

## Agricultural and Rural Finance

## Annual Agricultural Credit Programme

7.1 Despite a long term trend of decline of share of agriculture sector in GDP, the sector still accounts for about 48 percent of the total employed persons calling for greater institutional and policy supports. Besides, the recent global food crisis on account of natural calamities, increased demand for food, use of crops to produce bio-fuel in the developed countries and protectionist policy adopted by the food exporting countries highlights the urgency of increasing domestic food production and attaining food security through increased investment in this sector and, timely and adequate supply of agricultural inputs including agricultural credit.

Keeping in view, the importance of credit for ensuring sustainable growth in the agriculture sector, annual programme based indicative disbursement targets of credit by the lending banks are designed. Yearly targets of disbursement are set by the banks themselves taking into consideration expected demand for credit for the year, previous years' disbursement and the availability of fund.

In recent time, agricultural and rural finance programme seems to have boosted up as the private commercial banks began to participate along with the State-owned Commercial Banks (SCBs). The private and foreign banks came forward in distributing agricultural credit through their branch network in collaboration with NGOs, in addition to the regular agricultural credit disbursement by state-owned banks and organizations. In FY08 the local commercial banks disbursed Taka 15.6

**Table 7.1 Comparative statement of disbursement and recovery of agricultural loan\***

(billion Taka)			
	FY06	FY07	FY08
1	2	3	4
<b>I. Disbursement (Target)</b>	<b>58.92</b>	<b>63.51</b>	<b>69.75</b>
a) Crops loan (Other than tea)	28.50	30.29	31.26
b) Purchase and installation of irrigation equipments	0.25	0.29	0.59
c) Livestock	4.78	5.34	5.47
d) Marketing of agricultural goods	0.45	0.14	0.11
e) Fisheries	3.02	3.54	4.74
f) Poverty alleviation	13.99	12.64	12.93
g) Other agricultural activities	7.93	11.27	14.65
<b>II. Actual disbursement</b>	<b>54.96</b>	<b>52.93</b>	<b>61.67</b>
a) Crops loan (Other than tea)	22.04	22.86	24.64
b) Purchase and installation of irrigation equipments	0.08	0.09	0.09
c) Livestock	2.76	2.67	2.96
d) Marketing of agricultural goods	7.55	0.46	0.36
e) Fisheries	2.31	2.41	3.23
f) Poverty alleviation	15.19	11.89	13.50
g) Other agricultural activities	5.03	12.55	16.89
<b>III. Term structure of loan disbursed</b>			
Short term	46.34	38.66	41.82
Longer term	8.62	14.27	19.85
IV. Recovery	41.64	46.76	43.75
V. Total outstanding loan	153.76	145.82	158.49
VI. Overdue	66.53	66.35	58.37
VII. Overdue as percent of outstanding	43.27	45.50	36.83
Source : Agricultural Credit & Special Programmes Department, Bangladesh Bank.			
* Excluding PCBs and foreign banks			

billion while the foreign banks disbursed Taka 8.5 billion of agricultural credit. However, SCBs and specialized banks still played a dominant role for the growth of agriculture and rural economy with disbursement of Taka 61.67 billion.

Apart from agricultural credit, Grameen Bank and large NGOs played significant role through

their microcredit programmes to boost up the rural economy in the country. With efficient disbursement and recovery position, their disbursement during FY08 amounting Taka 186.4 billion was 202.3 percent higher than the agricultural loan disbursement of the institutional lenders. SMEs also have a significant role in rural economic upliftment by generating growth and creating employment. As the economy opens up and pursues export-led growth, it is vital to strengthen the SME sector to make it more competitive.

### Disbursement

7.2 The actual disbursement of Taka 61.67 billion in FY08 against the disbursement target of Taka 69.75 billion (excluding local private and foreign banks) was 16.51 percent higher than the total disbursement of Taka 52.93 billion of FY07.

The target attainment in FY08 was 88.42 percent as against 83.34 percent in the previous year. The disbursement of FY08 fell short the target due mainly to non-achievement of disbursement targets in crops loan, purchase and installation of irrigation equipments, livestock and fisheries. On the other hand, disbursements have exceeded the targets in marketing of agricultural goods, poverty alleviation and other agricultural activities in FY08.

The total outstanding loan in the agricultural sector in FY08 increased by Taka 12.67 billion or 8.69 percent to Taka 158.49 billion over the previous year's level. The increase in outstanding balance was due to decrease in recovery of the outstanding loan of banks. Table 7.1 shows the comparative position of overall disbursement and recovery of agricultural loans and Charts 7.1 and 7.2 show targets and actual disbursement of agricultural loan respectively in FY08.

Chart 7.1

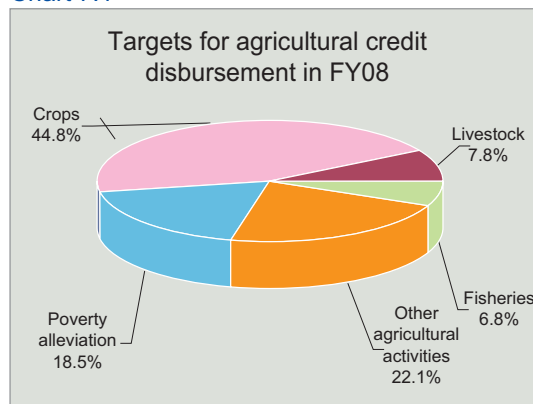
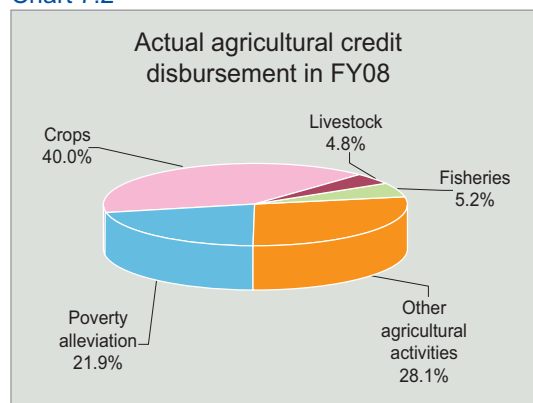


Chart 7.2



Two specialized banks viz. BKB and RAKUB, four SCBs and BRDB although played key roles in disbursement of agricultural and rural finance, the remarkable contribution of foreign and private commercial banks also an imperative in this regard. Recently foreign and private commercial banks came forward in distributing programme based agricultural credit through their branch network and also in collaboration with NGOs. However SCBs, BKB, RAKUB and BSBL fell short of targets by 24.11, 9.70, 4.38 and 64.29 percent respectively but BRDB, PCBs and foreign banks exceeded the disbursement target by 3.38, 61.66 and 131.44 percent respectively in FY08 (Table 7.2).

Table 7.2 Agricultural credit performance by lenders - FY08						
(billion Taka)						
Lender	Disbursement target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
1	2	3	4	5	6	7
SCBs	18.00	13.66	15.09	26.33	49.57	53.12
BKB	36.50	32.96	13.16	21.06	73.34	28.71
RAKUB	8.00	7.65	8.45	7.75	25.58	30.30
BRDB	7.11	7.35	6.97	2.47	9.16	26.97
BSBL	0.14	0.05	0.08	0.76	0.84	90.48
<b>Sub Total</b>	<b>69.75</b>	<b>61.67</b>	<b>43.75</b>	<b>58.37</b>	<b>158.49</b>	<b>36.83</b>
Foreign banks	3.69	8.54	8.02	0.00	3.01	0.00
PCBs	9.65	15.60	8.27	0.50	16.73	2.99
<b>Sub Total</b>	<b>13.34</b>	<b>24.14</b>	<b>16.29</b>	<b>0.50</b>	<b>19.74</b>	<b>2.52</b>
<b>Grand Total</b>	<b>83.09</b>	<b>85.81</b>	<b>60.04</b>	<b>58.87</b>	<b>178.23</b>	<b>33.03</b>
			<b>Summary*</b>			
FY 08	69.75	61.67	43.75	58.37	158.49	36.83
FY 07	63.51	52.93	46.76	66.35	145.82	45.50
FY 06	58.92	54.96	41.64	66.53	153.77	43.27
FY 05	55.38	49.57	31.71	57.81	140.40	41.18
FY 04	43.79	40.48	31.35	62.65	127.06	49.31

Source :Agricultural Credit & Special Programmes Department, Bangladesh Bank.  
\* Excluding PCBs and foreign Banks.

About 67.81 percent of disbursement was as short term lending and the rest 32.19 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 58.90 percent and 32.28 percent respectively of total short term loans (Table 7.1).

### Recovery

7.3 During FY08, recovery of agricultural credit decreased by 6.44 percent to Taka 43.75 billion from the recovery made in FY07. The decrease in recovery position was caused mainly due to consecutive floods and the cyclone Sidr causing huge damage to agriculture throughout the major part of the country. The percentage of overdue agricultural loan, however, decreased from 45.50 percent at of end June 2007 to 36.83 percent at of end June 2008 (Table 7.2).

The incentive measures introduced previously for recovery of stuck-up loans also continued in FY08, which, inter alia, included persuasion through various types of fairs, negotiations,

demand notice, intensive supervision etc. It is imperative that banks should set up their recovery drive matching with the harvesting seasons and strengthen incentive measures ensuring appropriate dissemination of information 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, State-owned 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 FY08, BKB alone disbursed around 53.45 percent of the total disbursement followed by SCBs at 22.15 percent. The SCBs overdue loan as percentage of their outstanding loan stood at 53.12 percent at the end of FY08, while overdue of BRDB, BKB and RAKUB recorded 26.97, 28.71 and 30.30 percent respectively of their outstanding at the end of the year.

On the other hand, the role of private sector domestic and foreign banks in agricultural lending seems to be increasing, as they

**Table 7.3 Bangladesh Bank's refinance against agricultural loans**

(billion Taka)

Particulars	FY06			FY07			FY08		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	-	1.77	38.79	-	2.23	37.75	5.00	2.23	41.79
RAKUB	1.43	1.01	17.04	-	1.20	16.82	1.72	1.27	17.77
BSBL	-	0.14	0.43	-	0.04	0.38	-	0.04	0.34
BRDB	-	-	0.12	-	-	0.12	-	-	0.12
<b>Total</b>	<b>1.43</b>	<b>2.92</b>	<b>56.38</b>	<b>-</b>	<b>3.47</b>	<b>55.07</b>	<b>6.72</b>	<b>3.54</b>	<b>60.02</b>

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

contributed Taka 24.14 billion which is around 28.13 percent of the total agricultural loan disbursed in FY08.

The burden of unrealized large amount of agricultural loan is responsible for acute shortage of resource base of the SCBs 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 During FY08, BKB and RAKUB enjoyed refinance facilities to the tune of Taka 6.72 billion from the Bangladesh Bank. No other institutions availed of refinance facilities from the Bangladesh Bank in FY08. An amount of Taka 3.54 billion was recovered against past refinance loan due from different banks and institutions leaving an outstanding balance of Taka 60.02 billion as of end June 2008 for future recovery. Details of Bangladesh Bank's refinance to different institutions are shown in Table 7.3.

### **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 FY08. A total of Taka

0.74 billion was disbursed and Taka 0.44 billion recovered during FY08 under a few such ongoing projects/programmes viz, the Marginal and Small Farm Systems Crops Intensification Project (MSFSCIP), Shrimp Culture Financing Scheme, Shashya Gudam Rin Prokalpa (SHOGORIP) and "Expansion of Urea Deep Placement Technology in 80 Upazilas of Bangladesh during Boro 2008". Apart from these, credit disbursement under the Northwest Crop Diversification Project started in FY04. The Project was launched in December 2000 and was scheduled to be completed in 2008. On the success of the project, ADB extended the project scope and loan closing date from 31 December 2008 to 31 December 2009. 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 was 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 1.43 billion was disbursed and Taka 0.83 billion was recovered up to the end of June 2008. In FY08 recovery of Taka 0.87 billion was also made under a number of closed projects (Second Aquaculture Development Project, and North-west Rural Development Project) leaving an outstanding balance of Taka 0.18 billion as of end June 2008 for future recovery.

### **SMEs and Microfinance Development**

7.7 Small and Medium Enterprises (SMEs) has been considered as the thrust sector in the economic development of the country with

growing importance from all walks of life. It is generally recognised that SMEs have a significant role in employment generation, poverty reduction and over all economic growth, specially for a developing economy like Bangladesh. In recognition of the strategic importance of the development of SMEs this sector has been declared as a priority sector in the Government's Industrial Policy and various measures have been initiated to help maximize the SMEs growth potential. It is evident that, substantial increase in SME and retail credit portfolios along with commercial, corporate and industrial lending, would lead the banks to its higher trajectory of growth, minimizing the risk of lending through portfolio diversification. As such, many banks have taken up aggressive marketing policy to augment their exposure in SME and retail credit. Bangladesh Bank has also undertaken programmes to provide relatively cheaper funds to the banks and financial institutions which might encourage them for SME financing.

However, the growth of SME sector is not exempted from setbacks, such as: SME loan is basically term financing and repaid on installment basis, but naturally the business people in our country are accustomed to and prefer continuous loan causing slow pace of disbursement of SME loans. In most of the cases banks and other financial institutions are reluctant to expand their SME credit portfolio because they do not consider SME lending an attractive and profitable undertaking. This is so because SMEs are regarded as high risk borrowers because of their low capitalization, insufficient assets and their inability to comply with collateral requirements of the banks. As close monitoring and supervision in the SME operation are necessary, administrative costs are also higher in this sector.

Despite all these facts banks and financial institutions have been providing finance to SME sector and the volume of finance is showing an increasing trend. Most importantly the share of private sector banks in disbursement of credit to

the SME sector has been increasing in recent years. Bangladesh Bank's refinance scheme is also the timely approach in this regard.

### **Financing of Small & Medium-sized Enterprises**

7.8 An amount of Taka 8.51 billion was refinanced to different banks and financial Institutions under some schemes up to end June 2008. Bangladesh Bank's refinance facilities to banks during FY08 for promoting small and medium industrial enterprises under some special schemes and programmes are shown below:

#### **a) Refinance Scheme for Agro-processing Industries**

For financing establishment of agro-processing industries in the areas outside of Divisional Head Quarters and Narayanganj town, Bangladesh Bank launched a scheme of Taka 0.5 billion from November 2001 out of its Industrial Credit Fund. Refinance facilities under the scheme was provided to banks and financial institutions at the Bank Rate. An amount of Taka 0.89 billion has been disbursed under this scheme till end June 2008.

#### **b) Refinance for Small Enterprises**

Thirty eight (38) banks and non-banks financial Institutions have signed participation agreement with Bangladesh Bank for financing SME sector under following schemes:

i) **Bangladesh Bank Fund:** Bangladesh Bank introduced a refinance scheme named Small Enterprise Fund (SEF) of Taka 5.0 billion 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. The scheme demonstrated a high market demand. Recovery made out of the refinanced loan will be used as a revolving fund for financing SME sector. An amount of Taka 4.09 billion was refinanced to 30 banks and financial institutions under this fund upto end June 2008 against 4630 enterprises.

ii) **Enterprise Growth and Bank Modernization Programme ( EGBMP) Fund:** In the meantime, the IDA wing of the World Bank provided an additional amount of USD 0.01 billion (Taka 0.58 billion) named EGBMP fund 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 1.12 billion has been received combining the IDA credit fund and Government of Bangladesh fund for refinancing. An amount of Taka 1.63 billion was refinanced to 24 banks and financial institutions under this fund upto end June 2008 against 1962 enterprises.

iii) **ADB Fund:** Asian Development Bank also agreed to provide an additional amount of USD 0.03 billion for financing the scheme under a loan agreement with the Government of Bangladesh to develop the SME sector in Bangladesh. An amount of Taka 1.90 billion has been refinanced to 14 banks and financial institutions under this fund upto end June 2008 against 1764 enterprises.

An amount of total Taka 7.62 billion was refinanced to different banks and financial institutions under small and medium sector from aforesaid funds upto end June 2008 under these scheme, against 8356 enterprises.

### Microcredit Operations of Grameen Bank and Large NGOs

7.9 Bangladesh has achieved the richest experience of poverty alleviation through rapid expansion of microcredit activities in the last one and half decade. So the experience of microcredit in Bangladesh has made important contributions to the emergence of this concept globally. Microcredit sector in Bangladesh could indeed take pride on its substantial achievements specially in terms of outreach, sustainability and its impact on the borrowers. There is no doubt that microcredit can contribute in significant way to poverty reduction. However, microcredit institutions along with a whole

**Table 7.4 Microcredit operations of the Grameen Bank and large NGOs**

(billion Taka)			
	FY06 <sup>R</sup>	FY07 <sup>R</sup>	FY08
<b>1. Disbursement</b>	<b>128.9</b>	<b>152.2</b>	<b>186.4</b>
i) Grameen Bank	45.9	50.2	54.6
ii) BRAC	36.9	52.7	75.1
iii) ASA	43.0	46.1	53.7
iv) PROSHIKA	3.1	3.2	3.0
<b>2. Recovery</b>	<b>109.8</b>	<b>133.3</b>	<b>160.8</b>
i) Grameen Bank	37.7	48.0	48.9
ii) BRAC	32.6	41.6	63.7
iii) ASA	37.4	41.4	45.6
iv) PROSHIKA	2.1	2.3	2.6
<b>3. Outstanding Loans</b>	<b>76.4</b>	<b>97.7</b>	<b>115.5</b>
i) Grameen Bank	31.7	33.8	34.5
ii) BRAC	20.8	31.9	43.2
iii) ASA	20.2	28.0	33.9
iv) PROSHIKA	3.7	4.0	3.9
<b>4. Loans Overdue</b>	<b>3.7</b>	<b>4.3</b>	<b>6.1</b>
i) Grameen Bank	0.7	0.8	1.2
ii) BRAC	0.7	0.9	1.8
iii) ASA	0.2	0.3	0.5
iv) PROSHIKA	2.1	2.3	2.6
<b>5. Overdue as percentage of outstanding</b>	<b>4.8</b>	<b>4.4</b>	<b>5.3</b>
i) Grameen Bank	2.2	2.4	3.5
ii) BRAC	3.4	2.8	4.2
iii) ASA	1.0	1.1	1.5
iv) PROSHIKA	56.8	57.5	66.7

Source: Microcredit Regulatory Authority (MRA), and Grameen Bank.

R= Revised.

generation of other social business enterprises can play a vital role in attaining the MDG of halving extreme poverty by 2015.

Like earlier years microcredit operations grew significantly in FY08 though the interest rate for microcredit is relatively high.

Microcredit of Grameen Bank and NGOs like BRAC, ASA and Proshika (the three big NGOs-MFIs) have 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 22.47 percent increase in disbursement. Recovery increased by 20.63 percent in FY08 compared to 21.40 percent recovery in FY07. Their overdue as percentage of outstanding loan increased from 4.4 percent in FY07 to 5.3 percent in FY08.

Recycling of lending resources of the microcredit providers in FY08 like previous years was more than 1.7 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 257 POs (Partner Organizations or NGOs) stood at Taka 56.65 billion in FY08 against Taka 42.65 billion in FY07.

On the other hand, agricultural credit disbursements, in line with the previous trends, remained constrained at around 38.91 percent of their outstanding loans in FY08 against 36.3 percent in FY07. This is because a large portion

of their loans to agricultural sector were stuck-up. Overdue as percentage outstanding of institutional agricultural loan providers decreased from 45.50 percent in FY07 to 36.83 percent in FY08.

However, Microcredit programme has to be integrated with macroeconomic policies. Growing evidences of the beneficial impact of microcredit are found in the areas such as healthcare, family planning and schooling behaviour, especially for female children and women empowerment. To bring microcredit sector under regulatory framework, the government of Bangladesh enacted "Microcredit Regulatory Authority Act 2006" on 16 July 2006 effective from 27 August 2006. Microcredit Regulatory Authority (MRA) established under the Act, is empowered and responsible to monitor and supervise the microcredit activities of the MFIs. According to the Act, no MFI can operate microcredit programme without obtaining license from MRA.