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# Discriminatory credit market

Abdul Bayes | Saturday, 4 January 2020

The widely held view is that institutional credit is likely to reach first to the larger farmers. The poorer ones starve despite their dire needs for the adoption of input-intensive modern agricultural technologies. In consequence, differentiation of peasantry and polarisation of peasant households take place. Besides, greater social and political power - springing from concentration of land and control over the tenancy market - provides the well-off rural households with greater access to formal financial institutions. The formal financial institutions turn away faces from poor farmers since they cannot afford to provide collateral and the transaction costs for providing small loans is much higher than the government stipulated interest rates for serving them.

Due to restricted access of poor rural households to the formal financial institutions, the rural credit market is characterised by dualism in many developing countries. There is a formal market where institutions provide intermediation between depositors and lenders by charging relatively low rate of interest, often subsidised by the government. On the other hand, for centuries an informal market exists side by side with the formal market, where groups and segments within the villages supply credit from their own savings, known as professional money-lenders, traders, landowners, friends and relatives. Compared to the formal market, the interest rate from the informal market is often many times higher, often 10 per cent per month.

However, on a close scrutiny, it was observed that the access to finance was provided mostly to large and medium landowning households and big traders and fishermen. There has long been huge allegation against agricultural credit serving the rural richer segment with better collateral. The landless and marginal farmers remained excluded from the market. A survey conducted in 1982 jointly by the International Food Policy Research Institute (IFPRI) and the Bangladesh Institute of Development Studies (BIDS) revealed that 62 per cent of rural households obtained loans from informal sources and most of whom are smaller landowning groups. Only 14 per cent of rural households could access loan from financial institutions that contributed to 25 per cent of total loans received by rural households. According to the critics, the history of government's involvement in extending agricultural credit to rural households is a history of frustrations and wasteful endeavour.

Recently some qualitative changes have been introduced to the credit delivery system that contributed to improvement in the credit business targeted for farmers and small enterprises. The monitoring cell of the central bank (Bangladesh Bank) has been strengthened for ensuring transparency in the credit business and reducing the transaction cost for obtaining credit by borrowers. Priority is given to credit support for women in agriculture to increase women's participation in economic activities. Emphasis has been laid on development of marketing facilities for agricultural products to ensure fair price. Priority has been given to reach credit to relatively impoverished and neglected region such a char (island), haor and coastal areas. The central bank made it mandatory for the state-owned commercial banks as well as the private and foreign banks to allocate at least two per cent of their loan portfolio for agriculture. Recently, the BB has issued a directive to commercial banks to disburse agricultural loan

openly in presence of local representatives from union, concerned agricultural officers, teachers and other respected persons to ensure transparency. Another innovative step towards financial inclusion is the opening of bank account by all farmers at a minimal charge of Tk 10 (12 cent), so that credit, subsidies and other government transfer could be directly deposited to farmers' account. This has helped reduce leakages in the implementation of the government's agricultural subsidy and the 'safety nets" programme. The Bangladesh Bank has brought 13.2 million people under banking service that includes farmers, hardcore poor, and unemployed youths.

A recent survey of households in rural areas shows that households taking loans has increased from 37 to 55 per cent over about three decades since late 1980s - when the NGO MFIs began supplying credit in rural areas. The financial inclusion has increased faster for the land-poor households (primary target for NGO MFIs), compared to the land owing households. For example, in 2013, 60 per cent of land-poor households have accessed credit compared to 48 per cent for households which own land in sizes over 0.5 acres whereas the financial inclusion was almost the same for both groups in 1988.

As noted before, the most recent data reveals that 55 per cent of rural households accessed credit in 2013, and 44 per cent of them got credit from commercial banks and NGOs. Thus, the financial exclusion still remains high despite rapid expansion of the NGO MFIs. The most noteworthy information is that in 2013 only two per cent of rural households received credit from the commercial banks, although the average size of loan is almost five times higher than the amount provided by the NGOs. It indicates that the commercial banks increasingly serve the better-off sections whose access is to large amounts of credit. Thus a war of words against NGOs alleging that they extract exorbitant interest rate from the poor is not enough to increase financial inclusion. Policies should be framed properly so that government agencies can deliver credit to targeted groups of the poor segments.

Credit to the poor has almost been left to the domain of NGOs with government agencies not playing the desired roles. It is expected that the government should play a more active role in providing an inclusive financial market in rural areas. The rich in towns default on huge amount of loans but get many concessions; in rural areas the poor hardly default on loans but starve of credit to adopt innovative technologies. Time has possibly come to address this discrimination.

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