

## Agricultural and Rural Finance

### Annual Agricultural Credit Programme

8.1 In Bangladesh about 70 percent of the poor people live in rural areas and are concentrated in the agriculture sector. The performance of the agriculture sector which is about 19 percent of GDP is critical for the livelihoods of many poor households as well as for national food security. As such government policies have continued to provide support to boost the growth of the agriculture sector. However the growth of agriculture fell from 3.1 percent in FY12 to 2.2 percent in FY13. This may be due mainly to the base effect of two consecutive years of record growth and lower output due to the falling price of paddy. Specifically, the key factor behind this growth deceleration in agriculture is the decline in crop and horticulture growth from 2.0 percent in FY12 to 0.2 percent in FY13.

BB declared its annual agricultural/rural credit policy and programmes for FY13 with a disbursement target of Taka 141.30 billion, 7.60 percent higher than the actual disbursement of Taka 131.32 billion in FY12. The programme was formulated to ensure food security and alleviation of rural poverty by extending the scope of agricultural credit and more broadly through financial inclusion. Along with the crop loan, the policy provided the scope for extending adequate loan facilities for income generating activities in rural areas and agriculture allied sectors

including two other main sub sectors of agriculture - fishery and livestock. The achievement against this target was 103.80 percent. The highlights of the agricultural/rural credit policy and programme for FY13 BB's policy were:

- All private and foreign banks must disburse at least 2 percent of their total loan and advance as agricultural loan to achieve their yearly target. At the end of the financial year the undisbursed amount must be deposited in BB at bank rate for one year.
- An agricultural loan application form has to be simplified and readily available to potential and eligible farmers.
- Acknowledge receipt of the agricultural loan application form. If it is not possible to consider any application to grant a loan, the farmers need to be informed by a letter mentioning the reason for non granting the loan and a copy of the letter will be preserved in a file.
- The loan application for crop cultivation must be completed within 10 working days.
- For the sake of transparency in loan disbursement, disbursement of agricultural loan needs to be publicised at union level.
- Banks have put in place an effective monitoring system to ensure timely and

hassle free disbursement of necessary loans to real farmers and to achieve the targeted agricultural credit.

- Credit has been made available as required to establish solar energy driven irrigation pumps.
- Banks have followed the directions to conduct the agricultural credit operations in partnership with MFIs approval by MRA.
- Achievement of the agricultural and rural credit target of banks will be considered to determine CAMELS rating.

#### **Implementation of Some Important Initiatives of Agricultural Credit Programme in FY13**

- During FY13, around 3.31 million farmers got agricultural and rural credit of which 0.44 million were women who got Taka 12.45 billion as an agricultural and rural credit from different banks.
- To disburse loans in a transparent way, some banks arranged their disbursement in open gatherings at union level in presence of local public representatives, agricultural officers, teachers and other respectable persons. During FY13 around Taka 4.48 billion was disbursed among 0.15 million farmers (approximately) through 11284 open credit disbursement programmes that were arranged by different banks.
- In FY13, around 2.44 million small and marginal farmers received Taka 93.02 billion agricultural loans from different banks.
- During FY13, about Taka 88.20 million agricultural/rural credits were disbursed

among 6253 farmers living in the less developed areas of hoar, char, etc.

- Around 9.67 million accounts belonging to farmers were opened since FY10 by the state owned commercial banks with an initial deposit of Taka 10 only. BB has advised banks to disburse agricultural loan, deposit and withdraw farmers' savings and to deposit remittances through these account in addition to disbursing the agricultural input assistance provided by the Government. BB has been regularly monitoring how these accounts are operating their normal banking activities. Transactions of approximately Taka 2.94, 1.06, 0.48 and 0.19 billion have taken place as credit disbursement, savings, inward and outward remittances respectively through these accounts in FY13.
- An amount of Taka 0.75 billion has been disbursed against certain import alternative crops such as pulse, oil seed, spices and maize at a concessional rate of 4.0 percent.
- More than Taka 0.60 billion was disbursed at an interest rate of only 5.0 percent among 21904 tribal farmers in the 3 Hill Tracts districts.
- Amounts of Taka 23.90, 298.90 and 110.00 million have been disbursed to solar energy driven irrigation pumps, integrated cow rearing and bio-gas plant and solar home systems respectively.

#### **Disbursement**

8.2 The actual disbursement of Taka 146.67 billion in FY13 against the disbursement target of Taka 141.30 billion was 11.69

percent higher than the disbursement of Taka 131.32 billion in FY12.

The target attainment in FY13 was 103.80 percent against 95.16 percent in the previous year.

Table 8.1 shows the comparative position of overall disbursement and recovery of agricultural loans and Charts 8.1 and 8.2 show targets and actual disbursement of agricultural loan respectively in FY13.

Approximately 72.35 percent of the disbursements were as short term lending and the remaining 27.65 percent was in the form of long-term loans for irrigation equipment, agricultural machinery, livestock, etc. The lion's share of the short-term credit was for the production of crops and poverty alleviation programmes constituting 60.63 percent and 15.62 percent respectively of the total short-term loans (Table-8.1).

The total outstanding loan in the agricultural sector (including all banks) in FY13 increased by Taka 50.83 billion or 19.57 percent to Taka 310.58 billion from Taka 259.75 billion in FY12 (Table 8.2).

Two specialised banks viz. BKB, RAKUB and four SCBs played key role in the disbursement of agricultural and rural finance. The contribution of foreign and private commercial banks was also imperative in this regard. However, SCBs fell short of targets by 11.38 percent. On the other hand, RAKUB, FCBs and PCBs exceeded the disbursement target by 2.69, 31.26, and 13.54 percent respectively in FY13 (Table 8.2). Apart from this BRDB and BSBL disbursed Taka 5.99 billion from their own fund which raised the total disbursement to Taka 152.66 billion (including all banks) during FY13.

**Table 8.1 Comparative statement of disbursement & recovery of agricultural loan**

(billion Taka)		
Disbursement	FY12**	FY13**
1	2	3
<b>I. Disbursement (Target)</b>	<b>138.00</b>	<b>141.30</b>
a) Crops loan (other than tea)	62.38	65.38
b) Purchase and installation of irrigation equipments	4.12	4.34
c) Livestock	12.84	13.55
d) Marketing of agricultural goods	3.04	3.32
e) Fisheries	12.92	12.68
f) Poverty alleviation	14.22	12.63
g) Other agricultural activities	28.48	29.40
<b>II. Actual disbursement</b>	<b>131.32</b>	<b>146.67</b>
a) Crops loan (other than tea)	53.50	64.34
b) Purchase and installation of irrigation equipment	3.29	2.79
c) Livestock	12.44	18.03
d) Marketing of agricultural goods	2.75	2.26
e) Fisheries	10.26	13.21
f) Poverty alleviation	16.09	16.58
g) Other agricultural activities	32.99	29.46
<b>III. Term structure of loan disbursed</b>		
Short term	57.22*	106.12
Long term	25.95*	40.56
IV. Recovery	123.59	143.62
V. Total outstanding loan	259.75	310.58
VI. Overdue	60.52	52.09
VII. Overdue as percent of outstanding	23.30	16.77

Source: Agricultural Credit and Financial Inclusion Department, Bangladesh Bank.  
 \* Excluding private and foreign banks.  
 \*\* Excluding BRDB and BSBL.

## Recovery

8.3 During FY13, recovery of agricultural credit increased by 16.21 percent to Taka 143.62 billion from the recovery of Taka 123.59 billion in FY12. This was due to more comprehensive support of agricultural production through subsidies and price support on both input and output level. The increase in recovery resulted from corrective measures introduced for recovery of loans during FY13.

The overdue as percentage of outstanding agricultural loan decreased from 23.30 percent at end June 2012 to 16.77 percent at end June 2013 (Table 8.2). It is important that banks set up their recovery drive to match the harvesting seasons so that the recovery of agricultural loan is improved further in the coming years.

### Sources of Agricultural Finance

8.4 The main sources of finance in agriculture are still the state owned banks. The specialised banks viz. BKB and RAKUB and state-owned commercial banks are dominant players in the area of agricultural credit. BKB had the largest share like previous years in annual disbursement.

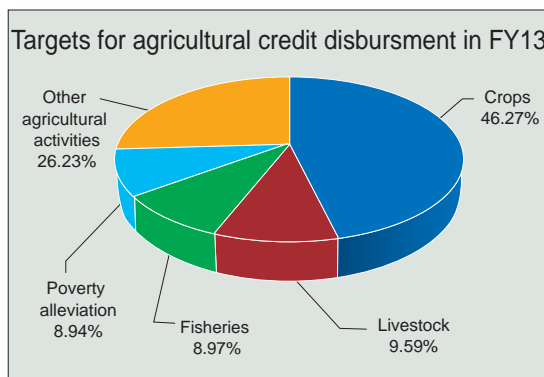
In FY13, BKB alone disbursed 31.26 percent of the total disbursement, followed by PCBs' (39.39 percent) and the SCBs (16.36 percent). The SCB's overdue loan as percentage of their outstanding loan stood at 33.37 percent in the end of FY13, while the overdue of RAKUB and BKB were recorded to be 37.30 percent and 7.91 percent respectively of their outstanding loan for the year.

On the other hand, the role of private sector domestic and foreign banks in agricultural lending is increasing remarkably, as they contributed Taka 63.48 billion, which was 43.28 percent of the total agricultural loan disbursed in FY13.

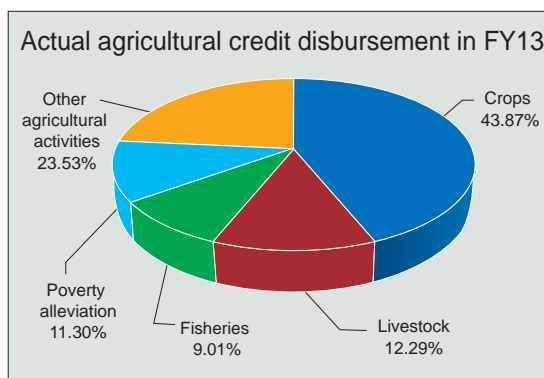
### Bangladesh Bank's Refinance against Agricultural Loans

8.5 During FY13, BKB, RAKUB and BRAC have enjoyed refinance facilities of Taka 9.67 billion from Bangladesh Bank. No other

**Chart 8.1**



**Chart 8.2**



institutions availed refinance facilities from Bangladesh Bank in FY13. An amount of Taka 6.58 billion (including interests) was recovered against refinance loans due from different banks and institutions. This left an outstanding balance of Taka 54.18 billion (including interest) as on end June 2013 for future recovery. Details of Bangladesh Bank's refinance to different institutions are shown in Table 8.3.

### Agricultural Credit Projects/Programmes under Bangladesh Bank Supervision

8.6 Some self and donor financed agricultural projects/programmes were under active supervision of Bangladesh Bank during FY13. A total amount of Taka 1.10 billion was disbursed and Taka 0.42 billion recovered

Table 8.2 Agricultural credit performance by lenders - FY13

(billion Taka)						
Lender	Disbursement Target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of outstanding
1	2	3	4	5	6	7
SCBs	27.07	23.99	21.63	24.57	73.63	33.37
BKB	46.00	45.85	66.39	10.72	135.49	7.91
RAKUB	13.00	13.35	14.75	14.54	38.98	37.30
<b>Sub Total</b>	<b>86.07</b>	<b>83.19</b>	<b>102.77</b>	<b>49.83</b>	<b>248.10</b>	<b>20.09</b>
FCBs	4.35	5.71	4.97	0	2.70	0
PCBs	50.88	57.77	35.88	2.26	59.78	3.78
<b>Sub Total</b>	<b>55.23</b>	<b>63.48</b>	<b>40.85</b>	<b>2.26</b>	<b>62.48</b>	<b>3.62</b>
<b>Grand Total</b>	<b>141.30</b>	<b>146.67</b>	<b>143.62</b>	<b>52.09</b>	<b>310.58</b>	<b>16.77</b>
<b>Summary</b>						
FY13 <sup>@</sup>	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
FY10	115.12	111.17	101.12	64.04	225.87	28.35
FY09	93.79	92.84	83.77	60.80	195.98	31.02
Source: Agricultural Credit and Financial Inclusion Department, Bangladesh Bank.						
@ excluding BRDB and BSBL.						

during FY13 under these on-going projects/programmes viz, the Agro-based Industries and Technology Development Project (ATDP), Marginal and Small Farm System Crop Intensification Project (MSFSCIP), Shashya Gudam Rin Prokalpa (SHOGORIP), Northwest Crop Diversification Project (NCDP) and Second Crop Diversification project (SCDP). The NCDP Project was launched in December 2001 and completed in June 2009, which was funded by the ADB having a credit component of Taka 1.74 billion for financing production and marketing of high value crops in sixteen north-western districts. After a successful completion of the NCDP project, the credit fund is converted into a revolving fund that will continue until June 2019. The revolving fund

will be provided to RAKUB for distribution among the farmers and agro based enterprises through four NGOs/MFIs on a reimbursement basis. A total amount of Taka 0.60 billion was disbursed to RAKUB under the project in FY13. On the other hand, a total amount of Taka 0.41 billion was disbursed in FY13 under SCDP, which is also an ADB funded project.

A special refinance scheme through BRAC for sharecroppers was continued in FY13 which BB undertook in FY10. Under this refinance scheme, BB has refinanced Taka 4.49 billion to more than 0.26 million sharecroppers in FY13.

Another refinance scheme for solar energy, biogas and ETP sector has continued in the

Particulars	FY11			FY12			FY13		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	-	2.4	37.8	-	3.42	35.65	5.00	2.2	33.42
RAKUB	1.86	1.2	17.9	2.6	1.78	19.44	0.18	1.76	16.14
BRAC	1.91	0.75	1.91	2.5	1.91	2.46	4.49	2.46	4.49
BSBL	-	0.04	0.22	-	0.04	0.18	-	0.04	0.13
BRDB	-	-	0.12	-	-	0.12	-	0.12	-
<b>Total</b>	<b>3.77</b>	<b>4.39</b>	<b>57.95</b>	<b>5.1</b>	<b>7.15</b>	<b>57.85</b>	<b>9.67</b>	<b>6.58</b>	<b>54.18</b>

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

agricultural/rural credit programme in FY13. Under this scheme, BB has been provided Taka 0.51 billion to refinance the banks.

### **Financing of Small & Medium Scale Enterprises**

8.7 Small and medium enterprises (SMEs) are playing an increasingly important role as engines of economic growth in Bangladesh. BB has undertaken different programmes to provide relatively cheaper funds to the banks and financial institutions to encourage them to engage in SME financing. SME and Special Programmes Department (SME&SPD) of BB is working to facilitate this. The Monitoring Division of SME&SPD has been set up to ensure the monitoring of SME financing activities and to obtain the facts and figures of SME development. To expand and develop this sector, Bangladesh Bank has been continuing its refinancing facilities for FY13 for Banks and NBFIs for SMEs.

An amount of total Taka 31.20 billion has been provided to different banks and financial Institutions under refinance schemes until the end of June 2013 against 38660 enterprises. Bangladesh Bank's refinance facility to banks

during FY13 to promote small and medium scale industrial enterprises under special schemes and programmes are illustrated below:

#### **A) Refinance for Small Enterprises**

46 banks and non-bank financial Institutions have signed a participation agreement with Bangladesh Bank to finance the SME sector under the following schemes:

**i) Bangladesh Bank Fund:** Bangladesh Bank introduced a refinance scheme named Small Enterprise Fund (SEF) of Taka 6.0 billion out of its own fund to support the development of small enterprises in the country. Refinance facilities under the scheme were extended for the banks and financial institutions at the bank rate against their financing to small entrepreneurs. An amount of Taka 17.86 billion has been refinanced to 44 banks and financial institutions until the end of June 2013 to support 20322 enterprises.

**ii) Enterprise Growth and Bank Modernisation Programme (EGBMP) Fund:** The IDA wing of the World Bank has provided an additional amount of USD 0.01 billion (Taka 0.58 billion) named EGBMP fund to

reinforce this scheme under a development credit agreement signed with the Government of Bangladesh for financing the development of the small enterprise sector of the country. In addition, the Government of Bangladesh allocated an amount of Taka 0.58 billion under the mentioned agreement. An amount of Taka 1.16 billion has been received, combining the IDA credit fund and Government of Bangladesh fund for refinancing. Out of this fund, an amount of Taka 3.13 billion has been provided to 32 banks and Financial Institutions (FIs) until the end of June 2013.

**iii) ADB Fund-2:** The Small and Medium-Sized Enterprise Development Project (SMEDP) was created in 2009 jointly by the contribution of ADB and Bangladesh Government. The objective of SMEDP is to provide a credit facility to enhance the access to medium to long term financing to eligible SMEs. The total fund of the SMEDP (ADB-2) is USD 0.95 billion. Out of that, ADB provided USD 0.76 billion from its special fund and GoB (BB) provided USD 0.19 billion, which is transferred from the balance of the earlier ADB-1 (SMESDP) fund. An amount of Tk.6.14 billion has been provided to banks and FIs under this fund up to end June 2013 against 11804 enterprises.

**v) JICA Two Step Loan Fund:** A loan agreement has been signed between JICA, Japan and Government of Bangladesh (BFID, MoF as the representative) on 18 May 2011 for SME development and financing. As per loan agreement, Bangladesh Bank is implementing the "Financial Sector Project for the Development of Small and Medium-Sized Enterprise" project. The Fund size is 5,000

million Japanese Yen (JPY), including a technical assistance component. The principal component of the fund is for a two- step loan of JPY 4,787.5 million. A separate Project Implementation Unit (PIU) has been formed under SME&SPD of BB to implement this project. 21 banks and 18 FIs signed Participating Agreement with Bangladesh Bank on 11 June 2012. Refinancing or pre-financing facilities are being provided to Participating Financial Institutions (PFIs) at the bank rate for lending to SME sub-projects of productive investment for a medium to long-term duration at the market rate. An amount of Taka 0.73 billion has been refinanced until the end of June 2013 against 97 enterprises under this project.

### **B) Refinance Scheme for Agro-based Product-processing Industries**

For financing the establishment of agro-based product-processing industries in the areas outside Divisional Head Quarters and Narayanganj town, Bangladesh Bank launched a scheme of Taka 1.0 billion in November 2001 out of its own fund. Refinance facilities under the scheme was provided to banks and financial institutions at the bank rate. An amount of Taka 2.72 billion has been disbursed under this scheme until the end of June 2013.

**C) Refinance to Women Entrepreneurs:** Bangladesh Bank is encouraging all banks and FIs to provide a loan to women entrepreneurs at 10 percent interest rate. A Dedicated Women Entrepreneurs Desk has been established in the SME & SPD of BB and all the banks and FIs have been

directed to do the same. They have also instructed to reserve 15 percent of total SME funds exclusively for women entrepreneurs. An amount of Taka 6.43 billion has been refinanced to Women Entrepreneurs until the end of June 2013 against 8358 enterprises.

### Microcredit Operations of Grameen Bank and the Large MFIs

8.8 Along with the Government, the MFIs are involved to provide financial services to the people and accelerate the overall economic development of the country through microcredit operations.

Although a large number of NGO-MFIs are operating, the top 4 large licensed Micro Finance Institutions (MFIs) - BRAC, ASA, TMSS and BURO Bangladesh, as well as Grameen Bank cover the large share of the total outstanding loans and savings of the sector.

In FY13, overall MFI sector disbursement has increased by 9.86 percent compared to FY12. Recovery increased by 14.49 percent in FY13 as compared to 18.61 percent increase in FY12. Their overdue as a percentage of outstanding loans increased from 3.49 percent in FY12 to 3.61 percent in FY13.

The microcredit providers own resources and PKSF's (Palli Karma Shahayak Foundation)

### 8.4 Microcredit operations of the Grameen Bank and large MFIs

(billion Taka)			
	FY11	FY12	FY13
<b>1. Disbursement</b>	<b>276.59</b>	<b>333.22</b>	<b>366.08</b>
i) Grameen Bank	102.96	115.77	120.82
ii) BRAC	74.94	97.72	112.65
iii) ASA	77.46	94.62	96.18
iv) TMSS	9.74	11.85	14.33
v) BURO Bangladesh	11.49	13.26	22.10
<b>2. Recovery</b>	<b>253.56</b>	<b>300.75</b>	<b>344.32</b>
i) Grameen Bank	92.77	107.62	116.71
ii) BRAC	73.95	86.17	103.34
iii) ASA	67.74	84.26	95.44
iv) TMSS	8.61	10.73	12.84
v) BURO Bangladesh	10.49	11.98	15.99
<b>3. Outstanding Loans</b>	<b>172.88</b>	<b>205.35</b>	<b>226.97</b>
i) Grameen Bank	71.69	79.84	83.94
ii) BRAC	45.58	57.14	66.45
iii) ASA	44.63	55.00	55.71
iv) TMSS	5.37	6.49	7.88
v) BURO Bangladesh	5.60	6.88	12.99
<b>4. Loans Overdue</b>	<b>7.21</b>	<b>7.17</b>	<b>8.19</b>
i) Grameen Bank	0.75	1.64	1.54
ii) BRAC	4.74	4.39	5.00
iii) ASA	1.31	0.74	1.20
iv) TMSS	0.20	0.22	0.28
v) BURO Bangladesh	0.21	0.18	0.18
<b>5. Overdue as percentage of outstanding</b>	<b>4.17</b>	<b>3.49</b>	<b>3.61</b>
i) Grameen Bank	1.05	2.05	1.83
ii) BRAC	10.40	7.68	7.53
iii) ASA	2.93	1.34	2.15
iv) TMSS	3.78	3.40	3.50
v) BURO Bangladesh	3.78	2.66	1.37

Source: Microcredit Regulatory Authority (MRA).

fund respectively account for nearly half and about one quarter of their resources; the rest of their funds come from loan from banks, large NGOs and external donors. The loans given by PKSF to 272 POs (Partner Organisations or NGOs) was Taka 161.28 billion in FY13 compared with Taka 136.77 billion in FY12.