INTRODUCTION, OBJECTIVES & METHODOLOGY

Recent Strategy of Rural Development:

Until recently, most of the third world countries, for whatever reasons, almost blindly imitated the developed countries in pursuing policies for economic development with heavy accent on industrialisation. Such a policy benefited largely the urban people because industries are usually set up in the areas with relatively greater infrastructural development. This industry-oriented growth policy of the third world countries, has not significantly helped in the improvement of rural economic conditions.

The emergence of socialism in some of the Asian and East European Countries during the first half of the 20th century, made the rulers of non-socialist third world countries undertake some kind of rural development programmes so that the teeming millions of deprived and frustrated rural populace do not become restive and press for revolutionary change in the Governments. However, the approach to rural development so far made by these countries, was found to be of piece-meal nature wherein hardly any consideration was given for co-ordinated and simultaneous development of infrastructures, production activities and service sectors.

Experience shows that this unco-ordinated approach
resulted in the failure of most of the efforts towards rural development.\(^1\) Besides, the benefits from the programmes implemented by the Governments were found to have been grabbed by relatively advantaged farmers and other elites of the rural societies.\(^2\) Thus, past strategies relating to rural development programmes have placed greater emphasis on income and growth - not on the manner in which benefits of the programmes were distributed.

Hence, notwithstanding the absence of unanimity about the programme that is capable of improving the lot of the rural people, there is now an increasing realisation that the strategy of rural development so long pursued has not brought about any significant positive changes for large segments of rural population. Appreciating the consequences of the faulty programmes and approach to rural development, World Bank (1975) identified\(^3\) the need for comprehensive approach to rural development and advised the member developing countries to adopt the same. This approach is multi-sectoral embracing wide range and mix of activities like agriculture, poultry, dairying, fisheries, rural

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industries, trade etc. It also encompasses improvement of health, education, communication, housing and recreational facilities. It is to be noted here that Governments of both India and Bangladesh through their Plan Policy documents have accepted this approach - Integrated Rural Development Programme (IRDPs).

Major objectives of the IRDP approach are: reduction of poverty; equitable distribution of benefits of public programmes; provision of basic needs; increase in the employment opportunities; universal literacy; reduction in the growth rate of population; improvement in health and hygiene conditions; sanitation and other recreational facilities along with fostering a sense of self-reliance among the rural people which will ultimately improve the Physical Quality of Life Index (PQLI) of the rural areas.

The various components of IRDP activities are grouped under three main heads: (a) economic activities, such as crop raising, dairying, poultries, fisheries, rural industries, trade and transport; (b) infrastructural activities, that is, development of roads, canals, dams, electrification etc. and (c) social over-head activities like education, health, family planning and housing.

Organised efforts are simultaneously to be directed towards development of all these activities; since any sporadic, piece-meal and isolated efforts, as observed by the World Bank, may ultimately prove to be a frustrating experience.

1.2 Financial Involvement

Rural development, as delineated earlier, is largely a function of, among other variables, the rate of investment - both public and private. Approval of any rural development programme should be preceded by arrangement of adequate resources required to implement the same. Else, the rural development programmes shall merely remain on paper.

Governments through budgetary provisions may finance rural investments required for infrastructures as well as social overheads. Such funds can be mobilised by the Governments either out of domestic savings and/or from imported capital. In non-socialist countries like India and Bangladesh, Governments do not normally provide funds for privately managed economic activities, such as, agriculture, industries, trade etc., through departmental allocations. Therefore, funds for production and investments for pursuing these activities are required to be mobilised by the rural households engaged in such activities.

For a rural economic unit, there remains, three
sources of raising required funds for investments: from the past savings; by disposal of existing asset(s) and contracting borrowings. Raising funds by sale of existing assets transforms one asset into another. It does not add to the inflow of resources into the rural areas. It is, therefore, necessary either to generate more savings or make greater inflow of credit, in order to broaden the base of resources for rural development by encouraging higher level of economic activities.

1.2.1 Needs for Borrowed Funds

The need for larger amount of borrowed funds for the rural populace, to be utilised for production as well as investment purposes arises from a number of factors, such as, low incomes and hence low savings of a large segment of rural population; urgency for popularising various types of non-farm activities, at least, for small/marginal farmers and agricultural labourers in order to step up their incomes; adoption of modern methods of cultivation besides rising prices of various inputs resulting from inflation.

Traditionally, rural India and Bangladesh are capital-starved. Only a meagre proportion of the rural people have surplus funds to be ploughed back. It was observed that agricultural assets in India (1976) comprise 95% of the rural assets; land alone accounting for 81% of the former. It is, therefore, understandable that land

is the most important source of rural income. A perusal of the rural land ownership pattern in both India and Bangladesh shows that 3/4th of the rural households, who are mostly small/marginal farmers and agricultural labourers, own only around one-quarter of the rural cultivable land. That apart, in case of India NCAER estimated that 63% of the rural households had no savings at all.

A study of savings and investment pattern shows that both in India and Bangladesh, during the period 1973 to 1979, investment as a proportion of GDP was higher than saving as proportions of GDP. It implies that capital

6. (1) GOI, All India Agricultural Census, 1977.
(11) GOS, Statistical Year Book of Bangladesh, 1980.
8. During the period 1973 to 1979, household investment as proportion of GDP in India was 9% while unsegregated investment as proportion of GDP in Bangladesh was 10%. On the other hand, saving as proportion of GDP during the same period was 6% and 2% respectively for India and Bangladesh.

formation was more than the available surplus which signifies dependence on borrowed funds. Another dimension to the problem of liquid resources is seen from an examination of the forms of savings of the rural people. If savings are formed in physical assets rather than in financial assets, the supply of savings for investment purposes cannot be significant. This tendency of having savings in physical assets, Moore⁹ termed as "Primitive Financial Technology." Alamgir while examining the structure of private savings in the developing countries, found that financial assets constitute around 50% of household savings in India and below 30% in case of Bangladesh.¹⁰

Low savings potential and consequent low possibilities of investments from surplus by a large segment of the rural population in both India and Bangladesh is further evidenced by the faster rate of growth of rural labour force compared to that of rural labour households indicating larger family size calling for higher family expenses; faster growth of non-agricultural labour force

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compared to that of agricultural labour force suggesting limited labour absorptive capacity of agriculture with uncertain income possibilities; increasing number of marginal farmers and landless coupled with larger number of cases of sale of rural lands indicating deteriorating financial condition of the rural people. Thus from the above analysis of the condition of rural Bangladesh and India, it is clear that the expectation of massive investment out of savings as is called for by IRDP approach is neither realistic nor achievable. Like many of the developing countries, a vast majority of the rural people of India and Bangladesh are in the vicious circle as described by Nurkse: Small capacity to save resulting from low level of income what itself is the reflection of poor productivity which in turn is the result of small savings.

(111) GOB, Statistical Year Book of Bangladesh, Ibid.
(iv) IBRD, Bangladesh Development in a Rural Economy, Report No. 4595-BP, 1974, pp. 42.

1.3 The Need For And Emergence Of Institutional Supply

Because of the pecuniary of rural fund surplus as said earlier, a large proportion of rural population in territories comprising both India and Bangladesh, from time immemorial, have been habitually resorting to borrowings. Unorganised suppliers like professional money lenders, land lords/big farmers, friends/relatives/neighbours, trade merchants etc. were the only sources of supply till the first quarter of the 19th century. But the terms and conditions on which funds are available from the unorganised sources have been always unfavourable to the borrowers. And the consequences of such exploitative terms and conditions, time and again, have been found to be unbearable and inequitable to the rural borrowers. Some of the major problems\(^{13}\) connected with contracting loans from money lenders and land lords include exorbitant rates of interest; manipulation of loan records, personal humiliation; acquisition of borrowers assets, particularly land, on the plea of default etc.

The then Government was acquainted with the problems the rural people face while dealing with the unorganised suppliers of rural credit. Appreciating this, with a view to reducing and eventually replacing the unorganised supply, co-operatives were developed in 1904 in the British India, now forming Bangladesh and India. Besides developing co-operatives, a number of legislative measures were undertaken by the then Government to minimise exploitation by the unorganised suppliers, such as, Acts aimed at regulating money lending; restricting the transfer of property; liquidating past debts etc.

After partition of India (1947), Governments of the respective countries initiated steps in promoting additional direct/indirect agencies to supplement efforts of the co-operatives in the field of rural finance. For example, Bangladesh Krishi Bank (Former Agricultural Finance Corporation/Agricultural Development Bank) was set up in Bangladesh; and, in India, Agricultural Refinance Development Corporation (ARDC) and Agriculture Finance Corporation (AFC) were developed to augment the supply of rural credit. Of late, because of higher rural credit requirements arising out of the acceptance of the strategy of IRDP and the rural people's preference to use improved technology, Governments both in India and Bangladesh directed the nationalised commercial banks to extend and accelerate their operations in the rural areas to supplement
the efforts of other extent agencies.

1.4 Statement of The Problem

As stated earlier, Government of both Bangladesh and India promoted a number of agencies to extend credit to the rural people not only to save them from the clutches of the money lenders but also to raise the level of productivity and income of the rural people. But these expectations of the Governments are yet to materialise. This is evident by the fact that till today (1979) unorganised sources comprise the major suppliers of rural credit i.e. 65% in India and 85% in Bangladesh in spite of various agencies, particularly co-operatives, operating in the territories for more than seven decades.

Reportedly, this poor performance of the involved agencies was partly owing to lack of clear cut policies in regard to their operations, partly for faulty implementation procedure of the respective agencies and partly arising out of the manifold operational difficulties being faced by the agencies. Reports also indicate that the slow growth of rural credit supply is a consequence of unimpressive mobilisation of local deposits; irregular and insufficient refinance facilities and lack of adequate trained staff.

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required for smooth discharge of their operations. It is also alleged that loanability of these agencies is constrained by rising volume of overdues. Apart from these, the unco-ordinated operations of similar agencies lead to duplication, avoidable competition and embarrassments both to the employees of the agencies and also to the rural people seeking financial accommodation.

There are also allegations that the agencies involved in rural credit operations are rather acting as agents for transferring rural funds to the non-rural areas. Moreover, it is also reported that rural credit operations are highly concentrated among the advantaged rural people due to security-oriented loaning operations. Further, grassroot level layers of different involved agencies are reportedly facing various problems which act as hurdles in the smooth discharge of their operations. On the other hand, it is also alleged that rural borrowers are facing various kinds of problems while dealing with the agencies involved in extending rural finance.

1.5 Objectives

The objectives of the present study are manifold. These are stated and pursued at appropriate places in the respective chapters. However, the broad and overall objective of the study is to critically examine the performance for a decade (1969-70 to 1978-79) of the various agencies involved partly or wholly in the field of rural
finance in both India and Bangladesh.

A comparative performance appraisal of these agencies is attempted especially relating to their contributions in bringing under their coverage more and more rural areas, mobilisation of larger volume of rural deposits in order to improve the extent of their self-reliance and in the light of gigantic requirements, to extend increasing volume of rural credit with a view to improving the productivity condition and the level of income of the rural people.

An attempt is also made to assess the magnitude of transfer of rural funds, if any, to the non-rural areas through the operations of these agencies besides identification of the major problems faced by both the involved agencies and their clientele while making transactions with each other in the rural areas.

1.6 Utility of The Study

The present study relating to "Institutional Finance for Rural Development - A Comparative Study of India and Bangladesh", to our knowledge, is the first of its kind. Bangladesh and India are two neighbouring countries having a common rural heritage. Rural people of both the countries are facing similar problems connected with cultivation, rural finance and other related matters. As such, a comparative study of the agencies involved in rural finance revealing the strong as well as weak points of
these agencies will be beneficial to both the countries. There is no point in pursuing policies in a country proved ineffective or faulty in the other. Similarly, there is no justification in not trying the policies successfully implemented in the neighbouring country, of course, with suitable modifications and adaptations. It will be sheer waste of time and resources in repeating the same experiments the results of which are already known. Therefore, the main objective of this comparative study is to highlight the successes and failures so that the two countries may profit from each other's experiences. It is, in this background that the present study is undertaken.

1.7 Methodology

(a) Collection of Data

Data are collected from both primary and secondary sources for the purpose of examination. Information relating to population, national income etc. for both India and Bangladesh is collected from official documents of the respective Governments like statistical year books, census reports and five year plan documents. Bulletins and annual reports of RBI and Bangladesh Bank are also heavily used. Various issues of Currency and Finance in case of India and Bangladesh Economic Survey are also of great use.

Co-operative statistics relating to India are drawn from the various issues of Statistical Statements Relating to Co-operative Movement in India and also from the Review
of Co-operative Movement in India while the same type of
data in case of Bangladesh are collected from various
issues of Annual Departmental Reports published by the
Registrar of Co-operatives in that country. Data relating
to IRDP Co-operatives in Bangladesh are collected from
IRDP offices as well as from their publications.

Information relating to rural operations of
commercial banks in India are picked up from the various
issues of the Basic Statistical Returns and Statistical
Tables Relating to Banks in India while such data in case
of Bangladesh are drawn from Bangladesh Bank Bulletins of
various years and from the unpublished records of the
Bangladesh Bank's Statistical Department.

Data relating to the operational performance of
various specialised agencies like BKB, ARDC and AFC are
mostly gathered from their Annual Reports of various years.

Apart from the above sources of macro-data, primary
data for the case studies relating to rural branches of
commercial bank as well as that of rural borrower in
Bangladesh are collected by field investigation.

(1) Selection of Rural Branches of Commercial Banks

One of the six nationalised commercial banks is
selected purposively for branch level case study. There
were 445 rural branches of Agrani Bank operating in the
country as on December 1979. We selected 15% or at least
a minimum of three branches using random sampling
procedure from each of the 20 districts. In all, 69 branches are selected for the purpose of the case study. The required quantitative as well as qualitative information are collected from the sample branches.

(11) Selection of Rural Borrowers of Commercial Banks

One rural branch from each of the 20 districts is selected purposively at first but because of unavoidable difficulties only 16 branches could be used for in-depth study of the borrowers. A list of borrowers who obtained loan from these branches during the last three years (1977 to 1979) is prepared in the alphabetical order of the borrowers' names. From the list, five borrowers are selected from each branch using random sampling procedure. A total of 80 rural borrowers of commercial banks are thus selected for the purpose of interview.

1.7.2 Use of Technique

As stated earlier, growth performance of various aspects of different involved agencies is ascertained. Growth rates calculated from two-points suffer from incidental or accidental performance of the variables at these two-points of time and thus likely to render a distorted picture. To overcome this, we have mostly considered the entire series of the variables while measuring growth rates. The following exponential function is used to measure growth rates from the series of different variables:
\[ Y = ab^t \]

where \( Y \) = variables under consideration

\( a \) = constant

\( b \) = Regression co-efficients signifying

the rate of change

\( t \) = refers to time.

Growth rates thus measured from the series wherever stated in the report are symbolised as \( g_1 \). And in a few cases where series could not be processed for reckoning growth rates, two-point exponential function is applied using the log to the base e. Allen considers growth measured even from two-points by exponential function as 'approximate representation of the actual state of affairs'. Such growth rates, wherever referred to in the report are termed \( g_2 \).

Composite index of growth of coverage, deposit mobilisation, credit extension etc. or a combination of these to denote overall growth pattern of an agency or all the agencies together is estimated on the lines stated in Appendix A, Chapter III. Besides, the level of development of an agency or that of all agencies together is assessed using ten-point scale of development as described in Appendix B, Chapter III.

Attitudes of the rural branch managers are approximately measured using Likert's scaling technique of attitude measurement with a little modification as stated in Chapter VII.

Multiple regression is used to determine the factors influencing the supply of co-operative credit. The same is also tried for locating the determining factors of mounting co-operatives' overdues.

Besides the above, chi-square ($X^2$) tests are also applied to find the factors associated with diversion of bank loan; repayment performance of the borrowers and formation of attitudes of the rural branch managers.

1.8 Limitations of the Study

One of the limitations of the study is with regard to its temporal coverage. To arrive at any meaningful conclusion regarding the trend and pattern of rural finance, data for a fairly long-time series are necessary. That apart, growth rates of various performance indicators are likely to be depressed if base is good and likely to be inflated if the figure in the base year is small/low. This limitation is to be kept in mind while interpreting growth rates of the individual variables.

Information collected from rural borrowers are not from firm records. It is because rural people rarely maintain records of their income, expenditure and other transactions. As such, most of the information supplied
to us by the rural borrowers are merely approximations made from their memories. Opinined information from both rural branch managers and rural borrowers are likely to suffer from similar inadequacies like any other opinion survey.

Moreover, a few sample rural branches of a commercial bank do not represent operational performance of all the rural branches, not to speak of all the grass-root level layers, of the involved agencies. Likewise, a few rural borrowers of a commercial bank cannot be regarded representative of all the rural borrowers. We, however, are aware of these limitations and tried to be objective while making appraisal in every step and to interpret the results with due caution.

Notwithstanding the limitations stated earlier, we believe that the findings of the study, will surely provide useful information to the policy-makers and others interested in rural finance.

1.9 Presentation of the Report

The presentation of the study excepting the introductory and summary chapters, is made in two parts: Part I devoted to a comparative performance analysis of the agencies in five chapters, viz., Chapter II to Chapter VI and Part II comprises Chapters VII and VIII containing two case studies relating to Bangladesh.

The present Chapter, highlights the objectives and
importance of the study. In Chapter II, we present a historical review of the problems of inadequate institutional supply of rural credit along with an account, in retrospect, of the organised efforts made to step up rural credit. Chapters III and IV respectively contain an analysis of the comparative performance in regard to the rural operations of co-operatives and commercial banks in India and Bangladesh. In Chapter V, we examine the performance of various specialised agencies directly/indirectly engaged in the field of rural finance in the two countries. An integrated picture of all the direct lending agencies wholly/partly engaged in rural lendings at the grassroot level is outlined in Chapter VI. In Chapter VII, we present results of our case study relating to a sample of rural branches of one of the commercial banks in Bangladesh while the results of a case study of a sample of rural borrowers of one of the commercial banks in Bangladesh are included in Chapter VIII. In the last Chapter (Chapter IX), we present a brief summary of the major findings of the study along with their policy implications.