

Historical background of rural finance of bangladesh



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Historical background of rural finance The non-institutional or informal rural finance Informal rural finance markets enable flow of funds and transfer of rural financial assets through relatively localised transactions in money, and real goods and services among friends, relatives, kin-members, landlords, neighbours, shopkeepers, farmers, artisans, itinerant traders, marketing intermediaries, village mahajans (moneylenders), and other local income groups.

Informal financial markets do exist in urban areas, but are more prominent in rural areas where institutional sources of finance are either absent or insufficient to cater to the needs of funds of local professionals of different categories. The sources of informal rural finance in most developing countries include (a) professional moneylenders; (b) agricultural moneylenders; (c) commission agents; (d) relatives and friends, and different associations of rural professionals/self-help groups; (e) well-to-do rural people; and (f) shop-keepers, and marketing intermediaries and proprietors.

Contrary to formal rural finance, the informal segment of rural financial markets is not subject to regulation. The institutional or formal rural finance The sources of funds in the formal part of rural finance markets are mainly: (a) co-operatives that meet the needs of short, medium and long-term credit; (b) commercial, cooperative and specialised banks; (c) micro-finance institutions (MFIs) and NGOs conducting micro-finance operations; (d) agri-product marketing associations; and (e) land mortgage banks, and various government agencies including those established for agricultural development.

The operations of financial institutions in formal rural financial markets are typically heavily regulated, and the nature and extent of formalities, as well as the interest rate structure, usually make access to credit from this market restricted to limited segments of the rural population. . Before (1971) Formal financing through institutional sources evolved in Bengal during the British period. The Hindustan Bank was established in Calcutta in 1700. The Bengal Bank, established in 1784, is considered to be the first British-patronised modern bank in India to start trading in credit and money.

The 14 prominent banks operating in Bengal during the British period were located in Dhaka, Chittagong, Rangpur, Chandpur, Mymensingh, Pabna, Dinajpur, Comilla, and Narayanganj. In addition to these bank offices, 17 loan offices were established which operated throughout the Bangladesh region between 1850 and 1894. These were at Faridpur (1865), Bogra (1872), Barisal (1873), Mymensingh (1873), Nasirabad (1875), Jessore (1876), Munshiganj (1876), Dhaka (1878), Sylhet (1881), Pabna (1882), Kishoreganj (1883), Noakhali (1885), Khulna (1887), Madaripur (1887), Tangail (1887), Nilphamari (1894), and Rangpur (1894).

These loan offices extended their lending activity to the rural areas and gave short, medium and long-term credits. Provincial co-operative banks were established in 1912 under the Co-operative Society Act that was passed and enacted in the same year. The Bengal Co-operative Societies Act 1940 was enacted to allow the formation of co-operative societies. Following the Partition in 1947, Pakistan inherited a banking and credit structure from the British regime consisting of 631 bank offices belonging to both local and foreign banks.

Of these offices, only 159 were in rural areas. The State Bank of Pakistan, the central bank of the country, came into being in 1948 and attempted to strengthen the country's credit system through setting up new branches of commercial banks and other types of credit institutions in rural areas. In addition to the progress achieved in commercial banking, other credit institutions had also been established to satisfy the need for medium and long-term credits for rural trade, agriculture, industry, and housing in the 24 years between 1947 and 1971.

Among credit institutions, the Agricultural Development Bank of Pakistan had its branches in the rural areas of both the provinces. The East Pakistan Provincial Government's loan for agriculture in East Pakistan was Rs 28 million in 1956 and Rs 25 million in 1961-62. takavi loans for West Pakistan and Agricultural loans for East Pakistan constituted the operations of the government as a direct lender with no intermediate link between it and the agriculturists. Co-operative societies and organisations played a significant role in providing agricultural credit.

Total credit disbursed by East Pakistan credit societies for agriculture was Rs 27.5 million in 1948-49 and Rs 4 million in 1959-60. Non-credit co-operative societies provided Rs 1.6 million in 1948-49 and Rs 0.5 million in 1959-60. There were 8 land mortgage banks in East Pakistan at the end of 1959-60. These banks advanced Rs 0.63 million to farmers for redemption of old debts and permanent improvement of land. There were 83 central co-operative banks in East Pakistan in 1948-49. Together, they provided Rs 17.5 million in 1948-49, Rs 10.64 million in 1955-65 and Rs 28.8 million in 1959-60 to the agricultural sector. The Central Multipurpose Societies that existed

in East Pakistan at that time often resorted to credit business in order to fulfil the requirements of areas which were not served by central co-operative banks. There were 62 societies in operation in 1959-60. Their total outstanding credit was Rs 6.02 million. After (1971) After independence in 1971, Bangladesh inherited a weak banking system, which had 1,130 branches of 12 banks.

Between 1971 and 1976, Bangladesh Krishi Bank (formerly the Agricultural Development Bank) and the co-operatives were the two institutions that were meeting the need of agricultural credit. To increase the flow of credit for agriculture, the government inducted the NCBs in the field of agricultural credit in 1976 under a new programme called Special Agricultural Credit Programme (SACP) which was designed to cater to all seasonal crop loans. Rural branches of NCBs are now engaged in agricultural credit.

As against a total disbursement of Tk 860 million by the banking system in 1976-77, the agricultural loans rose to Tk 3.75 billion in 1980-81, Tk 11.5 billion in 1984-85 and Tk 76.3 billion in 1999-2000. The 844 branches of Bangladesh Krishi Bank (BKB) and 301 branches of Rajshahi Krishi Unnayan Bank (RKUB) are engaged in providing agricultural credit. At present, BKB has set its target to distribute a total credit of Tk 14.5 billion for agriculture in 1999-2000. Previously, the bank disbursed total agricultural credit of Tk 4.897 billion in 1997-98, Tk 11.69 billion in 1998-99, and Tk 9.175 billion in 1999-2000. RKUB distributed agricultural credit amounting to Tk 1.517 billion in 1997-98, Tk 2.50 billion in 1998-99, and Tk 2.636 billion in 1999-2000. Other major institutions providing rural finance in Bangladesh are the Bangladesh Samabaya Bank Ltd (BSBL), the apex institution of all central co-

operative societies, co-operative land mortgage banks, central sugarcane growers associations and thana co-operative societies. Any of the above societies can be a member of the Samabaya Bank Ltd, which had 511 members on 30 June 1999.

Total loans and advances of the BSBL as of 30 June 2000 was Tk 27. 43 million, of which Tk 25. 94 million was distributed to the agricultural sector. The rate of interest charged by the institutions of the country's banking systems engaged in agricultural credit varied from 9. 75 to 15. 50% on 30 April 2000. Despite the significant increase in the amount of total agricultural credit in the country during the last two and a half decades, NCBs, BKB and the RKUB together cater to only 50% of the total agricultural credit at present. The rest is being provided by the informal money market.

A Lead Bank Scheme is in operation for co-ordinated distribution of agricultural credit throughout the country. Under this scheme, each of the branches of NCBs, and BKB was allocated one or more of the Unions for servicing agricultural credit so that the NCBs, together with BKB and RKUB, could cover the entire country. For each financial year, the central bank of the country (Bangladesh Bank) formulates and promulgates the agricultural credit policy according to which banks and other institutions operate their agricultural credit-giving activities.

The agricultural credit market in the country is highly vulnerable as most part of the credit is non-performing and eaten up by big farmers, the rural rich elite, and touts. On the other hand, a large portion of institutional agricultural credit goes to the informal market and for re-lending to needy farmers and the rural poor at exorbitant interest rates. A huge amount is also

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diverted for consumption and other purposes. Moreover, the recovery rate of agricultural credit in the country is now only around 42%, which is a heavy barrier to its expansion.

The NGOs operating in the country with microcredit programmes also constitute a major group of formal institutions providing rural finance. They work with the rural poor who are largely bypassed by the banking system and other credit-giving agencies. A few NGOs are also working with the urban poor. One statistical report on 369 NGOs, the Grameen Bank, Palli Karma Sahayak Foundation (PKSF), and the Ministry of Youth and Sports reveals that these institutions distributed Tk 535.9 million to their 4,926,427 borrower-members in 1998. .