

Agricultural and Rural Finance

Annual Agricultural Credit Programme

7.1 In the backdrop of lack of spontaneous interest of banks for lending to agriculture sector, annual programme based finance from the NCBs and specialized banks still plays dominant role for the growth of agriculture and rural economy. The agricultural growth rebounded to 4.5 percent in FY06 as against 2.2 percent growth due mainly to flood induced production shortfall in FY05. In order to ensure sustainable growth in these sectors, annual programme based indicative disbursement targets are designed. Yearly targets of disbursement are set by lending banks themselves taking into consideration expected demand for credit for the year, previous years' disbursements and the availability of fund.

The significant role played by Grameen Bank and large NGOs through their microcredit for revamping the rural economy in the country is widely acclaimed success. With efficient disbursement and recovery position, their disbursement during FY06 amounting Taka 129.0 billion was 134.7 percent higher than the agricultural loan disbursement of the institutional lenders. So to strengthen the rural economy, attention of the authorities is now being attracted to the development of SMEs for their potentialities in employment generation and output growth. The government efforts to promote SME have recently gained ground and disbursement to the sector has encompassed more than 15 sub-sectors.

Disbursement

7.2 The actual disbursement of Taka 54.96 billion against the disbursement target of Taka 58.92 billion during FY06 was 10.88 percent higher than the previous year's total

Table 7.1 Comparative statement of disbursement & recovery of agricultural loan

(billion Taka)			
Disbursement	FY04	FY05	FY06
1	2	3	4
I. Disbursement (Target)	43.79	55.38	58.92
a) Crops loan (other than tea)	23.56	27.88	28.50
b) Purchase and installation of irrigation equipments	0.21	0.23	0.25
c) Livestock	2.78	3.84	4.78
d) Marketing of agricultural goods	3.31	1.51	0.45
e) Fisheries	1.74	2.77	3.02
f) Poverty alleviation	8.73	10.95	13.99
g) Other agricultural activities	3.46	8.20	7.93
II. Actual disbursement	40.48	49.57	54.96
a) Crops loan (other than tea)	18.45	21.08	22.04
b) Purchase and installation of irrigation equipments	0.04	0.03	0.09
c) Livestock	2.48	2.85	2.76
d) Marketing of agricultural goods	4.16	5.56	7.55
e) Fisheries	1.11	1.34	2.31
f) Poverty alleviation	10.20	11.92	15.18
g) Other agricultural activities	4.04	6.79	5.03
III. Term structure of loans disbursed			
Short term	33.50	33.93	46.34
Longer term	6.98	15.64	8.62
IV. Recovery	31.35	31.71	41.64
V. Total outstanding loan	127.06	140.40	153.77
VI. Overdues	62.65	57.81	66.53
VII. Overdue as percent of outstanding	49.31	41.18	43.27

Source : Agricultural Credit & Special Programmes Department, Bangladesh Bank.

disbursement of Taka 49.57 billion. The target attainment in FY06 was 93.28 percent as against 89.51 percent in the previous year. The disbursement fell short the target due mainly to non-achievement of disbursement targets in crops loan, purchase and installation of irrigation equipments, livestock, fisheries, and other agricultural sectors. On the other hand, disbursements have exceeded the targets both in marketing of agricultural goods and poverty

alleviation sectors in FY06. However, the actual disbursements for crops loan, purchase and installation of irrigation equipments, fisheries, and poverty alleviation were higher than the previous year's disbursements.

The total outstanding loan in the agricultural sector in FY06 increased by Taka 13.37 billion or 9.52 percent to Taka 153.77 billion over the previous year's level. The increase in outstanding balance was due to higher disbursement under a special programme for agricultural sector rehabilitation following the devastating floods of 2004 and rescheduling of the past due loans of the farmers in flood affected areas as per Government decision. Table 7.1 shows the comparative position of overall disbursement and recovery of agricultural loans and Charts 7.1 and 7.2 show targets of agricultural loan disbursement and actual disbursement of agricultural loan respectively in FY06.

Two specialized banks viz. BKB, RAKUB, four NCBs and BRDB played key roles in disbursement of agricultural and rural finance. Only RAKUB overperformed its disbursement target by 8.96 percent. Disbursements of BKB, NCBs and BRDB, on the other hand, fell short of targets by 1.33 percent, 22.65 percent and 3.75 percent respectively in FY06 (Table 7.2). About 84.32 percent of disbursement was as short term lending and the rest 15.68 percent was in the form of long-term loans for irrigation equipments, agricultural machinery, livestock etc. The lion's share of the short term credit was for production of crops and poverty alleviation programmes constituting 47.56 percent and 32.76 percent respectively of total short term loans (Table 7.1).

Recovery

7.3 During FY06 recovery of agricultural credit increased by 31.32 percent to Taka 41.64 billion from the recovery made in FY05. The noteworthy increase in recovery position was attributed due mainly to special drive taken by the banks and concerned institutions for recovery of loans. In the pace of government

Chart 7.1

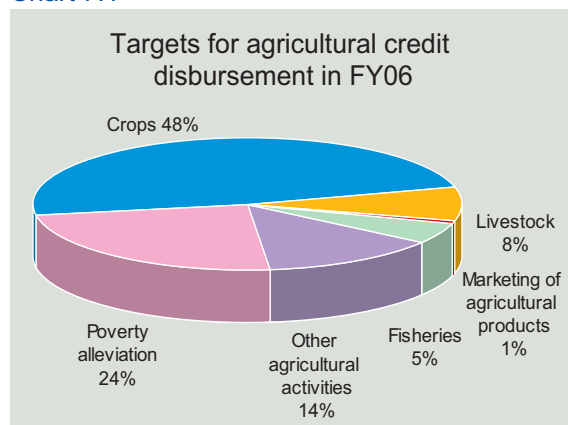
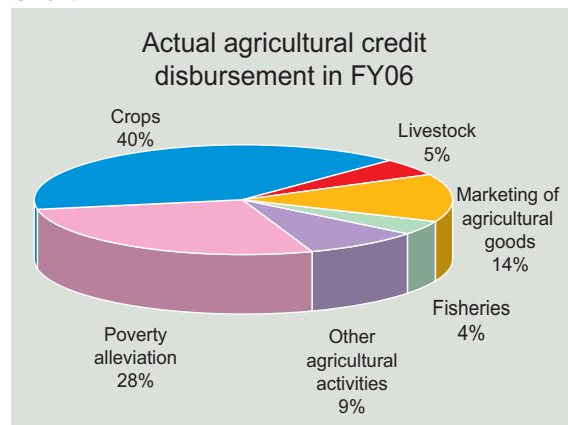


Chart 7.2



decision to reschedule the overdue agricultural loan, particularly in the flood affected areas in 2004, the banks and institutions played praiseworthy role for the recovery of agricultural loans. Recovery of agricultural loans of banks including BRDB, which is also involved in agricultural lending, improved significantly. The percentage of overdue agricultural loan, however, increased from 41.18 percent at the end of June 2005 to 43.27 percent at the end of June 2006 (Table 7.2).

The incentive measures introduced previously for recovery of stuck-up loans also continued in FY06, which, inter alia, included persuasion through various types of fairs, negotiations, demand notice, intensive supervision etc. The MIRACLE (maximum incentive for recovery of classified loan entirely) policy of BKB, PARL

Table 7.2 Agricultural credit performance by lenders – FY06

(billion Taka)						
Lender	Disbursement target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
1	2	3	4	5	6	7
NCBs	15.41	11.92	11.51	28.06	49.69	56.47
BKB	27.00	26.64	16.05	18.22	61.86	29.45
RAKUB	8.15	8.88	7.47	6.86	23.51	29.18
BRDB	7.73	7.44	6.52	10.68	15.88	67.25
BSBL	0.63	0.08	0.09	2.71	2.83	95.76
Total	58.92	54.96	41.64	66.53	153.77	43.27
Summary						
FY06	58.92	54.96	41.64	66.53	153.77	43.27
FY05	55.38	49.57	31.71	57.81	140.40	41.18
FY04	43.79	40.48	31.35	62.65	127.06	49.31
FY03	35.61	32.78	35.16	65.26	119.13	54.78
FY02	33.27	29.54	32.60	67.55	114.98	58.75

Source : Agricultural Credit & Special Programmes Department, Bangladesh Bank.

(participation of all for recovery of loan) and BUP (bottom up planning) strategies of RAKUB may have contributed to modest improvement in recovery during FY06. It is imperative that banks should strengthen their recovery drive and continue incentive measures so that the recovery of agricultural loan get improved further in the years to come.

Sources of Agricultural Finance

7.4 The main sources of finance in agriculture are still the state owned banks. As such specialized banks viz BKB and RAKUB, nationalized commercial banks and BRDB are dominant players in the area of agricultural credit. BKB had the largest share like in previous years in annual disbursement of agricultural loan. In FY06 BKB alone disbursed around 48.47 percent of the total disbursement followed by NCBs at 21.69 percent. The NCBs overdue loan as percentage of their outstanding loan stood at 56.47 percent at the end of FY06, while overdue of BRDB, BKB and RAKUB recorded 67.25 percent, 29.45 percent and 29.18 percent respectively of their outstanding during the year.

The domestic and foreign private sector banks' contribution for lending to agriculture sector remained insignificant in FY06 like earlier trend. In addition to total agricultural loan of Taka 54.96 billion disbursed in FY06, the private banks

contribution was only Taka 3.34 billion during the year. In addition to risk and uncertainties associated with the agricultural and rural finance, the shortage of required manpower, high cost of undertaking intensive supervision and monitoring, and lack of information or wrong information about customers/borrowers may have discouraged private commercial and foreign banks to dispense agricultural/rural credit. As there are ample opportunities of investment in agro based sector, these banks should include the sector in their business plan by removing aforesaid bottlenecks.

The burden of unrealized large amount of agricultural loan is responsible for acute shortage of resource base of the NCBs and specialized banks which construed obstacles in their policies of recycling of resources for this sector. These banks should therefore, gear-up recovery drive to minimize their resource gap not only for extending more support to agricultural sector, but also to do away with the policies of resorting to refinance from the central bank in this regard.

Bangladesh Bank's Refinance against Agricultural Loans

7.5 RAKUB was provided refinance facilities to the tune of Taka 1.43 billion from Bangladesh Bank in FY06. No other banks or institutions

availed of refinance facilities from Bangladesh Bank in FY06. An amount of Taka 2.99 billion was recovered against past refinance loan. The outstanding balance of refinance of banks/institutions from Bangladesh Bank increased from Taka 55.20 billion at the end of FY05 to Taka 56.38 billion at the end of FY06. The outstanding balances of refinance (including interest thereon) of BKB decreased from Taka 39.35 billion at the end of FY05 to

Taka 38.79 billion at the end of FY06. But that of RAKUB increased from Taka 15.16 billion to Taka 17.04 billion during the same period including interest thereon. The outstanding balances of refinance to BSBL stood at Taka 0.43 billion and that of BRDB remained at previous year's level at Taka 0.12 billion at the end of FY06. Details of Bangladesh Bank's refinance to different institutions are shown in Table 7.3.

Table 7.3 Bangladesh Bank's refinance against agricultural loans

Particulars	FY04			FY05			FY06		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	3.00	1.35	34.08	5.00	3.00	39.35@	-	1.77	38.79@
RAKUB	1.71	1.07	13.31	2.36	1.66	15.16@	1.43	1.01	17.04@
BSBL	-	0.14	0.57	-	-	0.57	-	0.14	0.43
BRDB	-	-	0.12	-	-	0.12	-	-	0.12
Total	4.71	2.56	48.08	7.36	4.66	55.20@	1.43	2.99	56.38@

Source : Agricultural Credit & Special Programmes Department, Bangladesh Bank.

@ =Include interest.

Agricultural Credit Projects/Programmes under Bangladesh Bank Supervision

7.6 Some self as well as donor financed agricultural projects/programmes of national interest were under active supervision of Bangladesh Bank during FY06. A total of Taka 0.34 billion was disbursed and Taka 0.38 billion recovered (up to the end of June 2006) under a few such ongoing projects/programmes viz, the Marginal and Small Farm System Crop Intensification Project (MSFSCIP), Crop Storage Credit Project and Shrimp Culture Financing Scheme. Apart from these, credit disbursement under the Northwest Crop Diversification Project started in FY04. The Project was launched in December 2001 and was scheduled to be completed by June 2008. The project was funded by ADB (Taka 2.5 billion) with a credit component of Taka 1.2 billion for financing production and marketing of high value crops in sixteen northwestern districts. The fund has been provided to RAKUB for distribution among the farmers and agro-based enterprises through four NGOs on reimbursement basis. Under the project a total amount of Taka 0.85 billion has been disbursed to RAKUB and Taka 0.09 billion

was recovered up to the end of June 2006. In FY06 recovery of Taka 1.05 billion was also made under a number of closed projects (Second Aquaculture Development Project, Shrimp Culture Financing Scheme and North-west Rural Development Project) leaving an outstanding balance of Taka 1.20 billion as of end June 2006 for future recovery.

SMEs and Microfinance Development

7.7 In a situation of unfavourable land-man ratio and state of country's agricultural sector, key to poverty alleviation lies in productive employment through structural transformation of economy away from agriculture and towards industry. The industrial growth, on the other hand, depends on a large number of factors i.e. resource endowment, size, location, international environment etc. Record of industrial growth of the country so far was not up to the mark due mainly to above factors and various other constraints. Attention of the authorities has now, therefore, drawn to the promotion of Small and Medium Enterprises (SMEs) for their potentiality and greater scope for development of industrial sector in the

country. SME enjoys certain advantages over large scale industrial unit such as lower capital investment, lower job creation cost, lower capital-output ratio, moderate infrastructure requirement and promotion of agro-industrial linkage.

In FY06 production under the SME units which registered robust growth were rice mill, dairy product, knitwear, leather product, footwear, wooden furniture, paper and paper product, mineral product, agro processing food, pharmaceuticals, software, plastic goods, light engineering etc. However, smooth growth of SME has been hampered by limited access to medium to long term credit, markets, technology and promotion. Bank and other financial institutions generally prefer large enterprise clients because of lower transaction costs, and greater availability of collateral. SMEs also fall outside the reach of microfinance schemes, and are thus compelled to depend more on formal sources of funds as much higher interest rates. Other interrelated problems like shortage of short and long term finance, lack of modern technology, lack of skilled manpower, marketing problem, lack of promotional support service etc, still stand as obstacles to their faster growth. Moreover, their development faces serious competition in open economy regime of the country.

A credit line was established in the Bangladesh Bank with the support of the Asian Development Bank (ADB) and World Bank. So far 3000 SMEs have received credit under this scheme. In addition the government implemented an SME policy and revamped the entire institutional environment for SME development. The government has also established an SME foundation for effective and result-oriented measures to foster SME growth.

Financing of Small & Medium Enterprises

7.8 Bangladesh Bank's refinance facilities to banks during FY06 for promoting small and medium scale industrial enterprises under some special schemes and programmes are shown below:

a) Refinance Scheme for Agro-processing Industries

With a view to financing establishment of agro-processing industries in the areas outside of Divisional Head Quarters and Narayanganj town, Bangladesh Bank launched a scheme from November 2001 out of its Industrial Credit Fund. Refinance facilities under the scheme were provided to banks and financial institutions at the Bank Rate. Under this scheme 100 percent refinance is made available to the banks and financial institutions for medium and long term loans to an industrial enterprise with fixed capital not exceeding Taka 0.05 billion in industrial loans. An amount of Taka 0.63 billion has been disbursed under this scheme till end June 2006.

b) Refinance for Small Enterprises

Bangladesh Bank introduced a refinance scheme of Taka 1.00 billion in May 2004 out of its own fund for supporting the development of small enterprises in the country. Refinance facilities under the scheme were extended for the banks and financial institutions at Bank Rate against their financing to the small entrepreneurs usually left out by the formal sector financing. Entrepreneurs having fixed assets not exceeding Taka 10.00 million were eligible to get loans 0.20-5.00 million each under the scheme. The scheme received a good response of the entrepreneurs and the entire amount, i.e. Taka 1.00 billion was disbursed by February 2005. Recovery made out of the refinanced loan will be used as a revolving fund for financing SME sector.

In the meantime, the IDA wing of the World Bank has provided an additional amount of US\$ 0.01 billion (Taka 0.58 billion) to reinforce this scheme under a Development Credit Agreement signed with the Government of Bangladesh for financing the development of small enterprise sector of the country. In addition, Government of Bangladesh allocated an amount of Taka 0.58 billion under the said agreement. An amount of Taka 0.58 billion from the IDA credit fund has already been disbursed.

Till June 2006, a total amount of Taka 2.07 billion combining the BB fund, the IDA credit fund, Government of Bangladesh fund and Revolving Fund has been refinanced to 8 banks and 10 financial institutions against their financing to 3094 small enterprises throughout the country. An amount of Taka 0.41 billion of this fund was provided as working capital and the rest Taka 1.66 billion was provided as term lending. Apart from these, Asian Development Bank has also agreed to provide an additional amount of US\$ 0.03 billion into the scheme under a Loan Agreement with the Government of Bangladesh to develop the SME sector in Bangladesh. Disbursement out of ADB fund was about 0.003 billion in the FY06.

c) Self-employment Small Enterprise Credit Scheme for Voluntarily Retired Officers/Employees

Self-employment Small Enterprise Credit Scheme for voluntarily retired officers and employees introduced in 1993 with a fund of Taka 0.20 billion provided by the Government was in operation during FY06. Under this scheme refinance facility for Taka 0.04 billion was provided to three banks up to end June 2006.

Microcredit Operations of NGOs

7.9 The success of microcredit spurred a global movement of reaching the poorest with credit without collateral. The conventional financial system, where the poor potential investors have no/little access to financial service and is tantamount to financial apartheid. As alternative to the system microcredit of Grameen Bank and NGOs emerged since last few decades on the idea, “the access to credit is human right”. During inauguration of international year of microcredit in Bangladesh last year the Secretary General of UNO has remarked that “its concept was born in Bangladesh and Bangladesh could possibly take pride of that”. In order to achieve the MDGs (Millennium Development Goals) of reducing poverty level to half by the year 2015 and also

Table 7.4 Microcredit operations of the Grameen Bank and large NGOs

	(billion Taka)		
	FY04	FY05	FY06
1. Disbursement	72.4	91.0	129.0
i) Grameen Bank	23.4	31.5	45.9
ii) BRAC	23.3	29.1	36.9
iii) ASA	22.5	27.7	43.0
iv) PROSHIKA	3.2	2.7	3.1
2. Recovery	63.2	78.6	116.1
i) Grameen Bank	19.8	25.8	37.7
ii) BRAC	20.2	25.8	37.5
iii) ASA	19.8	24.2	37.4
iv) PROSHIKA	3.4	2.8	3.5
3. Outstanding loans	46.0	59.4	80.6
i) Grameen Bank	17.8	23.5	31.7
ii) BRAC	12.3	16.6	20.9
iii) ASA	12.2	15.7	23.2
iv) PROSHIKA	3.7	3.6	4.9
4. Loans overdue	1.9	3.1	3.3
i) Grameen Bank	0.1	0.2	0.7
ii) BRAC	0.8	1.8	0.9
iii) ASA	0.1	0.1	0.2
iv) PROSHIKA	0.9	1.0	1.5
5. Overdue as percentage of outstanding	3.8	5.3	4.1
i) Grameen Bank	0.3	0.7	2.2
ii) BRAC	6.2	11.1	4.4
iii) ASA	0.4	0.8	0.7
iv) PROSHIKA	24.5	28.8	31.8

Source : Grameen Bank and respective NGOs.

support rural economic upliftment, the government has given due stress on microcredit as strategy to quicker reaching goal.

The microcredit operation, as reported, by now has covered more than half of the total poor populations of the country. It has partly contributed in positive development of socio-economic indicators of Bangladesh. For instance, life expectancy of particularly women has increased, malnutrition and mortality rates of children have reduced, primary school enrolment of children has increased during past decade. Finally the poverty level of the country has also minimized. These progresses, no doubt, were partly result of microcredit operation in the country.

Like earlier years microcredit operations grew significantly in FY06 with efficient recycling of lending resources, higher disbursement and recovery in the country. Microcredit of Grameen Bank and NGOs like BRAC, ASA and Proshika (the three big NGO-MFIs) has got coverage all over the country. These three organizations and Grameen Bank together occupy more than 80 percent of the total market share of microcredit both in terms of coverage and disbursement. (Table 7.4).

It appears from Table 7.4 that microcredit operations grew rapidly in the country like previous years with 41.8 percent and 47.7 percent increase in disbursement and recovery in FY06 compared to 25.7 percent and 24.4 percent increase respectively in FY05. Their overdues as percentage of outstanding loan marginally decreased from 5.3 percent in FY05 to 4.1 percent in FY06.

Recycling of lending resources of the microcredit providers in FY06 like previous years was more than 1.6 times of their outstanding loans. The microcredit providers own resources and PKSf (Palli Karma Shahayak Foundation) respectively account for nearly half and about one quarter of their resources; rest of their funds come from loan from banks, large NGOs and external donors. The loans given by PKSf to 243 POs (Partner Organizations or NGOs) stood at Taka 6.9 billion in FY06 against Taka 3.7 billion in FY05.

On the other hand, agricultural credit disbursements, in line with the previous trends, remained constrained at around 35.7 percent of their outstanding loans in FY06 against 35.3 percent in FY05. This is because a large portion of their loans to agricultural sector were stuck-up. The overdue as percentage outstanding of institutional agricultural loan providers increased from 41.18 percent in FY05 to 43.27 percent in FY06.

The system of microcredit, however, still cannot address small and marginal agricultural farmers

because higher risk of non-payment is involved in this sector and as such is confronting issues of little coverage of ultra poor or hardcore poor. Moreover, very small amount of credit as compared to requirements of borrowers and rigid repayment system are hindering in achieving required result in their operation. The MFIs are now facing a number of problems. Some of these are: i) absence of/or little accountability of their operation; ii) no linkage among the stakeholders/providers of microcredit; iii) relatively higher interest rate for microcredit etc.

The MFIs can recycle money more than once in a year as their operation is generally limited for short term lending. The member's savings and service charges are the two internal sources of their fund; savings contributed 37 percent of outstanding loan in FY05. Recently contribution of banking sector in Revolving Loan Fund (RLF) by PKSf has increased considerably. Donor's contribution has declined drastically over the years, which is now less than 10 percent. It is necessary to develop microcredit products and services in line with borrower's needs, and effective co-ordination among the institutions involved in microcredit and rural finance should be established to avoid duplication in providing credit. Moreover, the market rate of interest should be ensured against borrower's savings and NGOs should develop own resource based system by capacity building. Presently it is imperative to integrate this emerging financial sector with the broader financial market. With this end in view the government has established the Microfinance Research & Reference Unit in Bangladesh Bank and formed a Steering Committee to make policies for the sector and to bring these institutions (NGO-MFIs) under a uniform regulatory framework. The Unit is currently playing a vital role in updating the list of NGO-MFIs, collecting their information and analyzing them to get important policy inputs. A law to bring this sector under a regulatory framework has already been passed by the Parliament which came into effect from 27 August 2006.