

Agricultural and Rural Financing Policy and Programme for The Banks in Bangladesh

MD. MAIN UDDIN*

Abstract *Agricultural sector contributes near about 19.29% of GDP (Source: Ministry of Agriculture) and about 72% people live in rural area in Bangladesh (Source: World Bank report 2012). Agricultural & Rural investment sector provides us food security and generates employment opportunity which plays an important role for sustainable development of the economy. Different policies & programmes in this sector have supported cost effective Agricultural & labor force output. The objectives of the study are to analyze the different policies & programmes have been taken by the different Banks in this country for investing in this sector. For the study information & data we have collected information from Bangladesh Bank Agricultural & Rural credit policy and programme guideline for FY-2013-14 and different banks policies & Agri & rural investment products guideline. It is found that Specialized Banks, State-owned commercial Banks, Private Commercial Banks, Foreign Banks have followed the up to date Bangladesh Bank policy & programme guideline. Banks share their view for introducing new idea & concept in this area.*

Introduction

Agricultural & Rural investment has support steady growth of the developing country like Bangladesh. It can provide substantial welfare gains for ultra poor, poor, marginal people and thereby could play an important role in reducing poverty. In comparison of our previous food security we found our tremendous

* Senior Vice kPresident & Regional Manager, Sylhet, EXIM Bank, Head Office, Gulshan, Dhaka

improvement of this sector. Enrichment of rural economy of the country is directly & indirectly supported by this sector.

Objective and Methodology

- The study aims is to identify periodical improvement of Agricultural & rural investment in Bangladesh to analyze different banks support for making the policy effectively applicable. It also informed us how systematic growth in this sector. To observe the present position in this sector we collect information form 1) State owned Banks 2) Specialized Bank, 3) State-owned commercial Banks 4) Private commercial Banks, 5) Foreign Banks, 6) Private Islamic Commercial Banks.

Agri & Rural Lending/Investment by Banks: The Early Phase

- The initiative of increasing banking access to the rural farmers began in 1977. At that time 6 (Six) nationalised Banks namely Sonali, Janata, Agrani, Rupali, Pubali & Uttara Bank have disbursed Agri & Rural credit/ investment including Bangladesh Krishi Bank (BKB).
- To facilitate timely delivery of agricultural credit/investment to the farmers, lead bank system was introduced in 1977. Under this system, each union (the bottom layer of the administration) comprising several villages has a designated bank branch for disbursement, monitoring & recovery of agri & rural credit/investment.
- Now, agri & rural lending is mandatory for all scheduled banks.
- Currently 56 banks are engaged in agricultural & rural lending through their own branches and/or through MFI partnership,
- Unlike most central banks, Bangladesh Bank has been playing an accentuated role in facilitating agricultural & rural credit/investment.

Banks in Agricultural Lending/Investment

- Bangladesh Bank draws up annual agricultural credit/investment policy and programme each year.
- This policy and programme includes rules, regulations, priorities, disbursement and repayment schedule for common crops along with their cost estimation with a view to providing a handy and contemporary guideline for banks involved in agricultural credit/investment programme.

Agri & Rural Credit/Investment Policy Emphasis

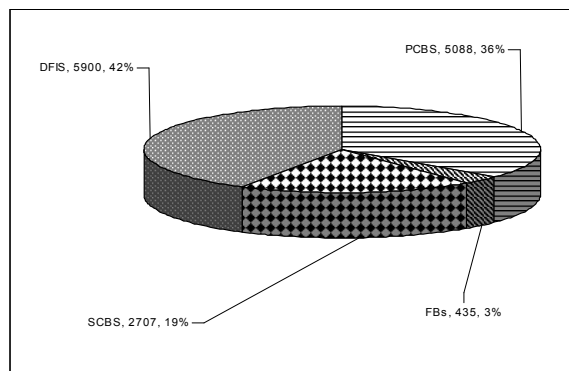
- The core spirit of the policy is that the share-croppers and marginal farmers will get priority in getting agricultural credit/investment.
- The policy also directs banks for providing collateral free credit/investment to farmers who are cultivating not more than 5 acres of land against crop hypothecation.
- At least 60% of the agricultural & rural credit/investment target of each bank goes to cultivation of crops.
- Adequate priority to the other core sectors viz. fisheries and livestock as well as for income generating activities.
- Emphasis on credit/investment disbursement publicly in an open and transparent manner.

Agri & Rural Credit/Investment Programme

- The Annual Agricultural Credit/investment Programme sets forth directives to assist banks for providing agricultural credit/investment to the farmers in an easy manner.
- The Programme consists of Credit/investment Norms for more than one hundred major crops. The credit/investment norms provide a disaggregated calculation of how much cost is required for seeds, fertilizer, irrigation, labor, etc. for per acre production of each of the crops.
- The programme also provides a calendar for credit/investment disbursement and recovery matching with the seasons for sowing/planting and harvesting of crops adding a considerable grace period for each crop.

Agri & Rural Credit/Investment Target

- The annual agricultural credit/investment disbursement target is primarily set by the banks themselves. But Bangladesh Bank closely monitors each bank's targets with a view to ensuring the indicative target to be realistic.
- In the recent years Bangladesh Bank keeps eye that the indicative target increases at least 5-10% each year.
- In 2012-2013 the target increased by 2.4% over the previous year reaching Tk 14,130 crore, an amount which is around 7% of the national budget declared by the government for FY 2012-2013, which is shown in the following pie chart:



- Bangladesh Bank does not inject fund in the field of agriculture with the only exception of meeting the demand based refinance claims from Bangladesh Krishi Bank (BKB) & Rajshahi Krishi Unnayan Bank (RAKUB) against government guarantee.

Agri & Rural Credit/Investment: MFI Partnership

- With most foreign and private banks having branch network only in the urban and metropolitan areas, Bangladesh Bank allows banks with limited branch network to provide agricultural & rural credit/investment in partnership with the micro-finance institutions licensed by the Micro-credit regulatory Authority.
- To ensure that the bank funds disbursed through MFI partnership goes in agriculture, it is considered as disbursement by bank only when the fund is disbursed to the actual borrowers and not the MFIs.

Agri & Rural Credit/Investment: Profit/Rate

- In this era of liberalization, banks set their own interest/profit rates for different sectors.
- Bangladesh Bank with a view to better combating the global economic recession introduced an interest/profit rate cap of 13% for certain sectors, including agriculture.
- However, the interest rate for crop credit/investment by the state owned banks (which take up the lion's share of agri-credit/investment market) ranges from 8% to 10% normally.

Agri & Rural Credit/Investment: Performance

- Bangladesh Bank has taken a strong stance so that the agricultural/rural credit/investment policy and programme is properly implemented by the concerned banks.
- The Agri & Rural Credit/investment Policy and Programme for the FY 2012-2013 mentions possible awards and punitive measures, respectively, for the success and failure of implementing the policy.
- Success in agricultural credit/investment disbursement will be considered a positive factor for according the approval for opening new branch/Authorized Foreign Exchange Dealership License, while punitive measures might be taken against the bank(s) failing to achieve targets.

Inclusive Banking: Farmers Account @ Tk 10

- To increase banking access of the farmers, recently Tk 96.74 lac accounts of farmers have been opened by the State-owned Banks with an initial deposit of Tk.10 /- only.
- In 2012-13 financial year, in this account the amount of disbursement, savings, foreign remittance and Inland remittance are, respectively, Tk.294.12 crore, Tk.105.63 crore, Tk.47.81 crore and Tk.19.49 crore.
- Substantial amount of Taka has already been disbursed by the Govt. to the farmers as input assistance for diesel through these accounts.
- Bangladesh Bank is motivating the concerned banks to make maximum use of these accounts through savings mobilization, credit/investment delivery, and remittance delivery.

Special Refinance for Share-Croppers

- The access to finance for the sharecroppers had been not up to the mark till the recent times.
- Bangladesh Bank took on a special refinance program of Tk. 50.00 crore exclusively for the share-croppers.
- Beneficiary: 3.00 lac sharecroppers across 181 upazilas under 39 districts of Bangladesh.
- BRAC, a reputed MFI, is getting refinance from Bangladesh Bank under this programme upon disbursing credit/investment to the sharecroppers provided that 100% bank guarantee has been placed to ensure recovery of the central bank's fund.

- Interest/profit rate at farmer level: maximum 10% while BRAC is receiving refinance at the prevailing bank rate (currently 5%).
- The repayment schedule: farmers will repay 70% of the total outstanding within two months of the harvest while the rest 30% is to be repaid on equal monthly installments till harvest.

Refinance for Solar energy and Biogas

- Around 70% people in Bangladesh are outside the electricity facility while around 90% are outside the natural gas network.
- Bangladesh Bank introduced a refinance scheme of Tk.200.00 crore to encourage, among other environment friendly initiatives, the use of: bio-gas & solar energy in houses and business institutions in rural areas, and solar energy driven irrigation pumps in off-grid areas of the country.

Agri & Rural credit/investment: Monitoring & Recovery

- Bangladesh Bank has taken a stern stance against the culture of credit/investment waiver as part of restoring credit/investment discipline in the banking sector,
- With a view to ensuring desirable recovery and to ensure that the fund is properly being used for production, a three-tier monitoring mechanism is in place.

Agri & Rural credit/investment: Monitoring & Recovery

- The District Agricultural Credit Committee has been playing an effective role in successful implementation and coordination of the Agriculture and Rural Credit/investment Programme at field level under 'Lead Bank' system.
- In view of the participation of all banks in rural credit/investment operation and in order to make the agricultural credit/investment activities more effective and coordinated, the scope for representation of private and foreign banks in the District Agricultural Credit Committee alongside the State-owned Commercial and Specialized Banks has been created by Bangladesh Bank recently.

Implementation of Agri/Rural credit/investment in 2012-13

- An amount of Tk.14,667.49 crore was disbursed in 2012-13 financial year against the target of Tk.14,130.00 crore, which is 103.80% of the target.
- In 2012-13 financial year some 33,10,024 farmers got Agri & rural credit/investment, of whom 4,44,546 were women that got Tk.1245.00 crore.
- In 2012-13 financial year, an amount of Tk.9302.10 crore was disbursed among 24.41 lac small and marginal farmers.

Recovery of Agri & Rural credit/investment in 2012-13

- Recovery rate of Agri & rural credit/investment was about 70% in 2012-13 financial year. Private and foreign commercial bank's recovery rate was 90%, where as state owned & specialized banks, recovery rate was 59%. Comparatively, private and foreign commercial banks achieved better recovery than state owned and specialized banks.

Financial Inclusion: BB Strategic Plan

- With most people of Bangladesh still outside the coverage of the banking system, recently Bangladesh Bank, the central bank of the country, has announced its first five-year strategic plan for 2010-2014 to add an impetus to the country's economic development through financial inclusion bringing in more people under the banking network.

Agri & Rural investment sectors & sub-sectors**Conclusion and Recommendation**

The paper focuses on the different Bangladesh Bank policies & programmes regarding Agri & rural investment sector. New seed policy, vermincompost, solar energy, eco-friendly investment also considered under agri & rural investment. In each Fiscal year before publication of Agri & rural policy & programme guideline Bangladesh Bank asked for suggestion from different Banks & Institutions for their newly developed idea or concept about policy guideline. We hope Banks field level findings about policy issue will be admitted in published policy guideline. Now private commercial banks are generating their network to provide direct investment among farmers instead of MFI's. Our recommendations are to introduce international experience & proven experience in our policy & programme guideline. We may use our mobile phone networks to provide different policy information among farmers.

Short Term Investment	Long Term Investment
1.1 Crops investment (without Tea)	2.1 Irrigation Equipment
a) Ropa Aman	a) Deep Tube well
b) Rabi Crops	b) Shallow Tube well
1) Boro	c) Low Lift Pump (LLP)
2) Wheat	d) Hand Pump Tube-well, Water Pump, Treadle Pump
3) Potato	2.2 Livestock Development
4) Sugarcane	a) Cattle for plough
5) Mustard Seeds/Nut	b) livestock development
6) Others Rabi Crops(Pulse, Winter Vegetable, etc)	1) Beef Fattening
c) Summer Crops	2) Dairy Farm
1) Aush/ Bona Aman	3) Goatery / Ram farm
2) Jute	4) Duck / poultry farm
3) Maize	2.3 Farm Machinery
4) Other Summer Crops (Sesame & Other Summer Crops)	a) Power Tiller
d) Cotton	b) Tractor
e) Other Crops (Zinger & Arum)	c) Harvesting & Threshing Machinery
1.2 Fisheries Sector Development	d) Other Agricultural Equipment
a) Fisheries	2.4) Nursery & Horticulture (Banana, pineapple)
b) Shrimp cultivation	2.5) Betel Cultivation
c) Aquaculture	2.6) Mushroom Cultivation
d) Fish Fry cultivation	2.7) Income Generating Activities
1.3 Salt Cultivation	2.8) Local Transportation (Boat, Rickshaw, Van, Bullock card, etc)
1.4 Other short term activities(like Banana plantation & other)	2.9) Water Basin Management
1.5 Warehousing & Marketing	2.10) Other Long Term Activities (Sericulture)