

Monthly Report On Agricultural and Rural Financing¹



June 2016

**Research Department
Bangladesh Bank**

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Agricultural and Rural Financing Report, June 2016

Executive Summary

The role of agricultural sector is very important for employment generation and poverty alleviation in Bangladesh. Bangladesh Bank (BB) has taken a number of initiatives to increase flow of funds in rural areas through agricultural and SME loans under its intensive financial inclusion strategies. BB has instructed all private and foreign banks to disburse at least 2 percent of their total loan and advance as agricultural credit.

Annual agricultural credit disbursement target was fixed at Tk. 16,400.00 crore in FY16 which was 5.47 percent higher compared to the preceding year's target of Tk. 15,550.00 crore. In June 2016, actual agricultural credit disbursement by all banks stood at Tk. 2204.98 crore or 3.40 percent lower compared to the same month of the preceding year. During July-June of FY16 total agricultural credit stood at Tk. 17646.39 crore which was more than the target of disbursement in June 2016. Recovery of agricultural credit stood at Tk. 1749.04 crore in June 2016 which was 7.68 percent higher compared to the same month of the last year. During July-June of FY16 total recovery of agricultural credit stood at Tk. 17056.43 crore. Outstanding balance (including interest) of agricultural credit stood at Tk. 34477.37 crore at the end of June 2016 compared to Tk. 32936.80 crore in June 2015. Overdue of agricultural credit stood at Tk. 5678.32 crore at the end of June 2016. Overdue as percentage of outstanding agricultural loan stood at 16.47 percent at the end of June 2016.

Bangladesh Bank initiated a special agricultural refinance program through BRAC for the sharecroppers from FY2010 with a revolving fund of Tk. 500 crore which was further increased to Tk. 600 crore for the tenure from July, 2015 to June, 2018. This program has been playing a crucial role to improve socio-economic condition of the sharecroppers by prioritizing them low cost agricultural credit.

The commercial banks did not avail of any refinance facilities from Bangladesh Bank in June 2016 and an amount of Tk. 40.00 crore was recovered against past refinance due from different banks and financial institutions. In June 2016, Grameen Bank and other large nine NGOs disbursed Tk. 7249.25 crore as microcredit and recovered Tk. 6296.29 crore. Their outstanding balance stood at Tk. 41030.74 crore whereas the overdue stood at Tk. 764.25 crore as on June 2016 (provisional).

As per annual Agricultural Credit Policy and Program formulated by Bangladesh Bank, a directive has been given to the banks to increase the agricultural credit for buffalo rearing farmers/farms located across the country. In addition to existing loan facilities, Bangladesh Bank decided to form a revolving fund of Tk. 200.00 crore under the refinance scheme on milk production and artificial insemination sector.

Bangladesh bank is continuously providing policy directions to promote sustainable inclusive economic growth and to expedite credit flow to all sub-sectors in agriculture and off-firm activities. Agricultural production must be boosted by raising productivity through channeling more credit in both crop and non-crop sectors which are also necessary to enhance sustainable growth of this sector though there are constraints like scarcity of cultivable land and higher input costs along with increasing demand for food.

Disbursement Target

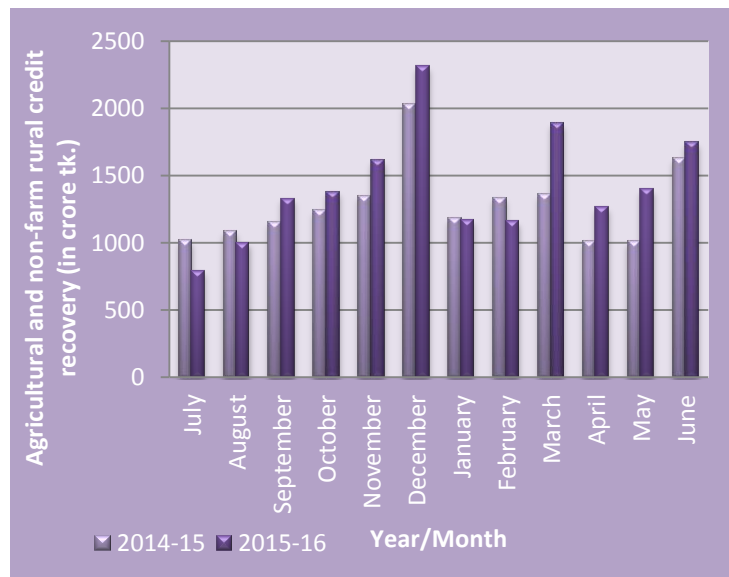
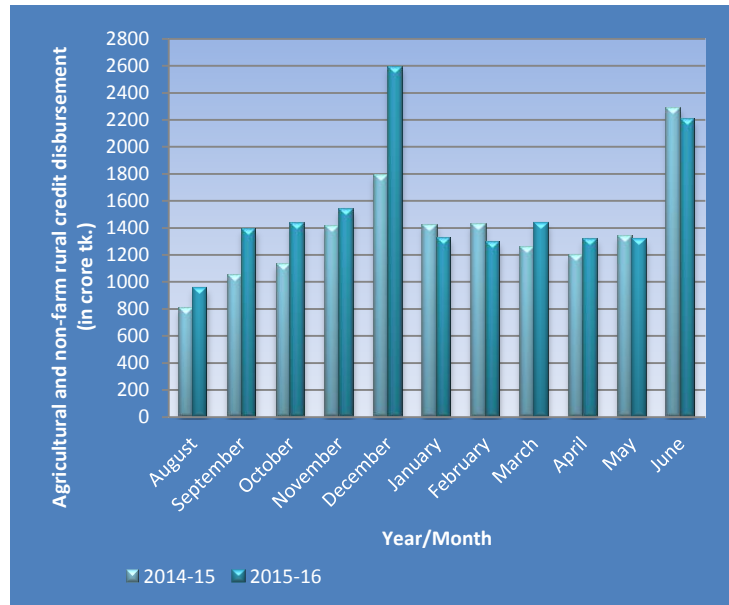
The disbursement target by all scheduled banks was fixed at Tk. 16,400.00 crore for FY16 which was Tk. 850.00 crore or 5.47 percent higher than that of previous year's target of Tk. 15,550.00 crore. The disbursement targets of all state-owned banks (Commercial and Specialized) were fixed at Tk. 9,290.00 crore and PCBs & FCBs targets were fixed at Tk. 7110.00 crore which is 56.65 percent and 43.35 percent of total agricultural credit disbursement target respectively. The Agricultural and Rural Credit Policy and Programme for 2015-16 was formulated by BB with the target of extending the credit support in achieving desired level of agricultural production, food security, poverty alleviation and to promote financial inclusion.

Disbursement

In June 2016, actual disbursement of agricultural credit under the annual disbursement of agricultural credit programme stood at Tk. 2204.98 crore, which was 67.90 percent higher and 3.39 percent lower than Tk. 1313.26 crore in the previous month and Tk. 2282.49 crore in the same month of previous year respectively (Chart-1). During July-June of FY16, actual disbursement of agricultural credit stood at Tk. 17646.39 crore which was Tk. 15978.46 crore in the same period of the previous year. The actual disbursement of agricultural credit exceeded the target fixed for FY16.

Recovery

In June 2016, recovery of agricultural credit stood at Tk. 1749.04 crore which was Tk. 1397.76 and Tk. 1624.31 crore in the previous month and the same month of previous year respectively (Chart-2). In July-June of FY16 agricultural credit recovery stood at Tk. 17056.43 crore which was Tk. 15406.96 crore in the same period of previous year.



Refinance

In June 2016, Bangladesh Bank did not provide any refinance facility to any institutions but it was Tk.200 crore in the same month of the previous year. An amount of Tk. 40.00 crore was recovered against past refinance loan due from different banks and financial institutions which was Tk. 65.50 crore in the same month of the previous year. During July-June of FY16 the amount of refinance facilities from Bangladesh Bank stood at Tk. 500.00 crore although it was Tk. 700 crore in the same period of previous year. During the period total Tk. 1138.68 crore was recovered against past refinance loan, which was Tk. 1385.16 crore in the same period of previous year (Table-03).

At the end of June 2016, total outstanding balance (including interest) of refinance facilities enjoyed by banks (BKB, RAKUB, BSBL) and other institution (BRDB) from Bangladesh Bank stood at Tk. 3476.82 crore which was Tk. 472.27 crore or 11.96 percent lower than Tk. 3949.09 crore at the end of June 2015.

Bangladesh Rural Development Board (BRDB)

In June 2016, Bangladesh Rural Development Board (BRDB) disbursed Tk. 85.89 crore from its own source and recovered Tk 77.60 crore which was Tk. 61.18 crore and Tk. 59.98 crore in the previous month respectively (Table-02).

Bangladesh Shomobay Bank Limited (BSBL)

In June 2016, as a non-scheduled bank BSBL disbursed Tk. 3.16 crore and recovered Tk 2.06 crore which was Tk. 0.76 crore and Tk. 1.53 crore in the previous month respectively (Table-02).

Agricultural Credit Program to the Sharecroppers

A special agricultural credit programme named “Agricultural Credit Programme to the Sharecroppers” was taken by Bangladesh Bank in fiscal year 2009-10 with an amount of Tk. 500.00 crore as revolving fund under the refinance scheme of Bangladesh Bank and is being implemented by the country’s leading Micro-Finance Institution (MFI) BRAC. Bangladesh Bank extended its duration for another 3 years from July, 2012 to June, 2015 and an amount of Tk. 410.85 crore had been disbursed during till June 2015. As the programme has been playing an important role to improve socio economic condition of the sharecroppers by providing low cost agricultural credit to them, an additional tk. 150 crore has been allocated recently for next 3 financial years.

Therefore, total agricultural credit disbursement stood at Tk. 18981.79 crore including all scheduled banks (Tk. 17646.39 crore), agricultural credit to sharecroppers under refinance of Bangladesh Bank (Tk. 560.85 crore) and BRDB’s agricultural and rural credit from its own fund (Tk. 774.55 crore) during FY16 upto June 2016.

Microcredit Operations by Grameen Bank & NGOs^P

In June 2016, Grameen Bank and other large nine NGOs (BRAC, ASA, Proshika, TMSS, RDRS Bangladesh, CARITAS Bangladesh, Jagoroni Chakra Foundation, Society for Social Services [SSS], Shakti Foundation for Disadvantaged Women) disbursement of credit for income generating productive rural activities under their microcredit programme stood at Tk. 7249.25 crore through their around 9557 branches reached to 25.62 million members. It is noted that Grameen Bank, BRAC and ASA have been playing a major role in micro credit disbursement with 90.82 percent share in total disbursement of June 2016. However, in June 2016, total recovery of all micro credit providers stood at Tk. 6296.29 crore. At the end of June of FY16 total outstanding balance and overdue of those institutions stood at Tk. 41030.74 crore and Tk. 764.25 crore respectively. During this period, the overdue as percentage of outstanding balance became only 1.86 percent.

Palli Karma Shahayak Foundation¹

Palli Karma Shahayak Foundation (PKSF) extended loan amounting to Tk. 292.37 crore to its 274 POs (Partner Organizations) in April, 2016 and recovered Tk. 193.30 crore. Up to April, 2016 PKSF's outstanding balance and overdue stood at Tk. 4330.87 crore and Tk. 180.63 crore respectively.

Measures Taken by Bangladesh Bank to Facilitate Rural Financing during FY16

- Bangladesh Bank declared the Agricultural and Rural Credit Policy and programme for the fiscal year 2015-2016. All scheduled banks operating in Bangladesh and the BRDB had been advised to instruct their concerned sections to follow and implement the policy and programme and to inform the ACFID about branch-wise and Micro-finance based (where applicable) credit target under the total targeted programme. (Ref: ACFID Circular No. 04; 27 July 2015)
- A directive has been given to increase the agricultural credit amount for buffalo rearing farmers/farms located across the country including char/haor area. Ref: ACFID Circular No. 01; 05 January 2016)

^P=provisional
¹=Data of April 2016

to further extend credits on concessional rates to the flood affected areas with a view to keeping production of crops including aman, aman, aman crops and import substitute crops (pulses, oilseeds, spices, maize) uninterrupted. BB advised all the scheduled banks to monitor that the affected farmers get credits timely according to their demand without harassments. (Ref: ACFID Circular No. 02; 11 September 2014).

- In addition to existing loan facilities, Bangladesh Bank decided to form a revolving fund of Tk. 200.00 crore under the refinance scheme on milk production and artificial insemination sector. Duration of this revolving scheme will be 5 years and interest rate at

the farmer's level will be maximum 10 percent. (Ref: ACFID Circular No. 02; 02 June 2015)

- Attention of all scheduled banks have been invited to the ACD Circular Letter No.04, dated 02 November, 2015 about the amendment which has been carry out for the credit disbursement in favour of the Bangladeshi enclaves. From now, agriculture credit can be disbursed in accordance with the agriculture and rural credit policies subject to take 'acceptance letter' from 'Chief Executive Officer / Assistant Commissioner (Land)' instead of 'Chief Executive Officer / Sub-Register'. All scheduled banks are instructed to comply with this new amendment. (Ref: ACD Circular Letter No. 02; 12 June, 2016)

Conclusion

Bangladesh Bank is providing policy directions to promote inclusive economic growth and to expedite credit flow to all sub-sectors in agriculture and off-firm activities. Agriculture sector has experienced a steady rise in crop production over the years as high attention has been given to the sector. Non-crop sectors like fisheries and livestock & poultry firm are also gaining momentum. However, during FY15 it is observed that agricultural credit disbursement in all subsectors like crops, irrigation equipment, agri-equipment, live-stock & poultry firm, fisheries, poverty alleviation, and grain storage & marketing was higher than the same period of the previous year. Therefore, to promote the stakeholders of the rural areas aiming to boost up both crop and non-crop production, there is a scope to speed up credit disbursement and provide refinance facility at a low interest rate in these sectors. Agricultural production must be boosted by raising productivity through channeling more credit in both crop and non-crop sectors which is also necessary to enhance sustainable growth of this sector though there is constraints like scarce cultivable land in the country along with increasing demand for food.