

An Analysis of Recent Trends of Agricultural Credit in Bangladesh

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Abstract: *Agriculture plays crucial role in the economy of Bangladesh in terms of food security, employment generation, poverty reduction and supplying raw materials for key manufacturing units. As agriculture is still one of the top priority sectors in Bangladesh economy, formal financial institutions have been providing huge amount of credit for sustainable development of the sector. The specialized banks, state-owned commercial banks and private commercial banks played key roles in providing of agriculture credit in Bangladesh. In the recent times, agricultural credit has been increased several times. Given this background, the paper reviews the recent trends of agricultural credit provided by the banking industry in Bangladesh. The paper would also provide suggestions for ensuring adequate supply of agricultural credit so as to address problems of agricultural output and maintaining food security, employment generation and poverty reduction in Bangladesh.*

Key Word: Agricultural credit

1. Introduction

Agriculture plays crucial role in the economy of Bangladesh in terms of food security, employment generation, supplying raw materials for key manufacturing units and a key contributor to exports receipts. Bangladesh attained near about food sufficiency by dint of tired-less labour of our peasant class. The agriculture sector grew above 4 percent on an average during the last few years and contributed near 20 percent of total GDP due to continued policy supports from the Government including subsidy in input prices, adequate and timely distribution of fertilizer, uninterrupted supply of power for irrigation, increased credit flows and fair procurement prices of output. In Bangladesh, about 47.5 percent of labor force is

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involved in agricultural activities. Agriculture accounts for 4.53 percent of exports. While the share of agriculture in GDP has been declined to about 20 percent, the absolute size of agricultural sector GDP in terms of both value and volume has been increasing at a reasonably high pace. Despite the declining share of agriculture in GDP growth, the importance of the sector is very crucial in view of its role in food security, employment generation and poverty reduction. The agricultural credit from the formal financial sector has been contributing a lot for the development of agricultural sector. Two specialized banks, Bangladesh Krisha Bank (BKB) and Rajshahi Krishi Unnyan Bank (RAKUB) and four state-owned commercial banks namely Sonali, Agrani, Janata and Rupali played key role in disbursement of agriculture credit. Moreover, the contribution of private commercial banks in respect of agricultural credit disbursement is also increasing in recent times.

As the priority sector of the economy, Bangladesh Bank continued all-out efforts to ensure adequate fund for sustaining the agricultural production under annual agricultural/rural credit policy and programme. As a result, agricultural credit has increased many times in the last few years; it has gone up more than three folds in FY2014 as compared to those of FY05. The amount of agriculture credit stood at Taka 16037.00 crore in FY14 which was Tk. 4956.78 crore in FY05. Given this background, the paper would review the recent trends of agricultural credit provided by the banking industry in Bangladesh. The paper would also provide suggestions for ensuring effective supply of agricultural credit so as to have positive impact on agricultural output, maintaining food security, employment generation and poverty reduction in Bangladesh.

The remaining portion of the paper is arranged as follows: Chapter 2 and Chapter 3 contain objectives and methodology of the paper. Literature review has been made in Chapter 4. Recent Trends of agricultural loan in Bangladesh are analyzed in Chapter 5. Chapter 6 contains findings, policy options and conclusions.

2. Literature Review

There are dearth of quality papers/studies relating to farm credit in Bangladesh. However, recently concluded two studies namely (i) 'The Role of Credit in Food Production and Food Security in Bangladesh' (2013) conducted by Kandhaker, Bazlul Hoque, Dr. and Bidisha Haque Sayema, Dr. under Bureau of Economic Research, University of Dhaka (2013) and (ii) 'An Empirical Analysis of the Impact of Agricultural Credit from Banks and Micro Finance Institutes (MFIs) in GDP Growth: Bangladesh Perspective' conducted by Bayes, A. and Patwary, F. K. (2012) may be mentioned to analyzed various issues on agricultural credit.

The core objectives of the first study containing an in-depth analysis of a number of major agricultural credit programs (1996-2011) were to review major agricultural credit programs in Bangladesh, to investigate the relationship between credit

and food security, to understand the link between credit and dietary diversity and to analyze the relation between credit and food production. To understand the relationships between credit and food security/dietary diversity/agricultural production, both quantitative as well as qualitative methods have been applied. A multi-stage stratified sampling methodology has been used for collecting the primary data, under which 64 administrative districts have been classified into 3 strata – low credit recipient districts, medium credit recipient districts and high credit recipient districts.

The major findings of the study included (i) due to inadequacy of credit from a single source, recipients sometimes simultaneously opt for credit from other sources. In addition, credit swapping is also a common phenomenon- credit obtained for farm purposes are often used for non-farm purposes and vice-versa; (ii) Most of the households avail credit for a wide variety of purposes e.g. for agricultural production, for doing business, purchase of food, to meet educational and health expenditure, for expenses like marriage, for safeguarding themselves in case of income shocks; (iii) Econometric analysis suggests that credit has positive contribution towards food security of individuals (iv) Estimates suggest that, availing credit have significant positive effect on total household crop production, in comparison to an otherwise similar household without receiving credit, households with credit have more crop worth 3246 taka.

Given a positive association between institutional credit and agriculture production, it is therefore recommended in the study to expand the agricultural credit disbursement particularly to the small farmers. Steps should be taken so that MFIs can arrange appropriate agricultural (crop) credit scheme for the marginal farmers and landless sharecroppers.

The second study is devoted to determine impacts of the agricultural loan on lives of sharecroppers in Bangladesh. The sharecroppers could not avail farm credit before December 2009. Given this, Bangladesh Bank (BB) has decided to support sharecroppers and stipulated a special fund of TK.5000 million to provide agricultural loans (called crop loans) to the sharecroppers only. BRAC, the largest NGO in the world, has been assigned with the task of distributing the credit under its group-based lending policies. The study is based on sample surveys done on target households –receiving this credit – and the control households without such loan. The total effective sample size is 400 distributed across 7 Divisions. The major findings of the study included:

- The average amount of loan received amounts to Tk.14,000 with a range of 8,000-30,000. About 95% of the participants have repaid the loan timely. Again, accessing loan from Brac involved no ‘extra money’ whereas a survey shows that, even to access loans from NGOs, 1% of the loan money had to be paid by borrowers as ‘extra’.

- Four-fifths (80%) of the borrowers now cultivate modern paddy (MV) as the available credit, to a great extent, eased the working capital constraint. In consequence, and for example, gains from increased yield almost doubled – from 8-10 maunds/bigha for TV to 15-20 maunds/bigha for MV
- Ninety per cent (90%) of the respondents reigned on the importance of loan for their economic uplift; three-fourths (around 75%) of the participants revealed that, in the absence of this particular loan, they would have to borrow from village moneylenders at an interest rate of 10% per month.
- It seems that, in the improvement of economic condition, membership of NGOs does matter. For example, among those who reported improved economic condition over the year, three-fourths (75%) of them are NGO members. This contrasts with 38% of non-members reporting positive change. Specially, roughly four-fifths (80%) target respondents reported a positive change, while in the case of control respondents, the share was just one-fourth (25%).

3. Objectives and Methodology

The objectives of the paper are: (a) to review the recent trend of agricultural credit disbursement; (b) to assess the contribution of public and private banks disbursement of farm credit; (c) to derive some observations relating to agro credit and (d) to provide suggestions for ensuring adequate supply of agricultural credit so as to have positive impact on output, productivity and employment generation in Bangladesh.

To fulfil the objectives of the paper, the required information/data have been explored from secondary sources. The source would contain different reports of Bangladesh Bank, various ministries of Government of Bangladesh, study reports/papers of national and international organizations. Necessary table/charts have been drawn from collected data and descriptive analytical tools have been used to complete the paper.

4. Recent Trend of agricultural Loan in Bangladesh

Following adoption of all-out efforts by Bangladesh Bank, agricultural credit has increased many times in recent years; it has gone up more than three folds in FY2014 as compared to those of FY05.

Year-wise Targets, disbursement and Recovery of Agricultural Credit in Bangladesh

Bangladesh Bank formulates and implements annual Agricultural and Rural Credit programs and Policy. Under this policy, every bank Banks disburse agricultural

credit and conduct other activities relating to farm credit. It is evident from the Table1 that agricultural credit has increased significantly in recent years particularly since FY 2009-10.

FY	Target	Disbursement	Recovery	Outstanding
2004-2005	5537.91	4956.78	3171.15	14039.84
2005-2006	5892.91	5496.21	4164.35	15376.79
2006-2007	6351.30	5292.51	4676	14582.56
2007-2008	8308.55	8580.66	6003.7	17822.5
2008-2009	9379.23	9284.46	8377.62	19598.15
2009-2010	11512.30	11116.9	10112.8	22588.58
2010-2011	12617.40	12184.3	12148.6	25492.13
2011-2012	13800.00	13132.2	12359	25974.97
2012-2013	14130.00	14667.5	14362.3	31057.69
2013-2014	14595.00	16037.00	17046.00	34633.00

Source: Scheduled Banks Statistics, Bangladesh Bank

Bank-wise Disbursement and Recovery of Agricultural Credit

Though different categories of Banks are providing farm credit, state owned specialized banks (SBs) have still maintained leading position (42.75%) followed by private commercial banks (PBs) (38.00%), nationalized commercial banks (NCBs) (15.54%) and foreign commercial banks (FCBs) (2.72%). The bankwise disbursement trend of farm credit is shown in Table-2.

State owned specialized banks (SBs) and nationalized commercial banks (NCBs) operate farm credit programs through their own branches while private commercial banks (PBs) conduct farm credit programs through either their own branches or the aid of NGOs. Foreign commercial banks (FCBs) operate farm credit programs through NGOs. The contribution of private commercial banks (PBs) is increasing gradually due to some bold steps undertaken by Bangladesh Bank which includes (i) all private and foreign banks must fix their own disbursement target at least 2 percent of their total loan and advances as agricultural loan and have to achieve this target. At the end of the financial year the undisbursed amount must be deposited in BB at bank rate for one year (ii) fixing branch opening policy at the ratio of 1: 1 (1 in rural area against 1 in urban area).

In recent years there is also increasing trend in recovery of farm credit following different measures which included ensuring the availability of inputs at the fair price, simplification of the disbursement procedures of agricultural credit, and better market price. The recovery picture is also shown in Table-2.

	NCBs		SBs		PCBs		FCBs	
	Disbursement	Recovery	Disbursement	Recovery	Disbursement	Recovery	Disbursement	Recovery
2004-2005	1142.14	877.58	3814.64	2293.57	301.41	89.02	NA	NA
2005-2006	1192.43	1151.00	4303.78	3013.33	334.02	224.55	NA	NA
2006-2007	1027.80	1245.00	4264.71	3431.04	NA	NA	NA	NA
2007-2008	1365.50	1509.30	4801.48	2865.30	2413.68	1629.10	NA	NA
2008-2009	1588.89	1479.30	5402.68	5162.14	2292.89	1736.20	NA	NA
2009-2010	1981.56	1531.20	6297.53	6120.09	2283.27	1985.50	554.53	476
2010-2011	2213.73	2011.10	6243.91	6209.40	2427.74	2189.30	546.56	1040.00
2011-2012	2433.47	2171.30	5883.81	6387.60	4333.31	3285.00	481.56	515.40
2012-2013	2399.19	2161.80	5919.61	8114.80	5777.92	3588.70	570.77	497.00
2013-2014	2492.00	2381.00	6857.00	8261.00	3896.77	4355.50	327.56	293.70
	(15.34)	(13.97)	(42.75)	(48.46)	(38.00)	(34.85)	(3.70)	(2.72)

Source: Scheduled Banks Statistics, Bangladesh Bank

Trend of Overdue Loan

The percentage of overdue with outstanding agricultural loan is gradually decreasing which went down from 35.12 percent at end June 2008 to 21.98 percent at end June 2014 (Table 3).

FY	Target	Disbursement	Recovery	Outstanding	Overdue	%
2007-08	7360.52	7590	4361.61	14074.12	5040.98	35.12
2008-09	7950.59	8662.3	4882.79	15494.87	5140.71	33.18
2009-10	10662.31	10413	9339.81	21341.75	5257.83	24.64
2010-11	12617.4	11432	11450	24366.56	5650.54	23.19
2011-12	13800	13132	12359	25974.97	6052.12	23.3
2012-13	14130	14667	14362.3	34633	7612.00	16.77
2013-14	14595.00	16037.00	17046.00	346.33	8066.41	21.98

Source: Agricultural Credit and Financial Inclusion Department, Bangladesh Bank

The overdue farm loan as percent of outstanding loan of different categories of banks is shown in Table 4. It is evident from the table 4 that RAKUB has the highest overdue loan as percent of outstanding which is 35.68 percent. This was followed by SCBs (32.11%), BKB (20.98%) and PCBs (4.34%).

Table 4: Trend of Overdue Loan of Different Categories of Banks (FY14)
(Taka in billions)

Bank	Disbursement Target	Actual disbursement	Recovery	Overdue	Outstanding	Overdue as % of Outstanding
1	2	3	4	5	6	7
SCBs	27.40	24.92	23.81	25.39	79.07	32.11
BKB	46.00	54.26	65.84	33.12	157.85	20.98
RAKUB	14.50	14.31	16.77	14.83	41.57	35.68
Sub Total	87.90	93.49	106.42	73.34	278.49	26.34
FCBs	4.33	5.93	4.63	0.0004	3.83	0.01
PCBs	53.72	60.95	59.41	2.78	64.01	4.34
Sub Total	58.05	66.88	64.04	2.78	67.84	4.09
Grand Total	145.95	160.37	170.46	76.12	346.33	21.98

Status of Loan of Sharecroppers

Bangladesh Bank undertook a special refinance scheme for share-croppers in agricultural credit programme since FY10 for the first time in history. As the program has been playing an important role in poverty alleviation of sharecroppers, after the completion of the program in June 2012, its duration has been increased for another 3 years from July, 2012 to June 2015. Under this refinance scheme, BB has refinanced Taka 4.50 billion in FY14.

Trend in Refinance of Agricultural loan

BKB, RAKUB, BSBL, BRDB and BRAC enjoy refinance facilities from Bangladesh Bank. BKB and RAKUB are the main customers in getting refinance facilities. Since FY10, BRAC avail refinance facilities to finance Sharecroppers. An amount of Taka 17.07 billion (including interests) was recovered against refinance loan due from different banks and institutions leaving an outstanding balance of Taka 48.71 billion (including interests) as on end June 2014. Details of Bangladesh Bank's refinance to different institutions are shown in Table 5.

Table 5: Trend of Refinance

(Taka in billion)

Name of Banks	FY13			FY14		
	Refinance	Repayment	Outstanding	Refinance	Repayment	Outstanding
BKB	5	2.2	33.42	0.00	3.42	31.13
RAKUB	0.18	1.76	16.14	6.00	9.12	13.00
BRAC	4.49	2.46	4.49	4.50	4.49	4.50
BSBL	-	0.04	0.13	-	0.04	0.085
BRDB	-	0.12	-	-	-	-
Total	9.67	6.58	54.18	10.50	17.07	48.71

Source: Agricultural Credit and Financial Inclusion Department, Bangladesh Bank

Trend of Agricultural Credit as a Share of Total Bank Credit

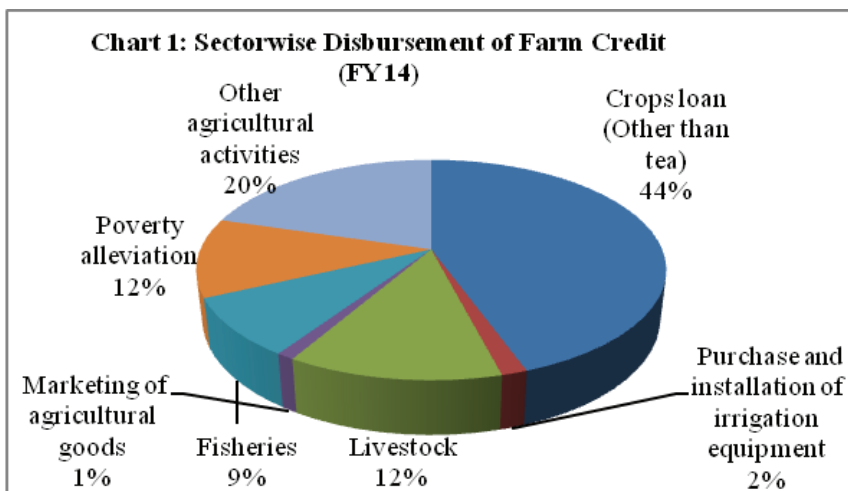
Following continued efforts in financing agricultural sector, farm credit is increasing in every year. However, share of agricultural credit as percentage of total bank credit is falling (Table 6).

FY	Outstanding of Total Bank Credit	Total Outstanding of Agricultural Credit	Share of Agricultural Credit among Total Bank Credit
30-06-05	112016	14040	12.53
30-06-06	132318	15376	11.62
30-06-07	152177	14582	9.58
30-06-08	190136	17822	9.37
30-06-09	217928	19598	8.99
30-06-10	270761	22544	8.33
30-06-11	340713	25492	7.48
30-06-12	407902	25975	6.37
30-06-13	452157	31058	6.87
30-06-14	507639	34633	6.82

Source: *Economic Trends, Bangladesh Bank*

Sector wise Disbursement of Farm Credit

Crops accounted for highest share of total farm credit which was Tk. 7131.00 crores (44%) in FY14. Next highest amount of Tk.1996 crore (12%) was disbursed for livestock, which was followed by poverty alleviation programme (12%), fisheries (9%), other agricultural activities (20%), Equipments



(2%) and marketing of agricultural goods (1%).

5. Observations and Policy Options

Observations:

- In the last few years, the disbursement of farm credit is rising significantly; it increased to Tk. 16037 crore in FY14 from Tk. 4956.78 crore in FY05.
- Rationally, crop sub-sector dominates in farm credit disbursement; 44 percent of farm credit goes to crop sub-sector. Maintaining this momentum of farm credit towards crop sub-sector for ensuring food security, there are scopes for further expansion of farm credit to finance livestock (now 12%) and fishery sub-sectors (now 9%) as they have great potentials to flourish as tools of poverty alleviation through income/employment generation, and also sources of protein.
- The share of private commercial banks in farm credit is increasing due to policy pressure from Bangladesh Bank. However, PCBs invest only below 2 percent² of total loan portfolios implying that there are further spaces for them to expand farm credit.
- Since FY2010, sharecroppers have access to farm credit through BRAC against refinancing facilities from Bangladesh Bank.
- Though share of overdue loan is falling in recent years, it is still 20% of total outstanding loan. SCBs, BKB and RAKUB have 32%, 20% and 37% of overdue loan.
- Agriculture sector contributes 19% of GDP but it gets only 6.82 % of total bank credits.

Policy Options

All banks particularly PCBs need to undertake enhanced programs for channeling more funds into agricultural sector, fishery and livestock subsectors in particular. For this, PCBs would require to formulate proper programs and recruit necessary manpower having knowledge, motivation and commitment in rural finance and agriculture. This would help PCBs diversify loan portfolios and lessen the pressure of excess liquidity. The NCBs and SBs need proper steps to recover overdue loan bringing it down to tolerable limit. To attain this goal, they should undertake immediate steps to recruit rationale number of field staffs. NGO style supervised credit model may be a panacea to recover overdue loan. SBs these should strengthen efforts to mobilize savings in order to cut dependency on refinance facilities from Bangladesh Bank. BB may provide enhanced refinance against farm credit disbursed in economically backward regions of the country, southern and northern regions in particular.

* Source: Scheduled Banks Statistics, Bangladesh Bank

6. Conclusion

Although the share of agriculture in GDP has declined below one-fifth, it continues to be an important sector in Bangladesh as it ensures food security, employs 47.5 per cent of the workforce and works as a key stabilizer in price level. In order to maintain higher growth in agriculture and bring about its modernization and commercialization, agro credit is considered as key input. Given this, Bangladesh Bank has undertaken efforts to increase the flow of farm credit in recent years. However, there are further spaces to enhance the amount of farm credit, especially in livestock and fisheries subsectors. If livestock and fisheries subsectors get enhanced credit support, the two subsectors may emerge as key tools in employment generation and poverty alleviation.

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