Chapter - IV

Agricultural Credit Situation in Bangladesh

4.1 Agricultural Credit Needs in Bangladesh

Many economic activities have been initiated in recent decades for furthering economic development in Bangladesh. However, the adoption of modern technologies for agriculture requires current investment, with the payoffs being realised later. Even ongoing productive activity in the agricultural sector requires the provision of inputs in advance, with revenues being realised from this at a later point in time.[1] Thus in accelerating agricultural development, agricultural credit plays a pivotal role, particularly in less developed countries. Investment in agriculture can contribute tremendously to the improvement of agricultural production methods. It is necessary nevertheless necessary to receive higher returns on the investment. Thus agricultural production must also be increased continuously to meet the expanding food needs of a growing population. In view of the impending need to increase agricultural production, agricultural credit is the basic requirement to finance a low-income country like Bangladesh, which has around 11.79 million farms of which 97.48 percent are below 7.5 acres in size.[2]

4.1.1 History of Agricultural Credit Operations

Agricultural credit operations in Bangladesh have a long historical background. In its earliest forms, agricultural credit was more in the nature of "distress finance" advanced to alleviate the worst consequences of famines and floods or other natural calamities. Financial support was later extended to include permanent improvements in agriculture,[3] under the provisions of the Land Improvement Loans Act, 1883 [LILA] and the Agriculturists Loans Act, 1884 [ALA]. Loans issued to agriculturists under LILA used to be sanctioned for

(a) the construction and repair of wells, tanks and other works of storage, and the supply and distribution of water;

(b) the preparation of land for irrigation;

(c) drainage and reclamation of lands from rivers or other waters, and for protection against floods, erosion, etc.

(d) reclamation, clearance and enclosure, etc., of land for agricultural purposes; and

(e) such other works as the provincial government might declare by notification from time to time, for the improvement of agriculture.

Under the provisions of ALA, loans used to be granted for the relief of agriculturists in distress, and for purchases of seeds, cattle, fodder, manure and agricultural implements, and for some of the purposes stated above.[4]

Loans sanctioned under these two Acts were popularly known as Taccavi Loans, and were usually advanced in cash. Prior to the sanction of loans under LILA, the loan-applicant's title to the land was ascertained, and the land value was assessed. Where the value of the land was insufficient to cover the loan, collateral security was demanded from the loan-applicant. However loans issued under ALA used to be sanctioned after a simple inquiry. These loans were sanctioned on personal bond, and sometimes against surety. The period of repayment was determined according to the purposes for which the loan had been taken. Thus loans for tubewells were repayable in ten years, and loans for the purchase of bullocks were repayable in two years. Other ALA loans for purchasing seed, fodder and manure were repayable at the time of the succeeding harvest.[5]

The performance of LILA and ALA as institutional sources of credit to agriculture during the late 19th century was not satisfactory, and it was also believed that the credit advanced by them did not have much agricultural impact.[6] Cooperative Agricultural Credit Societies were therefore established in 1901 to promote

agricultural credit among farmers. Three legislations were also issued between 1901 and 1940, in order to strengthen and expand the cooperative credit network introduced. However, the cooperative programme suffered major setbacks with the partition of India in 1947, which had a destabilising effect on the society as a whole. A large section of the private professional moneylenders migrated to India in 1947 following the creation of Pakistan. In view of these circumstances, the new Government of Pakistan felt a serious need for creating a specialised agricultural credit institution, and established the Agricultural Development Finance Corporation [ADFC] in 1952 to provide medium and long-term credit to the agricultural sector.[7] However, the existing demands for agricultural credit among the farmers were so large that the ADFC was unable to cope with them. This led to the establishment of the Agricultural Bank of Pakistan [ABP] in 1957 to supplement the credit disbursements work of the ADFC.[8] Since the purposes of these state-owned credit institutions were similar, they were eventually merged into a new institution in February 1961, renamed as the Agricultural Development Bank of Pakistan [ADBP].[9]

After the emergence of Bangladesh as an independent nation in 1971, highest priority was accorded to the agricultural sector by the new Government in order to rehabilitate the national economy which had been devastated during the Liberation War. Bangladesh had inherited the regional office of the ADBP along with its staff and other physical assets. This was restructured into the Agricultural Development Bank of Bangladesh [ADBB]. ADBB was subsequently renamed the Bangladesh Krishi Bank [BKB] in 1973 and asked to provide agricultural credit facilities to the farmers of Bangladesh.[10] In the changed scenarios after the liberation struggle, BKB had to simplify its loan procedures to accommodate farmer-applicants, many of whom had lost their deeds of title to the land which served as their main security for obtaining agricultural loans. Exemptions were also made against existing rules for producing personal photographs, nationality certificates and affidavits under the amended procedure.[11] BKB was even required to provide interest-free loans to rehabilitate farmers in the coastal districts of Bangladesh. After their nationalisation, the new Nationalised Commercial Banks [NCBs] also commenced lending to the agricultural sector in 1977 to supplement BKB credit and to increase the utilisation of improved agricultural inputs and raise foodgrains production in the country.

Table 4.1: Sectoral Contributions to the Gross Domestic Product [GDP] of Bangladesh 1974-75 to 1998-99

[percentages]

Sectors	1974 -75	1980 -81	1990 -91	1994 -95	1995 -96	1996 -97	1997 -98	1998 -99*p*
Agriculture	48.1	44.2	37.6	32.8	32.2	32.4	31.6	31.5
Mining& Quarrying	-	-	-	-	-	-	-	-
Industries	10.9	10.5	9.8	11.3	11.3	11.1	11.5	11.2
Construction	2.8	4.7	6.1	6.4	6.3	6.2	6.3	6.3
Power, Gas, Water & Sanitary Services	0.2	0.3	1.3	1.8	2.0	1.9	1.8	1.8
Transport, Storage & Communication.	10.0	10.6	11.8	12.1	12.1	12.2	12.3	12.4
Trade Services	8.5	9.2	9.1	9.7	10.0	10.1	10.2	10.3
Housing Services	8.0	8.1	7.6	7.5	7.4	7.2	7.1	7.0
Public Administration & Defence	2.4	2.8	4.3	5.1	5.2	5.3	5.5	5.6
Banking & Insurance	0.9	1.7	1.9	1.8	1.8	1.8	1.7	1.7
Professional & Miscellaneous Services	6.7	7.8	10.7	11.5	11.7	11.8	12.0	12.1
Total	100	100	100	100	100	100	100	100

Source: MOF [1999]: *Bangladesh Economic Survey*, pp.116-117
p = provisional figures

4.1.2 Economic Contribution of Agriculture

The sectoral contribution made to Gross Domestic Product (GDP) by the agricultural sector in Bangladesh is described in the table above. Till the end of the 1970s, this sectoral share was nearly as large as the collective contribution made by the other sectors of the economy. Although there has subsequently been substantial growth in the other economic sectors, agriculture still contributes nearly a third of the national . As in other developing countries, agriculture provides a pivot for other economic activities revolve in Bangladesh, while meeting the food needs of the people. Because of the pressing nature of food demands in the country, agricultural programmes are assigned highest priority by the Government. In 1994-95, more than 2.55 million tons of foodgrains had to be imported to meet domestic food demands in Bangladesh.[12] It has therefore been recommended that more emphasis be placed on food security and agricultural growth in Bangladesh, which will save the hard-earned foreign exchange currently expended on food imports.[13] Given

the substantial nature of the contribution of agriculture and activities allied to it to GDP, and its importance as the major source of export earnings in the country, the flow of adequate credit to agriculture is imperative for steady growth of agricultural output in Bangladesh.

A major proportion of employment in Bangladesh is in the agricultural sector and in trade and other activities that are linked either directly or indirectly to agriculture. Sustained agricultural growth that leads to lower food prices can thus reduce wage costs, and enable the country to enhance employment, output and investment in the nonagricultural sectors. Widely-distributed agricultural growth also contributes to domestic industrialisation by generating considerable effective demand for simple industrial goods. In Bangladesh and other developing countries which are still at an early stage of industrial development and have limited access to the highly-competitive global market, the growth of agriculture and a prosperous peasantry can contribute significantly to industrialisation of the economy. In such circumstances, the main developmental task is to direct all national efforts towards extensive and intensive agriculture and to generate the investment resources required for this. This investment cannot be made by the peasant farming community in the first instance, hence credit from formal institutional sources like the banking sector becomes a necessary priority. Since significant agricultural development and increased agricultural production can be achieved with comparatively little investment, the funds for this should justifiably be sourced from government credit institutions.

Agricultural growth is also important for food security in Bangladesh, where farmers depend on agriculture for their livelihoods as well as sustenance. Only sustained progress in agriculture can increase their earnings and improve their living standards. Development of the agricultural sector thus becomes crucial to the welfare of small and marginal farmers in Bangladesh. Because of their precarious economic condition, a slight setback in agricultural production is capable of dealing a death-blow to them. No effort should therefore be spared in protecting farmers from economic uncertaintiesthem and enabling them to increase agricultural incomes and production. The only way to resolve this problem is to ensure the flow of agricultural credit to the farmers in Bangladesh in adequate amounts..

4.1.3 Estimates of Agricultural Credit Needs

Correct assessment of actual credit requirements is among the most important requirements for efficient administration of agricultural credit. If the credit flow is not consistent with the actual credit requirements of the farmers, the process of loan-repayment is seriously affected. In many developing countries, institutional credit sources are currently confronting this crisis.[14] To overcome it, the flow of credit must be carefully calibrated to actual credit requirements and the proper utilisation of funds. A few isolated attempts have been made in the past to evaluate several important features of agricultural credit in Bangladesh. An early study dating from 1956 revealed that 68 percent of the farmers in the country borrowed during that year. This proportion was estimated at 75 percent by another study pertaining to 1969-70. The studies show that the average credit drawn by each borrower was estimated to be Tk.180 in 1956 and Tk.398 in 1969-70.[15] No systematic attempt has however been made so far to assess the actual agricultural credit needs for modernizing farming in the country.

Soon after the liberation of Bangladesh, the Bangladesh Bank had estimated the credit requirement of the country using three different methods, each carrying its own justification, at Tk.1,700 million, Tk.2,000 million and Tk.4,600 million, respectively.[16] The First Five-Year Plan (1973-1978) of Bangladesh estimated that the annual credit need at the end of the plan period would be around Tk.3,650 million, of which 70 percent would be composed of short term loans.[17] The wide variations in these estimates point to the complexities of determining the agricultural credit needs. Using all existing estimates and data, the Government of Bangladesh estimated the annual agricultural credit requirement for the year 1977-78 at around Tk.3,750 million. Institutional sources were estimated to have covered about 46 percent of the total credit needs of farmers in that year, because of the launching of a special credit programme of Tk.100 crore during 1977. The balance or 56 percent of the credit requirement was assumed to have been covered through lending by non-institutional and informal sources.[18]

The estimated volume of agricultural credit was very low in comparison to the volume of agricultural output in the country, and between 1972-1977, the formal credit portfolio amounted to less than 2 percent of the GDP generated by the agricultural sector.[19] The GDP of Bangladesh stood at Tk.158,289 million in the year 1979-80. The share of agriculture in the GDP was estimated by Prof.Muhammad Yunus at Tk.77,910

million, or 49.22 percent of GDP. He estimated the cultivated area in the country at 22.36 million acres for which the rough requirement of agricultural credit would have been Tk.11,180 million. However, the combined amount disbursed as agricultural credit in 1979-80 by all credit agencies which catered to the agricultural sector amounted to Tk.2683 million, which was only one-fourth of the required amount.

Annual agricultural credit flow increased to Tk.3,600 million in 1981. The Joint Review by the Government of Bangladesh and the World Bank shows that while the contribution of the agricultural sector to GDP amounted to 55 percent at the time, it received only 18 percent of the total volume of outstanding institutional credit.[20] It was estimated by the study that requirement of institutional credit to support farm production would rise to Tk.16,500 million by the year 1990. The details of this estimate are furnished below.

Table 4.2: Estimated Demand for Institutional Agricultural Credit in Bangladesh

[in million Taka]

Loan Category	FY1981 *[Actual]*	FY1984	FY1987 *[Projection]*	FY1990
Short-term Crop Loans	2,750	5,508	9,639	14,040
Livestock Loans	NA	300	800	1,000
Fisheries Loans	NA	15	20	25
Minor Irrigation Loans	878	1,185	1,500	1,450
Total Credit Demand	3,628	7,008	11,959	16,515

Source: GOB & IDA [1983]: Report of the Joint Review, p.1, Annexure 1

However, the actual disbursement of agricultural credit in 1990-91 turned out to be only Tk.5,956 million, which was little more than a third (36.09 percent) of the estimate made by the Joint Review Team.[21]

4.2 The Sources of Agricultural Credit

Agricultural credit is sourced from both institutional and non-institutional sources. Institutional sources generally form the principal credit sources in economically advanced countries like Japan, in contrast to which non-institutional sources of credit dominate in the developing countries. According to the report of US Department of Agriculture [USDA, 1965], more than two-thirds of all agricultural loans in countries like India, Pakistan, Thailand and Philippines were extended by non-institutional sources.[22] The agricultural credit situation underwent a transformation in many developing countries during the 1970s and 1980s. In Pakistan, the institutional share in agricultural credit increased from 15-20 percent during the 1950s to 47 percent in 1976-77. In India, the institutional credit share rose from a mere 7.2 percent in 1951 to 61.2 percent by 1981. The flow of institutional credit has also expanded in Bangladesh over the years. A report by the Task Force on Development Strategies for Bangladesh in the 1990s notes that agricultural credit flows from institutional sources increased substantially from Tk.32.5 crore in 1970-71 to Tk.1131 crore in 1984-85 [23] and eventually touched the level of Tk.1643 crore in 1997-98.[24] A summary on the the changes in institutional and non-institutional shares of agricultural credit reported by different studies has been compiled below..

Table 4.3: Proportional Share of Institutional and Non-institutional Credit under Different Credit Surveys

Name of Credit Study	Survey Year	Survey Sites	% Institutional Credit Share	% Non-institutional Credit Share
Socioeconomic Survey Board [1958] Dhaka University	1956	*na*	4.9	95.1
Socioeconomic Survey Board [1962] Rajshahi University	1960	Puthia	23.6	76.4
Rahman [1979]	1974-75	*na*	23.1	76.9
Quasem *et al* [1978]	1975 -76	Patuakhali	11.3	88.7
Local-level Planning Project, BIDS [1985]	1984	Bhanga	49.1	50.9
		Mirzapur	38.9	61.1
Rural Credit Survey, BBS [1987]	1986-87	*na*	28	72
Planning Advisor's Task Force [1991] Ministry of Planning	1990-91	*na*	8.0-24.0	-
Credit and Development Forum [CDF] (1999)	1999	Rangpur, Thakurgaon & Tangail	15.8	84.2

Sources: Compiled from (i) B.K.Saha [1985]; *cf.* Khanam [1989], p.74
(ii) Ministry of Planning [1991], p.127
(iii) CDF [1999], p.23

Evidently, the share of institutional credit in agricultural credit flows has gradually risen in Bangladesh. However, net institutional credit flows during the period remained inadequate and the institutional sources could only meet between 8 percent to 28 percent of the credit needs of the rural population.

During the earlier regime of the Pakistan Government, a multinational credit supply system had bveen in existence. The principal sources of agricultural credit at that time were the Government, the Central Bank, the Agricultural Development Bank, and the Cooperative Banks.[25] In 1961, the Pakistan Government merged all Agricultural Development Banks into a new Agricultural Development Bank of Pakistan [ADBP], which had 75 branches spread all over the East Pakistan province (now Bangladesh). After Bangladesh had attained independence in December 1971 an agricultural development bank to be called the Bangladesh Krishi Bank [BKB] was created by the Presidential Order No. 27 of 1973.[26] BKB commecned its functions with 75 branches inherited from the erstwhile ADBP. The traditional three-tier system of cooperatives set up during British rule with Primary and Secondary Cooperatives at village and Union levels was still working under the new name of Bangladesh Samabaya Bank Limited [BSBL]. The two-tier Comilla System of cooperatives with Thana Central Cooperative Associations [TCCA] (later reorganised into Upazila Central Cooperative Associations [UCCA]) and village cooperatives [KSS] at primary levels has now been operating under the new name of the Integrated Rural Development Programme [IRDP], under the administrative control of Bangladesh Rural Development Board [BRDB].[27]

The credit institutions that form the principal sources of agricultural credit in Bangladesh are

(i) Bangladesh Krishi Bank [BKB]

(ii) Nationalised Commercial Banks [NCBs]

(iii) Rajshahi Krishi Unnayan Bank [RAKUB]

(iv) Bangladesh Samabaya Bank Limited [BSBL]

(v) Bangladesh Rural Development Board [BRDB]

(vi) Grameen Bank [GB]

4.2.1 Institutions for Agricultural Credit Disbursement

As seen earlier, during the Pakistan period uptil 1969-70, the the Government had disbursed *Taccavi* loans to the farmers. The First Five-Year Plan [FFYP, 1973-78] for newly-independent Bangladesh proposed the abolition of Taccavi loans as a source of short-term credit and their conversion into distress grants.[28] The credit vacuum created was to be filled by IRDP programmes and institutional credit schemes run by the IRDP board (now BRDB), the Jatiya Samabaya Bank (now BSBL), and the NCB banking institutions that had been inducted into the agricultural credit sector.[29]

Under the high priority accorded to agricultural reconstruction, the Government of Bangladesh offered agricultural credit under (a) the Normal Programme [NP] and (b) the Special Agricultural Credit Programme [SACP] for which a special credit fund of Tk. 100 crore had been earmarked. Under the NP, all agricultural credit agencies worked individually, deciding their own procedural formalities including collateral requirements. The BSBL and IRDP organisations were not involved in the SACP, which was entrusted to BKB and NCBs. The credit norms for financing different crops under SACP and the allocations of credit to different districts and crops were set by the Ministry of Agriculture.[30]

SACP was launched in January 1977 with the specific objectives of increasing the participation of BKB and the other state-owned short-term lending institutions and the NCBs in the agricultural credit programme, and of increasing the flow of institutional credit to the agricultural sector. In consultation with the concerned credit agencies, comprehensive operational guidelines for the implementation of SACP were framed by Bangladesh Bank. The main policy guidelines envisaged

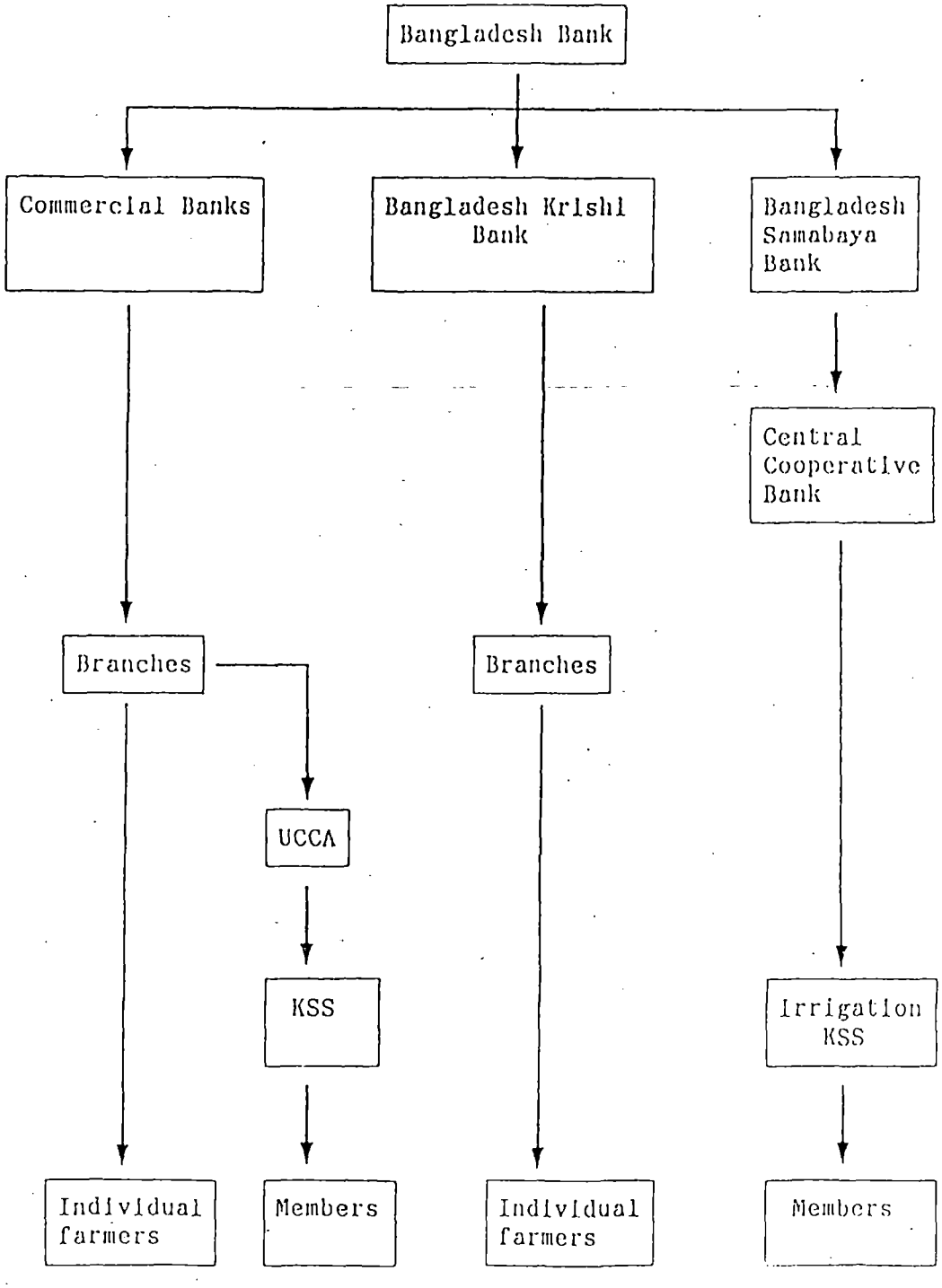
(a) introduction of the lead bank system* under which the task of coordination was given to the designated lead bank in each district;

(b) constitution of District Agricultural Credit Committee led by the Deputy Commissioner with the Manager of the concerned lead bank as Member-Secretary;

(c) opening of bank booths at important locations and the extension of banking services by mobile units to ensure doorstep delivery of loans to the farmers;

Chart-4.1

Channels of Agricultural Credit in Bangladesh



Source: Solaiman [1992]: *A Comparative Study of Cooperative and Private Management of Deep Tubewells in Comilla, Bangladesh,* p.78

(d) payment of input costs in kind, and

(e) associating the Chairpersons and Members of Union Parishad in the disbursement of loans and the identification of borrowers.

The Thana Agricultural Officers and Tahshildars of each rural area were also required to assist in the disbursement of loans.[31]

Table 4.4: Disbursement of Agricultural Credit under NP and SACP in Bangladesh 1977-1981

[in crore Taka]

Year	NP Disbursement	NP % Recovery	SACP Disbursement	SACP % Recovery
1977-78	90.88	91	69.92	88
1978-79	125.97	90	41.37	79
1979-80	201.36	87	67.03	71
1980-81	279.60	75	72.68	54
1981-82	351.43	52	61.38	35

Source: Ali [1990]: *Agricultural Credit in Bangladesh*, pp.52-53

The early disbursements of agricultural credit under NP and SACP described in the table above show that disbursement volumes under NP were well ahead of the SACP. The comparative recovery profiles also point to the relative superiority of NP over SACP. While loans issued under SACP were limited to short term crop loans only, the NP loans were much broader both in size and scope. The possible reason underlying higher loan recoveries for NP may have been the rigorous screening of borrowers by the banks at the time of loan disbursement and enforceable means for ensuring repayment. In SACP, the selection of borrowers was mostly made under political pressures. In spite of these factors, the total disbursements of agricultural credit made by formal sector banks continued to increase over the years. This can be seen from the disbursement trends in total bank credit and agricultural credit in the table below.

Table 4.5: Growth of Bank Credit and Agricultural Credit in Bangladesh 1980-81 to 1997-98

[in crore Taka]

Year	Total Bank Credit	Total Agricultural Credit	% Agricultural Credit in Total Bank Credit
1980-81	3204	373	11.64
1981-82	4270	424	9.93
1982-83	4912	679	13.82
1983-84	6736	1005	14.92
1984-85	8984	1153	12.83
1985-86	10763	632	5.87
1986-87	11611	667	5.74
1987-88	13810	656	4.75
1988-89	16363	808	4.94
1989-90	19579	687	3.51
1990-91	21886	596	2.72
1991-92	22283	795	3.57
1992-93	23955	842	3.51
1993-94	24668	1101	4.46
1994-95	29346	1605	5.47
1995-96	34573	1636	4.73
1996-97	38783	1672	4.31
1997-98	43932	1815	4.13
Total	339658	17146	5.05

Sources:(i) Bangladesh Bank [1998]: *Bangladesh Bank Bulletin*, pp.102-103
(ii) MOF [1999]: *Economic Survey of Bangladesh*, p.133

As evident from the table, agricultural credit disbursements rose from Tk.373.00 crore in 1980-81 to Tk.1,815.00 crore in 1997-98, marking an almost five-fold increase.The proportion of agricultural credit disbursements to total credit disbursements are seen to have remained largely insignificant over the entire period except for the initial years. A liberal agricultural credit policy was followed by the formal-sector banks in the initial period, coinciding with the Second Five-Year Plan which had striven to increase the share of agricultural credit in total bank credit from the level of 12.5 percent in 1979 to 25 percent in 1984.

Although this policy for liberal disbursement of loans continued into the Third Five Year Plan,[32] the proportionate share of agricultural credit did not show a spectacular increase after that. The agricultural credit situation has thus remained unchanged in the period since.

Despite the importance of agricultural production in GDP and export terms, bank advances to agriculture amount to only 18 percent of total advances. In sharp contrast, advances to trade compose 30 percent of all bank advances, followed by the industrial sector which receives 27 percent.

Table 4.6: Bank Advances to Different Economic Sectors in Bangladesh 1992-95

Economic Sector	Advances Year ending 30-6-1992 *[Tk.million]*	Advances Year ending 30-6-1993 *[Tk.million]*	Advances Year ending 30-6-1994 *[Tk.million]*	Advances Year ending 30-6-1995 *[Tk.million]*	*% to Total Advances upto June 1992*	*% to Total Advances upto June 1993*	*% to Total Advances upto June 1994*	*% to Total Advances upto June 1995*
Agriculture, Forestry & Fishery	44209	47742	52880	58948	*18.76*	*17.79*	*18.67*	*17.87*
Industry	62980	73824	83291	90291	*26.72*	*27.52*	*29.40*	*27.38*
Construction	11733	14541	15830	19429	*4.98*	*5.42*	*5.59*	*5.89*
Electricity, Gas, Water & Sanitary Services	785	100	126	803	*0.33*	*0.04*	*0.04*	*0.24*
Trade	76245	86821	77855	101418	*32.35*	*32.36*	*27.48*	*30.75*
Transport, Storage & Communication	5879	6258	6941	8340	*2.49*	*2.33*	*2.45*	*2.53*
Working Capital & Financing	21789	23605	29169	28109	*9.24*	*8.80*	*10.30*	*8.52*
Miscellaneous Services	12076	15402	17180	22455	*5.12*	*5.74*	*6.06*	*6.81*
Total	235696	268293	283272	329793	*100.00*	*100.00*	*100.00*	*100.00*

Source: BBS [1997]: *Statistical Pocketbook of Bangladesh*, p.293

Since the trade sector and industrial sector respectively contribute only 10 percent and 11 percent to GDP, [33] the high commitment of institutional finance to these sectors are not a healthy sign in a poor economy like Bangladesh. Lower proportionate disbursements of agricultural credit illustrate that the credit norms prescribed by Bangladesh Bank and the Government are not being followed by the banking institutions involved in agricultural finance.

Table 4.7: Targeted and Actual Disbursement of Agricultural Credit in Bangladesh 1981-82 to 1997-98

[in crore Tk.]

Year	Credit Target	Credt Disbursement	Credit Undisbursed	% Credit Disbursed
1981-82	599.81	462.41	137.40	77.09
1982-83	884.19	719.85	164.34	81.41
1983-84	1187.16	1055.83	131.33	88.94
1984-85	1474.14	1260.13	214.01	85.48
1985-86	1364.60	728.84	635.76	53.41
1986-87	1204.05	672.01	532.04	55.81
1987-88	1301.50	726.92	574.58	55.85
1988-89	1511.00	889.88	621.12	58.89
1989-90	1605.00	721.59	883.41	44.96
1990-91	1426.00	641.30	784.70	44.97
1991-92	1550.10	802.32	747.78	51.76
1992-93	1474.41	841.85	632.56	57.10
1993-94	1643.08	1100.79	542.29	67.00
1994-95	1963.00	1012.20	950.80	51.56
1995-96	2242.00	1018.00	1224.00	45.41
1996-97	2196.80	1078.90	1117.90	49.11
1997-98	2352.50	970.70	1381.80	41.26
Total	25979.34	14703.52	11275.82	56.60

Sources: (i) Bangladesh Bank [1994]: *Scheduled Banks Statistics*, p.152
(ii) Computed from *Resumes of the Activities of the Financial Institutions in Bangladesh*, 1995-96 & other issues, MOF, p.135

Although the share of agricultural credit disbursements in total bank credit disbursements has remained poor over the years, the banks have been unable to fulfil their allocated agricultural credit targets, except for 1984-85. This would establish also that the endeavour of the Government to encourage the increasing participation of formal credit institutions in the agricultural credit programme has been largely unsuccesful. This has partly occurred as a result of the induction of organised urban banks into rural credit markets. These banks have developed banking procedures for dealing with organised firms and establishments that are incompatible with the rural agricultural environment.[34] The Government has also introduced new rural credit programmes, which were not linked up with the personnel strengths at the banks. Under their existing structure, the banks are thus preoccupied with the recovery of loans, rather than in their disbursement.[35]

The most important reason for the poor disbursement of agricultural credit by the formal-sectore banks is the large amount of paperwork involved in the loan procedures, during which intending borrowers have to make many visits to the bank over a fairly long waiting period, before a decision is taken on their loan application.[36] Other formalities impede the transactions relating to agricultural credit, prominent among which is the requirement for borrowers to produce a Credit Pass Book which was introduced in 1984. The largely illiterate rural borrowers are unable to maintain or update their pass books and are thus unable to cope with the Credit Pass Book system, which is conditional for the disbursement of institutional credit to them.

4.2.2 Institutional Charges on Agricultural Loans

Agricultural credit operations in Bangladesh are also found to suffer because of the lack of uniform interest rates between the lending institutions. Institutional charges on agricultural loans which are recovered as interest have been found to vary between institutions and even within the same institution. The study by Akhunji [1982] found the rate of interest charged by the NCBs to be between 10.5 to 11 percent p.a., against 12 percent p.a. for the cooperative banks and 17.5 percent p.a. for IRDP (including the service charge of 5 percent p.a.).[37] Within the BKB crop loan system, interest charges on loans were found to vary between 10.5 and 12.5 percent p.a. for different crops. The rate of interest applicable to loans for plantation crops like tea and jute was 10.5 percent p.a., but was as high as 12.5 percent p.a. for potatoes. The charging of differential rates is a part of the business strategy of the banks and other financial institutions. Except in the case of the agricultural sector, the small and cottage industries sector and the export sector, the older system of interest rate bands on lending has been abolished completely by Bangladesh Bank since June 1992.[38] Although the interest charges applicable to agricultural credit are determined by the credit institutions within the limits set by Bangladesh Bank, the fixing of institutional charges as insterest on loans depends on the cost of funds, that costs of loan administration and service, and the risk factor. The mark-up added to this is the margin of the concerned bank.

It is evident from Government policy that concessional interest rates are charged on loans for exportable agricultural items, cottage industries, and the development of tea estate. Interest rates for short, medium and longterm agricultural loans are charged on an annual basis. In the case of cash credit and working capital loans, interest rates are chargeable on a quarterly basis unless otherwise specified by the sanctioning authority.[39] Irrespective of all these provisions, the interest rates charged to farmers by different credit institutions range between 15.5 to 17.5 percent p.a..[40] A provision also exists for realising penalty interest from the farmers at the rate of 6 percent p.a.. In contrast, the credit institutions generally secure loans from Bangladesh Bank at interest rates ranging between 7.5 to 8.5 percent p.a.. The interest rate on credit from non-institutional sources ranges between 50 to 100 percent p.a., rising occasionally to 150 percent or more. annually.[41] The wide contrasts between these differing interest charges, show that the borrower is often left little choice but to go to the nearest credit source. It is therefore quite clear that an efficiently managed institutional credit system which charges lower interest rates and supplies credit in adequate amounts will be of great advantage to all categories of farmers in Bangladesh.

4.2.3 Institutional Recovery of Agricultural Credit

Although the disbursement of credit to the agricultural sector have increased over the years, the rate of loan recoveries is not so satisfactory. Lending activity at a bank is influenced to a large extent by the availability of funding resources at the bank. This depends in turn upon the recovery of earlier loan advances.

Recovery performance is thus an important factor for the banks This is assessed on the basis of the recovery rate calculated on the loan amount recovered during the current year along with amount of loan overdues.[42]

Longterm changes in agricultural credit disbursements, and outstandings and recoveries may be assessed from the table below.

Table 4.8: Agricultural Credit Disbursements and Recoveries in Bangladesh 1972-73 to 1997-98

[in crore Taka]

Year	Agricultural Credit Disbursement	Current Dues & Outstandings	Actual Recoveies	% Recovery
1974-75	37.70	*n.a*	36.67	97.27
1975-76	46.09	*n.a*	49.55	107.51
1976-77	86.39	*n.a*	57.10	66.10
1977-78	156.94	*n.a*	93.59	59.63
1978-79	163.17	*n.a*	116.04	71.12
1979-80	282.09	*n.a*	147.52	52.30
1980-81	373.42	*n.a*	220.91	59.16
1981-82	462.41	657.81	338.58	73.22
1982-83	719.85	843.07	367.62	51.07
1983-84	1055.83	1347.98	547.71	51.87
1984-85	1260.13	1797.12	631.17	50.09
1985-86	728.84	2529.08	651.75	89.42
1986-87	672.01	2985.68	1340.17	199.43
1987-88	726.92	2610.77	632.05	86.95
1988-89	889.88	3076.64	611.06	68.67
1989-90	721.59	4179.20	739.10	102.43
1990-91	641.30	4688.69	674.71	105.21
1991-92	802.32	4936.78	1160.60	144.66
1992-93	841.85	4719.93	869.23	103.25
1993-94	1100.79	5141.86	979.12	88.95
1994-95	1012.20	6586.60	799.60	79.00
1995-96	1018.00	7389.10	882.30	86.67
1996-97	1078.90	7135.40	1104.10	102.34
1997-98	1642.84	8125.80	1068.60	110.09
Total	16521.46	68751.51	14118.85	88.74

Sources: (i) Khanam [1989]: p.56
(ii) Bangladesh Bank [1994]: *Scheduled Banks Statistics*, p.152
(iii) Computed from *Resumes of the Activities of the Financial Institutions in Bangladesh*, 1995-96 & other issues, MOF, p.135

While the recovery rates on agricultural credit were high during the early years Thus the recovery rate of agricultural credit during the year 1974-75 and 1975-76 was above 100 percent. Since then, it has declined gradually with an exception in 1986-87. In 1984-85 the recovery stood at 50 percent only. Subsequently after 1998-99, the recovery rate has reached a plateau. In 1988-89 the amount of credit outstanding was Tk.3076.64 crore of which Tk. 2,555 crore comprised overdues.[43] In 1997-98, outstanding credit rose to Tk.8,125.80 crore. Despite this increase, the share of agriculture, fishing and foresty in total outstanding advances of all banks in 1998 was 15.4 percent, whereas it was as high as 29.5 percent for industry and 28.4 percent for trade inr the same year.[44] The proportion of outstanding credit in agriculture, fishing and foresty has in fact declined from 22.7 percent in 1990 to 15.4 percent in 1998. In contrast, outstandings in the industrial sector have increased from 26.5 percent in 1990 to 29.5 percent in 1998.

The reasons for default on agricultural loans are many. On the basis of random surveys, the Joint Review[45] had identified the following main reasons

(a) crop failure and instability in production in the absence of assured irrigation facilities;

(b) inadequate loan supervision leading to misuse and over- or under-financing;

(c) willful default by bigger and influential borrowers and lack of legal means to enforce loan collection;

(d) complexities in obtaining new loans, which led farmers to roll over previous loans;

(e) lack of incentives for bank officials to improve loan recovery.

The Joint Review did not directly state the extent to which political patronage encourages and strengthens willful default. It is known however that certain special credit disbursement programmes in Bangladesh

were launched to keep rural voters happy. Under such programmes, the selection of borrowers was not made through normal banking prudence because of political intervention. The majority of these loand have now become now bad loans. The propensity of borrowers to default on loan repayment was also triggered off by the frequent interest-waivers and writing-off of loans by the Government, which generated the impression that such a scope would be available again in the near future.[46] Besides such problems, it is also known that bank personnel lack transport facilities to exercise effective supervision over the activities of the borrowers. Due to untimely receipt and poor supervision, agricultural credit is often used for unproductive rather than productive purposes.

The Public Demand Recovery [PDR] Act was amended in 1979-80 to facilitate the recovery of agricultural loans which had been disbursed by the formal sector banks. However in very many cases, the influential local elite have used their political and social power to prevent the proper implementation of the Act. Neither bank managers nor the loan supervisors have the authority to take legal action against loan defaulters.

4.2.4 Grameen Bank and other Semi-formal Credit Agencies

Globally, around 8 to 10 million households are now served by micro finance programmes, and the proponents of micro finance are trying to expand such facilities to 100 million poor households by 2005.[47] As the President of the World Bank, James Wolfenson has pointed out that helping these 100 million households would mean that at least 500 to 600 million poor would be individually benefited. On the global platform, micro finance has appeared as a 'win-win' solution to poverty alleviation, from which both financial institutions and their poor clients would draw benefits.

Micro finance programmes in Bangladesh have evolved considerably in the last two decades. Most NGOs in the country started their work as relief organisations, but developed into development agencies in the course of time. Many of these have also subsequently become micro finance institutions [MFIs] because of their focus on savings and micro credit programmes. The manner in which NGO credit has evolved needs to be elaborated. A large credit gap had appeared in rural financial markets in Bangladesh over the last two decades. Commercial banks operating in the country had been asked during the mid-1970s to provide agricultural and rural credit that would supplement Government efforts at alleviating poverty in Bangladesh. However, the achievements of commercial banks in this respect have been rather frustrating because of inappropriate financial technology and the hostile internal and external environments in which they operated.

Instead of overcoming these obstacles, the 1990s have seen a virtual stoppage in the provision of rural and agricultural credit by commercial banks, in the name of bringing financial discipline into the banking sector through the adoption of financial sector reforms.[48] As a result of this, the flow of agricultural credit from these banks was only Tk.598.60 crore in 1990-91, comprising only 3 percent of total credit disbursements by the commercial banks.[49] Even in 1977-78, this flow had been at the level of 10 percent. As a result of the persisting rural credit gap, institutional sources were estimated to be meeting only 8-15 percent of the credit needs of farmers in Bangladesh, with the balance being met through the credit advanced by other agencies.[50] At a time when this vast credit gap prevailed in rural Bangladesh, the Grameen Bank and certain other NGOs came up with successful and viable models of alleviating poverty through the provision of credit to the poor. The innovative micro finance programmes run by the Grameen Bank and hundreds of NGOs over the last two decades have improved the quality of life of millions of people in Bangladesh. Quick proliferation of the NGO credit programme has been accompanied by high repayment rates, recently estimated to average 97-98 percent.[51]

Rapid development of the Grameen Bank and other NGO credit agencies have raised important questions about the future of agricultural credit in Bangladesh. The basic question is whether the Grameen Bank and the NGOs can substitute the role of formal sector banks in agricultural credit operations. The answer to this question is negative, since the magnitude of credit required for agriculture is much beyond the capacity of the micro finance institutions and organisations. Although the growth of Grameen Bank and NGOs have been rapid, their loan portfolios are still dominated by small trading advances to nonagricultural activities. For these reasons, the Grameen Bank and the Bangladesh NGOs cannot evolve into substitutes for the NCBs, but can only supplement the efforts made by the NCBs and Specialised Agricultural Banks towards the disbursement of agricultural credit.

Grameen Bank and the other NGOs generally provide loans to the targeted poor who own lands that are less than 0.50 acres in size, and hence prefer not to disburse agricultural credit. Sector-wise shares in the total disbursement of credit made during FY 1998 by 369 Bangladesh NGOs including leading organisations like ASA, BRAC and Proshika can be assessed from the table below. It is clearly evident that NGO loan disbursements are mostly directed to small business. The share of agricultural credit in their loan portfolio is nominal at only 12 percent.

Table 4.9: Sectoral Loan Distribution by 369 Bangladesh NGOs including ASA, BRAC and Proshika

Sector	% Sectoral Share in Disbursements uptil June 1998
Agriculture	12.19
Fisheries	4.33
Food processing	10.17
Small business	42.13
Cottage industries	2.83
Transport	3.39
Housing	1.49
Health	0.51
Education	0.04
Livestock	17.94
Others	4.81
Total	**100.00**

Source: Alamgir [1999]: *Microfinancial Services in Bangladesh: Review of Innovations and Trends*, CDF, Dhaka, p.15

The Grameen Bank has been hesitant in undertaking credit programmes for the agricultural sector because most of the activities of Grameen Bank are directed towards 'point-input continuous-output' in contrast to agricultural operations which are characterised by 'point-input point-output'. The key to the success of Grameen Bank has been the system of weekly repayment of loans yielding a continuous income as against agricultural loans which are repaid mainly after the harvest and hence do not generate continuous income.[52] Therefore, with their very short term objectives the NGOs including the Grameen Bank cannot be expected to provide or meet the agricultural credit requirements of the farmers. It is the formal sector with appropriate policy measures, can cater to the credit needs of the small and marginal farmers of the country.

4.3 Agricultural Credit Flows to Small and Marginal Farmers

Small and marginal farmers owning cultivable land between 0.5 to 2.49 acres account for about 79.87 percent of all farmers in Bangladesh, and depend primarily on agriculture for their livelihood.[53] These farmers live at bare subsistence or below subsistence level.[54] The social and economic life of these low-income farmers is frequently disrupted by natural calamities. In the absence of any protective measures, losses incurred due to natural hazards are borne by the poor farmers alone. Loans to tide over such situations are virtually inaccessible because the low-income farmers do not have enough land or other assets to mortgage. As a result, the credit institutions do not treat small farmers them as creditworthy borrowers and leave them to the mercies of the moneylender class.

Nevertheless, this large group of small and marginal farmers with good quality land to cultivate are really the potential farmers who should be targeted by agricultural credit institutions. The quality of land has an important bearing on the income that can be earned from the use of land. A farmer having 50 decimals of quality land with an irrigation facility would be better off than a farmer having an acre or even more of low quality land. The main constraint faced by the small and marginal farmers in improving agricultural yields has been the negligible flow of credit from various institutions due to the limited ability of the farmers to offer collateral in any form against the loans they seek. The meagre amount of the loan received does not serve thes purpose of increasing productivity. Experience has shown that loans that are too small for adoption of new technologies, which are consequently likely to be used unproductively by the borrowers. This is more so because the consumption needs of small farmers cannot be wished away from their total credit needs. Therefore, agricultural lenders in some developing countries like the Philippines deliberately add a reasonable allowance for subsistence to the amount the farmer needs to pay for a full

package of technology.[55]

But the institutional sources of credit in Bangladesh are not satisfactorily geared towards this approach. The performance of formal-sector banks remains very poor in terms of outreach. The access of the small and marginal farmers in the formal sector banks is far from satisfactory. Evidence from evaluation reports of SACP indicates that the main beneficiaries are large farmers ploughing 3.00 to 9.00 acres of land.[56] They have enough land to offer as collateral to the banks.

With the engagement of NCBs for disbursement of the earmarked fund of Tk.100.00 crore under SACP in 1977, it was hoped that these banks would be effective instruments of extending agricultural credit to the neglected small and marginal farmers. But studies by Nathan,[57] and surveys conducted by Agricultural Credit Department [ACD] of Bangladesh Bank [1982-83], etc. show that in case of NCBs the proportion of borrowers cultivating up to 2.50 acres of land was very low under SACP. Hossain [1977][58] finds that only 17 percent of small farmers had access to institutional loans and they received only 28 percent of the total credit, where as 61 percent of large farmers received those loans and obtained almost 67 percent of credit in 1973-74. Virmani[59] and Saha[60] in their studies found that the tenants and small farmers are not getting enough institutional credit and the medium and large farmers have a much better access to credit than the small and marginal farmers.

A summary of the composite findings from Nathan's sample-study of 158 borrowers provided below. It is evident from the studies that the NCBs have not succeeded in providing advances to the large number of small and marginal farmers under NP and SACP. Despite pronounced objectives of the SACP, it has not succeeded in reaching the small and marginal farmers. The table shows that the farmers owning less than 2.0 acres of land received only 15 percent of total credit. But the fact remains that over two third of the farming population of Bangladesh are small and marginal farmers and prosperity in agriculture rests on them Unfortunately, they are the farmers who are still deprived of the facilities of agricultural credit to the extent they deserve.

Table 4.10: Distribution of SACP Loans by Landownership-class

Land Ownership-class	% of Borrowers	% of Total Credit Receipts
Landless	*nil*	*nil*
Farmers holding less than 2.0 acres	21	15
Farmers holding 2.0 to 5.0 acres	41	31
Farmers holding more than 5.0 acres	38	54
Total	100	100

Source: Yunus [1981]: *Rural Agricultural Credit Operations in Bangladesh*, Grameen Bank, Dhaka. p 19

The above situation further worsened further with the lowered performance of BKB. The proportion of loans issued by BKB to the small and marginal farmers under its normal programme declined from 55 percent in 1977 to 32 percent in 1981.[61] Similarly, the proportion of loans to small and marginal farmers under SACP decreased from 53 percent in 1978 to 43 percent in 1981. It is thus clear that small and marginal farmers have been the worst affected during the period 1977-1981 because of the restricted supply of agricultural credit to them over these years.

Inadequate credit facilities, especially for small farmers, have always been a feature in the agricultural credit market in Bangladesh. Even in better times, when the banks were suffering from excess liquidity in the mid-1970s, the small and marginal farmers were not getting reasonable access to bank credit. Even mandatory allocations could not provide a solution to the problem of not being able to create credit access for the small and marginal farmers and rural poor. Although the Government has recognised the credit need of the small and marginal farmers, the inherent weaknesses of the credit institutions have allowed institutional credit to remain concentrated in the hands of the medium and large farmers.[62]

The requirement of security or collateral against the provision of agricultural loans has thus deprived the small and marginal farmers from receiving agricultural credit through institutional sources. Famers who are at subsistence or below-subsistence levels suffer the most, since they are unable to earn subsidiary income. Thus the large farmers reaped richer harvests while the small and marginal farmers have remained

helpless spectators. In the absence of adequate credit provision for small and marginal farmers who constitute 80 percent of the farmers in Bangladesh, it becomes increasingly difficult for the country to achieve the national goal of increasing the agricultural production and at the same time improving the economic condition of the rural poor in the country.

4.4 Desired Directions

There has been increasing awareness of the need for an integrated and comprehensive approach to the entire issue of agricultural credit in many countries, including the Philippines, India and Pakistan. The basic underpinning is that without adequate provision of credit for the current production and consumption expenses of the farmers, realisation of planned targets for agricultural production would be difficult to attain. Agricultural lenders in certain developing countries like the Philippines thus deliberately add a reasonable subsistence allowance to credit amount the farmer needs to pay for a full package of technology.

The institutional sources of credit in Bangladesh lack this aspect. Their outreach activities are very limited and this in turn has a bearing on their credit performance. The access of small and marginal farmers to bank loans is insubstantial in spite of their large presence in the rural population. These farmers also form the potential target groups for the banks since their combined contribution to agriculture is also the largest. They also represent the poorest sections of the farming population with little or no assets. In order to bring about a qualitative change to agricultural technology on their lands to increase productivity, these farmers require more credit than the medium and large farmers. However, the share of institutional credit in total credit receipts by the rural population ranges between 8 to 24 percent . Of this, the largest portion of credit facilities are availed by medium and large farmers who are in an advantageous position because of their landed assets and can provide collateral against loans and advances. From this perspective, it is natural that small and marginal farmers find it more difficult to avail of credit facilities that require collateral. The performance of NGOs in advancing agricultural credit is not remarkable, and is virtually negligible. Thus the private informal sources of credit still play a leading role in meeting the credit needs of the farmers while charging exorbitant interest rates.

Given the relative importance of the large number of small and marginal farmers, extensive study of their access to institutional credit is required. Although the semi-formal credit operations of Grameen Bank and NGOs have been growing rapidly in Bangladesh, their loan portfolio is still dominated by small trading loans. Thus it cannot be expected that the Grameen Bank and the NGOs will be able to supplement the efforts of the NCBs and the Specialised Agricultural Banks in the disbursement of agricultural credit. Much hangs upon the credit efforts of the formal-sector credit institutions in Bangladesh, and upon their adoption of appropriate credit policy measures to meet the agricultural credit requirements of the small and marginal farmers of the country.

Notes

The ***Lead Bank System*** was introduced to avoid duplication and to maintain effective coordination in the disbursement of credit to each district. One bank in each district is designated as the Lead Bank for the district. The system is coordinated by the District Committee which the Deputy Commissioner of each district heads as Chairperson, with the Manager of the Lead Bank functioning as Member-Secretary. In consultation with the District Committee, the Lead Bank assigns credit responsibilities for the Unions in the district to different bank branches so that no Union is served by more than one bank branch. (for details, see Saha 1985).

An ***Upazila*** is the compact administrative unit created in 1983, which replaced the *Thana* (police station) level administration in Bngladesh. It also serves as a mid-level local government institution. There are currently 460 upazilas in Bangladesh.

A ***Union*** is the institution at the lowest rung of local government in Bangladesh and comprises a cluster of villages.

Recovery Rate is the

$$\frac{\text{Amount of loan dues recovered during the current year}}{\text{Amount of loan overdues + Amount of loan recoveries during the current year}} \times 100$$

This method of calculating the recovery rate is in common use among banks in Bangladesh (see Rahman [1998]: p.267)

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