

Agricultural and Rural Finance

Annual Agricultural Credit Programme

7.1 As food security, improvement of the living standard and generation of employment opportunities of the huge population of the country are directly linked to the agriculture sector, it is imperative for greater institutional and policy supports for the sector. There have been continued efforts by the Government for the overall development of this sector to fulfill the food and nutritional demand of the growing population of the country and, to ensure and sustain dependable food security. Special emphasis has been laid on building up a modern agriculture system based on appropriate technology.

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' disbursements and the availability of fund.

In recent time, private commercial banks have come forward to participate in agricultural and rural finance programme along with the specialised financial institutions and state-owned commercial banks (SCBs). In FY09, the local commercial banks disbursed Taka 17.80 billion while the foreign banks disbursed Taka 5.13 billion of agricultural/rural credit. However, SCBs and specialised banks still played

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

(billion Taka)			
Disbursement	FY07	FY08	FY09
1	2	3	4
I. Disbursement (Target)	63.51	69.75	74.66
a) Crops loan (Other than tea)	30.29	31.26	31.10
b) Purchase and installation of irrigation equipments	0.29	0.59	0.70
c) Livestock	5.34	5.47	6.20
d) Marketing of agricultural goods	0.14	0.11	0.20
e) Fisheries	3.54	4.74	4.86
f) Poverty alleviation	12.64	12.93	13.03
g) Other agricultural activities	11.27	14.65	18.57
II. Actual disbursement	52.93	61.67	69.92
a) Crops loan (Other than tea)	22.86	24.63	28.54
b) Purchase and installation of irrigation equipments	0.09	0.09	0.06
c) Livestock	2.67	2.96	3.15
d) Marketing of agricultural goods	0.46	0.36	0.79
e) Fisheries	2.41	3.23	3.42
f) Poverty alleviation	11.89	13.50	12.35
g) Other agricultural activities	12.55	16.90	21.61
III. Term structure of loan disbursed			
Short term	38.66	41.82	45.78
Longer term	14.27	19.85	24.14
IV. Recovery	46.76	43.75	66.41
V. Total Outstanding loan	145.82	158.49	171.70
VI. Overdue	66.35	58.37	60.49
VII. Overdue as Percent of outstanding	45.50	36.83	35.23,"

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

dominant role for the growth of agriculture and rural economy with disbursement of Taka 69.92 billion (Table 7.1).

Bangladesh Bank has announced its annual agricultural/rural credit policy and programme for FY10. The target for disbursement of agricultural/rural credit has fixed at so far the highest amount of Taka 115.0 billion for FY10.

Recently, BB has also taken up a special refinancing scheme of Taka 5.0 billion and signed an agreement with BRAC, a leading non-governmental organisation (NGO), in which sharecroppers will receive collateral-free loans for the first time. The BRAC will borrow such fund at 5 percent interest from BB and disburse at 10 percent interest to sharecroppers in groups at 150 upazilas under 35 districts across the country.

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 FY09 amounting Taka 222.0 billion was 217.50 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 69.92 billion in FY09 against the disbursement target of Taka 74.66 billion (excluding PCBs and foreign banks) was 13.38 percent higher than the total disbursement of Taka 61.67 billion of FY08. The target attainment in FY09 was 93.65 percent as against 88.42 percent in the previous year. The disbursement of FY09 fell short the target due to non-achievement of disbursement targets in poverty alleviation, purchase and installation of irrigation equipments, crops loan, livestock and fisheries. On the other hand, disbursements have exceeded the targets in marketing of agricultural goods and other agricultural sectors in FY09.

The total outstanding loan in the agricultural sector in FY09 increased by Taka 17.75 billion or 9.96 percent to Taka 195.98 billion over the

Chart 7.1

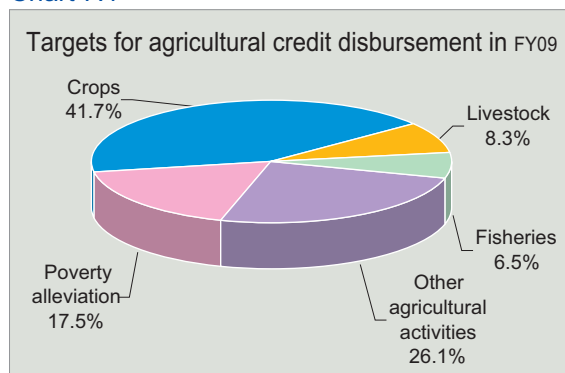
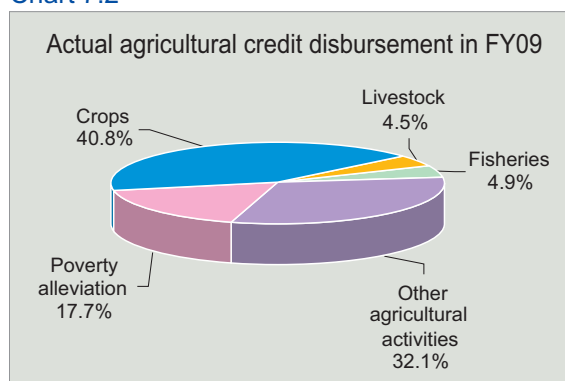


Chart 7.2



previous year's level (Table 7.2). Table 7.1 shows the comparative position of overall disbursement and recovery of agricultural loans and Charts 7.1 and Chart 7.2 show targets and actual disbursement of agricultural loan respectively in FY09.

Two specialised banks viz. BKB, 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. However, SCBs, BRDB, BSBL and PCBs fell short of targets by 21.14 percent, 7.59 percent, 88.89 percent and 4.15 percent respectively. On the other hand, BKB, RAKUB, and foreign banks exceeded the disbursement target by 0.63 percent, 2.92 percent and 168.59 percent respectively in FY09 (Table 7.2). About 65.00 percent of disbursement was as short term

Table-7.2 Agricultural credit performance by lenders - FY09

(billion Taka)						
Lender	Disbursement Target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
1	2	3	4	5	6	7
SCBs	20.15	15.89	14.79	26.63	53.19	50.06
BKB	38.00	38.24	35.72	21.24	81.03	26.21
RAKUB	8.55	8.80	9.01	8.54	27.34	31.24
BRDB	7.51	6.94	6.82	3.36	9.39	35.78
BSBL	0.45	0.05	0.07	0.72	0.75	96.0
Sub Total	74.66	69.92	66.41	60.49	171.70	35.23
Foreign Banks	1.91	5.13	3.09	0	5.73	0
PCBs	18.57	17.80	14.27	0.31	18.55	1.67
Sub Total	20.48	22.93	17.36	0.31	24.28	1.28
Grand Total	93.79	92.85	83.77	60.80	195.98	31.02
Summary						
FY 09	93.79	92.84	83.77	60.80	195.98	31.02
FY 08	83.09	85.81	60.04	85.87	178.23	48.18
FY 07*	63.51	52.93	46.76	66.35	145.82	45.50
FY 06*	58.92	54.96	41.64	66.53	153.76	43.27
FY 05*	55.38	49.57	31.70	57.81	140.40	41.18

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

lending and the rest 35.00 percent was in the form of long-term loans for irrigation equipments, agricultural machinery, livestock etc.

Recovery

7.3 During FY09, recovery of agricultural credit increased by 39.52 percent to Taka 83.77 billion (including PCBs and foreign banks) from the recovery of Taka 60.04 billion made in FY08. The increase in recovery position was caused mainly due to continuation of incentive measures introduced previously for recovery of stuck-up loans during FY09, which, inter alia, included ensuring the availability of inputs including fertiliser at the door steps of the farmers, implementation of the agriculture extension policy, simplification of the disbursement procedures of agricultural credit etc. The percentage of overdue agricultural loan, decreased from 48.18 percent at the end of June 2008 to 31.02 percent at the end of June 2009 (Table 7.2). It is important 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 gets 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 specialised 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 FY09, BKB alone disbursed 41.18 percent of the total disbursement, followed by SCBs at 17.11 percent. The SCBs overdue loan as percentage of their outstanding stood at 50.06 percent at the end of FY09, while overdue of BRDB, RAKUB and BKB recorded 35.78, 31.24 and 26.21 percent respectively of their outstanding during 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	FY07			FY08			FY09		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	-	2.23	37.75	5.00	2.23	41.79	1.00	2.27	41.96
RAKUB	-	1.20	16.82	1.72	1.27	17.77	1.94	1.42	17.42
BSBL	-	0.04	0.38	-	0.04	0.34	-	0.04	0.30
BRDB	-	-	0.12	-	-	0.12	-	-	0.12
Total	-	3.47	55.07	6.72	3.54	60.02	2.94	3.73	59.80

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

contributed Taka 22.93 billion which is around 24.70 percent of the total agricultural loan disbursed in FY09 (Table 7.2).

The burden of unrealised large amount of agricultural loan is responsible for acute shortage of resource base of the SCBs and specialised 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 FY09, BKB and RAKUB have enjoyed refinance facilities to the tune of Taka 2.94 billion from Bangladesh Bank. No other institutions availed of refinance facilities from Bangladesh Bank in FY09. An amount of Taka 3.73 billion (including interests) was recovered against past refinance loan due from different banks and institutions leaving an outstanding balance of Taka 59.80 billion (including interests) as on end of June 2009 for future recovery. Details of Bangladesh Bank's refinance to different institutions are shown in Table 7.3.

Agricultural Credit Projects/Programme 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 FY09. A total of Taka 0.68 billion was disbursed and Taka 0.69 billion recovered during FY09 under a few such ongoing projects/programmes viz, Shrimp Culture Financing Scheme, Shashya Gudam Rin Prokalpa (SHOGORIP) and the Marginal and Small Farm Systems Crops Intensification Project (MSFSCIP). 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 1.60 billion) with a credit component of Taka 1.54 billion for financing production and appropriate marketing of high-valued crops in sixteen northwestern districts. The fund has been provided to RAKUB and four NGOs for distribution among the farmers and agro-based enterprises under the supervision of Bangladesh Bank and Directorate of Agricultural Extension. Under the project a total amount of Taka 1.54 billion has been disbursed and Taka 1.24 billion was recovered up to the end of June 2009. In FY09, recovery

of Taka 0.92 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 0.14 billion as of end June 2009 for future recovery.

Financing of Small & Medium Scale Enterprises

7.7 An amount of total Taka 12.45 billion has been refinanced to different banks and financial Institutions under some schemes up to end June 2009. Bangladesh Bank's refinance facilities to banks during FY09 for promoting small and medium scale 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 1.0 billion 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. An amount of Taka 1.23 billion has been disbursed under this scheme till end June 2009.

b) Refinance for Small Enterprises.

42 Banks and non-bank 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 6.0 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 7.16 billion has been refinanced to 38 banks and non-bank financial institutions under this fund up to end June 2009 against 7001 enterprises.

ii) Enterprise Growth and Bank Modernization Project (EGBMP) Fund:

In the meantime, the IDA wing of the World Bank has 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 2.25 billion has been refinanced to 28 banks and non-bank financial institutions under this fund upto end June 2009 against 2477 enterprises.

iii) ADB Fund: Asian Development Bank has 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 3.04 billion has been refinanced to 16 banks and non-bank financial institutions under this fund upto end June 2009 against 1764 enterprises.

A total amount of Taka 12.45 billion has been refinanced to different banks and non-bank financial institutions under small and medium sector from aforesaid funds upto end June 2009 under these schemes' against 12401 enterprises.

Microcredit Operations of NGOs

7.8 Since its emergence microcredit has grown in popularity as tool for poverty alleviation. With the increasing popularity of microcredit it promises to help recipients to achieve economic self-sufficiency and break cycles of poverty by providing cash infusions necessary to purchase productive assets. Microcredit operators have been providing various social and financial services to the poor to alleviate poverty for more than 3 decades. At present financial service of 17,000 crore (approx.) is being rendered among 3 crore poor people (including overlapping) which help them to become self reliant that accelerates overall economic development of the country.

Like earlier years microcredit operations grew significantly in FY09. Grameen Bank and only 10 large Microfinance Institutions (MFIs) like BRAC, ASA, TMSS, Buro Bangladesh, Proshika, Jagarani Chakra Foundation, Shakti Foundation, Padakhkhep Manabik Unnayan Kendra, Caritas Bangladesh and RDRS Bangladesh represent 87% of total savings and 82% of total outstanding loan of the sector. Near about 2 lac people are employed in MFIs and Grameen Bank. Around 3 crore poor people are directly benefited from microcredit programme. Through the financial services of microcredit these poor people are engaging themselves in various income generating activities (Source: Microcredit Regulatory Authority).

It appears from Table 7.4 that microcredit operations grew rapidly in the country like previous years with 12.12 percent increase in disbursement. Recovery also increased in a higher rate at 31.33 percent in FY09. The overdue as percentage of outstanding loan increased marginally from 5.1 percent in FY08 to 5.2 percent in FY09.

Table 7.4 Microcredit operations of the Grameen Bank and large NGOs
(billion Taka)

	FY07 ^R	FY08 ^R	FY09
1. Disbursement	156.6	198.0	222.0
i) Grameen Bank	50.2	54.6	71.9
ii)BRAC	52.7	75.1	80.9
iii) ASA	46.1	53.7	54.6
iv) TMSS	2.7	5.7	6.6
v) BURO BANGLADESH	1.7	5.9	5.6
vi) PROSHIKA	3.2	3.0	2.4
2. Recovery	137.3	171.1	224.7
i) Grameen Bank	48.0	48.9	61.1
ii)BRAC	41.6	63.7	78.8
iii) ASA	41.4	45.6	68.8
iv) TMSS	2.4	5.6	6.8
v) BURO BANGLADESH	1.6	4.7	6.0
vi) PROSHIKA	2.3	2.6	3.2
3. Outstanding Loans	102.1	120.7	132.6
i) Grameen Bank	33.8	34.5	50.7
ii)BRAC	31.9	43.2	45.4
iii) ASA	28.0	33.9	26.7
iv) TMSS	2.8	2.9	3.4
v) BURO BANGLADESH	1.6	2.3	3.3
vi) PROSHIKA	4.0	3.9	3.1
4. Loans Overdue	4.4	6.2	6.9
i) Grameen Bank	0.8	1.2	1.4
ii)BRAC	0.9	1.8	2.4
iii) ASA	0.3	0.5	1.0
iv) TMSS	0.06	0.05	0.10
v) BURO BANGLADESH	0.04	0.05	0.10
vi) PROSHIKA	2.3	2.6	1.9
5. Overdue as percentage of outstanding	4.3	5.1	5.2
i) Grameen Bank	2.4	3.5	2.8
ii)BRAC	2.8	4.2	5.3
iii) ASA	1.1	1.5	3.7
iv) TMSS	2.1	1.7	2.6
v) BURO BANGLADESH	2.5	2.2	2.5
vi) PROSHIKA	57.7	66.7	59.2

Source : Microcredit Regulatory Authority.
Note : Disbursement and Recovery of TMSS and BURO BANGLADESH are upto January-June 2007.
R = Revised.

Recycling of lending resources of the microcredit providers in FY09 like previous years was more than 167.42 percent of their outstanding loans which was 164.05 percent in FY08. 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 74.84 billion in FY09 against Taka 56.65 billion in FY08.

Box-7.1

Millennium Development Goals—Bangladesh's achievement

On 8 September 2000, world leaders of 189 countries in the UN Millennium Summit agreed on a declaration to alleviate the fate of the world's poorest people. The declaration came to be known as the Millennium Declaration that contains eight goals and targets to be achieved by 2015. These goals, in a body, are known as the Millennium Development goals. They are:

- i) Eradicate extreme poverty and hunger;
- ii) Achieve universal primary education;
- iii) Promote equality between men and women and empower women;
- iv) Reduce under-five mortality by two-thirds;
- v) Reduce maternal mortality by three-fourths;
- vi) Reverse the spread of communicable diseases;
- vii) Ensure environmental sustainability; and,
- viii) Create a global partnership for development, with targets for aid, trade and debt relief.

As for Bangladesh, the country has covered significant grounds and can safely be termed as on track in relation to most of the goals. Her strides towards achieving the MDGs has been possible largely due to its steady economic growth of nearly 5 percent annually on average during the 1990s and nearly 6 percent annually on average in the new millennium.

The country's Planning Commission prepared a mid-term progress report-2007 on Millennium Development Goals (MDGs) to be achieved by 2015. With eight years left to fulfill the MDGs, the Commission thought it appropriate to have a mid-term review of the MDG implementation Status by 2007. According to the Report, Bangladesh achieved MDG 3, i.e., gender parity in primary and secondary schooling in 2005. The country is also on track to achieve MDG 1, i.e., over this period, it could also manage to half the proportion population below national poverty line and minimum level of energy consumption. Bangladesh is also said to be on track in having been achieved MDG 2 and 4, i.e., in achieving universal primary school enrolment and reducing under-five child mortality and infant mortality rates. The country is also on schedule for some of the MDG 6 targets, i.e., containing the spread of communicable diseases, viz., HIV/AIDS, malaria and tuberculosis. However, some of the MDG 7 targets are yet to be achieved.

Also, Bangladesh lagged far behind schedule in achieving some of the targets of MDG 1, e.g., share of poorest quintile in GDP and aggregate consumption. The same is true in achieving some of the targets MDG 2, e.g., completion of primary schooling, MDG 3, e.g., gender parity tertiary education, MDG 5, e.g., reducing maternal mortality. Some other targets of MDGs 6 and 7 are also yet to be fulfilled.

Bangladesh will require massive levels of investment to fully take up the challenges of MDGs, in particular, those where current performance is behind schedule. It may not be possible to generate required resources and will therefore require the continued support and assistance of her development partners.

On top of it all, an effective partnership between Bangladesh and developed countries extend also to MDG 8 where, it is observed that developed countries should be doing more to address unfair trade and financial systems as well as 0.7 percent of their GDP in official development assistance. Fulfillment of that obligation will not only help all countries like Bangladesh to achieve the MDG 8 targets, but will also contribute to the achievement of other MDGs in Bangladesh by 2015.

On the other hand, agricultural credit disbursements, in line with the previous trends, remained constrained at around 40.73 percent of their outstanding loans in FY09 against 38.91 percent in FY08. 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 36.83 percent in FY08 to 35.23 percent in FY09.

Since the establishment of Microcredit Regulatory Authority (MRA) it has been working

to create a healthy environment for Microfinance Institutions (MFIs) in this sector. MRA is empowered to monitor and supervise the MFIs to ensure the transparency of this sector as well as the accountability of microcredit activities of the MFIs. According to the Microcredit Regulatory Authority Act, 2006, no MFI can operate microcredit programme without obtaining licence from MRA. A total of 439 MFIs have been licensed till August 2009 from MRA.