open two rural branches for each new urban branch. During the period 1977-81, the number of rural bank branches almost doubled from 857 to 1,527 because of this policy. The expansion of banking facilities in rural areas slowed following the suspension of the "two-for-one" policy in 1981. The decision to open rural branches during the 1977-81 period was not always based on branch profitability (World Bank, 1983b) but the expansion of the banking network has a positive influence on deposit mobilization as will be shown below.

It is often argued that the availability of cheap rediscount funds limits the efforts of banks to mobilize deposits (e.g., Meyer and Esguerra), but there is little empirical research that tests for this negative causality. The rural banking system in Bangladesh has been supplied with relatively abundant rediscount funds in an effort to expand agricultural lending, especially for BKB. Prior to September, 1983, refinancing facilities to banks varied between 30 and 100 percent of loans made at an interest rate of six percent, which was half of the on-lending rate of 12 percent and two percentage points below the bank rate¹. However, this policy was revised in September, 1983 to reduce bank dependency on refinancing. A cheap refinance rate would seem to

¹ The bank rate is the normal rate at which banks can borrow from the Bangladesh Bank.

reduce incentives to mobilize deposits but bank attitudes toward mobilization of rural deposits may differ because of differences in sources of funds and lending objectives.

PATTERN AND TRENDS IN BANK DEPOSITS

In this section, we provide a general overview of the patterns and trends in total and rural bank deposits for the period 1975-84. Total bank deposits are defined to include both rural and urban deposits mobilized by all banks except cooperative banks. Rural deposits are defined as the deposits held in bank branches defined as rural branches by the Bangladesh Bank; urban deposits are defined as those held by bank branches operating in metropolitan and municipal areas.

Table 2 shows an average growth rate of 24 percent in total bank deposits expressed in nominal terms for the period 1975-84. By 1984, deposits had increased seven times from the 1975 level. The annual average inflation rate was about 11 percent during this period so the real value of deposits increased significantly. The growth in total bank deposits was largely due to increases in interest bearing deposits (Table 2). Interest bearing deposits (special accounts, savings and term deposits) increased about ten times, while non-interest bearing deposits (current and call deposits) increased about five times. An interesting finding that emerges from the data is the positive responsiveness of depositors to interest rates. This is evident

TABLE 2
Total Bank Deposits
By Type of Deposit, 1975-84
Year Ending June 30

YEAR	TYPE										TOTAL
	Current Deposits	Call deposits	Special account deposits	SAVING DEPOSITS		TERM DEPOSITS					
				Checking	Non-Checking	3 - <6 months	6 - < 12 months	12 - < 24 months	24 - < 36 months	36+ months	
(in Million Taka)											
1975	3,082.4	60.5	2,294.7	1,964.3	331.2	532.3	439.1	543.7	100.1	833.7	10,182.0
1976	3,383.0	74.0	2,772.7	2,409.9	396.9	396.3	234.2	654.7	150.4	1120.6	11,593.8
1977	3,920.3	102.9	3,554.3	2,881.6	486.2	520.2	272.2	781.5	232.2	1701.2	14,452.6
1978	4,424.7	268.3	4,184.6	3,542.4	689.4	382.3	413.1	819.0	277.2	2479.0	17,477.0
1979	5,808.3	410.4	5,451.8	4,460.7	1,077.8	315.1	700.8	955.2	367.3	3384.5	22,931.9
1980	7,472.6	185.7	8,277.9	5,099.3	1,371.3	380.7	579.1	1043.3	400.7	4257.7	38,068.6
1981	7,616.0	268.6	9,024.5	6,796.1	2,093.3	897.0	927.3	1486.1	549.7	5577.2	35,235.8
1982	8,006.5	751.6	9,018.9	6,746.6	2,245.6	1326.9	912.2	2193.1	572.4	6720.1	38,501.0
1983	10,608.3	1,028.8	11,024.2	8,475.1	2,805.0	2338.8	1468.4	3893.3	780.2	8557.1	50,980.0
1984	14,206.9	468.4	14,981.7	11,098.1	3,894.7	3739.3	3154.5	7017.1	899.7	12143.54	71,583.9
Average Deposits	6,752.9	362.0	7,056.5	5,347.4	1,538.8	1802.9	910.8	1938.7	433.0	4677.5	30,100.6
Percent	22.4	1.2	23.4	17.8	5.1	3.6	3.0	6.5	1.5	15.5	100
Average Growth Rate Percent	18.9	47.4	23.9	21.6	32.4	33.6	34.2	35.4	28.7	35.0	24.5

Source: Bangladesh Bank Bulletin, February 1985.

in the increasing share of term deposits which carry higher interest rates relative to saving deposits.

During the last decade, significant changes have taken place in the proportion of personal deposits to total deposits (Table 3). The share of personal deposits increased from 29 percent in 1975 to over 45 percent in 1984. As will be shown later, rural deposits contributed to the growing share of personal deposits.

Deposits are largely mobilized by the nationalized commercial banks (NCBs) because of their wide network and their predominance in the total banking sector. The deposit share of the NCBs decreased significantly from 90 percent to 71 percent during the period 1973-84, partly due to the increased privatization of banks (Table 4). Although the NCBs mobilize the bulk of deposits, their annual average growth rate of deposits has been lower than specialized banks and foreign and private banks.

Table 5 shows data which reports changes in rural and urban bank deposits during the period 1976-84. The share of rural deposits increased significantly in this period from 9.2 to 17.1 percent. This increase demonstrates that rural deposits can be mobilized through financial markets even when per capita incomes are low. The effects of the "two-for-one" branching policy can be seen by the relatively rapid expansion of rural branches during this period. The number of rural branches roughly quadrupled while urban branches doubled. The average urban branch continues to have about ten times the deposits of the average rural branch. Although rural deposits have increased

TABLE 3
 Total Bank Deposits
 by Category of Depositors, 1975-84,
 Year ending June 30

Year	Personal		Non-Personal		TOTAL (Million Taka)
	Total (Million Taka)	Percent	Total (Million Taka)	Percent	
1975	2,945.8	28.9	7,236.1	71.1	10,181.9
1976	3,778.0	32.6	7,185.6	67.4	11,593.6
1977	4,878.8	33.8	9,573.8	66.2	14,452.6
1978	6,449.8	36.9	11,027.1	63.1	17,476.9
1979	9,055.5	39.5	13,876.4	60.5	22,931.9
1980	10,697.6	38.1	17,371.1	61.9	28,068.7
1981	14,586.7	41.4	20,649.1	58.6	35,235.8
1982	16,364.9	42.5	22,136.1	57.5	38,501.0
1983	22,315.5	43.8	28,664.5	56.2	50,980.0
1984	32,527.6	45.4	39,056.4	54.6	71,584.0
Average growth rate	32.5		20.9		30.1

a/ Non-personal deposits include deposits of groups, organizations, government, business firms, etc.

Source: Bangladesh Bank Bulletin, February, 1985

TABLE 4

Total Bank Deposits
By Types of Bank, 1973-84
Year ending June 30

Year	NBCs		Specialized Banks		Foreign and Private Banks	
	Amount (Million Taka)	Percent	Amount (Million Taka)	Percent	Amount (Million Taka)	Percent
1973	6,442.6	90.4	141.8	2.0	539.4	7.6
1974	8,902.8	91.6	143.4	1.5	668.4	6.9
1975	9,160.6	90.0	278.8	2.7	742.8	7.3
1976	10,540.9	90.9	336.3	2.9	716.4	6.2
1977	13,095.0	90.6	499.7	3.5	857.9	5.9
1978	15,535.5	88.9	735.5	4.2	1,205.9	6.9
1979	20,464.2	89.2	1,010.2	4.4	1,457.6	6.4
1980	24,959.5	88.9	1,271.6	4.5	1,837.5	6.6
1981	31,169.0	88.5	1,691.2	4.8	2,375.6	6.7
1982	33,166.1	86.1	2,268.0	5.9	3,066.9	8.0
1983	42,403.8	83.2	3,402.3	6.7	5,173.9	10.1
1984	50,861.7	71.1	3,922.3	5.5	9,635.4	23.4
Average growth rate	22.1		37.1		32.0	

Source: Bangladesh Bank Bulletin, February, 1985

TABLE 5

Total Bank Deposits, 1976-84
By Rural and Urban Area
Year ending June 30

YEAR	AREA										
	RURAL					URBAN					
	Deposits	Percent	Average Branch Deposit	Number of Branches	Deposit	Percent	Average Branch Deposit	Number of Branches	Deposit	Number of Branches	Average Branch Deposit
(Million Taka)		(Million Taka)		(Million Taka)		(Million Taka)		(Million Taka)		(Million Taka)	
1976	1,062.7	9.2	1.28	628	10,531.0	90.8	11.42	922	11,593.7	1,750	6.62
1977	1,551.8	10.8	1.47	1,053	12,900.8	89.2	12.78	1,009	14,452.6	2,082	7.01
1978	2,316.2	13.3	1.42	1,634	15,160.6	86.7	13.48	1,125	17,478.8	2,759	6.33
1979	3,540.4	15.4	1.77	2,001	19,391.4	84.6	15.55	1,247	22,931.8	3,248	7.06
1980	5,041.4	14.4	2.07	2,437	24,026.8	85.6	17.90	1,342	28,068.0	3,779	7.43
1981	5,599.0	15.9	2.00	2,796	29,636.8	84.1	19.85	1,493	35,235.8	4,289	8.22
1982	5,937.9	15.4	2.03	2,932	32,563.1	84.8	21.17	1,538	38,501.0	4,470	8.61
1983	8,543.5	16.8	2.80	3,050	42,438.5	83.3	27.12	1,585	50,980.0	4,615	11.05
1984	12,214.7	17.1	3.70	3,301	59,389.3	82.9	35.25	1,684	71,584.0	4,985	14.36
Average growth percent	36.7		15.1	19.8	24.4		15.4	7.9	25.9	14.3	10.8
Weighted share	15.7				84.3						

Source: Bangladesh Bank Bulletin, February, 1985

Scheduled Banks Statistics, 1976-84, Bangladesh Bank

significantly, a great potential still appears to exist for further rural deposit mobilization.

Some of the major issues that are important for understanding recent trends in rural deposits and for formulating an effective rural deposit mobilization policy include: Can rural bank branches mobilize more personal deposits? Has the increase in rural deposits been due largely to government or to business deposits? What is the composition of rural deposits by type? Do rural deposits vary significantly by interest rates? Published data do not provide enough detail to answer such questions so the original branch level data compiled on Bangladesh Bank data tapes were used to analyze the deposits of the five major banks - Agrani, Janata, Rupali, Sonali, and BKB - that mobilize most of the rural deposits. The analysis covered data only for 1983 and 1984 so the findings must be treated as an analysis of short run behavior of rural deposits.

Table 6 reports the distribution of rural deposits of these five major banks. On the average, non-interest bearing deposits constituted about one-fifth of the deposits mobilized by the rural branches of these five major banks but a significant redistribution among types of interest-bearing deposits is noted². All categories of term deposits increased significantly from 1983 to 1984 relative to other types of deposits. Total rural deposits increased by about 45 percent, while increases in

² Interest-bearing deposits include time, savings and term deposits.

TABLE 6
Rural Deposits of Five Banks
by Type, 1983-84,
Year ending June 30

TYPE	1983		1984		Growth Rate Percent
	Deposit	Percent	Deposit	Percent	
(In Million Taka)					
Current Deposit	1,588.4	20.7	2,112.1	19.0	33.0
Call Deposit	66.7	0.9	70.0	0.6	4.9
Time-Demand Deposit	623.9	8.1	920.1	8.3	47.5
Saving (Checking) deposit	2,671.0	34.8	3,715.2	33.4	39.1
Saving (Non-checking) deposit	945.8	12.3	1,404.6	12.6	48.5
Term Deposit:					
3 - < 6 months	53.8	0.7	95.9	0.9	78.3
6 - < 12 months	67.0	0.9	156.0	1.4	132.8
12 - < 24 months	250.5	3.3	412.6	3.7	64.7
24 - < 36 months	75.1	1.0	121.6	1.1	61.9
36 + months	1,343.3	17.5	2,113.4	19.0	57.3
TOTAL	7,685.5	100	11,121.6	100	44.7

Source: Bangladesh Bank Data Tape

term deposits ranged between 57 to 133 percent depending on type. This changing composition of rural deposits suggests that depositors treat some types of deposits as investments, and they are responsive to higher interest rates. Responsiveness to interest rates is further shown in Table 7. Deposit categories which paid higher interest rates increased significantly, particularly deposits earning more than 11 percent.

The expansion of the banking network in rural areas provides services to businesses and governmental units, as well as households. Table 8 shows the distribution of rural deposits by category of depositors as reported by the banks. There are some doubts about the reliability of these data but it appears that about 83 percent of the deposits originated from the private sector during these two years. Personal and service deposits constituted about three-fifths of total rural deposits while the share of the public sector deposits was about 16 percent. Thus it appears that a significant amount of rural bank deposits come from households.

Unfortunately, the characteristics of personal depositors are not known. We do not know the amount represented by farm households or by low income groups, for example. Some inferences can be obtained by analyzing the size distribution of rural deposits if it is assumed that small size deposit accounts are generated from low and middle income households. Table 9 reveals that 50 percent of the total rural deposits representing 95 percent of the number of accounts in 1983 were less than five

TABLE 7
Rural Deposits of Five Banks
by Interest Rates, 1983-84.
Year ending June 30

SIZE	1983		1984		Growth Rate Percent
	Amount	Percent	Amount	Percent	
	(Million Taka)		(Million Taka)		
00	1,788.5	23.3	2,439.1	22.1	31.3
4 - 5	455.9	5.9	705.8	6.4	54.8
6 - 6.5	2.2	c/	b/	c/	-99.1
8 - 9	2,681.0	34.9	3,727.3	33.5	39.0
9.5 - 11.0	951.6	12.4	1,410.8	12.7	48.3
12.0	54.6	0.7	96.0	0.9	75.8
12.5	4.6	0.1	2.5	c/	-45.7
13.0	67.9	0.9	156.1	1.4	129.9
14.0	254.4	3.3	418.8	3.8	64.6
14.5	75.4	1.0	122.0	1.1	62.7
15.0	1,349.4	17.6	2,133.3	19.2	58.1
TOTAL _{a/}	7,685.5	100	11,121.5	100	44.7

a/ Total may not agree because of rounding.

b/ Less than 0.1 Million Taka

c/ Less than 0.1 Percent

Source: Bangladesh Bank Data Tape

TABLE 8
Rural Deposits of Five Banks
by Category of Depositors, 1983-84,
Year ending June 30

CATEGORY	1983		1984		Growth Rate Percent
	Amount	Percent	Amount	Percent	
	(Million Taka)		(Million Taka)		
FOREIGN	41.7	0.5	73.3	0.7	75.8
PUBLIC SECTOR:	1,390.0	16.8	1,744.9	15.6	25.5
Government	218.6	2.8	347.1	3.1	58.8
Public Enterprises	535.6	7.0	691.1	6.2	29.0
Autonomous, Semi-auto and Local Authorities	477.0	5.4	537.4	4.8	28.9
Others:	118.8	1.6	169.3	1.5	42.5
PRIVATE SECTOR:	6,353.6	82.7	9,303.8	83.6	48.4
Agri, fishing, etc.	98.4	1.3	157.5	1.4	60.0
Personal and service	4,423.3	57.5	6,698.7	60.2	51.4
Manufacturing, business org. & others	574.0	7.5	735.2	6.6	28.1
Others:	1,257.9	16.4	1,712.4	15.4	36.1
TOTAL ^{a/}	7,685.5		11,121.6		44.7

^{a/} Total may not agree because of rounding.

Source: Bangladesh Bank Data Tape

TABLE 9

Rural Deposits and Number of Deposits Accounts
of Five Banks by Size of Deposits, 1983-84,
Year ending June 30

Size of Accounts (In Thousand)	1983				1984				Growth Rate Percent	
	Amount (In Million Taka)	Percent	Number of Accounts	Percent	Amount (In Million Taka)	Percent	Number of Accounts	Percent	Amount of Deposits	Number of Accounts
0 - <5	3906.8	50.8	3,812,936	95.3	5,375.1	48.3	4,687,213	94.0	37.6	22.9
5 - <10	720.1	9.4	102,556	2.6	1,093.3	9.8	156,811	3.2	51.8	52.9
10 - <25	925.9	12.0	61,042	1.5	1,333.0	13.8	101,148	2.0	65.6	65.7
15 - <50	544.7	7.1	16,042	.4	875.2	7.9	25,877	.5	60.6	61.3
50 - <100	372.1	4.8	5,412	.2	628.2	5.7	9,377	.2	68.8	73.3
100 - <200	309.5	4.0	2,317	.1	674.8	6.1	2,992	.1	118.0	29.1
200 - <300	111.6	1.5	466	a/	152.3	1.4	635	a/	36.5	36.3
300 - <400	89.0	0.9	204	a/	86.4	0.8	249	a/	25.2	22.1
400 - <500	67.7	0.9	152	a/	53.2	0.5	118	a/	-21.4	-22.4
500 - <1000	137.7	1.8	212	a/	232.3	2.1	339	a/	69.2	59.9
1000 +	521.2	6.8	202	a/	684.3	6.2	268	a/	31.3	32.7
TOTAL	7685.9		4,001,504		11,121.6		4,985,027			

a/ Less than 0.1 percent.

Source. Bangladesh Bank Data Tape

thousand taka in size³. Although the growth rate in large size accounts tended to be somewhat faster between 1983 and 1984, it appears that low and middle income households have significant access to rural banking facilities. It cannot be determined, however, how many of these accounts are specifically for farm households compared to households engaging in non-farming enterprises.

The econometric analysis which follows was based on district level data so Table 10 shows the distribution of rural deposits by districts⁴. The magnitude and growth rate of deposits varied widely across the districts. The three most commercially developed districts tended to have a deposit growth rate somewhat below the level of many less developed districts. This could imply that monetization of the economy and banking is expanding into the hinterland.

Deposits also vary significantly by bank (Table 11). Historically, BKB has placed less emphasis on deposit services compared to the other banks, and this is reflected in its smaller share of total rural deposits and low level of deposits per branch. On the other hand, Sonali has treasury functions so it is not surprising that it has the largest amount of total deposits and the highest average deposits per branch.

³ Approximately 30 taka equal one US dollar in recent years.

⁴ District is an intermediate administrative unit between division and Upa-zilla.

TABLE 10
Rural Deposits of Five Banks
by District, 1983-84,
Year ending June 30

DISTRICT	1983		1984		Growth Rate Percent
	Amount	Percent	Amount	Percent	
	(Million Taka)		(Million Taka)		
Chittagong	1,091.4	14.2	1,449.2	13.0	32.8
Chittagong H.T.	124.2	1.6	183.5	1.7	47.7
Comilla	589.2	7.7	905.0	8.1	53.7
Noakhali	367.5	4.8	518.2	4.7	41.0
Sylhet	913.0	11.9	1,251.5	11.3	37.1
Dhaka	992.1	12.9	1,406.6	12.7	41.8
Faridpur	237.6	3.1	340.5	3.1	43.3
Mymensing	252.0	3.3	325.5	2.9	29.2
Tangail	194.1	2.5	274.7	2.5	41.5
Jamalpur	116.9	1.5	158.2	1.4	35.3
Barisal	251.2	3.3	381.2	3.4	51.8
Jessore	372.2	4.8	559.9	5.0	50.4
Khulna	290.4	3.8	532.4	3.9	83.3
Kushtia	214.1	2.8	308.4	2.8	44.0
Patuakhali	74.8	1.0	128.3	1.2	71.5
Bogra	248.3	3.2	359.0	3.2	44.6
Dinajpur	226.1	3.0	347.9	3.1	71.5
Pabna	306.6	4.0	443.4	4.0	44.6
Rajshahi	481.7	6.3	786.8	7.1	63.3
Rangpur	341.5	4.4	561.7	5.1	64.5
TOTAL _{a/}	7,685.5	100	11121.6	100	44.7

a/ Total may not agree because of rounding.

Source: Bangladesh Bank Data Tape

TABLE 11
Rural Deposits of Five Banks
By Bank, 1983-84
Year ending June 30

BANK	1983			1984			Growth Rate	
	Amount	Percent	Per branch deposit	Amount	Percent	Per branch deposit	Deposit	Per branch deposit
	(Million Taka)	(Million Taka)	(Million Taka)	(Million Taka)	(Million Taka)	(Million Taka)		
Agrani	1,596.1	20.8	3.1	2,220.9	20.0	4.4	39.1	41.9
Janata	1,924.9	25.1	3.6	2,648.0	23.8	5.0	37.6	38.9
Rupali	891.8	11.6	3.6	1,194.0	10.7	4.9	33.9	36.1
Sonali	2,589.6	33.7	3.9	4,058.4	36.5	5.2	56.7	33.3
Krishi	683.0	8.9	1.0	1,000.3	9.0	1.4	46.5	40.0
TOTAL	7,685.9	100	2.9	11,121.6	100	4.0	44.7	37.9

Source: Bangladesh Bank Data Tape

DETERMINANTS OF DEPOSIT BEHAVIOR

One of the research objectives was to design and test an econometric model to explain voluntary financial savings of households. The five-bank data set was reduced to include only interest-bearing deposits in order to approximate the demand for deposits by rural households. This is analogous to the supply of deposits provided to deposit-taking institutions.

Since the introduction of the McKinnon and Shaw theoretical models, researchers have largely concentrated on two variables - interest rates and banking facilities - in the analysis of financial development. Five major factors are found in the literature of deposit determination functions - income, interest rates, access to banking facilities, transaction costs and yields on alternate investments. In addition to these factors, some important variables such as quality of services provided to depositors, the awareness of banking services by the public and perceptions of the safety of deposits are largely ignored in empirical research.

Income is expected to have a positive effect on deposits. Because of the variability of income, the "permanent income" hypothesis is expected to better explain the influence of income than does the "absolute income" hypothesis. Several studies on deposit mobilization have used the "absolute income" hypothesis (e.g., Srinivasan and Meyer; Vasquez), while the empirical validity of the "permanent income" hypothesis is well established in the literature on savings (e.g., Canh; Friend and Taubman;

Williamson). The hypothesis is that depositors are sensitive to changes in transitory income and use financial savings to even out consumption expenditures under variable income situations. Thus, the elasticity of deposits with respect to transitory income is expected to be higher than with respect to permanent income even though both elasticities are expected to be positive.

The most widely debated issue in rural finance is the relationship between interest rates and financial savings. Keynes suggested a negative relationship between interest rates and investments, but McKinnon and Shaw argued that low nominal interest rates contribute to inefficient investment decisions and mobilization of household savings. Several studies following the McKinnon and Shaw models have established that low nominal interest rates coupled with high inflation rates discourage deposits while positive real interest rates stimulate deposits (e.g., Fry; Giovannini; Lanyi and Saracoglu; Srinivasan and Meyer; Vasquez). Wai has argued that in LDCs, however, financial savings may not always be responsive to interest rates because of market rates below equilibrium levels, the possible insensitivity of depositors to small changes in interest rates, income effects outweighing substitution effects, and religious and social rules which prohibit interest rates. Some studies have demonstrated a weak relationship between interest rates and deposits (e.g., Iqbal; Tanchoco-Subida). The controversy continues but Lanyi and Saracoglu, using empirical evidence from Asian and Latin American countries, suggested that the substitution effect of higher

interest rates is more important than the income effect in developing countries so positive real interest rates should positively influence deposits.

Transaction costs of holding deposits are important because high transaction costs reduce the net return received by depositors. Burkett and Vogel, and Ortmeyer underscored the significant role of transaction costs in portfolio decisions of households. Most of the available literature considers the impact of borrower and lender transaction costs on credit rationing (Ahmed; Gonzalez-Vega; McKinnon; Shaw). No study has been found which directly tests the effects of depositor transaction costs on deposits. Most studies have relied on indirect estimates of transaction cost effects (e.g., Burkett and Vogel; Srinivasan and Meyer). Transaction costs can be proxied by access to banking facilities, and availability of roads and vehicles. Rana, Srinivasan and Meyer, Vasquez, and Wai found a positive and significant relationship between demand for deposits and expansion of bank branches.

Some analysts argue that demand for deposits is influenced by education levels which, in turn, increase the awareness of rural people about banking services (Mauri; Von Pischke). Literacy or awareness of banking services is the least emphasized factor in the study of rural deposits. The available empirical evidence is inconclusive. Vasquez found a negative elasticity of deposits with respect to education in the Dominican Republic; Koropecy found a positive relationship in Bangladesh. As rural

people become more knowledgeable about banking and banking services, they develop confidence in banking institutions and their employees and a sense of security in bank deposits. This is expected to increase demand for deposits.

Studies on deposit mobilization normally assume one-way causality between deposits and bank branches. This assumption fails to recognize the decision-making processes involved in expanding banking facilities. Not only are deposits influenced by bank branches, but the expansion of bank branches is also influenced by the level of deposits in any area. It is expected that banks make decisions on expanding their facilities by considering factors such as level of competition, deposit potential, regional income, and existence of roads and vehicles. When supply-leading approaches are used in rural finance, then volume of rural credit may also influence expansion of bank branches. In this study, a two-way causality between deposits and expansion of the banking network is assumed.

The limited evidence available on bank branching indicates that the level of competition and deposit potential influences location of bank branches (Doyle et.al; Spong and Hoenig). The Bangladesh Bank considers deposit potential and level of competition in granting licenses to banks to open new branches in any area. The banks are assumed to consider other factors that influence bank viability. Therefore, it can be argued that expansion of bank branches is determined by permanent income in a region, volume of loans, inflation rates which influence the real

level of deposits, the incidence of roads and vehicles, and the volume of deposits generated by other banks.

Income, being an important determinant of deposits, is also expected to be a key variable explaining rural bank branch location. The relationship between income, deposits and bank branches suggests that the higher the level of permanent income, the wider is the network of rural banks. Doyle et. al used number of retail shops as an indicator of deposit potential.

No literature is available that establishes an explicit relationship between rural credit and expansion of bank branches. However, the supply-leading approach to rural finance suggests that volume of rural loans contributes positively to the expansion of banking facilities (Patrick; Rana). Thus, it is expected that the greater the volume of rural credit outstanding, the larger will be the number of banking facilities in rural areas. Because of the negative causality between deposits and inflation, and the positive relationship between deposits and bank branches, it is logically expected that inflation adversely affects expansion of the banking network.

In addition to deposits, inflation and volume of credit, roads and vehicles facilitate banks to expand their facilities in rural areas because they facilitate faster travel and greater safety in handling money and providing banking services.

EMPIRICAL MODEL

The assumption of two-way causality between deposits and bank branches implies the need for a simultaneous equations model to explain rural deposits. The mathematical form selected for the model was a power function based on a Cobb-Douglas production function and the empirical evidence of Burkett and Vogel, Chase, and Srinivasan and Meyer. To account for the differences in district size, a per-capita specification of the variables was used. As in previous studies, linearity was imposed on the model. The model was expressed mathematically in the log-log form as follows:

$$\ln(\text{DINT}/\text{POP}) = A + \alpha_1 \ln \text{PYP} + \alpha_2 \ln \text{PYT} + \beta_1 \ln \text{BF} + \beta_2 \ln \text{RDV} + \lambda \ln L + \gamma \ln P + U_1 \quad (1)$$

$$\ln \text{BF} = B + \alpha_1 \ln \text{PYP} + \beta_2 \ln \text{RDV} + \gamma \ln P + \eta \ln \text{PCR} + \theta \ln(\text{DINT}/\text{POP}) + U_2 \quad (2)$$

where,

DINT/POP = Per-capita district interest bearing deposits;

PYP = Per capita district permanent income;

PYT = Per capita district transitory income;

BF = Per capita number of district rural bank branches;

RDV = District index of roads and vehicles;

L = District literacy rate;

P = District rural inflation;

PCR = Per capita volume of district rural credit outstanding;

U_1, U_2 = error terms

The conceptual discussion above which yields equations (1)

and (2) excludes CR from equation (1) and L and PYT from equation (2) which satisfies the order conditions.

Second-stage least squares (2SLS) were used to estimate the parameters of the structural equations. The F-ratio was used to estimate the validity of the model and the conventional t-test was used to test the significance levels of the estimated parameters.

As discussed above, the relationship between deposits and number of bank branches is expected to be positive. Except for inflation, all other variables - permanent income, transitory income, literacy, and roads and vehicles - are likely to have significantly positive signs in the interest bearing deposit equation. Similarly, the number of bank branches is expected to be positively influenced by deposits, roads and vehicles, permanent income and volume of credit outstanding. Inflation is expected to negatively affect bank branching.

The model was fitted to pooled data of twenty districts for 1983 and 1984. Data on deposits, number of bank branches, and volume of rural credit outstanding were obtained from the Bangladesh Bank data tape. Data on literacy rates, inflation rates, income, and roads and vehicles were obtained from the Statistical Year Book, 1985, and District Statistics, 1983.

Data on district agricultural GDP for the period 1976-84 were taken as a proxy for district rural income, and were used to estimate permanent and transitory income in a trend equation. Trend values were considered as permanent income, while the

residuals were treated as transitory. Literacy was used as a proxy for awareness of rural people about banking, and was defined as the percentage of people who can read and/or write in relation to the total population of 5 years of age or above. Since nominal interest rates are the same across the districts, differences in real interest rates were measured in relation to differences in district inflation. Inflation was measured as a change in the cost of living index. Data on rural inflation were available only for six districts representing the four administrative divisions. Because of the small geographical size of divisions, inflation data for the six districts were used to represent all twenty districts.

District roads and vehicles were measured in an index as follows:

$$RDV_j = \left[\frac{RD_j}{TA_j} \cdot \frac{TV_j}{POP_j} \right] \cdot 100$$

where,

RDV_j = weighted index of roads and vehicles in jth district;

RD_j = Mileage of roads in jth district;

TA_j = Total geographical area of jth district;

TV_j = Total number of vehicles in jth district;

POP_j = Size of population in thousands of jth district.

Districts with a large number of vehicles and mileage of roads

per 1,000 people will have a high index. Vehicles were defined to include buses, cars and rickshaws.

ANALYSIS OF EMPIRICAL RESULTS

The empirical results obtained in testing this model are presented in Tables 12 and 13. The second stage statistics report the direct effects of the explanatory variables on deposits (Table 12) and bank branches (Table 13). Reduced form coefficients show the total effects (direct and indirect) of the variables on deposits and bank branches. The coefficients can be interpreted as elasticities in the double log estimation procedure.

All structural coefficients for the interest bearing deposit equation had the expected signs and, except for inflation rate and permanent income, were statistically significant. The model explains about 69 percent of the variance in interest bearing deposits. The bank branch equation, significant at the 0.0001 level, explains about 80 percent of the variance. Except for roads and vehicles, all structural variables in the bank branch equation were statistically significant.

A two-way causality between deposits and expansion of bank branches was hypothesized. The significant cross coefficients of bank branch and interest bearing deposits in the structural equations support this hypothesis. The elasticity of interest bearing deposits with respect to bank branches estimated at 0.985 was significant at the 0.10 level, while the elasticity of bank

TABLE 12

ESTIMATED PARAMETERS OF THE DOUBLE LOG
INTEREST BEARING DEPOSIT FUNCTION

Parameter (Variable)	Permanent Income Hypothesis			Absolute Income Hypothesis	
	Reduced Form Equation (T-Ratio)	Second Stage Statistics (T-Ratio)	Indirect Effect ^{a/}	Reduced Form Equation (T-Ratio)	Second Stage Statistics (T-Ratio)
Intercept	-1.686*** (-.932)	6.06*** (.884)	--	-2.243** (-1.328)	10.992** (1.428)
α_1 (PYP)	.595* (3.571)	.057 (.083)	.538	--	--
α_2 (PYT)	2.783** (1.225)	2.40** (1.260)	.383	--	--
λ (L)	.216 (.595)	.185*** (.849)	.031	.286*** (.811)	.169 (.758)
γ (P)	-.104 (-.560)	.058 (.230)	-.162	.009 (.061)	.287* (1.760)
β_1 (BF)	--	.985* (1.785)	--	--	1.626** (1.586)
β_2 (RD)	.278* (4.138)	.219* (2.333)	.059	.263 (3.948)	.167* (2.194)
η (PCR)	.119 (.623)	--	--	.194*** (1.134)	--
α (PY)	--	--	--	.565* (3.386)	-.341 (-.590)
F-Ratio	7.16*	11.91*	--	8.15*	16.35*
R-Square		.684	--		.706

*Significant at .05 level.

**Significant at .10 level.

***Significant at .20 level.

^{a/}Indirect effects are estimated as the difference between reduced form and second stage coefficients.

TABLE 13

ESTIMATED PARAMETERS OF THE DOUBLE LOG BANK BRANCH
FUNCTION IN THE INTEREST BEARING DEPOSIT MODEL

Parameter (Variable)	Permanent Income Hypothesis			Absolute Income Hypothesis	
	Reduced Form Equation (T-Ratio)	Second Stage Statistics (T-Ratio)	Indirect Effect ^{a/}	Reduced Form Equation (T-Ratio)	Second Stage Statistics (T-Ratio)
Intercept	-8.166* (11.06)	-7.893* (-12.762)	--	-8.14* (-11.762)	-7.577* (-10.959)
α_1 (PYP)	.568* (8.351)	.478* (3.096)	.09	--	--
α_2 (PYT)	.402 (.381)	--	--	--	--
α (PY)	--	--	--	.557* (8.145)	.415* (1.864)
λ (L)	.038 (2.54)	--	--	.072 (.481)	--
γ (P)	-.17* (-2.254)	-.155* (-3.591)	-.015	-.171* (-2.936)	-.173* (-4.208)
β_2 (RD)	.063* (2.309)	.022 (.294)	.041	.059* (2.178)	-.007 (-.061)
η (PCR)	.126 (1.617)*	.107** (1.487)	.019	.119* (1.702)	.071*** (.864)
θ (PDINT)	--	.158** (1.624)	--	--	.252** (1.679)
F-Ratio	12.94	26.20		14.74	29.15
R-Square		.794			.811

*Significant at .05 level.

**Significant at .10 level.

***Significant at .20 level.

^{a/} Indirect effects are estimated as the difference between reduced form and second stage coefficients.

branches with respect to interest bearing deposits estimated at 0.152 was significant at the 0.10 level.

Measures of both absolute and permanent income were included in the model. No statistically significant direct effect was found between deposits and permanent and absolute income, but both variables were significant in the reduced form deposit equation. Transitory income was significant in both deposit equations. These results imply that the "permanent income" hypothesis better explains the influence of income than does the "absolute income" hypothesis.

Both permanent income and inflation were insignificant in the structural equation for deposits, but significant in both bank branch equations. This implies that the decision-making process of expanding banking facilities is significantly influenced by permanent income and inflation rates. High inflation rates reduce the real value of deposits and discourage branch expansion. Because of the inter-relationship between permanent income, inflation, bank branch and deposits, it can be inferred that permanent income and inflation influence deposits indirectly through bank branches.

Roads and vehicles had a direct effect on interest bearing deposits, but not on expansion of bank branches. The reduced form coefficients for roads and vehicles in both interest bearing deposits and bank branch equations were statistically significant. This implies that roads and vehicles influence expansion

of bank branches indirectly through their effects on interest-bearing deposits.

Besides income, roads and vehicles, inflation, and literacy were significant in the interest-bearing deposit equation. Zero-coefficients were assumed for the volume of rural credit outstanding in the interest-bearing deposit equation, and assumed for literacy and transitory income in the bank branch equation. The reduced form coefficients show the validity of this assumption. The volume of rural credit outstanding had a positive effect on expansion of banking facilities, although the coefficient was relatively small.

The elasticity of deposits with respect to the explanatory variables in relation to their level of significance suggest that transaction costs, proxied by expansion of bank branches and roads and vehicles, play an important role in the decision-making process of depositors to demand deposits. Transaction costs and transitory income are the two major factors explaining interest-bearing deposits at the district level. Expansion of bank branches is largely explained, apart from deposits, by permanent income and inflation.

Because of lack of data, this study could not test all the variables that are likely to influence interest bearing deposits and bank branches. The major excluded variables are quality of bank services to depositors and interest rates paid on deposits. These represent priority areas for future research.

A STRATEGY FOR RURAL DEPOSIT MOBILIZATION

In this section, we suggest a strategy for deposit mobilization in Bangladesh based on our research and some recently completed studies on deposit mobilization and rural finance in Bangladesh (Nathan, 1986a, 1986b). The strategy requires policy and procedural changes, development of innovative programs and improvement in the quality of services provided to depositors.

(1) Branching policy: The expansion of banking facilities is the key factor in rural deposit mobilization because easier physical access should reduce transaction costs for depositors. Accessibility may be more important for rural households than for businesses or government offices. The "two-for-one" branching policy pursued during the 1977-81 period led to a rapid expansion of the rural banking network but may have had a questionable impact on the economies of bank operations (World Bank, 1983b). Even so, rural branches are still clustered in relatively more urban areas so banking services are not evenly distributed, and many potential areas remain unbanked. On the one hand, a bank branching policy is needed that encourages banks to spread their services more widely in rural areas so transaction costs are reduced for rural depositors. On the other hand, there must be a concern for the viability of branches. The Bangladesh Bank may, therefore, need to conduct studies to evaluate the needs for banking services in rural areas compared to the costs of providing the services.

(2) Innovative approaches to rural banking: Since high costs may prevent bank branch expansion into all rural areas, innovative approaches, such as a mobile banking system, need to be evaluated. Mobile banking may not only reduce transaction costs for both depositors and banks, but may also motivate rural women to hold deposits with banks. A Nathan report (1986a) found that rural women save but their savings are rarely deposited with banks because of their lack of access to banking facilities.

(3) Interest rate policy: Our econometric analysis showed that inflation was inversely related to interest bearing deposits indicating that rural depositors are responsive to positive real interest rates. Changes in the composition of total rural deposits and faster growth rates for higher interest deposits also suggest responsiveness to interest rates. Although interest rates on rural deposits have been occasionally adjusted, these changes have not ensured positive real returns on deposits. A more flexible interest rate policy is needed to more effectively adjust to changes in inflation. The Bangladesh Bank Interest Rate Technical Unit should be strengthened and entrusted with the responsibility of analyzing the needs for adjustments in interest rates within the broad framework established by the Ministry of Finance (Nathan, 1986a).

(4) Refinance policy: A major change was made in refinance rates in 1983. Previously, the spread between refinance rates and interest rates on deposits was quite wide. There is some evidence that indicates a negative causality between deposits and

cheap refinancing of loans (Cuevas). As suggested in Nathan (1986b), the relationship between refinance rates and interest rates on deposits must be assessed regularly, in part, because of its impact on deposit mobilization.

(5) Publicity: There has not been any significant study in Bangladesh that attempted to establish the relationship between deposit mobilization and the awareness of rural people about banking. In this paper, it was found that literacy, as a proxy for awareness about banking, positively influences deposits. A Nathan paper (1986b) found that publicity in rural areas is limited and inadequate. Banks need to put more stress on saving campaigns and publicity about bank services. The possibilities include special radio and television advertisements during programs oriented toward rural areas, publicity campaigns about savings and banks in villages particularly on weekly market (hat or bazar) days, and educational programs for rural students covering the role and functions of banks. The Agrani Bank is experimenting with the provision of field assistants to motivate villagers and to act as intermediaries between banks and potential depositors. This idea may be a promising innovation.

(6) Quality of services: Although we could not specifically test the impact of the quality of services rendered to depositors, there is some empirical evidence demonstrating the positive influence of service on the demand for deposits (e.g., Dadzie, Dunson and Akaah). Bangladesh banks need to place more stress on providing better services to depositors, especially in rural

areas where people are less aware of banking services. Improved service includes more efficient systems to reduce paper work, simplification of procedures, and more cordial relationships between bank employees and depositors.

(7) Flexible banking hours: It is frequently argued that banking hours in the rural areas should be more flexible because of the nature of rural economic activities (Nathan, 1986a). More flexible hours may be especially important for the branches functioning close to market places where traders and business organizations operate and where farmers converge for other transactions.

(8) More incentives to depositors: Two innovations should be tested which provide incentives to depositors in addition to interest earnings. First, additional benefits like prize bonds could be given to depositors for maintaining deposits for a particular period. These benefits might increase at an increasing rate with a maximum limit established for large deposits maintained beyond a stipulated period of time. Secondly, as recommended in Nathan (1986a), one category of deposits might be specifically tied to future loans. Bank customers might be encouraged to participate in a savings program that, for example, provides machinery or housing loans after a predetermined amount of savings have been accumulated. The Agrani Bank has met with some success in its experiment with the first idea.

(9) More incentives to bank employees: There are indications that branch managers consider existing staff incentives to be

inadequate (Nathan, 1986b). Experiments are needed to test the impact of providing additional incentives to branch employees. Incentives can be provided in several ways. First, a cash bonus can be provided for deposits mobilized by a bank employee. Secondly, promotions can be accelerated based on deposits mobilized. Thirdly, a percentage of branch profits can be distributed as an annual bonus to branch staff. These incentives may create a more competitive environment and encourage the bank staff to put more effort into seeking out and providing better service to customers.

(10) Training for bank employees: It has been recommended that branch employees receive training on different aspects of operating a branch including how to mobilize deposits (Nathan, 1986b). Each NCB and the BKB has its own training institutes but it is believed that much training has little effectiveness in the context of the rural socio-economic environment. Training programs must be oriented towards how to communicate with rural people and how to improve rural banking services

(11) Expansion of roads and vehicles: This study found that roads and vehicles directly influence interest bearing deposits because of the reduction in depositor transaction costs through reduced time spent in travelling to and from bank branches. The development of the rural financial system needs to be recognized as one of the benefits of improved rural roads. If government resources are not adequate for expanding public transport

services, then private investors should be encouraged to expand transport facilities.

SUGGESTIONS FOR FUTURE RESEARCH

Transaction costs are a major factor in influencing rural households to hold deposits in banks. We know of no study in Bangladesh on ways to reduce transaction costs of depositors, particularly small depositors. Obviously, the expansion of the rural banking network is an important way of reducing transaction costs. Issues then arise about the size of the geographical area that a bank branch should cover and the appropriate technology of rural banking that provides good quality service at low cost. Since costs prevent bank branches from extending into all rural areas, innovative approaches like mobile banking system may be useful but require careful cost-benefit analysis before implementation. More research is needed to identify cost effective ways of providing rural financial services.

As in other studies, number of bank branches and availability of roads and vehicles were used in this study as a proxy for transaction costs. More work is required to directly measure the contribution of bank branches and transaction costs to deposit mobilization. The expansion of the rural branch network not only reduces transaction costs for depositors but also provides other important rural financial services and increases the awareness of rural people about banking. Research should be undertaken at the household level to explicitly measure the

impact of transaction costs and assess the complete role of bank branches in providing financial services generally.

Deposits vary by bank so this raises the question as to what factors contribute to bank performance. What makes a good performing bank different from a poor performing bank? Are there important differences in their deposit mobilization policies? Are their manpower training programs and administrative policies significantly different? The study of these types of issues could contribute to developing a more efficient rural banking system.

Most of the literature on deposits focuses on demand issues. There has been little study, particularly in Bangladesh, on the supply aspects of deposit mobilization. More study of the supply side might aid the Central Bank and the deposit-taking institutions in the formulation of an effective deposit mobilization policy.

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