

Agricultural and Rural Finance

Annual Agricultural Credit Programme

9.1 Agriculture sector is the main source of food for the people of Bangladesh and about half of the population directly or indirectly depends upon this sector. The agriculture sector accounted for 16.0 percent of GDP and grew by 3.0 percent in FY15 compare to 4.4 percent of FY14. Although growth rate has declined compared to the previous year, the agricultural sector still remains very important for the country.

Acknowledging the importance of this sector, Bangladesh Bank (BB) has been pursuing some policy measures in the recent years to support this sector. BB regularly formulates annual agricultural credit policy which helps to increase the supply of credit in the rural areas and reviving the rural economy. This attempt has been leading to vast expansion of employment generating activities and promoting financial inclusion. This policy support accelerates the agricultural production and helps to reduce rural poverty through increasing flow of funds. BB declared its annual agricultural and rural credit policy and programme for FY15 with a disbursement target of Taka 155.5 billion, which was 6.5 percent higher than the disbursement target of Taka 146.0 billion in FY14. The achievement against this target was 102.8 percent marked by the significant participation of private sector banks through their branches as well as through linkages with Microfinance

Institutions (MFIs). Moreover, an amount of Taka 4.5 billion has been disbursed to the sharecroppers through the BRAC under the refinance scheme of BB to facilitate usage of agri-technology. Several surveys recently conducted show that this special credit programme improves the living standard of the sharecroppers'.

Implementation of Some Important Initiatives of Agricultural Credit Programme in FY15

- Around 3.2 million farmers availed agricultural and rural credit of which 0.3 million women got Taka 9.0 billion as agricultural and rural credit from different banks.
- Around Taka 6.2 billion was disbursed among about 0.2 million farmers through 15489 open credit disbursement programmes arranged by different banks.
- Around 2.5 million small and marginal farmers got Taka 112.03 billion agricultural loans from different banks.
- About Taka 506.3 million of agricultural and rural credit was disbursed among about 9773 farmers living in the less developed area like *haor, char*, etc.
- Around 9.9 million bank accounts were opened by the farmers in the state owned commercial banks with an initial deposit of Taka 10 only.

- An amount of Taka 0.8 billion was 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.
- In the 3 Hill Tract districts, more than Taka 0.5 billion was disbursed among 18340 tribal farmers only at 5.0 percent interest rate.

It is to be noted that, BB has announced its annual agricultural and rural credit policy and programme for FY16. The target for disbursement of agricultural credit has been fixed at Taka 164 billion which is 5.5 percent higher than the disbursement target of Taka 155.5 billion in FY15.

Disbursement

9.2 The actual disbursement of agricultural credit under Annual Agricultural Credit Programme by the participating banks/NBFIs in FY15 stood at Taka 159.8 billion which was 0.4 percent lower than the actual disbursement of Taka 160.4 billion in FY14. 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 FY15.

About 79.8 percent of disbursement was short term lending and the rest was long-term loans to purchase irrigation equipments, agricultural machinery, livestock, etc. The credit for production of crops and poverty alleviation programmes constituted 59.6 and 11.6 percent respectively of the total short term loans (Table 9.1).

Table 9.1 Comparative statement of disbursement & recovery of agricultural loan

(billion Taka)			
Disbursement	FY13*	FY14*	FY15*
1	2	3	4
I. Disbursement (target)	141.30	145.95	155.50
a) Crops loan (other than tea)	65.38	69.38	75.69
b) Purchase and installation of irrigation equipment	4.34	3.68	3.39
c) Livestock	13.55	15.26	16.70
d) Marketing of agricultural goods	3.32	2.57	1.91
e) Fisheries	12.68	12.68	15.36
f) Poverty alleviation	12.63	11.16	11.37
g) Other agricultural activities	29.40	31.22	31.08
II. Actual disbursement	146.67	160.37	159.78
a) Crops loan (other than tea)	64.34	71.31	76.04
b) Purchase and installation of irrigation equipment	2.79	2.39	2.38
c) Livestock	18.03	19.96	20.57
d) Marketing of agricultural goods	2.26	1.67	1.54
e) Fisheries	13.21	13.78	16.53
f) Poverty alleviation	16.58	18.64	14.81
g) Other agricultural activities	29.46	32.62	27.91
III. Term structure of loan disbursed			
Short term	106.12	118.85	127.48
Longer term	40.55	41.52	32.30
IV. Recovery	143.62	170.46	154.07
V. Due for recovery	195.46	248.13	220.34
VI. Total outstanding loan	310.58	346.33	329.37
VII. Overdue	52.09	76.12	67.29
VIII. Overdue as percent of outstanding	16.77	21.98	20.43

* Excluding BRDB and BSBL
Source: Agricultural Credit Department, Bangladesh Bank.

The total outstanding loan in the agricultural sector (including all banks) decreased by Taka 16.9 billion or 4.9 percent to Taka 329.4 billion in FY15 from Taka 346.3 billion in FY14 (Table 9.2).

Two specialised banks- BKB, RAKUB and six SCBs have played key role in the disbursement of agricultural and rural finance while the contribution of foreign and private commercial banks is also increasing. However, the SCBs and RAKUB fell short of targets by 9.2 and 4.0 percent respectively.

On the other hand, BKB, FCBs and PCBs exceeded the disbursement target by 0.1, 13.3 and 11.8 percent respectively in FY15 (Table 9.2). Apart from this, BRDB and BSBL disbursed Taka 7.2 billion from their own fund which raised total disbursement to Taka 167.0 billion (including all banks) during FY15.

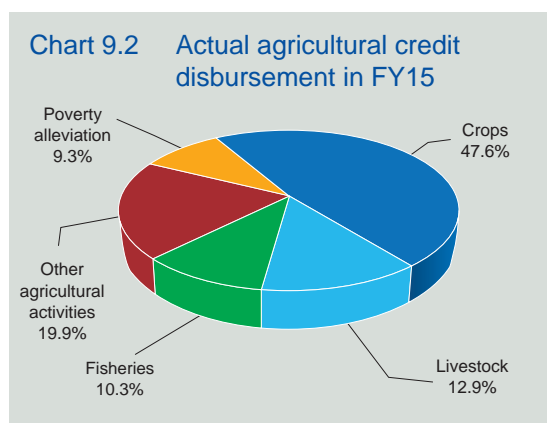
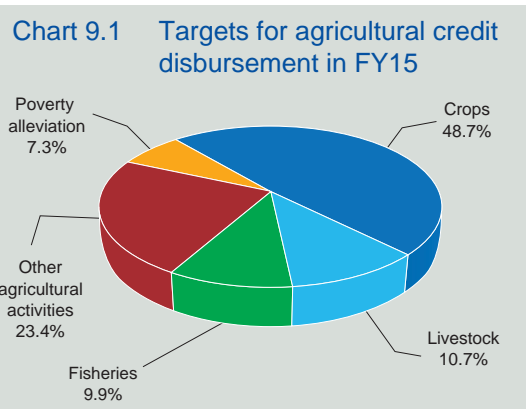
Recovery

9.3 Total recovery of agricultural credit decreased by 9.6 percent to Taka 154.1 billion in FY15 from Taka 170.5 billion in FY14 due to some policy initiatives like loan rescheduling, bad loan write off and political unrest. In spite of this, rate of recovery (with due for recovery) of agricultural credit was 69.9 percent during FY15 which was higher than the rate of recovery (with due for recovery) of agricultural credit (68.5 percent) in FY14 (Table 9.1).

The overdue as percentage of outstanding agricultural loan decreased from 22.0 percent to 20.4 percent at the end of June 2015 (Table 9.2). 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 improves further in the years ahead.

Sources of Agricultural Finance

9.4 State-owned banks are still playing the major role for sources of finance in agriculture. PCBs had the largest share in the annual disbursement of agricultural loan. In FY15, PCBs disbursed 41.2 percent of the total disbursement, followed by BKB (30.1 percent), SCBs (16.1 percent), RAKUB (9.6 percent) and FCBs (3.0 percent). The



SCBs' overdue loan as percent of their outstanding loan stood at 31.2 percent at the end of FY15, while the overdue of RAKUB and BKB were recorded to 33.7 and 18.1 percent respectively of their outstanding loan (Table 9.2). The private commercial banks play a crucial role in agricultural lending which is increasing remarkably. The contribution of PCBs was Taka 61.0 billion in FY14 which increased by 7.9 percent and stood at Taka 65.8 billion in FY15. The PCBs' overdue loan as percent of their outstanding loan stood at 3.2 percent at the end of FY15.

Bangladesh Bank's Refinance against Agricultural Loans

9.5 Only BKB, RAKUB and BRAC have enjoyed refinance facilities to the tune of Taka

Table 9.2 Agricultural credit performance by lenders - FY15

(billion Taka)						
Lender`	Disbursement Target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
1	2	3	4	5	6	7
SCBs	28.40	25.79	25.30	26.21	84.04	31.19
BKB	48.00	48.03	48.56	23.98	132.71	18.07
RAKUB	16.00	15.36	18.27	14.96	44.38	33.71
Sub Total	92.40	89.18	92.13	65.15	261.13	24.95
FCBs	4.20	4.76	7.07	0.00	2.13	0.17
PCBs	58.90	65.84	54.87	2.14	66.11	3.24
Sub Total	63.10	70.60	61.94	2.14	68.24	3.14
Grand Total	155.50	159.78	154.07	67.29	329.37	20.43
Summary						
FY15 [@]	155.50	159.78	154.07	67.29	329.37	20.43
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

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

11.1 billion from Bangladesh Bank during FY15. An amount of Taka 18.4 billion (including interest) was recovered against refinance loan due from different banks and institutions leaving an outstanding balance of Taka 43.6 billion (including interest) as of end June 2015 for future recovery. Details of Bangladesh Bank's refinance to different institutions are shown in Table 9.3.

Bangladesh Bank undertook a special refinance scheme of Taka 2.0 billion to purchase raw jute from jute producers to provide working capital to jute goods manufacturing companies and jute exporters in FY15. A total of 11 banks availed of this window and disbursed Taka 1.5 billion in FY15.

Agricultural Credit Projects/Programmes under Bangladesh Bank Supervision

9.6 Some on-going self and donor financed agricultural projects/programmes disbursed a

total amount of Taka 1.1 billion and Taka 0.6 billion was recovered under close monitoring and supervision of Bangladesh Bank in FY15. These includes 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 ADB financed NCDP Project was launched in December 2001 and completed in June 2009. It had a credit component of Taka 1.8 billion for financing production and marketing of high value crop in sixteen north western district. After completion of the project the credit fund is converted into a revolving fund and will continue up to June 2019. The revolving fund will be provided to RAKUB for distribution of loans among the farmers and agro-based enterprises through four NGOs/MFIs on a

Table 9.3 Bangladesh Bank's refinance against agricultural loans

(billion Taka)

Particulars	FY13			FY14			FY15		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	5.00	2.20	33.42	0.00	3.42	31.13	5.00	9.06	28.34
RAKUB	0.18	1.76	16.14	6.00	9.12	13.00	2.00	4.79	11.11
BRAC	4.49	2.46	4.49	4.50	4.49	4.50	4.11	4.50	4.11
BSBL	-	0.04	0.13	-	0.04	0.085	-	0.04	0.043
BRDB	-	-	-	-	-	-	-	-	-
Total	9.67	6.46	54.18	10.50	17.07	48.71	11.11	18.39	43.60

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

reimbursement basis. A total amount of Taka 0.5 billion was disbursed to RAKUB under the project in FY15. On the other hand, a total amount of Taka 0.6 billion was disbursed under SCDP, another ADB funded project in FY15.

Financing of Small and Medium Scale Enterprises

9.7 An emerging SME sector is playing a key role for the development of the economy of Bangladesh which encourages private ownership and entrepreneurial skills, generates employment, diversifies economic activities and makes a significant contribution to overall economic growth.

BB has undertaken different programmes to provide relatively cheaper funds to SME financing banks and NBFIs. Special emphasis has been given to bring the women entrepreneurs in the mainstream of development process of the country. BB has reserved 15.0 percent of total SME financing fund for women entrepreneurs at a maximum annual interest of 10.0 percent in an attempt to enhance more female participation in the productive sectors. SME & Special Programmes Department (SME&SPD) of BB

is working to facilitate this and monitoring the SME financing activities and development. To expand and develop this sector, Bangladesh Bank continued refinancing facilities to banks and NBFIs for SMEs during FY15.

At the end of June 2015, a total amount of Taka 48.2 billion was provided to different banks and NBFIs under refinance schemes against 47988 enterprises. Bangladesh Bank's refinance facility to banks under some special schemes and programmes during FY15 are illustrated below:

A. Refinance for Small Enterprises

Bangladesh Bank, with the help of Government and different development partners, has been implementing eight different revolving refinance facilities for banks and NBFIs. Recently, BB has constituted a refinance fund of Taka 1.0 billion for new cottage, micro and small enterprises. Different special schemes and programmes for SME development are described below:

A.1. Bangladesh Bank Fund (BB Fund):

Bangladesh Bank has launched a refinance scheme named Small Enterprise Fund (SEF) of Taka 6.0 billion at bank rate to support the

development of small enterprises in the country which is being used as a revolving fund. An amount of Taka 23.3 billion (including women fund) was refinanced to 22 banks and 22 NBFIs at the end of June 15 to support 25115 enterprises.

A.2. Enterprise Growth and Bank Modernisation Programme (EGBMP) Fund:

With the objective of financing and development of small enterprise sector in the country, the World Bank provided an additional amount of USD 10 million to EGBMP fund in 2004, under a development credit agreement signed with the Government of Bangladesh. Furthermore, the Government of Bangladesh allocated an amount of Taka 0.6 billion under the said agreement. An amount of Taka 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 was been provided to 32 banks and NBFIs against 3160 enterprises on revolving basis. Disbursement from this fund was completed in June 2011.

A.3. Small and Medium Enterprise Sector Development Project (SMESDP):

Asian Development Bank initially provided an amount of USD 30 million to SMESDP to strengthen the SME sector in Bangladesh. An amount of Taka 3.4 billion was disbursed through banks and NBFIs till September 2009 against 3264 enterprises. The total disbursed amount was recovered from NBFIs by the end of June 2015.

A.4. Small and Medium-Sized Enterprise Development Project (SMEDP):

The objective of SMED project was to provide credit facility for enhancing access to 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 BB provided USD 19.0 million on behalf of GoB 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 NBFIs against their financing to 13645 enterprises.

A.5. JICA Two Step Loan Fund:

Small and Medium-scale Enterprises (SMEs) have been considered as the thrust sector in the economic development of the country. As per loan agreement between JICA, Japan and Government of Bangladesh, a project named "Financial Sector Project for the Development of Small and Medium-Sized Enterprise (FSPDSME)-BD-P67" has been implementing by Bangladesh Bank. The objective of the project is to create a medium to long term financing market for SMEs specially for the productive investments. The size of the fund is JPY 5000 million, including a technical assistance component. The principal component of the fund is Two Step Loan (TSL) of JPY 4787.5 million. Refinancing or pre-refinancing facilities are being provided to participating NBFIs at the bank rate for lending to SME sub-projects of productive investment for medium to long term duration at the market rate. As of end of June 2015, an amount of Taka 3.2 billion was refinanced against 436 enterprises.

In the backdrop of tragic incidence of Rana Plaza collapse and recent crisis in the RMG and knitwear sector, a special initiative has taken under the JICA assisted FSPDSME

project to finance the improvement of safe working environment of RMG sectors. A RMG factory which is a member of BGMEA or BKMEA with workers of 100-2000 can avail a loan up to Taka 100 million for the purpose of retrofitting, rebuilding and relocating its factory buildings, provided that the factory building is owned by the applicant entrepreneur.

A.6. Refinance Scheme for Agro-based Product Processing Industries: In order to boost up agro-based product-processing industries in the areas outside divisional head quarters and Narayanganj town, Bangladesh Bank provides refinancing facilities to banks and NBFIs at the bank rate. An amount of Taka 74.1 billion was disbursed under this scheme by the end of June 2015 among 2110 enterprises on revolving basis.

A.7. Refinance Fund for New Entrepreneurs under Cottage, Micro and Small Category: Bangladesh Bank has created a fund of Taka 1.0 billion to provide start-up capital to new cottage, micro and small enterprises where the prospective entrepreneurs will get financing facilities at 10.0 percent interest rate (bank rate + 5 percent). At the end of June 2015, Taka 5.3 million was refinanced to banks and NBFIs against eight new enterprises.

A.8. Islamic Shariah Based Refinance Scheme: Bangladesh Bank launched a special refinance fund under Islamic Shariah mode on 18 September 2014 to increase the involvement of Islamic banks and NBFIs in financing SMEs. Under this fund, Islamic banks and NBFIs will get refinance against their financing to agro-based industries, small enterprises (including women led SMEs) and

new entrepreneurs in cottage, micro and small sector. At the end of June 2015, Taka 0.5 billion was refinanced to banks and NBFIs against 131 enterprises.

B. Refinance to Women Entrepreneurs

Bangladesh Bank is encouraging all banks and NBFIs to provide loan to women entrepreneurs at 10.0 percent interest rate. A dedicated women entrepreneurs desk has been established in the SME&SPD of BB. All banks and NBFIs have been directed to do the same. They have also been instructed to reserve 15.0 percent of total SME funds exclusively for women entrepreneurs. An amount of Taka 11.7 billion was refinanced to women entrepreneurs at the end of June 2015 against 12834 enterprises.

C. New Entrepreneurs Creation and Entrepreneurs' Development

To promote skills of young workers and new entrants in the labour market, the Government of Bangladesh has taken a project titled "Skills for Employment Investment Programme (SEIP)" with the assistance of Asian Development Bank (ADB) and Swiss Agency for Development and Cooperation (SDC). Aligned with this initiative BB has also taken steps for creation and development of new entrepreneurs. To this end, BB will provide market oriented job training to 10200 people in the next three years to start their own SME business or be employed in the SME sector.

Microcredit Operations of Grameen Bank and the Large MFIs

9.8 Now-a-days microfinance has drawn attention rigorously of the world communities. Microfinance has considered as a tool for

poverty alleviation and creation of economic opportunities for the world's poorest section of the people. Microcredit operators have been providing various social and financial services to the poor with the objectives of helping them to be self-employed and increasing financial inclusion throughout the country. In addition, it contributes a constructive role in the country's overall investment by increasing savings collection from remote area.

More than a thousand of NGO-MFIs are operating their activities in Bangladesh in which Grameen Bank as well as top four licensed MFIs (BRAC, ASA, TMSS, Buro Bangladesh) hold the maximum share of the total loan outstanding and savings of the sector. BRAC topped the list for loan disbursement (Taka 172.6 billion) which followed by ASA (Taka 146.4 billion) and Grameen Bank (Taka 139.18 billion) in FY15. In FY15, the share of loan disbursement of these top four MFIs among all the licensed (697) MFIs reached about 36.0 percent.

Overall MFI sector's loan disbursement increased by 28.3 percent in FY15, compared to 7.7 percent of FY14. Recovery increased by 15.1 percent in FY15 as compared to 12.9 percent in FY14. Their overdue as a percentage of outstanding loans decreased from 2.4 percent in FY14 to 1.4 percent in FY15.

Since inception in May 1990, the Palli Karma Sahayak Foundation (PKSF) has been

Table 9.4 Microcredit operations of the Grameen Bank and large MFIs

	(billion Taka)		
	FY13	FY14	FY15
1. Disbursement	367.60	395.98	507.92
i) Grameen Bank	122.01	117.23	139.18
ii) BRAC	112.65	133.87	172.57
iii) ASA	96.18	102.60	146.39
iv) TMSS	14.64	18.64	23.48
v) BURO Bangladesh	22.11	23.63	26.30
2. Recovery	345.58	390.04	448.87
i) Grameen Bank	117.61	113.68	135.63
ii) BRAC	103.34	138.39	150.82
iii) ASA	95.45	99.04	117.95
iv) TMSS	13.18	16.02	20.92
v) BURO Bangladesh	16.00	22.90	23.56
3. Outstanding Loans	227.30	252.48	479.79
i) Grameen Bank	84.18	87.73	91.29
ii) BRAC	66.45	81.17	193.46
iii) ASA	55.73	59.29	153.57
iv) TMSS	7.95	10.57	25.01
v) BURO Bangladesh	13.00	13.72	16.47
4. Loans Overdue	6.92	6.16	6.91
i) Grameen Bank	1.54	1.68	1.34
ii) BRAC	3.80	2.12	2.96
iii) ASA	1.18	1.70	1.89
iv) TMSS	0.24	0.33	0.35
v) BURO Bangladesh	0.16	0.32	0.38
5. Overdue as percentage of outstanding	3.04	2.43	1.44
i) Grameen Bank	1.83	1.91	1.47
ii) BRAC	5.72	2.61	1.53
iii) ASA	2.11	2.87	1.23
iv) TMSS	3.01	3.17	1.39
v) BURO Bangladesh	1.24	2.36	2.28

Source: Microcredit Regulatory Authority (MRA).

working as an apex microcredit funding and capacity building organisation for alleviating poverty by providing microcredit to the poor through its Partner Organisations (POs). The loan given by PKSF to 274 POs was Taka 216.6 billion in FY15 compared with Taka 188.3 billion to 273 POs in FY14.