

AN INTERNSHIP REPORT
ON
AGRICULTURAL BANKING:
EVIDENCE FROM NORTHERN REGION OF BANGLADESH

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Submitted By

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October 2011

Dedicated
to MY
RESPECTABLE PARENTS

AGRICULTURAL BANKING: EVIDENCE FROM NORTHERN REGION OF BANGLADESH

An internship report submitted in partial fulfillment of the requirement for the
degree of

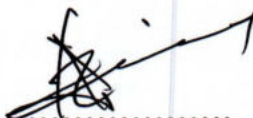
MASTER OF BUSINESS ADMINISTRATION

**In
FINANCE**

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October 2011

LETTER OF TRANSMITTAL

October 16, 2011

Mohammad Zoynul Abedin

Supervisor of Internship Program

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Hajee Mohammad Danesh Science and Technology University, Dinajpur

Ref: Submission of the Internship Report

Dear Sir,

I feel a great pleasure in presenting here with this Internship Report on **“Agricultural Banking: Evidence from Northern Region of Bangladesh”**, that was assigned to me as completion of internship program for achievement of MBA Degree successfully. The Internship program gives me the opportunity to have an *insight on agricultural banking services of the banks practically.*

I have designed this internship report on my exposure to **“Agricultural Banking: Evidence from Northern Region of Bangladesh”**. It's a great pleasure for me to illustrate you this report. The internship program was very much importance and valuable to me as it helped me to gain experience from the real life.

With the best regards

Sincerely Yours



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LETTER OF CONFIRMATION

This is to declare that this Internship Report, Title “**Agricultural Banking: Evidence from Northern Region of Bangladesh**” is prepared by me by following the direction of my supervisor but without helping of any other students. To work on this assigned title, as a researcher, I have collected data from journal, articles, newspaper, books, annual report of banks, personal contact of bank officer and employees and direct field observations. I have spent time and efforts to study and work on the assigned title “**Agricultural Banking: Evidence from Northern Region of Bangladesh**”.

I, therefore, really and fully satisfied to study and work on the above assigned topic.

Yours truly



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CERTIFICATE FROM SUPERVISOR

This is to certify that **Md. Ashraful Islam**, Student ID No. 0905067, a student of the Master of Business Administration (MBA) Program, Major in Finance, Hajee Mohammad Danesh Science & Technology University, has successfully completed comprehensive internship program which is approved and is suitable in eminence. During the period of his internship of Prime Bank Limited, he acquired practical knowledge as well as showing satisfactory overall performance to study and work on the title **“Agricultural Banking: Evidence from Northern Region of Bangladesh”**.

I wish him very success in life.



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(Mohammad Zoynul Abedin)

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Prime Bank Limited
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Dinajpur Branch

Prime/DNP/2011/949

October 13, 2011

TO WHOM IT MAY CONCERN

This is to certify that **Md.Ashraful Islam**, a student of MBA Program-2009 Major in Finance, **Hajee Mohammad Danesh Science and Technology University (HSTU)**, Dinajpur, bearing Student No # 0905067 has been completed 03(three) months "**Internship Program**" at our Branch with effect from 13.04.2011 to 12.07.2011. The participation of **Md.Ashraful Islam**, Internee in the Internship Program at our Branch has also been found impressive, praiseworthy & enthusiastic.

We wish him every success in life.

Md. Abul Hasnat Khan
SEO & Head of Branch

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Date: 16-10-2011

Author

ABSTRACT

Bank is the financial institution that commits funds today in order to receive a return in the future. Bank involves providing several types of banking services to their clients. Agricultural banking is one of the prominent banking services found in the banking sector. Their motto is to helping the agricultural sector and all the sub sector of agriculture that has greater importance in eradicating the poverty. Agricultural banking is needed very much to the people residing in the rural area. They get loan facilities from the banks and promote the standard of living by engaging the total effort to the agricultural purpose. Some specialized banks are formed to focus on the agricultural sector in the rural area. There is a little number of private banks in Bangladesh to provide assistance to the agricultural sector. Since the northern part of Bangladesh is fall under the negligence due to industrial sector much more emphasis should be given to the agricultural sector. The detail analysis on the agricultural banking in the northern part of Bangladesh taking farmers as the respondents in the rural area the situation of agricultural banking is critically analyzed and interpreted. There are also some suggestions in regards to the agricultural banking, its prospects and its contribution to poverty reduction and economic development.

ABBREVIATION

ADB	: Asian Development Bank
BASIC	: Bank of Small Industry and Commerce
BATEXPO	: Bangladesh Apparel & Textile Exposition
BB	: Bangladesh Bank
BDBL	: Bangladesh Development Bank
BEPZA	: Bangladesh Export Processing Zone Authority
BGMEA	: Bangladesh Garments Manufacturers and Exporters Association
BKB	: Bangladesh Krishi Bank
BKMEA	: Bangladesh Knitwear Manufacturers and Exporters Association
BRDB	: Bangladesh Rural Development Board
BSBL	: Bangladesh Samabaya Bank Ltd
BSCIC	: Bank of Small Industries and Commerce
BSRS	: Bangladesh Shilpa Rin Sangstha
CAMELS	: Capital Adequacy, Asset Quality, Management Soundness,
CC	: Cash Credit
DAM	: Department of Agricultural Marketing Earnings, Liquidity and Sensitivity to Market Risk
ESAF	: Enhanced Structural Adjustment Facility
FAO	: Food and Agricultural Organization
FCB	: Foreign Commercial Bank
FY	: Fiscal Year
GB	: Grameen Bank
GDP	: Gross Domestic Product
GDP	: Gross Domestic Product
GNP	: Gross National Product
GNP	: Gross National Product
GSP	: Generalized System of Preference

HSTU	: Hajee Mohammad Danesh Science & Technology University
IMF	: International Monetary Fund
IRDP	: Integrated Rural Development Program
MBA	: Master of Business Administration
MFI	: Micro Finance Institutions
NBFI	: Non Bank Financial Organization
NGO	: Non Government Organization
PCB	: Private Commercial Bank
PKSF	: Palli Karmasahayak Foundation
PRGF	: Poverty Reduction and Growth Facility
RAKUB	: Rajshahi Krishi Unnayan Bank
SACP	: Special Agricultural Credit Programme
SCB	: State-Owned Commercial Bank
SDB	: Specialized Development Bank
SME	: Small and Medium Enterprise
UNDP	: United Nations Development Program
UNICEF	: United Nations Children Fund
VDP	: Village Development Program
WB	: World Bank

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CHAPTER 1

INTRODUCTION

Chapter 1

Introduction

1.1 Introduction

A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or capital markets. A bank connects customers with capital deficits to customers with capital surplus. The researcher states that bank is a financial institutions deals with money and money's worth securities, that offering certain financial services such as the safekeeping of money, conversion of domestic into and from foreign currencies, lending of money at interest and acceptance of bills of exchange and accepting deposits and lending loan are the main activities of commercial banks.

Banks exist to provide several services agricultural banking services is one of them. Agricultural banking implies providing sufficient assistance to the particular community for the development of agriculture. There are only few banks found in the urban area to serve agricultural banking services. Through agricultural banking farmers get agricultural loan to use in the productive purpose. The proper use of agricultural loan depends on the direct supervisions of lending banks and the borrower himself.

About 75% of the total population depends on agriculture. Banks have an important role for the development of agricultural sector. The advancement in the field agricultural sector indirectly implies the progress of rural area. In a changing environment banks are diversifying their role in the agriculture sector in order to get revenue from their significant contribution to agriculture. The two banks namely Rajshahi Krishi Unnayan Bank and Bangladesh Krishi Banks have an aware to develop the agricultural sector in the rural area. The positive attitudes of banks toward the development of agricultural sector lead a great success to the rural area.

Economic development indicates the live styles of a particular community of a country. In a developing country, like Bangladesh try to develop the infrastructure of the economic situation. The majority of the population of this country relies on agriculture. Banking system of Bangladesh helps a lot to keep the economic situation in upward trends. By helping the farmers of the rural sector banks in one side earn revenue in another side contribute to run on production of farmers in a successive way. Banks, its agricultural banking services and overall economic development of Bangladesh is tied with one another.

1.2 Objectives of the Study

The prime and foremost objective of the study is to know the role of agricultural banking in the northern region of Bangladesh. To highlight the prime objective other specific objectives are-

1. To determine the impact of agricultural banking in the economic development of Bangladesh.
2. To focus on the activities of banks towards the farmers of northern region of Bangladesh.
3. To show the limitations of agricultural banking services in the northern region of Bangladesh.
4. To attempt to offer recommendations based on the findings of the study.

1.3 Rationale of the Study

This study would be a useful tool in the hands of the Ministry of Finance and the Bangladeshi Economic Planners. Also, it is envisaged that the result of this study would help to create an awareness of the function of the credit unions or banks in the rural areas to the people and the policy makers of the northern region of Bangladesh. This would enable the nation to adopt strategies which will help to achieve the objectives of the rural farmers. Finally, the findings of the study would provide data base for further research work (Obeng 2008).

1.4 Limitations of the Study

This study was limited to the role of agricultural banking services in the northern region of Bangladesh. There are a number of factors that boosts economic development but impact of a few factors are mentioned. The study was limited to the selected farmers in the northern part of Bangladesh. There is no other thing that is beyond limitation. This study faces the following limitations-

1. Financial constraints: This poses difficulty in interviewing so many farmers.
2. Time: Because the study was conducted within the limited time framework.
3. Data collection: The distribution and collection of questionnaires was time consuming because of the location and dispersed nature of the respondents.
4. Illiteracy: Ignorance of the farmers as respondents makes the delay to collect the relevant data.
5. Privacy: Farmers felt scare to provide personal information.

1.5 Organization of the Study

The study is divided into ten chapters-

Chapter 1 consists of the introduction, objective, rationality and limitations of the study.

Chapter 2 reviews existing literature as regard agricultural baking as a factor of generating economic development.

Chapter 3 outlines the economy of Bangladesh with economic history, economic outlook, major economic sectors and overview. It also deals with the main aspects of economy of northern region of Bangladesh and relationship between agricultural banking and economy of northern region of Bangladesh.

Chapter 4 discusses with an overview of source of finance from which financing can be done for particular community to serve useful purpose.

Chapter 5 demonstrates the structure of financial system focusing mainly with the banks like commercial banks, specialized banks and non bank financial institution, their activities and regulatory environment.

Chapter 6 provides an in-depth study on agricultural banking operations of Prime Bank Limited and a descriptive study on agricultural banking operations of one of the state owned specialized development bank Rajshahi Krishi Unnayan Bank.

Chapter 7 consists of the methodology. The methodology consists of the research design, population, sample and sampling technique, data collection procedure, data analysis and the software used in the analysis.

Chapter 8 consists of data analysis, and interpretation of the collected data.

Chapter 9 analyses the findings of the study.

Chapter 10 concludes the study with conclusion and recommendations.

CHAPTER 2

LITERATURE REVIEW

Chapter 2

Literature Review

This section of the study seeks to find out what others have written about the subject matter. The section primarily deals with what other authors have done in regard to this subject matter.

More farmers in the rural areas do have problems in dealing with the rural banks or the credit unions. Some of these problems include preparing viable business proposals and collateral securities that the banks do demand. Meanwhile, majority of the farmers are not well educated in order to plan or write their own business proposals. In addition, it becomes very difficult for the farmers to secure loans because of the collateral securities demanded by the banks. Some of the banks even look at the scale of the farm before granting loans. The most alarming problem that the farmers do face is the high interest rates or bank charges. It is very difficult these days for the farmers to borrow money from the rural banks because of the high interest rates. More of the farmers do even end up by selling their lands or assets in order to pay the loans they have borrowed. As at now, the prime interest rate in the country revolves around 16 percent. This has therefore increased the bank charges. The minimum bank charges now ranges between 21-25 percent.

According to the Chronicle paper (February 2008), The Deputy Minister of Finance and Economic Planning, Professor George Gyan-Baffour, has indicated that high interest rates charged by universal banks as well as savings and loans companies are killing businesses in the country, especially Small and Medium Enterprises (SMEs). He said the trend between lending and borrowing was still high since it is affecting the growth of businesses in the country. According to him, the problem of high interest rates is an impediment on the economy since it forces more businesses to close down. The research therefore looked at the impact of these credit unions or rural banks on farmers in the rural areas. (Obeng 2008).

Agricultural research will remain largely in the public domain, but efforts are being made to develop programmes involving NGOs and the private sector. Credit facilities will be provided to the private initiatives for small and medium-scale agri-businesses in processing and packaging. Formation of farmers' groups will be encouraged to ensure their direct participation in the marketing of agricultural produce. The Department of Agricultural Marketing (DAM) will be strengthening so that it can take on modern marketing services for crops and high value agro-products. Agri-business and agro-processing are given top priority as a thrust sector to promote value addition to crops, livestock, fish and horticultural products. Increased budgetary allocations will be made for supporting agro-processing activities, which remain predominantly in the private sector. The Government will continue to support the agro entrepreneurs through infrastructure development, concession on import duties, export bonus and income tax exemption. The private sector will also get support for technical training, technology development, and improvement of standards of hygiene, handling and packaging of processed products. Food safety should be strengthened for the domestic market as a way of strengthening export readiness of agricultural products. Homestead gardening, integrated farming and non-farm activities will be encouraged actively to help create employment for women. Only rice is occupying almost 79 percent of the cropped area followed by wheat (5 percent) and only 14 percent for other crops. Therefore, crop diversification with wheat, potato, maize, oilseeds, pulses, fruits, spices, jute, cotton, etc will be included in the cropping system.

S.C.R. No. 131 appeared to be motivated primarily by the dramatic changes in the agricultural industry brought about by the closure or downsizing of several large sugar and pineapple plantations. These closures have led to the displacement of thousands of plantation workers, as well as the availability of almost one hundred thousand acres of arable plantation land.¹ The Legislature was also concerned with converting the physical and economic agricultural infrastructure that once catered almost exclusively to these large plantations to one that could provide for

farmers (including displaced plantations workers) that were attracted to the emerging diversified agricultural sector. This sector recorded annual farm revenues of \$509.2 million in 1998 with record sales in produce like coffee, macadamia nuts, papayas, guava, tropical cut flowers and bananas.² To facilitate the continued success of diversified agriculture, S.C.R. No. 131 sought to assist the financing needs of farmers by evaluating the agriculture loan system (Ikuma 2001).

Agriculture continues to play a special role in developing economies especially these that are in their early stages of structural transformation of products. According to the world development report 2008, it was identified that agriculture plays a vital development role for achieving the Millennium Development Goals (MDGs). The report continues to identify agricultural sector as a strong option for spurring growth, overcoming poverty, enhancing food security and stimulating growth in other parts of the economy (World development report, 2008).

The organizations play an important role at several dimensions (levels) for example, in taking a progressive charge in different services which are assured today by societies of development. There is a possibility which allows to separate definitely or clearly the population tasks and training of farmers (Roling, 1987, 59). Therefore, the same author recognizes in purpose of encouraging the popularization of some elements group to benefit a great particular attention: mobilization, organization, training, technique and material support, and repletion and maintaining. He continues to propose the cooperatives as a possibility of bringing or grouping together the farmers, but he continues underline that their success level is almost proportional reversed at administrative interference level to the government helping (Roling, 1987, 59).

It is a common observation that farmers in developing countries are unable to obtain credit, or that they can do so only at usurious interest rates. This is not, in itself, evidence of market failure. Interest rates will be high if the probability of default is high-which is indeed often the case. At the same time, the fact that there

is imperfect information on the credit risks of different individuals (the adverse selection problem) and on the actions of those individuals means that the market equilibrium is not. Nonetheless, government policies to boost credit for farmers need to take account to these adverse selection and individuals means. The government is usually in no better position for gathering information on the varying probabilities of default. Furthermore, a government credit program that involves some discretion in the granting of loans also contains scope for giving subsidies to particular individuals: whenever a "high-risk" farmer is granted a loan for which the interest rate has not been increased accordingly, he is obtaining an implicit subsidy. It is naturally difficult for an outsider to judge whether a subsidy has been granted; precisely for this reason, such programs are open to abuse (Newbery 1987, 403-27). So in our country most farmers or farmer groups are not strongly supported, and also access to credit is not easy because many of them are surviving, there is not any subvention from government. Then to make agri-business very strongly both public and private sector have to invest in that sector, because it is the base of development in developing countries. (Nshimirimana 2009)

The agricultural sector is characterized by a number of specificities that make it difficult, costly and risky to finance (Chalmers, 2005; Wampfler and Lapenu, 2002; Zeller, 2003). - The high systemic, economic, social and co-variant risks associated with agriculture combined with its seasonality, low profitability and relatively "specialized" nature often lead to small incomes. The low profitability of the sector makes it particularly difficult to borrow at interest rates practiced by microfinance, while widespread poverty in most countries makes households particularly vulnerable to risks. The international context in recent years has become more favorable: increased prices of raw materials, reduced production subsidies to rich countries and wealth creation among the middle classes of emerging countries (Brazil, Russia, India, China), which are also the sources of new business opportunities, like biofuels.

Lack of significant advances in financial services for agriculture has led to a renewed interest in the issue in recent years. The most recent World Development Report 2008 (World Bank, 2007) focuses on agriculture indicates that agricultural development is coming back to center-stage after years of neglect.

The introductory session by Alain de Janvry at the FAO rural finance conference in Rome in March 2007³, drew on this report to offer an overview of how agriculture and rural development have evolved in southern countries. There has been genuine development and growing perspectives especially in “dynamic markets”, but development is occurring at two speeds, with growing disparities in regions like Sub-Saharan Africa. Moreover, a major challenge remains: rapid development of the non-farm rural economy. These evolutions predicate the future demand and supply for agricultural finance. In the 1960-70’s, rural and agricultural finance was based on heavy-handed government intervention via of state development banks and subsidized credit, considered an “input” to production. By the 1980’s, the failure of subsidized credit and bankruptcy was sufficiently widespread to justify the closure of public banks, liberalization of the financial sector and the development of microfinance.

Today, there are efforts to draw lessons from past errors and failures, and recognition of the need for both functioning markets and efficient government intervention. There are attempts to develop alternatives with diversified public and private actors. A less monolithic conception of the division between public and private sectors is making it possible to define the parameters for action and the roles of government, private sector and civil society (Bouquet, 2008). These possibilities are based on new synergies between actors, particularly microfinance and professional agricultural organizations, as well as the emerging role of banks, value chain actors and, more broadly, donors and public policy makers.

In the USAID conference “Paving the way to Rural Finance,” Zeller (2003) identified three motives for the increased interest of donors in agricultural and rural finance. First, the agricultural sector remains the most important economic

sector, especially for poor people, in many development countries. Secondly, improved financial markets accelerate rural and agricultural growth and lead to increased economic growth and reduced poverty. Finally, there is a great deal of optimism surrounding the idea that donors can learn from past failures and current successes to launch a new wave of rural and agricultural finance.

In 2002, during the Dakar conference⁴, an analysis of supply confirmed that the liberalization of the agricultural and financial sectors had led to a diminishing and more costly supply of agricultural finance. Government supply had been drastically reduced, and the bank sector had only barely picked up the slack. While the microfinance sector was developing in rural areas, as a whole, it was still quite fragile. In 1999, only around 20% of rural households in the West African Economic and Monetary Union had access to microfinance

Today, based on data that is often too general or refers to specific geographic zones, the supply continues to be limited. Servet and Morvant (2007) sought to establish the link between the contribution of rural and agricultural sectors to the economy and financial inclusion.

Drawing on data from the FAO in its 20006 Report, the authors crossed financial inclusion data for each country (Honohan 2006) with other variables such as the percentage of rural population, the contribution of agriculture to the GDP and the portion of the population working in agriculture. The result is a negative correlation between access to financial services and other variables. The higher the proportion of the rural and agricultural population and the greater the contribution of agriculture in the GDP, the lower the rates of financial inclusion (Lapenu 2007).

CHAPTER 3

**METHODOLOGY OF THE
STUDY**

Chapter 3

Methodology

This chapter discusses the research design, the population and sample. It also discusses the instruments used in the data collection, the procedure for data collection and the method for data analysis.

3.1 The Research Design

The research design used is survey design. Research design is the specific data analysis techniques or methods that the researcher intends to use. The survey design involves the collection and analysis of data, and finding out the answers concerning the current status of the subject. Also, it is a study of variables in their natural setting or under usual circumstances. This comprises observation of facts, collection and classification of data, interpretation of data, application of facts and predictions. Since human behavior is difficult and cannot be predicted, it makes the results of the research at times not to be applicable to the population.

3.2 Population

The target population is farmers in the northern region of Bangladesh, specifically, farmers taking the loan from the banks in that area.

3.3 Sample and Sampling Technique

The convenient sampling procedure was used to select thirty four (34) farmers for examination. The convenient sampling method was used because of the sparsely distribution of farmers at the study area.

3.4 Instrument

A questionnaire is the major instrument that was used to collect the data. The questionnaire was used in order to get a standard form of answers or response.

3.5 Data Collection Procedure

Thirty four questionnaires was used, one for each person or respondent. The questions were read for them to answer. Only farmers were interviewed to know the amount of assistance they get from the banking service.

3.6 Data Analysis

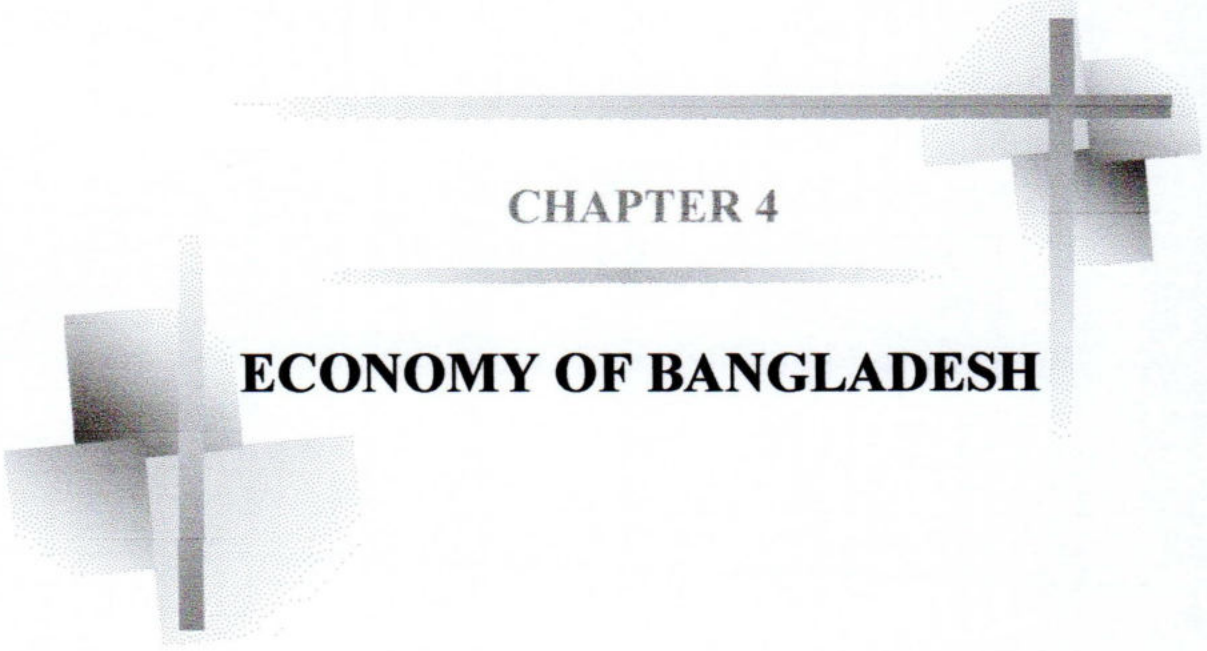
Frequencies, percentages, were used to analyze the data. Microsoft Word and Microsoft Excel were used for all the analysis.

3.7 Definition of Terms

For the purpose of the study, certain words and terms were used which may not be familiar to readers. Such words and terms have been explained as follows:

Primary data: - This is the name given to data that were collected under the control and supervision of the person or the organization making particular study.

Secondary data: - This is the name given to data that are being used for some purpose other than that for which they were originally collected.



CHAPTER 4

ECONOMY OF BANGLADESH

Chapter 4

Economy of Bangladesh

4.1 Economic History

East Bengal—the eastern segment of Bengal, a region that is today Bangladesh—was a prosperous region of South Asia until modern times. It had the advantages of a mild, almost tropical climate, fertile soil, ample water, and an abundance of fish, wildlife, and fruit. The standard of living compared favorably with other parts of South Asia. As early as the thirteenth century, the region was developing as an agrarian economy. It was not entirely without commercial centers, and Dhaka in particular grew into an important entrepôt during the Mughal Empire. The British, however, on their arrival in the late eighteenth(18th) century, chose to develop Calcutta, now the capital city of West Bengal, as their commercial and administrative center in South Asia. The development of East Bengal was thereafter limited to agriculture. The administrative infrastructure of the late eighteenth and nineteenth centuries reinforced East Bengal's function as the primary agricultural producer—chiefly of rice, tea, teak, cotton, cane and jute—for processors and traders from around Asia and beyond.

After its independence from Pakistan, Bangladesh followed a socialist economy by nationalizing all industries, proving to be a critical blunder undertaken by Awami League's Mujib Government following India's policy. Education policies of the British dating back from colonial era deprived education to millions of Bangla's Muslim peoples setting them back by decades. Some of the same factors that had made East Bengal a prosperous region became disadvantages during the nineteenth and twentieth centuries. As life expectancy increased, the limitations of land and the annual floods increasingly became constraints on economic growth. Preponderance on traditional agricultural methods became obstacles to the modernization of agriculture. Geography severely limited the development and maintenance of a modern transportation and communications system.

The partition of British India and the emergence of India and Pakistan in 1947 severely disrupted the former colonial economic system that had preserved East Bengal (now Bangladesh) as a producer of jute, rice and other agro commodities for the rest of British India. East Pakistan had to build a new industrial base and modernize agriculture in the midst of a population explosion. The united government of Pakistan expanded the cultivated area and some irrigation facilities, but the rural population generally became poorer between 1947 and 1971 because improvements did not keep pace with rural population increase. Pakistan's five-year plans opted for a development strategy based on industrialization, but the major share of the development budget went to West Pakistan, that is, contemporary Pakistan. The lack of natural resources meant that East Pakistan was heavily dependent on imports, creating a balance of payments problem. Without a substantial industrialization program or adequate agrarian expansion, the economy of East Pakistan steadily declined. Blame was placed by various observers, but especially those in East Pakistan, on the West Pakistani leaders who not only dominated the government but also most of the fledgling industries in East Pakistan.

Since Bangladesh followed a socialist economy by nationalizing all industries after its independence, a slow growth of experienced entrepreneurs, managers, administrators, engineers, or technicians underwent. There were critical shortages of essential food grains and other staples because of wartime disruptions. External markets for jute had been lost because of the instability of supply and the increasing popularity of synthetic substitutes. Foreign exchange resources were minuscule, and the banking and monetary system was unreliable. Although Bangladesh had a large work force, the vast reserves of under trained and underpaid workers were largely illiterate, unskilled, and underemployed. Commercially exploitable industrial resources, except for natural gas, were lacking. Inflation, especially for essential consumer goods, ran between 300 and 400 percent. The war of independence had crippled the transportation system. Hundreds of road and railroad bridges had been destroyed or damaged, and rolling

stock was inadequate and in poor repair. The new country was still recovering from a severe cyclone that hit the area in 1970 and causes 250,000 deaths. India, by a heavily poor nation and without any ability of giving aid to other nations, let alone to its suffering masses, came forward immediately with critically measured economic assistance in the first months after Bangladesh achieved independence from Pakistan. Between December 1971 and January 1972, India committed US\$232 million in aid to Bangladesh from the politico-economic aid India received from the USA and USSR. Official amount of disbursement yet undisclosed.

After 1975, Bangladeshi leaders began to turn their attention to developing new industrial capacity and rehabilitating its economy. The static economic model adopted by these early leaders, however—including the nationalization of much of the industrial sector—resulted in inefficiency and economic stagnation. Beginning in late 1975, the government gradually gave greater scope to private sector participation in the economy, a pattern that has continued. Many state-owned enterprises have been privatized, with banking, telecommunication, aviation, media, jute including a range of other vital sectors have been privatised. Inefficiency in the public sector have been improving however at a gradual pace, external resistance to developing the country's richest natural resources, and power sectors including infrastructure have all contributed to slowing economic growth.

In the mid-1980s, there were encouraging signs of progress. Economic policies aimed at encouraging private enterprise and investment, privatizing public industries, reinstating budgetary discipline, and liberalizing the import regime were accelerated. From 1991 to 1993, the government successfully followed an enhanced structural adjustment facility (ESAF) with the International Monetary Fund (IMF) but failed to follow through on reforms in large part because of preoccupation with the government's domestic political troubles. In the late 1990s the government's economic policies became more entrenched, and some of the early gains were lost, which was highlighted by a precipitous drop in foreign

direct investment in 2000 and 2001. In June 2003 the IMF approved 3-year, \$490-million plan as part of the Poverty Reduction and Growth Facility (PRGF) for Bangladesh that aimed to support the government's economic reform program up to 2006. Seventy million dollars was made available immediately. In the same vein the World Bank approved \$536 million in interest-free loans. In the year 2010 Government of India extended a line of credit worth \$ 1 billion to counter-balance China's close relationship with Bangladesh.

Bangladesh historically has run a large trade deficit, financed largely through aid receipts and remittances from workers overseas. Foreign reserves dropped markedly in 2001 but stabilized in the USD3 to USD4 billion range (or about 3 months' import cover). In January 2007, reserves stood at \$3.74 billion, and then increased to \$5.8 billion by January 2008, in November 2009 it surpassed \$10.0 billion, and as of April 2011 it surpassed the US \$12 billion according to the Bank of Bangladesh, the central bank. In addition imports and aid-dependence of the country has systematically been reduced since the beginning of 1990s.

4.2 Economic outlook

Efforts to achieve Bangladesh's macroeconomic goals have been problematic mostly due to various factors including the country's large population, corruption within the government, power shortages etc. The privatization of public sector industries has proceeded at a slow pace—due in part to worker unrest in affected industries—although on June 30, 2010, the government took a bold step as it closed down the Adamjee Jute Mill, the country's largest and most costly state-owned enterprise. The government also has proven unable to resist demands for wage hikes in government-owned industries. Access to capital is impeded. State-owned banks, which control about three-fourths of deposits and loans, carry classified loan burdens of about 50%.

The IMF and World Bank predict GDP growth over the next 5 years will be about 6.5%, well short of the 9-10% needed to lift Bangladesh to Mid Income Nation

level, within that time period. The initial impact of the end of quotas under the Multi-Fiber Arrangement has been positive for Bangladesh, with continuing investment in the ready-made garment sector, which has experienced annual export growth in excess of around 20%. Downward price pressure means Bangladesh must continue to cut final delivered costs if it is to remain competitive in the world market. Foreign investors in a broad range of sectors are increasingly frustrated with the politics of confrontation, the level of corruption, the slow pace of reform and privatization and deregulation of the public sector and the lack of basic infrastructure e.g. roads. While investors view favorably recent steps by the interim government to address corruption, governance, and infrastructure issues, most believe it is too early to assess the long-term impact of these developments.

4.3 Major Economic sectors:

4.3.1 Agriculture

Bangladeshis earn their living from agriculture. Although rice and jute are the primary crops, maize and vegetables are assuming greater importance. Due to the expansion of irrigation networks, some wheat producers have switched to cultivation of maize which is used mostly as poultry feed. Tea is grown in the northeast. Because of Bangladesh's fertile soil and normally ample water supply, rice can be grown and harvested three times a year in many areas. Due to a number of factors, Bangladesh's labor-intensive agriculture has achieved steady increases in food grain production despite the often unfavorable weather conditions. These include better flood control and irrigation, a generally more efficient use of fertilizers, and the establishment of better distribution and rural credit networks. With 28.8 million metric tons produced in 2005-2006 (July-June), rice is Bangladesh's principal crop. By comparison, wheat output in 2005-2006 was 9 million metric tons. Population pressure continues to place a severe burden on productive capacity, creating a food deficit, especially of wheat. Foreign assistance and commercial imports fill the gap, but seasonal hunger ("monga") remains a problem. Underemployment remains a serious problem, and a

growing concern for Bangladesh's agricultural sector will be its ability to absorb additional manpower. Finding alternative sources of employment will continue to be a daunting problem for future governments, particularly with the increasing numbers of landless peasants who already account for about half the rural labor force. Due to farmers' vulnerability to various risks, Bangladesh's poorest face numerous potential limitations on their ability to enhance agriculture production and their livelihoods. These include an actual and perceived risk to investing in new agricultural technologies and activities (despite their potential to increase income), a vulnerability to shocks and stresses and a limited ability to mitigate or cope with these and limited access to market information.

4.3.2 Manufacturing & Industry

Many new jobs - mostly for women - have been created by the country's dynamic private ready-made garment industry, which grew at double-digit rates through most of the 1990s. By the late 1990s, about 1.5 million people, mostly women, were employed in the garments sector as well as Leather products specially Footwear (Shoe manufacturing unit). During 2001-2002, export earnings from ready-made garments reached \$3,125 million, representing 52% of Bangladesh's total exports. Bangladesh has overtaken India in apparel exports in 2009, its exports stood at 2.66 billion US dollar, ahead of India's 2.27 billion US dollar.^[8]

Eastern Bengal was known for its fine muslin and silk fabric before the British period. The dyes, yarn, and cloth were the envy of much of the premodern world. Bengali muslin, silk, and brocade were worn by the aristocracy of Asia and Europe. The introduction of machine-made textiles from England in the late eighteenth century spelled doom for the costly and time-consuming hand loom process. Cotton growing died out in East Bengal, and the textile industry became dependent on imported yarn. Those who had earned their living in the textile industry were forced to rely more completely on farming. Only the smallest vestiges of a once-thriving cottage industry survived.

Other industries which have shown very strong growth include the chemical industry, steel industry, mining industry and the paper and pulp industry.

4.3.3 Textile sector

Bangladesh's textile industry, which includes knitwear and ready-made garments along with specialized textile products, is the nation's number one export earner, accounting for 80% of Bangladesh's exports of \$15.56 billion in 2009. Bangladesh is 3rd in world textile exports behind Turkey, another low volume exporter, and China which exported \$120.1 billion worth of textiles in 2009. The industry employs nearly 3.5 million workers. Current exports have doubled since 2004. Wages in Bangladesh's textile industry were the lowest in the world as of 2010. The country was considered the most formidable rival to China where wages were rapidly rising and currency was appreciating.

After massive labor unrest in 2006 the government formed a Minimum Wage Board including business and worker representatives which in 2006 set a minimum wage equivalent to 1,662.50 taka, \$24 a month, up from Tk950. In 2010, following widespread labor protests involving 100,000 workers in June, 2010, a controversial proposal was being considered by the Board which would raise the monthly minimum to the equivalent of \$50 a month, still far below worker demands of 5,000 taka, \$72, for entry level wages, but unacceptably high according to textile manufacturers who are asking for a wage below \$30. On July 28, 2010 it was announced that the minimum entry level wage would be increased to 3,000 taka, about \$43.

The government also seems to believe some change is necessary. On September 21, 2006 then ex-Prime Minister Khaleda Zia called on textile firms to ensure the safety of workers by complying with international labor law at a speech inaugurating the Bangladesh Apparel & Textile Exposition (BATEXPO).

4.3.4 Investment

The stock market capitalization of the Dhaka Stock Exchange in Bangladesh crossed \$10 billion in November 2007 and the \$30 billion dollar mark in 2009, and USD 50 billion in August 2010. Bangladesh had one of the best performing stock markets in the world during the recent global recession, due to relatively low correlations with developed country stock markets.

Major investment in real estate by domestic and foreign-resident Bangladeshis has led to a massive building boom in Dhaka and Chittagong.

Recent (2011) trends for investing in Bangladesh as Saudi Arabia trying to secure public and private investment in oil and gas, power and transportation projects, United Arab Emirates (UAE) is keen to invest in growing shipbuilding industry in Bangladesh encouraged by comparative cost advantage, Tata, an India-based leading industrial multinational to invest Taka 1500 crore to set up an automobile industry in Bangladesh, World Bank to invest in rural roads improving quality of life, the Rwandan entrepreneurs are keen to invest in Bangladesh's pharmaceuticals sector considering its potentiality in international market, Samsung sought to lease 500 industrial plots from the export zones authority to set up an electronics hub in Bangladesh with an investment of US\$1.25 billion, National Board of Revenue (NBR) is set to withdraw tax rebate facilities on investment in the capital market by individual taxpayers from the fiscal 2011-12.

4.3.5 External trade

The Bangladesh Garments Manufacturers and Exporters Association (BGMEA) has predicted textile exports will rise from US\$7.90 billion earned in 2005-06 to US\$15 billion by 2011. In part this optimism stems from how well the sector has fared since the end of textile and clothing quotas, under the Multifibre Agreement, in early 2005.

According to a United Nations Development Programme report "Sewing Thoughts: How to Realize Human Development Gains in the Post-Quota World" Bangladesh has been able to offset a decline in European sales by cultivating new markets in the United States.

"[In 2005] we had tremendous growth. The quota-free textile regime has proved to be a big boost for our factories," said BGMEA president S.M. Fazlul Hoque told reporters, after the sector's 24 per cent growth rate was revealed.

Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) president Md Fazlul Hoque has also struck an optimistic tone. In an interview with United News Bangladesh he lauded the blistering growth rate, saying "The quality of our products and its competitiveness in terms of prices helped the sector achieve such... tremendous success."

Knitwear posted the strongest growth of all textile products in 2005-06, surging 35.38 per cent to US\$2.82 billion. On the downside however, the sector's strong growth came amid sharp falls in prices for textile products on the world market, with growth subsequently dependent upon large increases in volume.

Bangladesh's quest to boost the quantity of textile trade was also helped by US and EU caps on Chinese textiles. The US cap restricts growth in imports of Chinese textiles to 12.5 per cent next year and between 15 and 16 per cent in 2008. The EU deal similarly manages import growth until 2008.

Bangladesh may continue to benefit from these restrictions over the next two years, however a climate of falling global textile prices forces wage rates the centre of the nation's efforts to increase market share.

Prior to the Wage Board's announcement of its recommended minimum wage of \$24, Tk1,604, in 2006, the rate had remained unchanged at Tk950, about \$15, for more than 12 years. Although the government may allow up to three years for the new wage to be implemented, and inevitably there will be compliance issues as

manufacturers drag their feet, it seemed politically untenable for wages to remain at those levels given the unprecedented industrial unrest.

In response to the Wage Board's initial draft recommendation of a minimum wage of Tk.1,604 to be increased to Tk.1,800 after eight months, the BGMEA declared over 50 per cent of factories would be ruined within three months. While this claim is no doubt an exaggeration, the capacity of Bangladesh's textile industry to absorb a significant wage hike as margins become tighter is a key question which hangs over the future of the industry. Bangladesh's textile sector is concentrated in export processing zones in Dhaka and Chittagong. These zones, which are administered by the Bangladesh Export Processing Zone Authority, aim to offer "a congenial investment climate, free from cumbersome procedures" according to Bangladesh Export Promotion Bureau's website.

They offer a range of incentives to potential investors including 10 year tax holidays, duty free import of capital goods, raw materials and building materials, exemptions on income tax on salaries paid to foreign nationals for three years and dividend tax exemptions for the period of the tax holiday.

All goods produced in the zones are able to be exported duty free, in addition to which Bangladesh benefits from the Generalized System of Preferences in US, European and Japanese markets and is also endowed with Most Favored Nation status from the United States.

Furthermore, Bangladesh imposes no ceiling on investment in the EPZs and allows full repatriation of profits.

The formation of labor unions within the EPZs is prohibited as are strikes.

Bangladesh's exports to the U.S. surpassed \$1.9 billion in 1999. Bangladesh also exports significant amounts of garments and knitwear to the EU market.

Bangladesh also has significant jute, leather, shrimp, pharmaceutical, and ceramics industries.

Bangladesh has been a world leader in its efforts to end the use of child labor in garment factories. On July 4, 1995, the Bangladesh Garment Manufacturers Export Association, International Labor Organization, and UNICEF signed a memorandum of understanding on the elimination of child labor in the garment sector. Implementation of this pioneering agreement began in fall 1995, and by the end of 1999, child labor in the garment trade virtually had been eliminated. The labor-intensive process of ship breaking for scrap has developed to the point where it now meets most of Bangladesh's domestic steel needs. Other industries include sugar, tea, leather goods, newsprint, pharmaceutical, and fertilizer production.

The Bangladesh government continues to court foreign investment, something it has done fairly successfully in private power generation and gas exploration and production, as well as in other sectors such as cellular telephony, textiles, and pharmaceuticals. In 1989, the same year it signed a bilateral investment treaty with the United States, it established a Board of Investment to simplify approval and start-up procedures for foreign investors, although in practice the board has done little to increase investment. The government created the Bangladesh Export Processing Zone Authority to manage the various export processing zones. The agency currently manages EPZs in Adamjee, Chittagong, Comilla, Dhaka, Ishwardi, Karnaphuli, Mongla, and Uttara. An EPZ has also been proposed for Sylhet. The government has given the private sector permission to build and operate competing EPZs-initial construction on a Korean EPZ started in 1999. In June 1999, the AFL-CIO petitioned the U.S. Government to deny Bangladesh access to U.S. markets under the Generalized System of Preferences (GSP), citing the country's failure to meet promises made in 1992 to allow freedom of association in EPZs.

Sylhet is fast becoming a major center of retailing in Bangladesh, with many shopping centres being built by expatriates to serve fellow expatriates visiting Sylhet and the emerging middle class. Many of these developments hark back to Britain.



4.3.6 Overview: Economic Sector

Bangladesh has made significant strides in its economic sector performance since independence in 1971. Although the economy has improved vastly in the 1990s, Bangladesh still suffers in the area of foreign trade in South Asian region. Despite major impediments to growth like the inefficiency of state-owned enterprises, a rapidly growing labor force that cannot be absorbed by agriculture, inadequate power supplies, and slow implementation of economic reforms, Bangladesh has made some headway improving the climate for foreign investors and liberalizing the capital markets; for example, it has negotiated with foreign firms for oil and gas exploration, better countrywide distribution of cooking gas, and the construction of natural gas pipelines and power stations. Progress on other economic reforms has been halting because of opposition from the bureaucracy, public sector unions, and other vested interest groups.

The especially severe floods of 1998 increased the flow of international aid. So far the global financial crisis has not had a major impact on the economy. The World Bank predicted economic growth of 6.5% for current year. Foreign aid has seen a decline of 10% over the last few months but economists see this as a good sign for self-reliance. There has been 18% growth in exports over the last 9 months and remittance inflow has increased at a remarkable 25% rate.

Fiscal Year	Total Export	Total Import	Foreign Remittance Earnings
2007–2008	\$14.11b	\$25.205b	\$8.9b
2008–2009	\$15.56b	\$22.00b+	\$9.68b
2009–2010	\$16.7b	~\$24b	\$10.87b
2010–2011	\$22.93b	\$32b	\$11.65b

4.4 Main Aspects of Economy of Northern Region of Bangladesh

In a smaller area of Bangladesh, there are 64 districts among which 16 districts falls in the northern region under two divisions namely Rangpur and Rajshahi. This area lack in the progress of industrial sector in comparative with other area as

a result they are deprived from sufficient facilities. Despite this negligence, this area is potent with agriculture. A lot of crops rice, wheat, maize, sugarcane, tobacco, cotton and others necessary crops are grown in this region. To make this region economically develop, there is no substitute of agricultural development. Several institutions like banks, NGO and insurance try to make this possible. One of the specialized development banks named Rajshahi Krishi Unnayan Bank is formed to develop agricultural sector and subsector of agriculture in this region. If proper supervision is taken from both government and banking side this region can have great contribution to the economic development further.

4.5 Relationship between Agricultural Banking and Economy of Northern Region of Bangladesh

Agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realizing the full potential of agriculture as a profitable activity. Banks in this case have great impact on promoting agricultural growth. Since northern region of Bangladesh is rich in producing agricultural crops they need proper care to conduct the production activities in a continuous way. Both agricultural loan on the head of agricultural banking and economy of this region is closely tied with one another. Through agricultural loan to the farmers in the stated region helps to alleviate poverty, minimize food crisis, decrease the price of commodities. The general people who live from hand to mouth will feel satisfied and can try to engage their best effort in this regard. The ultimate developments in this region are a great success and contribute a great help to the socioeconomic condition of the country.

CHAPTER 5

**AN OVERVIEW OF SOURCES
OF FINANCE**

Chapter 5

An Overview of Sources of Finance

Rural Finance: It refers to raising and accumulating funds and providing them to rural people, including farmers, to allow them to run their socio-economic activities in the rural areas. Rural finance comprises formal and informal financial institutions, small and large, that provide small-size financial services to the rural poor, as well as larger size financial services to agro-processing and other small and medium rural enterprises. Rural finance also covers a wide array of micro-finance institutions (MFIs), ranging from indigenous rotating savings and Credit associations and financial co-operatives to rural banks and agricultural development banks. Rural finance is a vital tool in Poverty reduction and rural development. It plays a catalytic role in bringing together the elements of production for increased output and improvement of the recipients' resources and livelihood in rural areas.

Finance is available with relative ease in urban areas, which are full of banking and savings institutions. Rural economic activities, however, suffer a lot from lack of necessary funds. Although the supply of finance to rural areas is limited now and there is a general imbalance between supply and demand in rural Capital market. At present, buyers and sellers of financial assets did exist in rural economies in the past. The market makers/intermediaries in rural financial markets are rural individuals, households, and farm and non-farm enterprises. Such classification of rural finance markets is based on the specific sources of funds, which vary widely in organization, management, terms and conditions and lender-borrower relationships.

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 specialized 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.

Formal rural financial markets in Bangladesh comprise rural branches of nationalized commercial banks, a sizeable number of private banks, cooperative banks and societies and specialized banks such as the Bangladesh Krishi Bank and the Rajshahi Krishi Unnayan Bank, Government institutions and programmes such as the Bangladesh Rural Development Board (BRDB), Bangladesh Small and Cottage Industries Corporation, (BSCIC), Integrated Rural Development Programme (IRDP), and the Swanirvar Bangladesh Programme, as well as Non Government Organizations. Traditional institutions like local moneylenders and friends and relatives also contribute significantly as sources of informal rural finance in the country.

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 organizations 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 17.9 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 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 365 branches of Rajshahi Krishi Unnayan Bank (RAKUB) 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 11.069 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 RAKUB 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 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 Karmasahayak 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.

Rural finance is often construed as a vehicle for solving the problem of poverty in Bangladesh. But it is just one of the many important intervention variables. Its impact is fully felt only when conducive policies are in place, markets are functioning, and non-formal services are available. The very poor, ie, those without income may be more effectively reached through direct micro-enterprise promotion, income transfer, safety nets and improved infrastructure. Rural financial markets have been widely criticised for contributing to income disparities and resource misallocation, for failing to provide medium and long-term credit, and for being used as political tools. Unproductive use of funds by recipients is another drawback of rural financial systems.

CHAPTER 6

**STRUCTURE OF THE
FINANCIAL SYSTEM**

Chapter 6

Structure of the Financial System

6.1 Background to the Financial System

The banking system at independence from Pakistan in 1971 consisted of two branch offices of the former State Bank of Pakistan and seventeen commercial banks, two of which were controlled by Bangladeshi interests and three by foreigners other than West Pakistanis. There were fourteen smaller commercial banks. Virtually all banking services were concentrated in urban areas. The newly independent government immediately designated the Dhaka branch of the State Bank of Pakistan as the central bank and renamed it the Bangladesh Bank. The Bangladesh government initially nationalized the entire domestic banking system and proceeded to reorganize and rename the various banks. This action was aimed at mobilizing funds in a war-ravaged country in the midst of severe lack in experienced banking staff. Foreign-owned banks were permitted to continue doing business in Bangladesh. The insurance business was also nationalized and became a source of investment funds. Cooperative credit systems and postal savings offices handled service to small individual and rural accounts. The new banking system succeeded in establishing reasonably efficient procedures for managing credit and foreign exchange. The primary function of the credit system throughout the 1970s was to finance trade and the public sector, which together absorbed 75 percent of total advances.

An early focus of the state was to engage the banking system to agriculture related activities. The government's encouragement during the late 1970s and early 1980s of agricultural development and agro-based industry brought changes in lending strategies. Managed by the Bangladesh Krishi Bank, a specialized agricultural banking institution, lending to farmers and fishermen dramatically expanded. The number of rural bank branches doubled between 1977 and 1985, to more than 3,330. While it had the most noble of objectives, such state-directed lending both

in the agro and non-agro sectors gave rise to inefficiencies, chronic loan-defaults and huge non-performing loans.

A major change in direction occurred in the early 1980s with the adoption of a market oriented development strategy supported by a number of liberalizing policy reforms. These reforms were undertaken along the guidelines of the World Bank and the IMF and implemented under rigid aid conditionality. For the first time the Government allowed commencing of operation by private commercial banks. In the span of three years, seven private commercial banks were given banking licenses. These banks were Pubali Bank, Uttara Bank, The City Bank, Islami Bank Bangladesh, National Bank, AB Bank and IFIC Bank. This was an eclectic mix of denationalized banks, banks established with foreign capital and banks established by local influential businessmen. Then as it is now, bank licenses were often awarded to sponsors with political connections. However, irrespective of the sponsor shareholders' connections, the private banks turned out to be fairly professional and robust businesses.

6.2 Generation of Banking sector in Bangladesh

The banking sector of Bangladesh can be classified in three generations. Banks incorporated from the period of 1971-1990 can be classified as first generation banks. Second generation banks were licensed in the period of 1991-2000. All banks licensed since 2000 can be classified as third generation banks.

6.3 The legacy of problem bank (first generation banks)

The transformation of finance priorities has brought with it problems in administration. No sound project-appraisal system was in place to identify viable borrowers and projects. Lending institutions did not have adequate autonomy to choose borrowers and projects and were often instructed by the political authorities. In addition, the incentive system for the banks stressed disbursements rather than recoveries, and the accounting and debt collection systems were inadequate to deal with the problems of loan recovery. It became more common

for borrowers to default on loans than to repay them; the lending system was simply disbursing grant assistance to private individuals who qualified for loans more for political than for economic reasons. The rate of recovery on agricultural loans was only 27 percent in FY 1986, and the rate on industrial loans was even worse. As a result of this poor showing, major donors applied pressure to induce the government and banks to take firmer action to strengthen internal bank management and credit discipline. As a consequence, recovery rates began to improve in 1987. The National Commission on Money, Credit, and Banking recommended broad structural changes in Bangladesh's system of financial intermediation early in 1987, many of which were built into a three-year compensatory financing facility signed by Bangladesh with the IMF in February 1987.

6.4 An Overview of Structure of the Financial System

The Bangladesh financial system is composed of scheduled banks (which include commercial banks and specialized development banks), non-bank financial institutions, micro-finance institutions, cooperative banks and other institutions such as merchant banks, mutual fund operators and insurance companies.

6.4.1 Commercial Banks

The commercial banks are at the core of the financial system and account for more than 80% of all financial system assets. They could be subdivided based on ownership as state-owned commercial banks (SOCBs), private commercial banks (PCBs) and foreign commercial banks (FCBs). At present there are 43 commercial banks in Bangladesh, comprising 4 SOCBs, 30 PCBs and 9 FCBs. Besides this there are 5 state owned specialized development banks. Following financial liberalization in the 1990s, eight FCBs and 10 PCBs were allowed to operate, resulting in increased competition. This, coupled with the inherent weaknesses in SOCBs, resulted in market share shifting away from the SOCBs to

PCBs and FCBs. Currently; PCBs constitute 59.24% of total loan (investment) amounts.

6.4.2 Specialized Banks

The specialized banks are development financial institutions formed to meet specific credit needs in sectors such as agriculture and industry. There are currently five of them in Bangladesh.

6.4.3 Non-Bank Financial Institutions

Compared with the commercial banks, the non-bank financial institutions (NBFIs) have a rather limited role in the financial system, accounting for less than 5% of financial system assets. The NBFIs are mainly engaged in the business of financial and operational leases (about 40% of assets), term lending (about 21% of assets), working capital financing (16% of assets), housing finance (about 14% of assets), merchant banking and venture capital financing. NBFIs also face competition from commercial banks that have started to offer the same products, especially leasing. NBFIs, however, appear to have managed to handle asset quality better than the commercial banks, as reflected by an NPL ratio of 8.2% at end-June 2008 compared to 13% for banks. That said, it should be noted that this ratio could be understated due to the relatively lax asset quality regulations for NBFIs compared with banks. Currently, there are 29 NBFIs, of which 13 are joint ventures with foreign participation. The NBFIs are licensed and regulated under the Financial Institution Act, 1993, by Bangladesh Bank.

6.5 Performance & Profitability

The banks in Bangladesh have enjoyed high interest spreads for the last few years, although the Bangladesh Bank (BB) is now emphasizing on reducing the spread by lowering both the deposit and the lending rates

6.6 Regulatory environment

Banks and non-bank financial institutions are regulated by Bangladesh Bank (BB) – the country's central bank. BB has been working as the central bank since the country's independence. Its functions include issuing of currency, maintaining foreign exchange reserve and providing transaction facilities of all public monetary matters. BB is also responsible for planning the government's monetary policy and implementing it thereby. The Bank Company Act of 1991 empowers the central bank to issue licenses to carry out banking business in Bangladesh. Bangladesh Bank monitors the performance of the banking sector using the CAMELS framework (CAMELS: capital adequacy, asset quality, management soundness, earnings, liquidity and sensitivity to market risk). Banks are subject to periodic comprehensive inspections and ad-hoc special inspections (Alam, Islam 2010).

CHAPTER 7

**AGRICULTURAL BANKING
OPERATION**

Chapter 7

Agricultural Banking Operation

Bangladesh has a branch-banking system. Presently four nationalized commercial banks (NCBs) and the Bangladesh Krishi Bank (BKB), (the agricultural bank) provides loans in the rural areas. The system is characterized by supply leading credit programs as opposed to demand-leading program. Under the latter clients pursue loans while in the former lenders pursue clients. The Bangladesh Bank (BB) (the central bank), based on recommendations from the Ministries of Finance and Agriculture, assigns each bank a quota of loans it must disburse each year. The stated intent for many of these loans is to encourage increased agricultural output. Most of these programs are funded by foreign donors. Until recently this system encouraged making loans but little emphasis was placed on credit worthiness. During the early 1980's, to ease the transactions costs of loan applicants and to speed loan disbursement, Union Agricultural Credit Committees (UACCs) were created. They were composed of Union Parishad (UP) members, the local governing body, and the bank branch manager. The UACCs were responsible for selecting borrowers, but they were not responsible for recovering loans. State owned banks serve 40% of the lending amount for agricultural loan.

7.1 Banks engaged in agricultural banking services:

An agricultural banking service is essential to the development of agriculture. The banks that are providing agricultural banking services in the northern region of Bangladesh are listed below-

- a. Sonali Bank Ltd
- b. Janata Bank Ltd
- c. Agrani Bank Ltd
- d. Rupali Bank Ltd
- e. Bangladesh Krishi Bank
- f. Rajshahi Krishi Unnayan Bank

The four state-owned commercial banks and two specialized banks in Bangladesh have disbursed 40% of special agricultural loans within seven and a half months. The banks disbursed the loans in the sector of non-traditional agricultural products at only 2 percent interest, according Bangladesh Bank sources. The state-owned commercial banks- Sonali, Janata, Agrani and Rupali- and the specialized Bangladesh Krishi Bank and Rajshahi Kri Unnayan Bank set a target to disburse agricultural loans worth US\$13.4 million jointly in the current fiscal year. The banks have already disbursed loans worth US\$5.3 million from July 2010 to February 17, 2011, which is equivalent to 40 per cent of the total target.

According to sources, Bangladesh Krishi Bank disbursed the highest amount of loans with a rate of 53.44 percent while Rupali Bank gave the lowest 5.7 percent of the target.

7.2 Prime Bank Limited and its Agricultural Banking Services

In the backdrop of economic liberalization and financial sector reforms, a group of highly successful local entrepreneurs conceived an idea of floating a commercial bank with different outlook. For them, it was competence, excellence and consistent delivery of reliable service with superior value products. Accordingly, Prime Bank was created and commencement of business started on 17th April 1995. The sponsors are reputed personalities in the field of trade and commerce and their stake ranges from shipping to textile and finance to energy etc.

As a fully licensed commercial bank, Prime Bank is being managed by a highly professional and dedicated team with long experience in banking. They constantly focus on understanding and anticipating customer needs. As the banking scenario undergoes changes so is the bank and it repositions itself in the changed market condition.

Prime Bank has already made significant progress within a very short period of its existence. The bank has been graded as a top class bank in the country through

internationally accepted CAMELS rating. The bank has already occupied an enviable position among its competitors after achieving success in all areas of business operation.

Prime Bank offers all kinds of Commercial Corporate and Personal Banking services covering all segments of society within the framework of Banking Company Act and rules and regulations laid down by our central bank. Diversification of products and services include Corporate Banking, Retail Banking and Consumer Banking right from industry to agriculture, and real state to software.

Prime Bank, since its beginning has attached more importance in technology integration. In order to retain competitive edge, investment in technology is always a top agenda and under constant focus. Keeping the network within a reasonable limit, our strategy is to serve the customers through capacity building across multi-delivery channels. Our past performance gives an indication of our strength. We are better placed and poised to take our customers through fast changing times and enable them compete more effectively in the market they operate.

7.2.1 Agriculture Banking Services of Prime Bank Limited

A. Abad (Crop Loan):

To help farmers, share cropper and landless farmers to bear the cost of tilling of land, fertilizers, pesticides, irrigation, seed etc. for producing different crops and vegetables.

Key Features:

1. **Loan size:** Up to Tk.3.00 lac
2. **Financing mode:** Loan (General)
3. **Tenure:** Maximum 6 months (Maximum 12 months for financing in banana & mango cultivation)

Eligibility:

1. Any real farmers
2. Age is between 19 – 65 years of age (the borrower's age must not exceed 65 at the expiry of loan tenor)
3. Reside within locality/command area for minimum 2 years

Security:

1. Hypothecation of crops/vegetables
2. Collateral: registered mortgage (where applicable)
3. Irrevocable Power of Attorney.
4. Group/Cross Guarantee from the Group members on non judicial stamp paper is to be obtained (in case of loan is made by making a group).
5. And other security required as per banking rule

B. Khamar (Farm/Non-Crop Loan)

Any justifiable capital expenses and/or working capital and Project finance.

Key Features**Areas:**

1. Fisheries
2. Hatchery
3. Poultry
4. Beef Fattening
5. Milching cow/Dairy
6. Bio-gas Plant (for Farm)
7. Poultry/livestock/fish feed producer
8. Duck rearing
9. Integrated Farm
10. Solar panel for farm
11. Others (related to Agriculture)

Loan size: Up to 100.00 lac

Financing mode: Loan (General), Cash Credit CC (Hypo)

Tenure:

1. For Cash Credit (Hypo) : Maximum 1 year
2. For Term Loan : Maximum 3 year

Eligibility

1. The applicant must be Bangladeshi by nationality
2. Age is between 21 – 65 years of age (the borrower's age must not exceed 65 at the expiry of loan tenor)Reside within locality/command area for minimum 2 years
3. The entrepreneur is skilled in managing his farm/ enterprise and has experience of successfully managing the farm/ enterprise for at least two (2) years

Security:

1. Hypothecation of stock, machineries, equipment, vehicles etc;
2. Registered mortgage
3. And other security required as per banking rule

C. Nabanno (for Any Agri-purpose Loan)

Any justifiable capital expenses and/or working capital and Project finance

Key Features

Areas:

1. Farm machineries /Agri. Equipments (Irrigation and tilling technology/ equipments, Thresher, Tractor, Harvester etc)
2. Solar Pumps/ solar power operated irrigational equipment
3. Nursery

4. Rural transport [Van, Rickshaw, Mechanized boat, Covered van (1 ton), truck for carrying poultry/fish etc (1.5 ton), etc.
5. Weavers (Handloom Industry)
6. Tissue culture
7. NGOs/MFIs for onward lending to Agriculture sector
8. Flower cultivation
9. Mushroom cultivation
10. Bio-gas Plant (for individual)
11. Solar panel for house and business enterprises
12. Rural Financing
13. Storage and marketing of crops
14. Others (related to Agriculture)

Loan size: Up to 100.00 lac

Financing mode: Loan (General), Hire Purchase, Cash Credit (Hypo)

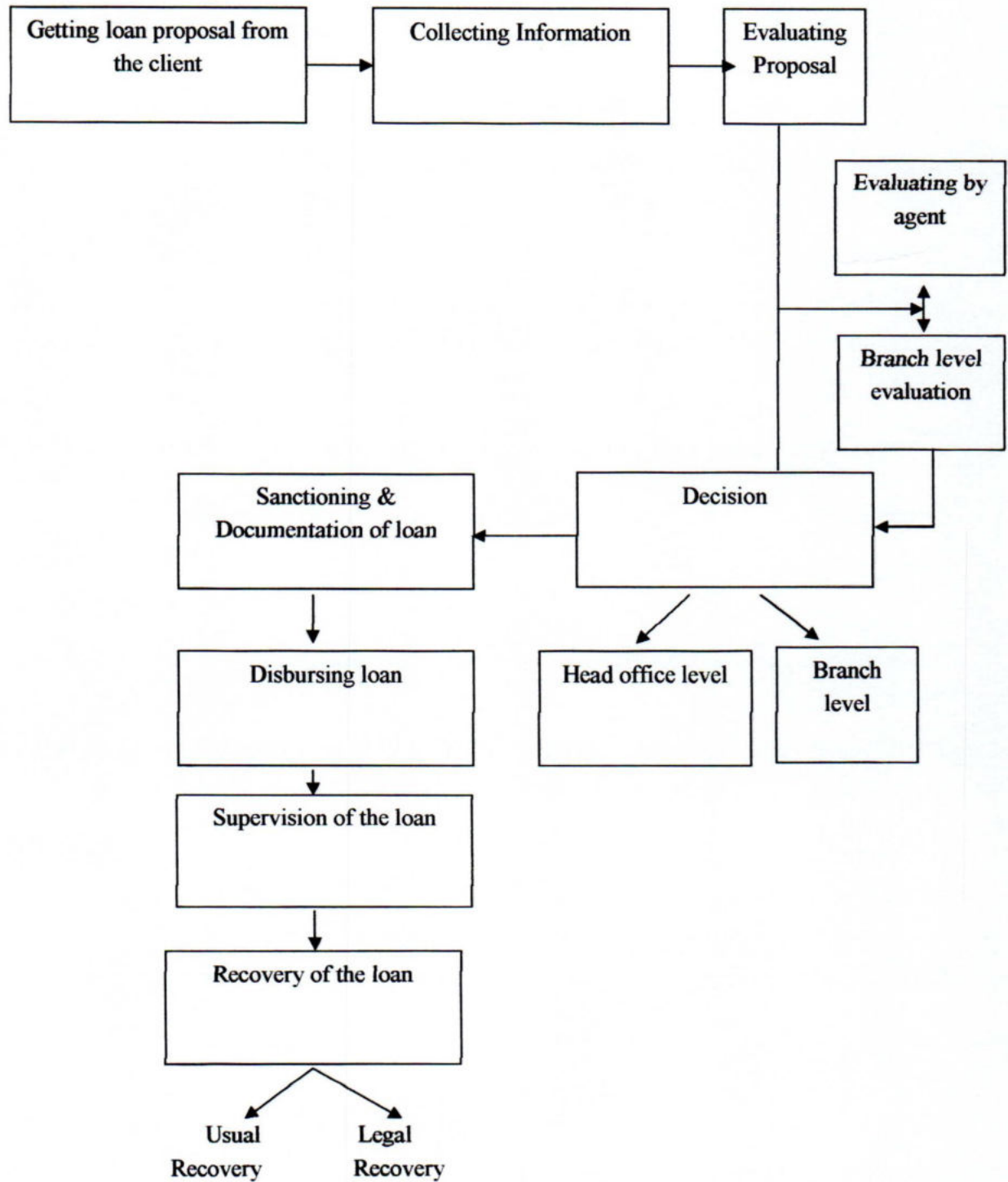
Tenure:

1. For Cash Credit (Hypo): Maximum 1 year
2. For Term Loan / Hire Purchase : Maximum 5 year

Eligibility:

1. The applicant must be Bangladeshi by nationality
2. Age is between 21 – 65 years of age (the borrower's age must not exceed 65 at the expiry of loan tenor) reside within locality/command area for minimum 2 years
3. The entrepreneur is skilled in managing his farm/ enterprise and has experience of successfully managing the farm/ enterprise for at least two (2) years

7.3.2 Loan Handling Diagram:



7.3.3 Features of Loanee:

Some important factors are considered for loan disbursement by the bank. These are as follows-

- a) Loanee must be Bangladeshi
- b) They must be matured
- c) They will not be defaulter
- d) For limited company the joint stock company must be registered
- e) For cooperative society it must be registered
- f) They have the ability to proper use and payable capacity and goodwill.
- g) They will not be mad and mental disorder. For the process of selecting loanee bank considers “4P’s”
 - Person
 - Purpose
 - Profitability
 - Proper or Security

7.3.4 Documentation:

After the loan or advance become effective, the manager should ask the borrowers promptly to comply with the loan covenants stipulations and execute the documents. Correct documentation is essential for securing safe repayment of loan.

7.3.5 Security:

Providing agricultural credit by the banks requires security for recovering the loans without risk.

i. Lien:

It's a right to retain the property/ goods of the borrower as security until the debt are adjusted.

ii. Pledge

It is created only for movable property like goods, documents etc. In case of pledge the ownership of the goods remains with pledge but the possession of the goods vests with pledge until the loan is recovered.

iii. Mortgage:

Only the immovable properties are kept under mortgage.

iv. Hypothecation:

Hypothecation is nothing but the mortgage of movable property. It is an extended idea of pledge. Here the lender possesses the right of a pledge. It is very much risky and agricultural banking does not require hypothecation.

7.3.6 Loan Supervision and Monitoring:

Under its charter, the bank is required, as far as possible, to ensure that a loan is spent on the purpose for which it is made, and if this requirement does not complied with by the borrower, the bank may require the repayment of the loan forthwith.

- a. Primary responsibility of the manager is to supervise and monitor the cash loan
- b. Project and term loan stage by stage, ensure project construction work, acquiring kind items and project goods as per approved arrangement specified in the sanction letter.
- c. Bank finance project should be inspected by the regional manager and manager Periodically to assess physical conditions of the projects facilities and the level of the projects capacity utilization.
- d. Cash loans are liable to misuse for non-productive process. Special attention must,
- e. Therefore be given on borrowers past antecedents.
- f. The manager should deploy a project supervision officer after documentation are Released of first loan installment.
- g. After inspection, the manager or authorized officer should countersign the
- h. borrowers acknowledgement receipt under his signature and seal.

7.3.7 Types of loan:

Loan is the main source to earn income. There are three types of loan

i. **Short term loan:**

A short term loan is the loan which is fully repaid within one year or below one year.

ii. **Medium term loan:**

Medium term loan is the loan which is fully repaid within more than one year to five years.

iii. **Long term loan:**

Long term loan is the loan which is fully repaid more than five years.

7.3.8 Loan Recovery:

Classes of Loan:

Classes of loan based on loan recovery: one of the specialized development bank, RAKUB classifies loan in two category-

i. **Unclassified loan:**

When half or more than half of the total loan is repaid within the due dates by the borrowers than that is called unclassified loan. The duration of time in which the loan will be treated as unclassified is less than 12 months from sanctioning loan.

ii. **Classified loan:**

When more than half of the total loan or total is unpaid or due over the due date than that loan is called classified loan. Classified loan can be sub standard, doubtful and bad.

Procedure of loan recovery:

The main responsibility of bank manager and loan officer is recovery the outstanding loan. There are two recovery procedures-

i. **Usual procedures:**

The usual loan recovery procedure is divided into several steps. These are as follows-

1. **Issue of demand notice**

2. Legal notice
3. Special notice
4. Field recovery
5. Personal communications
6. Loan recovery camp

ii. Legal procedures:

When legal action for recovering loan becomes failed a case is filed against the borrowers. The case is generally filed in the following ways-

1. Unwilling to repay loan although he is financially solvent.
2. Every effort of loan recovery becomes failure.

Rules of recovery:

Loan recovery from loanee in installment system are as follows-

- i. Weekly
- ii. Fortnightly
- iii. Monthly

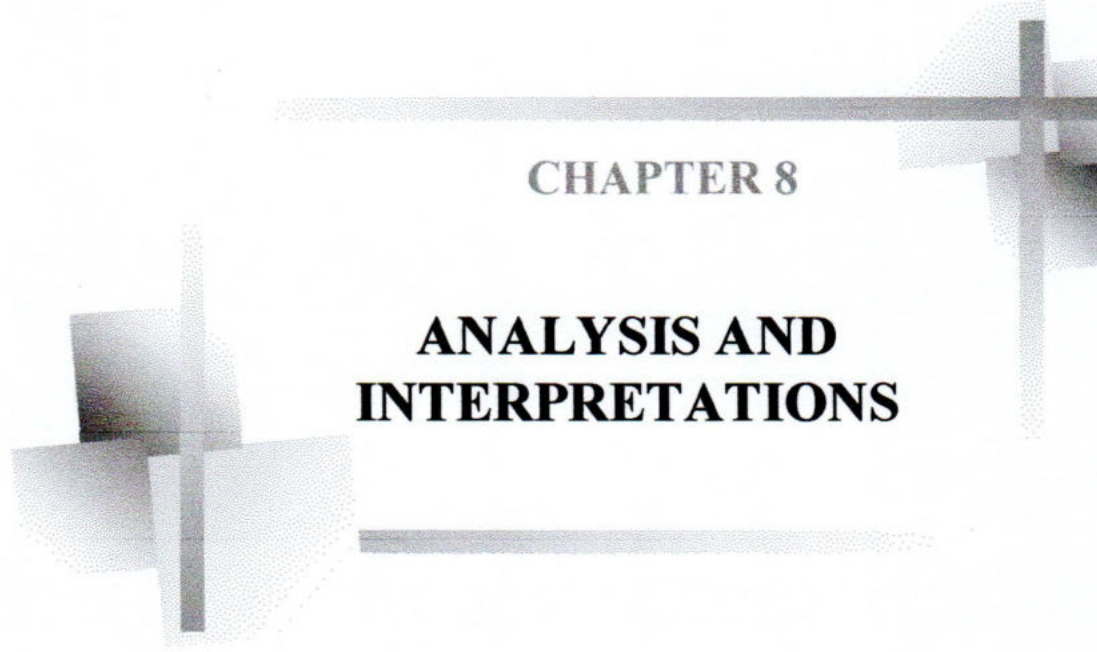
7.3.9 Causes of defaulter:

The loanee can not pay the loan payment in due time in various causes-

- i. Natural calamity destroy the crops.
- ii. Dishonest person having political power.
- iii. The loanee can not use the loan in proper way.
- iv. Lack of loan supervision.

7.3.10 Causes of low recovery:

1. Negative attitudes of the local elite to repay the loan.
2. Damage of the crops due to flood.
3. Unproductive use of the loan.
4. Shortage of loan personnel.
5. Lack of legal actions by the banks against defaulters.
6. Corruption of the bank employees.
7. Inability of the farmers to repay the loan.
8. Inadequate training facilities for loan officers and their qualifications.



CHAPTER 8

ANALYSIS AND INTERPRETATIONS

Chapter 8

Analysis and Interpretations

This chapter contains the analysis and interpretations of the data for the report. The data is analyzed and interpreted noted in the following table and interpretations below the table-

Table 1 Age Distribution, Level of Education & Marital Status

Age	Frequency	Percent	Education	Frequency	Percent	Marital Status	Frequency	Percent
26-35	4	11.76	Primary	11	32.35	Single	1	2.95
36-45	12	35.29	SSC	5	14.70	Married	33	97.05
46-55	17	50.00	HSC	1	2.94	Divorced	0	0.00
56-65	1	2.94	Other	17	50.00	Widowed	0	0.00
Total	34	100	Total	34	100	Total	34	100

From Table 1, we have seen that 50% of the farmers are within the ages of 46-55. Whiles the other half contains 35.29% and 11.76% within the range of 36-45 and 26-35 respectively. Also none of them are below the age of 26. 50% of the farmers are educated (that contains degree pass, BA pass and Kamil pass) and normal educated that is up to class Seven, Eight or Nine. Among the farmers 32.35% has completed primary education, 14.70% has completed SSC level and 2.94% has completed HSC level. 97.05% of the farmers are married and only 2.95% remains single. The analysis reveals that the most of the farmers are over aged that is not a good sign for progressing of agriculture. It should be within the age limit of 36-45 to have good thinking on agricultural development. In case of examining level of education of the farmers we can say that since a little portion of the farmers are educated, the farmers should be given proper knowledge about the positive aspects of education and importance of learning to the agricultural sector. In the analysis we have seen almost all the farmers marital status is married.

Table 2 Level of Occupation

Title	Frequency	Percent
Service holder	6	17.65
Farmer	28	82.35
Farm manager	0	0.00
Total	34	100

From the table 2, we have seen that of the farmers 17.65% are service holder and keep tie with agriculture. While the remaining major portion about 82.35% of the respondents are farmer and engaged them totally in agriculture. This fact is actually not expected because there are a number of service holder who earns a lot of money but do not try to invest money in the agriculture. Since Bangladesh is highly dependent on agriculture more and more service holder and industrialist should invest directly or indirectly to the agricultural sector.

Table 3 ‘Do you save money at banks?’

Response	Frequency	Percent
Yes	8	23.53
No	26	76.47
Total	34	100

In the table 3, we note that only 23.53% of the farmers save money at banks but the biggest portion of about 76.47% of the farmers do not save money to the banks at all. At the time of field work we hear from the respondents that they normally tend to open a savings account to get the agricultural loan and only limited number of respondents have krishak sonchy scheme. Farmers should be aware about minimum savings of money at bank so that they can utilize it in the rainy day.

Table 4 ‘Do you have any account under Krishi Upakaran Sohayota?’

Response	Frequency	Percent
Yes	31	91.17
No	3	8.83
Total	34	100

In the table 4, we have seen that 91.17% of the farmers have account under krishi upakaran sohayota and they get some amount of subsidy through that account. About 8.83% of the farmers have no transaction under krishi upakaran sohayota. During the observation we found that those who get the facility under that account can use the money for its intended purpose.

Table 5 ‘Have you ever applied for a loan?’

Response	Frequency	Percent
Yes	34	100.00
No	0	0.00
Total	34	100

The table interprets that almost all the farmers who think about agricultural loan to use for agricultural purpose apply for the loan and after meeting certain requirements they are allowed to have a loan.

Table 6 ‘Do the interest rate scare you from borrowing from the bank?’

Response	Frequency	Percent
Yes	23	67.65
No	11	32.35
Total	34	100

From the observation found through the table it is pictured that 67.65% of the farmers feel scared about interest paid for the loans of the banks. While about 32.35% of the farmers feel little or rare scare about interest amount paid for the loan. Since major portion of the farmers feel uneasy about the rate of interest bank

charged the banking industry and the present government should give importance on this matter and they should charged least amount of interest of providing loan.

Table 7 ‘Do you find it tough paying the loan?’

Response	Frequency	Percent
Yes	23	67.65
No	11	32.35
Total	34	100

This table shows that 67.65% of the farmers find it tough to pay the loans. While other 32.35% of the farmers do not find it tough to pay the loan but think little tough to pay in exact time. In this case it is necessary to make the installment amount under the ability of the farmers. It can help them to use the money in the productive purpose.

Table 8 ‘Have you been assisted by any of the banks before?’

Response	Frequency	Percent
Yes	3	8.83
No	31	91.17
Total	34	100

It is seen from the table 8 that 8.83% of the farmers have been assisted by the other banks before applying the krishi bank. And 91.17 % of the farmers have not been assisted by the other banks before applying to the krishi banks. From the analysis it can be said that state owned banks only come forward to the agricultural development. The other banks should also give extra focus on the agricultural progress.

Table 9 ‘Did the bank follow up to have a look at the activity you took the facility for?’

Response	Frequency	Percent
Yes	32	94.12
No	2	5.88
Total	34	100

The table states that the response from about 94.12% of the respondents on whether bank take care of the loan facility they provide to the farmer or not is positive and only 5.88% of the farmers think that bank took rare observation to the provided loan to the farmers. It is a good symptom of the lending banks and it can make certainty of using the loan properly.

Table 10 ‘Was the loan facility used for its intended purpose?’

Response	Frequency	Percent
Yes	34	100.00
No	0	0.00
Total	34	100

From the table and responds from the respondents it is seen that they noted that the loan facility they taken was used for its intended purpose. But it seems that there are nearly a portion who take the loan but do not use the loaned amount for which it is taken.

Table 11 ‘Whether landless/ tenants can avail agricultural loan?’

Response	Frequency	Percent
Yes	34	100.00
No	0	0.00
Total	34	100

The table indicates that all the farmers including landless/ tenant applying for the loan meeting mandatory requirements can the avail the opportunity of getting loan. This is a good job of the banks to serve all the farmers either having land or not. By this they can expect to lead a happy life and can contribute the welfare of the country.

Table 12 'What types of loans are allowed to farmers/ growers by banks?'

Term	Frequency	Percent
Short term	6	17.65
Medium term	28	82.35
Long term	0	0.00
Total	34	100

The table shows that about 17.65% of the farmers get the loan in short term and about 82.35% of the farmers get the loan in medium term. Medium term loan is good enough for both the borrowers and lenders. Banks should offer loan for long term as per demand and reputation of the borrowers.

Table 13 'Do the banks provide loan in cash only?'

Response	Frequency	Percent
Yes	34	100.00
No	0	0.00
Total	34	100

From the table it is obvious that banks in case of giving loan to farmers provides the loan in cash only not with other instrument. This is an effective way but lenders should suggest the borrowers to make good use of it. By this the borrowers can get motivation from the lenders.

Table 14 ‘Does it take several days or weeks for farmers to process or access a loan from the banks?’

Response	Frequency	Percent
Yes	32	94.12
No	2	5.88
Total	34	100

From the table it is clear that 94.12% of the farmers require several numbers of days to access the loan from the bank. While other 5.88% of the farmers feels easy and comfortable with accessing a loan with least days. But this is one type of negligence to the rest of the farmers. Banks should make it easy to access the loan with least amount of days so that harassment of the farmers could be minimized and goodwill of the banks is necessary to enhance the attraction of the farmers to the banks.

Table 15 ‘Is there any system under which farmers can get agricultural loan at your doorsteps?’

Response	Frequency	Percent
Yes	34	100.00
No	0	0.00
Total	34	100

From the table it is shown that all the farmers who apply for the loan and all who needs loan get doorsteps loan facility. It is essential to all the farmers. Because there are a lot of farmers who have little knowledge about banks and its activities. By this they not only get financial helps from the banks but also seek to hope of engaging themselves for the agriculture.

CHAPTER 9

FINDINGS OF THE STUDY

Chapter 9

Findings of the Study

After the pinpoints analysis on Agricultural banking in the northern region of Bangladesh following aspects are found.

The positive aspects of agricultural banking in the northern region of Bangladesh is outlined below-

- a) Farmers can think about the agricultural loan for their production.
- b) Banks are eager to provide loan to some valued clients.
- c) Some banks have special effort on providing agricultural loan.
- d) In some cases banks take direct supervision of borrower of lending amount.
- e) Banks try to provide the agricultural loan with least interest rate.
- f) Banks search for making easy for the farmer for the repayment of loan.
- g) Banks recently think about the landless farmers for issuing loan.
- h) Banks seek to issue loan with minimum paperwork.
- i) Banks look for the progress of the rural family.
- j) The lifestyle of the rural community is changing gradually with the help of agricultural loan.

The negative aspects of the agricultural banking in the stated region of Bangladesh are outlined below-

- a) Farmers always worry about the loaned amount.
- b) They get scared of interest paid.
- c) Due to the maximum of the farmers are illiterate they think opening of an account with the bank is a difficult task.
- d) Farmers feel anxious about the documents necessary to get the loan.
- e) Landless farmers have little access to the loan.
- f) Proper supervision of the lending amount to the farmers is neglected.
- g) Lack of coordination of borrower and lender.
- h) The limited facilities of private banks loan.
- i) The unavailability of branch at the remote area.
- j) The lack of insurance policy for the agricultural crops.

CHAPTER 10

**RECOMMENDATIONS AND
CONCLUSION**

Chapter 10

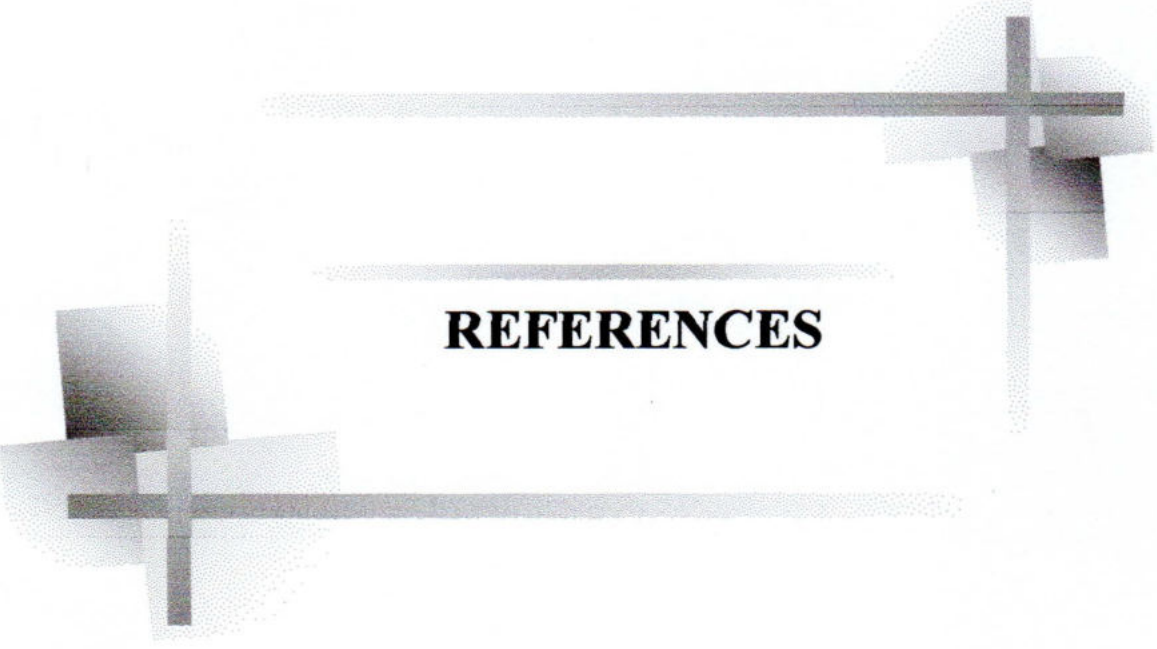
Recommendations & Conclusion

In the chapter 6 findings of the study, we have seen a number of positive and negative aspects of agricultural banking in the northern region of Bangladesh. Based on the above mentioned aspects there are some suggestions to the study to overcome the problems and contribute to the welfare of agricultural sector of the country. The suggestions regarding the study are outlined below-

- a) More branches of banks relating to agriculture should be established at the rural area.
- b) More and more doorsteps loan should be provided to the farmers.
- c) Loan should be provided to the farmers with least interest or free of interest.
- d) The installment amount for the repayment of loan should be reasonable to the farmers.
- e) Each farmer should have an account with the banks that requires Tk10 to open.
- f) Loan should be provided on demand to the farmers with reasonable time period and with minimum paperwork .
- g) Banks should take initiatives to the proper use of the loan amount.
- h) There should have sufficient facilities for the landless farmers.
- i) The proper steps of government to the farmer are urgent.
- j) Bank should manage the matter of insurance facility for the borrower.
- k) There should have proper coordination between the borrower and lenders so that the matter of default loan could be minimized.
- l) More private banks should be established at the rural area focusing on the agricultural sectors.

Banks are the lending institution which has so much bearing for a particular nations. In Bangladesh a number of banks try to manage the requirement of loan section of the particular community. The northern region of Bangladesh is ignored

due to its industrial facility. But its specialization in the field of agriculture makes it as the granary of the country. One of the specialized banks Rajshahi Krishi Unnayan Bank along with the other banks tries to meet the demand of the loan in this region. Banks have specialization to the agricultural sector. Agricultural banks, which are currently well-capitalized and profitable compared with nonagricultural banks of similar size, also appear relatively safe and stable. Agriculture plays also an important role in providing indirect non-commodity contributions that are public goods, social service benefits and environmental services not captured by markets. Agriculture thus contributes to (i) environmental services such as soil conservation, watershed services, biodiversity, and carbon sequestration; (ii) poverty reduction; (iii) food security; (iv) agriculture as a social safety net or buffer in times of crisis, and (v) social viability. The study underlines the strong interdependence between agriculture and other sectors, as well as the many cross-sector linkages through which agricultural growth supports overall economic growth and the many benefits to society that are not measured by economic growth indicators alone. The findings of this study show that, the higher the interest rate, the lower the demand for loans. In addition, high interest rates cripple farming businesses. That is, higher interest rates tends to have an adverse effect on the development or growth of farming or businesses in northern region since they depend very much on availability and accessibility to funds at reasonable or favorable rates. In a word the role of agricultural banking in the northern region is very much important to the people of this region and to the overall economic development of the country.

An abstract graphic design featuring two horizontal lines. The top line is solid black, while the bottom line is dashed. Both lines are intersected by a vertical line that forms a crosshair. The background is white with a light gray grid pattern.

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APPENDICES

Questionnaire for the Respondents

This questionnaire is designed to study the “*Agricultural Banking: Evidence from Northern Region of Bangladesh*”. This is just a study for academic purposes. It has no bearing on anyone or company. Confidentiality of the respondents is assured.

Please tick and fill in the blank spaces appropriately.

1. Where do you live?
2. Age (in years)?
 - a) 15-25
 - b) 26-35
 - c) 36-45
 - d) 46-55
 - e) 56-65
 - f) Above 66
3. Level of education?
 - a) Primary
 - b) SSC
 - c) HSC
 - d) Other specify
4. Marital status?
 - a) Single
 - b) Married
 - c) Divorced
 - d) Widowed

5. What is your occupation?
 - a) Service Holder
 - b) Farmer
 - c) Farm Manager
6. Do you save money at Banks?
 - a) Yes
 - b) No
7. What account do you normally open?
 - a) Current Account
 - b) Savings Account
 - c) Krishak Sanchay Scheme
 - d) Other specify
8. Do you have any account under Krishi Upakaran Sohyaota?
 - a) Yes
 - b) No
9. If yes, in what purpose you use the fund of Krishi Upakaran Sohyaota?
.....
10. Have you ever applied for a loan?
 - a) Yes
 - b) No
11. If yes, what do you require in order to access a loan from a bank?
.....
12. What do you think about the interest rates being charged by the bank?
.....
13. Do the interest rates scare you from borrowing from the bank?
 - a) Yes
 - b) No
14. Do you find it tough paying the loans?
 - a) Yes
 - b) No



15. Does the high interest rate affect your farming?

- a) Yes
- b) No

16. What are some of the effects of the high interest rates on your farming?

.....

17. Have you been assisted by any of the banks before?

- a) Yes
- b) No

18. If yes, what type of benefit or assistance did you get?

.....

19. Did the bank follow up to have a look at the activity you took the facility for?

- a) Yes
- b) No

20. Was the loan facility used for its intended purpose?

- a) Yes
- b) No

21. Do all kinds of people get loan from the rural banks?

- a) Yes
- b) No

22. Whether landless farmers/tenants can avail agricultural loan?

- a) Yes
- b) No

23. What types of loans are allowed to farmers/growers by banks?

- a) Short term
- b) Medium term
- c) Long term

24. Do the banks provide loans in cash only?

- a) Yes
- b) No

25. Does it take several days or weeks for farmers to process or access a loan from the rural banks?

- a) Yes
- b) No

26. Is there any system/procedure under which farmers can get agricultural loans at your doorsteps?

- a) Yes
- b) No

27. What role do you think banks play in your community?

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