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# Microfinance for Agriculture in Bangladesh: Current Status and Future Potential

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## Acronyms and Abbreviations

| | |
|---|---|
| ASA | Association for Social Advancement |
| ASPADA | Aspada Paribesh Unnayan Foundation |
| BASA | Bajitpur Rural Advancement Society |
| BB | Bangladesh Bank |
| BEES | Bangladesh Extension Education Service |
| BKB | Bangladesh Krishi Bank |
| BRAC | Bangladesh Rural advancement Committee |
| BRDB | Bangladesh Rural Development Board |
| BSBL | Bangladesh Samabaya Bank Ltd |
| CDF | Credit Development Forum |
| CDIP | Centre for Development Innovation and Practices |
| CODEC | Community Development Centre |
| DSK | Dustha Sasthya Kendra |
| ESDO | Eco-Social Development Organization |
| GDP | Gross Domestic Product |
| GOB | Government of Bangladesh |
| IDF | Integrated Development Foundation |
| JCF | Jagoroni Chakro Foundation |
| MFI | Microfinance Institution |
| PKSF | Palli Karma-Sahayak Foundation |
| PMK | Palli Mongol Kormosuchi |
| PMUK | Padakhep Manobik Unnayan Kendra |
| POPI | Program for peoples orientations and implementations |
| RAKUB | Rajshahi Krishi Unnayan Bank |
| RCS | Registered Cooperative Society |
| RIC | Resource Integration Centre |
| RRF | Rural Reconstruction Foundation |
| SCB | State-owned commercial Bank |
| SHAJAG | Samaj o Jati Gathan |
| SKS Bangladesh | Samaj Kallyan Sangstha |
| SSS | Society for Social Service |
| TMSS | Thengamara Mohila Sabuj Sangha |
| UDDIPAN | United Development Initiatives for Programmed Actions |
| UDPS | Uttara Development Program Society |
| USAID | United States Agency for International Development |

# Microfinance for Agriculture in Bangladesh

## Abstract

Rural Sector must be at the center of development of Bangladesh economy because three-fourth of its people lives in rural areas and 40% of them are below poverty line. And agriculture is life-blood of the rural economy employing 54% of rural workers and its growth is crucial for alleviation of poverty. Although becoming less important in terms of its contribution to GDP, agriculture still plays a major role in the total economy, accounting for 21 percent of national GDP.

Considerable investment is needed in Bangladesh agriculture to make it grow faster and become competitive in global market. For that, farmers need access to finance which seems limited now. According to a World Bank report (World Bank 2003), majority of farmers in Bangladesh consider access to finance a major or very severe obstacle to their operations. In Bangladesh, 45% farmers own between 0.5 and 7.5 – making them marginal, small or medium-size farmers. More than half of farmers or villagers own less than 0.5 acre of land and are considered landless. With their extremely limited landholding and small income, their ability to contribute to agricultural growth is rather limited, unless access to finance enables them to diversify higher value crops or improve farming practices with use of modern inputs. Therefore, increasing access to finance is the most promising area for growth of agriculture and rural development.

The Government has taken several steps over the years to provide rural credit in general and to the farmers with middle size holdings. But the success of these steps has been limited. BKB and RAKUB which are supposed to be the main providers of financial services in rural areas are quite insolvent and not financially viable. The commercial banks have not gone into rural market in a big way despite prodding from the Government. The role of cooperatives also has been limited.

So there is a big gap in provision of rural finance for agriculture and micro-finance institutions (MFIs) are filling in this void to some extent, but its role is constrained by the fact that MFIs mostly focus on landless. The growth of MFIs in Bangladesh has been most impressive. According to the latest data (December, 2008) from Microfinance Regulatory Authority, more than 4000 MFIs have applied for registration, over 450 have already been registered and another 80 are also qualified for registration. These MFIs are serving 24 million members and 19 million borrowers. As of 2007/08, three lending MFIs, Grameen, BRAC and ASA count for 77 percent of total borrowers.

The growth of microfinance sector in Bangladesh can be attributed in large part to pioneering work of Grameen, creation of MFIs that have effective lending and operational models, the need and willingness of clients to take microcredit loans and the Government program to provide wholesale financing through Palli Karma Sahayak Foundation (PKSF), which translates into Rural Employment Support Foundation. Since its inception in May 1990, PKSF has been working as an apex microcredit funding and capacity-development institution in Bangladesh.

Some sub-sectors of agriculture always figured prominently in use of microfinance funds, crop agriculture was a minor user, but its share of microcredit increased substantially in recent years, especially after PKSF introduced Seasonal Loans and Agricultural Lending Program. One estimate shows that proportion of PKSF funds going to crop agriculture doubled between 2007 and 2008. According to the representatives of Partner Organizations using PKSF funds for crop agriculture, lending for crop agriculture is not only possible, it is profitable and sustainable.

Although the interest rate charged by MFIs who borrow funds from PKSF for lending to agriculture is subject to interest ceiling (imposed by PKSF), other charges made by MFIs for funds going to agricultural activities make the actual interest rate (along with service charges) for agriculture as high

as 15 to 18 percent. This rate appears higher than the return farmers would get from many agricultural activities especially traditional crop production. In those cases, the return from crop agriculture is partly compensated by the return to family labor which has zero or minimal opportunity cost.

Lending to crop agriculture requires flexibility and variation from standard procedures and terms. This would require new and bigger loan products, duration of loans coinciding with production periods, dealing with male members and managing liquidity (larger size loans and one-time collection would require handling large amounts of cash). All these requirements would increase lending costs, making this group of clients more expensive to serve than traditional microfinance borrowers. Given the larger loans and higher risks (as explained next), more financial analysis of loan requests and a better management information system is called for in microfinance for agriculture.

The limiting factor for crop lending is the risks involved–price risks (occasional collapse of price of the commodity produced) and weather risks. While nothing can be done to address price risks except building better roads to markets, creating enabling environment for private sector storage facilities, Government can take a few steps facilitate management weather related risks. The Government could: (a) remove the legal and regulatory obstacles to the development of index-based weather insurance; and (b) create a fund for national calamities to cover the risks that are not commercially viable.

Besides taking steps for managing weather related risks, successful crop lending would require supporting services as well (credit plus approach). Link with input suppliers would help. There is often synergy if there is coordination between providers of technology and credit. Scaling up agriculture lending would be strongly facilitated with some associated development programs such as irrigation, drainage programs and roads to markets.

Also, to minimize risks of default, lending for households (with income coming from farm and non-farm activities) has proved useful in some states in India.

In any program to expand financial services in rural areas-especially for marginal, small and medium size farmers–the role of BKB and RAKUB cannot be ignored. In any case, the whole rural finance system has to be approached as an integrated system catering to the needs for financial services of different segments. In that system, any part such as BKB and RAKUB cannot be allowed to continue with their market distorting behavior such as loan forgiveness, lax collection and charging subsidized interest rates. They, therefore, need to be reformed and operate on a clean slate. Several steps can be recommended for their reform and restoring their long-term sustainability: (a) transforming the governance of the two banks to protect them from political interference; (b) recapitalizing them in a way that they can make a fresh start; and (c) restructuring their operations so that they can provide cost- effective financial services to the clients. For this they should consider using self help groups for lending as being done by National Bank for Agriculture and Rural Development (NABARD) of India.

To conclude, increasing access to finance is still the most critical need for agricultural growth in Bangladesh. Both formal institutions (such as BKB and RAKUB) and MFIs have to play their roles in an integrated and mutually supportive way. MFIs are already playing significant role in financing agriculture, their role has increased in recent years and there is much more scope for further increase in their role in financing agriculture, if appropriate measures are taken (such as modification in operation and loan products are made and a modern management information system is introduced) to address the challenges that the agriculture sector poses and fully exploit the opportunities it offers.

## I. Introduction & Background

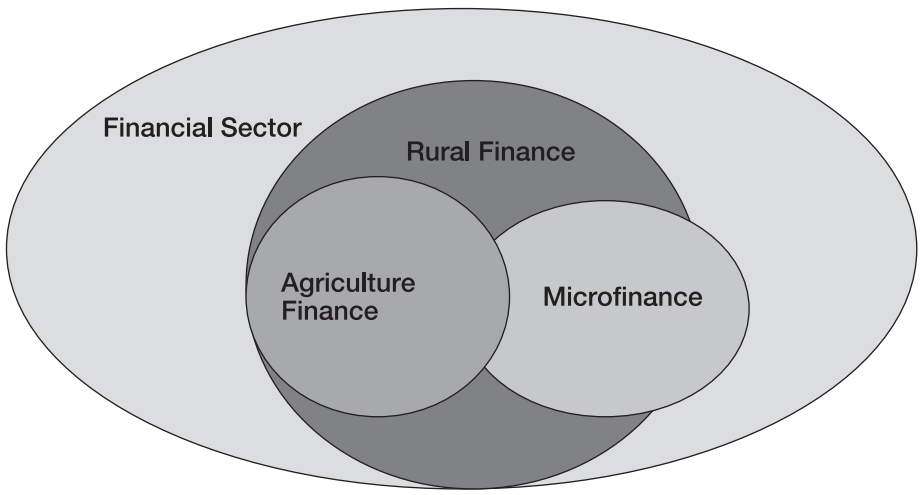
Rural economy is central to Bangladesh development because three-fourth of the people still lives in rural areas and forty percent of them live under poverty line. Although interlinked, the economic activities in the rural sector can be grouped into two categories: agriculture and non-agriculture, but agriculture still plays the pivotal role employing 54% of rural workers and accounting for 21% of GDP. According to a recent bank report (World Bank 2008), in 2004, non-agricultural activities employed 40 percent of rural workers.

Financial intermediation is a vital requirement for growth of the economy and it is now universally recognized that lack of household's and enterprise's access to capital on competitive term would slow down growth. Unfortunately rural financial market in Bangladesh, as in many other countries, remains somewhat segmented. For the supply of financial services, there are essentially 3 sources–formal, informal and quasi-formal (microfinance). The borrowers are also subdivided into hard-core poor, moderately poor and non-poor.

Agriculture sector can be broadly defined to include crop agriculture, livestock, fisheries and farm forestry. Marginal farmers and smallholders dominate agriculture in Bangladesh. More than half of farmers own less than 0.5 acre of land and are considered landless. About 45 percent of Bangladeshi farmers own between 0.5 and 7.5 acres of land. Considerable investment is needed for Bangladesh agriculture, as well as its non-farm sector, to grow. This investment requires access to finance. Agricultural finance can be viewed as financing of related activities in the agricultural sector such as input supply, production, distribution, wholesale, processing and marketing. Agricultural finance encompasses the range of financial services offered and used in rural areas by people of all income levels engaged in all kinds of activities.

In comparison to rural and agricultural finance, microfinance includes financial services for poor and low income people by offering small loans and savings services, while accepting a wide variety of assets or alternative (group accountability) as collateral. Clearly there is overlap between these terms and can be illustrated in the following diagram.

**Figure: Share of Agricultural Finance in Rural Microfinance**



In Bangladesh, microfinance became popular in 1970s, thanks to pioneering work with Grameen Bank by Professor Yunus (awarded Nobel Prize in 2006). Microfinance institutions filled a gap by banking the unbankable, financing credit, savings and providing other essential financial services to millions of people who are too poor to be served by regular banks. It is based on the premise that poor have skills which remain unutilized or underutilized under the existing financial system.

We know that a number of factors have thwarted the development of a vibrant financial market in rural areas of most developing countries. The higher transaction cost associated with dispersed populations and inadequate infrastructure, along with the particular needs and higher risk factors have caused under provision of financial services in rural areas. We also know that an effective rural financial intermediation is key to rural growth. The inability of households and enterprises to access capital on competitive terms to undertake profitable investments or take advantage of market opportunities means that incomes and growth are lower than they potentially could be.

So increasing access to rural finance remains a highly promising, but comparatively less explored area, for growth of the country. There are some valid reasons why this area remains relatively less explored. Financial institutions operating in the rural areas face the problem of high transaction costs due to remoteness of areas and low density of population. And these institutions face special problems in financing agriculture because of commodity and weather risks. To make things worse for Bangladesh, agriculture here is particularly susceptible to natural disasters such as floods, cyclones and occasional draughts. Comparatively Bangladesh, however, has higher density, which lowers, transaction cost to some extent.

Against this background, the purpose of this study is to assess the actual role played by microfinance in Bangladesh agriculture and further explore its potential role in promoting agricultural growth. The subject is of paramount importance for various reasons. First, for Bangladesh, agriculture is still the core economic activity (fifty four percent of its people still depend on agriculture for livelihood) and this is expected to remain so for the foreseeable future. Second, in Bangladesh microfinance has expanded phenomenally and its annual disbursement has reached nearly $4 billion a year. It is, therefore, important to find out how much of the expansion has gone to finance agriculture activities and explore how much more it can potentially do in the future. Understanding of interface of microfinance and agriculture finance is also important to understand whether microfinance and agriculture finance are mutually reinforcing or mutually exclusive. The mutual relationship is affected by the relative terms of the two forms of finances and the resulting access of farmers to finance offered by these two systems operating side by side.

## Profile of Rural Financial Market

As noted, rural financial market consists of three types of provider–formal, informal and quasi-formal consisting of microfinance institutions (MFIs), including Grameen Bank.

The formal sector comprises of the public sector banks, especially two agricultural banks, two cooperative networks and private and government owned commercial banks. The size of formal sector's share has varied between 16 to 32% of the market depending on how formal sector is defined, but its share has remained stagnant for quite some time.

Performance of the public sector banks has been unsatisfactory (World Bank 2008, World Bank 1995, Baqui 2003). An inefficient delivery mechanism has limited their outreach, and

overwhelming arrears pose a real threat to their sustainability. The public sector agricultural banks face serious policy, institutional and structural issues. The public sector has not been able to expand its savings mobilization which means that its role in financial intermediation has remained rather limited and constant.

Natural disasters and climatic risk (covariance problem) are often used as explanations for the poor recovery by public sector specialized credit institutions, whose portfolio are dominated by crop loans. Natural disaster can undoubtedly be a significant factor in loan delinquencies, especially in Bangladesh, and over exposure to any sector is risky. But the argument is not tenable because the recovery from crop loan is actually better than loan to other areas and record of MFIs in lending to agriculture, though somewhat limited, is as good as lending for other purposes. The real reasons for poor performance of public sector banks in agriculture lie in somewhere else. The primary problem is inappropriate institutional incentives. Weak governance has subjected formal banks to severe political interference. Loan write-offs and interest remissions have rewarded delinquent behavior and punished the honest.

The second problem is the absence of an effective legal and regulatory framework. The third problem is fixing of interest rate ceiling for agricultural loans. This would limit the ability of public sector institutions to recover their costs. Other problems include: lack of appropriate employee and borrowers incentives, organizational and structural weaknesses, poor management systems and obsolete financial services and products.

The specialized banks (such as BKB and RAKUB) are not quite solvent and the government funds absorbed by these lending institutions are not actually reaching the middle group, marginal farmers, smallholders and the midsize farmers .This middle group, therefore, often turn to the informal sector consists of money lenders, friends, relatives, traders etc. According to several surveys, this source still has a large share of the market-the estimates vary from 8 to 21%. This is also the lender of the last resort. Households without access to, or those rationed (totally or partially) by the other lenders, turn to informal sources to borrow. Studies show that most of the loans from the informal sector are small. Informal lending is generally presumed to be dominated by loans for non-commercial purposes. Besides money lenders (charging high interest rates) informal market includes friends, relatives and neighbors. Some of these loans carry small or no interest. Another informal source of credit is traders and dealers. In agriculture, *Dadon* (forward sale) has traditionally financed paddy and jute marketing. The recovery rate of informal loans is generally high.

Based on the studies made in Bangladesh and other countries in the region–India and Pakistan–several observations can be made about the profile and status of agricultural finance in Bangladesh rural economy. These observations would provide the necessary background of the role played so far or likely to be played in the future by MFIs in financing agriculture.

First, the importance of credit for agricultural productivity in Bangladesh, as in other countries, is well-established. This is borne out by the farm level data on how credit availability has led to more intensive use of farm inputs and attains higher productivity. Nearly 53% of rural enterprises (both agricultural and nonagricultural) consider access to finance a major or very severe obstacle to their operations (World Bank, 2003). The coverage of farmers by the existing rural credit system remains inadequate. Access to formal institutions (like BKB and RAKUB) is limited to only rich farmers. Only about 16 percent of the farmers have been able to get credit from formal sources, according to one estimate (Baqui, 2003).

Second, given this observed scarcity of finance for agriculture, MFIs have been filling in the gap to some extent. There is still a gap in rural finance system–access of the middle group remains limited. The observed fact that a good part of loans have gone to agriculture–even though MFI borrowers are poor with no land or only with homestead bear–testimony to this.

Third, non-institutional or informal source of credit still dominates despite the fact that cost of funds from this source is generally higher than the institutional or the formal sector. Several surveys show that, as already noted.

Fourth, poorer households mainly depend on expensive informal sector because of lack of collateral. Since a vast majority of the farmers are still and will remain uncovered by the formal institutions, these farmers are either had to depend on their own sources or the informal sector for financing their operations. This means that MFIs can potentially expand its microfinance program for farmers manifold than the present level, which remains extremely limited so far. Clearly the most distinguishing characteristics of the rural financial market in Bangladesh are the growing importance of microfinance institutions. The latest microfinance statistics for 2007 shows an impressive increase in cumulative loan disbursement to grassroot borrowers in 2007. According to that report, in December 2007, cumulative disbursement to individual borrowers reached Taka 1126 billion, which reflects nearly 26% increase in disbursement over the previous year. These figures reflect tremendous expansion of market outreach of MFIs.

The deepening of microcredit in Bangladesh can be seen in terms of its relative share of the total domestic credit. In 2007, the volume of total domestic credit was Taka 1817 billion and annual loan disbursement in microfinance was Taka 235 billion. Thus the share of microcredit in total domestic credit rose from 15% in 2006 to 25% in 2007.

Total rural credit extended by banks was Taka 134 billion and disbursement of microfinance credit was 1.8 times that of formal credit in that year, according to the 2007 Microfinance Year Book.

The microfinance institutions in Bangladesh consist of NGOs, cooperatives, public sector programs and the Grameen Bank, as noted. Bangladesh is now teeming with more than 1000 microfinance NGOs. The NGO led market consists of many providers, but dominated by few large actors such as Grameen, BRAC, ASA and PROSHIKA.

Credit products of MFIs include general loans, program loans, housing loans etc. General loans are made for any profitable and socially acceptable objectives–such as rural trade, rural transport, paddy husking, food processing, small shops and restaurants. Program loans are activities such as poultry, livestock, agriculture, sericulture, fisheries and forestry. Along with varying size and coverage, the MFIs widely vary in the functions they perform.

There is sometime lack of clarity in the objectives pursued by the MFIs especially about relative weights given to social objectives and commercial strategy in the objectives. Perhaps because of this confusion or overlapping objectives, Bangladesh NGOs do not seem to be generally cost conscious. Financial data of these institutions are not analyzed from the efficiency point of view. For a microfinance program, both social objectives and commercial strategy seem to be relevant. Social mission of these MFIs assumes that more and more poor people should be covered and the continuity of the service should be maintained through plough back of the received funds. Social mission of the MFIs also recognizes that they go to the door step of the poor people with appropriate financial services. While doing these, the MFIs need to be also commercialized to the extent

possible, meaning that their full cost for lending (or as much as it is possible) will have to be covered. This is essential for ensuring their sustainability and growth. This means that it is also desirable that the working of the MFI system has to be monitored. Making the MFIs commercially viable means that poor should be regarded as clients and not beneficiaries. It also means that microfinance market should not be viewed as segmented market but as integrated part of the country's financial and monetary system. Commercialization is the most desirable way to recover full cost and help expand the microfinance market. While commercialization can not be the dominant objective in certain areas (helping the ultra poor), the acceptance of its objective will enable MFIs to play a significant role in financing smallholders and mid-size farmers as well as small and medium scale entrepreneurs.

To pursue a substantial commercialized agenda, along with social objectives, MFIs will have a significant role in agricultural finance. To explore that potentials, we need to look at the experience so far and this can be seen from the supply side (reported purpose of the loan by MFIs) as well as from the demand side (how did borrowers actually use the funds). At present, there are 4 broad categories of MFI funds going to agriculture: (a) micro credit to poor households using agriculture related livelihood activities (mostly comprising homestead based activities such as livestock, home gardening, aquaculture etc); (b) seasonal loans, a good part of which would go into agriculture; (c) enterprise loans, a part of which is used in agriculture related activities such as aquaculture and agro-processing enterprises; (d) microcredit for marginal and small farmers (a program that was initiated by PKSF last year in response to demand from the NGOs borrowing from PKSF).

### Key Issues Addressed

The study attempts to address the key policy question: how much of credit needs of the various segments of the rural economy, especially agriculture, is being met under the existing system of financial services. This key question is then extended and divided into several sub-questions.

First, how much of the regular credit demand (with required collateral) for formal credit is being met by the formal institution. Are those institutions performing or serving at their maximum potential? According to a recent Bank report, over the past 10 years, Bangladesh's farming sector has grown considerably, while overall access to financial services has increased moderately. Despite the booming farming sector and the government efforts to increase access in rural areas, rural financial markets have struggled in relative terms. In particular, the access of middle size farmers remains largely unmet.

Second, what is the size and nature of the missing middle? How are their credit needs met by the existing financial institutions? What are the common terms and conditions of credit that this group gets form the informal sector? Have some MFIs ventured into this? What have we learned from their experience?

Third, even if the formal institutions are working at its optional capacity, how can it extend its outreach program? Can it adopt some of the principles and approaches of MFIs to extend its outreach program? Example of BRAC bank is relevant for that question.

Fourth, a part of the middle group is actually made of those who graduated from the poor receiving micro credit. As a group, who has had already dealt with MFIs, they are most easy to cover. How is this group charactriscally different from this group not served by MFIs or formal credit institutions?

Fifth, there are a host of institutional questions related to the assessment questions outlined. Is the same NGO or Bank (a wholesale credit institution) can do both kinds of activities? Can PKSF start a purely commercial wholesale wing, where the interest charges would cover full cost of providing these services? Lessons from India about bank loan to self-help groups would be helpful. In this respect, whether BRAC model (multiple objectives) or Grameen model (micro credit only) would be relevant?

## II. The Role of the Formal Sector in Agricultural Finance

This section reviews the role of the formal sector in agriculture finance. The first part of the review looks at the two main formal institutions–Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB). Second, the section reviews role of the commercial banks in agricultural finance which has somewhat increased in recent years. Last, this section also reviews the role of cooperatives which has been declining over the years.

Interestingly, the formal credit institutions in Bangladesh, the banking sector consists of two systems: a private one that is reasonably healthy, profitable and focused on the urban markets and state-owned one that is largely insolvent, unprofitable and the main provider of banking services in rural areas. In fact, the formal sector consisting of four nationalized banks and specialized banks such as BKB and RAKUB pre dominant profile in rural areas. Indeed, the four nationalized commercial banks account for 50 percent of rural branches and RAKUB and BKB for 28 percent.

### Role of the Agricultural Banks

The government established BKB in 1973 and RAKUB in 1987 to serve rural areas. With 947 branches, BKB covers all Bangladesh except Rajshahi, which is covered by RAKUB. The financial sector reforms undertaken since 1990s did not include the agriculture banks (BKB and RAKUB). Both banks do classify their loan portfolios according to the requirements set by Bangladesh Bank guidelines. Most reforms that BB carried out in recent years including removal of interest rate restrictions, strengthening the monitoring and supervisory capabilities of BB did not very much touch the agricultural banks. Also there has not been much progress in expediting legal reforms for loan recovery.

### Trend and Composition of Financial Services by Agricultural Banks

Annual disbursement by BKB, in real terms, stagnated for the last one decade. Disbursements as a proportion of total assets of these two institutions seem to be around 20% of BKB and below 10% for RAKUB. The disbursement of these institutions fall short of total collections in some recent years showing that for those years, those banks withdrew from the rural areas more than what the institutions lent out (negative flow). Outstanding loans in rural areas rose 60% [by volume] between 2002 and 2005 and rural lending is estimated to account for one third of total credit.

BKB's and RAKUB's average loan size has increased over time. Also the number of borrowers went up, but the proportion of its share in rural credit seems for have declined. The majority of recorded loans are for less than 20,000.00, which mean that

most loans have gone to small farmers[1] who constitute 80% by number and 30% by volume. RAKUB's clients generally consist of more small farmers who constitute a bigger share of loan disbursed.

For 2007, the outstanding loan portfolio was around 80% of total assets for both BKB and RAKUB. Arrears amounted nearly 50% of total assets (around 60% of total loan portfolio). So the overall loan recovery rates have been dismal for both BKB and RAKUB by the end of by 2007 (see Table 1). The current recovery rates seem to be better than overall rates.

**Table 1: Agricultural Credit Statistics Period: 1997-1998 to 2007-2008 Specialized Bank (BKB & RAKUB)** (Taka in Crore)

| Year | Actual Disbursement | Due for Recovery | Recovery | Percentage of Recovery |
|---|---|---|---|---|
| 1997-98 | 1057.6 | 3893.4 | 1108.2 | 28.4 |
| 1998-99 | 1906.8 | 3751.5 | 1373.9 | 36.6 |
| 1990-00 | 1905.5 | 4842.2 | 1907.7 | 39.4 |
| 2000-01 | 2189.8 | 5149.6 | 2085.4 | 40.5 |
| 2001-02 | 2042.2 | 5163.2 | 2205.9 | 42.7 |
| 2002-03 | 2243.1 | 5288.1 | 2463.3 | 46.5 |
| 2003-04 | 2640.8 | 4644.0 | 1930.6 | 41.5 |
| 2004-05 | 3149.3 | 4427.5 | 1783.3 | 40.2 |
| 2005-06 | 3551.6 | 4860.2 | 2352.3 | 48.4 |
| 2006-07 | 3482.0 | 5934.7 | 2734.0 | 46.0 |
| 2007-08 | 4061.1 | 5041.9 | 2160.8 | 42.8 |

Source: Schedule Bank Statistics, Bangladesh Bank

There have been some attempts to improve the recovery rates of both BKB and RAKUB but the collection rate has consistently remained below 50%. Although interest remissions and waivers have marginally helped recovery in particular years, they have had adverse effects in later years by creating expectations for further remissions.

Political loan forgiveness programs have been most damaging, which along with lack of political will and ineffective legal enforcement have prevented the banks from pursuing the defaulters. Although forgiveness of certain size of loans by announcement by political leader seem to have ceased, forgiveness by the respective boards of BKB and RAKUB still take place quite regularly. In a typical year, less than 2% of total overdue (by volume) were filed as certificate cases. Of these, only about 10% of the amount recovered. A large number of cases (nearly 50%) are pending over a long time.

Portfolio diversification has also been limited for BKB and RAKUB. The World Bank Report in 1996 reported that unsatisfactory experience in the past with diversification–particularly for agro-industry and medium/long term loans–has discouraged the banks to diversity. The

[1] Marginal, small, and medium size farmers are defined using the definition from the Bangladesh Agricultural census: marginal farmers are those with landholdings of 0.5-1.49 acres, small farmer those with 1.5-2.49 acres and medium size those with 2.5-7.5 acres.

recent World Bank report (World Bank 2008) also characterized both BKB and RAKUB as deeply insolvent as evidenced by growing capital deficits. Their insolvency severely undermines the stability of rural financial markets. Both banks growing capital deficit is funded by refinancing facility from the Bangladesh Bank.

Table 2 provides the agriculture credit statistics for the period 1995-96 to 2006-07. This shows that total disbursements did not increase during 2002-07 as fast as the disbursements increased during 1996-2001. The subsequent tables would also show the trend of stagnating recovery rate of these institutions. For viability, the interest margins must be able to cover loan losses and administrative costs. Both organizations are clearly unable to even cover its (subsidized) cost of fund.

**Table 2: Comparative Statement of Disbursement of BKB, RAKUB, BRDB and Others**

(Taka in Crore)

| Year | Crop (other than tea) | Irrigation equipment | Livestock | Marketing of agricultural product | Fisheries | Other agricultural activities | Poverty alleviation | Total |
|---|---|---|---|---|---|---|---|---|
| 95 | 382 | 3 | 28 | 41 | 31 | 127 | 155 | 768 |
| 96 | 410 | 2 | 32 | 54 | 24 | 84 | 129 | 778 |
| 97 | 828 | 7 | 98 | 116 | 61 | 307 | 122 | 1539 |
| 01 | 1624 | 14 | 120 | 176 | 131 | 540 | 661 | 3266 |
| 02 | 1858 | 10 | 143 | 243 | 107 | 382 | 586 | 3527 |
| 03 | 1879 | 24 | 186 | 363 | 118 | 322 | 669 | 3561 |
| 04 | 2356 | 21 | 278 | 331 | 174 | 873 | 346 | 4379 |
| 05 | 2788 | 23 | 384 | 151 | 277 | 1095 | 820 | 5538 |
| 06 | 2850 | 25 | 478 | 045 | 302 | 1399 | 793 | 5892 |
| 07 | 3029 | 29 | 534 | 014 | 354 | 1264 | 1127 | 6351 |

Source: Bangladesh Bank Annual Reports

So the performance of formal agricultural banks in meeting demand for agricultural credit has remained less than satisfactory and overall disbursement of credit of these institutions have been growing slowly. This lends support to the conclusion that the role of these banks to meet the expanding demand for rural credit has been extremely limited (their coverage in terms of loaners reached, according to one estimate (World Bank 1995) has been only about 1% of farming households). Although their share may have gone up a little in recent years, from the points of view of both outreach and sustainability, the role of these institutions has remained limited for many years and is expected to remain so for many years to come unless there is a major change in the system of their operation. The reason for such dismal performance of the two formal credit institutions for agriculture is: high provisions for loan losses, an inadequate interest margin and high administrative costs.

The conclusions reached in 1995 World Bank Report about both BKB and RAKUB seem to be valid for today and these conclusions are reiterated by the recent Bank reports. Below we summarize the conclusions which are still valid.

1. Both BKB and RAKUB are not unsustainable (without heavy Government subsidy) and both have failed to deliver adequate financial services, both qualitatively and quantitatively.

2. As for sustainability, adequate interest margins, control of arrears and reducing administrative costs are crucial (as noted). The two banks have currently little control of interest margins as they face interest ceilings. BB has fixed the maximum interest rate for key growth areas that include agriculture. Furthermore, loan recovery are severely hampered by frequent and blanket loan forgiveness programs, pressure to meet disbursement targets, ineffective legal framework to enforce payments.

3. Owned by GOB, the two banks fall under the administrative control of the Ministry of Finance. As financial institutions, however, these come under the supervision of Bangladesh Bank. The autonomy and discretion of these banks are severely restricted by formal and informal government interference. GOB has been using these institutions as conduits for political and social transfers.

4. Although established as banks, the mission of BKB and RAKUB is perceived to be disbursement of subsidized agricultural loans rather than function as autonomous financial institutions.

5. Strategic planning is non-existent–business and financial plans are worked and on an annual basis.

6. The bureaucratization of the institutions has created adverse incentives both for the institution and staff.

7. The banks offer a very limited range of products and services using technology that failed to work in the past. Both institutions seem to be over exposed to crop lending.

8. Both institutions have poor human resource base.

### Agriculture Lending by Commercial Banks

There are two types of commercial banks–state-owned commercial banks (SCB) and private commercial banks. Table 3 and 4 present the aggregate loan to agriculture for the period 1997-1998 to 2006-2007 and by 3 major banks separately for the period 1997-1998 to 2003-2004.Those tables show that lending to agriculture (in real terms) has been somewhat stagnant for FY 03 to FY 07 period. Only in FY 08 there has been a slight surge in the total lending by commercial banks to agriculture. According to BB report, three SCBs [Sonali bank, Agrani bank, and Janata bank] have disbursed a significant amount of funds in the rural sector. Similarly, according to BB report, foreign and private commercial banks have played a significant role in disbursing rural credit. These institutions disbursed a total of taka 3760 crores in FY 08. (Table 5)

In 2005, the nationalized commercial banks and developments financial institutions accounted for 47 of total bank assets. In addition, 30 private commercial banks and 9 foreign banks had slightly higher share of total bank assets.

The government has been taking initiatives to extend banking service to the rural sector. Besides establishing specialized banks for the rural and agricultural sectors (such as BKB and RAKUB), the government has taken other steps such as deliberate policy by Bangladesh Bank requiring that the commercial banks must have one rural branch for every four urban branches. The government, as noted, also used refinancing facility by Bangladesh Bank for agricultural lending.

**Table 3: Agricultural Credit Statistics Period: 1997-1998 to 2007-2008 State Owned Commercial Banks**

(Taka in Crore)

| Year | Actual Disbursement | Due for Recovery | Recovery | Percentage of Recovery |
|---|---|---|---|---|
| 1997-98 | 443.7 | 2080.2 | 442.7 | 21.3 |
| 1998-99 | 737.8 | 2353.7 | 440.3 | 18.7 |
| 1999-00 | 537.5 | 2728.7 | 583.3 | 21.3 |
| 2000-01 | 578.0 | 2917.3 | 532.4 | 18.3 |
| 2001-02 | 599.0 | 3116.4 | 699.0 | 22.4 |
| 2002-03 | 680.4 | 3120.9 | 7012.0 | 22.5 |
| 2003-04 | 905.1 | 3162.5 | 804.4 | 25.4 |
| 2004-05 | 1142.1 | 2722.8 | 877.6 | 32.2 |
| 2005-06 | 1192.4 | 3956.6 | 1151.0 | 29.1 |
| 2006-07 | 1027.8 | 4176.4 | 1245.0 | 29.8 |
| 2007-08 | 1365.5 | 4142.5 | 1509.3 | 36.4 |

Source: Schedule Bank Statistics, Bangladesh Bank

**Table 4 A: Disbursement and Recovery of Agricultural Credit Sonali Bank**

(Taka in Crore)

| Year | Disbursement | Recovery | Due for Recovery | Recovery as a percentage of Due |
|---|---|---|---|---|
| 1997 | 286.0 | 315.0 | NA | NA |
| 1998 | 393.5 | 286.1 | NA | NA |
| 2000 | 313.3 | 350.0 | NA | NA |
| 2001 | 307.5 | 473.9 | 1965.10 | 24.11 |
| 2002 | 369.9 | 720.1 | 1968.60 | 36.57 |
| 2003 | 333.2 | 531.1 | 1901.80 | 27.92 |
| 2004 | 616.9 | 544.0 | 2048.40 | 26.55 |

Source: MOF: Resume of the activities of the financial Institutions in Bangladesh, p-18

**Table 4 B: Disbursement and Recovery of Agricultural Credit Agrani Bank**

(Taka in Crore)

| Year | Disbursement | Outstanding | Loan Recoveries as percentage of outstanding |
|---|---|---|---|
| 1997 | 42.7 | NA | NA |
| 1998 | 93.9 | NA | NA |
| 2000 | 64.0 | 364.40 | 18.2 |
| 2001 | 64.5 | 403.10 | 16.3 |
| 2002 | 80.9 | 419.30 | 24.1 |
| 2003 | 67.0 | 431.20 | 22.5 |
| 2004 | 74.1 | 452.20 | 19 |

Source: MOF: Resume of the activities of the financial Institutions in Bangladesh, p-30

**Table 4 C: Disbursement and Recovery of Agricultural Credit Janata Bank**

(Taka in Crore)

| Year | Disbursement | Recovery | Recovery rate[2] |
|---|---|---|---|
| 1997 | 160.9 | 149.6 | 92.9 |
| 1998 | 191.3 | 132.5 | 69.3 |
| 2000 | 88.6 | 90.7 | 102.4 |
| 2001 | 88.6 | 86.6 | 97.7 |
| 2002 | 83.7 | 86.4 | 103.2 |
| 2003 | 81.7 | 107.7 | 131.8 |

Source: MOF: Resume of the activities of the financial Institutions in Bangladesh, p-27

Besides Government owned commercial banks, there are private commercial banks also disbursing agricultural credit, whose performance has been better than Government-owned commercial banks.

**Table 5: Agricultural Credit Disbursement by Private Commercial Banks (including Islami Bank)**

(Taka in Crore)

| Year | Disbursement | Recovery | Recovery rate[3] |
|---|---|---|---|
| 2001-02 | 196.42 | 148.24 | 92.71 |
| 2002-03 | 147.68 | 68.25 | N.A |
| 2003-04 | 177.74 | 101.75 | N.A |
| 2004-05 | 301.41 | 89.02 | N.A |
| 2005-06 | 334.02 | 224.55 | N.A |
| 2006-07 | N.A | N.A | N.A |
| 2007-08 | 2431.68 | 1629.14 | 95.46 |

Source: Schedule Bank Statistics, Bangladesh Bank

**Table 6: Credit Disbursements by State-owned and Private Commercial Banks in FY 08**

(Taka in Crore)

| | | |
|---|---|---|
| 1. | Government-owned Commercial Banks | 1366.00 |
| 2. | Private Commercial Banks | |
| | 1) Local Banks | 1560.00 |
| | 2) Foreign Banks | 850.00 |
| | **Total** | **3776.00** |

Source: Bangladesh Bank, 2008

[2] These rates do not seem to correspond to outstanding dues but to current dues and therefore sometimes the rates exceed 100 percent.

[3] Recovery rate applies to amounts due which are not available for most years.

Thus in 2007-2008, the commercial banks (both public and private) disbursed about 3800.00 crore taka in FY 08, compared to 6350.00 Crore taka by agricultural banks (BKB, RAKUB, BRDB and BSBL). This appears to be quite significant and the recovery rate of the commercial banks seems to be varying a great deal, but in aggregate appears better than agricultural banks for most years (Table 5). Within the banking sector, between 2000 to 2005 private banks became important at the expense of state-owned banks. Still, state owned banks account for 70 percent of bank loans and 60% bank deposits in rural areas.

Commercial banks avoid lending in rural areas because they view the sector risky and unprofitable. These banks generally avoid long-term loans with grace periods, which are important for crop agriculture investments. Many countries including Bangladesh put pressure on nationalized commercials banks to increase lending to meet financing needs of agriculture and often give targets. The experience of other countries show that such directed program, in the short term, does result in increased investment and seasonal credit that benefit agriculture. However, the subsidies, which are particularly pronounced for agricultural banks, often go to the rich. In addition, because of government budget constraint, the potential number of borrowers decreases as the subsidy per borrower increases, limiting the potential impact on access to credit.

Although commercial banks have been under pressure to increase lending in rural areas, its role has not grown over the years. This is mainly because in rural areas most potential bank clients are small entrepreneurs or smallholders who have different characteristics (including absence of acceptable collaterals) than large corporations which are traditional clients of commercial banks. It would be useful to note here that the key obstacles to smallholders and mid-size holders pose to commercial banks. The key obstacles include low value transactions, sensitivity to loan delivery time there and exposer to weather and price risks furthermore, provisioning rules make lending to smallholders expensive.

### Role of Agricultural Cooperatives in Rural Credit

The two agricultural cooperative systems currently working in Bangladesh–Registered Cooperative Society (RCS) and Bangladesh Rural Development Board (BRDB) cooperatives–have been involved in credit delivery. The performance of these cooperatives has been relatively poor. The refusals of cooperative members to repay their loans have made them ineligible for farther loans. Now only BRDB plays some role--its disbursement during last fiscal year (FY 08) was about Taka 735 crore. The problem faced by this source is similar to the problems cited for BKB and RAKUB. The 1995 World Bank report had concluded that without substantive and significant change, there is little rationale for the continued existence of RCSs. BRDB cooperative societies could play some role, if these societies gradually transform into MFIs.

Table 7 shows the disbursement of credit to agriculture by cooperatives during 1997-98 to 2007-2008. The recent data on disbursement from the cooperatives show trend of increase of disbursement figure and a marked improvement in collection rate. However even with such improvement, their improvement ability would depend on reforms in these institutions support the conclusion of findings of World Bank reports of 1995 and 2008, which assert that their role have been extremely limited. The cooperative movement, which was created to increase lending to rural areas, has never really taken off, it accounts for no more than 4 percent of rural lending volumes.

**Table 7: Agricultural Credit Statistics Period: 1997-1998 to 2007-2008 Cooperative Institutions (BRDB & BSBL)** (Taka in Crore)

| Year | Actual Disbursement | Due for Recovery | Recovery | Percentage of Recovery |
|---|---|---|---|---|
| 1997-98 | 141.6 | 1214.3 | 148.1 | 12.2 |
| 1998-99 | 361.3 | 1210.1 | 102.3 | 8.4 |
| 1999-00 | 408.3 | 1950.2 | 505.2 | 25.9 |
| 2000-01 | 251.8 | 1517.3 | 260.1 | 17.1 |
| 2001-02 | 313.7 | 1679.6 | 354.7 | 21.1 |
| 2002-03 | 354.9 | 1656.1 | 351.0 | 21.2 |
| 2003-04 | 502.5 | 1700.4 | 400.3 | 23.5 |
| 2004-05 | 665.3 | 1745.6 | 510.2 | 29.2 |
| 2005-06 | 752.1 | 2059.6 | 660.9 | 32.1 |
| 2006-07 | 782.7 | 1130.4 | 697.0 | 61.7 |
| 2007-08 | 740.4 | 1027.3 | 704.4 | 68.6 |

Source: Schedule Bank Statistics, Bangladesh Bank

Overall, the government's policy of encouraging formal sectors lending to expand in rural areas has had only limited success. Lending in rural areas has increased, though at a much slower rate than in urban areas. The importance of rural lending has been declining. As noted, the largest providers of agricultural loans, BKB and RAKUB are deeply insolvent.

### Trade Credit

Dealer financing or trade credit is a potentially important mode of financing in Bangladesh agriculture. This is financing of a sale by the seller of the good. Fertilizer provides a good example of the usefulness of the trade credit for financing transactions. Fertilizer is an input to production process that takes time. Because of poor purchasing power among farmers at planting seasons, small farmers often find it difficult to finance this lag between purchase and application of the fertilizers and the generation of a return. However, if the retailer is willing and able to finance the purchase, in part or full, the problem is solved.

Trade credit for fertilizer at the retail level places the financing problem with the retailer. If the retailer is financing the sale; the retailer bears the financial cost of the lag between using and earning a return to fertilizer. He normally bears the cost the cost by factoring financial cost into the sale price of the fertilizer. Alternatively, the retailer might obtain his fertilizer through financing from his supplier. In that case, the wholesaler bears the financial cost of the lag.

Accounts receivable financing could permit the bank to extend credit to the wholesaler. In that system, the wholesaler would use account receivable from farmer as collateral for a bank loan. The bank financing would remain in place until the farmer repaid its wholesaler.

In late 1980s, USAID financed a fertilizer distribution improvement project in Bangladesh. Under the project, Bangladesh received resources which allowed rediscount loans made by commercial banks to fertilizer importers, distributors and wholesaler. Upon receipt of a letter of request and evidence of loan agreement, Bangladesh bank would release funds to

participatory banks to make fertilizer loan. This project worked well and could be a model for use of bank credit and trade credit in use of fertilizer. It has been rightly arranged that trade credit is an effective vehicle for extending credit. The information that sellers have about the prospective buyers actually help to lower commercial risk.

No data are available on bank lending to the so called missing middle, but evidence indicates that such lending has been declining for many years. Second BKB and RAKUB-the largest providers of agricultural loans have progressively reduced their loan size in real terms.

## III. Role of MFIs in Agricultural Finance:

The microfinance industry in Bangladesh consists of NGOs, cooperatives, public sector agencies, some commercial banks and the well-known Grameen Bank. By now, the numbers of NGOs who are providing micro credit to their members exceed 1000. As of 2007/08, three leading MFIs, Grameen, ASA and BRAC count for 77 percent of total borrowers in Bangladesh. They serve over 18 million active members in the country. This is an increase of 4 million clients since 2005. Apart from these three, there are other providers, as noted, and they cumulatively cover about 5 million borrowers (see Table 7).The microfinance regulatory authority's latest data (December 2008) indicates that over 4000 MFIs have applied for registration and license but only 374 have registered another 78 MFIs are in the pipeline for registration. The MFIs to qualify must have at least 1000 borrowers or Taka 4 million is principal loan outstanding.

**Table 8: Bangladesh Microcredit Institutions Gross Loan Portfolio and Borrowers**

| Definition | Sl No | Name | Gross Loan Portfolio in US$ | % share | Number of Active Borrowers | % share |
|---|---|---|---|---|---|---|
| Very Large: > 500,000 clients (86% of borrowers) | 1 | Grameen Bank | $532,010,669 | 31.12% | 6,707,000 | 28.28% |
| | 2 | BRAC | $528,787,592 | 30.93% | 6,397,635 | 26.97% |
| | 3 | ASA | $305,268,840 | 17.86% | 5,163,279 | 21.77% |
| | 4 | PROSHIKA | $54,319,532 | 3.18% | 1,587,166 | 6.69% |
| | 5 | TMSS | $38,555,615 | 2.26% | 513,055 | 2.16% |
| Large: > 100,000 & < 500,000 (8.14% of borrowers) | 6 | BURO Bangladesh | $28,460,360 | 1.66% | 354,020 | 1.49% |
| | 7 | JCF | $22,914,310 | 1.34% | 274,899 | 1.16% |
| | 8 | RDRS | $11,440,228 | 0.67% | 257,292 | 1.08% |
| | 9 | SSS | $25,174,774 | 1.47% | 250,992 | 1.06% |
| | 10 | PMUK | $8,729,074 | 0.51% | 171,021 | 0.72% |
| | 11 | Shakti | $16,610,216 | 0.97% | 145,888 | 0.62% |
| | 12 | RRF | $11,511,553 | 0.67% | 138,547 | 0.58% |
| | 13 | UDDIPAN | $11,229,824 | 0.66% | 128,081 | 0.54% |
| | 14 | POPI | $5,364,837 | 0.31% | 105,689 | 0.45% |
| | 15 | BEES | $7,573,579 | 0.44% | 103,836 | 0.44% |

| Definition | Sl No | Name | Gross Loan Portfolio in US$ | % share | Number of Active Borrowers | % share |
|---|---|---|---|---|---|---|
| Medium: | 16 | ESDO | $5,361,095 | 0.31% | 96,088 | 0.41% |
| > 25,000 & | 17 | CODEC | $3,603,891 | 0.21% | 80,682 | 0.34% |
| < 100,000 | 18 | DSK | $7,321,387 | 0.43% | 80,005 | 0.34% |
| (4.42% of borrowers) | 19 | SKS Bangladesh | $3,465,288 | 0.20% | 63,432 | 0.27% |
| | 20 | IDF | $5,389,021 | 0.32% | 63,127 | 0.27% |

Source: Linking Up and Reaching Out World Bank Report No.47068-BD, 2008

In the early days of Grameen Bank, the pioneer of micro-credit in Bangladesh, the dominant idea was (and with Grameen, it still perhaps is) that the directed lending to the poor is for the much deserved goal of alleviating poverty. Along with credit, other organizational and development programs were promoted with the sole goal of giving a break to the poor makes them self reliant and take them permanently out of poverty. This is now changing and MFIs are moving forward tot the commercial lending.

The profile of total microfinance sector, as in 2007, is noted in Table 9.

**Table 9: Microfinance Sector of Bangladesh**

| | |
|---|---|
| Total capital base | Tk. 11494 Crore |
| Cumulative disbursement | Tk. 67250 Crore |
| Loan outstanding | Tk. 8694 Crore |
| Average loan size | Tk. 4000-5700 |
| Net savings | Tk. 810 Crore |

Source: Microfinance Statistics, 2007

**Note:** Capital base is an initial investment plus subsequent investments made by an investor into the portfolio. In case of Microfinance institutions capital base implies the asset accumulated up to date from the beginning of the institution. The capital base of the table is of the selected 473 MFIs.

Available statistical data up to 2008 show that all microfinance programs now cover 20 million households. These are all poor households–75% are moderately poor and the remaining are extreme (or ultra) poor. Ninety two percent of borrowers are rural and only 8% are from urban areas. Interestingly 90% of the borrowers are women.

Both in 2005 and current figures show that there is large coverage. However, a mapping exercise carried out in 2004 by the Palli Karma-Sahayak Foundation found that there is an overlap of 33 percent. According to other recent PKSF studies, the overlap has now increased to 40 percent. The overlap indicates that client take loans from different MFIs in order to achieve the credit levels they want. It is also possible that the total outreach that has been established in an institution by institution basis might overestimate the number of borrowers served. According to one estimates, still 50% of the poor have not been reached.

The aggregate picture of use of microfinance funds is in Table 10. This aggregate picture is based on the use of funds by reporting MFIs who constitute the bulk of most active MFIs.

**Table 10: Distribution of Loan by Stated Purpose (in Crore Taka)**

N implies No of MFI

| Loan type | 2007 N=473 | % | 2006 N=370 | % | 2005 N=283 | % |
|---|---|---|---|---|---|---|
| Agriculture | 4683.2 | 9.9 | 3434.6 | 9.8 | 1829.5 | 7.6 |
| Fisheries | 1478.8 | 3.1 | 1159.5 | 3.3 | 794.2 | 3.3 |
| Livestock & poultry | 5598.9 | 11.8 | 4580.5 | 13.1 | 3328.2 | 13.8 |
| Food Processing | 1758.1 | 3.7 | 1296.6 | 3.7 | 1155.5 | 4.8 |
| Cottage industries | 940.1 | 1.99 | 653.3 | 1.9 | 721.4 | 3.0 |
| Small Business | 20080.5 | 42.4 | 14889.0 | 42.6 | 9779.9 | 40.5 |
| Transport | 1307.3 | 2.76 | 872.4 | 2.50 | 655.3 | 2.7 |
| Housing | 565.5 | 1.19 | 388.5 | 1.11 | 274.4 | 1.1 |
| Others | 10931.4 | 23.1 | 3139.5 | 9.0 | 2777.7 | 11.5 |
| Total | 47343.7 | 100.00 | 34909.3 | 100.0 | 24166.5 | 100.0 |

Source: Microfinance Statistics, 2007 and CDF Microfinance Statistics 2005, 2006

In Bangladesh, the share of microcredit in total rural credit is increasing in an impressive rate. The loan disbursement of microcredit as share of total domestic rural credit rose from 15% in 2006 to 25% in 2007. While the total rural credit rose by 3% in 2007, microfinance grew by more than 26% during the same period.

The relative size of microfinance compared to the formal rural finance is also impressive. The volume of microfinance was 1.8 time of formal rural sector in 2007. So in the aggregate, microfinance share of the total finance in the rural sector is increasing impressively. The question is whether the MFIs role is increasing at the cost of formal market or the informal source. The answer seems to be that it is growing at the cost of informal market generally and only partly at the cost of formal sources. Within the formal sources, the specialized banks for agriculture seem to be not growing fast, but some commercial banks, especially private sector banks, seem to be increasing their share of the rural credit market. But how have MFIs have fared in financing agriculture? Here the question has to be seen both in terms of MFIs role in crop and non crop agriculture. Clearly, the MFIs have been supporting through then income generating loans, a good deal of agriculture related activities such as livestock, fisheries, poultry etc. It is possible that even a part of the general loans could be used to purchase input or lease land. No precise estimate for such diversion of funds to agriculture is available. However, the data from household surveys indicate the use of funds from the household side and the limited data show that mostly the allocation reported by loan giving agencies is consistent with what is reported by households about the use of funds.

### Role of Leading MFIs

Although MFIs started expanding access from the poor to the middle then outreach remains not so strong. Clearly to scale up lending to mid-size farmer, these top MFIs will have to face a few challenges. Table 11, 12 and 13 show the broad categories of loan utilization of three major MFIs–Grameen Bank, BRAC and ASA. The tables clearly show that even in general lending program directed to poor households, agriculture–encompassing crop agriculture, livestock, fisheries counted for 25 to 30% of loan distributed. Crop agriculture (including forestry) accounted for about 15% of loan disbursed by Grameen overall since 1980[4].

As noted, fifty percent of seasonal loans given by the PKSF to the partner NGOs (who receive funds from PKSF) are going to crop agriculture. This shows that when terms of MFI loans are for bigger amount and for longer period, the farmer take loans for agriculture purpose. To qualify for the seasonal loans, group meeting and face to face contact are required. This shows that there is strong demand for loans for agriculture, even crop agriculture, if the terms and conditions are right.

**Table 11: Annual General Loan Disbursement by Type of Activity of Grameen Bank**

(Taka in Crore)

| Year | Processing and manu-facturing | Agriculture and forestry | Livestock and fisheries | Services | Trading | Peddling | Shop keeping | Total |
|---|---|---|---|---|---|---|---|---|
| 1986 | 13.6 | 24.8 | 1.43 | 9.35 | 0.70 | 2.43 | 0.75 | 52.98 |
| Share (%) | 25.6 | 46.8 | 2.7 | 17.7 | 1.3 | 4.6 | 1.4 | 100 |
| 1990 | 68.6 | 9.9 | 96.00 | 4.02 | 35.26 | 1.74 | 9.06 | 224.52 |
| Share (%) | 30.6 | 4.4 | 42.8 | 1.8 | 15.7 | 0.8 | 4 | 100 |
| 1994 | 215.1 | 486.3 | 362.48 | 14.13 | 233.42 | 18.19 | 59.54 | 1389.20 |
| Share (%) | 15.5 | 35 | 26.1 | 1 | 16.8 | 1.3 | 4.3 | 100 |
| 2000 | 249.6 | 300.1 | 457.86 | 112.19 | 233.95 | 11.86 | 112.19 | 1477.79 |
| Share (%) | 16.9 | 20.3 | 31 | 7.6 | 15.8 | 0.8 | 7.6 | 100 |
| 2003 | 333.7 | 296.6 | 610.84 | 77.66 | 395.14 | 22.19 | 214.15 | 1950.27 |
| Share (%) | 17.1 | 15.21 | 31.32 | 3.98 | 20.26 | 1.14 | 10.98 | 10 |
| 2004 | 422.2 | 377.44 | 746.34 | 746.34 | 483.95 | 32.18 | 358.99 | 3167.42 |
| Share (%) | 13.3 | 11.92 | 23.56 | 23.56 | 15.28 | 1.02 | 11.33 | 100 |
| 2005 | 604.5 | 476.13 | 1195.14 | 203.57 | 817.78 | 46.86 | 554.72 | 3898.75 |
| Share (%) | 15.5 | 12.21 | 30.65 | 5.22 | 20.98 | 1.20 | 14.23 | 100.00 |

[4] One should note that the Grameen, the pioneering NGO-MFI, has grown impressively over the years. The cumulative borrowers Grameen loan has gone over 7 million, the cumulative loan disbursement has been over $6.5 billion and monthly disbursement is about $60 million. Besides basic loans, other products of Grameen bank include: housing loan, higher education loan and microenterprise loan. Grameen has been remarkably successful in mobilizing savings and total savings mobilized so far is $701 million. Membership of Grameen has reached 7.3 million, more than doubled, between 2003 and 2007.

| Year | Processing and manu-facturing | Agriculture and forestry | Livestock and fisheries | Services | Trading | Peddling | Shop keeping | Total |
|---|---|---|---|---|---|---|---|---|
| 2006 | 711.5 | 672.26 | 1437.68 | 248.99 | 1014.94 | 64.45 | 836.88 | 4986.73 |
| Share (%) | 14.3 | 13.48 | 28.83 | 4.99 | 20.35 | 1.29 | 16.78 | 100 |
| 2007 | 731.6 | 753.90 | 1423.67 | 242.83 | 1061.17 | 60.78 | 760.54 | 5034.50 |
| Share (%) | 14.5 | 15 | 28.3 | 4.8 | 21.1 | 1.2 | 15.1 | 100 |

Source: Grameen Bank Annual Reports

In comparison to the table on Grameen and ASA[5], Table 12 on BRAC[6] presents the Sectoral distribution of activities supported by various programs of BRAC. Although not strictly comparable, the figures from BRAC seem to be consistent with loan utilization profile of Grameen loans. Over 40% of the income generating activities of BRAC is in the agricultural area, dominated by poultry. Interestingly, just about 13% of the activities are in crop agriculture.

**Table 12: Achievement of Economic Development Program by Sectors of BRAC**

(Taka in Crore)

| Sectors | Economic Activities financed with credit | | | | | |
|---|---|---|---|---|---|---|
| | 2000 | Share (%) | 2006 | Share (%) | 2008 | Share (%) |
| Poultry | 1368 | 37.7 | 1708 | 26.3 | 1925 | 22.6 |
| Livestock | 235 | 6.5 | 570 | 8.8 | 616 | 7.2 |
| Crop production | 317 | 8.7 | 853 | 13.2 | 1080 | 12.7 |
| Social Forestry | 49 | 1.4 | 79 | 1.2 | 96 | 1.1 |
| Fisheries | 193 | 5.3 | 277 | 4.3 | 288 | 3.4 |
| Sericulture | 14 | 0.4 | 26 | 0.4 | 29 | 0.3 |
| Horticulture | 120 | 3.3 | 184 | 2.8 | 213 | 2.5 |
| Handicrafts | 13 | 0.4 | 15 | 0.2 | 65 | 0.8 |
| Micro-enterprise | 33 | 0.9 | 136 | 2.1 | 532 | 6.2 |
| Small Scale Trading | 1284 | 35.4 | 2635 | 40.6 | 3680 | 43.2 |
| Total | 3624 | 100.0 | 6484 | 100.0 | 8523 | 100.0 |

Source: Presentation by Mahbub Hossain, Executive Director, BRAC

[5] As noted earlier, ASA is the third largest MFI and at the end of 2006, ASA had a loan portfolio of $305 million and catered to 5.1 million active borrowers.

[6] BRAC is the second largest MFI. As of December 2007, BRAC had a loan portfolio of $529 million and 6.4 million active borrowers.

**Table 13: Year Wise Loan Disbursement (by type) of ASA**

(Taka in Crore)

| Loan Type | 2007 | Share (%) | 2006 | Share (%) |
|---|---|---|---|---|
| Agri Business | 1320.4 | 27.3 | 1110.0 | 26.9 |
| Cottage product | 319.8 | 6.6 | 274.2 | 6.6 |
| Fishing | 330.2 | 6.8 | 291.3 | 7.1 |
| Food processing | 231.9 | 4.8 | 194.9 | 4.7 |
| Poultry | 286.6 | 5.9 | 239.8 | 5.8 |
| Cattle fattening | 506.3 | 10.5 | 456.6 | 11.1 |
| Trading | 376.7 | 7.8 | 410.3 | 9.9 |
| Rural Vehicle | 359.6 | 7.4 | 357.2 | 8.7 |
| Sericulture | 16.6 | 0.3 | 13.5 | 0.3 |
| Small Business | 565.2 | 11.7 | 442.7 | 10.7 |
| Small Entrepreneur | 269.7 | 5.6 | 135.1 | 3.3 |
| Irrigation Activity | 108.2 | 2.2 | 78.5 | 1.9 |
| others | 145.5 | 3.0 | 127.5 | 3.1 |
| Total | 4836.5 | 100.00 | 4131.6 | 100.00 |

Source: ASA officials

The short experience of both BRAC and Grameen Krishi Foundation with explicit lending to agriculture shows that those special programs of lending to support agriculture operations did not succeed because the field staff of their organization did not have experience of dealing with comparably bigger loans with longer repayment period. However, PKSF's experience with seasonal loans (given for longer period) and for agricultural purpose have worked generally well because the small NGO's who had borrowed for these purposes have generally worked out a system of dealing with borrowers of these type of loans. The borrowers of these types of loans have retained basic characteristic of the mainstream micro credit loans–group meeting and continued face to face contact with the client.

The aggregate picture with regard to lending to agriculture has to be disaggregated in terms of broad two sub-sectors–crop agriculture and non-crop agriculture. This disaggregation is useful because the terms and conditions (size and duration) for their activities could be different. Also as noted later, lending to crop agriculture faces certain special challenges (e.g. covariance risk) that restrict lending in that sub-sector.

### Some Survey Results

Clearly lending to poor households (who own no land or just own their homesteads) would not use much of the general micro credit for crop agriculture, although all the major MFIs consistently reported that agriculture, as broadly defined, absorbed above 25% of the loan. Interestingly, the household survey, conducted by Institute of Microfinance of the micro credit use by ultra poor showed that almost 30% of total loan was actually used in

agriculture out of which about 12 percent of the loan was used for crop agriculture even by households who are ultra poor (Table 14).

**Table 14: Loan Used in Agricultural Sector Taken from MFIs**

| Purpose of loan taken | No of HH | Actual amount | % Share In Total |
|---|---|---|---|
| Agricultural Input Purchase | 176 | 2336250 | 8.4 |
| Agricultural Equipment Purchase | 189 | 20316199 | 7.3 |
| Other Agri Product Cultivation | 43 | 517999 | 1.9 |
| Poultry & Livestock | 417 | 3954400 | 14.12 |
| Fisheries | 28 | 280299 | 1.0 |
| Agri Sub Total | 853 | 9125149 | 32.58 |
| Grand total | 2772 | 28007720 | 100 |

Source: PRIME Report 2008, PKSF & InM

**Table 15: Loan Taken in Agricultural Sector over All the Year (1978-2007)**

| Purpose of loan taken | No of HH taken loan | Actual amount of loan taken | % out of the Grand amount taken |
|---|---|---|---|
| Livestock | 1534 | 11641529 | 4.25 |
| Lease land | 177 | 1644000 | 0.60 |
| Fisheries | 227 | 2016499 | 0.74 |
| Vegetable Cultivation | 20 | 118000 | 0.04 |
| Land Cultivation | 4462 | 34020425 | 12.42 |
| Poultry | 277 | 2753499 | 1.01 |
| Agri Sub Total | 6697 | 52193954 | 19.06 |
| Grand total | 28851 | 273866588 | 100.00 |

Source: Household Survey for a Study on Overlapping of Microcredit, 2007, PKSF & InM

In another household survey held in 2007 in Tangail area for a study on overlapping of microcredit program (Table 15), the results show that about 19% of all loans were used on agriculture and about 12% were used on crop agriculture. The findings from these two surveys confirm that the purposes of the loan recorded by the NGO MFIs are generally the similar to what as actually reported by the households. The results clearly confirm that in use of microcredit for poor, landless (or owning only homesteads) poor households, even ultra poor households, agriculture has featured prominently. Even a significant amount of the loan (10 to 12%) was used on crop agriculture (leasing of land, purchase of input etc). It is, therefore, clear that there is a substantial amount of unmeet demand for credit of small and marginal farmers, which potentially can be met by MFIs. This impression is confirmed by the short exposure of PKSFs seasonal loans and agricultural loans for small and marginal farmers.

### Recent PKSF Experience

The total amount disbursed by PKSF seasonal loan last year was taka 3.5 billion, which was about 10% of total yearly lending. Out of this total seasonal loan, half of it was for crop agriculture. In the previous year, the proportion of lending to agriculture was only 3%.This is a major increase in one year. This implies that once a door is opened by PKSF to agriculture lending, there was strong demand for loans from farmers for agriculture from MFIs.

PKSF started with a new program called micro enterprise loan designed for those borrowers who have shown signs of able entrepreneurship. These loans would be of much larger size, ranging from Tk 3000 to Tk 30000. To qualify for those loans, one has to have a track record of two years of successful loan repayment and the borrower should be able to invest 20% of the total investment in proposed microenterprise loan from his own resources. In order to qualify for this line of loans, the partner organizations must have two years of successful activities and should have a minimum of Tk 20 lakh as equity. Also, to qualify, the partner organizations should have a ratio of debt to equity to be maximum 9:1. The duration of these loans would be flexible and it can range from a minimum of 1 to maximum of two years. The interest rate for these loans would be 12.5% calculated by a flat method which makes the effective interest rate much higher. Interestingly, these loans could be granted even to those who are not a regular member of samity, but would be required to enlist in a group and attend the group meetings one in a month.

**Table 16: Loan Disbursement of Top 20 POs of PKSF in 2007-2008** (Taka in Crore)

| Name of PO | Rural Micro Credit | Micro Enterprise | Seasonal Loan | Urban Micro credit | Ultra Poor Program | Total |
|---|---|---|---|---|---|---|
| SSS | 50 | 10 | 2 | 14 | 0 | 76 |
| JCF | 32 | 6 | 4 | 11 | 1 | 54 |
| PMUK | 25.5 | 8 | 0 | 5.45 | 7 | 45.95 |
| TMSS | 15 | 5 | 0 | 12 | 10 | 42 |
| UDDIPAN | 21 | 2 | 1.2 | 9 | 1.5 | 34.7 |
| SKS | 17 | 0.68 | 2.5 | 0.55 | 11 | 31.73 |
| RRF | 24 | 0.5 | 1.15 | 1.25 | 1.75 | 28.65 |
| SHAJAG | 2.9 | 0.8 | 22 | 0 | 0.2 | 25.9 |
| UDPS | 9 | 1.5 | 3 | 8 | 3 | 24.5 |
| RIC | 11 | 4.5 | 0 | 3.96 | 2.6 | 22.06 |
| PMK | 10.5 | 5 | 1.75 | 4 | 0.2 | 21.45 |
| SAJIDA FOUNDATION | 9 | 2 | 0 | 10 | 0 | 21 |
| RDRS | 3 | 3 | 0 | 0 | 12.5 | 18.5 |
| WAVE Foundation | 13 | 0.8 | 1.8 | 1.3 | 1.05 | 17.95 |
| CDIP | 16 | 1.5 | 0 | 0 | 0 | 17.5 |
| ESDO | 3.25 | 3 | 1.3 | 2.8 | 7 | 17.35 |
| BASA | 12 | 2 | 3 | 0 | 0 | 17 |
| Ad-din welfare center | 14 | 1.25 | 1 | 0.6 | 0 | 16.85 |
| POPI | 5.3 | 2.8 | 0 | 4 | 3.25 | 15.35 |
| ASPADA | 5 | 3.5 | 0.2 | 3 | 2.8 | 14.5 |
| | 298.45 | 63.83 | 44.9 | 90.91 | 64.85 | 562.94 |

Source: PKSF Officials

The microenterprise loan program is a big step towards commercialization of the participating MFIs. The interest rate charged is higher and qualifications for eligibility are flexible. These loans are for enterprises and Table 17 shows that 17 % of these loans are for agriculture most of which were used in livestock, fisheries, and poultry. Only 3.2% of microenterprise loans were used for crop agriculture.

**Table 17: Cumulative Disbursement of Micro Enterprise Loan for Agriculture**

(Taka in Crore)

| Sector Name | Cumulative Loan | Share (%) |
|---|---|---|
| Total | 1223 | 100 |
| Agriculture | | |
| A. Livestock | 68.19 | 5.6 |
| B. Fisheries | 60.41 | 4.9 |
| C. Crop | 39.08 | 3.2 |
| D. Poultry | 43.67 | 3.6 |
| * Crop(C) | 39.08 | 3.2 |
| * Others(A+B+D) | 172.27 | 14.1 |
| Agriculture(A+B+C+D) | 211.35 | 17.3 |

Source: PKSF Reports

**Table 18: Use of Categories of Seasonal Loan by Partner Organizations**

(June, 2008 to March, 2009)

| Sub sector for loan | Amount (Tk. in Crore) | |
|---|---|---|
| 1. Total disbursement for crop | 1,77.93 | 49.6% |
| 2. Total disbursement (beef fattening) | 1,53.00 | 42.7% |
| 3. Total disbursement non crop (fishery) | 18.42 | 5.1 % |
| 4. Other seasonal loan | 10.23 | 2.6% |
| Total disbursement (under seasonal loan program) | 3,58.65 | 100% |

Source: PKSF Reports

**Table 19: Agricultural Loan Disbursement of PKSF by Category** (Taka in Crore)

| Sector | Amount | Percentage Share |
|---|---|---|
| Crop | 39.74 | 94.93 |
| Non Crop | 1.96 | 4.68 |
| Agri Input Purchase | 0.77 | 0.19 |
| Specialized Agricultural Work | 0.87 | 0.19 |
| Total | 43.34 | 100 |

Source: PKSF Reports

**Note:** 1. Agriculture loan only started last year.
2. There is no specific information on what portion of the rural microcredit (RMC) has gone to agriculture. The proportion was estimated by taking the proportion reported in Microcredit Year Book reported in Table 10

**Table 20: Total Agricultural Loan Amount under Different Credit Program of PKSF**

(Taka in Crore)

| Type of Loan | Year | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Rural Microcredit (RMC) | 76.03 | 169.77 | 153.76 |
| Seasonal Loan | 5.8 | 36.7 | 62.6 |
| Agricultural Loan | | | 43.34 |
| Microcredit for Marginal and Small Farmer [IFAD Project] | 14.8 | 89.2 | 155.4 |
| Micro Enterprise Loan | 118.21 | 93.14 | 87.15 |
| Agriculture's Share of total PKSF loans (%) | 31.02 | 28.78 | 35.67 |

Source: PKSF Reports

**Notes:** 1. Agriculture loan only started last year.

2. There is no specific information on what portion of the rural microcredit (RMC) has gone to agriculture. The proportion was estimated by taking the proportion reported in Microcredit Year Book reported in Table 10

The share of agriculture in MFIs general microcredit lending program has been between 25 to 40%.This is quite expected because livestock and fisheries are important livelihood programs for the poor. Even in this lending, crop agriculture received one third of the total loans that agriculture received, MFIs normally refrained from lending for crop agriculture excepting in two short-lived programs of Grameen Bank and BRAC. These did not succeed and these discouraged others to venture into the crop lending. Besides weather risks of lending to crop agriculture, one should remember that the general program of MFIs was directed to landless poor who are not capable to be engaged extensively in crop agriculture. However, as in recent years, PKSF got into the area in a major way. First it ventured into microenterprise loans of which crop agriculture did not feature so significantly. However in seasonal loan started in 2006, crop agriculture featured significantly almost 50%. This program expanded fairly rapidly. Until March 2009, cumulative loan disbursement under this program reached Taka 277 crore. Challenges faced by this program so far include:

- Difficulties faced in collecting loan since the timing is different for these loans.
- Varying procedures and system followed by the Partner Organization in implementing the program, Special risks if the whole loan has to be collected at one installment.
- Selecting eligible candidates for repeat loans.
- Given the flexibility for this loan, complexity and difficulties arise in ensuring repayment ability of the NGOs in handling weather related risk.

Besides these, direct or indirect microfinance lending to agriculture, a few MFI have primarily gone (though in a limited form) into loans for agriculture activities was such as Grameen Krishi Foundation, Grameen Fisheries Foundation, BRAC loans for agriculture, PROSHIKA's and ASA's agricultural loans. As noted, PKSF with the help POs have introduced seasonal loans of which fifty percent have gone into agriculture, as noted in Table 18.

In July 2005, PKSF commenced the Microfinance for Marginal and Small Farmers (MFMSF) project with the in-built component of agriculture loan for agri-related IGA. Based on the learning derived from MFMSF project POs, PKSF started Agricultural Sector

Microcredit (ASM) as a mainstream program in 2008. The membership of these agriculture societies was 37,000 in 2009. The purpose of the loan are to support various agricultural activities including crop agriculture, livestock, poultry, horticulture, vegetable cultivation, fisheries and agro-forestry. These societies also have to do savings. The duration of credit is for 14 months, allowing adequate time for crop cultivation. The partner organizations will pay between 4.5 to 7% on the amount borrowed from the PKSF and the partner organization can charge interest rate of 2% monthly at declining balance method. The maximum amount of a loan can be Taka 50000.00. This program is directly for agriculture and the annual reports on the use of the loans indicate that 95% of these loans are for crop agriculture (see Table 19).

Although this is a quite new program, its experience has significant implications for the future role of MFIs in agriculture finance. So far the experiences with agricultural loan highlight the following issues: critical importance of timing of the loan, sincerity and honesty of the borrowing farmers and risks caused by natural disasters (see Box 1 for comments, observations and responses from main partner organizations of PKSF, who participate in its new agricultural lending program).

**Box 1: Comments and Responses from Partner Organizations (of PKSF) on Agricultural Lending**

Eleven partner organizations of PKSF met to share their experiences with agricultural lending. Each representative presented the story of his organization and experience of how it started and progressed in its program of agricultural lending for small and marginal farmers. All verbal presentations were excellent and unique and some were simply outstanding and highly insightful Here summary is given upon the main themes emerging out of the discussion in the meeting.

1. Agriculture lending is not only possible; it is highly desirable and sustainable. In fact, micro-credit for agriculture, even crop agriculture, was happening even before PKSF formally started funding agriculture under its seasonal loan program and lending program for small and marginal farmers.
2. Lending to agriculture requires flexibility and some variation from standard procedures and terms. The repayment method and periods have to be varied (as reported by partner organizations). Since activities within agriculture could be different, no uniform system even for specific type of activity (such as crop agriculture) would be possible. So there may be a need to have several categories (of different sizes and repayment methods) for different loan products for agriculture.
3. Successful agriculture lending would require supporting services as well. As for example, lending for agriculture would be most effective, if accompanied with supply of improved seed (SHAJAG's example). Two models emerged from discussion. One was to make provision for quality inputs and supporting services from the NGO itself and other was the system of availing the services available in the area from the Government (such as the extension services).
4. Agriculture lending involves risks (more than other loan products)–price risks (occasional collapse of price of the commodity produced) and weather risks (as in the case of Sidr) has caused problems of collection for some MFIs.
5. Scaling up of agriculture lending may pose a problem in the future–these problems may come from associated risks, but also lack of facilities for human resource development (of NGO workers), business plan expertise and organizational or management training.
6. The other view was that scaling up of agriculture lending would be strongly facilitated with some associated development program such as irrigation, drainage programs or roads to markets. Several highly Profitable lending took place with aquaculture, vegetable production and fruit marketing.

Five of these partner organizations responded to a standard questionnaire (recorded in the Annex) covering questions such as amount of loan disbursed, loan range, land size criterion of borrowers, nature of the use of loans, terms of repayment etc. The responses show that each organization has made its system of lending, repayment method and even charges. Interestingly, some of them put in place a disaster management fund for which borrowers are charged a fee and which is used for covering natural disaster risks. Also the land size of the borrowers varied and the program did cover some mid-size farmers. (see the Annex for details)

In line with the views and observations made by the POs engaged in agriculture lending, other reports have highlighted the challenges faced by MFIs in lending to agriculture. Although MFIs, now supported by PKSF, have started lending to farmers, these institutions have to address a number of challenges. This segment of the market requires new and bigger loan products, mainly targeted at male borrowers, who would generally borrow individually. In addition, such clients often have more complex finance, requiring more rigorous financial analysis. All these increase lending cost, making the segment more expensive to serve than traditional microfinance borrowers. Given the larger loans and increased risks involved, MFIs must introduce basic management information systems. Finally, agricultural loan borrowers are exposed to weather risk and require financing simultaneously, making demand for these loans from MFIs more seasonal in nature.

Maintaining low costs would require that lenders create a sufficient number of credit worthy clients in the market area being served, so that loan officers can become specialized in specific market segments. Example to keep in mind is that of ASA, which could get 150 borrowers for each of its specialized branches supporting the small entrepreneur's loan program. Grameen Krishi Foundation experience is another example of not having enough clients for specialized lending to remain in business. Serving male borrower is another issue. Most MFIs lend mainly to women, who are more disciplined, responsible and amenable to join loan groups and attending meetings. As a result, when lending for such activities, MFIs need to adjust whether they should still target or alternatively adjust then lending approaches to lend directly to the men.

So lending to agriculture requires adjustment in lending methodologies. MFIs use "group pressure" as the collateral but many agriculturists prefer individual loans. MFIs need to shift to individual loans for larger clients, making individual loans even at the micro level requires considerable planning and building of institutional capacity. These challenges will be even greater if MFIs try to extend its lending to farmers.

Small size loans are uneconomic to administer. There is small opportunity to increase loan size given our farm size. Relaxing this thus constraint would require these institutions to develop greater capacity to appraise and lend against the entire portfolio of household economic activities including all crops and products produced for consumption and as well as nonagricultural activities by all household members who will contribute to loan repayment.

Other challenges and issues faced in agricultural lending is the lack of management information system. Loans for agriculture (or small entrepreneurs) whether given to graduate from standard microfinance programs or entirely new client, will be by definition larger than traditional microfinance loans. Making large loans raises the risk of larger losses for MFIs in case of default. To manage such a portfolio effectively, introducing even a basic management information system, including careful client monitoring is essential. Use of technology is also essential.

Managing liquidity is another issue in financing agriculture. When lending for agriculture (or small entrepreneurs) MFIs must address the challenge of managing liquidity management challenge.

Lastly, addressing weather risk is a key challenge to microcredit for agriculture.

## IV. Overall profile of credit need and supply[7]

To estimate the overall picture about what sources currently meet finance needs of agriculture and how much of the credit need of agriculture is met by all the available sources can only be assessed by estimating the total need for credit by the agriculture sector. Using an indirect approach to estimate the capital need of the agriculture sector; we have come up with a rough estimate of the credit need of agriculture in Bangladesh. Taking 15% of agriculture GDP of 2007-08, the credit need for total agriculture comes to roughly Taka 22,200.00 Crore.

Now taking into the amount of credit made available from different sources specialized banks, commercial banks and MFIs for the same year, a gap of Taka 5100 Crore or nearly 24% of the total credit needed remains unmet[8]. Compare this figure with the 44% of the small and medium size entrepreneurs that reported that they did not borrow at all. Although this figure is higher, it includes those who did not need to borrow. This point has to be probed through a survey of the farming households' access to finance.

This is the total picture for agriculture. Given that the formal institutions and MFIs so far have only met a part of its demand for credit for agriculture, it is possible that in future MFIs and the formal credit institution can play much more constructive role to finance agriculture in Bangladesh.

Typically the MFIs familiarity with borrowers and the local economy enables it to extend loans based on the borrowers' cash flow and to taylor fit the loan repayment in accordance with that cash flow. The MFIs require the simplest procedure for documentation, lending loan collection and monitoring. They use a variety of instruments to create incentives to repay the loan.

The question before us is whether microfinance technologies can be applied to agriculture to provide smallholders and agriculture based economic agents with access to sustainable finance services. Microfinance lending for agriculture poses many complex issues. To be effective and successful, MFIs must have keen understanding of (a) agricultural conditions, (b) configuration of risks in rural areas, availability of risk mitigation instruments and how to use those instruments and (c) the incentives that will affects the design of the finance products, including mechanism of recovery. These issues facing

[7] An equally pertinent question to rise is what is the likely need for microcredit in Bangladesh. While it is very difficult and we have to make quite a few assumptions in order to make such an estimate, a global picture is presented by a Deutsche Bank publication (2007). That is currently $25 billion is currently at work in microfinance loans and the same source estimates the unmet needs is $250 billion to get capital to all poor people who need microcredit. Taking this estimates and making a heroic assumption that the same estimate applies to Bangladesh, the total need for microcredit could be as high as $40 billion.

[8] One can follow the indirect estimating method used for Pakistan (see Saeed Qureshi, Ijaj Nabi and Rashid Faruqee "Improving Rural Finance" in R Faruqee (ed) Strategic Reforms for Agriculture Growth in Pakistan, World Bank 1999).The requirement for credit for agriculture was calculated indirectly. The demand for agricultural investment was viewed as associated with the growth in agricultural gross domestic product (GDP). Between 2000 and 2007, agriculture GDP in Pakistan grew at an average of 3% per year. The rate of annual investment to GDP in the agriculture needed was on average 5.5%. This figure indicates that one percent increase in agricultural output was associated with need of agricultural investment to grow about 1.8%. So this investment demand was partly met through farmers own saving and partly by borrowing from different sources, formal banks, MFIs and informal sources. Projecting the agricultural GDP growth of about 3% a year, the capital required was to go up annually 5.5%. So the estimates of actual funds disbursed and assuming that farmers could meet only about 50% of credit needs form its own source the credit requirement was indirectly estimated. This was estimate was compared with the direct estimates made by farm budgets. Using the indirect and direct methods, one can roughly came up with an estimate of 15% of agricultural GDP for credit needs of the agriculture sector. This estimate falls in the higher end of the range of credit needs that was estimated for Pakistan under some assumptions.

agriculture finance can be presented in terms of 3 characteristics of the credit market for small holders' lack of collateral, absence of complementing institutions to reduce risks and covariant risks and market segmentation.

However, in one respect, agriculture would be attractive sector for lending by MFIs. The sector would absorb bigger size loans where the cost of processing, assessing the farmers' potential and administering outstanding loans would be more cost-effective. In Bangladesh, smallholder agriculture dominates and traditional collateral is scarce because borrowers are too poor to have significant assets that can be used as collateral. Besides small size of holding, there is often no secure title to the small pieces of land that farmers hold. This hampers small farmer's access to formal financial market.

Of course, MFIs have lent to assets-less individuals and have successfully recovered the loans. For agriculture, the size of the loan may have to be large and loan maturity need to be longer than usual micro loans, which normally have to be paid within 90 days. Both agricultural borrowers and lenders face the challenge of finding alternative mechanisms that would be suitable in the special situation partnership to crop agriculture. The mechanism will have to include legal, contractual arrangements including contract farming and others. The mechanism also must consider rural households as integrated business and family units with multiple sources of income and adjust loan repayment schedule to the household's cash flow situations and to the agricultural cycles.

In Bangladesh, as elsewhere, smallholder agriculture faces a spectrum of risks, particularly weather risks, to which farmers respond by adopting low risk, low yield crops and production patterns to ensure a minimum income at the expense of rural growth and capital accumulation. Alternatively, in the absence of insurance market, farmers try to cope with price and other risks by asset accumulation, saving and access to credit, income diversification and sometimes informal insurance arrangement.

So success of agricultural microfinance requires pooling and managing risks. But how well can rural landless cope with the correlated risk in agriculture? So when there is a risk of commodity price decline, everyone faces a lower price for their crops. Natural disasters, such as flooding that destroy crops, livestocks and rural infrastructure, severely impact rural households in any contagious area. Price and yield are spatially correlated and this poses a major challenge to agricultural microfinance. The experience of Grameen Krishi Foundation shows the adverse effects of correlated risk in agriculture.

Another aspect of correlated risk is the phenomenon of undiversified agriculture nature of the rural economy. Since risks are correlated in agriculture and this fact can potentially ruin a rural lender who does not have an effective risk management strategy.

To sum up, although MFIs have started expanding access to the farmers, then outreach program still remains limited. To scale up lending to agriculture (small to medium size) farmers, MFIs will have to address a number of challenges. This market segments require new and bigger loan products, mainly targeted to male borrowers for agriculture would increase lending costs making this segment more expensive to serve. Given the need for large loans and increased risk, MFIs need to introduce management information system. Clearly the size and repayment system have to be different.

## V. Future Directions

The paper has noted the limitations of the formal institutions of credit for agriculture[9] and it has also addressed the issues and constraints that MFIs face in going out in a big way into agricultural finance. At present, these two sets of institutions operate largely in a segmented way. So it seems desirable that these two sets of institutions become more linked to benefit from the respective comparative advantages of these institutions. A close link will help the whole system to intermediate more effectively in providing more cost-effective and efficient services in rural areas. Below we indicate the directions for the future.

Given the institutional significance of BKB and RAKUB, any program to expand financial services in a big way can not just ignore the existence of those organizations. Given the insolvency of these organizations, the government, at this point, has 3 options: (a) do nothing, (b) close down BKB and RAKUB and (c) transforming BKB and RAKUB into major providers of financial services in the rural financial system. Their current market distorting role only reinforces the importance of tackling their underlying problems. The rehabilitation of BKB and RAKUB will have to be undertaken with the goal of restoring their long-term sustainability. The necessary steps are: transforming the governance of the two banks to protect them from political interference; recapitalize the banks and restructure the banks so that these can provide cost effective, well designed financial services to rural markets.

In some countries, many formal sector institutions are experimenting with group lending. Most of these are guided by social objectives. The experiences of MFIs show that supervised model is a costly operation. Substantial costs for training field workers and the social preparation of borrowers are essential. To be successful, we need highly motivated staff, appropriative incentive structures and high effective interest rate (or combinations of service changes, insurance fees and nominal interest rates) to cover operational expenses. In the short run, under the present operating system, it is highly unlikely that formal institutions can provide these services efficiently and cost effectively. Therefore, a more effective solution would be to link the loans and establish NGOs to exploit their comparative advantages. There can be 3 different models.

NGOs start own bank. Grameen Bank is a good example. BRAC also has established a bank. The advantages of such a move are manifold. First, it gains access to funds. Second, the legal basis for using the savings of the NGO members for re-lending to other members becomes firmest. Third, it can raise deposits from non-members like other commercial banks.

The other option, now being increasingly used in several countries, is that NGOs acts as an intermediary. In this option, the bank lends to an NGO for on-lending to its members. Besides Government organizations like PKSF, there are some examples that some commercial banks (such as Agrani Bank) has lent to a NGO–ASA. In India, NABARD is operating through self-help groups. There are some, not many, examples of NGOs borrowing from formal institutions in Bangladesh, as can be seen from recent transactions.

[9] Financial institution face problems of screening, monitoring, enforcements and high transaction cost. Formal institutions suffer all four of these problems, whereas MFIs also suffer from some of these problems.

Some notable deals in the microfinance funding sector in Bangladesh include the following:

- July 2006: Citibank NA Bangladesh entered into a structured deal to securitize a portion of BRAC's loan portfolio, backed by KfW and FMO, for $180 million equivalent local currency over a period of six years.
- December 2007: A consortium led by Standard Chartered provided a $55 million loan to BRAC.
- February 2008: IFC teamed up with Citigroup to loan $22 million to the micro lending efforts of BRAC.
- March 2008: Citibank NA Bangladesh provided a total of $65 million in equivalent local currency credit facility to BRAC, BURO, Shakti Foundation for Disadvantaged Women, and TMSS; the major purpose of this financing was to support the micro-credit and small- and medium-enterprise financing in Bangladesh after floods and cyclones.
- June 2008: Citibank NA Bangladesh extended a $10 million credit facility to ASA.

These moves by the larger MFIs indicate a clear willingness to borrow from commercial sources. The mid-sized MFIs also continue to borrow from domestic commercial sources.

The other option is that a NGO acts as a facilitator. In this model, the bank bears the credit risk by lending directly to the borrower and shares a part of the spread with NGO for its service. This model has worked in some countries. In India, as noted, self-help groups have emerged as substantial borrowers from commercial banks. For agriculture, NABARD has initiated innovative group approach to provide finance to agriculture. Under this program, informal groups of farmers are formed to avail bank credit individually or collectively through mutual guarantee. Members offer joint undertaking to bank for repayment of loans; credit is not linked to saving and no collateral is needed. NABARD program is now working successfully in several states of India.

As noted, in agricultural lending two issues are crucial–loan tenure and interest rate charged by MFIs. While loan tenure issue can be easily resolved–and has largely been addressed–interest rate ceiling is still an issue. Unlike micro-enterprises, agriculture can not sustain above-market interest rate unless the cost of other inputs (such as labor) is below market rate (as it is the case with family labor). High interest rates for finance to agriculture is sustainable in high return agricultural activities such as livestock, high value crops and even in traditional crops with improvement in productivity or in remote areas where higher than market price is possible or return to family labor compensates for high price of capital (finance). In any case, it is recognized that the easy extension of micro-credit to agriculture will require credit plus approach.

In Bangladesh, there is another problem related to interest rate in agricultural finance–there is interest ceiling set for banks lending to agriculture. Currently, the formal banks' margin is insufficient to allow a high enough commission to NGOs to cover the costs. Since ceilings do not apply to non-crop lending by NGOs, non-crop lending has been more prevalent in Bangladesh.

The experiences in Bangladesh clearly show that NGOs are unlikely to be interested in crop lending because of their self-imposed principle that their lending is primarily for landless poor. They operate on a localized scale, especially where large NGOs are not operating. Large NGOs could undertake crop-lending for the cultivating poor more successfully than banks, if interest controls are lifted.

There is a need for an appropriate regulatory and supervision framework to exercise some

kind of prudential oversight over deposit taking by NGOs. To finance agriculture and micro entrepreneurs, MFIs transform their operations and their role from social mobilizer to commercial providers of financial services. Changes are needed in their staff training, lending methodologies and use of management information system. To help MFIs to lend to farmers, weather risk management need to be introduced.

A good part of credit to farmers comes in as advances. There are, therefore, significant possibilities of using trade channel to deliver credit to farmer doorsteps at lower cost and risk than direct delivery from formal banks. Linking with MFIs would open up a proportion for better access to credit.

The justification for improving the function of the rural financial system is three fold. First, the enormous and unsustainable drain on budgetary recourses due to losses of agricultural banks can be avoided.

Second, the inadequate access to financial services prevents a large proportion of small borrowers from participating in the growth process. Third, ineffective intermediation significantly constrains, investment and efficiency which would jeopardize future growth. So the reform framework that would maximize the access to credit to farmers would call for an effective linking of MFIs with formal credit institutions.

Clearly it is important for formal rural landless to be equipped with accurate information on the agriculture crop cycle; the pattern of risks; how rural household earn, spend, save and borrow money; what risk management and risk copping strategies and instruments are used by those households; the variety of farm and non-farm activities and attempts to diversify local economies, among others. In short, to be successful lenders in agriculture, MFIs will have to have a through understanding of then potential clients and the milieu or context of then daily lives and economic and business activities. A good management information system would be extremely helpful. The World Bank has recently prepared a report recommending and providing guidelines for setting up a centralized information and communication technology system. With such a system in place, microfinance market could grow even more rapidly than present growth rate.

The strategy and solutions to overcome the barriers to agricultural microfinance will have to go beyond the simple provision of credit and extend outside agriculture. There is of course no "one size fits all" approach to microfinance. To be able to deal with the complexity and risks in agriculture, rural lender would have to innovate on their product design lending technologies and risk management strategies; improve them on information base; and strive access to market based risk management products e.g. whether based index insurance contracts are similar products. They would have to discuss the right approach that will satisfy them risk-return appetites and innovate so that lending institutions are able to adapt to the charactering of the agriculture sector, particularly smallholder agriculture.

To promote agricultural lending through MFIs would require understanding of the peculiarities of the rural and agriculture sector namely: information asymmetry, geographic dispersion, heterogeneity of the population, covariant risk insecure property rights and absence of insurance markets and risk reducing institutions.

If the issues outlined above are addressed effectively by steps such as introducing management information system, the lending into agriculture will go beyond the traditional input supply for crop agriculture, livestock and fisheries. Agricultural supply chain offer highly profitable opportunities in microfinance for rural based economic agents. Research

on value chain in agriculture indicates that 21st century agriculture is likely to be characterized by: i) adoption of manufacturing processing in production: ii) a system of food supply chain approach to production and distribution and iii) negotiated coordination replacing market coordination of the system; iv) a more important role for information in reducing cost and increasing responsiveness and; v) increasing consolidation all level raising issues of market power and control.

Subsystems in agricultural supply chain have their respective value added activities and MFIs could provide financial services for those value adding activities.

Already traders play a significant role in supply chain and rural financing system. Traders act as lenders at the start of cropping season and as buyers at the harvest season. There are lenders accessible to borrowers at the time and place where credit is most needed traders act as buyers and middle men. They offer loan products, based on simple, timely, accessible and flexible loan terms and create inter-linked contracts.

In these roles, they add value and provide timely financing that otherwise would not have been provided by formed financial institutions but can be provided by MFIs in the same flexible and inter-linked way. MFIs are in a special position to support interlinked contract and provide timely access to finance needed at various stages of value chain–production, processing and marketing.

To sum up, MFIs are already playing significant role in financing agriculture, their role has increased in recent years and there is much scope for further increase in their role in financing agriculture, if appropriate measures (such as modification in operation and loan products are made and a modern management information system is introduced) are taken to address the challenges posed by the sector and fully exploit the opportunities offered by the sector.

# ANNEX:

## Responses from Selected Partner Organizations of PKSF, Who Borrowed from PKSF for Agriculture

### A. Name of the Organization: Centre for Development Innovation and Practices (CDIP)

**Establishment: 1995**

No. of zonal office -1

- Regional office-12
- Branch office-70
- Districts covered-12
- Upazilla-54
- Union-366
- Village-1751

**Credit program of the organization:** RMC, ME, SL, AGL

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 1,00,00,000

  PO to Beneficiary- Tk 1,15,57,000
- **No. of farmers:** 493
- **Decision taking process:** As per the organization's loan policy
- **Loan range:** Tk 15000-35000
- **Average loan size:** Tk 32500
- **Farmers classification:** marginal -180, middle size-16, large size-153
- **Land size criteria:** The land owners who have minimum 33 decimal and maximum two acres of land.
- **Loan disbursement by type:**

| Type | Loan disbursement | No. of farmers |
|---|---|---|
| Rice | 6337000 | 309 |
| Vegetable | 1774000 | 54 |
| Fish | 2335000 | 71 |
| Cow rearer | 671000 | 40 |
| Poultry | 310000 | 14 |
| Agri equipment | 130000 | 5 |

- **Monitoring system:** Agricultural field officer directly monitors the loan activity.
- **Terms of repayment:** The installment repaid by weekly basis. Tk 25 per thousand per week. 12.5 service charges (flat rate) are paid by the borrower.
- **Types of problem faced in lending and repayment:** yet not any.
- **Risk associated with the loan:** Flood and drought.
- **Risk mitigation system:** People submit themselves to natural disaster and take necessary action to recover all damages.
- **Input support:**
  - Sharing information about production increase
  - Supplying highbred seeds, fertilizers and agri equipment.

**Prospects of Agricultural Loan:** Present agricultural production level can be increased, if these types of loan activities are expanded.

## B. Name of the Organization: ASPADA Paribesh Unnayan Foundation

**Establishment:** 1993

**Credit program of the organization:** RMC, ME, SL, AGL, UMC, Emergency Flood restoration and small Farmers projects (EFRRAP)

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 5000000 and PO to Beneficiary-Tk 5000000
- **No. of farmers:** 356
- **Decision taking process:** Depends on cropping season, other income sources of the farmer. Institutional guidelines are followed.
- **Loan range:** Tk 10000-35000; **Average loan size:** Tk 15000
- **Farmer's classification:** Major portion of the loan goes to marginal farmers and few portion of loan to middle size farmers.
- **Land size criteria:** 50-250 decimal land–loan up to Tk 20000

  250-500 decimal land–loan up to Tk 35000
- **Loan disbursement by type:**

| Type | Loan disbursement | No of farmer |
|---|---|---|
| Rice | 53029000 | NA |
| Vegetable | 13315000 | NA |
| Fisheries, livestock | 99023000 | NA |

- **Monitoring system:** Technical officer frequently visit farmers and provide information to the farmers.

- **Terms of repayment:**
  - **Installment quantity:** quarterly, half yearly, monthly and weekly.
  - **Duration:** 12 months.
  - **Service charge:** monthly 2% at declining method.
- **Types of problem faced in lending and repayment:**
  - Time mismatch of lending due to fund crisis
  - Repayment problem due to natural disaster
  - Weak market linkage
  - Loan failure due to less production
- **Risk associated with the loan:**
  - It is covered by midterm loan
  - ASPADA has disaster management fund
- **Risk mitigation system:**
  - Keeping reserve fund for disaster
  - Group savings
  - Adoption of new technology
- **Input support:**
  - Training
  - Balance fertilizer
  - Proper irrigation management
  - Good quality seed
  - LCC

**Prospects of agricultural loan:** In absence of proper and timely loan from government and private commercial banks, agricultural loan by MFI will help to improve agriculture production.

## C. Name of the Organization: Samaj Kallyan Sangstha Foundation

**Establishment:** 1987

**Branch office**-66

**Credit program of the organization:** RMC, ME, SL, AGL, UP-GOB, PLDP-2, ME-GOB, DMF, MSMFS, LRP, PRIME

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 153477000.00
- **No. of farmers:** 33111
- **Decision taking process:** Farmers need to have land in between 50 and 500 decimal.
- **Loan range:** up to 30000
- **Average loan size:** Tk 10000

- **Farmer's classification:** marginal and small.
- **Land size criteria:** marginal farmer-50-100 decimal, small farmer-250-500 decimal
- **Loan disbursement by type:**

| Type | Loan disbursement | No. of farmers |
|---|---|---|
| Crop | 95238000.00 | 9965 |
| Non Crop | 58239000.00 | 5431 |

- **Monitoring system:** field visit of the technical officer to monitor about proper utilization of the loan.
- **Terms of repayment:** Yearly at 12.5% service charge, biannually at 10% service charge.
- **Types of problem faced in lending and repayment:**
  - Insufficient seasonal loan
- **Risk associated with the loan:**
  - Natural disaster
  - Flood
  - Insect attack
  - Price risk
  - Marketing problem
- **Risk mitigation system:**
  - Risk fund
  - Free seed and fertilizer after flood
  - Extra savings to manage risk
- **Input Support:**
  - Technical support
  - Creation of market linkage

**Prospects of agricultural loan:** This loan will expand the agriculture sector as follows.

- Seed production and preservation
- Market for agricultural product
- Establishment of cold storage
- Agriculture intensive industrialization such as rice mill

## D. Name of the Organization: JAKAS Foundation (Jatiyo Kallyan Sangstha) Sabujnagar

**Establishment:** 1995

No. of zonal office -1

- Regional office-4

- Branch office-36
- Districts covered-4
- Upazila-18

**Credit program of the organization:** RMC, ME, SL, AGL, SL, DML, UPP, MFMSF

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 73200000.00

  PO to Beneficiary- Tk 39367000.00
- **No. of farmers:** 19557
- **Decision taking process:** 1.land must be in between 0.5 and 5.0 acre, 2.farmer must be poor.
- **Loan range:** Amount of loan depends on crop type and cost of production
- **Average loan size:** no fixed amount, varies among crops, season.
- **Farmers classification:** marginal and small farmer.
- **Land size criteria:** No specification.
- **Loan disbursement by type:**

| Type | Loan disbursement | No. of farmers |
|---|---|---|
| Crop | 18946000.00 | 19557 |

- **Monitoring system:**
  - Field officer visits the field to check whether the farmers utilize the loan in agriculture.
  - To visit the samity and take information on crop
- **Terms of repayment:** Loan is repaid after harvesting.
- **Types of problem faced in lending and repayment:**
  - If fund is not available in right time from PKSF
  - Price risk
  - If the selling price is not getting in appropriate time
  - Natural disaster
- **Risk associated with the loan:** Flood and drought hamper production and loan repayment failed.
- **Risk mitigation system:** 2% service charge is kept in disaster management fund.
- **Input support:** it informs the farmers about good quality seed and fertilizers.

**Prospects of agricultural loan:** The agriculture loan can bring success for the farmer if the following matters are considered.

- Selection of appropriate farmer
- Timely disbursement of the credit

- Ceiling of the loan must be not so high
- Utilization of the loan in the proper sector
- Member of the MFI could not be harassed

## E. Name of the Organization: United Development Initiatives for Programmed Actions (UDDIPAN)

**Establishment:** 1984

No. of zonal office -1

- Regional office-36
- Districts covered-36
- Upazila-156
- Union-996
- Village-5490

**Credit program of the organization:** RMC, ME, SL, AGL,

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 10700000.00

  PO to Beneficiary- Tk 12018000.00

  **No. of farmers:** 363

- **Decision taking process:** The farmer is taking decision for choosing loan to pay through helping his organization and UDDIPAN.
- **Loan range:** Tk 10000-40000
- **Average loan size:** Tk 16000
- **Farmers classification:** 61% are marginal and the rest are of middle size farmer.
- **Land size criteria:** Farmers must have land size in between 50 decimal to 5 acre.
- **Loan disbursement by type:**

| Type | Loan disbursement |
|---|---|
| Rice | 5955000.00 |
| Wheat | 40000.00 |
| Vegetable | 180000.00 |
| Fruits | 5184000.00 |
| spices | 115000.00 |

- **Monitoring system:** Continuous monitoring from the organization for proper use of the loan.

- **Terms of repayment:** Biannually or yearly, yearly 12.50 (flat method), monthly 2% (declining method).
- **Types of problem faced in lending and repayment:**
  - The farmers use their loan in different income generating activities
- **Risk associated with the loan:**
  - Natural disaster
- **Risk mitigation system:**
  - Drought has been mitigated by irrigation and mulching
- **Input support:**
  - Linkage between the farmers and seed, fertilizer & pesticide dealer
  - Linkage between the farmer and Agriculture Extension Department.

**Prospects of agricultural loan:** The cost of production is increasing day by day due to high input cost and labor cost. So the farmers need more money for better production. But they failed to collect the fund. In such situation, NGOs can play vital role.

## F. Name of the Organization: PAGE Development Centre

**Establishment:** 1993

No of Zonal Office-1

- Regional office-1
- Branch office-55
- Districts covered-8
- Upazila-30
- Union-326
- Village-1687

**Credit program of the organization:** RMC, ME, SL, AGL

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 15,000,000.00

  PO to Beneficiary- Tk 12,236,000.00

  **No. of farmers:** 1097

- **Decision taking process:** Of course, there are institutional criteria in choosing loan to pay the farmers. Societies are being formed only with the farmers engaged in agricultural activities specially cultivating paddy. In lien period loan are given on fisheries, cow fattening etc
- **Loan range:** Tk 10000-30000
- **Average loan size:** Tk 12000

- **Farmers classification:** marginal, middle size, large size
- **Land size criteria:** 20-100 decimal
- **Loan disbursement by type:** Tk. 12,236,000.00 disbursed as loan for crops.
- **Monitoring system:** Local Area Managers, Branch Managers and Field Organizers regularly visit fields.
- **Terms of repayment:**

  **Installment quantity:** Initially a small amount of loan realized on installment.

  **Duration:** Normally 6 months but it depends on harvesting of crops.

  **Service charge:** 12.5 % (Flat rate realized at a time)
- **Types of problem faced in lending and repayment:**
- **Risk associated with the loan:** Natural calamity.
- **Risk mitigation system:** No steps have been taken yet to mitigate the risk. Crop insurance may be taken and they may be given opportunity to obtain fresh loan by rescheduling the previous loan.
- **Input support:**

**Prospect of Agriculture loan:** Agriculture is the main profession of our rural people. Moreover, food security is to be ensured by more agriculture production. In the last Caretaker Government tenure, we observed in whole over the world, there was the food shortage. No food was available even paying cash. So, there is no alternative other than to boost up agricultural products. Employment opportunity is very much limited in our country. Agricultural sector is the major field of rural employment. If we can ensure two squires of meals, there will not be any political turmoil.

## G. Name of the Organization: Centre for Community Development Assistance (CCDA)

**Establishment:** 1990

No. of zonal office -1

- Branch office-39
- Districts covered-5
- Upazila-24

**Credit program of the organization:** RMC, ME, SL, AGL

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 6854000
- **No. of farmers:** 390
- **Decision taking process:** Loan is disbursed among those who are related to agriculture sector and group meetings decision.

- **Loan range:** Tk 5000-50000
- **Average loan size:** Tk 17000
- **Farmers classification:** marginal, middle size and small size
- **Land size criteria:** >= 50 decimal
- **Loan disbursement by type:**

| Type | Loan disbursement | No. of farmers |
|---|---|---|
| Rice | 43.49 | 200 |
| Vegetable | 12.45 | 190 |

- **Monitoring system:** Project supervisor visit the agriculture field.
- **Terms of repayment:** 12.5% at flat rate
- **Types of problem faced in lending and repayment**
  - Wrong selection of member
  - Taking loan without sufficient training about the project
  - Unavailability of input
- **Risk associated with the loan:**
  - Natural disaster
  - Price fall
- **Risk mitigation system:**
  - Loan forgiveness in case of death
  - Supplying good quality seed
  - Making the irrigation facilities available among the farmers
- **Input support:**
  - Creating linkage between farmers and upazila agriculture officer
  - Providing training to the farmers on agriculture

**Prospect of agriculture loan:** This loan will help farmers by getting exact price. Dependency on informal source will be reduced and that will help them to not sell the crops before harvesting to repay the mohajoni loan.

## H. Name of the Organization: Participatory Development Initiatives of the Masses (PDIM)

**Establishment:** 1992

No. of zonal office -1

1 Regional office-4

2 Branch office-31

3 Districts covered-4

4 Upazila-16

5 Union-125

6 Village-762

**Credit program of the organization:** RMC, ME, SL, AGL

**Agricultural Loan**

- **Amount of loan disbursement**

  PKSF to PO level-Tk 52500000.00

  PO to Beneficiary-Tk 111268000.00
- **No. of farmers:** 8183
- **Decision taking process:**
- **Loan range:** Tk 10000-40000
- **Average loan size:** Tk 20000
- **Farmers classification:** marginal 4910, middle size 2455, large size 818
- **Land size criteria:** 0.5 to 5 acres
  - **Loan disbursement by type:**

| Type | Loan disbursement |
|---|---|
| Rice | 4249800 |
| Vegetable | 7714000 |
| Fish | 3400000 |
| Cow rearer | 57129000 |
| Poultry | 537000 |

- **Monitoring system:** Field visit during the loan payment
- **Terms of repayment:**
  - **Installment Quantity:** 45 (weekly)
  - **Duration:** 1 year
  - **Service Charge:** 12.50%
- **Types of problem faced in lending and repayment:** Adverse selection and moral hazard
- **Risk associated with the loan:** Flash Floods, Elephant incursion, drought, cyclone, outbreak of plant disease.
- **Risk mitigation system:** 2% of the savings are kept at disaster management fund
- **Input support:** linkage with the input supplier during cultivation.

**Prospect of agriculture loan:** A large number of small and marginal farmers lacking access to bank or other institutional loan pin their hopes on local MFIs for agriculture loan. Giving agriculture loans in time and in adequate amount would enormously benefit the marginal and poor farmers.

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The Institute of Microfinance (InM) is an independent non-profit organization established primarily to meet the research and training needs of national as well as of global microcredit programs. Initiated and promoted by Palli Karma-Sahayak Foundation (PKSF) on November 1, 2006, the Institute is principally funded by UK Aid, Department for International Development (DFID) through its Promoting Financial Services for Poverty Reduction Program (PROSPER). InM has an excellent team of professionals in research, training and knowledge management. The regular core research group comprises well coordinated and dedicated researchers with extraordinary expertise. Besides, InM draws research scholars from reputed universities across the world. The major services that InM provides are research on poverty, microfinance, enterprise development, livelihood promotion, climate change; and impact assessment, evaluation, training need assessment (TNA), curriculum & module development, training on capacity building, training of trainers, scheduled and tailor made courses, training evaluation, consultancy, and program management.

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