

Agriculture Financing of BKB: Progress, Challenges and Ethical Issues

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Abstract: *Agricultural finance is crucial to support the growth of the agricultural sector. This is essential for food security, job creation, and overall economic growth. The main sources of finance in agriculture are still the state-owned banks. As such, BKB is the dominant player in the area of agricultural credit. Since its inception, BKB attempted to address one of the major concerns of institutional credit making it accessible to the rural poor. It opened many branches in the rural areas, often in areas with weak economic base. The urban-rural proportion of branches, deposits and credit flows showed significant increases in favour of rural areas. To date, BKB serves its customers through 1031 branches all over the country except Rajshahi and Rangpur divisions. BKB as a major financial provider in agriculture in Bangladesh, also faces similar challenges as faced by other institutions of developing countries in providing credit to rural areas. The BKB still faces some additional challenges, such as moral hazard, adverse selection, incomplete and often misleading information from borrowers, etc. However, the BKB makes efforts to mitigate them by adhering to the applicable ethical standards in banking. The challenges come from within and outside.*

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1. Introduction

The Bangladesh Krishi Bank (BKB) was established under the Bangladesh Krishi Bank Order 1973 (P.O. 127 of 1973). The primary objective of BKB is to promote agricultural development of Bangladesh. To this effect, it provides credit facilities to small and marginal farmers, sharecroppers and small entrepreneurs engaged in development of agro-based as well as Cottage industries. The agricultural sector is divided into 4 sub-sectors i.e., crop, fisheries, livestock and forestry. BKB provides credit facilities to all the four sub-sectors for the overall development of agriculture. Over the time, it has diversified its banking activities to render more services aiming to contribute to the overall economic development of the country. The Bank also started commercial functioning since 1977 to generate more loanable funds tapping surplus rural and urban savings for further investment in the rural economy.

The predecessor of BKB was Agriculture Development Finance Corporation (ADFC). Subsequently, this became the Agricultural Development Bank of Pakistan (ADBP). In 1952, the Agricultural Development Finance Corporation (ADFC) was formed mainly to serve large farmers. Again in 1958, this entity was renamed as the Agricultural Development Bank of Pakistan (ADBP) with a mandate to serve small farmers. Given that a land title was required as collateral for a loan, ADBP did not adequately serve the needs of the rural poor. In addition, its purpose was primarily to mobilize rural deposits for investment in urban enterprises by opening branches in major cities. Actually, the banking system prior to the liberation in 1971 was highly concentrated in the urban areas. Bank branches outside the metropolitan centers of Dhaka, Narayangonj, Chittagong, and Khulna were insignificant. Immediately after the liberation of the country in 1971, out of historic necessity, the government nationalised and reorganised all the banks & financial institutions except a few foreign bank branches (Rehman, 2000). Since its inception, BKB attempted to address one of the major concerns of institutional credit making it accessible to the rural poor. It opened many branches in the rural areas, often in areas with weak economic base. The urban-rural proportion of branches, deposits and credit flows showed significant increases in favour of rural areas. To date, BKB serves its customers through 1031 branches all over the country except Rajshahi and Rangpur divisions. The main sources of finance in agriculture are still the state-owned banks. As such, BKB is the dominant player in the area of agricultural credit. In FY16, BKB alone shared 28 percent of the total disbursement. The contribution of BKB in agricultural lending can be seen from Table 1.

Table 1: Agricultural Credit Performance by Lenders - FY16

(Billion Taka)

Lenders@	Disbursement Target	Actual Disbursement	Recovery	Overdue	Outstanding	Overdue as % of Outstanding
1	2	3	4	5	6	7
SCBs -6	28.90	27.21	28.23	23.02	87.16	26.41
BKB	48.00	49.40	51.36	21.63	140.29	15.42
RAKUB	16.00	11.15	13.29	10.38	34.79	29.83
Sub Total	92.90	87.76	92.88	55.03	262.24	20.99
FCBs -9	3.93	5.10	4.98	0.003	2.29	0.13
PCBs -38	67.17	83.60	72.70	1.75	80.24	2.18
Sub Total	71.10	88.70	77.68	1.75	82.53	2.12
Grand Total	164.00	176.46	170.56	56.78	344.77	16.47

@ excluding BRDB and BSBL.

Source: Agricultural Credit Department, Bangladesh Bank.

Agriculture is a key economic activity in Bangladesh. It contributes around 16.77 per cent of country's gross domestic product (GDP), employs 47.5 percent of the total labour force, and feeds up around 160 million people. It is increasingly becoming established in the economic literature that the development of a growing economy depends critically on the development of the agricultural sector (Andriess et al., 2007; World Bank, 2008). In Bangladesh, about 70 per cent of the rural poor are concentrated in the agricultural sector. Hence, poverty alleviation is required for the rural farmers. Growth in the agricultural sector has important links with the overall economy through various channels. First, agriculture provides crucial supplies of raw materials to many other non-agricultural sectors. Second, consumption of agricultural commodities has important implications for poverty reduction of households in both rural and urban areas. Rice constitutes a major share in the expenditures of the poorer households, and therefore, the demand for and supply of agricultural commodities, especially food items, and their prices greatly influence the welfare of poor households. Third, the rural sector is the dominant source of supply of unskilled labour to the economy. However, changes in global production networks and increased urbanization have changed the character of rural areas. Still the agricultural sector in Bangladesh is characterized by the adoption of outmoded technology, dependence on unpredictable weather, poor infrastructure, small and

fragile markets, and inadequate income flows. So, efforts should be made to expand the rural financial system to ensure its smooth operations and thereby contributing to agricultural productivity and tackling the severity of poverty.

Formal rural financial markets in Bangladesh comprise specialized banks such as BKB and RAKUB, state owned commercial banks, a sizeable number of private banks, Bangladesh Rural Development Board (BRDB), as well as NGOs. Informal sources of credit like local moneylenders, friends and relatives also contribute significantly to the rural economy of Bangladesh.

Through continual progress from 1972-73, BKB has brought itself to its present position of success and glory. Success are not free from challenges But this progress faced challenges since some of the regions are urban- centric losing land for traditional agriculture, huge non-performing loan, high transaction cost, low interest rate, shortage of experienced manpower, unethical and fraudulent practices of few officials of the bank etc. BKB as a major financial provider in agriculture in Bangladesh, also faces similar challenges as faced by other ‘formal institutions’ of developing countries in providing credit to rural areas. Keeping this background in mind, this paper aims at addressing the following research questions:

1. To view the operational aspects of BKB with applicable ethical standards in banking
2. To get overall idea about the business progress made by BKB
3. To identify the major challenges faced by BKB upholding the applicable ethical standards in banking

In order to answer the above research questions, this study proceeds as follows. Section II describes research methodology. Section III shows BKB’s network in the country. Section IV discusses the business progress made by BKB. Section V states major challenges faced by BKB. Section VI offers conclusions and recommendations.

II. Research Methodology

This is a descriptive research paper based on secondary information. Print and electronic publications of different banks, BKB Head office, Bangladesh Bank, Ministry of Finance, different organs of the Govt., international agencies like IMF, World Bank, and Asian Development Bank have been used as data sources. The business progress made in different divisions has been measured primarily in terms of profitability, efficiency, and social equity.

III. BKB's Network

The Bank operates its function through its 1031 branches (mainly, headed by AGMs, SPOs and POs) all over the country except Rajshahi and Rangpur division. It has 16 foreign exchange (Authorized dealer) branches. In the field level the bank has 10 divisional units including one Local Principal Office (divisional office status) headed by a General Manager, 53 Chief Regional and Regional offices (headed by DGMs & AGMs) for close supervision, monitoring and follow-up of the branch activities. For smooth operation, as a part of internal control and compliance system, the bank has also 63 field level audit offices of which 9 at Divisional and 54 at Regional levels. In the Head Office the Bank has 6 Divisions (headed by GMs), 36 Departments (headed by DGMs) and a Training Institute (headed by GM).

The divisional tier has been vested with the authority of comprehensive supervision, monitoring and follow-up of the overall functions of the respective division. The divisions perform deposit mobilisation, advances, loan recovery and other business functions as well as administrative functions within their territorial jurisdiction. The Dhaka division, is the most important and extensive unit as it oversees the metropolitan branches facing enormous pressure from foreign exchange trading. Evidently, it has become a daunting task to keep pace with the challenges of rising unhealthy and unethical competition. The operational networks of BKB are shown in Table 2:

Table 2: Operational Network of BKB at a Glance

SL. No.	Name of the Division (Including LPO)	Number of Regions & Corporate Branches		Number of Urban/Semi Urban Branches	Number of Rural Branches	Total
		Regional Office	Corporate Branches			
1	Dhaka	8	3	43	105	148
2	Mymensingh	6	-	25	106	131
3	Chittagong	7	2	22	83	105
4	Comilla	7	-	37	132	169
5	Sylhet	4	1	17	84	101
6	Khulna	5	1	19	69	88
7	Kushtia	5	-	17	48	65
8	Barisal	6	-	25	101	126
9	Faridpur	5	-	15	82	97
10	Local Principal Office (LPO)	-	1	01	-	01
	Total	53	08	221	810	1031

Source : BKB, BCBD, HO, Dhaka

The urban /semi-urban and rural proportions of branches recorded a significant rise in favour of rural areas as in the above table. The branch network of 9 divisions shows greater accessibility of the rural population to the banking system thereby helping further monetisation of the rural economy of the respective division.

IV. Business Progress of BKB

A. Progress of BKB since 1972:

BKB has come to its present position over the years since 1972 .During the period, 1972 to 2017, branch network and business operations of the bank increased commendably. Table-3 below shows significant increase in the paid up capital, deposits, credit flows, number of loanees, bank-network, number of employees, etc. To date, BKB serves its customers through 1031 branches. (Before 15th march 1987 RAKUB (Rajshahi and Rangpur Division) was under BKB). Since 1972, BKB pursued a policy of expanding banking services to the rural areas and extending generous credit to the farmers and mass-people who are the real players in making agricultural outputs and success of rural economy and thus satisfied the objective of the bank as well as the government.

B. Division-wise Business Progress of BKB

Loan & Deposit Outstanding

Division-wise outstanding deposits and advances with the number of depositors and borrowers in 10 divisions as on 30-06-17 are displayed in Table-3(a). Dhaka division's share in deposits are Tk.6122.33 crore (27.14 percent of total deposit). It is the highest in the divisions. On the other hand, Kushtia division's share in deposits is Tk.825.91crore (3.66 percent of total deposits). The amount of advances in Dhaka division is Taka 3353.58crore (18.31 percent of total advances). However, the share of Sylhet division is Taka 1030.32 crore (5.63 percent of total advances).

The number of depositors and borrowers of Mymensing division is the highest among 10 divisions of the bank. The table also shows that depositors of Mymensing division and the borrowers of Sylhet division are small as compared to other divisions.

It is worth to mention here that the administrative division Dhaka (comprising greater Dhaka, Mymensingh, Tangail and Faridpur districts) is the largest source of funds with the highest amount of deposits in the country. As on 30.6.16, the

Table 3: Overall Progress of BKB since 1972 at a glance
(Taka in crore/Figure in Number)

Sl No	Particulars	Period									
		1972-73	1982-83	1995-96	2007-08	2009-10	2014-15	2015-16	2016-17		
01.	Paid up capital	10.00	25.00	100.00	350.00	900.00	900.00	900.00	900.00	900.00	1150.00
02.	Deposits	6.91	176.94	1737.28	7883.38	11022.51	19619.05	21018.51	22559.70	22559.70	22559.70
03.	Loan disbursement	9.64	271.04	778.91	3477.54	4819.70	5721.74	5921.96	6289.36	6289.36	6289.36
04.	Recovery	2.92	197.03	665.54	1550.71	3095.03	5673.88	7312.84	7698.99	7698.99	7698.99
05.	Loan outstanding	46.05	497.28	3249.02	8344.85	10628.98	16986.02	17595.37	18311.65	18311.65	18311.65
06.	Loan overdue/ Classified Loan	22.63	93.49	1750.96	2357.52	2808.26	4310.06	4841.30	4315.77	4315.77	4315.77
07.	Number of Loanees (000)	72	379	1733	3247	3391	3397	3399	3338	3338	3338
08.	No. of Branches	77	653	836	949	972	1030	1031	1031	1031	1031
09.	No. of Regional/Chief regional offices	7	22	49	51	53	53	53	53	53	53
10	No. of Employees	2052	6734	11722	9944	9430	10444	9630	8726	8726	8726

*Before 15th march 1987 RAKUB (Rajshahi and Rangpur Division) was under BKB.

Source : BKB, BCBD, HO, Dhaka.

total amount of deposit was Tk.5233848 million against total advance of Tk.4156784 million and rural deposit was Tk.787980 million against total advance of Tk.253162 million. In the 1980's, the Chittagong region, both urban and rural, was the major supplier of funds to other regions. Urban Dhaka was the next largest source of funds with the highest amount of deposits in the country. Rural Rajshahi and Khulna have become major recipients of funds since 1983, followed by rural Dhaka. Since 1983, the ratio of advances to deposits in rural areas had been positive, but it has been steadily declining since 1985. As of 1987, the ratio of advances to deposits was 1.1 (Cookson, 1988). Subsequently, the scenario started changing discernibly.

1. Deposit Mix & No. of Accounts

Tables 4 and 5 below shows deposit mix (total deposit consists of deposits in current, savings, and fixed accounts in addition to deposit schemes and others) of 10 divisions of the bank. To clarify further, fixed deposits accounts, deposit schemes and others are same in nature.

More than 68 percent are fixed deposits whereas less than 32 percent are current and savings deposits of the total deposits. These are high- cost deposits and much less than low- cost or no-cost deposits. Almost all the divisions of the bank depict the same picture. However, it is more glaring for Dhaka division and LPO.

2. Outstanding Advances Classified by Economic Purposes

The advances classified by economic purposes, as given in the Tables 6 and 7 reveal that credit for production of crops was remarkably high at Taka 9092.94 crore. It indicates positive sign for production of crops. Second highest in the others stood at Taka 3263.16 crore, and Taka 1349.39 crore in Agricultural Project/Cash credit, Taka 1080.88 crore in Fisheries, Taka 1029.22 crore in Livestock, Taka 568.06 crore in SME, and Taka 351.96 crore for poverty alleviation,. These also reveal positive signs. Advances in the Grain Storage remained very low at Taka 7.58 crore.

The loan outstanding for other purposes was remarkably high in Dhaka, Chittagong and LPO. LPO has no outstanding loans against fisheries, livestock, irrigation equipment, agricultural equipment and poverty alleviation sectors. Actually, LPO has limited scope due to it's command area in city corporations.

Table 3(a): Division-wise Loan & Deposit Outstanding in BKB as on 30.06.2017
(Fig. in Crore)

Sl. No.	Name of the Division (Including LPO)	Deposit Outstanding			Loan Outstanding		
		No. of Depositors	Total Amount	Deposit as % of Total Deposit	No. of Borrowers	Total Amount	Loan as % Total Loan Outstanding
1	Dhaka	1046047	6122.33	27.14	446412	3353.58	18.31
2	Mymensingh	1333392	1315.01	5.83	751700	3096.18	16.91
3	Chittagong	660155	3073.48	13.62	254152	1619.61	8.84
4	Comilla	1086967	2518.87	11.17	500368	1978.16	10.80
5	Sylhet	660433	1346.63	5.97	285319	1030.32	5.63
6	Khulna	760346	1373.95	6.09	204759	1464.33	8.00
7	Kushtia	595923	825.91	3.66	213741	1385.06	7.56
8	Barisal	830535	1428.50	6.33	451328	1800.24	9.83
9	Faridpur	668061	1173.87	5.20	229549	1151.77	6.29
10	Local Principal Office (LPO)	14543	3381.15	14.99	801	1432.40	7.83
Total		7656402	22559.7	100	3338129	18311.65	100

Source: BKB, BCBD, HO, Dhaka.

Table 4: Deposit Mix & No. of Accounts as on 30-06-2017

SL. No.	Name of the Division (Including LPO)	Current			Savings & SND			Fixed Deposit		
		Number of Account	Amount	%	Number of Account	Amount	%	Number of Account	Amount	%
1	2	3	4	5	6	7	8	9	10	11
1	Dhaka	18962	201.87	0.89	916287	1310.12	5.81	30854	4294.14	19.03
2	Mymensingh	15061	119.96	0.53	1173380	487.02	2.16	13357	445.63	1.98
3	Chittagong	7136	111.12	0.49	572355	1039.98	4.61	18847	1747.42	7.75
4	Comilla	9215	135.90	0.60	957157	838.33	3.72	18884	1298.62	5.76
5	Sylhet	8784	104.73	0.46	605740	450.32	2.00	8823	709.76	3.15
6	Khulna	5872	64.74	0.29	657626	525.41	2.33	23838	549.11	2.43
7	Kushtia	6797	60.70	0.27	535736	352.62	1.56	9137	242.67	1.07
8	Barisal	3347	69.29	0.31	678909	533.10	2.36	32445	563.96	2.50
9	Faridpur	3160	67.46	0.30	600033	465.28	2.06	15805	432.28	1.92
10	Local Principal Office (LPO)	1466	57.37	0.26	10552	168.97	0.75	1314	3133.20	13.88
Total		79800	993.14	4.4	6707775	6171.15	27.36	173304	13416.79	59.47

Source : BKB, BCBD, HO, Dhaka.

Table 5: Deposit Mix & No. of Accounts as on 30-06-2017
(Figure in crore)

SL. No.	Name of the Division (Including LPO)	Deposit Schemes					Other Deposits			Total	
		Number of Account	Amount	%	Number of Account	Amount	%	Number of Deposit Account	Amount		
1	2	3	4	5	6	7	8	9	10		
1	Dhaka	42150	294.31	1.30	37794	21.89	0.10	1046047	6122.33		
2	Mymensingh	51601	246.05	1.09	79993	16.35	0.07	1333392	1315.01		
3	Chittagong	33637	161.74	0.72	28180	13.22	0.06	660155	3073.48		
4	Comilla	43841	208.54	0.92	57870	37.48	0.16	1086967	2518.87		
5	Sylhet	20610	77.63	0.34	16476	4.19	0.02	660433	1346.63		
6	Khulna	50431	225.36	1.00	22579	9.33	0.04	760346	1373.95		
7	Kushtia	33552	159.50	0.71	10701	10.42	0.05	595923	825.91		
8	Barisal	86255	257.94	1.14	29579	4.21	0.02	803535	1428.50		
9	Faridpur	41021	207.92	0.92	8042	0.93	0.00	668061	1173.87		
10	Local Principal Office (LPO)	1188	11.04	0.05	23	10.57	0.06	14543	3381.15		
Total		404286	1850.03	8.19	291237	128.59	0.58	7629402	22559.70		

Source: BKB, BCBD, HO, Dhaka

Table 6 : Outstanding Advances Classified by Economic Purposes as on 30-06-2017
(Figure in Crore)

SL. No.	Name of the Division (Including LPO)	Crop						
		General	Marginal	Total	Fisheries	Livestock	Irrigation Equipment	Agricultural Equipment
1	Dhaka	1465.44	82.35	1547.79	73.54	242.40	6.98	11.93
2	Mymensingh	2055.76	31.77	2087.53	149.70	273.30	19.65	10.19
3	Chittagong	483.58	67.74	551.32	46.81	44.36	2.12	3.37
4	Comilla	409.05	7.10	416.15	47.19	34.69	5.40	3.39
5	Sylhet	688.05	58.13	746.18	31.78	52.56	3.79	3.61
6	Khulna	520.57	16.07	536.64	442.41	91.72	5.12	6.75
7	Kushtia	856.42	40.44	896.86	37.84	132.64	3.81	19.13
8	Barisal	1350.56	38.05	1388.61	192.47	73.85	1.11	2.25
9	Faridpur	773.58	80.78	854.36	59.14	83.70	3.87	3.33
10	Local Principal Office (LPO)	67.50	0	67.50	0	0	0	0
	Total	8670.51	422.43	9092.94	1080.88	1029.22	51.85	63.95

Source: BKB, BCBD, HO, Dhaka.

Table 7: Outstanding Advances Classified by Economic Purposes as on 30-06-2017

SL. No.	Name of the Division (Including LPO)	Grain Storage	Poverty Alleviation	SME	Agricultural Project/CC	Others	Total Outstanding And %	
							Total Outstanding	%
1	Dhaka	1.32	86.63	145.40	177.47	1056.12	3353.58	18.31
2	Mymensingh	0.30	89.39	103.02	15.69	347.41	3096.18	16.91
3	Chittagong	0.25	14.12	68.15	268.22	620.89	1619.61	8.85
4	Comilla	0.32	3.88	4.28	6.08	57.00	1978.16	10.80
5	Sylhet	0.01	15.61	47.01	53.17	76.60	1030.32	5.63
6	Khulna	0	21.24	62.99	76.75	220.72	1464.33	8.00
7	Kushtia	4.69	36.59	56.12	30.25	167.13	1385.06	7.56
8	Barisal	0.02	48.05	13.87	4.72	75.29	1800.24	9.83
9	Faridpur	0.67	36.45	40.49	25.09	21.58	1151.77	6.29
10	Local Principal Office (LPO)	0	0	26.73	691.95	646.22	1432.40	7.82
	Total	7.58	351.96	568.06	1349.39	3288.96	18311.65	100

Source: BKB, BCB, HO, Dhaka.

3. Business Target and Progress for the FY 2016-17

Tables 8 and 9 show the comparative positions of overall target of the fiscal year 2016-17 and progress in deposit mobilisation, loan disbursement, loan recovery, imports, exports, foreign remittances, recovery of classified loans and net profit/loss of BKB. As on 30-06-2017 progress in deposit mobilisation was Taka 1545.19 crore (70.24%) due to shifting away from high cost deposits. The actual disbursement of Taka 6289.36 crore (86.75%) was against the disbursement target of Taka 7250 crore. During July16- June 2017, recovery of credit in the amount of Taka 6169.06 crore (82.25%) was against the recovery target of Taka 7500 crore. The achievement of imports and exports targets was far below i.e. 43.61% and 32.19% due to shifting away from high risk. It is worth to mention here that, the rest of the business target of the bank i.e. foreign remittances, recovery of classified loans and net profit/loss of BKB was encouraging i.e.73.88%,75.57% and 42.01%. During the period, the net profit in the Dhaka division amounted to Taka 38.21crore. This is undoubtedly encouraging in view of recurring losses in preceding three years in a row. Through ongoing progress from July 2015, Dhaka division has graduated to a profitable state. If this upward trend continues, Dhaka division should be able to earn net profit exceeding Taka 50 crore during July-December17 which will support to uplift BKB in a better position.

4. Non-Performing Loans

The ratios of non-performing loans (NPLs) to total loan as per different division are provided in Table 10 to depict the asset quality of the 10 divisions. Table-10 reveals that Faridpur and Barisal have the lowest non-performing loans at 8.25% and 12.09%, respectively. Three divisions have the highest ratio of gross NPLs to total loans. Due to a few large defaults, Chittagong, Dhaka and LPO incurred gross NPLs to total loan ratios of 41.58%, 38.74% and 31.83% respectively. This is highly alarming and it adversely affects the overall performance of the bank. For this reason, the ratio of non-performing loans (NPLs) to total loan of the bank is 23.57% of which 81.26% is classified as bad loans.

5. Status of ICT in BKB as on 30-06-17

Information technology is progressively making a positive difference in reducing transaction costs. Introducing technology further upstream (digitizing delivery of records) could make an even more impactful positive difference in terms of profitability and portfolio expansion. Mechanization has taken the banks to a new age with new opportunities as well as new challenges. The various innovations in

Table 8 : Business Target and Achievement for the FY 2016-17 of BKB

Sl. No	Name of the Division (Including LPO)	Deposit Mobilization		Disbursement of Loan		Recovery of Loan		Import					
		Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement				
1	Dhaka	600.00	221.11	36.85%	1122.00	817.45	72.86%	1221.25	736.72	60.33%	300.00	132.42	44.14%
2	Mymensingh	110.00	115.43	104.94%	664.00	593.13	89.33%	1072.08	629.17	58.69%	14.00	16.64	118.86%
3	Chittagong	280.00	203.76	72.77%	850.00	550.05	64.71%	734.96	692.04	94.16%	223.00	74.03	33.20%
4	Comilla	220.00	228.03	103.65%	745.00	693.58	93.10%	751.20	617.90	82.26%	0	0	0
5	Sylhet	100.00	121.87	121.87%	465.00	364.68	78.43%	331.77	311.85	94.00%	2.00	0.46	23.00%
6	Khulna	180.00	152.19	84.55%	697.00	658.30	94.45%	706.72	659.57	93.33%	160.00	134.36	83.98%
7	Kushtia	90.00	60.91	67.68%	621.00	607.99	97.90%	633.33	578.54	91.35%	1.00	0	0
8	Barisal	150.00	156.67	104.45%	578.00	532.33	92.10%	590.24	507.82	86.04%	0	0	0
9	Faridpur	130.00	116.30	89.46%	540.00	509.63	94.38%	459.75	463.66	100.85%	0	0	0
10	Local Principal Office (LPO)	340.00	168.92	49.68%	968.00	962.22	99.40%	998.70	971.79	97.31%	1800.00	732.34	40.69%
	Total	2200.00	1545.19	70.24%	7250.00	6289.36	86.75%	7500	6169.06	82.25%	2500.00	1090.25	43.61%

Source: BKB, BCBD, HO, Dhaka.

Table 9: Business Target and Achievement for the FY 2016-17 of BKB

Sl. No	Name of the Division (Including LPO)	Export		Foreign Remittance		Recovery of Classified Loan		Neat Profit/Loss		
		Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	
1	Dhaka	1150.00	299.96	565.00	377.03	576.86	200.19	180.00	38.21	21.23%
2	Mymensingh	6.00	0	170.00	115.88	227.81	199.83	40.00	11.14	27.85%
3	Chittagong	520.00	172.38	295.00	202.17	338.97	202.07	340.00	84.23	24.77%
4	Comilla	0	0	642.00	431.81	185.96	171.54	70.00	32.98	47.11%
5	Sylhet	23.00	17.38	188.00	136.31	95.34	130.06	30.00	21.61	72.03%
6	Khulna	200.00	176.12	97.00	85.68	88.48	89.02	35.00	16.51	47.17%
7	Kushtia	1.00	0	167.00	133.33	116.23	103.37	40.00	25.03	62.58%
8	Barisal	0	0	145.00	135.34	105.90	133.93	35.00	25.29	72.26%
9	Faridpur	0	0	170.00	184.06	49.23	73.31	30.00	31.59	105.30%
10	Local Principal Office (LPO)	600.00	138.80	61.00	45.32	255.22	238.37	150.00	112.49	74.99%
Total		2500	804.64	2500.00	1846.93	2040	1541.69	950.00	399.08	42.01%

(Figure in Crore)

Table 10 : Division-Wise Status of Classified Loans: Sub-Standard, Doubtful & BL as on 30.06.2017
(Figure in Crore)

Name of the Division (Including LPO)	Total Loan Outstanding	Total CL	CL as % of Total Loan	SS	DF	BL
Dhaka	3353.58	1299.12	38.74%	110.95	41.82	1146.35
Mymensingh	3096.18	604.89	19.54%	100.38	27.58	476.97
Chittagong	1619.61	673.51	41.58%	22.80	12.10	638.60
Comilla	1978.16	376.59	19.04%	82.85	27.83	265.91
Sylhet	1030.32	149.23	14.48%	6.52	8.53	134.24
Khulna	1464.33	195.76	13.37%	18.47	12.91	164.38
Kushtia	1385.06	256.28	18.50%	71.98	31.50	152.80
Barisal	1800.24	217.70	12.09%	47.55	17.64	152.52
Faridpur	1151.77	94.98	8.25%	11.21	6.02	77.75
Local Principal Office (LPO)	1432.40	447.71	31.26%	0.11	150.24	297.37
Total	18311.65	4315.77	23.57%	472.82	336.17	3506.89
				10.96%	7.79%	81.26%

Source : BKB, BCBD, HO, Dhaka.

BKB are Automated Clearing House System (ACHS), Electronic Fund Transfer (EFT), Real Time Gross Settlement (RTGS) for ensuring the fastest payment and settlement system, On-line, SWIFT, ATM and POST Network, Online CIB, payments of utility bills, fund transfers, introducing MICR cheques, traveler's cheques and many more value-added services. Table 11 provides the overall picture of computerisation in BKB as on 30-06-2017. Out of 1031 branches, 246 branches provide full online banking services, 98 branches provide offline banking services and 118 branches are partially computerised. Six ATMs are being used in Dhaka (Staff College branch), Mymensing, Chittagong, Sylhet, Khulna and LPO. It is evident from Table 11 that the upward trend in technology adoption in BKB has been quite impressive.

6. Financial Inclusion Plan and Its Performance Evaluation

A large number of small bank accounts have been opened in BKB under FIP up to 30-06-17 (Tables 12 and 13). However, it has been observed that the accounts opened have no significant transactions. In order to ensure the access of the unbanked, bank accounts are opened by depositing Tk.10/ to Tk.50/ for farmers, unemployed youth, hardcore poor, physically handicapped people, freedom fighters, beneficiaries under social security program, distressed people, school banking, etc. In order to continue the process of ensuring meaningful access to banking services to the excluded, the focus should shift more toward higher volumes of transactions in the large number of new accounts.

6 (a). Credit flow to Women and Hardcore Poor farmers

Reaching Women and Hardcore Poor farmers is one the major segments of financial inclusion of the bank. Providing financing to agriculture is challenging for both women and hardcore poor farmers. The varied unique challenges make access to finance a much bigger challenge for these group compared to others in the agricultural sector. The following Table-14 shows that the bank extended credit facilities to 350,503 no. of women, 128,239 no. of landless farmers, 728,053 no. of marginal farmers and 129,485 no. of sharecroppers. The total outstanding amount is Tk.4116.68crore, which is 22.48% of bank's total outstanding. It indicates positive sign for accelerating financial inclusion plan. In one sense, BKB's entire amount of agriculture could be considered under financial inclusion.

Table 11: Status of ICT in BKB as on 30-06-2017

SL. No.	Name of the Division (Including LPO)	Number of Online Branch	Number of Offline Branch	No of Partially Computerized	Total Computerized Branch	No of ATM	Total Number Of Computer Used
1	2	3	4	5	6 = (3+4+5)	7	8
1	Dhaka	61	11	15	87	01	790
2	Mymensingh	18	12	25	55	01	655
3	Chittagong	29	06	06	41	01	525
4	Comilla	27	14	04	45	0	845
5	Sylhet	15	10	11	36	01	505
6	Khulna	36	06	08	50	01	440
7	Kushtia	24	06	02	32	0	325
8	Barisal	18	15	26	59	0	630
9	Faridpur	17	18	21	56	0	485
10	Local Principal Office (LPO)	01	0	0	01	01	71
	Total	246	98	118	462	6	5271

Source : BKB, BCBD, HO, Dhaka.

Table 12 : Division-wise Performance of Financial Inclusion Plan of BKB as on 30-06-2017
(Figure in Crore)

SL. No.	Name of the Division (Including LPO)	Bank account for Farmer initial deposit TK 10		Bank Account for Freedom Fighters		Bank Account for Beneficiaries under social security Program		Bank account for Hardcore Poor women	
		No of Accounts	Amount	No of Accounts	Amount	No of Accounts	Amount	No of Accounts	Amount
1	2								
1	Dhaka	396120	3.90	152	0.12	41385	1.30	25805	0.56
2	Mymensingh	605738	4.20	493	0.06	106184	0.31	67517	0.46
3	Chittagong	95460	1.17	20	0.01	53250	1.15	57300	0.82
4	Comilla	305170	2.54	1472	0.10	93922	0.28	46738	0.28
5	Sylhet	236922	5.90	215	0.01	53787	0.59	38795	0.53
6	Khulna	274093	1.88	419	0.04	52281	6.42	71340	2.13
7	Kushitia	237739	2.18	53	0.02	36584	0.14	15583	0.09
8	Barisal	231460	5.20	5	0	62175	3.05	75730	3.70
9	Faridpur	228700	3.56	0	0	60731	2.69	45700	1.46
10	Local Principal Office (LPO)	0	0	0	0	0	0	0	0
	Total	2611402	30.53	2829	0.36	560299	15.93	444508	10.03

Source: BKB, BCBBD, HO, Dhaka.

Table 13 : Division-wise Performance of Financial Inclusion Plan of BKB as on 30-06-2017
(Figure in Crore)

SL. No.	Name of the Division (Including LPO)	Bank Account for Disabled People		School Banking	
		No of Accounts	Amount	No of Accounts	Amount
1	2	3	4	5	6
1	Dhaka	1460	0.39	940	0.16
2	Mymensingh	3663	0.04	3805	0.92
3	Chittagong	3460	0.17	2516	0.77
4	Comilla	3586	0.07	5447	2.60
5	Sylhet	768	0.01	1902	0.62
6	Khulna	3631	0.84	3996	0.60
7	Kushtia	0	0	462	0.01
8	Barisal	1325	0.78	5736	0.44
9	Faridpur	0	0	5283	0.96
10	Local Principal Office (LPO)	0	0	0	0
Total		17893	2.3	30087	7.08

Source: BKB, BCBD, HO, Dhaka.

Table 14: BKB's Credit flow to Women and Hardcore Poor farmers as on 30-06-2017

(Tk. in crore)

BKB's Total		Credit flow to Women and Hardcore Poor farmers									
Outstanding Loan		Women		Landless Farmers		Marginal Farmers		Sharecroppers		Total	
No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
3338129	18311.66	350503	1190.25	128239	170.69	728053	2283.91	129485	471.83	1336280	4116.68

Source: BKB, BCBD, HO, Dhaka

Table 15: Disbursement of Agricultural & Rural Credit Publicly at Union Level as on 30-06-2017

SL. No.	Name of the Division (Including LPO)	Total Branch	No of Branches Organised Open Camp	No of Programme Organised by the Branch	Total No of beneficiaries under open Camp program	(Figure in Crore)	
						Total Amount Disbursed in the Camp	Total Amount Disbursed in the Camp
1	2	3	4	5	6	7	7
1	Dhaka	148	135	1250	7653	1631.95	
2	Mymensingh	131	131	1403	5333	2582.72	
3	Chittagong	105	58	599	10170	2480.20	
4	Comilla	169	158	1564	7531	1654.42	
5	Sylhet	101	100	550	2557	1645.82	
6	Khulna	88	83	736	3585	2412.46	
7	Kushtia	65	62	723	5250	4010.50	
8	Barisal	126	126	1110	3670	1150.28	
9	Faridpur	97	97	944	6130	443.55	
10	Local Principal Office (LPO)	1	0	0	0	0	
Total		1031	950	8879	51879	18011.9	

Source: BKB, BCB, HO, Dhaka.

7. Disbursement of Agricultural & Rural Credit Publicly at Union Level

For BKB, borrowers are mostly poor, illiterate, and unfamiliar with banking procedures. Somehow, some corruptions take place through the intermediary as a way of getting loan. Fake loans, such as, loans to non-existent people, can be reduced if a branch disburses loans publicly at union level. Both forms of corruption can be diminished by disbursing loans through open camp system. For the sake of transparency in credit disbursement, emphasis has been placed on disbursement of loans publicly at union level by the bank. Branches under 9 divisions have organised 8879 ‘open camp programmes publicly at union level’ up till 30-06-2017. Table-15 provides the overall picture of disbursement of agricultural & rural credit through the above as on 30-06-2017.

8. Human Resource Position in BKB

The numbers of employees working in the bank are shown in table 16. The existing strength of Bank’s manpower is 8726 against the approved strength of 15442 as on 30-06-17. The bank is running with shortage of more than 6716 employees. Therefore, branches are facing immense difficulties in managing and supervising their activities due to shortage of workforce. Apart from the regular banking activities, branches are also involved in carrying out a number of Corporate Social Responsibility (CSR) type of activities, such as, handling electricity bills of customers of Polli Bidyut Samity, providing agricultural subsidy to farmers, allowances to the beneficiaries under social security programme; widow, old age & disability allowances programmes; pension for the retired military personnel, etc. Whereas the magnitudes of manpower involvement in CSR type of activities hinder their main business activities; such as, loan recovery, deposit mobilisation and loan disbursement. Besides, female employees are seriously reluctant to be posted in rural areas. Therefore, female employees are concentrated in city branches mainly in Dhaka city.

V. Major Challenges Facing BKB in Agricultural Financing

Agricultural finance is crucial to support the growth of the agricultural sector. This is essential for food security, job creation, and overall economic growth. The synthesis report presents a summary of research studies on five key areas of agricultural finance innovation prepared under the G20 Global Partnership for Financial Inclusion (GPFi) and the presentations and discussions of these during the “G20 Roundtable on Innovations in Agricultural Finance” convened on September 9, 2015 in Antalya, Turkey by the SME Finance Sub-Group1-

Table 16: Human Resource Position of BKB as on 30-06-2017

SL. No.	Name of the Division (Including LPO)	Approved Post	Male	Actual Position Female	Total	Surplus	Shortage
1	2	3	4	5	6	7	8
1	Dhaka	2253	1332	254	1586	-	667
2	Mymensingh	1790	901	91	992	-	798
3	Chittagong	1621	798	52	850	-	771
4	Comilla	2182	1047	72	1119	-	1063
5	Sylhet	1369	556	36	592	-	777
6	Khulna	1275	697	78	775	-	500
7	Kushtia	941	524	36	560	-	381
8	Barisal	1661	785	56	841	-	820
9	Faridpur	1262	578	30	608	-	654
10	Local Principal Office (LPO)	131	59	34	93	-	38
11	Head Office	957	556	154	710	-	247
	Total	15442	7833	893	8726	-	6716

Source: BKB, BCBD, HO, Dhaka

mentioned five key research areas presented in the synthesis. They included a) Understanding Demand of Smallholder Households, b) Digital Financial Services, c) Financing for Women in the Agricultural Sector d) Value Chain Finance and e) Agricultural Insurance. The five areas of emphases focus on innovative approaches and tools for productive agricultural lending, market inclusion and agricultural insurance. Given the diversity of topics, the format of the research papers and summaries varied with the themes. The synthesis sent key messages on the trends and lessons with recommendations for policy interventions, and further research and development. (Glossary of terms used in Value-Chain Finance, Agricultural value chain finance instruments (according to Miller, 2011), Variety of financial relations and linkages from inside and outside the value chain, Demand for finance within a value chain, and Key Lessons from research and roundtable discussions can be seen in Appendix Box-1, 2, 3, 4 and 5 respectively).

The transition from subsistence to commercial agricultural production requires funding. However, in developing countries, where agriculture is a source of livelihood for 86 per cent of rural people (International Finance Corporation [IFC], 2013), financing for investment in agriculture is scarce, even for large investors. Financial institutions are reluctant to accept the risks prevalent in the agricultural sector, such as, droughts, floods, pests and/or the transaction costs of covering large geographical distances. Consequently, although governments are now making efforts to attract investment for agriculture, the lack of understanding of the financial risks and opportunities in agriculture, deprives the sector of much needed funds to boost production, processing and marketing.

The above policy brief explored the financial needs of agriculture in developing countries, in general, and the instruments available to address these needs. In this study, we principally examine the challenges in agricultural financing and the roles of different actors including the options for governments to strengthen further the legal and policy environment of the financial system to boost agricultural development in Bangladesh even further.

Like other sectors, investors in agriculture, particularly local farmers, need financing for other supporting actors, such as, foreign-owned plantations, processing factories, storage facilities and fertiliser factories. However, in the current global financial system, a number of factors frustrate the development of solid financial services in rural areas in most developing countries. First, transaction costs in rural areas are higher than those in urban areas due to a more dispersed population with weak infrastructure (International Fund for Agricultural Development [IFAD], 2009a).

Second and more importantly, the risk factors inherent in agriculture often inhibit financial institutions from lending. These include production risks linked to natural hazards (such as droughts, floods and diseases), farmers' weak ability to provide collateral (either because the farmer lacks title to land to offer as a loan guarantee or the value of the land may be too low) and the volatility of prices (IFAD, 2009a).

Third, the financial sector may not be sophisticated enough in some developing countries. So, the availability and innovations on sector-specific financial instruments and services is usually minimal. In addition, although financial services may be available, they may not be suitable for all types of agricultural activities, which will have diverse needs with respect to timing for disbursements, amounts and risks, among others. For example, in seasonal farming, funding is needed in particular stages of the production process (IFAD, 2009a). At the same time, the offer of financial products may only be available to large-scale farming operations with sound track records, and therefore, may not meet the specific needs of the client.

Finally, the lack of records and statistics on farming in developing countries to assess credit suitability is challenging for financial providers. These change the conditions required to access financial products undermining opportunities for profitable investment.

BKB as a major financial provider in agriculture in Bangladesh, also faces similar challenges in providing credit to rural areas. Moreover, BKB usually faces some additional challenges, as enumerated below:

1. The quality of lending depends on careful screening of loan applications and quality of information assess the borrower's intention and intention to repay. Due to low levels of farmers' education and financial literacy (no record keeping, business plans, or bank accounts), it is hard to put together a credit profile for a loan and monitor the loan once it is disbursed. For the same reason, credit-scoring techniques, which would reduce the cost of loan appraisal, are difficult to apply due to a lack of standardised and objective data. High levels of rural poverty also mean that agricultural loans are easily diverted for consumption purposes because "business" and "private" are intermingled. Further, providing agricultural financing is challenging to both male and female farmers, though women face some unique challenges. These challenges relate to the role of women in the households that often restricts their control over assets and constrains their available time for productive activities.

2. Appraising or analysing a project or term-loan is complex, as these are typically technical with many activities and many unknown factors. However, making a loan to an urban trader is relatively easier. Agricultural lending requires highly capable and specialised loan officials, who are in short supply at present in BKB. The incredible fact is that there was no recruitment from 1986 to 2000. This has caused present manpower shortage and resulted in a disproportionate manpower structure in respect of age. Majority of the employees are now 58+ irrespective of their ranks and positions, usually find it difficult to adapt changes.
3. In many cases, more than three unions are allotted for a rural branch. On an average, 4 to 5 persons are working there. Apart from the regular banking activities, branches are also involved in carrying out a number of Corporate Social Responsibility (CSR) type of activities, such as, receiving electricity bills from the customers of Polli Bidyut Samity, providing agricultural subsidy to farmers, allowances to the beneficiaries under social security programme, widow, old age & disability allowances programmes and pension for the retired military personnel, etc. This indicates that rural branches are playing an important role in enhancing ongoing financial inclusion initiatives of Bangladesh Bank. The magnitudes of workforce involvement in CSR -type of activities hinder main business, such as, loan recovery, deposit mobilisation and loan disbursement.
4. To verify the prospective and existing borrowers, at present in bank; on average, the ratio of field workers to borrowers exceeds 3000. Credit supervision is the approach to ensure loan utilisation for the stated purpose. Bank cannot use this approach due to its high administrative costs including that of maintaining a staff trained in extension work.
5. In general, old attitude towards credit still prevails today: a loan is the result of support, and does not essentially have to be repaid. This is especially true in the case of loans from the BKB, which are viewed as grants originating from government which in general does not expect the grants to be repaid. In the aftermath of flooding in 1984, the government said that the crop loans among those who lost their crops did not have to be repaid. In April 1987, the government decided to forgive overdue interest on outstanding loans to weavers in the handloom industry, and explore the possibility of a reduced rate of interest on new credit. Thus, borrowers are doubtful about the necessity to repay loans. Moreover, responding to the periodic natural calamity (worst flooding, drought), the GOB encouraged the BKB to

expand the number of agricultural loans and relax the repayment schedules of many outstanding loans. This expansion took place so rapidly that the branches did not properly screen the borrowers, resulting in dismally low rates of loan recoveries that now jeopardize the entire recovery process and will continue to do so. The extent and net effect that these GOB-inspired rescheduling and interest forgiveness actions have had negative impact on the recovery of loan in the end.

6. Loans are backed by some form of security, either land or hypothecation usually of crops. Hypothecation requires that the branch adequately supervises the loan so that more than one person, for example, does not claim the same cow, as collateral at a time. In addition, the number of branch staff is too inadequate to be present at the time crops are harvested or fish sold to ensure that the banks receive what is owed to them. Using land as security poses some problems, such as, problem of proof of land ownership due to outdated and incomplete land records. Indeed, there are examples of dodging of court action. This creates unusual conservatism among the bankers in assessing and disbursing the loans.
7. The ratios of non-performing loans (NPLs) particularly bad & loss (BL) to total loan are alarming in BKB. Sometimes, indecisiveness in the attitude of the borrowers to repay the loan and lack of experienced workforce to streamlining the recovery drives are the main reasons for aggravating non-performing loans (NPLs). In order to alleviate this aggravating NPLs situation, recruiting of a required number of employees is a crying need right at this moment.
8. At present, the banking system does not have a system to satisfactorily manage loans affected by natural disasters. This results in an unreasonable excuse to default completely. To be fair to disaster victims, the banking system could enhance its credibility.

Agricultural insurance can reduce the negative impacts of crop failure and livestock illness and may improve a farmer's ability to access credit and willingness to invest in labour and inputs. Agricultural insurance can support farmers' efforts to mitigate and provide access to value propositions that lead to higher yet somewhat riskier incomes. Agricultural insurance is subsidised around the world and it should be expected at least in the early stages of development.

9. Increased urbanisation has changed the character of rural areas of some regions of the bank, which creates some additional challenges as follows:

- a. In recent trend, commercial investment in land seems more lucrative to the landowners than farming.
 - b. Because of creation of antagonistic environment by careless urbanization and industrialisation lands lose fertility.
 - c. Environmental degradation is one of the main obstacles on the way of agro-financing.
 - d. Lack of inputs (like- insufficient water for irrigation, high cost of labour and scarcities of fertiliser) are main reasons behind the lessening of agro - production in urban areas.
 - e. Lack of proper documentation for loan and failure of the sharecroppers to collect proper documents from landowners
10. In pursuance of the objective of the bank and the government, socioeconomic considerations were given most priority in credit analysis and decisions. Many rural branches were opened without considering viability aspects. Lending rates especially for crop, fisheries and livestock (which cover 60% of total loan) are kept at such a lower level, which do not cover the risk, and actual cost factors. A huge proportion of the asset profiles of the bank became overdue. All these had been reflected through decline in the profitability of the bank.
 11. Present Management has unearthed a few cases of unethical practices, irregularities and misappropriation of funds in some branches. The frequency and magnitude of such fraudulent activities inflicted huge burden on the bank. It is generally recognised that such types of unscrupulous activity cannot take place without the active collaboration or passive approval of the officers/staff of the branch. Practically, the incidences reflect the importance as well as failure of internal control and internal audit in bank.

IV. Conclusions and Recommendations

Through a consistent progress, BKB has brought itself to the present stage. Nevertheless, this progress faced enormous challenges and succeeded to overcome those. It is, however, a continuous process. Actually, achievements are not free from challenges. New challenges emerge as well as old challenges also appear with new dimensions. Despite these it is improving its performance consistently. However, it should be stressed that this does not imply that progress has been highly satisfactory due to some challenges which are unique in nature.

For sustainable agricultural finance one need to address: a) risks, b) costs/distribution channels, c) find bankable opportunities and d) offer the right product to the right people. Value chain finance is most relevant to address points a), b) and c) above. Insurance focuses on a) but is also confronted with b), demand assessment is critical for d), technology is driving innovation for b), and financing women entrepreneurs is for c) and d). While not comprehensive, innovation in these five areas makes an important contribution to global learning. In recent times, policy makers of some countries of the world support initiatives that help bring transparency and strengthen business relationships and cooperation among value chain actors that also helps increase the inclusion of smallholders into competitive value chains and access to improved finance. In Bangladesh, these are the vital issues, which need timely policy interventions. These polices are even out of the organization's authority. It is generally agreed that better quality management of resources is the main factor contributing to improved bank performance.

The present authority of BKB has taken some initiatives for addressing some challenges as follows:

- 1) From traditional agro (crops) financing, some regions are gradually shifting to the non-crops, like-poultry, fisheries, dairy, beef fattening, grain storage and marketing, poverty alleviation, income-generating activities, etc.
- 2) BKB now prefers to finance newly emerging profitable sectors, such as SME.
- 3) It is generally agreed that better quality management of resources is the main factor contributing to bank performance. So, management has taken initiatives to improve attitudes of the existing workforce. Importance is attached to recovery of BL. Now, branches keep records of credit outstanding with records about what is due or overdue. Employees are to act with the notion that loan collection is an integral part of banking, and it should be done in an organised way.
- 4) By maintaining proper chain of command, bank has become successful to inculcate change in the field officers' mindsets to be more devoted and honest in discharging their duties.
- 5) Authority has applied some new techniques so that clients can get access to the higher officials for any kind of query or complaint. For example, GM notices those are issued from his/her office, and shares personal contact information.

- 6) Frequent inspections and effective monitoring system by the controlling authority also made a rapid change among the staffs to ensure timely and hassle free disbursement of credit to real farmers and to achieve the disbursement and recovery targets.
- 7) Priority has been accorded to timely and proper legal measures against the willful defaulters to enhance loan recovery and enforce stricter contract compliance. Moreover, encouragement is given to pursue certificate cases.

The overall situation of BKB gives us reasons to be optimistic. To add pace to the steps of BKB, some changes may be fruitful. However, based on the above discussions and conclusions, the following recommendations are being put forward:

- a. BKB should enjoy greater independence in matters of selection and recruitment of employees of the bank. Right at this moment, BKB as a whole, needs to recruit more than 6000 new employees as per existing vacancies.
- b. Employee incentives should be considered for BL recoveries and be given bonuses for high levels of loan collections so that bank can attract and retain skilled staff.
- c. There must be a policy of zero- tolerance against any major violations of the banking norms. 'Monkeys should not be allowed to handle the bananas'. Failure of internal audit in bank should be handled very strictly. There must be a policy of reward and penalty for well-performing and underperforming employees respectively.
- d. In order to properly assess and monitor prospective and existing borrowers, the ratio of field workers to borrowers should not exceed 250.
- e. Need-based practical training courses should be designed and be implemented frequently by the Staff College.
- f. Recently, BKB has introduced 'Annual Performance Agreement (APA)' clarifying the goals for each level of the organisation- from the Managing Director (MD) to the GM, to the Head of the Regional Office, to the Manager of each branch. All employees of the bank should be evaluated through this APA and then set up a plan for rewards and penalties, accordingly.
- g. With the growing complexities and challenges, effective and vigorous supervision and monitoring of senior level executives' activities related to agricultural credit at rural branches are imperatives.

- h. The branches of BKB are extensively involved in CSR type of activities for which branches do not receive any additional benefits at all. Moreover, BKB is playing an important role in enhancing ongoing financial inclusion initiatives of BB. Therefore, the magnitudes of branches' workforce involvement in CSR-type activities may need to be reviewed and a policy must have to be developed so that branches' involvement in CSR-type activities does not hinder their main business activities. The government should allow 'fair service charge' considering the magnitudes of branches' workforce involvement in CSR-type activities.
- I. Last but not the least, the balance sheet of the performance of the bank during 1972- 2017 was thus mixed - success in achieving economic objectives of expanding branch network with business operations and providing easy credit to priority areas, but failure as far as ensuring financial viability of the bank is to be considered by giving subsidy for 'concessional interest rate' and allowing proper 'service charge' for 'workforce involvement in CSR-type activities'. These will ultimately help the BKB turn as a financially viable organisation.

In closing, ethics is still elusive in Bangladesh and elsewhere. Rampant unethical conducts at lending and borrowing ends are the root causes of high percentages of non-performing loans in the banking sector. Political pressures and financial corruption within add to the problem. The BKB seeks to address the issue through close scrutiny of loan requests, fair and truthful lending, financial inclusion, periodic asset quality review including mitigation of potential moral hazards and adverse selections within the existing regulatory framework. Despite these efforts to many, ethics seems to be situational and as if "Beauty lies in the Eye of the Beholder". The banking sector in Bangladesh has a long way to travel in this regard.

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Appendix - Box 1: Glossary of Terms Used in Value-Chain Finance**1. Internal Finance**

- Trade credits: the trader pays the farmer for the goods in advance and the farmer agrees to repay at harvest time or another agreed time.
- Input supplier credits: the producer receives inputs from the supplier and repays them after harvest or another agreed time.
- Marketing company credit: a marketing company, processor or other upstream buyer finances the farmers or local trader in cash or in kind. The buyer then locks the price of its purchases. The farmer or trader gets access to credit, supplies and secured sales (IFAD, 2012).
- Lead firm credit: a large company finances its clients, for example, to increase their production.

2. External Finance

Receivables financing:

- Trade-receivables finance: a financial institution buys account receivables or confirmed orders from a business advancing its working capital (IFAD, 2012).
- Factoring: a financial institution (factor) buys those invoices of business discounting commissions and fees, consequently advancing most of the payments to the person/company (Investopedia, n.d.).
- Forfeiting: used in exportation of goods, a financial institution (forfeiter) purchases the amount importers owe to the exporter in freely negotiable instruments, discounting commissions and fees and paying cash. The importer is obliged to pay its debt to the forfeiter (Investopedia, n.d.).

Appendix -Box 1: Glossary of Terms Used in Value-Chain Finance (continued)

Physical-asset collateralization

- Warehouse receipts: a documented proof of the ownership and specific characteristics of certain commodities stored in a warehouse. They “provide a secure system whereby stores agricultural commodities can serve as collateral, be sold traded or sued for delivery against financial instruments” (Giovannucci, Varangis, & Larson, 2000).
- Repurchase agreements (repos): short-term borrowing. A buyer receives securities as collateral and agrees to repurchase them at a later date. Commodities are stored with accredited collateral managers who issue receipts with agreed conditions for repurchase agreements and provide a buy-back obligation on sales, and are therefore employed by trading firms to obtain access to more and cheaper funding based on that security (IFAD, 2012).
- Leasing: used popularly to finance machinery, automobiles and equipment in agriculture. The lessee usually makes a down payment and can use the asset while paying periodic contributions. At the end of the term, the lessee may have an option to purchase the asset.

Risk mitigation products

- Insurance: businesses make periodical payments to an entity (insurer) to partially or absolutely cover its losses from a particular adverse event.
- Forward contracts: sales agreement to buy or sell an asset for an agreed price and moment set at the time of the sale. It reduces the risk of adverse price movements in an asset (hedging) and can be used as credit collateral (IFAD, 2012).
- Futures: standardized forwards contracts traded in specialized futures exchanges.

Financial enhancement instruments

- Securitization instruments: a business creates a cash flow of illiquid assets (for example, receivables) that are sold to a special-purpose vehicle (an entity insulated from the management of the business) that will issue securities backed by these assets. The amounts entering from the sale of these securities finances the business.
- Loan guarantees: a third party to the loan provides a guarantee to the borrower to lower the repayment risk.

Source: IFAD (2012), Investopedia (n.d.), Giovannucci, Varangis, & Larson (2000)

Appendix-Box-2: Agricultural value chain finance instruments (according to Miller, 2011)

Miller categorises the various instruments used in agricultural value chain finance as follows:

A. Product Financing:

1) Trader credit; 2) Input supplier credit; 3) Marketing company credit; 4) Lead firm financing.

B. Receivables Financing:

5) Trade receivables financing; 6) Factoring; 7) Forfeiting.

C. Physical Asset Collateralisation:

8) Warehouse receipts; 9) Repurchase; 10) Financial lease.

D. Risk Mitigation Products:

11) Insurance; 12) Forward contracts; 13) Futures.

E. Financial Enhancements:

14) Securitisation instruments 15) Loan guarantees; 16) Joint Venture finance.

For a detailed presentation, see the annexes in Miller, Calvin (December 2011),

“Agricultural Value Chain Finance Strategy and Design”, Technical Note, FAO, Rome.

Some instruments listed by Miller are not presented in this chapter on financial innovations because these instruments are not normally used by smallholder farmers.

Appendix-Box-3: shows a variety of financial relations and linkages from inside and outside the value chain

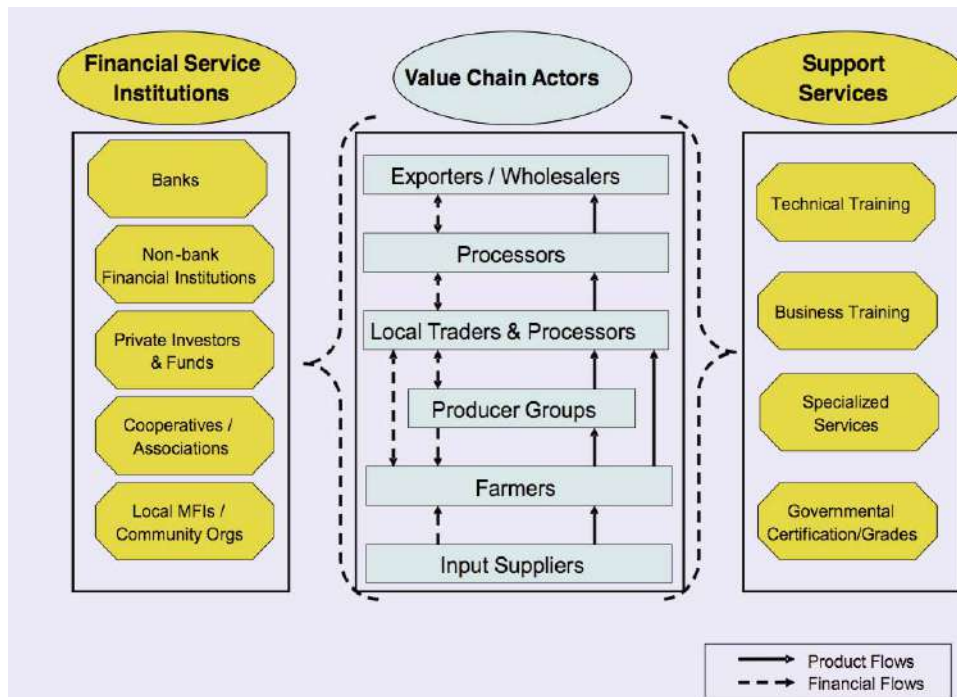


Figure: Financial relationships and support services that affect the value chain

Source: *Using the Value Chain in Financing Agriculture*, FAO (n.d.)

Appendix –Box-4: Demand for finance within a value chain

Value chain partner	Role in the value chain	Demand for finance
Input suppliers	Provide seeds, fertilisers, Chemicals, fuels, equipment, sometimes technical knowledge.	Working capital to buy and stock inputs in adequate amounts and at the right time. Provide these on credit to farmers.
Day workers	Provide seasonal labour.	Want to be paid by day's end.
Farmers	Grow crops and raise Animals. May take part in some postharvest processing and marketing.	Working capital to buy inputs and pay seasonal labour. Capital or term loans for investment in equipment, storage, animals and land, including clearing hitherto unused land. Payment services, saving products, various types of insurance including crop insurance.
Farmers' organisations (e.g. associations, cooperatives)	Bulking inputs and/or farmer outputs to gain economies of scale and better prices. Advocacy, access to technology.	Working capital to buy farm inputs for distribution to farmers. Working capital to buy produce from farmers for delivery to traders or other off-takers. Capital or term loans for investment in storage, transport and (pre)processing facilities.
Rural traders	Buy agricultural produce and bulk-sell it.	Working capital to buy agricultural produce.
Collection centres	Sometimes testing and Quality certification.	Capital or term loans for investment in storage facilities, transportation equipment or testing/certification equipment. Insurance.
Processors	Transform the product into a marketable commodity or Consumer product.	Working capital to buy agricultural produce. Capital or term loans for investment in production facilities. Insurance (calamities, theft, loss).
Distributors, wholesalers	Sell to local retailers, Supermarkets.	Working capital to buy processed agricultural products. Working capital to provide stock finance to retailers. Capital or term loans for investment in storage facilities and transportation equipment.
Exporters, importers	Sell to international buyers (commodities or processed Products).	Working capital to buy processed agricultural products or unprocessed agricultural commodities. Factoring/forfeiting services (on behalf of suppliers). International trade finance (e.g.L/C).
Retailers	Sell to consumers.	Insurance (calamities, theft, loss). Working capital to buy processed agricultural products. Capital or term loans for investment in shop inventory.
Consumers	Consume the product!	Insurance (calamities, theft, loss). Personal loans or salary advances.

Appendix-Box-5: Key Lessons from Research and Roundtable Discussions

Understanding Demand

- Smallholders are a complex group and segmentation is critical.
- Non-agricultural income is generally more important than agricultural-related income.
- Digital innovation in rural financial services has the potential to be a game changer.
- Automating data on smallholders can improve bankability.
- A large portion of smallholders do not need credit. Rather, they need digital payments services/savings-based products.
- There is a disconnect between research and practitioners/policy makers.
- Continued research is needed on households/smallholders and on putting research findings into practice.
- Research on the demand side should lead to action, and tailored products and services by financial institutions.
- The costs for generating and collecting demand data need to be carefully watched. Financial institutions should only cover those portions that are directly related to their business.

Financing for Women

- Market research is essential to understanding the needs of women clients.
- The right financial products must be offered to fit women's needs based on market research.
- A dedicated implementation strategy, which is embedded with a gender lens, is needed (GENDERNET 2015). Cultural and sociological barriers need to be identified and considered in market development and product design.

Digital Technology

- Digital technology opens many avenues for financial inclusion of smallholder families and the rural poor. However, it will require public as well as private support to scale up and reach those currently excluded.
- Financial inclusion efforts will need to focus on complementing existing DFS with new innovations that are designed based on a better understanding of the needs of smallholder families.
- Given the potential of the technologies and scope for scaling up, the reach and impact at present is still minute.

**Appendix-Box-5: Key Lessons from Research and Roundtable Discussions.
(Continued)**

Agricultural Value Chain Finance

- Successful value chains are driven by consumer demands.
- Selling produce in organized VCs tends to improve market returns. As quoted, “If you cannot sell your produce to VC, you have to sell it to miserable markets.”
- VCF is always finance+ (research, extension, ICT, insurance, and so on).
- Some known financial products such as factoring, which is almost never used in agriculture in an isolated way, have become more important when integrated into a VC context.
- Commitment, governance and standards are essential at all levels; the functioning of the agricultural VC finance system has to be understood by farmers, financial service providers, and policy makers.

Agricultural Insurance

- An emerging trend in the last few years is the bundling of insurance with credit or input suppliers.
- There is also increased interest and use of insurance as a safety net.’
- Agricultural insurance is subsidized around the world and it should be expected at least in the early stages of development. However, the use of subsidies must be SMART, that is its purpose must be clear (to address equity or market failure), and well targeted to the specific segment of farmers or herders and specific areas that are intended to benefit so as to minimize leakages to others.
- SMART subsidies will usually be less distorting if made directly to the insurer to offset administration and development costs rather than subsidizing the premium rates paid by farmers. Examples of this include support for data, customer awareness and education, and product design support.
- There is a need to better understand the impact of insurance for product design and how best to target support.

