



# The Financial Express

## Rural credit market and Bangabandhu's dream

Abdul Bayes | Saturday, 8 February 2020

Bangabandhu Sheikh Mujibur Rahman, the Father of the Nation, had the dream to build a 'Sonar Bangla' of a type free from socio-economic and political exploitations. A priori reasoning would suggest that agricultural sector would constitute the linchpin of that Sonar Bangla. Some of these initiatives taken up by his regime were as follows: rebuilding the war-ravaged agricultural infrastructure, ensuring supply of agricultural equipment on an emergency basis -- free of cost or at concessional rates, ensuring adequate supply of seed, cancelling 1.0 million certificate cases for loan default against farmers filed during the Pakistan period, fixing minimum fair prices for agro-products, ration facilities for poor and marginal farmers etc. An ardent admirer of Rabindranath Tagore, Bangabandhu might have also been influenced by the poem 'Dui Bigha Jomi' where poor Upens borrow money from informal sector at an exorbitant rate of interest; sometimes forced to surrender the precious land due to non-repayment of loans. Thus, immediately after independence, all banks were asked to provide credit to agriculturalists at reasonable interest rates. The Bangladesh Krishi Bank, largest specialised bank of the country, was established under the President Order No. 27 of 1973 to finance climate-dependent uncertain and risky agriculture sector. Bangabandhu's dream was to reach poor and marginal farmers with credit facility by the state; to free them from the clutches of village money lenders.

Bangladesh has achieved remarkable progress, since its birth in 1971. Once termed as a "test case of development", it has apparently emerged as a "development puzzle" in the discourse on socioeconomic development. Economic growth has accelerated from 4.0 per cent in the 1980s to over 6.0 per cent during the last decade. After getting trapped in 6.5 per cent for a pretty long time, it could cross the much awaited 7.0 per cent growth rate in the past few years. The target of growth rate for current financial year is estimated at 8.2 per cent. On the social front, Bangladesh has made remarkable progress in the reduction of fertility rates (from 6.0 per cent in the 1980s to 2.2 per cent in 2011) and in infant and under-five mortality rates of children. The school participation rate at the primary level is now almost universal, and the gender disparity in school participation at the secondary level has disappeared. Organisation of women in village associations in tandem with access to micro-credit has contributed substantially to women's empowerment and their participation in economic activities has gone up over time. The per capita income stands at more than US\$ 1,300 compared to US\$100-150 in the 1970s. Although income disparity has grown over time, the poverty rate has declined from over 70 per cent in the 1970s to 32 per cent in 2010 and 24 per cent in 2016.

More importantly, the agricultural and the rural sector witnessed remarkable resilience and progress. The traditional technology and subsistence-based farming was on its way to a modern agricultural sector. Over four-fifths of the rice land is now covered by high-yielding varieties developed in the National Agricultural Research System. Agricultural mechanisation has swept across the country. Crop diversification and commercialisation are seemingly on the rise. Agro-processing, contract farming and production of high value crops such as potatoes and vegetables are gradually gaining ground. With



impressive growth in agricultural productivity, the country has more or less achieved self-sufficiency in staple food production (rice), despite a reduction in cultivated land by 0.6 percent per year. Infrastructural development such as access to electricity, irrigation and paved roads has contributed to the rapid expansion of non-farm activities that has contributed to scarcity of agricultural labour and rapid increase in real wages. A census of households in 62 villages carried out in 2013 shows that roughly two-thirds of the rural income is derived from rural non-farm activities compared to 40 per cent two decades ago.

By and large, microfinance is a stable industry in Bangladesh providing financial services to at least half of the rural households. Noticeably, the average size of the loan provided by commercial banks has increased many times but their coverage of rural households has reduced substantially. Most of the credit expansion from the formal sector has flown from NGO MFIs who started their journey in the credit market in the late 1980s. The NGOs, however, give loans of small amounts that often fail to satisfy the demand from successful borrowers. Now, almost 40 per cent of the borrowers from NGO MFIs access loans from multiple NGOs. The culture may have crippled credit discipline which was an exemplary characteristic of NGO loans in the early days.

Contrary to the hypothesis that a large part of the loan provided by NGOs to poor households is used to meet consumption needs, repayment of old loans and conspicuous consumption wasn't found to be

valid. In 2000, nearly 56 per cent of NGO loans were used to finance agricultural and non-agricultural investment. The share has increased to 68 per cent in 2013. Agriculture's share of NGO loans has increased from 25 to 39 per cent within this period.

No wonder that the critics condemn the history of government's involvement in extending agricultural credit to rural households as a history of frustrations and wasteful endeavour. The recovery rate against outstanding loans has averaged 22 per cent from 1998 to 2010. A World Bank study reports that the importance of banks and cooperatives in rural lending has declined over time, while the importance of MFIs increased.

But the dream of Bangabandhu Sheikh Mujibur Rahman demands that a more active role should have been played by the government banks in the service of the rural people especially in meeting their agricultural credit needs. It has long been alleged that the loans extended by the Krishi Bank mostly go to the large and middle farmers with sufficient collateral and connection with power structure. As opposed to this, the poor and marginal farmers are left in the hands of the most exploitative informal sources and relatively less exploitative NGOs.

*Abdul Bayes is a former Professor of Economics at Jahangirnagar University and currently an adjunct faculty, East West University. [abdulbayes@yahoo.com](mailto:abdulbayes@yahoo.com)/  
[abdulbayes@ewubd.edu](mailto:abdulbayes@ewubd.edu)*

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### **Editor : Shah Husain Imam**

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Telephone : PABX : 9553550 (Hunting), 9513814, 7172017 and 7172012 Fax : 880-2-9567049

Email : [editor@thefinancialexpress.com.bd](mailto:editor@thefinancialexpress.com.bd), [fexpress68@gmail.com](mailto:fexpress68@gmail.com)

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