

Monthly Report On Agricultural and Rural Financing¹



May 2017

**Research Department
Bangladesh Bank**

¹The report has been prepared by Internal Economics Division, Research Department, Bangladesh Bank (Central Bank of Bangladesh). Comments on any aspects of the report are highly welcome and can be sent to Mr. Anwar Aftab Ahmed, Deputy General Manager, Research Department, Bangladesh Bank. E-mail: anwar.ahmed@bb.org.bd; Ms. Zahira Hasin, Joint Director, Research Department, Bangladesh Bank. E-mail: zahira.hasin@bb.org.bd and Razeul Islam, Assistant Director, Research Department, Bangladesh Bank. E-mail: razeul.islam@bb.org.bd;

Report Preparation Committee

Chief Coordinator

Dr. Md. Akhtaruzzaman
Economic Adviser

Coordinator

Asish Kumar Dasgupta
General Manager

Team Members

Anwar Aftab Ahmed
Deputy General Manager

Zahira Hasin
Joint Director

Razeul Islam
Assistant Director

Executive Summary

Rural economy of Bangladesh, especially agriculture, has been playing a vital role to reduce poverty. 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. In addition to disbursement target for BKB and RAKUB, 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 credit.

Annual agricultural credit disbursement target was fixed at Tk. 17550.00 crore for FY17 which was 7.01 percent higher compared to the preceding year's target of Tk. 16400.00 crore². In May 2017, actual agricultural credit disbursement by all banks stood at Tk. 1690.88 crore or 28.75 percent higher compared to the same month of the preceding year. Recovery of agricultural credit stood at Tk. 1305.79 crore in May 2017 which was 6.58 percent lower compared to the same month of the last year. During July-May FY17 total agricultural credit stood at Tk. 18935.57 crore or 107.89 percent of total annual disbursement target. Total recovery of agricultural credit stood at Tk. 16649.09 crore during July-May FY17. Outstanding balance (including interest) of agricultural credit stood at Tk. 37618.05 crore at the end of May 2017 or 16.08 percent higher compared to Tk. 32408.32 crore in May 2016. Overdue of agricultural credit stood at Tk. 6136.81 crore at the end of May 2017 which was 5.42 percent higher compared to Tk. 5821.38 crore in May 2016. Overdue as percentage of outstanding agricultural loan stood at 16.31 percent at the end of May 2017 compared to 17.96 percent at the end of May 2016.

Bangladesh Bank initiated a special agricultural refinance program through BRAC for the sharecroppers with a short term revolving fund of Tk. 600 crore for the tenure from July 2015 to June 2018³.

Bangladesh Bank did not provide any refinance facilities during July-May FY17, although it was Tk. 500 crore in the same period of the preceding year. During July-May FY17 Tk. 330 crore was recovered, which was Tk. 870.10 crore in the same period of previous year.

In May 2017, Grameen Bank and other large nine NGOs disbursed Tk. 8368.11 crore as microcredit and recovered Tk. 7504.91 crore. Their outstanding balance stood at Tk. 50809.20 crore whereas the overdue stood at Tk. 872.13 crore as on May 2017.

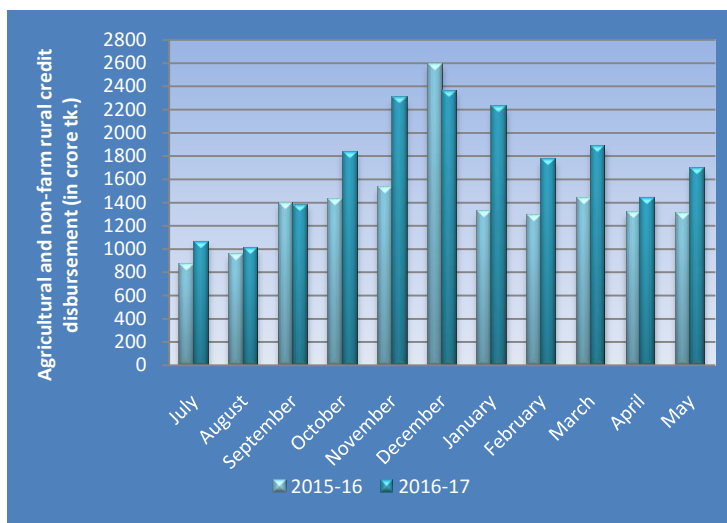
Bangladesh bank is continuously providing policy directions to promote sustainable inclusive economic growth and to expedite credit flow to all sub-sectors of agriculture and non-farm activities.

² Agricultural & Rural Credit Policy and Program for the FY 2016-2017, page-12-13

³ Agricultural Credit Department, Bangladesh Bank

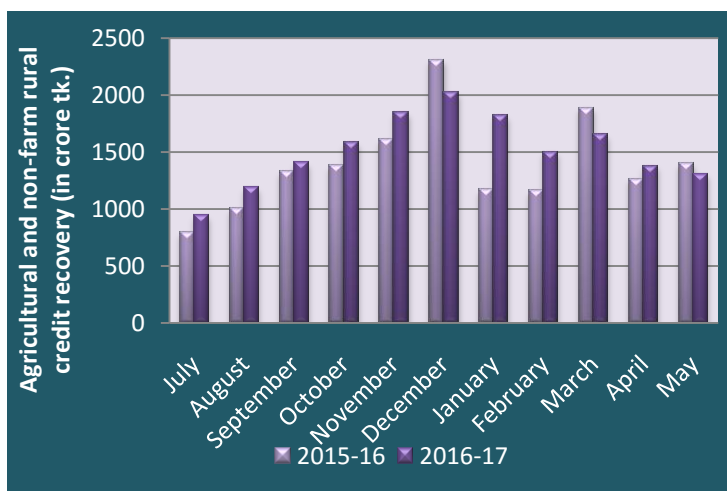
Disbursement Target

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.



Disbursement

In May 2017, actual disbursement of agricultural credit stood at Tk. 1690.88 crore, which was 17.89 percent higher than Tk. 1434.27 crore in the previous month and 28.75 percent higher than Tk. 1313.26 crore in the same month of previous year respectively. During July-May FY17, actual disbursement of agricultural credit stood at Tk. 18935.57 crore which was Tk. 15441.41 crore in the same



period of the previous year. The target attainment was 107.89 percent in May 2017.

Recovery

In May 2017, recovery of agricultural credit stood at Tk.1305.79 crore which was Tk. 1378.34 and Tk. 1397.76 crore in the previous month and the same month of previous year respectively. In July-May of FY17 agricultural credit recovery stood at Tk. 16649.09 crore which was Tk. 15307.39 crore in the same period of previous year.

Refinance

In May 2017 Bangladesh Bank did not provide any refinance facility to any financial institutions. An amount of Tk. 30.00 crore was recovered in May 2017 which was also Tk. 30.00 crore in the same month of the preceding year. It may be mentioned that, during July-May FY17, Bangladesh Bank did not provide any refinance facilities although it was Tk. 500 crore in the same period of

the preceding year. During July-May FY17 Tk. 330.00 crore was recovered, which was Tk. 870.10 crore in the same period of the preceding year.

At the end of May 2017, total outstanding balance (including interest) of refinance facilities stood at Tk. 3242.76 crore which was Tk. 458.80 crore or 12.39 percent lower than Tk. 3701.56 crore at the end of May 2016.

Bangladesh Rural Development Board (BRDB)

In May 2017, Bangladesh Rural Development Board (BRDB) disbursed Tk. 69.85 crore from its own source and recovered Tk. 65.05 crore which was Tk. 75.53 crore and Tk. 70.28 crore in the previous month respectively.

Bangladesh Shomobay Bank Limited (BSBL)

In May 2017, as a non-scheduled bank BSBL disbursed Tk. 0.85 crore and recovered Tk 2.21 crore which was Tk. 0.21 and Tk. 0.38 crore in the previous month respectively.

Agricultural Credit Program to the Sharecroppers

A special agricultural credit programme named “Agricultural Credit Programme to the Sharecroppers” was taken by Bangladesh Bank in FY 2009-10 with an amount of Tk. 500.00 crore (Tk. 450 Crore Short term and Tk. 50 Crore Midterm) as revolving fund under the refinance scheme of Bangladesh Bank and is being implemented by BRAC and its duration was extended for another 3 years from July, 2012 to June, 2015. As the programme has played an important role to improve socio economic condition of the sharecroppers, Bangladesh Bank has extended the program for next 3 financial years with the amount Tk. 600 crore on short term basis (from July 2015 to June 2018). At the end of May 2017 the outstanding credit stood at Tk. 516.60 crore under the programme.

Microcredit Operations by Grameen Bank & NGOs

In May 2017, Grameen Bank and other large nine NGOs (BRAC, ASA, Proshika, TMSS, RDRS Bangladesh, CARITAS Bangladesh⁴, Jagoroni Chakra Foundation, Society for Social Services [SSS], Shakti Foundation for Disadvantaged Women) disbursed credit for income generating productive rural activities under their microcredit programme stood at Tk. 8368.11 crore through their 9756 branches and reached 26.93 million members. It is noted that Grameen Bank, BRAC and ASA have been playing a major role in micro credit disbursement with 89.83 percent share in total disbursement of May 2017. However, in May 2017, total recovery of all micro credit providers stood at Tk. 7504.91 crore. At the end of May of FY17, total outstanding balance of

⁴ Data of April 2017

those institutions stood at Tk. 50809.20. During this period, the overdue as percentage of outstanding balance became only 1.72 percent.

Palli Karma Shahayak Foundation⁵

Palli Karma Shahayak Foundation (PKSF) extended loan amounting to Tk. 297.20 crore to its 276 POs (Partner Organizations) in February, 2017 and recovered Tk. 194.92 crore. Up to February, 2017 PKSF's outstanding balance and overdue stood at Tk. 4504.33 crore and Tk. 178.72 crore respectively.

Recent Measures Taken by Bangladesh Bank to Facilitate Rural Financing

- Bangladesh Bank declared the Agricultural and Rural Credit Policy and programme for the FY17. All scheduled banks and the BRDB was advised to follow and implement the policy and programme and to inform the Agricultural Credit Department (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. 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.
- According to ACD circular no. 01, dated 24 April 2017, Bangladesh Bank issued directives for banks and FIs to postpone collection of loan installments from the flood affected farmers of haor area until the situation improves and to disburse adequate agricultural loans.

5 Data of February 2017

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, fisheries and agri-equipments were higher than the same period of the previous year. 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.