

Agricultural and Rural Finance

Annual Agricultural Credit Programme

7.1 To meet up the higher demand of food for growing population, about 90 percent of available food grain is domestically produced. A rising population and a rapidly reducing agricultural land base pose considerable challenges for the future of food security in Bangladesh. In view of concern about food shortage, the global trend of rising food prices and adverse effects of climate change on food security prompted the Government to strengthen its efforts in the agriculture sector. The agriculture sector which accounts for 20.2 percent of GDP grew by 4.7 percent in FY10 higher than 4.1^R percent in FY09. In the National Budget top priority has been accorded to agriculture and rural development.

In line with Government, Bangladesh Bank (BB) also continued its prudent monetary policy stance and a more flexible exchange rate management without accelerating inflationary pressure to commensurate with public food security measures. As part of its proactive policy to boost up agricultural production, BB declared its annual agricultural credit policy and programme for FY10 with a gigantic disbursement target of Taka 115.12 billion. Apart from ensuring food security by increasing agricultural production, this inflow of credit in rural areas would help to revive the rural economy to maintain the strength of the whole economy in the face of the global financial crisis. Along with the direction for providing adequate amount of credit to crop as well as

two other sub-sectors of agriculture, fishery and livestock. The achievement against this target was 96.57 percent which was very optimistic. In agricultural credit programme for FY10 enjoined all banks to engage in lending for a comprehensive range of on and off farm rural agricultural economic activities, with refinance lines available to them from BB. Target achievement was marked by the private sector banks coming forward in disbursing agricultural/rural credit through their branch network as well as through linkage with micro finance institutions. In case of agricultural credit disbursement BB's policy highlights were:

- i) Timely and hassle-free delivery of agricultural/rural credit to small farmers and share-croppers;
- ii) To open bank account for the farmers in SCBs by depositing only Taka 10 and disburse credit to the farmers through their bank account;
- iii) Disbursement of agricultural credit openly through a transparent process (in presence of local representatives, agriculture credit related officers, teachers and other important persons in the community);
- iv) To follow area approach method for agricultural credit disbursement;
- v) To emphasis on disbursing crop credit.

In agricultural credit programme for FY10, BB undertook a special refinance scheme of Taka 5.0 billion to provide credit to those share-croppers not accessed by banks. Under this scheme, a total of 300,000 share-croppers

R = Revised

from 150 upazilas in 35 districts of Bangladesh will get credit for crop production and purchase of agricultural machineries within three years. In FY10, as first year of the scheme an amount of Taka 0.75 billion has been provided to BRAC out of an initial target of Taka 1.0 billion against their finance to more than 67.5 thousand share-croppers across the country.

Another refinance scheme was also taken by BB in FY10 to encourage investment by banks/financial institutions for production and use of bio-gas, solar energy in house and business enterprises of rural as well as urban areas and to encourage use of solar energy driven irrigation pump in the off-grid areas. BB provided Taka 5.0 million to banks under the said refinance scheme for installation of bio-gas plant in dairy farms and solar energy driven irrigation pumps at off-grid areas.

Bangladesh Bank has announced its annual agricultural/rural credit policy and programme for FY11. The target for disbursement of agricultural credit has been fixed at Taka 126.17 billion which is 9.6 percent higher than the actual disbursement of FY10 and about 9.5 percent in size of national budget of FY11.

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 FY10 amounting Taka 252.9 billion was 127.5 percent higher than the total agricultural loan disbursement of the institutional lenders (Table 7.4). SMEs also have a significant role in rural economic upliftment by generating growth and creating employment.

Disbursement

7.2 The actual disbursement of Taka 82.79 billion in FY10 against the disbursement

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

(billion Taka)			
Disbursement	FY08	FY09	FY10
1	2	3	4
I. Disbursement (Target)	69.75	74.66	84.53
a) Crops loan (Other than tea)	31.26	31.1	35.88
b) Purchase and installation of irrigation equipments	0.59	0.70	0.68
c) Livestock	5.47	6.20	7.26
d) Marketing of agricultural goods	0.11	0.20	0.20
e) Fisheries	4.74	4.86	5.43
f) Poverty alleviation	12.93	13.03	13.97
g) Other agricultural activities	14.65	18.57	21.11
II. Actual disbursement	61.67	69.92	82.79
a) Crops loan (Other than tea)	24.63	28.54	33.19
b) Purchase and installation of irrigation equipments	0.09	0.06	0.52
c) Livestock	2.96	3.15	4.08
d) Marketing of agricultural goods	0.36	0.79	0.62
e) Fisheries	3.23	3.42	4.00
f) Poverty alleviation	13.5	12.35	13.61
g) Other agricultural activities	16.9	21.61	26.77
III. Term structure of loan disbursed			
Short-term	41.82	45.78	52.16
Longer-term	19.85	24.14	30.63
IV. Recovery	43.75	66.14	76.51
V. Total Outstanding loan	158.49	171.7	199.61
VI. Overdues	58.37	60.49	63.66
VII. Overdue as Percent of outstanding	36.83	35.23	31.89

Source : Agricultural Credit Department, Bangladesh Bank.

* = Excluding PCBs and Foreign Banks

target of Taka 84.53 billion (excluding PCBs and foreign banks) was 18.41 percent higher than the total disbursement of Taka 69.92 billion of FY09.

The target attainment in FY10 was 97.94 percent against 93.65 percent (excluding PCBs and foreign banks) in the previous year. The disbursement of FY10 fell short in some extent from the target due to non-achievement of disbursement targets in livestock, fisheries, purchase and installation of irrigation equipments, crops loan and poverty alleviation. On the other hand, disbursements have exceeded the targets in marketing of agricultural goods and other agricultural sectors in FY10. 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 FY10.

About 63.00 percent of disbursement was as short-term lending and the rest 37.00 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 63.63 percent and 26.09 percent respectively of total short-term loans (Table-7.1).

The total outstanding loan in the agricultural sector (including all banks) in FY10 increased by Taka 29.90 billion or 15.26 percent to Taka 225.88 billion over the previous year's level Table (7.2). 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 imperative in this regard. However, SCBs, BRDB, BSBL and PCBs fell short of

Chart 7.1

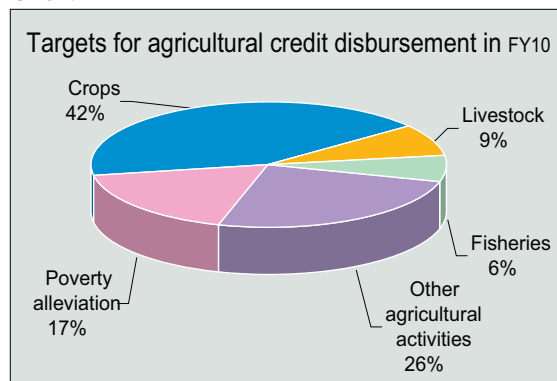


Chart 7.2

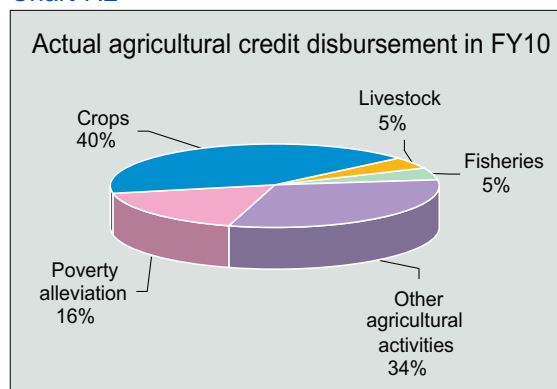


Table-7.2 Agricultural credit performance by lenders – FY10

(billion Taka)						
Lender	Disbursement Target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
1	2	3	4	5	6	7
SCBs	23.45	19.82	15.31	26.46	60.99	43.38
BKB	42.50	45.67	44.23	23.63	96.99	24.36
RAKUB	10.00	10.60	9.92	9.30	31.33	29.68
BRDB	8.50	6.66	6.99	3.58	9.58	37.37
BSBL	0.08	0.04	0.06	0.69	0.72	95.83
Sub Total	84.53	82.79	76.51	63.66	199.61	31.89
Foreign Banks	4.64	5.54	4.76	0.00	5.19	0.00
PCBs	25.95	22.84	19.85	0.38	21.08	1.80
Sub Total	30.59	28.38	24.61	0.38	26.27	1.45
Grand Total	115.12	111.17	101.12	64.04	225.88	28.35
Summary						
FY 10	115.12	111.17	101.12	64.04	225.88	28.35
FY 09	93.79	92.84	83.77	60.80	195.98	31.02
FY 08	83.09	85.81	60.04	85.87	178.22	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

Source :Agricultural Credit Department, Bangladesh Bank.

* = Excluding PCBs and Foreign Banks

targets by 15.48 percent, 21.65 percent, 50.00 percent and 11.98 percent respectively. On the other hand, BKB, RAKUB, and foreign banks exceeded the disbursement target by 7.46 percent, 6.00 percent and 19.40 percent respectively in FY10 (Table 7.2).

Recovery

7.3 During FY10, recovery of agricultural credit increased by 20.71 percent to Taka 101.12 billion from the recovery made in FY09. The increase in recovery position was caused mainly due to continuation of incentive measures introduced previously for recovery of stuck-up loans during FY10, 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, creating opportunities for investment in agriculture, modernisation of research system for quality improvement of agro-products etc.. The percentage of overdue with outstanding agricultural loan decreased from 31.02 percent at the end of June 2009 to 28.35 percent at the end of June 2010 (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 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 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 FY10, BKB alone disbursed 41.08 percent of the total disbursement, followed by PCBs 20.54 percent and SCBs 17.83 percent. The SCBs overdue loan as percentage of their outstanding loan stood at 43.38 percent at the end of FY10, while overdue of BRDB, RAKUB and BKB recorded 37.37 percent, 29.68 percent and 24.36 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 remarkably, as they contributed Taka 28.38 billion which is around 25.53 percent of the total agricultural loan disbursed in FY10.

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 minimise their resource gap

Table-7.3 Bangladesh Bank's refinance against agricultural loans

Particulars	(billion Taka)								
	FY08			FY09			FY10		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	5.00	2.23	41.79	1.00	2.27	41.96	-	2.40	39.91
RAKUB	1.72	1.27	17.77	1.94	1.42	17.42	1.58	1.84	17.16
BSBL	-	0.04	0.34	-	0.04	0.30	-	0.04	0.26
BRDB	-	-	0.12	-	-	0.12	-	-	0.12
Total	6.72	3.54	60.02	2.94	3.73	59.80	1.58	4.28	57.45

Source : Agricultural Credit Department, Bangladesh Bank.

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 FY10, only RAKUB have enjoyed refinance facilities to the tune of Taka 1.58 billion from Bangladesh Bank. No other institutions availed refinance facilities from Bangladesh Bank in FY10. An amount of Taka 4.28 billion (including interests) was recovered against past refinance loan due from different banks and institutions leaving an outstanding balance of Taka 57.45 billion (including interests) as on end of June 2010 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 FY10. A total of Taka 2.24 billion was disbursed and Taka 2.01 billion recovered during FY10 under a few such ongoing projects/programmes viz, Shrimp Culture Financing Scheme and Shashya Gudam Rin Prokalpa (SHOGORIP). A sum of Taka 9.38 billion was stood as outstanding against these projects upto end June 2010. Apart from these, the Northwest Crop Diversification Project was launched in December 2000 to improve the overall poverty condition of North-West region of Bangladesh by introducing high-valued crops instead of traditional crops. The project was implemented through RAKUB and four NGOs covering total 61 upazillas of Rajshahi and Rangpur division. The project ended on June 2009. In continuation of the project, Taka 0.40 billion has been disbursed from Taka 1.74 billion

revolving fund of the project. The disbursement process from revolving fund will be continued for ten years under the management and supervision of Bangladesh Bank.

Financing of Small & Medium Scale Enterprises

7.7 Small and Medium-scale 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. As such Bangladesh Bank has also undertaken programmes to provide relatively cheaper funds to the banks and financial institutions which might encourage them for SME financing. Banks and financial institutions have been providing finance to SME sector and the volume of finance is showing an increasing trend. In recent years, the share of private sector banks in disbursement of credit to the SME sector has been increasing significantly. Bangladesh Bank's refinance scheme is also the timely approach in this regard.

An amount of total Taka 16.48 billion has been provided to different banks and financial Institutions under some refinance schemes up to end June 2010. Bangladesh Bank's refinance facilities to banks during FY10 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

Box -7.1 :

The Role of Small and Medium Enterprises (SMEs) in Bangladesh Economy

The role of small and medium enterprises (SMEs) is indispensable for overall economic development of a country like Bangladesh. Being labour intensive with short gestation period, SMEs are capable of increasing national income as well as rapid employment generation; achieving goal of eradicating extreme poverty and women empowerment. SME development is currently considered as one of the major pro-poor socio-economic development policy. Since one of the key issues concerning SME development in our country is lack of financing (SMEs often find it difficult to avail adequate credit in our country. Banks find it difficult to finance SMEs mainly due to severe 'adverse selection' phenomena of credit market); being the central bank, BB has come up with some visionary steps to patronise the development of SME sector. To constantly monitor, supervise, produce guidelines and provide refinance facility through banks/FIs, BB has opened a new department namely SME and Special Programs Department on 31 December 2009. Since financing is not the only problem the SMEs in Bangladesh has to endure, a comprehensive and collaborative integrated policy has yet to prevail to ensure robust SME development in Bangladesh.

The Role of SMEs in various aspect of the national development has been discussed below:

Domestic Demand Fulfillment

The market of Bangladesh is composed of more than 140 million people across different income groups. The overall output growth (GDP growth) of the country depends directly upon the growth of the consumers' demand. Gradually domestic demand is increasing. Fulfilling the growing domestic demand with local resources and products is critical to economic growth. SMEs are playing a pivotal role in meeting domestic demand in our country. SMEs can play a vital role in introducing new products, widening the availability of existing products and diversifying the consumption pattern of our country. SMEs are critically important in responding to the rise in demand caused by sudden phenomena and/or structural change in demand situation. A vibrant market depends on both robust demand and supply situation. Additional demand for goods and services implies additional growth opportunity for a country, and so does the growth opportunity for different types of SMEs.

Import Substitution & enhancing Export

Around USD 21.4 billion of import payments (fob) have been paid by the country during FY10 of which a major part is paid for a variety of consumption goods. The presence of a vibrant, dynamic diversified SME sector can effectively reduce the import demand of those goods by producing local resources; hence can save much of our invaluable foreign exchange. SME sector in Bangladesh is at its infant stage but once the sector is made vibrant, it can surely serve the above mentioned purposes. SME have immense prospect and important role to play along the value chain of different form of large industries through providing backward linkage and forward linkages. This potential role of SMEs can not only trim down import demand of intermediate goods but also can deepen our industrial base to facilitate strong and sustainable industrial growth. Even the outputs produced by SMEs have considerable export potentials (handicrafts, non-traditional items, RMG agricultural and agro-processed products).

Employment Generation

It has been asserted in BB's recently published 'SME Credit Policies and Programmes' that SME sector is labour intensive with short gestation period; is capable of increasing national income as well as rapid employment generation. Being a labor abundant country, the labour intensive behaviour of SMEs always holds an opportunity for employment generation. Growth of SME sector can unlock the potential of self

Box -7.1

The Role of Small and Medium Enterprises (SMEs) in Bangladesh Economy *(contd.)*

employment, creating a wide range of new entrepreneurs (including women entrepreneurs) and be a reliable source of employment for many other people (thus reduce extensive rural-urban migration). SME development is a main channel for our country in achieving inclusive growth through extending financial services to the excluded portion of the population and creating new employment. Since financing is one of the major obstacle faced by SMEs in Bangladesh; BB can effectively take part in SME development through its supervisory virtue and financial support and thus can help the sector to generate widespread employment as its basic policy.

Innovation

By nature SMEs have a greater scope for innovation and invention. modification, upgradation and introduction of new products and services which are critical in expanding technological base, making technology more equitable and accessible and broadening the consumption basket of the country. SME had a vital contribution in generating outstanding and unique technologies in countries like China, Japan and India. If we can ensure the establishment and sustained growth of a vibrant SME sector; we can enjoy the advantage of product diversification and utilisation of new technologies significantly.

Poverty Reduction

Poverty cannot be reduced sufficiently in our country without ensuring inclusive growth. Poverty reduction itself is the major policy priority in our country. SMEs can generate output, create employment and operate along wide variety of sectors. In these way SMEs can contribute greatly in reducing poverty and help achieving Millennium Development Goals (MGDs). To stimulate poverty reduction in Bangladesh, BB has given extensive priorities to small enterprises through its newly published SME credit policy.

Women's Empowerment

About half of the population of Bangladesh is women. Women participation in the mainstream of economic activities especially in the productive sectors is crucial for attaining sustainable economic growth, poverty reduction and women's empowerment. But women participation in economic sector is inadequate and the number of women entrepreneurs is very low compared to that of their male counterparts. In fact, there exist many obstacles in women participation in the mainstream of economic activity although the degree of integrity, devotion, creativity and expertise of women make us surprised. Especially women participation in microcredit programmes and readymade garments industry is contributing significantly to the country's industrialisation. Similarly, participation of women entrepreneurs in SME sector is vital for the flourishing of Bangladesh economy and enhancing women empowerment.

Achieving Social Equity and Welfare

Bangladesh has experienced income growth accompanied by an incremental level of income inequality. Although income inequality is a universal phenomenon; in Bangladesh it has been worsen since last few decades. It is impossible to take the advantage of income growth unless the problem of growing income inequality is addressed appropriately. This is the central basis of accepting the principles of inclusive growth as a core policy objective by BB. Since small firms can operate everywhere across the country; a widespread development of SME is considered as an effective means of ensuring inclusive growth. The ample expansion of SME sector will facilitate to originate new entrepreneurs and create wide range of employment and will help effectively to reduce income inequality across geographical areas of the country. A vibrant SME sector is practically essential to reduce income differentials among different regions and the mass tending to migrate from rural to urban area. SME development is in fact and indeed the most important pro-poor development policy for the better growth and development of a country like Bangladesh.

Box -7.1 :

The Role of Small and Medium Enterprises (SMEs) in Bangladesh Economy (contd.)

Regional Development

A well distributed regional development is a precondition for balanced growth and without proper regional development the inequality scenario (both income and regional) is likely to be worsening day by day. Regional development is vital for bridging the regional disparity and imbalance in the economic development. There is a number of established (clusters) and potential industries in different locations of our country. If SME development takes place in those potential clusters and established industries' economic activities will be stimulated through it and a robust regional development can be ensured. Considering this fundamental importance of SME sector in reducing regional inequality, BB has come up with putting the idea of 'cluster development' and 'area approach' into its SME policy. We have identified 37 clusters of light engineering industries (using findings of IFC-SEDF Survey 2007) and prepared list of upazilla-wise potential sector for SME credit with the help of banks/FIs in BB's very first SME credit policy.

Economic Growth

High, steady and sustainable economic growth is one of primary concern of almost all the developing countries and Bangladesh is no exception. Considering economic and social development issues, inclusive growth is the best mode of growth applicable for the betterment of our socioeconomic situation. It has been stated earlier; SME development is our key in achieving inclusive growth by boosting up production, employment, women empowerment and reducing extreme poverty. It is generally accepted that inclusive growth plants the seed of stable and vibrant economic prosperity of a nation.

Recent steps taken by BB towards SME Development

Although from the start of this decade SME development and SME promotion these two ideas have come to the forefront of academic's and policy maker's discussion agenda, until recently it had not been given due importance in practical field. However, implementation of the SME & SDP by the government with a loan component for small enterprises by the BB was done in the middle of this decade. Government has given due importance to this sector by recognising it as thrust sector in the Industrial policy 2005, formulating a separate SME policy strategy 2005 and establishing SME Foundation. However, BB has taken some critical steps in stepping up the process of enhancing access to finance by the SMEs and SME sector development in 2009 by creating a separate department named "SME & Special Programmes Department" and announced specific guidelines and directives for the financial sector.

The newly formed SME&SPD is fully engaged in providing institutional support to SMEs. SME & SPD efficiently manages several refinance funds under which refinance facility is provided for Small Enterprises financing by banks and FIs. The refinance facility gives special focus on small and women entrepreneurs and cluster development. Monitoring Division of SME & SPD has been set up to ensure tri-level monitoring (BB head office, branch offices and bank/FIs head office based integrated monitoring system) of SME financing activities and figure out the fact and figures of SME development. Recently SME & SPD has gone further by forming help desk from which SME clients can get advices and guidelines about getting SME loans, submit their objections against any obstacle faced by them while approaching for SME loans and suggest ideas regarding identifying and developing clusters. Help desk will provide exclusive care and help for women entrepreneurs and encourage innovative business ideas as well. SME & SPD constantly arranges meeting with executives of banks/FIs, government body and grass root level entrepreneurs and gives due importance to the ideas derived from those meetings. Hence, the department is working as a platform for integrating all the stakeholders of the sector. Since SME is treated as a thrust sector by the government; formation of the department is a proper policy reflection from the central bank. In future this very department would be adding new activities for the desired advancement of SME sector.

own fund. Refinance facilities under the scheme was provided to banks and financial institutions at the Bank Rate. An amount of Taka 1.25 billion has been disbursed under this scheme till end June 2010.

b) Refinance for Small Enterprises.

42 banks and 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 10.42 billion has been refinanced to 40 banks and financial institutions under this fund upto end June 2010 against 10988 enterprises.

ii) **Enterprise Growth and Bank Modernisation Programme (EGBMP) Fund:** 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 1.18 billion has been received combining the IDA credit fund and Government of Bangladesh fund for refinancing. Out of this fund, an amount of Taka

2.71 billion has been provided to 30 banks and financial institutions upto end June 2010 against 2773 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 strengthen the SME sector activities in Bangladesh. An amount of Taka 3.35 billion has been provided to 16 banks and financial institutions under this fund upto end June 2010 against 3264 enterprises.

Microcredit Operations by NGOs

7.8 Microcredit creates economic opportunities for the world's poorest. The underline philosophy behind microcredit is to improve the lives of the poor by assisting them to help themselves, by extending small loans. It sees credit as an empowering agent, powerful weapon and a fundamental right helping in the development of socio-economic conditions of the poor who have been kept out of banking orbit. It's like a social safety net that helps poor through short-term financing against fund stress and calamities. It is the most successful and cost effective way to enable poor to attain self sufficiency.

Microcredit programme in Bangladesh is implemented by NGO-MFIs, Grameen Bank, different type of state owned commercial banks, private commercial banks and specialised programmes of some ministries of Bangladesh government etc.. Despite the fact that more than a thousand of institutions are operating microcredit programme, only 10 large Micro Finance Institutions (MFIs) (like BRAC, ASA, TMSS, BURO TANGAIL, Proshika, Jagarani Chakra Foundation, Shakti Foundation, Padakhkhep Manabik Unnayan Kendra, Caritas Bangladesh and RDRS) and Grameen Bank represent 89 percent of total

savings of the sector and 80 percent of total outstanding loan of the sector. Near about two hundred thousand people are employed in MFIs and Grameen Bank. Around 30 million poor people are directly benefited from activities of microcredit institutions. Through the financial services of microcredit, these poor people are engaging themselves in various income generating activities.

Like earlier years microcredit operations grew significantly in FY10. It appears from Table 7.4 that microcredit operations grew rapidly in the country like previous years with 15.22 percent increase in disbursement. Recovery, however, increased in a much lower rate at 3.75 percent in FY10 compared to 31.40 percent recovery in FY09. Their overdue as percentage of outstanding loan decreased from 3.8 percent in FY09 to 3.7 percent in FY10.

Recycling of lending resources of the microcredit providers in FY10 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 262 POs (Partner Organisations or NGOs) stood at Taka 94.26 billion in FY10 against Taka 74.84 billion in FY09.

Growing evidences of the beneficial impact of micro-credit are found in the areas such as healthcare, family planning and schooling behaviour, especially for female children and women empowerment. The phenomenal growth of this sector encouraged the government to formed a National Steering Committee comprised of 11 members in 2000 under the chair of the Governor of the Bangladesh Bank to bring the microcredit sector under a regulatory framework to ensure transparency and accountability of microcredit activities of MFIs.

Table 7.4 Microcredit operations by the Grameen Bank and large NGOs

(billion Taka)			
	FY08	FY09 ^R	FY10
1. Disbursement	195.0	219.54	252.94
i) Grameen Bank	54.60	71.85	87.54
ii) BRAC	75.10	80.93	75.10
iii) ASA	53.70	54.61	72.92
iv) TMSS	5.70	6.55	7.60
v) BURO TANGAIL	5.90	5.60	9.78
2. Recovery	168.50	221.41	229.68
i) Grameen Bank	48.90	61.05	76.75
ii) BRAC	63.70	78.77	75.91
iii) ASA	45.60	68.83	61.39
iv) TMSS	5.60	6.80	6.79
v) BURO TANGAIL	4.70	5.96	8.84
3. Outstanding Loans	116.80	129.46	150.05
i) Grameen Bank	34.50	50.71	61.50
ii) BRAC	43.20	45.40	44.59
iii) ASA	33.90	26.67	35.12
iv) TMSS	2.90	3.43	4.25
v) BURO TANGAIL	2.30	3.25	4.59
4. Loans Overdue	3.60	4.91	5.59
i) Grameen Bank	1.20	1.37	1.10
ii) BRAC	1.80	2.40	3.24
iii) ASA	0.50	0.97	0.95
iv) TMSS	0.05	0.09	0.14
v) BURO TANGAIL	0.05	0.08	0.16
5. Overdue as percentage of outstanding	3.08	3.79	3.73
i) Grameen Bank	3.50	2.70	1.79
ii) BRAC	4.20	5.29	7.27
iii) ASA	1.50	3.64	2.71
iv) TMSS	1.70	2.62	3.29
v) BURO TANGAIL	2.20	2.46	3.49

Source : Grameen Bank and Microcredit Regulatory Authority.
R = Revised.

As a consequence, government enacted "Microcredit Regulatory Authority Act 2006", effective from 27 August 2006. Microcredit Regulatory Authority (MRA) has been established under this act which is empowered and responsible to monitor and supervise the microcredit activities of MFIs. According to the Act, no MFIs are allowed to work in the country without obtaining license from the Authority. Licenses have been issued in favour of 518 MFIs by MRA till June 2010. Grameen Bank the largest microfinance institution of the country, is not under the supervision of MRA, it is established by a separate law and working as a specialised bank.