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INSTITUTIONAL CREDIT FOR RURAL DEVELOPMENT: AN OVERVIEW OF THE BANGLADESH CASE[*]

Mahabub Hosssan**

ABSTRACT

Growth of institutional credit disbursement and its relation with growth in fertilizer use shows significant positive relationship but credit disbursement shows poor relationship with growth in crop output. The reason for this poor relation are access of a small proportion of large and medium farmers to credit institutions, inadequate and untimely disbursement owing to complicated loan sanctioning procedure, and overlapping of credit institutional operation. Compared to agricultural credit, rural credit for non-farm activities particularly those provided by the Grameen Bank has been better utilized, and timely repaid. However, Grameen Bank still covers a tiny proportion of the total rural poor, so its success should be interpreted with caution.

I.ROLE OF INSTITUTIONAL CREDIT

Credit programmes for the small farmer originated from the observation that lack liquidity is a principal constraint to agricultural development. The small farmer has little surplus production over family consumption, which he can sell in the market purchasing agricultural inputs. Research at the micro-level shows that funds could be borrowed from informal lenders but they charge usurious rates of interest. Loans are also available from informal sources against advanced sale of crops at prices much the level prevailing in the market during the harvest. Payments for interest charges on such loans constitute a major drain on the current income of the small farmer, which depress his standard of living, make him perpetually indebted (Bhaduri 1973) and in some cases lead to alienation of land, which contributes to growing landlessness {Jabber *et al* 1981). It is assumed that a well-designed credit programme providing low interest credit could drive away the informal lenders, and ameliorate rural poverty.

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[**]Senior Research Fellow, Bangladesh Institute of Development Studies, Dhaka.

A second line of reasoning is that the highly skewed land distribution pattern prevents equitable distribution of the benefits of agricultural growth which is appropriated mostly by the rich. The 'trickling down' of the benefits to the poor through the normal market mechanism, experienced by the present day developed countries, would either be insignificant or too slow to be politically acceptable, considering the vast magnitude of absolute poverty and the urgency of reversing its upward trend (Ahmad and Hossain 1984). Farm management research undertaken in the Indian subcontinent since the late fifties, on the other hand, show that small farmer produces more per acre of land than the large farmer. Obviously, if the small farmer could be supported by a cheap credit programme, the higher productivity on his farm could be transformed into increased income and greater purchasing power. In this sense the small farmer credit is seen as an instrument of a direct attack on rural poverty.

More recently, with the introduction of the 'green revolution' technology, institutional credit has come to be recognised as an indispensible input for crop production. On traditional crops the farmer used to supply most of the inputs from his family. The new crop varieties require large amount of investment on purchased inputs, such as hybrid seeds bred on government farms, chemical fertilizers and controlled irrigation.[1] The small farmer cannot afford such large investments and hence cannot participate in the diffusion of the new technology as much as the large one. Thus, unless the small farmer is supported by cheap credit, the availability of the new technology would gradually widen rural income disparity. Under the new technology even the medium and large farmers would need institutional credit for making medium and long term investments on lumpy irrigation equipment and agricultural machinery, to exploit the full potentials of the new technology.

A recent phenomenon noted in many densely populated LDCs is growing involvement of the landless and near-landless in non-farm rural activities. The landlessness has been growing due to the increased pressure of population on the limited land, and the sluggish growth of agricultural production. Unable to find employment on the land, the landless try to eke out a living by self-employing themselves in processing, trading and service sectors. Since the new technology is limited mostly to the production of rice and wheat, the diffusion of the new technology has led to specialisation in agricultural production and consequently to the increase in the demand for trading and transport services.[2] It is the landless and the small farmer who come forward to provide the trade and transport services more than the rich, because of the inherent disadvantages of organising such activities on a large scale under circumstances of underdeveloped infrastructural facilities. Owing to lack of resources, the poor non-farm operator also has to depend on the rural money-lenders for working capital, the interest on which claims a large proportion of the potential income. Provision of institutional loans at reasonable terms and conditions to the land-poor could then support the growth of non-farm rural employment and improve their economic conditions.

II. INSTITUTIONAL CREDIT FOR AGRICULTURAL GROWTH

Credit Institutions

Provision of institutional credit is a relatively recent phenomenon in Bangladesh. At times of natural calamities, such as flood, cyclone and draught, the government used to distribute among farmers Taccavi loans at a nominal rate of interest. These loans were basically aimed at providing relief, and as such they used to remain largely unrecovered. The taccavi loans were discontinued in 1974 (Jamal 1984).

The Bangladesh Samabaya Bank Limited (BSBL) set up for the development of the cooperative movement during the British rule, is the oldest agency in charge of distribution of credit to primary cooperative societies. The Bangladesh Krishi Bank (BKB) was established in 1961 as a specialised credit institution to support agricultural development programme in the country. The next development in this field was in 1971 when the Integrated Rural Development Programme (IRDP) was undertaken to replicate the Comilla model of agricultural development throughout the country. The IRDP, presently known as the Bangladesh Rural Development Board (BRDB), distributes credit to their affiliated cooperative societies through the Thana Central Cooperative Association (TCCA). The nationalised commercial banks (NCB) also took up the responsibility of distributing agricultural credit, when they started expanding operations in rural areas beginning in the early seventies. They stepped up the agricultural lending programme considerably since 1977, when a special agricultural credit programme (SACP) was introduced by the government. In 1983 the Grameen Bank was established as a specialised credit institution to provide loans to the rural poor.

During 1983/84 about 3225 rural branches of these banks were in operation for providing credit, serving on average about 20 villages per branch (Rahim 1985). The BKB, however, remains the major lending agency providing about 58 per cent of the total loans disbursed in 1980/81, followed by the NCBs which distributed 26 per cent (GOB/IDA 1983).

Organisation of Credit

Agricultural lending is carried out under two separate programmes, (i) the normal programme, which provides all types of short, medium and long term credit and covers all rural sectors, and (ii) the Special Agricultural Credit Programme (SACP) introduced in 1977 for providing short-term crop loans. The short-term credit now accounts for more than three-fourth of the toatal institutional loans (GOB/IDA 1983).

During 1980-83 period, the short-term crop production loans were charged an interest of 12 per cent per annum (Jamal 1984), for other loans the rate of interest varied from 13 to 14.5 per cent per annum depending on the purpose. The IRDP charges an

additional 5.5 per cent per annum to its members for servicing the loan. In 1983 the rate of interest was raised to 16 per cent following the recommendations of the joint review by the government of Bangladesh and the World Bank (GOB/IDA 1983).

Credit is generally advanced against the security of land. Recently, the security requirement for agricultural credit has been rationalised. Short term loans are now extended to farmers against hypothecation of crops. The SACP credit is extended against recommendation of a local government leader as a guaranter. This has facilitated extension of credit services to sharecroppers who own little land. The BKB now provides part of the loan in kind of fertilizers.

Trend in Supply

The trend in the supply of institutional credit over the period 1970/71 to 1983/84 will be seen from Table 1. The supply was insignificant before the independence of the country, but within three years it increased by three folds, and the rate of growth accelerated since the mid-seventies. Over the period 1977-84, the supply of credit increased by about 36 per cent per annum in nominal terms and about 20 per cent in real terms,

TABLE I. TREND IN THE SUPPLY OF AGRICULTURAL CREDIT FROM INSTITUTIONAL SOURCES, 1970-84

Period	Amount of credit disbursed (million Tk)		Real value of credit (at 1975/76 prices)	
	At current prices	At constant 1975/76 prices	Per acre of sown area	Per cacre of HYV area
1970-71	153	414	13	364
1973-74	307	435	15	112
1975-76	467	467	15	114
1977-78	1569	1257	40	300
1979-80	2821	1616	51	271
1980-81	3734	1797	55	263
1981-82	4238	1815	56	259
1982-83	6788	2792	85	371
1983-84	10,087	3772	114	484

Source : Hossain (1985), Table 13.

after discounting for the increase in the price of agricultural inputs. The real value of credit, at 1975/76 constant prices, increased from Tk. 40 per acre of cropped land in 1977/78 to Tk. 114 in 1983/84. Still, the supply of credit may be considered low in relation to the needs. The disbursement per acre in 1982/83 was only about 12 per cent of the costs of production of cereals, and about 40 per cent of the cost on account of material inputs (Hossain 1985).

Impact on Production

No indepth evaluation of the impact of the credit programme on agricultural production is available for Bangladesh. An attempt was made by Hossain (1984) to estimate the impact on foodgrain production by fitting a regresssion equation of the following form on the time series data for 1969/70 to 1983/84 period :

Y=f (A,I,F,C) where Y=Production of foodgrains (000 tons), A=Cropped area under foodgrains (000 acres), I=Area under modern irrigation (000 acres), F=Sale of fertilizer (000 tons), C=Disbursement of credit (million Tk at constant 1975/76 prices).

An important determinant of production would be the supply of labour but owing to the lack of information, this variable could not be incorporated in the equation. The results are the following :

(i) $$Y=10064+\underset{(4.9)}{0.811A}+\underset{(0.69)}{0.2831}+\underset{(2.08)}{2.38F}-\underset{(-0.41)}{.0763C} \qquad R^2=0.96 \qquad F=68.4$$

(ii) $$Y=12320+\underset{(5.0)}{0.913A}+\underset{(1.5)}{0.643I}+\underset{(0.97)}{0.203C} \qquad R^2=0.95 \qquad F=69.4$$

The figures within parentheses are estimated 't' values. Since the impact of credit on production would come through its effect on the use of inputs, equation (ii) is the more appropriate one to use for the present purpose. The regression coefficient in this equation shows a positive relationship between the supply of credit and foodgrain production, but the coefficient is not statistically significant indicating a weak relationship.

The impact of credit on growth of fertilizer consumption is shown by the following relationship estimated from the same data :

$$F=159+\underset{(2.12)}{.0873C}+\underset{(4.61)}{46.3T} \qquad R^2=0.95 \qquad F=98.9$$

where, T is time, and F and C are fertilizer consumption and supply of credit, measured as before. The coefficient of credit is found positive and statistically significant. The

value of the coefficient however indicates that Tk. 1000 additional disbursement of credit leads to an increase in fertilizer consumption by .087 tons, valued at Tk. 126 at 1975/76 prices. This means that only about 13 per cent of the credit is used for purchasing fertilizers.

The limited contribution of credit to the growth of fertilizer consumption and food-grain output is also supported by findings of a comprehensive farm survey jointly conducted by the Bangladesh Agricultural Research Council and the International Fertilizer Development Centre (BARC/IFDC 1982, 1984). The survey covered 2400 sample farms in 117 villages from 20 upazilas scattered throughout the country in 16 out of 21 districts (old) for the period 1979/80 to 1981/82. The survey found that only 14 per cent of the households received credit during 1979/80, and the proportion fell to 11 per cent in 1981/82. The amount of credit received per acre of land however increased from Tk. 82 to Tk. 141 indicating a trend towards concentration of credit in few hands. Another micro-survey conducted by the BIDS in two villages in Dhaka district (Quasem 1979 ; Hossain 1985) found that about one fourth of the cost of agricultural production on account of fertilizers was financed with institutional credit in 1977/78, and it feel to 13 per cent in 1983/84.

The findings of various micro-surveys indicate that the contribution of credit in raising production on small farms would be even less. All these studies show very little access of small farmers to the credit institutions. The BARC/IFDC survey, for example, noted that during the 1981/82 boro season only 1.2 per cent of farmers owning upto 1.0 acre of land received credit from institutional sources, compared to 7.7 and 7.2 per cent for the medium (owning 2.5—5.0 acres) and large (over 5.0 acres) farmers. The amount of credit received per acre of land was Tk. 13 for the first group, compared to Tk. 91 and 84 for the medium and large farms. Similar was the picture for other crop seasons. The Joint Review of Agricultural Credit conducted by the government of Bangladesh and the World Bank also notes that most of the benefit of agricultural credit go to farms owning three to nine acres of land. The share of different groups of farms in the loans disbursed by the BKB, according to the BKB's own records, will be seen from Table 2. The small farmers were 60 per cent of the BKB's borrowers during 1975/76, but their number feel to 56 per cent by 1980/81 : their share of total credit fell even faster, from 55 per cent in 1975/76 to 32 per cent in 1980/81. At the other end, the share of farmers with holdings above 12.5 acres increased from about five per cent in 1975/76 to about 20 per cent in 1980/81. These figures also show that agricultural credit is being increasingly concentrated in the hands of the large farmers.

Factors Behind the Poor Performance

An important feature of the agricultural credit programme in Bangladesh, as in many other LDCs, is a very poor recovery performance. The findings of the joint GOB/

TABLE 2. THE PATTERN OF DISTRIBUTION OF BKB CREDIT, BY SIZE OF FARMS, 1975/76—1980/81

(Figures in % of total)

Size of holding (acres)	Percent of credit receipients			Percent share of total credit		
	1975/76	1978/79	1980/81	1975/76	1978/79	1980/81
0.5 —2.5	60.4	52.2	56.0	54.7	42.7	32.1
2.51—7.5	29.9	36.8	33.7	27.6	30.3	31.3
7.51—12.5	7.9	9.3	8.7	13.1	13.8	16.5
12.51 & above	1.8	1.7	1.6	4.6	13.2	20.1

Source : Bangladesh Bureau of Statistics : **Statistical Yearbook** 1981.

IDA credit review on the recovery/demand ratios for agricultural lending for 1979/80 to 1981/82 period are reported in Table 3. The recovery ratio is better for credit disbursed under the normal programme (NP) than for short-term crop loans distributed under SACP. But even under NP the recovery ratio never exceeded 74 per cent. For SACP the highest recovery ratio is found at 38 per cent. The figures also show that the recovery performance deteriorated over time for both credit programmes.

TABLE 3. LOAN RECOVERY PERFORMANCE, BY INSTITUTION AND PROGRAMME, 1979/80 TO 1981/82

(recovery as % of demand)

	Krishi Bank	Commercial Banks
Normal Programme		
1979/80	49	74
1980/81	68	61
1981/82	68	41
Special Agricultural Credit Programme (crop loan)		
1979/80	36	38
1980/81	32	32
1981/82	30	35

Source : Joint GOB/IDA Credit Review, Annex III, p. 12.

The duration of the overdue loans is shown in Table 4. It will be noted that about 31 per cent of the overdue loans under the normal programme remains unpaid for more than five years, which may be regarded as irrecoverable. For SACP crop loans, which was started in 1977, about one-fourth of the amount in 1981/82 was overdue for more than three years.

TABLE 4. DURATION OF OVERDUE LOANS-, BY PROGRAMME, 1981/82

(Figures in per cent of total overdue loans)

Duration of overdue	Normal Programme credit	SACP croploans
Upto 1 year	21	22
1-2 years	25	36
2-3 years	12	18
3-5 years	11	18
over 5 years	31	6

Source : Joint GOB/IDA Agricultural Credit Review, Annex III, p. 14.

The poor recovery performance not only reduces the availability of loanable funds for expansion of credit, it leads to the development of the practice of loan rescheduling known as 'paper transactions'. The credit officials, in order to hide the poor recovery issued, often issue a new loan equivalent to the amount of the principal and the interest due, against the old loan. Thus, a part of the loan disbursed every year is in fact used for repayment of old loans, thereby reducing the effectiveness of credit in financing investments.

A major factor behind the low recovery rate is reported to be the complicated loan sanction procedure, and the excessive time taken between filing of a loan application and actual disbursement of the loan (GOB/IDA 1983). This problem is related to the lack of decentralisation of the loan sanction process, and low limits on the authority of the field staff to approve loans. It creates problems particularly for the short-term crop loans, which are often disbursed late when the investment on fertilizer, irrigation etc. for the crop has already been made. This leads to diversion of credit to non-agricultural investment or even to consumption activities, depressing the repayment capacity of the loanee.

The local bank official in Bangladesh often claim an illegal 'service charge' on the loan ; the current rate varies between 10-15 per cent of the loan amount. The loanee agrees to provide the charge because the payment helps reduce the red tapism, which lowers his transaction cost of the loan, estimated by some at about 18 per cent (Jamal 1984). The payment of the bribe however gives the impression to the loanee that the loan is not to be repaid, and hence leads to the laxity in the credit discipline.

The multi-agency credit system is also partly responsible for the poor recovery of loans. A number of lending agencies often work in the same area without having proper coordination among themselves. This induces high default rates, because when there is pressure on the loanee to repay the loan, he can take credit from one institution to repay the loan of the other.

The low real rate of interest is often held responsible, particularly by international aid agencies, for the poor recovery performance as well as for the failure of the lending agencies to reach the small farmer. Until recently, the rate of interest varied between 12-13 per cent, against a rate of inflation of about 10 per cent per annum, and the cost of servicing credit at about 19 per cent for small size loans (GOB/IDA 1983). The loss on the part of the lender provides incentives to give loans to a few large borrowers so that the service cost is reduced. The low effective rates of interest attract even the financially solvent large farmers to the credit institutions, thereby reducing the share of the small farmers. The low rate of interest also encourages diversion of loans to unproductive ventures. It also indirectly contributed to development of the system of payment of the illegal service charges. The USAID has recently conducted an experiment with the credit delivery mechanism, distributing credit through different agencies at varying rates of interest. The result shows that the record of both the disbursement and recovery of credit was better under the high interest (30-35 per cent per annum) delivery system (Bangladesh Bank/USAID 1982).

The government and most development thinkers in Bangladesh however support the low-interest rate policy. They view it as one of the rare means of providing subsidy to the small farmer, and reducing the rural-urban disparity created by the urban-bias in the resource allocation pattern.

III. INSTITUTIONAL CREDIT FOR DEVELOPMENT OF NON-FARM ACTIVITIES

Financial institutions in Bangladesh also provide loans for undertaking various non-crop rural activities. The Bangladesh Small and Cottage Industries Corporation (BSCIC) provides financial assistance to rural industrial enterprises under collaborative arrangements with the NCBs and the BKB. The BRDB has recently started organising cooperatives of the landless (BSS) and of rural women (MSS) and provide credit to the members for undertaking various non-farm activities. In 1983 a specialised credit insti-

called the Grameen Bank was set up to provide loans to poor men and women, belonging to households owning up to 0.5 acre of cultivable land. The Grameen Bank loan is also taken basically for financing petty trade, cottage industries and livestock and poultry raising. This section provides an overview of the impact of the credit programme organised by the BSCIC and the Grameen Bank.

Credit for Development of Rural Industries

The Bangladesh Institute of Development Studies (BIDS) conducted a survey in 1980 on rural industries (BIDS 1981) in 11 upazilas of the country covering a random sample of 1238 industrial proprietors. The findings of the study regarding the impact of institutional credit on development of rural industries is briefly presented here.

The study noted a very insignificant role played by credit institutions in formation of fixed assets for the rural industries. The survey found that only 6.7 per cent of the proprietors obtained credit for financing acquisition of fixed assets, and only nine per cent of them (0.6 per cent of all proprietors) received loans from the institutional sources. Only one-third of the proprietors reported that they took loans for operation of the enterprises, but only five per cent reported financial institutions as the source of such loan. However, the institutional credit in this sector is reportedly used for productive purposes. About 27 per cent of the credit was used for acquisition of fixed assets, 70 per cent for expansion of working capital, and only three per cent was diverted to consumption and other non-industrial purposes.

The main factors behind the limited impact of institutional credit for rural industrial development are (i) ignorance of the proprietors about the availability of credit, (ii) lack of collateral that the credit institutions demand, (iii) complicated procedures for approval and disbursement of loans, (iv) illegal charges to be paid to the BSCIC extension officers and the credit officials of the bank, and (v) waste of time. Those who obtained credit from the institutional sources reported that, on average, they had to spend 12 working days for running after the bank officials to get the loan approved, and had to pay 3.5 per cent of the amount of loan as illegal charges.

One should mention here, however, that the BSCIC has greatly expanded its credit programme for development of rural industries in recent years, after the survey was undertaken. So the situation reported above might have changed considerably.

The Impact of Grameen Bank Credit[3]

The Grameen Bank was started as an action research project in 1976 in an area near Chittagong University to test the hypothesis that if financial resources are made available to the poor on reasonable terms and conditions they can generate productive self-employment without any external assistance. The loan disbursement and recovery procedures

of the Bank are innovative. Recognising that most of the target group (landless) are illiterate and shy to come to banks, the banking services are brought to them. The bank workers go round the village, help prospective loanees to form groups of five, and train them in the rules and disciplines of the Bank. A number of groups in the same area are federated into a centre, and the elected centre chief conducts weekly meeting held on a fixed day, recommends loan proposals and assists Bank worker who attends the weekly meeting. The loanee can use the credit in any productive activity of his choice, but he must repay the loan at weekly instalments of two per cent of the loan amount. The loan is disbursed and the repayment collected by the bank worker when he attends the weekly meeting. After three years of experiment, the project was formally launched in Tangail district in November 1979 with financial support of the Bangladesh Bank. In September 1983, it was transformed into a specialised financial institution with a paid up capital of Tk. 30 million, 40 per cent of the share is paid by the government, 40 per cent by the loanees, 10 per cent each by the Sonali Bank and the BKB.

The Bank has grown at a quite fast pace. By the end of September 1984, 108 branches were under operation covering about 2000 villages in five districts (old), which constitute nearly three per cent of the villages in the country. The trend of the disbursement and recovery of loans over the 1980-84 period will be seen from Table 5. It will

TABLE 5. THE EXPANSION OF GRAMEEN BANK ACTIVITIES, 1980-84

	1980	1981	1982	1983	Upto September 1984.
No. of villages covered	363	433	745	1749	1988
No. of members enlisted (000) cumulative	14.8	24.1	30.4	58.3	110.4
Amount of credit disbursed (million Tk.)	20.1	53.7	95.6	194.9	406.4
Amount recovered cumulative (million Tk.)	7.3	37.7	64.2	173.2	251.7
Amount disbursed during the year	17.1	32.6	41.9	99.3	211.5
Amount recovered during the year	7.3	25.4	31.5	59.0	128.5

Source : Hossain 1984.

noted that within less than five years the Bank has disbursed Tk. 406 million to about thousand members, of which Tk. 252 million has already been repaid. The yearly disbursement has increased from only 17 million in 1980 to 252 million in the first nine months of 1984.

An important feature of the Grameen Bank is its rapidly expanding coverage of women loanees. In 1980, women accounted for 39 per cent of the total members and received 27 per cent of the loan disbursed by the Bank. By September 1984, women exceeded the number of male members ; they were 54 per cent of all loanees and received per cent of the cumulative amount disbursed upto that time, and nearly 50 per cent new loans issued during 1984.

The Grameen Bank has succeded in reaching its target group (Hossain 1984, pp. Only five per cent of the loanees are found to have own cultivable land above limit set by the Bank as its eligibility criterion ; about 52 per cent of the loanees did have any cultivated land, and only 1.6 per cent had more than 2.5 acres. About 62 per cent of the loanees had non-land capital assets valued at less than Tk. 1000 (US $ 40) only 6.2 per cent had assets exceeding Tk. 5000. Thus the Grameen Bank loanees not only land-poor, they are in general resource poor.

The Grameen Bank loan has been used basically for undertaking non-farm activities on a self-employed basis (Hossain 1984, pp. 47-57). During 1983, 40 per cent of loans were taken for trading and shop-keeping activities, 26 per cent for processing manufacturing activities, and another 26 per cent for livestock and poultry raising. Starting in 1982, credit has also been issued to groups consisting of a number of loanees collective enterprises, such as purchasing of irrigation equipment, rice hullers, oil leasing of markets etc. for enabling the members to raise the productivity of labour. women members take loans mostly for livestock and poultry raising (43%) and processing and manufacturing (40%). Three activities—milch cow raising, paddy husking, cattle fattening—account for nearly two-thirds of the loan issued to women.

The loan recovery performance of the Bank can be seen from Table 6. Only four per cent of the loanees did not fully repay the loan within 52 weeks when loan was expected to be fully repaid, and the amount overdue with them was only 1.9 cent of the outstanding amount. The women loanees have a better record of recovery than the men. Loans taken for trading and processing activities which generate incomes are repaid better than loans taken for livestock raising from which the income is irregular. The Grameen Bank expects the loan to be repaid in regular weekly instalments. Some lapses are however noted in keeping the regularity of repayments. It is estimated that 88 per cent of the amount due are paid in regular weekly instalments ; 84 per cent for the male loanees and 94 per cent for the female loanees.

The main factors which contributed to the excellent recovery of the Grameen Bank loans are (i) personal interest and close supervision of the activities in the field by the

...LE 6. RECOVERY OF GRAMEEN BANK LOANS—FINDINGS OF THE LOANEE SURVEY

	Male loanee	Female loanee	All loanee
...ent of loanees who had not fully ...d the loan within one year	4.1	3.9	4.0
—Trade loans	2.4	3.9	2.6
—Industry loans	2.1	nil	1.4
—Livestock loans	9.7	9.7	9.7
...due as a percent of ...nding loan	2.0	1.7	1.9
—Trade loans	1.8	4.1	2.1
—Industry loans	0.1	—	0.1
—Livestock loans	5.0	1.9	4.1

...ce : Hossain 1984, p. 66.

...ging Director, who himself is the innovator of the Bank, (ii) the dedicated services ...e bank workers, most of whom have taken the job as providing services to the poor ...r than simply as an income earning opportunity, (iii) providing loans to activities ...a generates regular incomes, and (iv) the procedure of collecting repayments in ...amounts through weekly instalments. The bank worker travels six to eight miles ...day, often on foot, to attend weekly meetings of the centre to collect the instalments ...the loanees. The activities which the Grameen Bank finances generate regular ...es, and as the loan is recovered in small instalments on a weekly basis, the clients ...t easy to repay the loans. If the loan had to be repaid in one instalment after one ...or crop season, as in the case with agricultural lending in the country, the loanee ...d have found it difficult to accumulate the amount because, at the level of income ...erates, there is compulsion to divert the increased incomes to consumption streams. ...agricultural activities do not generate regular income, it is questionable whether ...meen Bank would have achieved similar success in recovering agricultural loans.

As the excellent repayment record indicates, the loanees are utilising the credit ...ively to increase family incomes. The BIDS study of 613 randomly selected ...s households found that the average household income increased from Tk. 1037

per annum from the benchmark point of the beginning of 1980, to Tk. 1374 in 1982 at the constant base period prices, showing that their incomes increased by 32 per cent over two and a half year period, when the per capita income of the country increased by only 2.6 per cent. Compared with the income of the target group in two control villages, the per capita income of Grameen Bank loanees in eight project villages was found higher by about 31 per cent. Among the loanee households, the per capita income is found positively related with the size of loan.

The following are the principal avenues through which Grameen Bank credit has increased incomes of the rural poor. First, the women loanees who were mainly dependent on the male earning members have generated self-employment in productive activities and thereby reduced the dependency ratio in the household and increase household incomes. The bench-mark survey of the loanees shows that about 65 per cent of the female applicants were not engaged in any productive activity at the time of loan application. The proportion of female workers was only five per cent in the loanee households before the intervention made by the Bank ; it was found to be 25 per cent during 1982. Second, many of the non-farm operators had to depend on informal lenders for their working capital, who used to charge exorbitant rates of interest. As a result a large part of their current incomes used to be transferred to this group of intermediary, which kept the income of the non-farm operators low. The cheap credit provided by the Grameen Bank helps them retain that portion of the income in the family. Third, the Grameen Bank target groups are themselves more than half of the total population, and as their incomes rise they start demanding products and services of one-another thereby mutually expanding their market. It is found from the expenditue survey of the loanees that about 43 per cent of the incremental income are spent on non-food items, and most of the non-farm products have elastic demand, including the goods produced in the cottage industry sector (Hossain 1984, pp. 112-122). Finally, the family incomes may have increased partly from accumulation of capital. The evaluation study found that during 1981–82 the value of investment on fixed assets was about 2.6 times higher for the loanee households compared to the target group in control villages. About 14 per cent of the capital stock of the loanee households were accumulated during 1981-82 compared to only 4.8 per cent for the control group. Nearly 61 per cent of the investment were made for acquisition of draft animals and agricultural tools and equipment.

The initial experience of the Grameen Bank thus shows that the credit programme has succeeded in improving the lot of the rural poor in the area of its operation. But it has so far been able to cover only a small fraction of the rural poor. The question is whether it can be successfully expanded to a wide enough scale to have a significant impact on alleviation of rural poverty nationally. The successful expansion would depend, among other factors, on (i) the development of an institutional framework for providing incentives to and promotion of the hard work of the bank workers, which could sustain their morale at the existing level, (ii) the expansion of the market of the goods and ser-

s of non-farm activities, (iii) vertical expansion of the programme through diffusion intermediate technology which is necessary for increasing the productivity of labour m the existing low level, and above all on (iv) the level and nature of agricultural elopment since agriculture is still the dominant sector of the economy, and the rural n-farm sector is dependent on agriculture both as the supplier of raw materials and as market for their goods and services.

IV. CONCLUSIONS

Over the last decade institutions providing agricultural credit have proliferated the number of bank branches operating in rural areas has increased many folds. supply of institutional credit at real value has increased about eight times over the 75/76 to 1983/84 period. Credit disbursed during 1983/84 amounted to about seven cent of the value added in the agricultural sector and about 2.3 times of the value hemical fertilizers consumed in the country.

The contribution of institutional credit to growth of agricultural production has ever remained below expectation. Regression analysis shows a significantly posi- elationship of the growth of fertilizer consumption with the supply of credit, but elationship between credit and the growth of crop output is found to be very weak. factors behind the limited contribution are access of a small proportion of farms institutions, concentration of credit in the hands of medium and large farms, equate and untimely disbursement owing to complicated loan sanctioning proce- s, and operation of multiple credit institutions in the same area and spred of corrup- among bank officials, which promote laxity in credit discipline and poor recovery.

In comparison, the experience with institutional credit for non-farm activities, ticularly with the rural poor, is more encouraging. Since 1980 the Grameen Bank started providing loans to the rural poor which are utilised mostly for non-crop activities. Over the last five years the Grameen Bank has covered about 130 thou- loanees from about four per cent of the villages in the country. The loan recovery formance is excellent and the loanees have utilised the credit productively to increase y incomes and improved their levels of living. The Bank still covers only a small ion of the rural poor. One may question whether it can be successfully expanded a wide enough scale to have a significant impact on alleviation of rural poverty onally.

Notes :

1. An estimate for Bangladesh for 1982/83 shows that the cost of production of high yielding rice is about Tk. 4000 per acre of land, compared to only Tk. 1200 for the main traditional rice crop. The difference in cost on account of modern agricultural inputs was even larger : Tk. 2100 per acre for the new crop compared to only Tk. 550 for the traditional variety (Hossain 1985).

2. The 1981 census of Bangladesh has shown an absolute decline in the agricultural labour force, owing to rapid urbanizaton, and nearly 10 per cent per annum rate of growth of rural non-agricultural labour force.

3. This section draws from the author's evaluation of the Grameen Bank, the findings of which are published in Hossain (1984).

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