

Monthly Report On Agricultural and Rural Financing¹



December 2016

**Research Department
Bangladesh Bank**

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Agricultural and Rural Financing Report, December 2016

Executive Summary

Agricultural sector is playing a vital role for employment generation and poverty alleviation in Bangladesh. Bangladesh Bank (BB) has taken a number of initiatives to increase flow of funds in rural areas through agricultural and SME loans under its intensive financial inclusion strategies. BB has instructed all private and foreign banks to disburse at least 2 percent of their net loan and advance as agricultural credit. It is 5 percent for the 9 new commercial banks of their total loan and advance to disburse as agricultural credit².

Annual agricultural credit disbursement target was fixed at Tk. 17550.00 crore in FY17 which was 7.01 percent higher compared to the preceding year's target of Tk. 16400.00 crore. In December 2016, actual agricultural credit disbursement by all banks stood at Tk. 2361.98 crore or 8.84 percent lower compared to the same month of the preceding year. Recovery of agricultural credit stood at Tk. 2021.89 crore in December 2016 which was 12.47 percent lower compared to the same month of the last year. Outstanding balance (including interest) of agricultural credit stood at Tk. 35904.68 crore at the end of December 2016 compared to Tk. 32536.81 crore in December 2015. Overdue of agricultural credit stood at Tk. 6430.50 crore at the end of December 2016 compared to Tk. 6210.41 crore in December 2015. Overdue as percentage of outstanding agricultural loan stood at 17.91 percent at the end of December 2016 compared to 19.09 percent at the end of December 2015. During July-December of FY17 total agricultural credit stood at Tk. 9933.05 crore and total recovery of agricultural credit stood at Tk. 8991.31 crore.

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

The commercial banks did not avail any refinance facilities from Bangladesh Bank in December 2016 and an amount of Tk. 30.00 crore was recovered against past refinance due from different banks and financial institutions. In December 2016, Grameen Bank and other large nine NGOs disbursed Tk. 7474.35 crore as microcredit and recovered Tk. 6690.85 crore. Their outstanding balance stood at Tk. 45193.51 crore whereas the overdue stood at Tk. 765.11 crore as on December 2016.

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

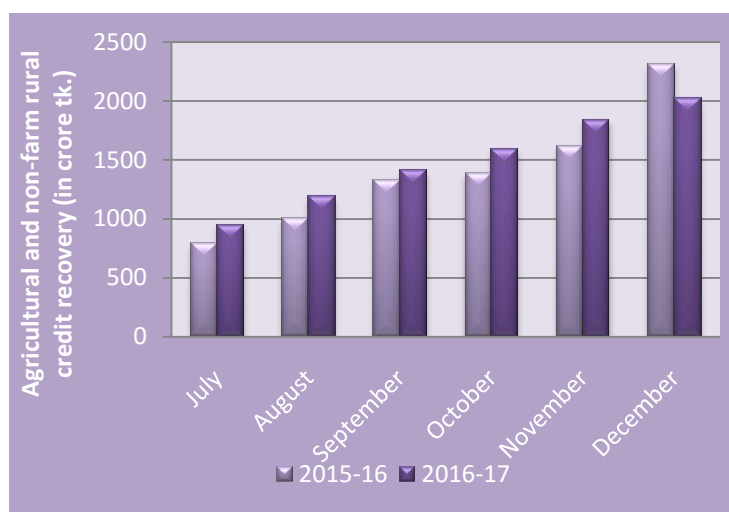
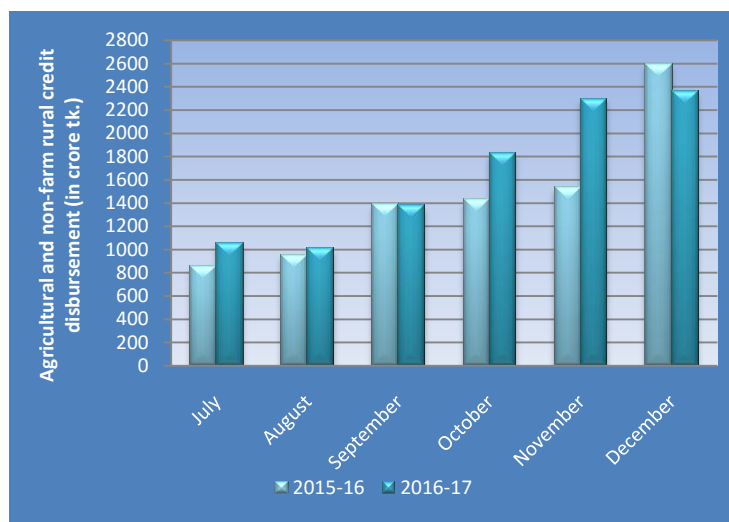
² - Agricultural & Rural Credit Policy and Program for the FY 2016-2017, page-12

Disbursement Target

The disbursement target by all scheduled banks was fixed at Tk. 17550.00 crore for FY17 which was Tk. 1150.00 crore or 7.01 percent higher than that of previous year's target of Tk. 16400.00 crore. The disbursement targets of all state-owned banks (Commercial and Specialized) were fixed at Tk. 9,290.00 crore and PCBs & FCBs targets were fixed at Tk. 8260.00 crore which is 52.93 percent and 47.07 percent of total agricultural credit disbursement target respectively. The Agricultural and Rural Credit Policy and Programme for 2016-17 was formulated by BB with the target of extending the credit support in achieving desired level of agricultural production, food security, poverty alleviation and employment creation.

Disbursement

In December 2016, actual disbursement of agricultural credit under the annual disbursement of agricultural credit programme stood at Tk. 2361.98 crore, which was 2.77



percent higher and 8.84 percent lower than Tk. 2298.36 crore in the previous month and Tk. 2591.08 crore in the same month of previous year respectively (Chart-1). During July-December of FY17, actual disbursement of agricultural credit stood at Tk. 9933.05 crore which was Tk. 8755.99 crore in the same period of the previous year. The target attainment was 56.60 percent in December 2016.

Recovery

In December 2016, recovery of agricultural credit stood at Tk. 2021.89 crore which was Tk. 1842.59 and Tk. 2309.88 crore in the previous month and the same month of previous year respectively (Chart-1). In July- December of FY17 agricultural credit recovery stood at Tk. 8991.31 crore which was Tk. 8421.35 crore in the same period of previous year.

Refinance

In December 2016 and in the same month of the previous year, Bangladesh Bank did not provide any refinance facility to any institutions. An amount of Tk. 30.00 crore was recovered against past refinance loan due from different banks and financial institutions which was also Tk. 30.00 crore in the same month of the previous year. During July- December of FY17, Bangladesh Bank did not provide any refinance facilities although it was Tk. 500 crore in the same period of previous year. During the period, total Tk. 180 crore was recovered against past refinance loan, which was Tk. 230.10 crore in the same period of previous year (Table-03).

At the end of December 2016, total outstanding balance (including interest) of refinance facilities enjoyed by banks (BKB, RAKUB, BSBL) and other institution (BRDB) from Bangladesh Bank stood at Tk. 3355.06 crore which was Tk. 923.72 crore or 21.57 percent lower than Tk. 4282.66 crore at the end of December 2015.

Bangladesh Rural Development Board (BRDB)

In December 2016, Bangladesh Rural Development Board (BRDB) disbursed Tk. 72.31 crore from its own source and recovered Tk 69.83 crore which was Tk. 73.52 crore and Tk. 68.98 crore in the previous month respectively (Table-02).

Bangladesh Shomobay Bank Limited (BSBL)

In December 2016, as a non-scheduled bank BSBL disbursed Tk. 0.75 crore and recovered Tk 1.22 crore which was Tk. 0.21 crore and Tk. 0.81 crore in the previous month respectively (Table-02).

Agricultural Credit Program to the Sharecroppers

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

Therefore, total agricultural credit disbursement stood at Tk. 10615.56 crore including all scheduled banks (Tk. 9933.05 crore), agricultural credit to sharecroppers under refinance of Bangladesh Bank (Tk. 287.74 crore) and BRDB’s agricultural and rural credit from its own fund (Tk. 394.77 crore) during FY17 up to December 2016.

Microcredit Operations by Grameen Bank & NGOs

In December 2016, Grameen Bank and other large nine NGOs (BRAC, ASA, Proshika, TMSS, RDRS Bangladesh, CARITAS Bangladesh, Jagoroni Chakra Foundation, Society for Social Services [SSS], Shakti Foundation for Disadvantaged Women) disbursement of credit for income generating productive rural activities under their microcredit programme stood at Tk. 7474.35 crore through their around 9643 branches reached to 26.54 million members. It is noted that Grameen Bank, BRAC and ASA have been playing a major role in micro credit disbursement with 88.97 percent share in total disbursement of December 2016. However, in December 2016, total recovery of all micro credit providers stood at Tk. 6690.85 crore. At the end of December of FY17, total outstanding balance and overdue of those institutions stood at Tk. 45193.51 crore and Tk. 765.11 crore respectively. During this period, the overdue as percentage of outstanding balance became only 1.69 percent.

Palli Karma Shahayak Foundation³

Palli Karma Shahayak Foundation (PKSF) extended loan amounting to Tk. 355.01 crore to its 276 POs (Partner Organizations) in November, 2016 and recovered Tk. 249.82 crore. Up to November, 2016 PKSF's outstanding balance and overdue stood at Tk. 4196.65 crore and Tk. 175.07 crore respectively.

Measures Taken by Bangladesh Bank to Facilitate Rural Financing

- As per GBCSRD circular no: 01/2014, 14 May 2014, Bangladesh Bank decided to form a revolving fund of Tk. 200.00 crores under the “Refinance Scheme for Tk. 10 account holders (small/marginal/landless/natural disaster affected farmers and micro/small traders)” under financial inclusion program. Amendments have been included through the subsequent circular no: 03, 22 December 2014 which are appended below:
 - Banks will realize maximum 9.50 percent annual interest rate (Bank Rate 5.00% + maximum 4.50%) from credit disbursement against this fund at borrower's level.
 - Bank will charge maximum 7.00 percent rate of interest (Bank Rate 5.00% + maximum 2.00%) from MFI for disbursement of credit through MFI linkage.
 - MFIs will realize interest rate at 9.50 percent through credit disbursement directly to the borrower's.
 - Banks will disburse maximum portion of the fund of refinance scheme to the borrower's level directly.
- Bangladesh Bank declared the Agricultural and Rural Credit Policy and programme for the fiscal year 2016-2017. All scheduled banks operating in Bangladesh and the BRDB had been advised to instruct their concerned sections to follow and implement the policy and programme and to inform the ACD about branch-wise and Micro-finance based (where applicable) credit target under the total targeted programme. (Ref: ACD Circular No. 01; 31 July 2016)

- According to the ACD Circular No. 02; 31 July, 2016, the commercial banks those have Agent Banking activities and those are willing to start, will be able to participate in the agricultural and rural credit disbursement program through Agent Banking operations alongside the ongoing agricultural credit disbursement. All the scheduled banks are instructed to comply with the instructions given in the referred circular. The main features of the circular are as follows;
 - All concerned banks have to be active to disburse 60.00% of the bank's annual target in the crops sector including agricultural and rural credit through Agent Banking.
 - Diminishing rate of interest system may be applied in realization of loan installments.
 - Banks will impose maximum 0.50% commission/service charge (including VAT) from the borrowers in addition to the stipulated interest rate and no other commissions/fees will be charged. Bank will credit this commission/service charge directly to the agents account and agent will not collect any commission/service charge from the borrowers.
- According to ACD circular no. 03, 18 August, 2016, an amendment has been made to section 8 (B) of ACD circular no. 02, 02 June, 2015. Scheduled banks are instructed not to realize any subsidiary deposit from the said borrowers. All other conditions of ACD circular no. 02, 02 June, 2015 and ACD circular no. 03, 25 August, 2015 will remain unchanged.

Bangladesh Bank is providing policy directions to promote inclusive economic growth and to expedite credit flow to all sub-sectors in agriculture and off-farm activities. Agriculture sector has experienced a steady rise in crop production over the years as high attention has been given to the sector. Non-crop sectors like fisheries and livestock & poultry farm are also gaining momentum. However, during FY17, it is observed that agricultural credit disbursement in all subsectors like crops, irrigation equipment, live-stock & poultry farm, and fisheries were higher than the same period of the previous year. Therefore, to promote the stakeholders of the rural areas aiming to boost up both crop and non-crop production, there is a scope to speed up credit disbursement and provide refinance facility at a low interest rate in these sectors. Agricultural production must be boosted up by raising productivity through channeling more credit in both crop and non-crop sectors which is also necessary to enhance sustainable growth of this sector.