

Agricultural and MSME Finance

9.1 The role of agriculture sector is vital to meet up the county's employment generation, ensuring food security, export earnings and poverty reduction. During the last two decades, Bangladesh economy has achieved significant progress in terms of GDP growth, and remarkable transformation of changes in contribution of different sectors specially agriculture sector to the economy. At present, the contribution of agriculture sector to GDP is 14.8 percent and this sector employs around 47 percent of the labour force. In addition, the sector also provides raw material for micro, medium and small industries. However, agriculture sector plays a crucial role for development to its inter-linkages sector with the rest of the economy. Since, the sector is an engine to achieve the country's challenges for self sufficiency in food production and fostering sustainable economic development. The government has therefore accorded highest priority to agriculture and its allied sectors for adequate credit with low cost for smooth growth of these sectors. In line with Government efforts Bangladesh Bank also continued its proactive policy and program support to boost up agricultural production. Agriculture and rural credit policy and program has also been formulated accordingly. During FY17, efforts were also directed through its annual agricultural credit programme for flow of credit to agricultural and rural based off firm activities, SME and allied sectors. The actual credit disbursement of BDT 210.0 billion to agriculture sector exceeded the target of BDT 175.5 billion in FY17, through state owned banks, private commercial banks and specialized banks (Table-9.1).

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

Disbursement	(billion BDT)		
	FY15	FY16	FY17
1. Disbursement (Target)	155.50	164.00	175.50
a) Crops loan (Other than tea)	75.69	80.99	86.53
b) Purchase and installation of irrigation equipment	3.39	4.69	4.86
c) Livestock	16.70	16.94	21.53
d) Marketing of agricultural goods	1.91	2.19	2.36
e) Fisheries	15.36	16.78	19.03
f) Poverty alleviation	11.37	9.57	9.95
g) Other agricultural activities	31.08	32.84	31.24
2. Actual disbursement	159.78	176.46	209.99
a) Crops loan (Other than tea)	76.04	86.95	100.61
b) Purchase and installation of irrigation equipment	2.38	2.60	3.01
c) Livestock	20.57	26.14	30.57
d) Marketing of agricultural goods	1.54	1.09	1.14
e) Fisheries	16.53	19.85	24.13
f) Poverty alleviation	14.81	15.59	18.85
g) Other agricultural activities	27.91	24.24	31.68
3. Term structure of loan disbursed	159.78	176.46	209.99
a) Short term	127.48	144.22	171.07
b) Longer term	32.30	32.24	38.92
4. Recovery	154.07	170.56	188.41
5. Due for Recovery	220.34	227.90	254.70
6. Total Outstanding loan	329.37	344.77	390.48
7. Overdue	67.29	56.78	67.08
8. Overdue as Percent of outstanding	20.43	16.47	17.18

* Excluding BRDB and BSBL

Source: Agricultural Credit Department, Bangladesh Bank.

Agricultural Credit Programme in FY17

9.2 The implementation of some important initiatives of this programme are as follows:

- Around 3.86 million farmers availed agricultural and rural credit of which 1.85 million women got BDT 62.41 billion from different banks.
- Around BDT 3.87 billion was disbursed among about 0.12 million farmers through 15,088 open credit disbursement programmes arranged by different banks.

- Around 2.97 million small and marginal farmers got BDT 149.30 billion agricultural loans from different banks.
- About BDT 0.4 billion of agricultural and rural credit was disbursed among about 8731 farmers living in the less developed area like haor, char, etc.
- Around 9.0 million bank accounts were opened by farmers in the state owned commercial banks with an initial deposit of BDT 10 only.
- An amount of BDT 0.81 billion was disbursed at 4.0 percent concessional interest rate for the production of certain crops like pulse, oilseed, spices, and maize for which the country continuously relies on import.
- In the three Hill Tract districts, more than BDT 0.48 billion was disbursed among 19,023 tribal farmers at only 5.0 percent interest rate.

Credit Disbursement to agriculture

9.3 In recent years, agriculture and rural finance programme seems to have boosted up as the private commercial banks (PCBs)

and foreign commercial banks (FCBs) along with state-owned commercial banks (SCBs) came forward to disburse agricultural credit in the country. The actual disbursement of BDT 209.99 billion in FY17 against the disbursement target of 175.50 billion was 19.0 percent higher than the actual disbursement of BDT 176.5 billion in FY16. 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 FY17.

9.4 About 81.5 percent of disbursement was short-term lending and the rest 18.5 percent was in the form of long-term loans for irrigation equipments, agricultural machinery, livestock etc. The credit for production of crops and poverty alleviation programmes constituted 58.8 and 11.0 percent respectively of the total short term loans during FY17 (Table 9.1).

9.5 The total outstanding loan in agricultural sector (including all banks) in FY17 increased by BDT 45.7 billion or 13.3 percent to BDT 390.5 billion from BDT 344.8 billion in FY16 (Table 9.2).

9.6 Two specialised banks– BKB, RAKUB and six SCBs played key role in disbursement of

Table-9.2 Agricultural credit performance by lenders*

(billion BDT)

	FY13	FY14	FY15	FY16	FY17					Total
					SCBs	BKB	RAKUB	PCBs	FCBs	
Disbursement Target	141.30	145.95	155.50	164.00	28.90	48.00	16.00	78.27	4.33	175.50
Actual disbursement	146.67	160.37	159.80	176.50	30.95	49.32	16.72	106.77	6.23	209.99
Recovery	143.62	170.46	154.10	170.60	28.96	53.78	17.12	83.46	5.09	188.41
Overdue	52.09	76.12	67.29	56.78	25.64	25.83	13.05	2.56	0.003	67.08
Outstanding	310.58	346.33	329.40	344.80	94.60	147.21	40.90	104.22	3.55	390.48
Overdue as % of outstanding	16.77	21.98	20.43	16.47	27.10	17.55	31.91	2.46	0.08	17.18

*Excluding BRDB and BSBL

Source: Agricultural Credit Department, Bangladesh Bank.

agricultural and rural finance. The contribution of foreign and private commercial banks was also imperative in this regard. The SCBs, BKB, RAKUB, FCBs and the PCBs have exceeded the disbursement target by 7.1, 2.8, 4.5, 43.9 and 36.4 percent respectively in FY17 (Table 9.2). Apart from this, BRDB and BSBL disbursed BDT 8.8 billion from their own fund which raised the total disbursement to BDT 218.8 billion (including all banks) during FY17.

Credit Recovery

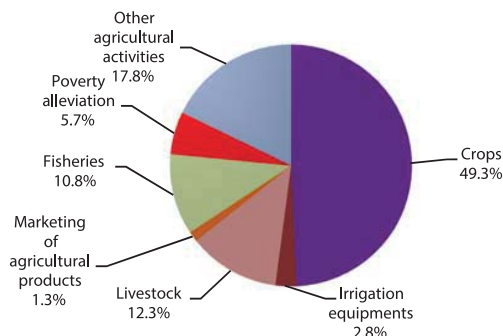
9.7 During FY17, recovery of agricultural credit increased by 10.5 percent to BDT 188.4 billion from BDT 170.6 billion in FY16 due to comprehensive support to agricultural production through subsidy on both input and output level. Consequently, rate of recovery as percent of due for recovery of agricultural credit was 73.97 percent during FY17 which was lower than 74.84 percent in FY16 (Table 9.1).

9.8 The overdue as percentage of outstanding agricultural loan increased from 16.5 percent in FY16 to 17.2 percent at the end of June 2017 (Table 9.1 and 9.2). It is important that banks should gear up their recovery drive matching with the harvesting seasons and strengthen incentive measures ensuring appropriate dissemination of information so that the recovery of agricultural loans improves further in the years ahead.

Sources of Agricultural Finance

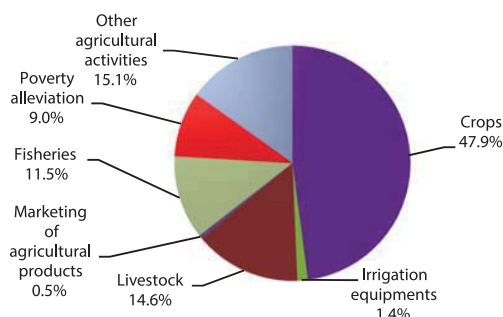
9.9 Recently, PCBs are playing the dominant role in financing agriculture sector. PCBs had the largest share in the annual disbursement of agricultural loans. In FY17, PCBs disbursed 50.8 percent of the total disbursement, followed by BKB (23.5 percent), SCBs (14.7 percent), RAKUB (8.0 percent) and

Chart 9.1 Targets for agricultural credit disbursement in FY17



Source: Agricultural Credit Department, Bangladesh Bank.

Chart 9.2 Actual agricultural credit disbursement in FY17



Source: Agricultural Credit Department, Bangladesh Bank.

FCBs (3.0 percent). The SCBs' overdue loans as percent of their agricultural outstanding loans stood at 27.1 percent at the end of FY17, while the overdue loans of RAKUB and BKB were recorded to 31.9 and 17.6 percent respectively of their outstanding loans (Table 9.2). The PCBs' overdue loans as percentage of their outstanding loans stood at 2.5 percent at the end of FY17.

Bangladesh Bank's Refinance against Agricultural Loans (Under Government Guarantee)

9.10 During FY17 no banks and financial institutions was provided refinance facilities

**Table-9.3 Bangladesh Bank's refinance against agricultural loans
(under Government guarantee)**

Particulars	FY15			FY16			FY17		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	5.00	9.06	28.34	0.00	8.09	26.85	0.00	2.40	24.99
RAKUB	2.00	4.79	11.11	0.00	3.30	7.92	0.00	1.20	7.48
BSBL	0.00	0.04	0.04	0.00	0.00	0.00	0.00	0.00	0.00
Total	7.00	13.89	39.49	0.00	11.39	34.77	0.00	3.60	32.47

Source : Agricultural Credit Department, Bangladesh Bank

against agricultural and Rural credit from Bangladesh Bank. An amount of BDT 3.60 billion was recovered against refinance due from different banks and financial institutions leaving an outstanding balance of BDT 32.47 billion as of 30 June, 2017 for future recovery. Details of Bangladesh Bank's refinance position (under government guarantee) are shown in the table 9.3. Beside the above refinance schemes some other agricultural related refinance schemes/projects are operating through this department of BB those have been discussed below:

Special Refinance Scheme for Share-croppers

9.11 BB has undertaken a special refinance scheme of BDT 6.00 billion to provide credit through BRAC to those share-croppers who have limited access to banks. In FY17, Bangladesh Bank has refinanced BDT 5.62 billion to BRAC for disbursing agricultural credit to about 0.15 million share croppers under this special refinance scheme.

Special Refinance Scheme for the Jute Sectors

9.12 In FY15, BB undertook a special refinance scheme of BDT 2.0 billion to provide working capital to jute goods manufacturing companies and jute exporters. A total of 18 banks availed this refinance facilities of BDT 1.73 billion against their disbursement to purchase raw jute from jute producers.

Special Refinance Scheme for Dairy Farming

9.13 An amount of BDT 2.00 billion has been launched under refinance scheme by BB for dairy milk production and artificial insemination. An amount of BDT 0.97 billion has been disbursed by the banks and financial institutions under this scheme in FY17. The interest rate at borrower level is 5.0 percent and the Government provides 5.0 percent cash subsidy against the credit to the disbursing banks. In FY17, BB has refinanced BDT 1.02 billion to concerned banks and financial institutions under this scheme.

Agricultural Credit Projects/Programmes under Bangladesh Bank Supervision

9.14 Some self and donor financed agricultural projects/programmes are implemented by Bangladesh Bank. A total amount of BDT 0.3 billion disbursed and BDT 0.15 billion was recovered under close monitoring and supervision of Bangladesh Bank in FY17. These projects include the 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).

9.15 In FY17, a total amount of BDT 2.72 billion was disbursed under Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project (SMAP).

Table-9.4 Disbursement of SME Credit by Banks and NBFIs

Period	Sub-Categories			Total	Women Entrepreneur
	Trading	Manufacturing	Service		
FY17*	976.11	360.98	102.63	1439.72	45.07
FY16	818.85	330.99	141.38	1291.22	54.89
FY15	680.43	323.50	98.94	1102.87	39.68
FY14	594.41	250.87	60.77	906.05	36.43
FY13	518.41	233.04	42.02	793.46	24.72
FY12	379.19	183.84	35.09	598.12	23.11
FY11	365.83	154.36	32.37	552.56	20.07

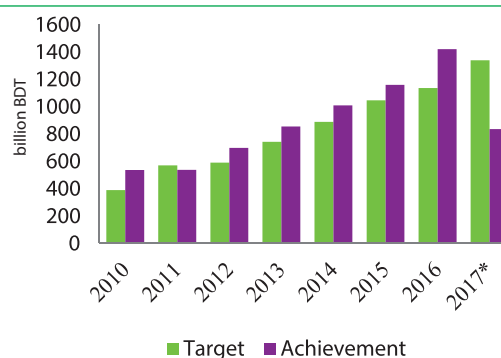
* Provisional

Source : SME & Special Programmes Department, Bangladesh Bank

Credit to Small and Medium Scale Enterprises (SMEs)

9.16 Bangladesh Bank has formulated a comprehensive policy and programmes on SME named “SME Credit Policies and Programmes” due mainly to its crucial role in achieving sustainable inclusive growth. Detailed guidelines in this regards that includes all possible avenues of financing to SME by all banks and Non-bank Financial Institutions (NBFIs), which has been declared as international best practice for SME financing by Alliance for Financial Inclusion (AFI). Along with various supportive measures of BB, the sector gets momentum and continues to maintain robust performance.

9.17 A target based SME lending programme was initiated by Bangladesh Bank in 2010 under the “SME Credit Policies and Programmes”. The target is not imposed by the central bank, rather the banks and non-bank financial institutions (NBFIs) independently decided their target. A target of disbursing BDT 1135.0 billion was set for 2016 (January-December) which was higher by BDT 89.2 billion than that of 2015. In 2016, BDT 1419.4 billion was disbursed against a target of BDT 1135.0 billion. Under the same spirit, a target of disbursing BDT 1338.5 billion was set for 2017 (January-December) which was BDT 203.5

Chart 9.3 Trends of Target & Achievement of SME LoansSource: Agricultural Credit Department, Bangladesh Bank.
*As end June, 2017

billion higher than the target set for 2016. In H1 of 2017 (January to June) BDT 835.1 billion was disbursed. Chart 9.3 depicts the target and achievement of SME credit by banks and non-bank financial institutions during 2010 to 2017.

9.18 In FY17, all banks and non-bank financial institutions disbursed a total amount of BDT 1439.7 billion among 697 thousands cottage, micro, small and medium sized enterprises (CMSMEs). Special emphasis has been given to bring the women entrepreneurs in the mainstream of development activities of the country. An amount of BDT 45.1 billion has been disbursed among 49 thousands women led SME enterprises in FY17 (Table 9.4). SME & Special Programmes Department (SME&SPD) of BB is working to facilitate this

and monitoring the SME financing activities and development. For further development of this sector, Bangladesh Bank continued its refinancing facilities to banks and NBFIs for SMEs during FY17.

Bangladesh Bank's Refinance for SMEs

9.19 Bangladesh Bank, with the help of Government and different development partners, has been implementing eight different revolving refinance facilities for banks and NBFIs. At the end of June 2017, a total amount of BDT 66.3 billion was provided to different banks and NBFIs under refinance schemes against 55,229 enterprises. Table 9.5 shows the Bangladesh Bank's refinance facility to banks under different special schemes and programmes for SME development up to FY17.

Refinance Scheme for Agro-based Product Processing Industries

9.20 In order to boost up agro product processing industries in the areas outside divisional headquarters and Narayanganj town, Bangladesh Bank launched a scheme of BDT 1.0 billion in November 2001 out of its own fund. Responding to the huge demand of this fund, the size of the fund was increased to BDT 2.0 billion in 2012, BDT 4.0 billion in 2013 and later BDT 4.5 billion in 2015. Refinancing facilities are provided to banks and non bank financial institutions at the bank rate under the scheme. Till the end of June 2017, BDT 11.2 billion was disbursed under this scheme against 2584 enterprises on revolving basis (Table 9.5).

Refinance Fund for New Entrepreneurs under Cottage, Micro and Small Categories

9.21 In order to provide start-up capital to new cottage, micro and small enterprises,

Bangladesh Bank has created a new fund amounting to BDT 1.0 billion from its own source. Under this fund, the prospective entrepreneurs selected and trained by recognized public and private training providers get financing facilities at 10 percent interest rate (bank rate +5 percent). At the end of June 2017, BDT 0.2 billion was refinanced to banks and non bank financial institutions against their financing to 340 new enterprises (Table 9.5).

Islamic Shariah based Refinance Scheme

9.22 With the objective of increasing the involvement of Islamic banks and non bank financial institutions in financing SMEs, a special refinance fund under Islamic Shariah mode was created in Bangladesh Bank in September 2014. Under this fund, Islamic banks and non bank financial institutions get refinance against their financing to agro based industries, small enterprises (including women led SMEs) and new entrepreneurs in cottage, micro and small industries sector. At the end of June 2017, BDT 3.6 billion was refinanced to banks and NBFIs against their financing to 553 enterprises (Table 9.5).

Refinance to Women Entrepreneurs

9.23 Bangladesh Bank is encouraging all banks and NBFIs to provide loan to women entrepreneurs at 9.0 percent (bank rate+4.00%) 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 as well as provide credit to new women entrepreneurs under cottage, micro and small industries sectors. In addition, all banks and NBFIs

have been directed to sanction loans at least BDT 2.5 million to women entrepreneurs with personal guarantee but without collateral under refinance facilities provided by BB. An amount of total BDT 20.3 billion was refinanced to women entrepreneurs at the end of June 2017 against 19,098 enterprises (Table 9.5).

New Entrepreneurs Creation and Entrepreneurs' Development

9.24 To scale up 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 Bangladesh Bank has also taken steps for creation and development of new entrepreneurs. To this end, Bangladesh Bank will provide market oriented

job training to 10,200 people in the next three years to start their own SME business or be employed in the SME sector. As of June 2017, 5,164 trainees enrolled in different courses. Already 3,503 trainees received certificate after successful completion and 2,114 trained personnel have been employed in different sectors and a dedicated refinance scheme has already been created by BB to support those new entrepreneurs.

Implementation of New Projects

Urban Building Safety Project (UBSP)

9.25 With the intention of creating a safe working environment in the RMG sector a project named "Urban Building Safety Project" has been established under the 36th Japanese ODA package through a loan agreement signed on 13 December 2015 between the Government of Japan (represented by JICA)

Table 9.5 Statement of refinance on SMEs under different refinance schemes of BB
(billion BDT)

Name of the Fund	Budget/ Fund	Type of Enterprises	Refinance upto 30 June 2017		Remarks
			Number of Enterprises	Amount of refinance	
1. BB Fund	8.5	General	12,717	12.26	Ongoing
		Women Enterprises	18,268	19.35	
		Sub-Total	30,985	31.61	
2. EGBMP (IDA Fund)	1.16	-	3,160	3.13	Closed
3. SMESDP (ADB-1) Fund	2.02	General	3,134	3.18	Closed
		Women Enterprises	130	0.17	
		Sub-Total	3,264	3.35	
4. SMEDP (ADB-2) Fund	7.33	General	13,192	6.99	Closed
		Women Enterprises	453	0.48	
		Sub-Total	13,645	7.47	
5. JICA FSPDSME Fund	3.77	General	682	5.56	Refinancing continues using RFA
		Women Enterprises	16	0.16	
		Sub-Total	698	5.72	
6. Refinance Scheme for Agro-based product processing Industries	4.50	-	2,584	11.23	Ongoing
7. Refinance Scheme for new entrepreneurs	0.5	General	190	0.15	Ongoing
		Women Enterprises	150	0.03	
		Sub-Total	340	0.18	
8. Islamic Shariah based Refinance Fund	3.75	General	472	3.48	Ongoing
		Women Enterprises	81	0.11	
		Sub-Total	553	3.59	
Grand Total			55,229	66.28	
Refinance against Women Entrepreneurs			19,098	20.30	

Source: : SME & Special Programmes Department, Bangladesh Bank

and Government of Bangladesh. Under this agreement, JICA will provide JPY 12,086 million; of which JPY 4,129 million (equivalent BDT 2.7 billion) is earmarked for two step loan (TSL) purposes. The TSL component will be managed and implemented by SME&SPD of BB in accordance with approved operating guideline of the project.

Local Finance Initiatives (LFI)

9.26 A project named “Local Finance Initiatives (LFI) (FDIPP)” has been established under the finance of United Nations Capital Development Fund (UNCDF) with a view to support prospective women SME entrepreneurs in certain group for business development and making them eligible to avail loan facility from banking sector by providing collateral support. A Credit Guarantee Scheme under this pilot project is on the way.

Microcredit Operations of Grameen Bank and the Large MFIs

9.27 The success of Bangladesh Microfinance operation is now globally accepted issue. Microcredit provides the corridor of access to credit and has been playing the major role in rural finance. It is considered as a tool for poverty alleviation and income generation. In addition, it plays a productive role in the country’s overall investment by increasing savings from remote areas. BB has taken strong pro-active measures to improve the access to credit and other financial services specially for the unbanked and poor segment of population of the country. ICT based new financial instruments (mobile banking) have changed the landscape of financial services by generating opportunities for the poor to access them in both rural and urban areas. More than

Table 9.6 Microcredit operations of the Grameen Bank and large MFIs

	(billion BDT)		
	FY15	FY16	FY17
1. Disbursement	507.92	662.61	831.56
i) Grameen Bank	139.18	169.33	207.89
ii) BRAC	172.57	218.51	266.63
iii) ASA	146.39	209.05	269.59
iv) TMSS	23.48	26.20	33.06
v) BURO Bangladesh	26.30	39.52	54.39
2. Recovery	448.87	444.27	731.74
i) Grameen Bank	135.63	181.00	182.70
ii) BRAC	150.82	193.60	238.98
iii) ASA	117.95	176.49	234.87
iv) TMSS	20.92	24.52	29.14
v) BURO Bangladesh	23.56	31.55	46.05
3. Outstanding Loans	479.79	396.75	496.24
i) Grameen Bank	91.29	109.39	134.57
ii) BRAC	193.46	127.83	155.48
iii) ASA	153.57	120.28	154.71
iv) TMSS	25.01	14.82	18.70
v) BURO Bangladesh	16.47	24.43	32.78
4. Loans Overdue	6.91	7.47	7.80
i) Grameen Bank	1.34	1.27	0.56
ii) BRAC	2.96	3.02	2.35
iii) ASA	1.89	2.38	3.67
iv) TMSS	0.35	0.33	0.56
v) BURO Bangladesh	0.38	0.48	0.66
5. Overdue as percentage of outstanding	1.44	1.88	1.57
i) Grameen Bank	1.47	1.16	0.41
ii) BRAC	1.53	2.36	1.51
iii) ASA	1.23	1.98	2.37
iv) TMSS	1.39	2.24	3.02
v) BURO Bangladesh	2.28	1.96	2.00

Source: Microcredit Regulatory Authority (MRA)

a thousand of NGO-MFIs are operating in Bangladesh. The number of registered MFIs as well as the number of borrowers and savings per borrower has been steadily increasing. At the end of June 2017, 783 licensed MFIs and 167 provisional licensed MFIs provided microfinance services to 28.9 million people which was 27.58 million in FY16.

9.28 Palli Karma Sahayak Foundation (PKSF) has been established in line with the own thoughts and ideas of the Government of Bangladesh to broaden and smoothen microfinance process. Since its inception in May 1990, the PKSF has been working as an apex microcredit funding and capacity building

organisation to alleviate poverty by providing microcredit to the poor through its partner organisations (POs). The loan given by PKSF to 274 POs was BDT 277.6 billion in FY17, which was BDT 31.2 billion or 12.7 percent higher than BDT 246.4 billion in FY16.

Roadmap for FY18

9.29 To attain the 7.4 percent GDP growth rate and to keep pace with the population growth, agriculture should grow at a constant rate of 4.0-4.5 percent per year. Therefore, the major challenges for Bangladesh's agriculture are to raise productivity and profitability, increase diversifications of production in line with consumption, maintain food safety and quality,

expand irrigation and farm mechanisation and develop resilience to climate change impacts.

9.30 In view of this, Bangladesh Bank has announced its annual agricultural and rural credit policy and programme for FY18 with the disbursement target of BDT 204.0 billion which is 16.2 percent higher than the disbursement target of BDT 175.5 billion in FY17. BB also projected the target of SME lending at BDT 1338.5 billion till December 2017. In order to develop these sectors further greater focus has been placed on ensuring adequate flow of credit to various segments in both sectors that will lead the sectors towards sustainable development.