Chapter-7

# Agricultural and Rural Finance

## Annual Agricultural Credit Programme

7.1 Adequate and timely disbursement of credit for agriculture and rural economic activities became necessary consequent upon heavy damage of approximately USD 2.07 billion caused by devastating flood in the first quarter of FY05. The agricultural sector - the driving force of the rural economy, experienced only 0.3 percent growth in FY05 against 4.1 percent in FY04. In the aftermath of the disaster, flow of agricultural credit disbursement was strengthened, and programme-based annual disbursement targets by the NCBs and specialized banks were pursued during the year, like in previous years, to ensure uninterrupted flow of credit for the sector. Taking into consideration the expected demand for the credit, actual disbursements of the preceding year and availability of fund, the disbursement targets for the lending banks are determined by themeselves.

The Grameen Bank and NGOs' dynamic role for the rural economic upliftment through their micro credit operations continued during the year. With successful disbursement and recovery position, their disbursement recorded Taka 41.38 billion or 83.48 percent higher than the agricultural loan of the institutional lenders. In addition, a pragmatic policy was undertaken by the Government to generate more production and employment in the country, particularly in rural areas, through promotion of SMEs.

Table 7.1 Comparative statement of disbursement & recovery of agricultural loan

(billion Taka)

| | Disbursement | FY03 | FY04 | FY05 |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| **I.** | **Disbursement (Target)** | **35.61** | **43.79** | **55.38** |
| a) | Crops loan (Other than tea) | 18.79 | 23.56 | 27.88 |
| b) | Purchase and installation of irrigation equipments | 0.24 | 0.21 | 0.23 |
| c) | Livestock | 1.86 | 2.78 | 3.84 |
| d) | Marketing of agricultural goods | 3.63 | 3.31 | 1.51 |
| e) | Fisheries | 1.18 | 1.74 | 2.77 |
| f) | Poverty alleviation | 6.69 | 8.73 | 10.95 |
| g) | Other agricultural activities | 3.22 | 3.46 | 8.20 |
| **II.** | **Actual disbursement** | **32.78** | **40.48** | **49.57** |
| a) | Crops loan (Other than tea) | 16.97 | 18.45 | 21.08 |
| b) | Purchase and installation of irrigation equipments | 0.04 | 0.04 | 0.03 |
| c) | Livestock | 1.48 | 2.48 | 2.85 |
| d) | Marketing of agricultural goods | 3.05 | 4.16 | 5.56 |
| e) | Fisheries | 0.59 | 1.11 | 1.34 |
| f) | Poverty alleviation | 7.71 | 10.20 | 11.92 |
| g) | Other agricultural activities | 2.94 | 4.04 | 6.79 |
| **III.** | **Term Structure of loans disbursed** | | | |
| | Short term | 28.15 | 33.50 | 33.93 |
| | Longer term | 4.63 | 6.98 | 15.64 |
| IV. | Recovery | 35.16 | 31.35 | 31.71 |
| V. | Total outstanding loan | 119.13 | 127.06 | 140.40 |
| VI. | Overdues | 65.26 | 62.65 | 57.81 |
| VII. | Overdue as percent of outstanding | 54.78 | 49.31 | 41.18 |

## Disbursement

7.2 The actual disbursement of Taka 49.57 billion against the disbursement target of Taka 55.38 billion during FY05 was 22.46 percent higher than the previous year's total disbursement of Taka 40.48 billion. The target attainment in FY05 was 89.51 percent as against 92.2 percent in the previous year. The disbursement fell short of target due mainly to non-achievement of disbursement targets in crop loan, purchase of irrigation equipment, livestock and fisheries sectors. On the other hand, disbursements have exceeded the targets both in marketing of agricultural goods and poverty alleviation sectors in FY05 like in FY04. However, the actual disbursement for crop loan, livestock, marketing of agricultural goods, fisheries, poverty alleviation, and other agricultural activities were higher than the previous year's disbursements.

The total outstanding loan in the agricultural sector in FY05 increased by Taka 13.34 billion or 10.50 percent to Taka 140.40 billion over the previous year's level. The increase in outstanding balance was due to higher disbursement under a special programme for agricultural rehabilitation following the devastating floods of 2004 and rescheduling of the past due loans of the farmers in flood affected areas as per Government decision. Table-1 shows the comparative position of overall disbursement and recovery of agricultural loans and Charts 7.1 and 7.2 show targets of agricultural loan disbursement and actual disbursement of agricultural loan respectively in FY05.

In disbursement of agricultural and rural finance, two specialized banks viz. BKB and RAKUB, four NCBs and BRDB played key roles. RAKUB and BRDB over performed their disbursement targets by 12.26 percent and 2.63 percent respectively. Disbursements of NCBs and BKB, on the other hand, fell short of targets by 33.02 percent and 5.00 percent respectively (Table 7.2). About 68.45 percent of disbursement was as short term lending and the rest 31.56 percent was in the form of long-term loans for irrigation equipments, agricultural machinery, livestock etc. The lion share of the short-term credit was disbursed for production of crops and poverty alleviation programmes constituting 62.13 percent and 35.13 percent respectively of total short term loans (Table 7.1).

## Recovery

7.3 Recovery of agricultural credit during FY05 increased by 1.15 percent to Taka 31.71 billion from the recovery made in FY04. Despite the decision to reschedule the overdue agricultural

Chart 7.1

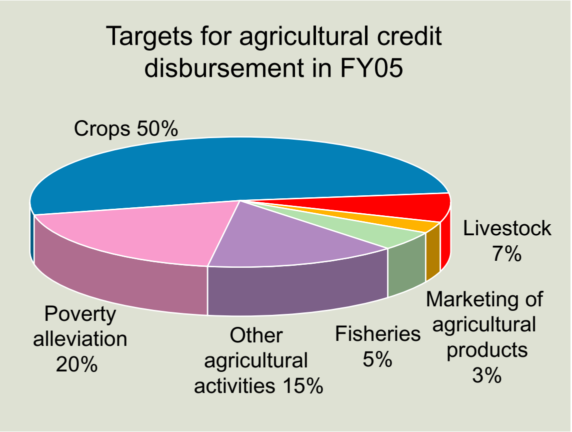
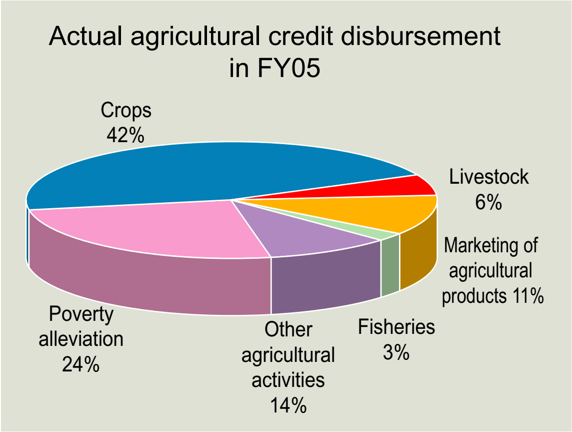



Chart 7.2




loans of the borrowers in the flood-affected areas of the country in FY04, the recovery position improved mainly due to serious recovery drive taken by the banks and institutions. Recovery of other banks including BRDB, which is also involved in agricultural lending, however, improved satisfactorily and percentage of overdue agricultural loan came down from 49.31 percent as of end June 2004 to 40.76 percent as of end June 2005 (Table 7.2).

The incentive measures introduced previously for recovery of stuck-up loans also continued in FY05 which, inter alia, included persuasion through various types of fairs, negotiations, demand notice, intensive supervision etc. The MIRACLE (maximum incentive for recovery of classified loan entirely) policy of BKB, PARL (participation of all for recovery of loan) and

BUP (bottom up planning) strategies of RAKUB may have contributed to modest improvement in recovery during FY05. It is imperative that banks should strengthen their recovery drive and incentive measures so that the recovery of agricultural loan improves further in the years to come.

**Sources of Agricultural Finance**

7.4 The state owned banks still remain main sources of finance in agriculture. Two specialized banks viz BKB and RAKUB, four nationalized commercial banks and BRDB played the key role in disbursement of agricultural loan. Among these banks, BKB had the largest share like in previous years in annual disbursement of agricultural loan. In FY05 BKB alone disbursed around 46.00 percent of the total disbursement followed by NCBs at 23.04 percent. The NCBs overdue loan as percentage of their outstanding loan stood at 45.12 percent at the end of FY05, while overdue of BKB, RAKUB and BRDB recorded 30.68 percent, 37.50 percent and 67.57 percent respectively of their outstanding during the year.

The role of private sector domestic and foreign banks in agricultural lending remained insignificant in FY05. In addition to total agricultural loan of Taka 49.57 billion disbursed in FY05, the private banks contribution was only Taka 3.01 billion during the year. The risk and uncertainties associated with the agricultural and rural finance appear to be the prime reason for lower involvement of private commercial and foreign banks in this sector. Shortage of required manpower, high cost of undertaking intensive supervision and monitoring and lack of information or wrong information about customers/borrowers may have discouraged these banks to dispense agricultural/rural credit. As there are ample opportunities of investment in agro based sector, these banks should include the sector in their business plan by removing aforesaid bottlenecks.

A high level of yet unrealized overdue of agricultural loans of NCBs and specialized banks indicates substantial amount of their stuck-up resources, which stands as the main obstacle in recycling of their resources. With a view to meeting their resources gap, banks should gear-up recovery drive of overdue loans and reduce dependence on refinance from the central bank.

Table 7.2 Agricultural credit performance by lenders - FY05

(billion Taka)

| Lender | Disbursement target | Actual disbursement | Recovery | Overdue | Outstanding | Overdue as % of outstanding |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| NCBs | 17.05 | 11.42 | 8.78 | 18.45 | 40.89 | 45.12 |
| BKB | 24.00 | 22.80 | 11.00 | 18.79 | 61.25 | 30.68 |
| RAKUB | 7.75 | 8.70 | 6.83 | 7.65 | 20.40 | 37.50 |
| BRDB | 6.46 | 6.63 | 5.06 | 10.19 | 15.08 | 67.57 |
| BSBL | 0.12 | 0.02 | 0.04 | 2.7 | 2.73 | 98.20 |
| Total | 55.38 | 49.57 | 31.71 | 57.81 | 140.40 | 41.18 |
| | | | Summary | | | |
| FY 05 | 55.38 | 49.57 | 31.71 | 57.81 | 140.40 | 41.18 |
| FY 04 | 43.79 | 40.48 | 31.35 | 62.65 | 127.06 | 49.31 |
| FY 03 | 35.61 | 32.78 | 35.16 | 65.26 | 119.13 | 54.78 |
| FY 02 | 33.27 | 29.54 | 32.60 | 67.55 | 114.98 | 58.75 |
| FY 01 | 32.66 | 30.20 | 28.78 | 67.59 | 111.37 | 60.69 |

## Bangladesh Bank's Refinance against Agricultural Loans

7.5 During FY05, BKB and RAKUB have enjoyed refinance facilities to the tune of Taka 7.36 billion from Bangladesh Bank. No other bank or institution availed of refinance facilities from Bangladesh Bank in FY05. An amount of Taka 4.66 billion was repaid against past refinance loan. The outstanding balance of refinance of banks/ institutions from Bangladesh Bank increased from Taka 48.08 billion at the end of FY04 to Taka 55.20 billion at the end of FY05. The outstanding balances of refinance (including interest thereon) of BKB and RAKUB increased from Taka 34.08 billion and Taka 13.31 billion at the end of FY04 to Taka 39.35 billion and Taka 15.16 billion respectively at the end of FY05. The outstanding balances of refinance to BSBL and BRDB at the end of FY05 remained at previous years level at Taka 0.57 billion and Taka 0.12 billion respectively. Details of Bangladesh Bank's refinance to different institutions are shown in Table 7.3.

## Agricultural Credit Projects/Programme under Bangladesh Bank Supervision

7.6 Some self and donor financed agricultural projects/programmes of national interest were under active supervision of Bangladesh Bank during FY05. A total of Taka 1.48 billion was disbursed and Taka 0.41 billion recovered under a few such ongoing projects/programmes viz, the Marginal and Small Farm System Crop Intensification Project (MSFSCIP), Crop Storage Godown Project and Shrimp Culture Financing Scheme. Apart from these, credit disbursement under the Northwest Crop Diversification Project started in FY04. The Project was launched in December 2001 and was scheduled to be completed by June 2008. The project was funded by ADB (Taka 2.5 billion) with a credit component of Taka 1.2 billion for financing production and marketing of high value crops in sixteen northwestern districts. The fund has been provided to RAKUB for distribution among the farmers and agro-based enterprises through four NGOs on reimbursement basis. Under the project a total amount of Taka 0.40 billion has been disbursed to RAKUB up to the end of June '05. In FY05 recovery of Taka 1.06 billion was also made under a number of closed projects (Second Aquaculture Development Project, Shrimp Culture Financing Scheme and North-west Rural Development Project) leaving an outstanding balance of Taka 1.27 billion as of end June 2005 for future recovery.

## Financing of Small & Medium Scale Enterprises

7.7 Bangladesh Bank's refinance facilities to banks during FY05 for promoting small and medium scale industrial enterprises under some special schemes and programmes are:

Table 7.3 Bangladesh Bank's refinance against agricultural loans

(billion Taka)

| Particulars | FY03 | | | FY04 | | | FY05 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Refinance | Repayment | Outstanding | Refinance | Repayment | Outstanding | Refinance | Repayment | Outstanding |
| BKB | - | 1.40 | 32.43 | 3.00 | 1.35 | 34.08 | 5.00 | 3.00 | 39.35@ |
| RAKUB | 1.99 | 0.87 | 12.67 | 1.71 | 1.07 | 13.31 | 2.36 | 1.66 | 15.16@ |
| BSBL | - | - | 0.71 | - | 0.14 | 0.57 | - | - | 0.57 |
| BRDB | - | - | 0.12 | - | - | 0.12 | - | - | 0.12 |
| **Total** | **1.99** | **2.27** | **45.93** | **4.71** | **2.56** | **48.08** | **7.36** | **4.66** | **55.20** |

@ = Include interest.

**a) Refinance Scheme for Agro-processing Industries**

With a view to financing establishment of agro-processing industries in the areas outside of Divisional Head Quarters and Narayanganj town, Bangladesh Bank launched a scheme from November 2001 out of its Industrial Credit Fund. Refinance facilities under the scheme was provided to banks and financial institutions at the Bank Rate. Under this scheme 100 percent refinance will be made available to the banks and financial institutions for medium and long term loans to an industrial enterprise with fixed assets not exceeding Taka 0.05 billion in industrial loans. An amount of Taka 0.40 billion has been disbursed under this scheme till end June 2005.

**b) Refinance for Small Enterprises**

Bangladesh Bank introduced a refinance scheme of Taka 1.00 billion in the last fiscal year (May 2004) out of its own fund for supporting the development of small enterprises in the country. Refinance facilities under the scheme was extended for the banks and financial institutions at Bank Rate against their financing to the small entrepreneurs usually left out by the formal sector financing. Entrepreneurs having fixed assets not exceeding Taka 10.00 million were eligible to get loans up to Taka 5.00 million each under the scheme. The scheme received a good response of the entrepreneurs and the entire amount, i.e. Taka 1.00 billion was disbursed by February 2005. Recovery made out of the refinanced loan will be used as a revolving fund for financing SME sector.

In the meantime, the IDA wing of the World Bank has provided an additional amount of US$ 0.01 billion to reinforce this scheme under a Development Credit Agreement signed with the Government of Bangladesh for financing the development of small enterprise sector of the country. An amount of Taka 0.50 billion from the IDA credit fund has already been disbursed. Till June 2005, a total of Taka 1.54 billion combining the BB fund and the IDA credit fund has been refinanced to 8 banks and 9 financial institutions against their financing to 2681 small enterprises throughout the country. An amount of Taka 0.27 billion of this fund was provided as working capital and the rest Taka 1.27 billion was provided as term lending. Apart from these, Asian Development Bank has also agreed to provide an additional amount of US$ 0.03 billion into the scheme under a Loan Agreement with the Government of Bangladesh to develop the SME sector in Bangladesh. Disbursement out of ADB fund is expected be started soon.

**c) Lending by Bangladesh Small and Cottage Industries Corporation (BSCIC)**

During FY05 BSCIC has disbursed Taka 7.93 billion for development of small and cottage industries in the private sector, which was 12.14 percent higher than their previous year's disbursement. In 65 industrial towns of BSCIC across the country, 7,717 plots were allotted to 4,478 industrial units. Till the end of FY05, Taka 54.14 billion has been invested by 2,426 entrepreneurs in those industrial units.

**Micro Credit Operations of NGOs**

7.8 Micro credit operations of large NGOs and Grameen Bank has been playing dominant role in combating poverty situation and achieving the MDGs (Millennium Development Goals) of reducing poverty level to half by the year 2015. Micro finance operations achieved phenomenal growth over the last decade in the country with efficient recycling of lending resources, higher disbursement and high recovery. In the rural financial market, MFIs (Micro Finance Institutions) also constitute a rapidly growing segment. Among the MFIs, Grameen Bank is the only formal institution established in 1983 under a special law. Beside Grameen Bank, there are more than thousand semi formal institutions; operating mostly in the rural sector of the country; BRAC ASA, and PROSHIKA are being considered three big NGO-MFIs. These four MFIs lend bulk of total micro finance in the country (Table 7.4).

It can be visualized from Table-7.4 that micro credit operations grew rapidly in the country like previous years with 25.62 percent and 24.43 percent increase in disbursement and recovery compared to 21.78 percent and 18.48 percent increase respectively in FY04. However, their overdues as percentage of outstanding loan marginally increased from 3.8 percent in FY04 to 5.3 percent in FY05 This may be due to rescheduling of repayment and more disbursement in the aftermath of devastating flood during the year.

Recycling of lending resources of the micro credit providers in FY05 like previous years was more than 1.5 times of their outstanding loans. The members' savings and service charges are the two main internal sources of fund for micro credit operation which contributed 28.50 percent and 23.69 percent respectively into Revolving Loan Fund (RLF) in 2004. In the same year PKSF (Palli Karma Sahayak Foundation), the wholesale lending organization, contributed 17.01 percent in the RLF of Microfinance Institutions (MFIs). Rest of their funds come from loan from banks, large NGOs and external donors. The loans given by PKSF to 212 POs (Partner Organizations or NGOs) stood at Taka 3.8 billion in FY05 against Taka 4.2 billion in FY04.

On the other hand, agricultural credit disbursements by banks and other institutional agricultural lenders, in line with the previous trends, remained constrained at around 35.3 percent of their outstanding loans in FY05 against 31.9 percent in FY04. This is because a large portion of their loans to agricultural sector were stuck-up. However, overdue as

Table 7.4 Micro credit operations of the Grameen Bank and large NGOs

(billion Taka)

| | FY03 | FY04 | FY05 |
|---|---|---|---|
| **1. Disbursement** | **59.5** | **72.4** | **91.0** |
| i) Grameen Bank | 18.8 | 23.4 | 31.5 |
| ii) BRAC | 18.7 | 23.3 | 29.1 |
| iii) ASA | 18.2 | 22.5 | 27.7 |
| iv) PROSHIKA | 3.8 | 3.2 | 2.7 |
| **2. Recovery** | **53.3** | **63.2** | **78.6** |
| i) Grameen Bank | 16.8 | 19.8 | 25.8 |
| ii) BRAC | 16.8 | 20.2 | 25.8 |
| iii) ASA | 16.0 | 19.8 | 24.2 |
| iv) PROSHIKA | 3.7 | 3.4 | 2.8 |
| **3. Outstanding loans** | **37.2** | **46.0** | **59.4** |
| i) Grameen Bank | 14.3 | 17.8 | 23.5 |
| ii) BRAC | 9.5 | 12.3 | 16.6 |
| iii) ASA | 9.5 | 12.2 | 15.7 |
| iv) PROSHIKA | 3.9 | 3.7 | 3.6 |
| **4. Loans overdue** | **1.4** | **1.9** | **3.1** |
| i) Grameen Bank | 0.1 | 0.1 | 0.2 |
| ii) BRAC | 0.7 | 0.8 | 1.8 |
| iii) ASA | 0.0 | 0.1 | 0.1 |
| iv) PROSHIKA | 0.6 | 0.9 | 1.0 |
| **5. Overdue as percentage of outstanding** | **3.9** | **3.8** | **5.3** |
| i) Grameen Bank | 1.0 | 0.3 | 0.7 |
| ii) BRAC | 7.4 | 6.2 | 11.1 |
| iii) ASA | 0.2 | 0.4 | 0.8 |
| iv) PROSHIKA | 14.8 | 24.5 | 28.8 |

Source : MRRU, Bangladesh Bank and PKSF.

percentage outstanding of institutional agricultural loan providers has come down from 49 percent in FY04 to around 41 percent in FY05. The micro credit programme does not generally address the credit need of small and marginal farmers though they constitute the majority of farming population in the country. Access of small and marginal farmers to micro credit can significantly help them to avoid curse of poverty. The NGOs usually do not like to provide credit to them because of some of perceived problems, which include, among others; risk of investing in agriculture, seasonality of agricultural production, poor loan repayment performance of agricultural lending and technical nature of agricultural production system.

**SMEs and Micro Finance Development**

7.9 SMEs occupy a unique position for their potentialities in revamping any economy through growth of output and generation of employment. As the consensus has emerged on the greater scope of SMEs to enhance industrial sectors contribution to national economy, Bangladesh authority has been relentlessly endeavoring for their promotion in the country particularly for rural economy. SMEs represent heterogeneity in term of size, ownership, management structure, ability, technology used, etc. As such wide variety of firms fall under the SME category. SME enjoy certain advantages over the large-scale industrial unit such as lower capital investment, lower job creation cost, lower capital output ratio, moderate infrastructure requirement and promotion of agro-industrial linkage.

The development of SMEs, however, has been constrained in the country by a number of interrelated problems like shortage of short and long-term finance, lack of modern technology, lack of skilled manpower, marketing problem, lack of promotional support service etc. Moreover, their development faces serious competition in open economy regime of the country. Underscoring the need for promotion of SMEs in the country, the Hon'ble, Prime Minister of the Government of Bangladesh stressed for cooperation of all concerned during inauguration of SME Fair 2005.

7.10 Although micro credit operations in Bangladesh have been contributing positively to the reduction of poverty situation in the country, the microfinance institutions, however, are still facing a number of problems. Some of these are: i) absence of/or little accountability of their operation; ii) absence of regulatory framework for them; iii) relatively higher interest rate for micro credit etc. All these problems are required to be addressed with good earnest.

At present NGO-MFIs are not regulated, supervised or monitored by any single authority in Bangladesh; they are under the system of off-site supervision by the authorities that provide them registration as non-government organizations (NGOs). However, the regulatory issue has come to the forefront because MFIs are providing financial services and products to the poor outside the formal banking system. Considering the need to develop an appropriate regulatory and supervisory system for this sector the Government of Bangladesh established a Unit named "Micro Finance Research and Reference Unit (MRRU)" in Bangladesh Bank. A National Steering Committee under the Chairmanship of Governor of the Bank looks after the various functions of the unit. The Committee is also responsible for formulating a uniform guideline and the legal framework of a regulatory body for this rapidly growing financial sector.

The unit has already published an operational guideline for these NGO-MFIs with the help of the Committee and has been collecting quarterly information since January 2004 on governance, savings, credit, receipt and payment from them. The unit is also providing training to these institutions on the operational guidelines supplied to them. Recently, the Committee has submitted a draft law to the Government, hence it is expected that after the promulgation of the law this sector will be more organized in near future. All these programmes mentioned above (guideline, training and information collection) going on under the unit are being considered as the background work towards the formulation of a full-fledged regulatory framework for the micro finance sector in Bangladesh.