

Status Paper on Agricultural Rural Finance in Bangladesh

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Abstract

This status paper is a compilation of the country profile of Bangladesh and focuses on the various initiatives taken by apex bank of the country, namely, Bangladesh Bank (The Central Bank of Bangladesh) regarding rural finance and financial inclusion. As we riff through the paper, initially some of the important economic indicators have been highlighted, to give a basic idea about the profile of the country followed by count of certain drivers of the financial system in Bangladesh. Further, the timeline of the cooperative history and its role in the economy of the country has been accentuated along with brief explanation of the significant Agricultural & Rural Financing Institutions in the country. The essence of the paper revolves around the detailed description of the initiatives taken by the Bangladesh Bank (The Central Bank of Bangladesh) to work towards sustainable finance which is required for maintaining a sustainable growth the country with sound policy initiatives with eventual goal of holistic development of the agriculture sector in the country.

Key Words: Bangladesh, Co-operatives, Agriculture, Rural Development

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1. Bangladesh at a Glance

Area	1,47,570 sqkm
Capital	Dhaka
Population	166 million
Population Growth Rate	1.6%
Population density	1033.5/sqkm
Rural Profession	Agriculture (70%)
GDP Growth	8.2% (2018-19) 5.2% (2019-20)
GDP Per Capita	USD 2064 (FY 19-20)
Contribution of Agriculture to GDP	13.68%

2. Few important numbers of the institutions behind the Financial System of Bangladesh

- 60 scheduled & 5 non-scheduled banks
- 34 NBFIs
- 18 Life and 44 Non-Life Insurance Companies
- 599 MFIs
- 192020 cooperatives

2.1 Specialized Financial Institutions in Bangladesh:

- House Building Financial Corporation(HBFC)
- Palli Karma Sahayak Foundation(PKSF)
- Samabaya Bank
- Grameen Bank

3. Cooperative History in Bangladesh

- 1942: Cooperatives Rules Formulation (Based on Bengal Cooperatives Act 1940)
- 1956: Establishment of Rural Development Academy at Cumilla by Dr. Akhter Hamid Khan (Now BARD)

1962: National Cooperative Policy Formulation for the 1st time.

1973: Establishment of Milk Vita by Bangabandhu Sheikh Mujibur Rahman.

1984: Cooperative Ordinance issued for the 1st time.

2001: Issuing Cooperative Act for the 1st time in BD.

Farmer organizations (FOs) in the name of different cooperative societies. These cooperatives are involved in producing dairy products such as 'Milk Vita' and play significant roles in small-scale farming and agriculture development, as well as uplifting members' livelihood.

Other multipurpose cooperative societies:

- Small scale traders
- MSME business
- Producer cooperative
- Worker cooperative
- Consumer cooperative

The department of Co-operative(DOC), the principle government organization responsible for promotion & development of cooperative societies. Their functions are:

- Registration of cooperative societies
- Formulate policies
- Preserve data & publish
- Plan & direct promotional, publication & expansion programs on cooperatives
- Formulate and implement plans & projects.

3.1 Role of Cooperatives in Bangladesh's Economy

- Creation of self employment for the poor and ultra poor in rural/urban areas to achieve self reliance.
- Improvement of the standard of living of the poor people in disadvantaged areas
- Development of small entrepreneurs for the creation of employment in rural/urban areas

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- Creation of skilled human resources through training

 - Assist beneficiaries getting just prices for their products and encourage to produce more through cooperative based market management.

4. Agricultural & Rural Financing Institutions in Bangladesh

In Bangladesh Micro Finance Institutions (MFI) work as Rural financing institution. MFIs are playing vital role using a fairly standard joint liability group lending methodology that is contributing to resolve the agriculture credit problem. About 805 registered MFI's are working in Bangladesh. Among them-BRAC,ASA,TMSS,BURO Bangladesh, Proshika are notable. MFI's are regulated by MRA (Micro credit Regulatory Authority) which is established in 2006 under the-Micro credit Regulatory Authority Law-2006. Grameen Bank is another MFI but it doesn't fall under MRA rather it operates under Grameen Bank Ordinance,1983.

4.1 Bangladesh Samabaya Bank

Bangladesh Samabaya Bank Limited (BSBL) is the Apex Bank in the co-operative sector of Bangladesh. The Members are Central co-operatives, co-operatives at district level, other Apex co-operative societies and Central co-operative societies situated all over Bangladesh. The function of Bangladesh Samabaya Bank Limited are as follows:

- Receiving deposits
- Issuing bonds, loans, and other agriculture credits to its members.
- Provide entrepreneurship loan self employment, small business loan, term loan and many more income generating activities loan to individual co-operators
- Various tasks as and when required by the co-operative department and the Government.

4.2 Bangladesh Rural Development Board (BRDB)

The prime government agency engaged in rural development and poverty alleviation. BRDB basically operates by organising the small and marginal farmers into co-operative societies. Integrated Rural Development Program (IRDP) was launched in 1972 with a view to replicate the two-tier co-operative system based on the "Cumilla Model" that evolved through experiments in Bangladesh Academy for Rural Development (BARD) at Cumilla in the 1960s. In view of its success, the program was transformed in 1982 into a nation-wide institution called Bangladesh Rural Development Board.

The main function of BRDB:

- Formation of Farmers Cooperative Society and TCCA (Thana Central Cooperative Association).
- Capital formation
- Credit operation
- Irrigation activities
- Training, Education and Extension
- Marketing and business operation
- Construction and repair of physical facilities including Thana Palli Bhaban, storage godowns etc.

4.3 Bangladesh Bank (The Central Bank of Bangladesh)

About the organization

Bangladesh Bank, the central bank of Bangladesh and apex regulatory body for the country's monetary and financial system, was established vide the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) with effect from 16th December, 1971. At present, it has ten offices located at Motijheel, Sadarghat, Chattagram, Khulna, Bogura, Rajshahi, Sylhet, Barisal, Rangpur and Mymensingh in Bangladesh.

Mission

To develop continually as a forward looking Central Bank with competent and committed professionals of high ethical standards by conducting monetary management and financial sector supervision, to maintain price stability and financial system robustness, supporting rapid inclusive finance for inclusive economic growth, employment generation and poverty eradication in Bangladesh.

Bangladesh Bank is carrying out its following main functions as the country's central bank:

- Formulating monetary and credit policies;
- Managing currency issue and regulating payment system;
- Managing foreign exchange reserves and regulating the foreign exchange market;
- Regulating and supervising banks and financial institutions, and advising the government on interactions and impacts of fiscal, monetary and other economic policies.

Membership

In the 142nd board meeting of Bangladesh Bank, held on 18 September, 1994 a proposal was approved that- Bangladesh Bank may receive the membership of Centre for International Cooperation and Agricultural Banking (CICTAB) by subscribing annual membership fee. Since then Bangladesh Bank is paying annual membership subscription fee of CICTAB from the year 1995-96.

Activities

BB performs all the core functions of a typical monetary and financial sector regulator and a number of other developmental activities and non-core functions. The major functional areas include:

- Formulation and implementation of monetary and credit policies.
- Regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets.
- Management of the country's foreign reserves.
- Issuance of currency notes.
- Regulation and supervision of the payment system.
- Acting as a banker to the government.
- Money Laundering Prevention Activities.
- Collection and furnishing of credit information.
- Implementation of the Foreign exchange regulation Act.
- Managing a Deposit Insurance Scheme.
- Act as the country's Financial Intelligence Authority.
- Conducting Financial Literacy and Awareness Program.
- Conducting different projects/schemes of the government.

Objective

Food security is one of the main challenges in the recent years for Bangladesh. Besides ensuring food security for the increased population,

rural poverty reduction, employment generation, increasing living standard and economic growth are mainly depends on the development of agricultural sector. Farmers are the key contributor in agricultural sector, who play vital role in the economy. Women are also the significant contributor in the agricultural activities. For this reason Bangladesh Bank emphasizes on the disbursement of agricultural credit to the women farmers as well as small and marginal farmers, ethnic people, farmers of less developed area like coastal belts, char, haor, etc . To maintain a sustainable growth in the agricultural sector, Bangladesh Bank formulates ‘Annual Agricultural & Rural Credit Policy and Program’ in each financial year. Besides, Bangladesh Bank also takes different types of initiatives to reach the unbanked portion of the population to access to finance. Banks and financial institutions (FIs) hold a unique position in an economic system that can affect production, business and other economic activities through their financing activities, and thus also influence environmental risk management in real economy and sustainable growth.

Some initiatives of Bangladesh Bank regarding rural finance, financial inclusion and green banking:**1) Agricultural & Rural Credit Policy and Program**

In line with the pro-poor agricultural policy of the government, Bangladesh Bank formulates its own Agricultural & Rural Credit Policy and Program with a view to expand the banking services to rural areas using information technology, use the limited agricultural land for the best purposes of agriculture, decide the courses of action for adapting to the impact of climate change. Considering the importance of food security and employment of the country, Bangladesh Bank is designing agricultural credit policy and program since 1977 and implemented through nationalized and specialized banks. From the FY 2008-2009 all private and foreign commercial banks along with nationalized and specialized banks are advised to disburse agri/rural credit. Bangladesh Bank has made it mandatory for all banks to disburse a specific percent of their total loans & Advances in agriculture and rural sector since FY 2011-2012. Foreign and Private commercial banks which have limited

branch coverage in rural areas are advised to provide agricultural & rural credit in partnership with the micro-finance institutions (MFIs). The salient features of the agricultural and rural credit policy are:

- Priority is given to the major three sectors such as crop, fisheries and livestock.
- Ensure timely availability of agricultural credit.
- Less developed areas (i.e. char, haor, coastal belts, hill tracts etc.) are given priority.
- Credit disbursement in Cluster and area approach method.
- Contract farming is encouraged for fair price.
- Revolving Crop Credit Limit System.
- Credit facilities for cultivation of import substitute products such as pulse, oil seeds, spices and maize at a concessional interest rate (4%)
- Different self-employment/income generating activities are encouraged.
- Women borrowers are given priority for disbursing agricultural & rural credit.
- To ensure transparency, emphasis is given on disbursement of agriculture credit publicly (open credit disbursement) at union level.
- High Value Crops are given priority in extending credit facility.

1.1) Impact of the Agricultural & Rural Credit Policy and Program

Following the agricultural and rural credit policy, the state owned commercial banks and private and foreign commercial banks have disbursed Tk. 23,616.25 crore against the target of Tk. 21,800.00 crore in the last financial year (2018-19) which was almost 108.33% of the total target. In the last financial year more than 38.83 lac farmers received the agricultural credit of which 16.02 lac was women borrowers. Banks are encouraged to disburse agricultural credit through open program in the presence of respected personnel of the society to make the agricultural loan hassle free. In the FY 2018-19, 492.40 crore Taka was disbursed among 84,103 farmers through 16,188 openly public programs. Agricultural credits are also disbursed to the tribal farmers at only 5% interest rate in the 3 hill track districts of the country. In the FY 2018-19, 72.9 crore Taka was disbursed among 21,717 farmers.

1.2) Women's Participation in Agriculture

Agriculture related activities like post harvest operations, seed preservation, nursery business, jute stripping, vegetable cultivation, homestead gardening, floriculture, production of horticultural seeds, establishment and management of cottage industries based on locally produced agricultural commodities, etc. are very suitable for women. Extensive training programs are conducted and capital supports are provided to encourage women's interest and improve their skill in such activities. In the last financial year 2018-19, agricultural credit of 7,190.55 crore was disbursed among 16.02 lac women borrowers.

1.3) Agricultural credit through Contract Farming:

The contract farming system plays an important role to remove the marketing problem as well as to ensure fair price for the products of the farmers. Due to establishment of agro-processing industries, increase in agro-commodities export and additional demand for domestic consumption, the contract farming system is getting popularity day by day. In this system, the agro-processing entrepreneurs make contract with a group of farmers before the cultivation of the crops. Duration of the contract, description of the crops/products, quality of the crops/products, cultivation method, crops/products supply system, pricing system of the crops/products, procedure for payment, insurance system etc. must be mentioned in the contract. The contracted farmers are financed as well as different inputs like seeds, fertilizer, pesticides etc. After the harvesting of the crops, the entrepreneurs buy the crops from the farmers with a pre-fixed price.

2) Special Refinance Scheme for providing Finance to the Share-croppers

Bangladesh Bank introduced a refinance scheme of 500 crore taka at bank rate to BRAC (a micro-finance institutes) for easy credit accessibility of sharecroppers in response to 100% bank guarantee. In this consequence an agreement between Bangladesh Bank and BRAC was signed on 2 September, 2009. After this, BRAC started its activities in 35 districts with their trained employee to disburse credit facilities with a low cost. In 2009-10 fiscal year about 74.61 crore taka were disbursed among 67,571 farmers. BRAC adjusting their current due to Bangladesh Bank applied

again to disburse loan next year. BRAC also applied for expanding program area in some new districts including the haor areas. Based on BRAC application, Bangladesh bank approved the residual amount to be refinanced. Successful collection of principal and interest was the precondition before that amount revolved. In this consequence of credit dissemination, BRAC distributed 179.78 crore taka among 1,59,032 farmers of 36 upazilas up to January 2011. Bangladesh Bank refinanced the given amount considering their 105% bank guarantee. At the first phase, the duration of the scheme was upto June, 2015. But, based on the success of the scheme, the refinance scheme fund was increased to 600.00 crore taka in July, 2015 and the duration of the fund was extended to June, 2018. Almost 15.67 lac sharecroppers from 250 Upazillas under 48 districts got the agricultural loan facilities under this scheme. The sharecroppers received the agricultural loan easily, on-time and at a lower rate of interest as they need not to go for alternative sources for loan at a higher rate of interest. Farmers were able to produce more yields on the same land by getting necessary training facilities from BRAC.

3) School Banking

The school banking program was launched in Bangladesh in 2010. The scheme not only plans to help students and parents with a sizeable amount of savings after a certain period, it also aims to develop the habit of savings and making them financially literate from an early age into students. The scheme teaches the kids money management skills that may be useful for the rest of their lives. In November 2010, Bangladesh Bank asked all banks to open school banking accounts for the students. It said students need to be brought under banking services to help them contribute to economic activities through savings. In this regard, a guideline has been issued in 2013 to provide students with necessary banking services by ensuring more transparent and dynamic institutional financial supports. Upto September, 2019 total number of school banking accounts are more than 20.72 lac, in which Taka 1,807.53 crore is deposited. In the last one year, the number of accounts has been increased by 4.6 lac and the deposited amount has been increased by Taka 379.39 crore. Among the all school banking accounts 36.18% is opened in the rural area and 63.82% is opened in the urban area. The ratio of male students' accounts and female students' accounts is 60:40.

4) No-frill accounts for the Farmers:

In September of 2010, Bangladesh Bank instructed state owned commercial banks to help the ultra-poor by opening Taka 10 accounts so that they can get the benefits of the safety net programs. Private commercial banks were also instructed similarly afterwards. The use of the account has helped the farmers to engage in various economic activities

and change their lives. The accounts ensure inclusion of more poor people in business activities which in turn spurs the country's economic growth. No charges are applicable to these accounts. Under this scheme, a farmer can open an account by depositing BDT 10 (about 12 cents only) at any state owned commercial and specialized bank by using national ID card/birth registration card. Through this accounts, farmers can also receive government subsidies, fund transfers, social safety net payments and remittances directly to their accounts more safely and quickly. Farmers are encouraged to channel their foreign remittances through these accounts. Upto September, 2019, around 100.82 lac accounts have been opened by the farmers which are more than 1.16 lac from the previous year's. In these accounts Taka 338.20 crore is deposited by the farmers.

4.1) No-frill accounts for the freedom fighters:

A freedom fighter (who participated in the liberation war in 1971) can open bank account by depositing taka 10/- (ten) only at any state owned commercial and specialized bank by using national ID card and Payment Receipt Book for freedom fighter's allowance.

4.2) Bank Account for Beneficiaries under Social Security Program

Beneficiaries (under privileged people like- physically other way able, widow, old women, agricultural labor, industrial labor, elder citizens) under Social Security Program can open bank account by depositing taka 10/-(ten) only at any state owned commercial and specialized bank by using national ID card and Payment Receipt Book containing Pension Payment Order (PPO) for the beneficiaries.

4.3) Facilities for no-frill accounts

The account holders of the no-frill account can also take loans under Tk 200-crore refinance scheme of the central bank by using the accounts for an interest rate of 9.5 percent only. A single person can apply up to BDT 50 (fifty) thousand for a period up to one year. Banks can get an incentive rebate on the interest amount charged by BB at the rate of 3.5% after successful recovery of the loan.

It can be mentioned here that, other than the farmers, upto September 2019, another 1,02,50,270 accounts are opened by the different types of people who are covered by the government social safety program.

3) Branch Opening Policy

Bangladesh Bank has formulated a branch opening policy for the scheduled commercial banks which states that the ratio of opening new branch in the rural and urban area will be 1:1. This policy helps to expand the banking services in the rural areas.

4) Green Banking Activities through the Banks and Financial Institutes

Bangladesh Bank (BB) started its policy intervention on environment friendly banking practices by issuing Environmental Risk Management (ERM) Guidelines for Banks and Financial Institutions (FIs) and Green Banking Policy Guidelines for Banks. In 2013, Policy Guidelines for Green Banking was also issued for the Financial Institutions (FIs) and for the new banks which were scheduled in 2013. To expedite the initiatives of banks and FIs at faster pace, from January 2016 onwards minimum target of direct green finance was set at 5% of the total funded loan disbursement/investment for all banks and FIs. Bangladesh Bank instructed all banks and FIs to establish Sustainable Finance Unit and Sustainable Finance Committee by abolishing both Green Banking and CSR units. Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh along with an Excel-based Risk Rating Model have been issued which has become enforceable from January 01, 2018 replacing the Guidelines on ERM to all extent. Recently, a comprehensive list of products/initiatives of Green Finance for banks and FIs has been circulated in September 2017. To monitor green banking policy & other regulations and to ensure the quality & uniformity of data provided by Banks & FIs, a new uniform reporting format of Quarterly Review Report on Green Banking Activities has been circulated for Banks & FIs in January 2018.

Banks and FIs were instructed to form a '**Climate Risk Fund**' having allocation at least 10% of their Corporate Social Responsibility budget. This funding can be done in both ways- by providing grants or financing at a reduced rate of interest. Meanwhile, Banks & FIs have been instructed to set up Solid Waste Management System, Rainwater Harvesting and Solar Power Panel in their newly constructed or arranged building infrastructure. Besides, by the direction of Honorable Prime Minister, and Bangladesh Bank's instruction in conformity with that, all the banks & FIs must ensure the establishment and activeness of Effluent Treatment Plant (ETP) during financing to all possible clients.

To broaden the financing avenue for green products like solar energy, bio-gas plant and effluent treatment plant, etc., Bangladesh Bank established a revolving refinance scheme amounting to Taka 2 billion (200 crore) from its own fund for solar energy, Bio-gas and Effluent Treatment Plant (ETP) in

2009. The product line has been enhanced to 51 under 08 categories.

An on-lending scheme namely “**Financing Brick Kiln Efficiency Improvement Project**”, was established in BB supported by ADB with a view to reducing greenhouse gas emissions and refine particulate pollution from brick fields throughout the country and building environment friendly brick fields through development of efficiency of brick kiln with usage of appropriate technology and energy in 2012. In this scheme, total amount of loan from ADB is 50.00 million USD/converted to equivalent BDT for local use. It has two parts: Part-A: 30.00 million USD for conversion of Fixed Chimney Kiln (FCK) to Improved Zigzag Kiln and Part-B: 20.00 million USD for establishment of new Vertical Shaft Brick Kiln (VSBK), Hybrid Hoffman Kiln (HHK) and Tunnel Kiln. Relending facilities are extended to the Participatory Banks and Financial Institutions (PFIs) in this purpose. 36 banks and 21 financial institutions have signed participation agreement with Bangladesh Bank so far. Under this relending facility, total USD 33.55 million equivalent BDT 264.05 crore has been disbursed to 14 subprojects through 15 Participating Financial Institutions (PFIs) till June 2019. In the April-June quarter of FY2018-19, USD 6.87 million equivalent BDT 54.78 crore has been disbursed to two subprojects through 4 PFIs. The tenure of the project is upto December 2019.

Bangladesh Bank has introduced refinance scheme funded by excess liquidity of shariah based financial institutions to facilitate the shariah based banks and non-bank financial institutions (NBFIs) in the country. This refinance scheme aims to encourage the shariah based investors to be involved more in the renewable energy and environment friendly efforts, and strengthen the involvement of shariah based financing in this sector.

In January 2016, a long-term refinancing window named **Green Transformation Fund (GTF)** of 200 million USD was launched to ensure sustainable growth in export oriented textile and leather sectors conducive to transformation of green economy in the country. To further fortify the financing arrangement under GTF, it was decided to provision for a Participation Agreement to be signed between Bangladesh Bank and intended banks. To widen the scope of this fund, it has been opened for all manufacturer-exporters irrespective of sectors against import of capital machinery and accessories for implementing specified green/environment-friendly initiatives since June, 2019.

7) BB Refinance Scheme for Environment Friendly Products/Initiatives:

The fund was created to promote Environment Friendly Financial Products/initiatives like- Biogas, Central Effluent Treatment Plant (CETP), Safe Working Environment (SWE), Vermicompost. Since inception, total amount of Tk. 4,118.30 million has been disbursed as refinance facility from the fund till June 30, 2019. The facility is extended to the participating Banks and Financial Institutions (PFIs), those who have signed agreement with Bangladesh Bank to avail the fund.

5. Way Forward

An inclusive sustainable growth is very important for a country. Sustainable finance is required for maintaining a sustainable growth. That's why BB is trying to play a significant role by monitoring the whole scenario and by taking appropriate policy initiatives. Refinance support from BB is also playing an important role to incentivize the green banking activities. We can expect that the measures taken by Bangladesh Bank will be beneficial for achieving Sustainable Development Goals (SDGs) of the country.

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