

# Rural banks on good track in Bangladesh

by Ramtanu Maitra and Susan Maitra

Among the few things that go right in Bangladesh, the success of the Grameen Bank cannot be overstressed. Set up in 1982 as a specialized credit institution through which "the banking system can extend credit to the landless without collateral," the bank has covered a million borrowers in about 22,000 villages. Reports indicate that the success of the Grameen Bank has caught the notice of the reform-minded Indian government, and work is in progress in New Delhi to formulate a new rural lending scheme along similar lines.

Rural banking is a critical input if the poverty-stricken South Asian nations are to alleviate the plight of a vast majority of poor who are lodged on rural agricultural land. In India, rural banking has been a mere extension of urban banking and has turned out to be an abysmal failure. An overwhelming 75% of India's approximately 200 regional rural banks are in the red with little hope of recovery. The March 31, 1990 estimate shows that loan repayment overdues constitute a hefty 75%, and bad debts amount to another 10% of these banks' business. In fact, a large amount of repayment overdues are bad debts, but the banks hide this fact to hang on to the veneer of viability.

Although a part of the nationalized banking scheme, India's regional banks are guided by separate banking laws. Besides perennial losses, the government of Prime Minister V.P. Singh instituted a loan waiver scheme, which was zealously implemented by then-Deputy Prime Minister Devi Lal, whose electoral constituency is dominated by farmers. The loan waiver scheme, put into effect in 1989, adversely reflected on the bottom line of these loss-making banks.

The failure of India's regional rural banking system was also highlighted in the recently released Narasimham Committee Report which recommended a comprehensive set of financial reforms. The report suggests that rural banks operate only in rural areas, and that their functions be based on profitability considerations. Recently, India's finance minister, Dr. Manmohan Singh, told a bank workers' union that he would consider starting a Rural Bank of India.

Against this dismal scene in India, the concept and execution of the Grameen Bank of Bangladesh (GBB) looks highly satisfactory. Set up by Mohammad Yunus, former professor

of economics at the University of Chittagong and now the managing director of the GBB, the bank provides loan facilities to groups, and not individuals, as is the case in India. The borrower group is formed by five members, each drawn from separate families, and gets registered with the bank.

The group members or groups of borrowers work out the feasibility and viability of projects they want to undertake, and approach the bank for funding. The bank, depending solely on the wisdom of the borrowers and their capacity for repayment, lends money first to two from a group, and monitors their repayment behavior closely. After a few months, the next two members receive their loans, and the group leader receives his loan last.

## Putting productive capital to work

The key to the success of any banking system is not simply how much money is being disbursed, which is always the barometer in the Indian context, but how much of it reaches the target, how the money performs, and how the banks get replenished with repayments and fresh deposits generated by the investments. India's rural banking network was expanded in the post-Green Revolution period to mobilize the deposits likely to be generated by the success of the Green Revolution. But despite that at least partial success, the government did not move to capitalize on it. Instead, it was quickly assumed that the poor were too poor to be able to save any amount of money for any duration. Hence, no relationship was forged between the willingness and capacity to save and the willingness to borrow and capacity to pay back. As a result, disbursement remained the only activity of the rural banks.

India's regional rural banks show 75% overdues and 10% bad debts (more accurate is 65% overdues and 20% bad debts); the GBB's recovery rate is 98%. The system also yielded extremely good results, not only in the repayment of loans, but also in savings. Group members have invested in such savings as tubewells, buying rice-husking mills, lease of markets, and fisheries.

A number of factors played a role in making the GBB a success. To begin with, the GBB dispensed with the usual banking requirements such as the cash reserve ratio (for maintaining minimum liquidity) and the statutory liquidity ratio which, in the case of India, was as high as 38.5% till the last budget. Moreover, the GBB is largely owned by its 1 million borrowers, each owning one share, with the Bangladesh government owning 12.5% of the shares. The Bangladesh government nominates the chairman and three of the directors on the board. Others, including the managing director, are elected.

While peer pressure within the group and the groups of borrowers works to help the bank retrieve its money, the bank workers' interaction with the borrowers is also to good effect. Bank workers visit their group once a week on a pre-scheduled date which coincides with the group's weekly

meeting. All business is transacted both in front of the borrowers as well as the bank worker. In addition, the borrowing capacity of a member of a group is not the jurisdiction of the bank, but is determined by the group members and other borrowers belonging to other groups.

The last factor is in stark contrast to how a loan is disbursed in India. The regional rural bank officer, often burdened with as many as 1,000 accounts, has little idea to whom the bank is lending money. There are published reports which show that there is no file for each account, and thus no record of any discussion that might have taken place between the officer and the borrower. The last vestige of evidence of a transaction gets wiped out when the bank officer is transferred or retired.

Whereas the GBB is oriented toward developing the assets of both the borrowers and the bank, the Indian regional rural banks have adopted a rejection-based screening system. The individual-based screening of clients, which does little to help develop mutual trust between the bank and the lender, does not even take advantage of the existing social institutions such as the *gram panchayats* or village councils.

### The Comilla model of development

Before the BFF was established in the 1960s, Bangladesh had formulated a rural development model. The model, which was first put to use in the district of Comilla, and thus came to be known as the Comilla model, has been extensively documented and studied abroad as well as within Bangladesh. The model, which was a new system of cooperative credit, was later subsumed under the Bangladesh Rural Development Board and replicated widely throughout the country.

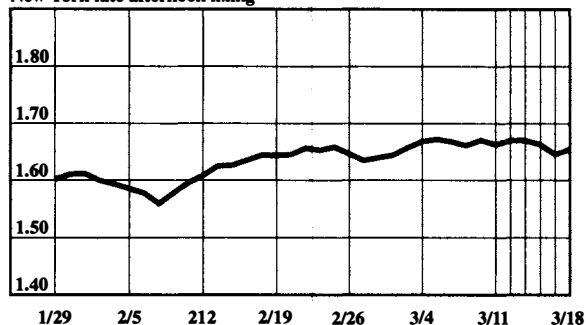
The premises of the Comilla model were: that the villagers themselves have the best understanding of the rural situation; that it is within the means of the villagers to bring about a change in these conditions, and that they must do so through individual and cooperative action; and that the villagers, once assured of the means of development through the guarantee of a sustained flow of income, must initiate the change.

The Comilla model thus established the villager as the decision-maker. The village came to be recognized as the starting process of modernization through small but persistent efforts, and the social structure of the village was not only not tampered with, but was used to help the villagers. The strict discipline that was imposed within these societies demanded, among other things, weekly meetings with compulsory attendance, both regular training and regular savings deposits, and planning production on a joint basis. Not to be underestimated is the fact that the credit system thus introduced took the farmers out of the clutches of both the moneylenders and the traders. However, where the Comilla model failed, and the GBB succeeded in filling the gap, is the protection that was not available to those who could not join, including the landless.

## Currency Rates

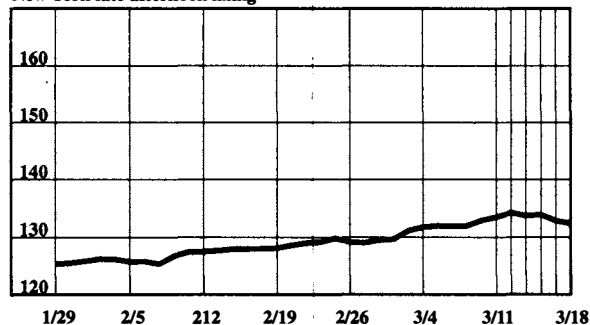
### The dollar in deutschemarks

New York late afternoon fixing



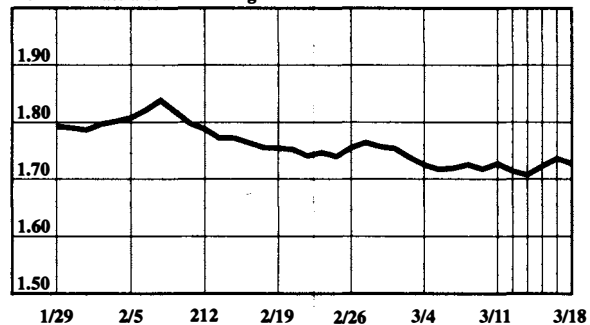
### The dollar in yen

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

