

# Transfer Of Rural Funds Through Branches Of Commercial Banks : A Note\*

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The major thrust of the present paper is to find relevance in Bangladesh of the thesis developed by Myrdal<sup>1</sup> with regard to the flow of transfer of funds from less developed areas to the more developed ones. This process is termed by him as "backwash effects." The logic of such fund transfer, as shown by him, lies in the possibility of getting relatively higher return from investing funds in the more developed areas. It may be noted here that the present study is limited to the rural operations of commercial banks in Bangladesh. Commercial Banks are selected for this purpose mainly because the same appears to be relatively more prominent<sup>2</sup> in terms of the volume of transactions compared to other agencies operating in the rural financial market of Bangladesh.

In Bangladesh, 87% of her total population live in rural areas. As such, any organised effort to develop Bangladesh should be directed to the villages i.e. rural Bangladesh. Realising this, successive Governments of Bangladesh have been pursuing a consistent policy of bringing more and more rural Bangladesh under bank credit facilities in order to generate and intensify economic activities in the areas hitherto neglected. The result of such policy is apparently found to be encouraging as is evident from the growth<sup>3</sup> of rural branches, rural deposits and rural credit.

The number of rural branches in 1971-72<sup>3</sup> was only 34; it increased to 3225 in 1983-84 showing more than nine-fold increase since liberation. During the same period, rural deposits and rural credits increased by 26.5 times and 376 times respectively. This is shown in Table I.

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**TABLE I**  
**Performance of Rural Branches of Nationalised Commercial Banks**

(Tk. in million)

	71-72	79-80	83-84
1. Nuriber of rural branches	349	2103	3225
2. Rural deposits	461	3900	12215
3. Rural credit	45	1703	16912
4. Transfer of rural fund	-307	-1222	+ 7751
5. Per branch transfer	-0.86	-0.58	+ 2.40

+ indicates inflow of funds to the rural areas.

**Source** : Bangladesh Bank Statistics

Government of Bangladesh instructed the rural branches to extend more and more credit in the rural areas in order to achieve a C-D ratio of 75%. Taking this C-D ratio, it can be seen in Table I that Tk. 307 million was transferred from the rural areas in 1971-72 through the operations of commercial banks in rural Bangladesh. Such transfer of fund quadrupled to Tk. 1222 million in 1979-80. The situation was reversed in 1983-84 when additional inflow of funds instead of transfer was made to the rural areas to the tune of about Tk. 8000 million. It can also be gleaned from the Table that per branch transfer of funds was gradually declining before the position was reversed. Possible explanation for this trend was rapid expansion of branches both in number and in sizes as well as in working experiences besides increasing familiarities of the rural people with the use of bank credit.

However, performance of the rural branches with regard to transfer of funds as indicated above gives an aggregate of their operations and does not show individual performance of different types of rural branches. This paper is, therefore, devoted to an examination of the transfer of rural funds, if any, from a sample of 69 rural branches<sup>5</sup> selected at random in order to find out :

- (i) whether or not and to what extent transfer of rural funds, if any, was made by our sample branches ;
- (ii) the characteristics of the branches transferring funds ;
- (iii) the sectors from which and to which transfer of funds takes place ;  
and
- (iv) the directions of rural regions where transfer of funds, if any, takes place.

## ANALYSIS OF DATA

It was found that **69** branches in the sample mobilized a total deposit of Tk. **144.9** million of which **Tk. 62.97** million was extended as credit to the rural people. But if we consider the target C-D ratio<sup>6</sup> declared by the Bangladesh Bank, loans extended should have been Tk. **108.7** million. In practice, the sample branches seem to have transferred Tk. **45.7** million from the rural areas to the semi-urban and/or urban areas.

i. Transfer by Size<sup>7</sup> of Branches

Of the amount transferred by the sample branches, **66%** was made by large branches and **24%** by the medium branches. An average-sized large branch transferred Tk. **1.8** million while it was **Tk. 0.5** million in case of a medium branch. Per branch transfer of deposits was the lowest in case of small branches i.e. **Tk. 0.1** million only. This is shown in Table II.

TABLE II

Per Branch Distribution of Credit by Size of Branches

(Tk. in '000)

Size of Branch	Farm	Non-Farm	Total	C-D Ratio (%)
1. Small	<b>668</b> (73%)	<b>243</b> (27%)	<b>911</b> (100%)	<b>64.98</b>
2. Medium	<b>703</b> (65%)	<b>372</b> (35%)	<b>1075</b> (100%)	<b>48.01</b>
3. Large	<b>431</b> (60%)	<b>284</b> (40%)	<b>715</b> (100%)	<b>21.51</b>
4. Total	<b>620</b> (68%)	<b>293</b> (32%)	<b>913</b> (100%)	<b>43.46</b>

Source : Survey Data.

ii. Transfer by Branches according to Age<sup>8</sup>

When transfer of rural savings by branches of different ages is examined, the available data suggest that **97%** of the amount transferred was made by the old branches while middle-aged branches not only made no transfer but also made available Tk **1.7** m. in addition to their own loanable deposits.

Mean amount of transfer by an old branch was Tk. 2.7 m. while it was only Tk. 38 thousand for a new branch. Contrary to this, an average-sized middle-aged branch made additional inflow of Tk. 78 thousand into rural areas. These can be seen in Table III.

**TABLE III**  
**Per Branch Deposit and Credit by Age**

Particulars	Deposit (Amount in '000 Tk.)	Credit	C-D Ratio
New	712	487	68.40
Middle Aged	1895	1559	82.27
Old	3262	1003	30.75

Source : Survey Data.

### iii. Inter-sectoral Transfer

The transfer of rural funds was more from business followed by agriculture. Of the total transferred amount through our sample branches, 74% was from business as may be seen in Table IV.

**TABLE IV**  
**Deposit and Credit Performance by Sectors**

Particulars	Deposits (Amount in '000 Tk)	Credit	C-D Ratio (%)
Cultivators	62100	42778	68.89
Entrepreneurs	6900	4854	70.35
Business & Others	75900	15341	20.21
Total	144900	62973	43.46

Source : Survey Data.

This finding is in sharp contrast to the general belief that fund transfer is **more** from agriculture sector. The relatively better loaning of funds to the **agricultural** sector is a consequence of target-oriented aggressive crop-loan operations pursued by the Government of Bangladesh since 1977.

## iv. Inter-Regional Transfer

## a. Inter-Administrative Divisional Transfer

An examination of the transfer of rural savings through our sample branches reveals that there was transfer of funds from three out of the four divisions. Of the total transfer, 43% was from Chittagong Division, 36% from Khulna Division and 21% from Rajshahi Division. On the other hand, Dhaka division got an additional inflow of Tk. 2.7 million with a per branch average of Tk. 0.17 m. Mean amount of transfer per branch was more from Khulna Division at Tk. 1.2 m. followed by Chittagong Division at Tk. 1.1 m. These data are given in Table V.

TABLE V

Transfer of Funds by Administrative Regions

Regions	Deposit	Target credit	Actual credit	(Tk. in million)
				Transfer
Dhaka	27.0*	20.25	23.0*	+2.75(0.17)
Chittagong	41.6*	31.2*	11.0*	-21.2(1.1)
Rajshahi	35.7*	26.78	16.4*	-10.38(0.55)
Khulna	40.5"	30.38	12.6*	-17.78(1.2)
	<u>144.8*</u>	<u>108.61</u>	<u>63.0*</u>	<u>49.36</u>

\*Figures in the bracket indicate per branch transfer of deposits.

Source : Survey Data.

## b. Transfer among Regions at Different Levels of Development

A further analysis by different regions according to their levels of development is attempted. In the absence of any agreed criteria for determining the levels of development, we categorised rural Bangladesh into three<sup>9</sup> regions : developed, developing and less developed depending on the per acre value added from agriculture by districts.<sup>10</sup>

It is found that C-D ratio was the lowest in the developing districts (30%) and the highest in the least developed districts. Of the 58% of the total fund transfer made by the sample branches, 48% was from the developed regions and 39% from the developing regions. However, per branch transfer was slightly higher from the developing regions (Tk.0.9m) compared to the branches in the developing regions (Tk. 0.8m). Per branch transfer

from less developed regions was the lowest i.e. 3 m. These can be seen in Table VI.

**TABLE VI**  
**Per Branch Dislribution of Credit by Regions**

	Farm	Non-Farm (Tk. in '000)	Total	C-D Ratio (%)
Dhaka	1317	120	1437	85.00
Chittagong	169	409	578	26.43
Khulna	649	194	840	31.08
Rajshahi	463	400	863	45.88

**Source :** Survey Data.

### CONCLUSION

From the above analysis, we may conclude that relatively older and larger branches were important in transferring funds from the sample branches. There was no significant inter-regional transfer of funds in the rural Bangladesh ; on the other hand, the transfer was **relatively** more from the developing regions and less from the least developed regions. Relatively better credit operation in the developed regions **can partly** be attributed to the existence of higher demand for credit due to better infrastructural facilities in the region while that in the least developed regions was partly due to administrative pressure from both Government of Bangladesh and the Bangladesh Bank.

While looking into the trends of transfer of rural deposits through commercial banks, one should not also forget that commercial banks are not the **only** agency transferring rural savings to non-rural areas. Large number of rural Post Offices, Insurance Companies (mostly life) through rural premiums and other Public Limited Companies entitled to accept deposits from the members of public are also acting as agents for transferring rural funds to non-rural areas. Another important point to be borne in mind is that lending operations of commercial banks in rural areas can be different in different regions depending on a number of factors such as level of infrastructural development, availability of inputs, and magnitude of cooperative loan operations. Therefore, it will not be proper to put the entire blame on some

of the commercial banks' branches for not lending the total loanable funds in the rural areas.

However, commercial banks, particularly the nationalised ones, as the prime mover in the rural financial market should make all-out efforts to minimise transfer of funds from the rural areas. They should, in pursuance of Government commitments, make additional inflow of funds from non-rural areas in order to help faster development of rural areas. Appropriate credit planning based on reliable relevant information for each of the rural branches depending on its size, age and location could do a lot in this regard. For this purpose, proper credit requirement estimates need be made by each of the individual branches for its command area. And such estimates should be comprehensive enough to include specific needs of different asset groups of rural populace indicating detail needs of various types of economic activities.

#### FOOTNOTES

1. Gunnar Myrdal, *Economic Theory and Underdeveloped Region*. (Bombay, 1958).
2. A.R. Khan, *Institutional Finance for Rural Development—A Comparative Study of India and Bangladesh*. Gokhale Institute of Politics and Economics, University of Poona, India, 1983, Table 6.1\*6.2, pp. 270-71.
3. A.R. Khan, *Zbid*, Table 4.1 to Table 4.4, pp. 172-75.
4. Bangladesh Bank "*Scheduled Bank Statistics*", Statistics Department (April-June, 1984).
5. A.R. Khan, *Zbid*, Chapter VII pp. 277-320.
6. Government of Bangladesh declared 75% C-D ratio for rural branches since 1979-80.
7. **Size-wise** classification of the branches was made taking the volume of deposits mobilized by the branches i.e. small branches (up to Taka 100 m.); medium branches (above Taka 1.0 m. to Taka 2.0 m.) and large branches (above Taka 2.0 m.).
8. Branches upto 3 years of age were considered 'new branches' ; branches above 3 years but not exceeding 7 years were considered 'middle aged branches' and those of above 7 years of age were considered 'old branches'.
9. a. Developed districts : **Noakhali**, Chittagong H.T., Dhaka, **Comilla**, Pabna, **Mymensingh** and **Sylhet**.  
b. Developing districts : Kushtia, **Barisal**, Faridpur, **Rajshahi**, **Tangail** and **Dinajpur**.  
c. Less developed districts : Patuakhali, Jamalpur, **Rangpur**, Bogra, **Khulna**, **Jessore** and Chittagong.
10. Government of **Bangladesh**, *Statistical Year book of Bangladesh*, Bangladesh Bureau of Statistics., 1980.