

Rural Banking System in Bangladesh: An Exploratory Study

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Abstract: Rural banking is the producer of oxygen as they are producing edible product for living of the urban. The main aim of the research is to build a theory for adapting rural banking systems for balanced economic development. For developing the theory qualitative data have been used to explaining the different factors. This is a desk research, so only secondary sources of data have been analyzed and interpreted. The present advanced financial technology must reach to rural banking infrastructure to conduct the rural areas economic activities. Financial inclusion of rural people could be done through the research outcomes. This theory will help the academicians for further research and it will also help policy makers statesman for taking state level financial decision, and financial thinkers, bankers and rural people to take decision about finance using modern banking channel.

Keywords: Rural Banking, Rural banking infrastructure, Hand-revolving Banking, Relationship banking, Crop Banking, Season-money need Banking

1. Introduction

“Rural “encompasses all population, housing and territory not included within an urban area, with fewer than 2500 residents; with population densities as high as 846 cap/km square (Bangladesh Bureau of Statistics, Census 2011). Bangladesh is a small country with an area of 55,598 square miles. It is inhabited with 87,223 villages and according to census of 2011, about 87 percent of total population live in rural area. More than 50% of national income is earned from only agricultural sector (1984-85) and about third forth of national revenue is gained from rural contribution. That means, rural area plays a very significant role in national economic development. Once agriculture was the only driving power of rural economy. But over time this agriculture centric concept of rural development undergoes changes. According to Harris, by the early 1980s, the World Bank defined rural development as ‘a strategy designed to improve the economic and social life of a specific group of people –the rural poor.’ Robert Chambers says, rural development is a strategy to enable a specific group of people, poor rural women and men to gain for themselves and their children more of what they want and need. Adequate availability of credit on time is an important requirement for rural investors, particularly under conditions of scarcity of resources and uncertainty. Convenient and safes saving facilities are perhaps even more important to smooth out the peaks and troughs in incomes and expenditures. Lack of saving facilities also force families to rely on inefficient, inconvenient and costly alternatives, Credit from an established source, like banks is a possible solution for this perspective.

Rural Banking system can be defined as financial institutions that provide customized financial services to rural communities (Wikipedia).In Bangladesh, mainly nationalized banks and specialized banks are currently burdened with classified loans. Rural credit is also available from some unrecognized sources like lenders, pawnbrokers, commodity loan etc. But this system faces a lot of problem.

For example, high interest, no legal form of borrowing and lending, fraud and so on. These problems impose banking sectors to give more attention on rural development. As already mentioned, national development of third world country like Bangladesh is largely dependent on rural betterment, but unfortunately there is not sufficient available data regarding contribution of banking sectors in rural area of Bangladesh. In this article, we will try to focus on rural banking system, its possibilities, contribution to economic growth, major problems faced in this area and its possible solutions which may help banks to provide better contribution to rural development.

2. Theoretical concept of rural Banking

In rural banking system rural marginal people are the cornerstone of the banking activities. For establishing effective rural banking systems all commercial banks should have a specialized rural banking desk in their branches. In this banking systems the designated banks must collect deposits from rural people’s idle money from their unproductive savings. Unproductive sectors broadly mean that, people in rural areas gather their earnings in the hand of the rural dignified persons for the concern of security reasons. This hand revolving banking channel should be dissolved with the innovative banking ideas. On the other hand, while providing loan to the rural marginal people the banks will take mortgage crop if this loans are about crops. If the loans are for animal farming the mortgaged will be the farm’s property. Most of the rural people are disinterested to open a bank account with the commercial banks because of the bank charges fear and also the fear of communication fare. If the branch of the banks situated in remote place from loan receiver the banks employees should complete their banking transaction in the land of the clients. For useful deposit and withdrawal of money there may be the rural agents’ banking/mobile banking/ATM services.

3. Literature Review

Except the Rajshahi Krishi unnayan bank and Bangladesh Krishi bank as specialized commercial banks operating in rural areas Microfinance emerged in the 1970 as social innovators began to offer financial services to the working poor- those who were previously considered “Un-bankable” because of their lack of collateral. Two leading microfinance models are the Grameen bank model and the village banking model. The Grameen Bank model consists of group lending, and was pioneered by the Grameen bank founder Prof Dr. M. Yunus. Existing research efforts on Mobile-banking (best known as m-banking) in Bangladesh focused the customer and technology perspective (Ahmed et al 2011; Dewan & Dewan 2009; Mousumi & Jamil 2010). However, three problems are found with their customer perspective. Firstly, instead of using strong empirical evidence, the research studies are found on a small number of participants. Secondly, a strong research tradition in m-banking worldwide shows that social factors have a powerful influence on m-banking adoption; but current research on m-banking in Bangladesh have not considered this socio-cultural approach. Thirdly, the m-banking research tends to underestimate the true extent of customer intention to use the services by narrowing cognitive factors of human behavior. Ahmad, Farid (1980) shows in a study, “some aspects of agricultural credit in Bangladesh, observed that all development effort for the economy have to fight against vicious cycle of poverty and large number of constraints. He said that agricultural credit facilities assumed a greater and growing importance in Bangladesh particularly in view of meeting the food deficit. It is observed that there are gaps between the policy procedure of institutional farm credit and their execution, for which proper distribution of credit cannot be ensured. Though other countries have available research on the rural banking sectors, but unfortunately Bangladesh does not have sufficient research in this area. This research will add theoretical advantages in the field of rural banking in Bangladesh.

4. Statement of the Problem

General People of rural areas in Bangladesh are doing their banking activities without maintaining proper banking channel. They are exchanging their credit as the relationship based banking which means that exchanging money to one another as the base of relation. Their major amount of saving money revolved among their hands not in the money market/capital market. Because of the disinterest of the main stream commercial banks sometime rural poor people execute their banking activities exchanging their crops among them. Most of the rural poor people collect their seasons based needed money from local Non-Government Organization (NGOs) and from friends and family. As a result economic development of the rural people of Bangladesh is still in lower position. Because of the shortage of money they are not using advanced technology in their agricultural and other productive activities. Ultimately their investment is lessening and productivity also lessens. Due to the absence of strong rural banking infrastructure standard of living of that population are undetermined.

5. Methodology of the Study

This is an explorative research. Qualitative data has been used for conducting the research. For carried out the present research only secondary sources of data are used for analysis and interpretation. Secondary sources include government reports, books, journals, newspapers, and internet. For analyzing data descriptive statistics has been used. Deductive approach is used in reaching the decision. Some important factors are considered for establishing strong theory about rural banking practice in Bangladesh.

6. Objectives of the Study

The general objective of the study is to find out the rural banking system in Bangladesh. To achieve this objective the following specific objective has been designed:

- 1) To explore the factors responsible for (in) sufficient rural banking services in Bangladesh.
- 2) To evaluate the rural people’s perceptions to adopt banking system through advanced fintech in Bangladesh
- 3) To explore the bankers perception for adopting rural Banking in Bangladesh.
- 4) To examine the current infrastructure for providing banking services in rural areas of Bangladesh.

7. Data Analysis and Interpretation:

7.1. Objective 1: Factors responsible for (in) sufficient rural banking services in Bangladesh

To analyze the (in) sufficient rural banking in Bangladesh the some factors has been considered. Among others per capita income (PCI) of people living in the rural areas is Tk. 1000 and (PCI) in urban areas is Tk. 2500. Approx 70 percent of urban population enjoying internet infrastructure while 30 percent in rural areas. This is an important factor that impediment of launching commercial banks in rural areas in Bangladesh. Bangladesh is an agro based country. Maximum people still live in rural areas. According to report of BBS, 66% citizens live in rural areas when this ratio is 34% in urban places. So development of country largely depends on rural improvement. Large proportion of both men and women stay in rural areas. Bangladesh is a third world developing country. Though its economic situation is developing gradually, but a certain portion of citizen still live below the poverty line. Lower poverty line means the extreme poor households whose total expenditures are equal to the food poverty line. This portion is higher in rural areas for both men and women. The following table shows the scenario of the poverty line

Poverty Line(2016) Lower	Rural	Urban
Women	10%	8%
Men	15%	7%

Upgrading their financial condition will certainly help to uphold the gross economy. This is needed to provide proper banking services in Bangladesh. Education is the backbone of a nation. Necessary steps are essential for educational development. Literacy rate is lower in rural areas than urban places. This factor also impediments of poor rural banking scenario in the country.

Aged 7 or above	Rural	Urban
Women	52%	68%
Men	58%	72%

Source: Education Household Survey 2014

As the most people in rural areas are not highly educated, so it's not easy task to make them capable for realizing banking language. Difficulties in understanding banking language may discourage rural people to engage in banking activities. For that reason, bankers need to be properly trained so that they can be able to explain banking terms and condition to rural people at comparatively easy manner.

7.2. Objective 2: To evaluate the rural people's perceptions to adopt banking system through advanced Fintech in Bangladesh

The use of internet became available in Bangladesh in the early 1990s with dial-up as the only mode to connect. Even though these were significant milestones for the country, we did not see any noticeable presence of rural internet usage during this time. It was not until the end of the decade that we saw noticeable growth in rural internet penetration with the advent of mobile data connectivity. Even then, growth and penetration were one of the lowest in the world with only 0.4 percent of the population using the internet in some way. Between 2009 and 2011, we finally saw a significant growth in internet subscription, bringing the number to around 3.5 percent of the population. During this time, the cost of internet-enabled handsets went down significantly and the competition among ISPs also drove the price down, making it more affordable to connect.

While this is a considerable growth in less than a decade, the digital divide between the rural and urban population remains stark. Experts identify high cost, lack of relevant content, poor service quality, and general lack of availability in rural areas as some of the reasons for such a divide. If we look deeper into the reasons why we are not seeing growth of internet usage in rural areas, we have to first understand how the rural population perceives the need for accessing and using the internet. The primary reason for using internet in the rural area is to access information. A survey done on about 1,000 households in five districts in 2010 revealed that the main types of information rural internet users seek include market price, agriculture, healthcare, job, news, and entertainment. The information also needs to be relevant in the local context and presented in a way that is useful for them. And, this is the part perhaps the majority of our efforts thus far to promote the spread of the internet in the rural areas have fallen short in. Not many of the efforts we discussed above focus on developing and customizing content to meet the specific needs of rural internet users. While there have been a lot of initiatives both from the private and public sectors to promote the use of internet and information technology in the rural Bangladesh, a lot more is still to be done. Services need to be made more accessible and useful to the rural population. Policymakers need to do their part in resolving the issues regarding the high cost and quality of services, by perhaps reviewing the fiscal policy related to telecommunication services and infrastructure in an attempt to reduce tax, and institute policies that ensure a certain level of quality for services offered in rural areas.

Generally, it is assumed that the population in rural areas does not have prior experience of using technologies such as the internet. If a service is offered to them that they find too abstract or vague, it is likely that the program will not get much traction and fail to scale. Any program or service designed for the rural population that utilizes internet technology needs to be designed to be relevant, intuitive, and accessible enough for the population to understand and find the service useful. As banking sector of Bangladesh is largely based on online banking, so development in rural internet infrastructure is essential for making more people included in banking facilities.

7.3. Objective 3: To explore the banker's perception for adopting rural banking in Bangladesh

Normally banks mortgage assets for granting loan. But this de-motivates some rural residents from borrowing because of following reasons: Most of them are not educated enough for understanding banks terms and conditions. Rural people often fail to repay loan in due time. This creates conflict for getting loan in second time. For encouraging rural banking, these regulations should be made flexible. SME Finance is the sources of funding of small and medium sized enterprises and represents a major function of the general business finance market-in which capital for different firms is supplied, acquired and priced.

Besides banking sector, SME play significant role in economic development through different ways: Employment generation removing disguised unemployment, capital formation increase market infrastructure and efficiency assist in rural industrialization by linking it with the more organized urban sector. Help achieve fair and equitable distribution of wealth by regional dispersion of economic activities creates more education opportunity. Women Empowerment ensures child and mother nutrition creates more access to health services. Development of women entrepreneurship but there are some limitations for which SME sector sometimes fails to achieve its target. They are as follows: Absence of skilled manpower; Use of old machineries; Lack of information; Poor quality of products; Lack of product diversity; Limited support from regulatory government agencies; Absence of harmonized tariff and non tariff policies; Absence of export orientation of capable SMEs; Absence of skills in demand in the market in academic curriculum and so on. Though branches of state owned banks are higher in rural areas than urban territory, private banks have almost half branches in rural areas. Unfortunately foreign banks have no branch at this location. So this should be taken into consideration for rural development.

7.4. Objective 4: Examine Current Infrastructure for providing banking facilities in rural areas

In Bangladesh about 70 percent of the poor people live in rural areas and are concentrated in the agriculture sector. Bangladesh Bank (BB) declared its annual agricultural/rural credit policy and programs for FY13 with a disbursement target of Taka 141.30 billion, 7.60 percent higher than the actual disbursement of Taka 131.32 billion in FY12. The program was formulated to ensure food security and

alleviation of rural poverty by extending the scope of agricultural credit and more broadly through financial inclusion. Along with the crop loan, the policy provided the scope for extending adequate loan facilities for income generating activities in rural areas and agriculture allied sector including two other main sub sectors of agriculture - fishery and livestock. The achievement against this target was 103.80 percent. The highlights of the agricultural/rural credit policy and program for FY13 BB's policy were: All private and foreign banks must disburse at least 2 percent of their total loan and advance as agricultural loan to achieve their yearly target. At the end of the financial year the undisbursed amount must be deposited in BB at bank rate for one year; an agricultural loan application form has to be simplified and readily available to potential and eligible farmers; acknowledge receipt of the agricultural loan application form. If it is not possible to consider any application to grant a loan, the farmers need to be informed by a letter mentioning the reason for non granting the loan and a copy of the letter will be preserved in a file; The loan application for crop cultivation must be completed within 10 working days; For the sake of transparency in loan disbursement, disbursement of agricultural loan needs to be publicized at union level; Banks have put in place an effective monitoring system to ensure timely and Agricultural and Rural Finance 72 hassle free disbursement of necessary loans to real farmers and to achieve the targeted agricultural credit; Credit has been made available as required to establish solar energy driven irrigation pumps; Banks have followed the directions to conduct the agricultural credit operations in partnership with MFIs approval by MRA; Achievement of the agricultural and rural credit target of banks will be considered to determine CAMELS rating.

8. Findings of the Study

After conducting the research following outcomes about current rural banking scenario has been found out:

- a) Banking education and training services are inadequate for providing banking services to the rural people through government project among the non educated marginal people that can lead to get motivation to go into banking transaction.
- b) Disparity of per capita income between rural and urban people because of their less investment.
- c) People living in the rural areas are not interested to banking activities due to bank charges and the fear of communication fare.
- d) Banking infrastructures are not strong in rural areas.
- e) Bankers disinterested in opening rural branch because of fall in to loss.
- f) Rural poor people are very simple and do not have any ambition to graduate their destiny with the banking deposit-lending activities.
- g) Rural people are not literate about Advanced Financial Technology (Fintech). For this reason they are not coming in the banking channel for the betterment of their earnings.

9. Conclusion and recommendations

This research is about raising awareness on the benefit of rural banking systems in Bangladesh. People living in rural areas need the same banking services as those living in larger towns and cities. A community bank in a rural area might offer regular retail banking services, including loans and mortgages, that let personal and business customers manage their banking needs close to home. Depending on their location and the local business focus, some rural banks develop specialty commercial skills in areas such as agribusiness. For example, some operate solely within the Farm Credit System – a network of borrower-owned lending cooperatives and specialized service organizations – specializing in business credit and funding for farming, ranching and other agricultural customers. For the development purposes rural-urban income must be lessened through launching commercial credit among the farmers with a low interest rate. Advanced Fintech must be introduced in rural banking services so that rural people can bring in the main stream of banking services.

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