

Monthly Report On Agricultural and Rural Financing¹



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**Research Department
Bangladesh Bank**

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Executive Summary

Agriculture is the main driving force of Bangladesh's economy; despite its contribution to GDP is lower than other sectors. In Bangladesh, about 45.10 percent of labor force is engaged in this sector². Hence, agricultural and rural economy of Bangladesh is playing a vital role to reduce poverty from the country. A number of initiatives have been taken by Bangladesh Bank (BB) to increase flow of funds in rural areas through agricultural and SME loans under its intensive financial inclusion strategies.

Annual agricultural credit disbursement target was fixed at Tk. 20400.00 crore for FY18 which was 16.24 percent higher than that of FY17.

In October 2017, actual agricultural credit disbursement by all banks stood at Tk. 1969.02 crore, which was 7.66 percent higher than that of the same month of the preceding year. Recovery of agricultural credit stood at Tk. 1614.34 crore in October 2017, which was 1.89 percent higher than that of the same month of the last year.

During July-October 2017, total agricultural credit disbursement stood at Tk. 6204.76 crore, which is 30.42 percent of the Annual agricultural credit target. Total recovery of agricultural credit stood at Tk. 6178.15 crore during July-October 2017. Outstanding balance (including interest) of agricultural credit stood at Tk. 39222.04 crore at the end of October 2017, which was 12.65 percent higher than Tk. 34816.53 crore at the end of October 2016, due mainly to postpone recovery in Haor and flood affected areas. Overdue of agricultural credit stood at Tk. 6468.88 crore at the end of October 2017 which was 2.79 percent higher than Tk. 6293.27 crore at the end of October 2016. Overdue of agricultural credit as percentage of outstanding stood lower at 16.49 percent at the end of October 2017 compared to 18.08 percent at the end of October 2016.

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

In October 2017, Grameen Bank and other large nine NGOs disbursed Tk. 6251.73 crore as microcredit and recovered Tk. 6825.99 crore. The total outstanding balance of micro credit of all these organizations stood at Tk. 51906.15 crore of which the overdue micro credit stood at Tk. 951.71 crore at the end of September 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 Bangladesh Labor Survey 2013.

³ Agricultural Credit Department, Bangladesh Bank.

Note: FY indicates financial year (July-June).

100 crore= 1billion.

1 crore =10 million.

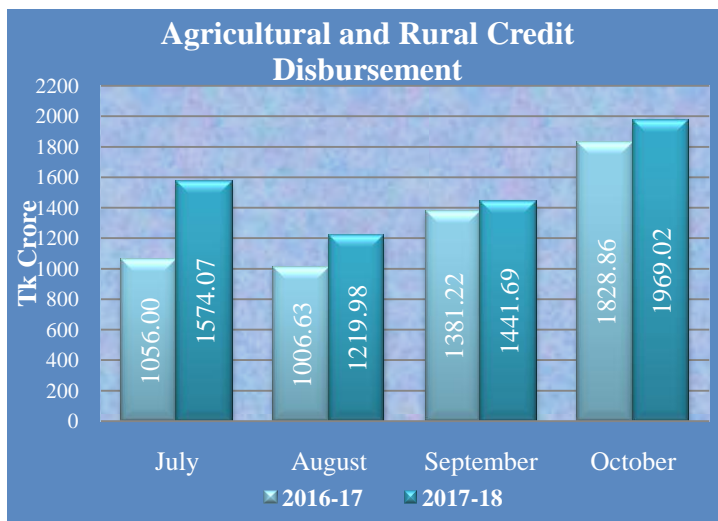
Disbursement Target

The disbursement target by all scheduled banks is fixed at Tk. 20400.00 crore for FY18, which is Tk. 2850.00 crore or 16.24 percent higher than Tk. 17550.0 crore target for FY17 and it is 2.85 percent lower than the actual disbursement in FY17. The disbursement target of all state-owned banks (commercial and specialized) was fixed at Tk. 9590.00 crore and PCBs & FCBs target was fixed at Tk. 10810.00 crore which were 47.01 and 52.99 percent respectively of total agricultural credit disbursement target.

Disbursement

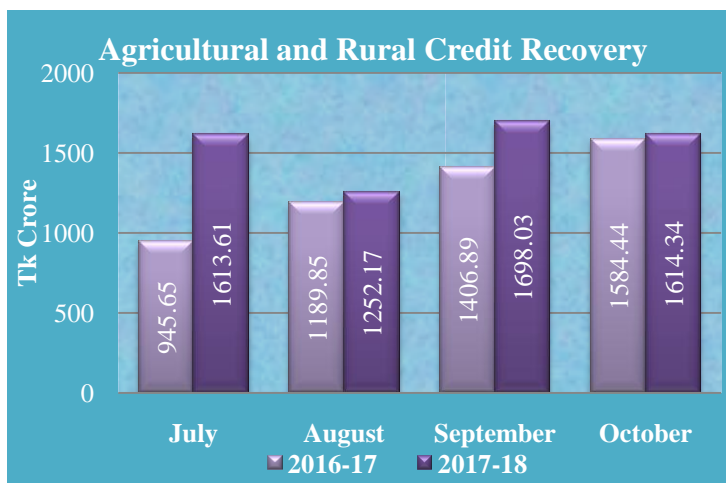
In October 2017, actual disbursement of agricultural credit stood at Tk. 1969.02 crore, which was 36.58 percent higher than that of the preceding month and 7.66 percent higher than that of the same month of the preceding year (Table-1).

During July-October 2017, actual disbursement of agricultural credit stood at Tk. 6204.76 crore compared to Tk. 5272.71 crore in the same period of last year. The achievement was 30.42 percent of the total target up to October 2017.



Recovery

In October 2017, recovery of agricultural credit stood at Tk. 1614.34 crore which is 4.93 percent lower than Tk. 1698.03 crore of the preceding month and 1.89 percent higher than Tk. 1584.44 crore for the same month of preceding year. During July-October 2017 the recovery was TK 6178.15 crore (Table-1).



Outstanding

At the end of October 2017, total outstanding agricultural credit stood at Tk. 39222.04 crore which was 12.65 percent higher than Tk. 34816.53 crore at the end of October 2016 due mainly to postpone recovery in Haor and flood affected areas.

Overdue

Total overdue agricultural credit stood at Tk. 6468.88 crore at the end of October 2017 which was 2.79 percent higher than Tk. 6293.27 crore at the end of October 2016. The overdue agricultural loan as percentage of outstanding stood 16.49 percent at the end of October 2017 (Table-1).

Refinance

In FY18, Bangladesh Bank did not provide any refinance facility to banks and financial institutions (Table-2).

At the end of June 2017, total outstanding (including interest) refinance facilities stood at Tk. 3246.96 crore compared to Tk. 3476.82 crore at the end of June 2016.

Bangladesh Rural Development Board (BRDB)

In October 2017, Bangladesh Rural Development Board (BRDB) disbursed Tk. 68.01 crore from its own source and recovered Tk. 67.84 crore which was Tk. 74.70 crore and Tk. 60.82 crore respectively in the preceding month. During July-October 2017, the actual disbursement stood at Tk. 272.22 crore and the recovery was Tk. 256.97 crore (Table-03).

Bangladesh Shomobay Bank Limited (BSBL)

In October 2017, BSBL, a non-scheduled bank, disbursed Tk. 0.25 crore and recovered Tk. 0.79 crore, which was Tk. 0.05 and Tk. 0.93 crore respectively in the preceding month. During July-October 2017, the actual disbursement stood at Tk. 0.66 crore and recovered Tk. 3.24 crore (Table-3).

Agricultural Credit Program to the Sharecroppers

A special agricultural credit program named “Agricultural Credit Program to the Sharecroppers” was taken by Bangladesh Bank in FY09 with an amount of Tk. 500.00 crore (Tk. 450 crore short-term and Tk. 50 crore mid-term) for three years as revolving fund under refinance scheme implemented by BRAC and its duration was extended for another 3 years from July 2012 to June 2015. As the program has played an important role to improve socio-economic condition of the sharecroppers, Bangladesh Bank has re-extended the program for next 3 financial years (from July 2015 to June 2018) with the amount of Tk. 600 crore on short-term basis.

Microcredit Operations by Grameen Bank & Large Nine NGOs

In October 2017, Grameen Bank and other large nine NGOs⁴ disbursed Tk. 8720.11 crore for productive and income generating activities in rural areas under their microcredit program. Under this program, about 27.27 million members got loan facility through 10001 branches. It is noted that Grameen Bank, BRAC and ASA disbursed 88.32 percent of the total microcredit during October 2017. However, in October 2017, total recovery of the microcredit stood at Tk. 8405.72 crore. At the end of October 2017, total outstanding stood at Tk. 208862.94 crore. At the end of the period, the overdue as percentage of outstanding stood at only 0.49 percent (Table-4).

⁴ BRAC, ASA, Proshika, TMSS, RDRS Bangladesh, CARITAS Bangladesh, Jagoroni Chakra Foundation, Society for Social Services [SSS], Shakti Foundation for Disadvantaged Women.

Palli Karma Shahayak Foundation

Palli Karma Shahayak Foundation (PKSF) extended loan amounting to Tk. 355.35 crore to its 277 POs (Partner Organizations) in August, 2017 and recovered Tk. 282.27 crore. Up to August 2017, PKSF's outstanding balance and overdue stood at Tk. 4423.80 crore and Tk. 183.33 crore respectively.

Recent Measures Taken by Bangladesh Bank to Facilitate Rural Financing

- Bangladesh Bank declared the Agricultural and Rural Credit Policy and Program for FY18. All scheduled banks and the BRDB were advised to follow and implement the policy and program and inform it to the Agricultural Credit Department of Bangladesh Bank (Ref: ACD Circular No. 02; 27 July 2017).
- According to the ACD Circular No. 02; 31 July, 2016, the commercial banks having Agent Banking activities and 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 banks including Agent Banks have to disburse 60.0% of annual agriculture and rural credit target in the crop sector.
 - Declining rate of interest 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 be allowed to 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, 2 June, 2015. Scheduled banks are instructed not to realize any subsidiary deposit from the said borrowers. All other conditions of ACD circular no. 02, 2 June, 2015 and ACD circular no. 03, 25 August, 2015 will remain unchanged.
- According to the ACD Circular No. 03; 22 October, 2017, Bangladesh Bank declared an integrated agriculture credit policy after modification and extension of all other previous circulars, relating to setting up agriculture credit target and achievement by the Private Commercial Banks and Foreign Commercial Banks. The main features of the circular are as follows:
 - All banks have to set up a rational agriculture credit target, which must be not less than 2.5% of net credit and advances as on 31 March of the preceding fiscal year. But the target for FY18 will remain unchanged.
 - If a bank is not able to achieve agriculture and rural credit target at the end of the fiscal year, it has to deposit the equivalent amount of unachieved target at Bangladesh Bank. Bangladesh Bank will not give interest on the deposited money. If a bank can disburse unachieved agriculture credit of previous years in whole or partly along with the following fiscal year's target, the deposit amount of money will be refunded in whole or proportionately.

- As an alternative remedial measure of the preceding section, a bank can deposit 3% of unachieved credit at Bangladesh Bank. If the bank can disburse the unachieved credit of the previous year in whole or partly along with the following two fiscal years' target, the deposited amount will be refunded in whole or proportionately. Otherwise, the deposited amount will not be refunded.
- If a bank's credit disbursement turns higher than the amount determined on the basis of net loan and advances of 31 March of the preceding fiscal year, this remedial measure will not apply.
- Statements relating to remedial measures submitted by banks to BB will be verified.

Bangladesh Bank is providing policy directions to promote inclusive economic growth and to expedite credit flow to all sub-sectors in agriculture and non-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 FY18, it is observed that agricultural credit disbursement in all sub-sectors like crops, irrigation equipments, live-stock & poultry farms, 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 the sector.