

## Agricultural and Rural Finance

### Annual Agricultural Credit Programme

9.1 Considering the crucial role of agriculture in our economy, the Government has accorded greater importance to this sector and continued to provide strong policy support during FY14. Good performance of all sub-sectors within agriculture resulted in an increase of growth of this sector to 3.4 percent in FY14 from 2.5 percent in FY13. The sector contributed 16.3 percent of GDP during the year.

Aligned with Government's efforts, Bangladesh Bank (BB) also articulated a new vision for sustainable agricultural growth by providing broad based policies and credit for the sector. BB declared its annual agricultural and rural credit policy and programme for FY14 with a disbursement target of Taka 146.0 billion, which was Taka 141.3 billion in FY13. The goal was to increase the disbursement of agricultural and rural credit by expanding banking services to rural areas, making the farmers accustomed to banking activities and to promote financial inclusion. This policy support is expected to continue stimulating the agricultural production and help to reduce rural poverty. The achievement against this target was 109.9 percent marked by the remarkable participation of private sector banks through their branches as well as through linkages with microfinance Institutions (MFIs).

### Some Important Initiatives of Agricultural Credit Programme in FY14

- In FY14 around 3.3 million farmers got agricultural and rural credit of which 0.6 million were women. They got Taka 16.1 billion as agricultural and rural credit from different banks.
- In FY14 around Taka 7.6 billion was disbursed among about 0.2 million farmers through 15862 open credit disbursement programmes arranged by different banks.
- In the same year about 2.5 million small and marginal farmers got Taka 106.5 billion agricultural loans from different banks.
- About Taka 483.6 million of agricultural and rural credit was disbursed during FY14 about 23976 farmers living in the less developed area of haor, char etc. in FY14.
- It is noteworthy that 619 successful farmers got about Taka 91.0 million agricultural credit from different banks.
- The cumulative number of bank accounts opened by farmers in the state owned commercial banks with an initial deposit of Taka 10 only stood to be 9.7 million in FY14.
- An amount of Taka 0.8 billion has been disbursed at 4.0 percent concessional

rate for the production of certain crops like pulse, oilseed, spices and maize for which the country relies on import.

- More than Taka 0.8 billion was disbursed only at 5.0 percent interest rate among 18097 tribal farmers in the 3 Hill Tract districts.
- Taka 17.9, 212.8 and 32.2 million have been disbursed to solar energy driven irrigation pumps, integrated cow rearing & bio-gas plant and solar home system respectively during FY14.

BB has announced its annual agricultural and rural credit policy and programme for FY15. The target for disbursement of agricultural credit has been fixed at Taka 155.5 billion which is 6.5 percent higher than the target of Taka 146.0 billion in FY14.

### Disbursement

9.2 The actual disbursement of Taka 160.4 billion in FY14 was 9.3 percent higher than the actual disbursement of Taka 146.7 billion in FY13. Table 9.1 shows the comparative position of overall disbursement and recovery of agricultural loan and Charts 9.1 and 9.2 show targets and actual disbursement of agricultural loan respectively in FY14.

About 74.1 percent of disbursement was short term lending and the rest 25.9 percent was in the form of long-term loans for irrigation equipments, agricultural machinery, livestock etc. The credit for production of crops and poverty alleviation programmes constitute 60.0 and 15.7 percent respectively of the total short term loans (Table 9.1).

The total outstanding loan in the agricultural sector in FY14 increased by Taka 35.8 billion or 11.5 percent to Taka 346.3 billion from Taka 310.6 billion in FY13 (Table 9.2).

Two specialised banks -BKB, RAKUB and four SCBs played key role in the disbursement of agricultural and rural credits. The contribution of private commercial banks was also impressive in this regard. However, the SCBs fell short of targets by 9.1 percent. On the other hand, BKB, FCBs and the PCBs exceeded the disbursement target by 18.0, 37.0 and 13.5 percent respectively in FY14 (Table 9.2). Apart from this, BRDB and BSBL disbursed Taka 6.6 billion from their own fund which raised the total disbursement to Taka 167.0 billion during FY14.

### Recovery

9.3 During FY14, the recovery of agricultural credit increased by 18.7 percent to Taka 170.5 billion from the recovery of Taka 143.6 billion made in FY13. Comprehensive support to agricultural production through subsidy on both input and output level, corrective measures introduced for recovery of overdue loans resulted in increase of recovery during FY14.

The overdue as percentage of outstanding agricultural loan increased from 16.8 percent to 22.0 percent at the end of June 2014 (Table 9.2). It is important that banks should set up their recovery drive during the harvesting time and strengthen incentive measures in order to get further improvement in the recovery position of agricultural loan in the years ahead.

### Sources of Agricultural Finance

9.4 The main sources of finance in agriculture are still the state owned banks. As such the specialised banks- BKB and RAKUB and the state owned commercial banks are the principal players in the area of agricultural credit. BKB had the largest share in the annual disbursement of agricultural loan in FY14, where it alone disbursed 33.8 percent of the total disbursement, followed by PCBs' (38.0 percent) and the SCBs (15.5 percent). The SCB's overdue loan as percentage of their outstanding loan stood at 32.1 percent at the end of FY14, while the overdue of RAKUB and BKB were recorded at 35.7 percent and 21.0 percent respectively of their outstanding loan for the year (Table 9.2).

The role of the private sector domestic and foreign banks in agricultural lending is increasing remarkably. They contributed Taka 66.9 billion which was 41.7 percent of the total agricultural loan disbursed in FY14.

### Bangladesh Bank's Refinance against Agricultural Loans

9.5 During FY14, BKB, RAKUB and BRAC have enjoyed refinance facilities to the tune of Taka 10.5 billion from Bangladesh Bank. No other institutions availed the refinance facilities from Bangladesh Bank in FY14. An amount of Taka 17.1 billion (including interest) was recovered against refinance loan due from different banks and institutions leaving an outstanding balance of Taka 48.7 billion (including interest) as of end June 2014. Details of Bangladesh Bank's refinance to different institutions are shown in Table 9.3.

**Table 9.1 Comparative statement of disbursement & recovery of agricultural loan**

(billion Taka)			
Disbursement	FY12*	FY13*	FY14*
1	2	3	4
<b>I. Disbursement (target)</b>	<b>138.00</b>	<b>141.30</b>	<b>145.95</b>
a) Crops loan (other than tea)	62.38	65.38	69.38
b) Purchase and installation of irrigation equipment	4.12	4.34	3.68
c) Livestock	12.84	13.55	15.26
d) Marketing of agricultural goods	3.04	3.32	2.57
e) Fisheries	12.92	12.68	12.68
f) Poverty alleviation	14.22	12.63	11.16
g) Other agricultural activities	28.48	29.40	31.22
<b>II. Actual disbursement</b>	<b>131.32</b>	<b>146.67</b>	<b>160.37</b>
a) Crops loan (other than tea)	53.50	64.34	71.31
b) Purchase and installation of irrigation equipment	3.29	2.79	2.39
c) Livestock	12.44	18.03	19.96
d) Marketing of agricultural goods	2.75	2.26	1.67
e) Fisheries	10.26	13.21	13.78
f) Poverty alleviation	16.09	16.58	18.64
g) Other agricultural activities	32.99	29.46	32.62
<b>III. Term structure of loan disbursed</b>			
Short term	57.22**	106.12	118.85
Longer term	25.95**	40.56	41.52
IV. Recovery	123.59	143.62	170.46
V. Total outstanding loan	259.75	310.58	346.33
VI. Overdue	60.52	52.09	76.12
VII. Overdue as percent of outstanding	23.30	16.77	21.98

Source: Agricultural Credit and Financial Inclusion Department, Bangladesh Bank.  
\* Excluding BRDB and BSBL  
\*\* Excluding PCBs and Foreign Bank

### Agricultural Credit Projects/Programmes under Bangladesh Bank Supervision

9.6 A total amount of Taka 1.8 billion was disbursed and Taka 0.4 billion was recovered during FY14 under some on-going self and donor financed agricultural Projects/Programmes. These included the Agro based Industries and Technology Development Project (ATDP), Marginal and Small Farm System Crop Intensification Project (MSFSCIP), Shashya Gudam Rin Prokolpo

(SHOGORIP), Northwest Crop Diversification Project (NCDP) and Second Crop Diversification Project (SCDP). The NCDP Project was launched in December 2001 and completed in June 2009. The project was funded by the ADB having a credit component of Taka 1.7 billion for financing production and marketing of high value crop in sixteen north western district. After a successful completion of NCDP project the credit fund is converted into a revolving fund which will continue up to June 2019. The revolving fund will be provided to RAKUB for distribution among the farmers and agro based enterprises through four NGOs/MFIs on a reimbursement basis. A total amount of Taka 0.8 billion was disbursed to RAKUB in FY14 under the project. On the other hand, a total amount of Taka 0.8 billion was disbursed in FY14 under SCDP, which is also an ADB funded project.

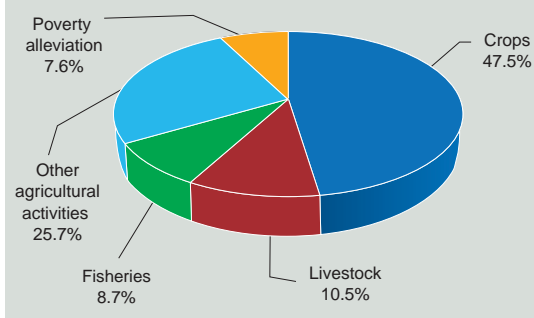
A special refinance scheme for the share-croppers has been continued in FY14 which BB undertook in FY10. Under this scheme BB has refinanced Taka 4.5 billion to more than 0.2 million sharecroppers in FY14.

### Financing of Small and Medium Scale Enterprises

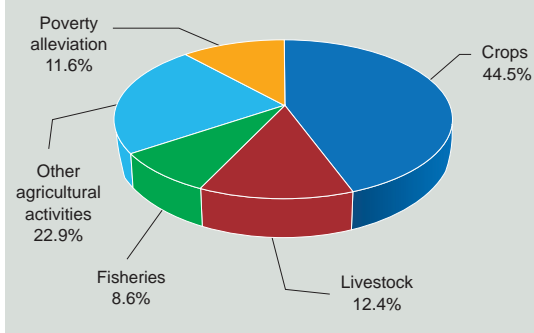
9.7 Considering the importance of SME sector in our economy and realising the constraints under which such enterprises operate, it is important that favourable policies to support the development and growth of SMEs are necessary.

BB has undertaken different programmes to provide relatively cheaper funds to the banks and financial institutions (FIs) to encourage

**Chart 9.1** Targets for agricultural credit disbursement in FY14



**Chart 9.2** Actual agricultural credit disbursement in FY14



them to engage in SME financing. Special emphasis has been given to bring the women entrepreneurs in the mainstream of development process of the country. BB has reserved 10.0 percent of its SME financing fund for women entrepreneurs at a maximum annual interest of 10.0 percent to enhance more female participation in the productive sectors. SME & Special Programmes Department (SME&SPD) of BB has been set up to monitor the SME financing activities. To expand and develop the SME sector, Bangladesh Bank has been continuing its refinancing facilities to banks and FIs for SMEs during FY14.

An amount of total Taka 35.9 billion has been provided to different banks and financial

Table 9.2 Agricultural credit performance by lenders - FY14

(billion Taka)						
Lender	Disbursement Target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
1	2	3	4	5	6	7
SCBs	27.40	24.92	23.81	25.39	79.07	32.11
BKB	46.00	54.26	65.84	33.12	157.85	20.98
RAKUB	14.50	14.31	16.77	14.83	41.57	35.68
<b>Sub Total</b>	<b>87.90</b>	<b>93.49</b>	<b>106.42</b>	<b>73.34</b>	<b>278.49</b>	<b>26.34</b>
Foreign Banks	4.33	5.93	4.63	0.0004	3.83	0.01
PCBs	53.72	60.95	59.41	2.78	64.01	4.34
<b>Sub Total</b>	<b>58.05</b>	<b>66.88</b>	<b>64.04</b>	<b>2.78</b>	<b>67.84</b>	<b>4.09</b>
<b>Grand Total</b>	<b>145.95</b>	<b>160.37</b>	<b>170.46</b>	<b>76.12</b>	<b>346.33</b>	<b>21.98</b>
<b>Summary</b>						
FY14@	145.95	160.37	170.46	76.12	346.33	21.98
FY13@	141.30	146.67	143.62	52.09	310.58	16.77
FY12@	138.00	131.32	123.59	60.52	259.75	23.30
FY11	126.17	121.84	121.48	60.97	254.92	23.92
FY10	115.12	111.17	101.12	64.04	225.87	28.35

Source :Agricultural Credit and Financial Inclusion Department, Bangladesh Bank.  
@ excluding BRDB and BSBL

Institutions under refinance schemes until the end of June 2014. Total number of beneficiary enterprises from this refinancing scheme stood to be 42661 in FY14. Different special schemes and programmes for SME development are described below:

#### A) Refinance for Small Enterprises

46 banks and non-bank financial Institutions have signed a participation agreement with Bangladesh Bank for financing the SME sector under following schemes:

**i) Bangladesh Bank Fund (BB Fund):** A refinance scheme of BB, named Small Enterprise Fund (SEF) with amount of Taka 6.0 billion has been providing support for the

development of small enterprises in the country. The scheme was extended for the banks and financial institutions at bank rate against their financing to the small entrepreneurs. The scheme demonstrated a high market demand. Recovery against refinanced loan is being used as a revolving fund for financing SME sector. An amount of Taka 20.0 billion (including women fund) has been refinanced to 22 banks and 22 financial institutions until the end of June to support 22321 enterprises.

**ii) Enterprise Growth and Bank Modernisation Programme (EGBMP) Fund:** In 2004, the IDA Wing of the World Bank provided an additional amount of USD 10.0

Table 9.3 Bangladesh Bank's refinance against agricultural loans

Particulars	FY12			FY13			FY14		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	-	3.42	35.65	5.00	2.20	33.42	0.00	3.42	31.13
RAKUB	2.60	1.78	19.44	0.18	1.76	16.14	6.00	9.12	13.00
BRAC	2.50	1.91	2.46	4.49	2.46	4.49	4.50	4.49	4.50
BSBL	-	0.04	0.18	-	0.04	0.13	-	0.04	0.09
BRDB	-	-	0.12	-	0.12	-	-	-	-
<b>Total</b>	<b>5.10</b>	<b>7.15</b>	<b>57.85</b>	<b>9.67</b>	<b>6.58</b>	<b>54.18</b>	<b>10.50</b>	<b>17.07</b>	<b>48.71</b>

Source : Agricultural Credit and Financial Inclusion Department, Bangladesh Bank.

million to 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, the Government of Bangladesh allocated an amount of Tk.0.6 billion under the said agreement. An amount of Tk.1.2 billion has been received combining the IDA credit fund and Government of Bangladesh fund for refinancing. Out of this fund, an amount of Taka 3.1 billion has been provided to 32 banks and Financial Institutions against 3160 enterprises on revolving basis. Disbursement from this fund was completed in June 2011. Until end of June 2014, Taka 3.0 billion has been recovered; and, thereby, Taka 0.1 billion has remained outstanding with the FIs.

**iii) ADB Fund-1:** "Small and Medium Enterprise Sector Development Project" was launched in 2005 financed by ADB-1 fund. Asian Development Bank initially provided an amount of USD 30.0 million for financing the scheme under a loan agreement with the Government of Bangladesh to strengthen the SME sector in Bangladesh. An amount of Taka 3.4 billion was provided to banks and

FIs under the first ADB fund until September 2009 against 3264 enterprises. Disbursement from this fund was completed in September, 2009. Until end June 2014, Taka 3.3 billion has been recovered; and Taka 0.01 billion remains outstanding with the FIs.

**iv) ADB Fund-2:** The Small and Medium-Sized Enterprise Development Project (SMEDP) provided credit facility for enhancing medium to long term financing to eligible SMEs. The total fund of the SMEDP (ADB-2) was USD 95.0 million. Out of that, ADB provided USD 76.0 million from its special fund and GoB (BB) provided USD 19.0 million which was transferred from the balance of the earlier ADB-1 (SMESDP) fund. Disbursement from this fund was completed in December 2013 and Taka 7.5 billion was provided to banks and FIs against 13645 enterprises. At the end of June 2014, Taka 2.6 billion has been recovered; and, thereby, Taka 4.8 billion remains outstanding with the FIs.

**v) JICA Two Step Loan Fund:** Bangladesh Bank has been implementing the "Financial Sector Project for the Development of Small and Medium-Sized Enterprise (FSPDSME)-BD-P67" project under the loan agreement

between JICA, Japan and the Government of Bangladesh. The objective of the project is to create a medium to long term financing market for SMEs especially for the productive investments. The Fund size is 5000.0 million Japanese Yen (JPY), including a technical assistance component. The principal component of the fund is two step loan of JPY of 4787.5 million. 25 banks and 21 FIs signed participating agreements with Bangladesh Bank so far. As on June 2014, an amount of Taka 2.0 billion has been refinanced as against 271 enterprises. Of the total refinanced amount, Taka 0.3 billion has been recovered until end June 2014 and the remaining outstanding balance with the FIs is Taka 1.7 billion.

In the backdrop of tragic incidence of Rana Plaza collapse and recent crisis in the RMG and Knitwear sector, a special initiative to finance for the improvement of working environment of RMG and knitwear sector workers was taken under the JICA assisted FSPDSME project. RMG and Knitwear factories which are members of BGMEA and/or BKMEA with labour employment of 100-2000 provided that the factory building is owned by the applicant entrepreneur will get loan facility up to Taka 10 crore for the purpose of retrofitting, rebuilding and relocation of their factory buildings. This Two Step Loan (TSL) fund for RMG and knitwear factories of FSPDSME scheme will support 100.0 percent of the sub-loan amount as pre-finance. Up to end June 2014, two RMG industries belong to BGMEA and BKMEA have been selected for retrofitting purposes in the first phase.

### **B) Refinance Scheme for Agro-based Product Processing Industries**

Bangladesh Bank launched a scheme of Taka 1.0 billion in November 2001 out of its own fund for financing the agro-based product-processing industries in the areas outside Divisional Head Quarters and Narayanganj town. The size of the fund increased to 2.0 billion in 2012; and later to 4.0 billion in 2013. Refinancing facilities are provided to banks and financial institutions at the bank rate. An amount of Taka 5.0 billion has been disbursed under this scheme until the end of June 2014 against 1897 enterprises on revolving basis.

### **C) Refinance to Women Entrepreneurs**

Bangladesh Bank is encouraging all banks and FIs to provide loan to women entrepreneurs at 10.0 percent interest rate. Banks and FIs were instructed to reserve 15.0 percent of total SME funds exclusively for women entrepreneurs. An amount of Taka 8.2 billion has been refinanced to women entrepreneurs until the end of June 2014 against 10214 enterprises.

### **D) Refinance Fund for New Entrepreneurs under Cottage, Micro and Small Category**

In order to provide start-up capital to new cottage, micro and small enterprises, Bangladesh Bank has created a new fund worth of Taka 1.0 billion from its own source. Under this fund, the prospective entrepreneurs selected and trained by recognized public and private training providers will get financing facilities at 10.0 percent interest rate (bank rate +5%). Refinancing from this fund will start soon.

### Microcredit Operations of the Grameen Bank and Large MFIs

9.8 Microfinance is considered as primary agent of financial inclusion. As such along with the Government, the MFIs have been involved to providing financial services to the people through microcredit operations.

Although a large number of NGO-MFIs are operating their activities in Bangladesh, only the top 5 licensed MFIs (BRAC, ASA, PROSHIKA, TMSS, Buro Bangladesh) as well as Grameen Bank cover the maximum share of the total loan outstanding and savings of the sector.

In FY14, overall MFI sector disbursement has increased by 7.7 percent as compared to FY13. Recovery increased by 12.6 percent in FY14 as compared to 50.0 percent increase in FY13. Overdue as a percentage of outstanding loan stood at 2.5 percent in FY14 from 3.3 percent in FY13. The loans given by PKSF to 273 POs (Partner Organisations or NGOs) was Taka 188.3 billion in FY14 which was Taka 161.3 billion in FY13.

**Table 9.4 Microcredit operations of the Grameen Bank and large MFIs**

	(billion Taka)		
	FY12	FY13	FY14
<b>1. Disbursement</b>	<b>293.65</b>	<b>369.89</b>	<b>398.19</b>
i) Grameen Bank	115.77	122.01	117.23
ii) BRAC	97.72	112.65	133.87
iii) ASA	52.76	96.18	102.60
iv) PROSHIKA	2.29	2.30	2.22
v) TMSS	11.85	14.64	18.64
vi) BURO Bangladesh	13.26	22.11	23.63
<b>2. Recovery</b>	<b>232.27</b>	<b>348.44</b>	<b>392.28</b>
i) Grameen Bank	77.36	117.61	113.68
ii) BRAC	83.99	103.34	138.39
iii) ASA	45.19	95.45	99.04
iv) PROSHIKA	2.13	2.86	2.25
v) TMSS	10.73	13.18	16.02
vi) BURO Bangladesh	12.87	16.00	22.90
<b>3. Outstanding Loans</b>	<b>207.52</b>	<b>229.28</b>	<b>254.42</b>
i) Grameen Bank	79.84	84.18	87.73
ii) BRAC	57.24	66.45	81.17
iii) ASA	54.99	55.73	59.29
iv) PROSHIKA	2.02	1.97	1.94
v) TMSS	6.50	7.95	10.57
vi) BURO Bangladesh	6.93	13.00	13.72
<b>4. Loans Overdue</b>	<b>6.00</b>	<b>7.67</b>	<b>6.40</b>
i) Grameen Bank	1.64	1.54	1.68
ii) BRAC	2.36	3.80	2.12
iii) ASA	0.74	1.18	1.70
iv) PROSHIKA	0.82	0.75	0.25
v) TMSS	0.22	0.24	0.33
vi) BURO Bangladesh	0.22	0.16	0.32
<b>5. Overdue as percentage of outstanding</b>	<b>2.89</b>	<b>3.34</b>	<b>2.51</b>
i) Grameen Bank	2.05	1.83	1.91
ii) BRAC	4.13	5.72	2.61
iii) ASA	1.34	2.11	2.87
iv) PROSHIKA	40.61	38.25	13.09
v) TMSS	3.44	3.01	3.17
vi) BURO Bangladesh	3.17	1.24	2.36

Source: Microcredit Regulatory Authority (MRA).