Agriculture and Microfinance

(For Banking Diploma Examinees in Bangladesh)

The Institute of Bankers, Bangladesh (IBB)

Agriculture and Microfinance

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Syllabus: Agriculture & Microfinance

Full Marks : 100

Module A: Agriculture Finance

- Nature, Approaches and Need for Agricultural Finance, Institutional and Non-Institutional Sources, Types of Agri-finance-Crop and Non-Crop, Agro-Based Project Financing - Procedures and Collaterals in Agri-finance Problems of Agri-finance- Role of Commercial Bank and Bangladesh Bank in Agri-finance - Monitoring and Recovery of Agricultural Credit - Public Demand Recovery Act - Sector and Sub-Sector of Agricultural Finance - Methods of Agricultural Credits Disbursements - Use of IT in Agricultural Credits - Role of Banks in Agriculture Sector Financing - Regulatory Policies for Agricultural and Farm Sector Financing.

Module B: Micro Credit and Micro Finance: Evolution, Legal Framework and Products

- Historical Development of Micro Credit, Micro Credit and Micro Finance, Micro Credit and Poverty Alleviation. Government Policy and Legal Framework Regarding Micro Finance in Bangladesh, Micro Credit Regulatory Authority (MRA) in Bangladesh, Requirements of Collateral Security, Collateral Substitutes, Saving-Compulsory Deposit System, Insurance, Payment Services, Social Intermediation, Enterprise Development Services.

Module C: Micro Financial Institutions (MFIs)

- Micro Financial Institutions and their Objectives, Target Market and Impact Analysis, Formal, Semi-Formal and Informal Financial Institutions, Institutional Growth and Transformation, Linkages Among Different Types of MFIs and between Banks and MFIs. Social Services of the MFIs.

Module D: Working Capital, Special and Priority Sector Financing

- Working Capital Assessment for Fishery, Poultry, Dairy, etc. Finance in High Value Crops, Tissue Culture, Oil Palm Cultivation, Nursery, Salt Cultivation, Cereal Cultivation, Silk Cultivation, Roof-top Gardening, Mushroom Cultivation, Betel Leaf Cultivation, etc.Value Chain - Developing Commodity Markets.

Module E: Role of Specialized Banks (SBs) and MFIs in Rural Finance and Poverty Alleviation in Bangladesh

- Role of BKB, RAKUB, Grameen Bank, BRAC, ASA, PRASHIKA, BRDB and PKSF as the Micro/Rural Financial Institutions in poverty alleviation

Module F: Performance Assessment of SBs and MFIs

Repayment Rates, Financial Viability, Profitability, Leverage and Capital Adequacy, Borrowers Viability and Poverty Alleviation.

References:

1. Bangladesh Bank, BKB, RAKUB & PKSF: Annual Reports.
2. Ledgerwood, Joanna. Micro Finance Handbook- An Institutional and Financial Perspective, The WorldBank Washington D.C
3. Wood, Geoffrey D and Sharif, Ifath A, (Ed.). Who Needs Credit-Poverty and Finance in Bangladesh, UPL,Dhaka.

Agriculture and Microfinance

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[1] Ledgerwood, 1999, Microfinance Handbook, The World Bank

Foreword

Recently Bangladesh observed 50 years of independence with dignity, pride and renewed dream. The country which once was labeled as a ‘basket case’ now has ‘an inspiring story’ to tell the world about ‘reducing poverty and advancing development’, the World Bank observes[2]. While all sectors of the economy have contributed; the rural areas reduced poverty most impressively, accounting for 90 percent of the poverty reduction since 2010.

Bangladesh has already come out of the least developed countries and is on the way to become a middle income nation. Bangladesh now envisions towards becoming a prosperous nation by the year 2041. In the transition towards paradigm shift, every sector of the country need to offer concerted effort in making the perspective plan of Bangladesh Vision 2041 a reality. It is prudent for the Institute of Bankers, Bangladesh (IBB), a premier institute for capacity development of Bankers in various areas through conducting diploma examinations.

There are six chapters and 39 sections in the reading material for ‘Agriculture and Microfinance’ course of IBB; each chapter dealing with one module of IBB syllabus. Moreover, a total of twelve case studies have been included relating to the topics. Some model questions and a list of glossary are also included at the end of the reading material. While agricultural and microfinance is vast area in the field of academia and research; focus of this book is to provide with the related concepts and information that might come to help in the professional endeavor of the particular segment of readers-the bankers. Hope that the bankers who are financing in the agricultural and rural sector will find this reading material useful. To enrich the reading material with latest data, information and concepts; a wide range of books, reports, articles and other form of publications were consulted in addition to suggested readings mentioned in the IBB syllabus. The data and information extracted from various sources has been duly acknowledged in the reference section in the form of footnotes, mainly considering the ease of reading for our readers who are usually busy with their professional workloads in different banks and financial institutions. While adequate precautions were taken to avoid mistakes; there might still remain some mistakes unintentionally. In case of any confusion, especially regarding policy matters the readers are requested to consult relevant circulars of Bangladesh Bank and other relevant publication for better understanding and emendation of concepts, if necessary.

Last but not the least, I express by thanks and gratitude to the Honorable Governor, Bangladesh Bank who is also the President of IBB and the Secretary General of IBB and officials concerned for taking the initiative of preparing this reading material in the new syllabus to meet the demand of time and for giving me an opportunity to contribute. I also thank my senior colleagues for giving their views and opinions in different stages of preparing this reading material. If this reading material come to any help for the young and energetic bankers in their endeavor in agricultural and rural finance; all the efforts will be paid off.

Let us all work together with sincerity, dedication and honesty to achieve the dream of our father of the nation ‘sonar bangla’ and join Bangladesh’s journey towards prosperity through performing our day-to-day works, a little better than yesterday.

Regards,

Bikash Singha Sutradhar

[2] Bangladesh Poverty Assessment, World Bank, 2019 <https://elibrary.worldbank.org/doi/abs/10.1596/32754>

Acronyms

ACP	Agricultural and Rural Credit Policy
ADB	Asian Development Bank
ADB	Asian Development Bank
ASA	Association for Social Advancement
BARD	Bangladesh Academy for Rural Development
BB	Bangladesh Bank
BCA	Bank Company Act
BDBL	Bangladesh Development Bank Limited
BDT	Bangladeshi Taka
BKB	Bangladesh Krishi Bank
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BSBL	Bangladesh Samabay Bank Limited
FAO	Food and Agricultural Organization
FCB	Foreign Commercial Bank
FY	Financial Year
GB	Grameen Bank
GoB	Government of Bangladesh
HVC	High Value Crops
HYV	High Yielding Variety
IBB	Institute of Bankers, Bangladesh
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IRRI	International Rice Research Institute
IT	Information Technology
KYB	Know Your Business
KYC	Know Your Customer
LDC	Least Developed Country
MFI	Miro Finance Institution

MFS	**Micro Finance Service**
MRA	**Microcredit Regulatory Authority**
MRRU	**Microcredit Research and Reference Unit**
NGO	**Non Government Organization**
NID	**National Identity Document**
PCB	**Private Commercial Bank**
PKSF	**Palli Karma Sahayak Foundation**
PRASHIKA	**Prashiksan Shiksa Kaaj**
PRSP	**Poverty Reduction Strategic Paper**
RAKUB	**Rajshahi Krishi Unnayan Bank**
SB	**Specialized Bank**
SBC	**Sadharan Bima Corporation**
SCB	**State-owned Commercial Bank**
SDG	**Sustainable Development Goal**
UN	**United Nations**
UN	**United Nations**
VGF	**Vulnerable Group Feeding**
WB	**World Bank**

Chapter One: Agricultural Finance

Module A: Nature, Approaches and Need for Agricultural Finance, Institutional and Non-Institutional Sources, Types of Agri-finance-Crop and Non-Crop, Agro-Based Project Financing - Procedures and Collaterals in Agri-finance Problems of Agri-finance- Role of Commercial Bank and Bangladesh Bank in Agri-finance - Monitoring and Recovery of Agricultural Credit - Public Demand Recovery Act - Sector and Sub-Sector of Agricultural Finance - Methods of Agricultural Credits Disbursements - Use of IT in Agricultural Credits - Role of Banks in Agriculture Sector Financing - Regulatory Policies for Agricultural and Farm Sector Financing.

USER
[Pick the date]

SECTION ONE

NATURE, APPROACHES AND NEED FOR AGRICULTURAL FINANCE

Agricultural is a key driver for achieving food security, generating rural employment and reducing rural poverty. Rural development through sustainable agriculture has been a pillar of our economic advancement and poverty reduction so far and in the future it can help lead out country's aspirations towards a prosperous nation by year 2041 as delineated in the Perspective Plan of Bangladesh 20021-2041 (PP2041) undertaken by the Government. With 65% of our population still living in rural areas and relying for their livelihoods on agriculture, rural development in the future will be synonymous with highly efficient and productive agriculture—the thrust of agriculture sector strategy of PP2041.

Agriculture in Bangladesh is going through a paradigm shift which is expected to continue in the coming years. By the year 2040 as real income of people is expected to raise, the structure of demand for the food baskets are also supposed to shift towards improved nutritional intake. Considerable consumption diversification are already taking place, with lesser per capita consumption of rice and increased consumption of high-value food items such as meat, fish, milk, vegetables, fruits, and edible oil; a trend which is only expected to continue further. Supply response has mimicked demand shifts with diversification of production from rice agriculture to increased production of non-cereal crops. Growth of non-crop agriculture – fisheries, livestock, poultry, and horticulture – has outstripped crop-agriculture growth.

Agricultural credit is important for timely availability of agricultural inputs such as seeds, fertilizer, irrigation, etc at the farm level. But only 25% of the credit need of farmers is currently served by banks; as estimated by the government. The remaining 75% has been delivered by micro-finance institutions (MFIs). The demand for credit is much more than that met by non institutional sources. Given this backdrop as well as increased agricultural credit demand in the advent of new technologies and high-value crops, the supply side has to be more vibrant. By ensuring availability of agricultural credit to the deserving farmers timely and in a hassle-free manner can reduce the demand supply gap in institutional finance and help improve agricultural productivity.

Agriculture possesses some special characteristics atypical to other businesses. The formulation and implementation of agricultural credit policy programs therefore must recognize and address those distinct characteristics to make their endeavor successful. Some of the peculiarities that make agriculture so different from other business are discussed below:

1) Agriculture is mainly concerned with the production of food. Therefore, the demand for agricultural product rises less rapidly than the industrial sector. While with the improvement of technology and overall economic development and the rise of income level generally overall demand for products and services also rise; for agricultural products this rise tend to be much slower. Therefore an economic boom does not necessarily mean boom in the agricultural industry and the impact generally is only minimum. Likewise, the demand for agricultural products, decrease at a very slower pace, in case of an economic slowdown. As income decreases during an economic slowdown, demand for basic food items may not decrease at all (Giffen goods[3]) or may even rise (inferior goods[4]), due to substitution effect.

2) Agricultural products are generally perishable. Partially because of this and partially because of small scale production several layers of actors are involved between agricultural producers and final consumers. The involvement of middlemen in multiple layers increases price of agricultural

[3] The thought of Giffen goods undermines the fundamental law of demand. Rice, wheat, bread are examples of Giffen goods and their demands tend to be unresponsive to the change in price lever or income level.
[4] Demand for inferior goods increases with lower income. With a lower income, people may shift to palm oil instead of usually pricier sunflower oil and thereby increasing demand for palm oil.

products in the final market while the growers often face difficulties in making profit . Therefore it may become difficult for the financing institutions to determine the income or credit worthiness of the small farmers based only on the available market price data.

3) Agricultural sector is a less monetized one despite many commercial and technological developments. In most countries of the world agricultural production, especially rice and other cereals still now takes place on subsistence basis and considerable amount of the product which are consumed by the producers themselves do not enter the exchange sector. So it is often difficult to get the exact information and data regarding production, consumption, etc.

4) Agricultural production depends very much upon natural factors. Weather and geographical factors mostly determine the yield for a given parcel of land for a given agricultural produce and the producers have little control over the output of the produce.

5) There is a time lag in agricultural production. The process of agricultural production is often lengthy and it requires a minimum amount of time which varies from 90 days to several years. Cereals require 3-5 months while fruit production requires several years from initial investment to yield.

6) Profit maximization is not always the aim of production for agricultural sector. It is regarded as a way of life, a means of livelihood.

7) Production inefficiency is greater in agriculture than in industry. Due to the pressure of variable factors such as: labor; agricultural production often remains in the irrational stage.

8) Supply of agricultural product is not very much responsive to price change due to small scale and scattered production and also due to the time lag in production process.

9) Due to the small farm sizes; there is little scope for division of labour and specialization atypical to other industries.

10) The different factors of production are less clearly marked off each other in agricultural than in industrial sector. Sometimes it is difficult to distinguish between agricultural land and capital or labour and organization.

Scenarios of future challenges for agriculture: The world is passing through an era of transition. From climate change to shifting power structure and regional conflicts; and repeated bouts of economic slowdown, diseases, technological disruptions and uncertainties due to contestations and disequilibrium are rising[5]. On the other hand, Bangladesh is also undergoing a paradigm shift of low to middle income country. These multifaceted factors may make agriculture far more critical for Bangladesh in the long run. The uncertainties may bring forth the following scenarios related to agriculture of Bangladesh:

i. **Population Rise:** By the year 2041 the population of Bangladesh will be over 210 million while the global population will rise to 9.2 billion. Due to the increased population Bangladesh as in other parts of the world will require more food to feed its people. With a global rise in population and increased, global food sources may shrink for export and countries with large population like Bangladesh may have to depend more on local production.

ii. **Possible change in global powers structure:** In the year 2012 the National Intelligence Council of the USA predicted some global scenarios for year 2030s which includes a rising China

[5] Global Trends 2040: Alternative Worlds, National Intelligence Council, USA, https://www.dni.gov/files/ODNI/documents/assessments/GlobalTrends_2040.pdf

and declining USA and the world power structure leading towards multipolarity[6]. A multipolar world may have to endure more conflict and war leading to reduced agricultural production, supply chain disruption as the world is currently experiencing due to the Ukraine war and tensions looming around many other places. As the economic activity growingly tilts towards Asia[7], the food basket, consumptions within nations is supposed to increase posing growing challenge for net importers of agricultural commodities such as Bangladesh.

iii. **Climate Change:** Bangladesh is already experiencing the negative effects of climate change. Temperature rise, excessive precipitation in the monsoon, more frequent flooding with greater intensity, tropical cyclone, sea level rise, river erosion, salinity intrusion in the coastal region etc are negatively affecting the livelihoods of people. According to the Global Climate Risk Index 2021 of Germanwatch Bangladesh is among one of the top seven countries to be worst affected by climate change while Bangladesh emits less than 1% of the greenhouse gases responsible for global climate change.

iv. **Paradigm shift of Bangladesh economy:** As Bangladesh is expected to transform from a low income to middle income nation, purchasing power of people is also expected to rise. By 2040, Bangladesh's gross domestic product will rise as much as to rank the country among the top 30 countries in the world (was 44th in 2020 and will be 28th in 2040). But this overall prosperity is supposed to come alongside growing income inequalities[8]. With a higher income, vast majority of the people will more likely shift their consumption from basic foods to more nutritious choices. Demand for agricultural products in the domestic market will also change along with changes of food preferences. Alongside need for ensuring food security for all will be a challenge.

Challenges of agricultural credit: To keep itself at par with the paradigm shift and achieve the desired growth in the agriculture sector; Bangladesh will have to transform from subsistence farming to commercial farming. The transformation will pose dual challenge for agricultural financing. While the commercial agricultural entrepreneurs will require increased amounts of financing; the subsistence farmers will be forced into an unequal competition with the large farms and will require low cost financing to continue agricultural activities while not falling to disguised unemployment[9] in their farm holdings and incurring losses.

International Fund for Agricultural Development [IFAD] summarizes four challenge factors that may frustrate the development of solid financial services in rural areas. They are:

i) Transaction costs in rural areas are higher than in urban areas due to a more dispersed population with weak infrastructure

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

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[6] Global Trends 2030: Alternative Worlds, National Intelligence Council, USA, https://www.dni.gov/files/documents/GlobalTrends_2030.pdf

[7] Global Trends 2040: Alternative Worlds, National Intelligence Council, USA

[8] Global Trends 2040: Alternative Worlds, National Intelligence Council, USA, https://www.dni.gov/files/ODNI/documents/assessments/GlobalTrends_2040.pdf

[9] Disguised unemployment occurs when productivity is low and too many workers are filling too few jobs. While it does not affect aggregate productivity individual income and wellbeing is suffered.

iii) The financial sector of most developing countries is not sophisticated enough. The availability and innovation on sector-specific financial instruments and services is usually poor. Also, although financial services may be available, they may not be suitable for all types of agricultural activities, which will have diverse needs with respect to timing for disbursements, amounts and risks. For example, in seasonal farming, funding is needed in particular stages of the production process.

iv) The lack of records and statistics on farming in developing countries makes assessment of credit suitability challenging for financial providers. This often changes the conditions required to access financial products and undermines opportunities for profitable investment.

Approaches of Agricultural Credit

Agriculture is not just small farming, rather encompasses a broad range of activities from small-scale farming to infrastructure projects to research and development. Thus, while referring to agricultural finance, one should take into account the multifaceted needs of agriculture. The following four approaches of agricultural financing needs may be seen as guiding principles of agricultural financing both by government as well as by the private sector[10]: (1) Farmers and entrepreneurs, (2) Actors along the value chain (3) Infrastructure and (4) Research. These four approaches are not alternative approaches, rather complementing approaches requiring simultaneous interventions by different actors for keeping the agriculture sector vibrant and worthy of meeting growing challenges.

1. Farmers and small agricultural entrepreneurs: This approach focuses on the actors in the agriculture sector that need financing. Farmers and small entrepreneurs need finance to allow them to expand production and/ or diversify products. This can include, financing for agricultural inputs such as seeds and fertilizers, financing for machinery and equipment, financing for marketing such as: processing, packaging and transport.

2. Actors along the value chain: This is a growingly popular agricultural financing approach that focuses on the links between different actors along a value chain. Agriculture entails a sequence of interlinked activities—transactions—in a chain that starts from the supply of seeds and fertilizers and finishes in the mouth of the consumers (IFAD, 2012). According to this approach financial instruments are specifically designed to strengthen the links between the actors along the value chain.

3. Rural infrastructure: Financing can be also concentrated on the infrastructure needed to carry out agricultural activities. The sector depends heavily on infrastructure such as rural transport systems, irrigation systems, and water supply, sanitation, electricity, storage and telecommunication facilities. These projects are costly and require large amounts of financing. Usually these are financed by the government in developing countries like Bangladesh.

4. Research and Development (R&D): This last approach focuses on financially supporting knowledge generation for the sector. This includes the generation of agricultural technology and new technical knowledge about products, processes and services for the sector. R&D also provides valuable knowledge to help producers prepare business plans for banks or other financial institutions, to support financial planning and credit assessment by financial institutions, and government planning in general.

Need for Agricultural Finance

[10] Marina Ruete, 2015 Investment in Agriculture, Policy Brief#3

Need for agricultural finance may be seen from three perspectives: a) from policy perspectives and b) from the demand side/user's perspective c) from the supply side perspective.

Policy Perspective

i) Food security enhancement
ii) Poverty Reduction
iii) Rural development
iv) Processing Industries
v) To generate economic activity
vi) Employment generation
vii) Modernization of agriculture

Demand side/user's perspective

i) Need of small subsistence level farm
    a. Causes of their constraints, back-locks and challenges
ii) Need of sharecroppers
iii) Large scale agri entrepreneurs
iv) Expansion of existing agri-busuness
v) Actors of agricultural value chain
vi) Research purpose
    a. Research organizations
    b. Pilot projects
vii) Agro-based industries

Food Security: According to the latest definition of Food and Agricultural Organization (FAO), food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life. Household food security is the application of this concept to the family level, with individuals within households as the focus of concern[11]. Globally, it is estimated that between 720 and 811 million people in the world faced hunger in 2020, according to FAO. Food security is always a challenge for a country with large population and relatively small arable land. Still Bangladesh has maintained food security in the recent past thanks to agriculture friendly policies and programs. However, due to some recent global phenomena such as prolonged war, climate change impacts and supply chain disruptions food security management has become more challenging. In such scenario, many countries are focusing more on local agricultural production increase and reducing exports due to fear for possible future food shortage. To manage such volatile food security scenario there is no better alternative than to increase domestic food production. Perspective Plan of Bangladesh 20021-2041 documented by the Government of Bangladesh highlights the need of agricultural credit for desired food production. Therefore the banks in Bangladesh should provide enough attention to provide adequate amount of agricultural credit in line with the Agricultural and Rural Credit Policy and Program of Bangladesh Bank which is circulated annually with necessary revisions at the beginning of each financial year.

Poverty Reduction: With more credit, agricultural activity increases creating increased scope of seasonal employment in agriculture. As income of the rural men and women engaged directly or indirectly in agriculture rises; poverty is reduced. Again, with improved agricultural production, people have to spend less in purchasing agricultural produces which also contributes to increasing disposable income and reduce poverty of the rural population. According to the World Bank, agriculture has played a key role in reducing Bangladesh's poverty from 48.9% in 2000 to 31.5% by 2010 with over 87% of rural people making a part of their income from agricultural activities.[12] Domestic researches find importance of agricultural credit in poverty alleviation. `Does Agricultural Credit Play Any Role in Reducing Rural

[11] https://www.fao.org/3/y4671e/y4671e06.htm
[12] https://www.worldbank.org/en/news/feature/2016/05/17/bangladeshs-agriculture-a-poverty-reducer-in-need-of-modernization

Poverty in Bangladesh', a working paper of Bangladesh Bank published in 2016 finds that, in order to reduce poverty, financial inclusion strategy of the central bank and the government has far-reaching consequences on the rural economy.[13] Still there are scopes for improvement as the World Bank suggests, Bangladesh has great potential to raise agriculture-generated incomes, increase agriculture productivity and make it more resilient to climate change, and improve the nutritional value of crops[14].

Rural development: Around 65% of our population still live in rural areas and rely for their livelihoods on agriculture. Rural development is therefore important and will be more important in future. There is a positive association between agricultural lending and agricultural GDP growth per rural resident. In a study entitled Agricultural Credit and Economic Growth in Rural Areas conducted with data from 1991 to 2010, in the United States finds that there is a positive link between credit and economic growth in rural areas during that period, attributable to the lending by FCS institutions and by commercial banks.[15] Rural development in the future will be synonymous with highly efficient and productive agriculture—the thrust of agriculture sector strategy of PP2041.

Processing Industries: Over the years a number of agricultural products have taken place as backward linkage product for local industries. Corn is used in feed mills; rice bran is used to produce rice bran oil, mango, tomato, etc are used in juice/ketchup making for example. Food processing and packaging industries has also taken quite a sizeable shape in Bangladesh. Apart from processed food such as powdered spices, flour, muri, chira, they package consumable items such as rice, pulse seeds, etc in a processes/cleaned form. Many of such industries depend on bank loans. Therefore, agricultural production is also important to maintain supply in the processing industries.

To generate economic activity: During the global economic crisis in 2008, economic slowdown during covid-19 pandemic; Bangladesh registered better than expected GDP growth. Many researchers think that the success was achieved due to policies that kept agriculture sector vibrant by generating economic activities. In the recent global crisis due to Ukraine war and foreign exchange volatility, agricultural production once again will be one of our dependable resorts to face the challenges.

Employment generation: Employment is defined as persons of working age who were engaged in any activity to produce goods or provide services for pay or profit, whether at work during the reference period or not at work due to temporary absence from a job, or to working-time arrangement. The agriculture sector consists of activities in agriculture, hunting, forestry and fishing. According to the Word Bank, employment in agriculture as percentage of total employment in Bangladesh was around 48% in 2010 and has reached down to around 38% in 2020. Despite the fact that percentage of agricultural employment to total employment is gradually reducing due to increasing agricultural mechanization, reduction of arable land and change of occupation and some other factor; still agriculture employs the largest part of the employable population. Therefore banks should be meticulous in disbursing, monitoring and recovery of agricultural credit as the sector plays a vital role in employment generation.

Modernization of agriculture: Many countries started off poor, and only a handful has achieved high-income status. However, the ones that achieved it started with agriculture and went through an economic transformation that accelerated growth and reduced hunger and under nutrition. For example, China's rapid growth in GDP per capita in current US dollars from $155 to $8,123 between 1978 and 2016 was due to this kind of transformation[16]. Bangladesh is also going through an economic transition. The

[13] https://www.bb.org.bd/pub/research/workingpaper/wp1604.pdf

[14] Bangladesh: Growing the economy through advances in agriculture, 2016, The World bank, https://www.worldbank.org/en/results/2016/10/07

15 V. Hartarska, D. Nadolnyak and X. Shen, Agricultural credit and economic growth in rural areas, published in Emereld Insight, Vol75, read from issue 3 < https://www.emerald.com/insight/content/doi/10.1108/AFR-04-2015-0018/full/html>

[16] https://www.ifpri.org/blog/agriculture-key-economic-transformation-food-security-and-nutrition

country has already met all conditions and is in the process of getting uplifted from LDC status and is eying to become a middle income nation by year 2041. Successful modernization of agriculture prepares conditions for industrialization by boosting labor productivity, increasing agricultural surplus to accumulate capital, and increasing foreign exchange through exports.

Demand Side/User's perspective

Need of subsistence level farms: Despite advancements in commercial farming; agriculture in Bangladesh is still predominantly dependent on traditional subsistence level farming. A major distinction between traditional and developed agriculture is the kind and amount of capital used by farmers in the production process. Modern agriculture requires more capital in the form of simple machines, improved seeds, fertilizer, herbicides and pesticides. There are three ways of getting finance for inputs for increased agricultural production. These are capital, savings and credit. But due to the scarcity of capital the subsistence level farmers do not have capital for such inputs. Similarly, because their production is low, their Marginal Propensity to Consume (MPC)[17] is high, while their Marginal Propensity to Save (MPS)[18] is low. Since savings is low, they cannot get finance for increased agricultural output through savings. The only alternative left is credit. Even this credit alternative has many bottlenecks that make it become difficult for the poor farmers to access.

Need of sharecroppers: Landless farmers (according to the ACP of BB landless are those having less than or equal to 0.494 acres of land) have to depend mostly on sharecropping. A significant number of farmers in Bangladesh are sharecroppers. Despite having the potential to contribute more to the development of the agricultural sector of the country sharecroppers often face barriers like inadequate lands, insufficient agricultural equipments and technology. Sharecroppers face the challenge of procuring agricultural inputs as they are often not welcomed in the traditional commercial banks. To overcome this problem, Bangladesh Bank introduced a new refinance scheme in FY2010 for the sharecroppers to be disbursed on easy conditions and without collateral through an MFI namely, BRAC. BB sanctioned an amount of TK 5.0 billion to implement this credit program for sharecroppers through BRAC. The refinance scheme continued till 2018 and BRAC is still continuing the program. However, banks need to come forward with special program for sharecroppers. They may also provide finance to the sharecroppers through MFI linkages.

Need of large scale agri-entrepreneurs: Large scale agricultural entrepreneurs such as large farmers who produce high value crops and non-crop such as fisheries and livestock on commercial basis often needs large amount of banks loans. On the other hand there are many agro-processing industries that need to use quality agricultural produced in bulk amount. In addition to providing funds to agro-based industries (not treated as agricultural credit as per policy); Banks may provide credit to the farmer/entrepreneur engaged in contract farming (treated as agricultural credit as per ACP of Bangladesh Bank) in order to ensure timely supply of quality raw materials to the producers of juice, chips, chanachur, poultry feed, cattle feed, fish feed, etc . Banks may also provide agricultural credit to large entrepreneurs beyond amounts set in ACP of Bangladesh Bank according to their own policy.

Expansion of existing agri-business by successful agri-entrepreneurs: Many young agricultural entrepreneurs are coming forward with new agricultural initiatives and many of them are becoming successful with the technical support and training from the Department of Agricultural Extension (DAE) of

[17] Marginal Propensity to Consume (MPC) is the proportion of an increase in income that gets spent on consumption. Individuals have the propensity to consume more when their income increases. However, MPC varies by income level. MPC is typically lower at higher incomes.

[18] The marginal propensity to save (MPS) refers to the proportion of an aggregate raise in income that a consumer saves rather than spends on the consumption of goods and services. MPS is calculated as the change in savings divided by the change in income.

the government. Agricultural Credit Policy of Bangladesh Bank encourages banks to support such agri entrepreneurs of sufficient funding as demonstration effect may help create more successful agri entrepreneurs. Banks may collect list of successful agri-entrepreneurs from the DAE.

Need for the actors of agricultural value chain: The term “value chain finance” refers to the flows of funds to and among the various links within a value chain[19]. Value chain finance offers an opportunity to expand financing for agriculture, improve efficiency and repayments in financing, and strengthen or consolidate linkages among participants in value chains. It can improve quality and efficiency in financing agricultural chains by: identifying the financing needed to strengthen the chain, tailoring financial products to suit the needs of the participants in the chain; reducing financial transaction costs through the direct discounting of loan payments at the time of product sale; and using value chain linkages and knowledge of the chain to mitigate risks to the chain and its partner.

Research purpose: There is no alternative to research to increase agricultural productivity by way of developing high yielding variety (HYV), climate resilient variety (CRV), etc. Government generally undertakes the responsibility of funding for scientific research through organizations such as Bangladesh Agricultural Research Institute (BARC), Bangladesh Rice Research Institute (BRRI), Bangladesh Agricultural Research Council (BARC). Banks can also provide financing on some research based pilot projects for enhancing future food security. It may be mentioned here, an illiterate but skilled farmer, Haripada Kapali produced a rice cultivar ‘haridhan’ named after him in 1992[20]. The cultivar is very similar to BR 11, a high yield variety invented by the Bangladesh Rice Research Institute (BRRI), but is slightly higher in plant length and gives a higher yield. With bank loans many innovative farmers who are spread throughout the country will be encouraged and many new varieties may come up.

Agro-based industries: Because agro-based industries require agricultural products, financing to agro based industries indirectly promotes agriculture. Bangladesh Bank encourages banks to finance in agro-based industries through refinance programs. However, it is to be remembered that loans provided to agro-based industries will not be eligible to be reported as agricultural credit, according to Bangladesh Bank. While some countries may consider agro-based financing as agricultural financing, Bangladesh not considering the same may be explained by the fact that the mandatory agricultural credit target by Banks in Bangladesh is as low as 2.5% of their total loan portfolio.

Some takeaway points of this chapter:

- It is estimated that only around 25 percent total disbursement of rural credit is delivered by the public sector. The remaining 75% has been delivered by micro-finance institutions (MFIs).
- Agricultural Credit bears the inherent risk of agriculture as it depends much upon the favour of nature. Moreover, the demand for agricultural product rises less rapidly than the industrial sector. Still agricultural sector requires more funding because the aim of agriculture is not always making profit; it is often a way of life and is related to food security.
- Farmers having less than 0.494 acres of land are to be considered as landless. Landless farmers are mostly sharecroppers; and they lack capital for farming. Agri-credit may be disbursed to them directly or through MFI linkage.
- Farmers and entrepreneurs, actors along the value chain, rural infrastructure and Research needs funding from appropriate sources for holistic rural and agricultural development.
- With more credit, agricultural activity also increases creating increased scope of seasonal employment in agriculture. As income of the rural men and women engaged directly or indirectly

[19] C. Miller, Agricultural Value Chain Finance Strategy and Design, IFAD seen from < https://www.ifad.org/documents/38714170/39144386/Agricultural+value+chain+finance+strategy+and+design.pdf/1ae68ed6-4c3c-44f4-8958-436e469553bb>

[20] https://archive.dhakatribune.com/bangladesh/agriculture/2017/07/06/haridhan-inventor-dies

in agriculture rises; poverty is reduced. Again, with improved agricultural production, people have to spend less in purchasing agricultural produces which also contributes to increasing disposable income and reduce poverty of the rural population.

Supply side perspective

Agricultural credit suppliers in Bangladesh may be classifies as i) institutional and ii) on-institutional sources. While non institutional sources of agricultural credit such as local money lenders, local shops, friends and family members also play an important part in agricultural financing. But they only fulfill the gap of demand and supply of agricultural credit offered formal financing institutes and are often exploitive in nature due to irrationally high interest rates. Formal source of financing includes state owned specialized banks for agriculture (BKB and RAKUB), other state owned banks (Sonali, Janata, Agrani and Rupali), privately owned banks and microfinance institutes (MFIs). While NGO/MFIs were treated as informal source of financing as they were not regulated. As long as the Micro Credit Regulatory Authority came into place in 2006 and are licensing and regulating the MFIs; they are now treated as formal source of financing.

Banks and other financial intermediaries are supposed to earn profit and therefore try to avoid financing that bears more risks than their appetite. For this reason, and also due to high cost of supervision, many banks do not feel comfortable with direct delivery of agricultural credit through their branches. While most banks in Bangladesh are disbursing agricultural credit due to the mandatory agricultural credit disbursement policy (2.5% of the total loan portfolio) of Bangladesh Bank, the central bank of the country; the banks must recognize that a decrease in agricultural credit supply will cause decline in agricultural production which will result in decrease in the banks' overall businesses in the agro-based industries.

While the present interest rate ceiling (8%) might act as a disincentive for banks in agricultural finance; the interest rate is still competitive when compared with the interest rate ceiling for other sectors (9%). Despite the fact that there are demands from many sided regarding reconsideration about dictated rate and implement market driven interest rate policy; the government and the central bank are often forced to implement dictated interest rate due to imperfect completion and market distortions.

The supply side actors of agricultural credit may be benefitted more is a comprehensive agricultural insurance system is in place. A number of pilot projects regarding crop insurance have been implemented so far; the results of those however have been mixed.

Recently the banks in Bangladesh are resorting to innovative measures and channels for financing in the agricultural sector. While many banks are using MFI linkage for agricultural credit delivery; there is scope of caution to avoid overexposure in a small number of MFIs for it might increase credit risk further. Credit disbursement using mobile financial services is currently being piloted jointly by a private bank and the leading MFS in the country namely Bkash. With technological innovations and risk reduction steps more banks should come up in agricultural financing in the near future with increased amount of financing.

Related Discussion: Climate Smart Agriculture

The last century saw a consistent growth in agricultural production thanks to technological developments in agriculture, growing cultivation of high yielding variety and increased crop intensity. However, recently the agricultural commodity production growth has become relatively flat due to saturation in productivity and reduction of arable lands to house increased population. Moreover, decline in land fertility, salinity intrusion in the coastal areas and other climate change impacts are negatively affecting global productivity. On the other side, factors such as population growth, changing in diets due to rising income and rapid urbanization has driven up demand for food over the last few years. A 2020 report of Food and Agricultural Organization found that nearly 690 million people—or 8.9 percent of the global population—

are hungry, up by nearly 60 million in five years. In 2019, close to 750 million – or nearly one in ten people in the world – were exposed to severe levels of food insecurity[21].

The world will need to produce about 70 percent more food by 2050 to feed an estimated 9 billion people.[22] The challenge is intensified by agriculture's extreme vulnerability to climate change. The negative impacts of climate change are already being felt in many countries including Bangladesh. Bangladesh saw two extreme opposites, in 2022. The extreme flooding in Sylhet region during June 2022 broke all records in over 100 years. On the opposite side July, 2022 saw a record low rainfall in Bangladesh in last 41 years[23]

The Climate Change Action Plan is built on six pillars: 1) food security, social protection and health; 2) comprehensive disaster management; 3) infrastructure; 4) research and knowledge management; 5) mitigation and low carbon development; and 6) capacity building and institutional strengthening.

On farms, climate change is reducing crop yields, the nutritional quality of major cereals, and lowering livestock productivity. Substantial investments in adaptation will be required to maintain current yields and to achieve production and food quality increases to meet demand, the World Bank suggests[24]. To increase the woe for agrarian economies agriculture is now considered a major part of the climate problem as the sector generates 19–29% of total greenhouse gas (GHG) emissions[25]. Without action, that percentage could rise substantially as other sectors reduce their emissions. Additionally, one third of food produced globally is either lost or wasted. Addressing food loss and waste is critical to helping meet climate goals and reduce stress on the environment.

Climate-smart agriculture (CSA) is recently being discussed in different levels by different development actors including the World Bank. The main focus of climate smart agriculture is to increase agricultural production while enhancing resilience of the agricultural system and reduce emissions in agriculture.

1. Increased productivity: Produce more and better food to improve nutrition security and boost incomes, especially of 75 percent of the world's poor who live in rural areas and mainly rely on agriculture for their livelihoods.

2. Enhanced resilience: Reduce vulnerability to drought, pests, diseases and other climate-related risks and shocks; and improve capacity to adapt and grow in the face of longer-term stresses like shortened seasons and erratic weather patterns.

3. Reduced emissions: Pursue lower emissions for each calorie or kilo of food produced, avoid deforestation from agriculture and identify ways to absorb carbon out of the atmosphere.

In Bangladesh, the world Bank has undertaken a project that aims to boost the resilience of livestock farmers by improving animal health and addressing climate mitigation by improving emissions intensity and improving production efficiency, including improvements in feeding strategies, animal health, breeding, manure and waste management, as well as low-emission technologies for activities such as milk chilling and transport.

[21] https://www.fao.org/3/ca9692en/online/ca9692en.html#chapter-Key_message
[22] https://www.fao.org/3/ca9692en/online/ca9692en.html#chapter-Key_message
[23] https://www.thedailystar.net/environment/climate-crisis/natural-disaster/news/bangladesh-sees-lowest-july-rain-41-years-3085361
[24] https://www.worldbank.org/en/news/feature/2019/04/29/social-safety-nets-in-bangladesh-help-reduce-poverty-and-improve-human-capital
[25] https://www.worldbank.org/en/news/feature/2019/04/29/social-safety-nets-in-bangladesh-help-reduce-poverty-and-improve-human-capital

SECTION TWO

INSTITUTIONAL AND NON-INSTITUTIONAL SOURCES OF AGRICULTURAL CREDIT

Credit plays an important role in the development of agriculture and it is believed that expansion of credit programs will have beneficial effects on agricultural production and income of small farmers and traders. It is also a key to the alleviation of poverty, diversification of livelihood and increasing the business skills of small farmers and traders.

Many farmers in Bangladesh cannot afford capital on their own to finance their agricultural inputs such as: tractor, irrigation equipments, seeds, fertilizer, etc due to their low income and low saving and seasonal unemployment. Farmers who already have access to banks and are maintaining a good repayment records may avail of agricultural credit from banks. But farmers who never availed agricultural credit may face some difficulty in getting agricultural finance due to lack of collateral and lengthy procedures; despite many initiatives by Bangladesh Bank for simplification and credit procedures and discouraging collaterals for credit to small farm holdings. Some of the farmers access credit from microfinance institution representatives visiting their households' at a higher interest rate than traditional banks but with lesser paperwork. The rest of the farmers have to borrow from their family members, relatives, friends, local shops, traditional money lenders, etc. While informal source of finance is usually most costly, except for those from family members.

Agricultural credit sources are shown in the following chart:

Sources of Agricultural credit	Institutional	Banks	Specialized banks
			State owned commercial banks
			Private banks
			Foreign banks
		MFIs	Registered under MRA
		Cooperatives	Samabay Bank Ltd
		Others	Grameen Bank
	Non Institutional	Interest-free	Friends
			Relatives
		Interest bearing	Rural business persons
			Money lenders
			Rich farmers
		Mixed	Agri input supplier shops

Advantages of Non-institutional Credit in Agricultural Sector: While non institutional sources of agricultural credit are generally regarded as exploitive, they often comes as last resort for the poor farmers. Speed and ease of informal sources of credit often overweighs the cost for farmers (at least in the short run) in meeting emergency fund requirement for farm as well as for household consumption. Salient features highlighting the advantages of non-institutional sources of agricultural finance are mentioned below:

a. Non institutional credit sources in the rural credit market (such as rural business persons, local shop owners, sellers of agricultural inputs, money lenders, relatives, etc) and the local farmers usually know each other. They also know each others' residence and/or business address. Therefore, the loan provides feels more comfortable in giving loan.

b. The farmers do not have to face cumbersome official procedures in receiving non-institutional finance. Therefore no institutional credit procedure is quick and usually has no hidden cost.

c. Due to the paper works in traditional banking system, the farmers often have to take help of third party in filling up the forms and other paper works. Sometimes the third parties extort extra money from the poor farmers. In non institutional credit there is no such scope.

d. Non institutional credit most often requires no collateral. Therefore, farmers often feel comfortable with non institutional credit despite higher interest rate.

e. Sources such as friends and relatives may provide loan without interest. There is no scope of interest free loan in banks and other players in the institutional credit system.

f. Despite the absence of collateral or paper works the non institutional credit is generally highly supervised. Therefore, the rate of recovery is high in non- institutional credit system.

g. Non-institutional source of credit is given mainly to the person as opposed to purpose in case of institutional source. Therefore, the farmers have the liberty to use the credit using own prudence.

Disadvantages of Non-Institutional Sources of Agricultural Credit: Despite some apparent short term benefits of non-institutional credit; they cannot help farmers in long run due to its generally exploitive nature. Researches find that during 1988, about 14.6% household used to borrow from moneylenders and about 39% of the total rural credit were supplied by moneylenders. Due to the increased financial inclusion in the next 30 years; in 2008 only 4.9% of the households borrowed from moneylenders and money lenders used to supply about 14.8%[26] of the rural credit; which is still very high. While this improvement is due to a great extent to the NGO/MFIs it also tells that with a cheaper and timely availability of formal financing people do not opt for non-institutional financing highlighting the fact that disadvantages of non-institutional source of funds, especially from money lenders overweighs benefits in the long run. Salient features of disadvantages of non-institutional credit are briefly mentioned below:

a. The demand of agricultural and rural credit is often created in a highly concentrated manner, meaning a large number of farmers need the credit; and almost all of them need the money immediately. Moreover, many farmers do not have the capacity to give pawn/collateral. Therefore the money lenders generally charge a very high interest and bind the borrowers with a tight schedule of repayment along with stringent terms.

b. Agricultural credit that comes from informal source is often small in size. With this small amount, it is often possible to buy some agricultural inputs such as seeds, fertilizer, pesticides, etc but using the non institutional credit in the long term does not remain profitable for the farmers. With such credit they cannot make as much sufficient profit enough for accumulating his own capital after paying the loan with principal along with interest.

c. The terms and conditions of non-institutional credit are very stringent in general. There is usually no such scope of rescheduling in case of failure of production.

d. While repayments are highly supervised; there is no hard and fast purpose of loans from non-institutional sources. The farmers may use it for consumption or in non-productive purposes. Improper utilization credits from non-institutional sources have a tendency to making the poor borrower poorer.

e. Due to the monopolistic nature of the non institutional rural credit market there is often scope and practice of differences in terms and conditions including interest rates among farmers. Farmers in dire need of money are often charged with the highest interest rate while another farmer having a good relation with the money lender may get loan at a comparatively lower rate. Given, both

[26] Hossain and Bayes (2010) as quoted in Institutionalizing Microfinance in Bangladesh by Lila Rashid

farmers belong in the same small local market; the price discrimination poses the poor farmer to tougher competition due market distortion caused by improper interest rate policy by the informal money lender.

f. Overall, the disadvantages of non-institutional credit greatly overweigh benefits. Therefore, the non-institutional credit sources cannot contribute to developing the rural economy and instead acts like a poverty trap that tends to making the borrowers ever depended on high interest bearing loans which clutches them towards poverty.

Case Study: 1
Young man commits suicide after moneylenders presses for 6 lakh taka against a borrowed sum of only one lakh.
[Published by Perothom Alo online on August 19, 2022, Viewed on 20/8/2022]

Faisal Ahmed Sourav (25) borrowed taka 100,000 taka in interest from a local moneylender to do business in Sunamganj. It was three years ago. By this time, he already paid back taka 300,000 to the moneylender. But due to the pressure of asking for more money, Faisal committed suicide by posting a suicide note on Facebook. The incident took place in Patari village of Balijuri union in Tahirpur upazila of Sunamganj. The body of the person was found hanging from a banyan tree in the village last Thursday night.

Earlier, Faisal made a post on his Facebook account around 7 pm yesterday; where he wrote, 'I for you Rafiq's and Shafiq. Stay safe Beiman. I took one lakh taka on interest from Safiq, even after paying three lakh taka, he still demand three and a half lakh taka more. I committed suicide for this Rafiq and Safiq. Everyone started looking for Faisal after seeing his Facebook post in the evening. Later, around 8:30 pm, his body was found hanging from a banyan tree on the west side of the village.

According to family sources, Faisal Ahmad used to trade in sand and stone. Three years ago, Safiq Mia (38) of Anwarpur village of the same union of the upazila brought one lakh taka as interest. So far he has paid back three lakh. Safiq claims that he has to pay another three and a half lakh taka. He was getting threat from Faisal for this. Rafiq Mia (45) lives in Nurpur village of Badaghat union of the same upazila. Faisal had business dealings with him. Yesterday Safiq and Rafiq together with some others pressured Faisal for money. Azizur Rahman, Faisal's father, said, "Safiq used to press Faisal for money even after giving him three lakh taka for one lakh taka." Threatened in various ways. My son committed suicide under the pressure of Safiq and Rafiq. We will file a case against them.

Local UP member Ali Newaz said, "Faisal was a very good boy." He did not tell the family about the money. Unable to bear the pressure of money, he chose suicide. Inspector (Investigation) of Tahirpur police station Sohel Rana said in this regard, Faisal Ahmed's family is preparing to file a case with the police station. Legal action will be taken if complaints are received. Postmortem of the body has been completed. [Source: https://www.prothomalo.com/bangladesh/district/tqc827wud0, Published online on August 19, 2022, Viewed on 20/8/2022]

Institutional Source:
Banks: Six state owned banks, two state-owned specialized banks, 43 private commercial banks and 9 foreign banks are engaged in agricultural credit program. According to the existing policy, as of end July 2022 every banks has to declare agricultural credit target and disburse accordingly either directly through their branch network or through MFI linkages of both. In addition, a total of 759 microfinance institution licensed under the Microcredit Regulatory Authority (MRA), and five nonscheduled banks including Grameen Bank are also providing agricultural and rural credit.

Advantages of Institutional Credit: Despite the reducing contribution to agriculture in gross domestic product (GDP) due to rising contribution of other sectors; agriculture is still the single most important contributor to GDP for Bangladesh. Institutional agricultural credit is positively correlated to agricultural production.[27] Rise in agricultural credit from institutional sources increases agricultural production. The salient features of advantages of institutional credit in agricultural and rural sector are mentioned below:

a. The demand of agricultural and rural credit is often created in a highly concentrated manner, meaning a large number of farmers need the credit; and almost all of them need the money immediately. The banks have the capacity to give large amount of credit to a large group of people.

b. Many farmers do not have the capacity to give pawn/collateral. According to the Agricultural and Rural Credit Policy of Bangladesh Bank, farmers are eligible to receive agricultural credit without traditional collateral only against crop hypothecation and personal guarantee.

c. Interest rate is low; schedule of repayment is also more flexible compared to non institutional sources.

d. Agricultural credit that comes from formal source is customized according to needs. Banks have the scope to disburse agricultural credit following the credit norms annexed with the ACP and updated time to time by Bangladesh Bank in collaboration with the ministry of Agriculture. Therefore it is generally sufficient for buying agricultural inputs such as seeds, fertilizer, pesticides, etc.

e. Using the institutional credit in the long run is profitable for the farmers. Given that the weather is in favor of the crops and the farmers get fair price of the agricultural produces; with the support of agricultural credit farmers can generate profit enough for accumulating own capital after paying the loan with principal along with interest.

f. The terms and conditions of institutional credit are not stringent in general. There is usually scope of rescheduling in case of failure of production.

g. As agricultural credit is disbursed by banks according to the crop calendar and credit norms; with proper supervision, chances credit of utilization in appropriate purpose is also higher. With proper investments in agriculture, the credit can boost up the economic activity along with increased agricultural production.

h. Institutional rural and agricultural credit is more or less formatted. Therefore, the interest rates and terms and conditions are same for same type of farmers. So there is little scope of distortion and discrimination.

Disadvantages of agricultural credit from institutional sources: While advantages overweigh limitations to a great extent for agricultural/rural credit; recognizing the limitation can help the policy makers and actors concerned in overcoming those limitations. Short comings of institutional finance are discussed below:

a. Getting loan from institutional source such as banks requires time. According to the Agricultural and Rural Credit Policy of Bangladesh Bank, maximum time that a bank can take upto 10 working days for processing a loan application in agricultural purpose. However, banks sometimes take more time than that due to insufficient papers submitted by applicant.

b. Farmers often go to the bank when he needs credit within a short period of time. Due to some centralized system and prescribed procedures banks usually cannot process loan application fast enough to meeting the need of the farmers.

[27] https://core.ac.uk/download/pdf/6613921.pdf

c. Banks need a written loan application with sufficient information, usually in a prescribed form, along with some other documents for further processing of the application. Many farmers are not literate enough to be able to fill in those forms. For many farmers it is time consuming and cumbersome.

d. Though interest rate is generally significantly low in institutional sources compared to non institutional sources it often has some related costs. The farmer has to pay on his own for the transportation cost to and from the bank. Often the farmer has to visit the bank branch a number of times and have to wait for long hours. The cost of transportation and the cost of daily labour adds up to the cost of credit making it expensive for the small farmers despite low interest rates

e. The institutional sources of agricultural/rural credit provide loan for specific purposes of agriculture/income generating activities. In reality, farmers need loan for consumption in case of loss of production. Farmers also need money for consumption during and after natural calamities. The institutional sources have little or no scope to provide loan for consumption purpose of the farmers. From this perspective the scope of agricultural/rural credit is to some extent narrow. Therefore the farmers who receive agricultural credit from banks may also have to take loan from non institutional sources.

Status of institutional sources of agricultural finance: Number of bank branches against each hundred thousand of adult population is a good measure to understand the accessibility of institutional finance. According to an analysis using IMF data updated till year 2019, it is observed that Bangladesh ranks 102nd among 146 countries with 9 bank branches for each hundred thousand people; lying behind most neighboring countries including India (14.58), Pakistan (10.41), Nepal (17.79), Bhutan (19.31), Maldives (13.87) and Indonesia (15.64).[28] The number of bank branches as on 30 June 2022 stood at 10,980 out of which 5243 branches are located in the rural areas and 5737 branches are located in urban areas.[29] While this latest data confirms that Bangladesh has made slight improvement in population to bank branch ratio with over 10 branches per one hundred thousand adult populations, the ratio is still poor for agriculture dependent non-urban community; given that only 47% branches are located in rural areas where around 65% of the population live.

Agricultural Credit Provided by Banks: In 2021-2022 financial year a total of 28,834.21 crore or 255.2 billion taka were disbursed by banks in the agricultural sector which was 13.03% higher than the amount disbursed in the previous year. In addition to that Bangladesh Rural Development Board (BRDB) also disbursed agricultural credit amounting 1119.17 crore taka in the same financial year.

Salient features of agricultural credit through banks in a recent year (FY 2020-2021) are mentioned below:

- Over 9.9 million bank accounts opened by farmers by depositing by taka 10 each are operating in different banks. Through these accounts the farmers can receive agricultural credit.
- In FY 2021-22, over 3.3 million farmers engaged in farming and agricultural/rural income generating activities received agricultural credit from banks and through MFI linkages, among them nearly 2.5 million were small and marginalized people.
- In open agricultural credit disbursement ceremonies more than 1.31 lakh farmers received a total of 847.50 crore taka agri credit.
- Taka 151.17 crore were disbursed at subsidized 4% interest rate for cultivating specific import substitute produces such as: spices, oil seeds, pulse and maize.
- Taka 108.25 crore were disbursed among 22176 farmers at 5% interest rate in the three hill track districts in the agricultural production sector
- Taka 15.59 crore were disbursed among 4073 farmers in the Char, Haor, etc under developed areas.

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[28] https://www.theglobaleconomy.com/rankings/bank_branches/

[29] Bangladesh Bank Annual Report & Bangladesh Bank Statistics Department

Institutional Credit through MFIs: Micro Finance Organizations (MFIs) have been playing a significant role in institutionalizing microcredit and working to develop an inclusive financial system in the rural economy. The activities of the MFIs regulated by the Microcredit Regulatory Authority (MRA) along with the activities of the Grameen Bank have been contributing to keeping the rural economy vibrant by providing loans to the poor unbanked people. A major portion of credit disbursed by the MFIs is utilized for agriculture and income generating activities.

Available information suggest that Grameen Bank and five other large MFIs namely the BRAC, ASA, Proshika, TMSS and BURO Bangladesh have disbursed a total of BDT 1038.18 billion and their recovery stood at BDT 1042.26 billion in FY21. Total outstanding loans and overdue loans were BDT 701.42 billion and 32.92 billion respectively in FY21 which were BDT 715.91 and BDT 17.17 billion respectively in FY20. In FY21, total overdue loans as percentage of total outstanding loans of these large MFIs have significantly increased from 2.40 percent in FY20 to 4.69 percent in FY21 due mainly to the pandemic situation of COVID-19.

MFI Credit through Bank-MFI Linkage under Agri/rural credit Policy by BB: All scheduled banks including the private and foreign banks operating in Bangladesh have been brought under the Agricultural Credit Program since the FY 2008-2009. Now each bank must disburse at least 2.5% of their total loan portfolio to agricultural sector. Banks, having inadequate branches in rural areas, may conduct the agri-credit operations in partnership with the Micro Finance Institutions (MFIs) licensed by Micro Credit Regulatory Authority (MRA) under the following terms and conditions:

a) The Banks disbursing agri-credit through partnership with MFIs partially or fully have to ensure that the loans are being disbursed at the grassroots level. Concerned Banks and MFIs must have well defined work plan and monitoring system in place. However, the concerned Bank shall be responsible for submitting all required information and statements to Bangladesh Bank.

b) The Banks may consider the credit line to the MFIs on the basis of a credit proposal submitted by them specifying the amount of loan, probable size of each loan at borrower level, number of borrowers, tenure, sector/sub-sector, applicable rate of interest at borrower level, project area (district/upazilla) etc. and shall be incorporated clearly in the corresponding sanction advice /loan agreement.

c) Upon releasing the first installment of loan by the banks, MFIs have to submit a detailed information of financing containing the number of borrowers, tenure, sector/sub-sector, applicable interest rate at borrower level, project zone (district/upazilla) etc to the respective banks and at the time of releasing subsequent installments they have to submit a certificate on each occasion mentioning that previous loan has been used in agricultural and rural income generation activities properly.

d) Under the Bank-MFI partnership, the fund released by the bank to the MFIs is treated as Agricultural and Rural Credit Policy by Bangladesh Bank only after the disbursement of the fund to the farmers/borrowers level.

e) The banks, disbursing the agri/rural credit through MFIs partially or fully, has to ensure disbursement of 60% of target amount as crop loan as per policy guidelines. For the purpose, the MFIs have to disburse crop loan along with the income generating activities.

Impact of Bank-MFI Linkage: The decision of Bangladesh Bank about bringing all banks under agricultural credit program and allowing banks to provide agricultural credit through MFI linkage has been a ground breaking initiative in the field of agricultural/rural finance in Bangladesh. Before this initiative agricultural credit disbursement growth were rather flat. In FY 2005, 2006 and 2007 a total of Taka 49.57 billion 54.96 billion and 52.9 billion respectively were disbursed by all banks for the agriculture sector, which clearly indicates that lending to agriculture and rural finance had been a less preferred sector for banks. Within next few years agricultural credit disbursement more than doubled from 52.9 billion in FY 2010 to reaching 111.17 billion thanks to increased participation by the private sectors banks. In FY 2021-22 over taka 108.29 billion were disbursed for agricultural and rural income generating activities through the bank-MFI linkage alone taking the total agricultural/rural credit by the banking sector to taka 288.34 billion.

Case Study: 2
Cattle farming in haor, profitable but lacks institutional finance
[Adapted from: The Daily Star, on 03/8/2021]

A number of seasonal cattle farms have sprung up at villages found in Sylhet's haor areas thanks to the availability of naturally-grown grass in the region, providing a much-needed alternative to paddy cultivation. "Since the land in haor areas is only suitable for growing paddy, I had previously relied on boro farming," said Masum Mia, a seasonal cattle trader based at the Kazirbazar cattle market in Sylhet. "But every time April rolled around, I would spend sleepless nights wondering if the rain would spoil my crops," he told The Daily Star.

Although the domestic demand for small-and-medium sized cattle is high, farmers have been unable to institutionalise this initiative due the lack of easy access to financing. Mia turned to cattle farming following successive disasters in 2016 and 2017, when all his crops were washed away by floods. "Now, the risk is relatively low and I benefit as a result. This job gives me new hopes," he said, adding that the demand for cattle is particularly high in the lead up to Eid-ul-Azha. Other than cows and goats, buffaloes are also in high demand in local markets, especially in the Bangla months of Baishakh and Jaishtha, when wholesalers from all over the country visit Sylhet's haor areas to purchase cattle.

During a recent visit to the Kawadighi, Kanikiari, Subidpur, and Kubjar haor areas in Sylhet's Moulvibazar district, this correspondent found that a considerable number of farmers have turned to cattle rearing on their own initiative. According to local sources, the haor farmers buy cattle in the December-January period and raise them organically by allowing them to graze freely till about June each year. Many farmers said they could not increase the number of cattle at their farms due to a shortage of capital. Solman Mia, a resident of Kadipur area in Hakaluki Haor of Moulvibazar district, said cattle farms are dependent on the natural grass at haors that makes the cost of raising cattle in these areas comparatively less. "More profits are being made in less time at lower costs. As a result, many people in the region are becoming interested in seasonal cattle farming," he added.

Shamsul Haque, a resident of Kawadeghi Haor, said he takes loans from affluent personalities under special arrangements due to the lack of access to finance. "In that case, 50 per cent of the profit has to be paid. For example, if I took a loan of Tk 1 lakh last year to buy a cow that I will sell for Tk 1.5 lakh the following Eid, then I will have to pay a total of Tk 1.25 lakh to the person owed," he said. Khairul Islam, another resident of Kawadeghi Haor, said he had gone to Sonali, Krishi and Janata bank branches in Rajnagar upazila for a small loan. "But the officials concerned of Janata Bank did not pay attention to us. Sonali Bank could not provide the loan either while Krishi Bank welcomed the initiative but only assured cooperation," he added.

Many people, including Shamsul Mia and Helal Mia of Rajnagar upazila, said seasonal farms have become a good business in the area over several years. In this case, this business would have become more popular if it had received financial benefits from the government or banks. AB Mia (not real name), manager of the Janata Bank branch in Rajnagar, said loans were being disbursed as per the rules and that only those without collateral face issues. [Adapted from: The Daily Star, 03/8/2021][30]

[30] https://www.thedailystar.net/business/economy/news/cattle-farming-new-hope-haor-people-2143526

SECTION THREE

TYPES OF AGRI-FINANCE, CROP AND NON-CROP

Types of agricultural credit may be defined differently from different perspectives. It may be differentiated based on tenure of credit, purpose of credit viz. production/consumption or based on sector where the credit will be utilized.

Three types of credit are usually required by farmers based on tenure to continue and expedite agricultural activities:

a) **Short term agricultural credit:** Any loan having the tenure of less than one year is treated as short term loan. Farmers usually need short term loan for 6 months to one year. Farmers in our country generally procure agricultural inputs such as seeds, fertilizer, pesticides, etc with short term loan. Sometimes they use short term loan for paying rent and government taxes (khajna) for their agricultural land.

   The farmers also require short term agricultural credit to meet the working capital expenses of livestock farm, poultry farm, fish farm, etc.

b) **Medium term loan:** Medium term loans have tenures over one year upto maximum three years. Farmers usually require mid-term loans for purchasing agricultural machineries such as tractors, irrigation equipments, etc.

c) **Long term loan:** Loans having tenure over three years are considered as long term loans. Long term loans are usually required by commercial agricultural projects. Farmers may require long term credit for land-filling, desalinization of land, etc[31].

Farmers receive formal and informal credit for spending in different purposes. The purposes may be categorized into following three groups:

a) **Loans spent in productive sector:** Credit that the farmer used for agricultural production or other income generating activities are considered as loans used in productive sector. The loans that are used to purchase agricultural inputs such as seeds, fertilizer, pesticides, tractors, irrigation equipments, etc. are considered to have been spent in productive sector.

b) **Loans spent in non productive sector:** Though loan for unproductive sector is not a defined purpose; in reality farmers sometimes receive loan for agricultural purpose but the fund is spent in several non productive purposes such as meeting the expenses of marriage, eid celebration, repaying another loan, etc. Once the loan is spent in non productive sector it becomes a burden for the farmer.

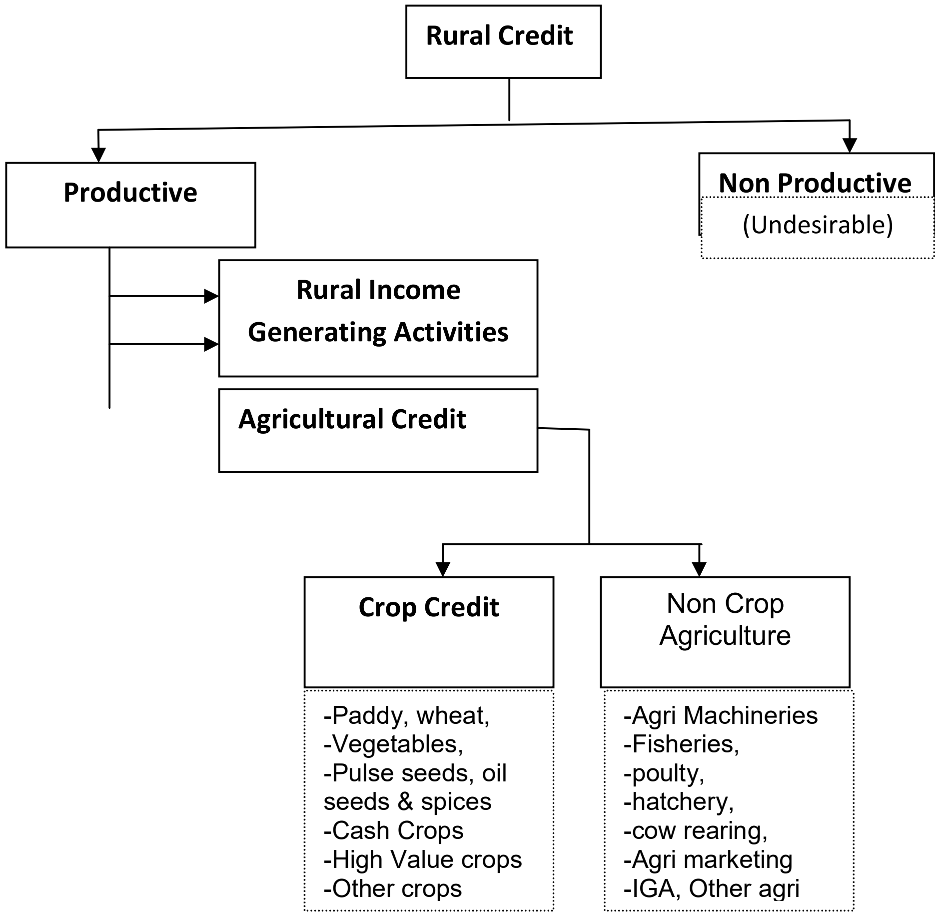
c) **Loans used for consumption:** Agricultural production largely depends upon the favour of nature. Sometimes the whole farm yield is destroyed by the wrath of nature such as long standing floods and drought. Often excessive rainfall, late rain fall, hail storm, etc negatively affect the productivity. In such scenarios the affected farmers have no other alternative but depending upon loan for consumption of the family until the next harvest season.

Loans for unproductive sector and for consumption are often taken from non institutional sources. The farmers have to bear the burden of high interest rate and other stringent terms. Thus loans in non-

[31] A Rahman and S Rahman, Krishi o Grameen Orthaniti

productive sector or for consumption become burden for the farmers and they cannot come out of the poverty trap.

CROP and NON CROP



Agricultural finance by banks and MFIs using funds from banks are guided by Agricultural and Rural Credit Policy and Program circulated annually by Bangladesh Bank with necessary updates. Agricultural credit is divided mainly in two parts: crop and non crop.

Crop: Crop includes a wide variety of cultivated plants that are grown worldwide commercially and for subsistence. Crops are most important agricultural produces for Bangladesh considering food security and economic development. In developing countries, maize, rice, and wheat together provide 48% of the total calories and 42% of the total protein. In every developing region except Latin America, cereals provide people with more protein than meat, fish, milk and eggs combined, making them an important protein source for over half the world's population.[32]

According to the Agricultural and Rural Credit Policy of Bangladesh Bank, the banks must ensure that 60% of the targeted amount is disbursed for crop cultivation. This crop sector priority policy in credit disbursement is applicable to all banks whether they disburse credit directly among farmers or through MFI linkages.

[32] Martin Kropff & Matthew Morell, International Rice research Institute <https://www.irri.org/news-and-events/news/cereals-imperative-future-food-systems>

Components of crops according to ACP:

i) Cereal: Cereal grains are grown in greater quantities and arguably provide more food energy worldwide than any other type of crop; they are therefore vital staple produce. In their natural form, as whole grains, cereals are a rich source of vitamins, minerals, carbohydrates, fats, oils, and protein. Cereals grow in grass type plants that are members of the monocotyledon, or monocot, family. All rice varieties, wheat, corn, etc fall under cereal category.

ii) Cash crop: Cash crops include jute, sugarcane, cotton, betel leaf, etc.
iii) Vegetables: Various vegetables (corolla, brinjal, gourd, cabbage, carrot, cauliflower, borboti, bean, pea, ladies finger, potol, pumpkin, tomato),
iv) Spices (pepper, garlic, ginger, onion, turmeric),
v) Fruits (banana, guava, boroi, litchis, mango, papaya, watermelon, Burmese grape 'lotkon', Lemon, Hog-plum, Sapota, Malta, baukul, strawberry, orange)
vi) Tubers: potato, sweet potato, etc
vii) Pulse: Mug, masur, motor. Mas, etc
viii) Oil seeds: mustard, sesame, peanuts, sunflower, peanut and oil palm, etc
ix) Flowers
x) Others

Non-Crop Agriculture: From a growth perspective, the non-crop agricultural sectors performed better than the crop sector during the 6th and 7th Five Year Plan (2011-20). In 2013-14, the growth rate for fisheries, forestry, livestock and crop subsectors were 6.19%, 5.05%, 2.83% and 1.91% respectively. Livestock contributes to food and nutritional security, income generation, and forms an important livelihood base for millions of resource-poor livestock keepers in Bangladesh[33]. Bangladesh also exports livestock-related products, including live animals, raw hides and skin, processed leather and leather goods, gelatin, etc. Within the non-crop sector, the share of the livestock sub-sector has increased relative to crop, fisheries and forestry. During the same period the production of meat and eggs also sharply increased. Furthermore, about 20% of the population is directly and 50% of the population is indirectly employed in the livestock sector. Livestock may contribute to food security through increased output of livestock products and the creation of employment and income generation that may assure access to food. During the period 2001 to 2018 total fisheries production in Bangladesh nearly doubled from about 20 lakh MT to 40 lakh MT. The share of inland culture fisheries to the country's total fish production sharply increased to 60%, driven by the surge in inland capture fisheries. There has been an increasing trend in brackish water shrimp and golda production which could be further enhanced through the use of intensive improved technology. Around 70 to 80% of the shrimps produced are exported each year. Marine fisheries have provided livelihood to about 0.51 million fishermen.

Table: Disbursement in Crop and non-crop agriculture
(FY 2016 t0 2021)

(Amount in billion taka)

	FY16	FY17	FY18	FY19	FY20	FY21
a) Crops loan (other than tea)	86.95	100.61	103.37	118.80	114.00	128.90
b) Irrigation & agri equip	2.60	3.01	2.74	3.20	2.70	4.40
c) Livestock	26.14	30.57	30.58	32.50	31.70	35.30
d) Marketing of agricultural goods	1.09	1.14	1.14	1.20	1.30	1.80
e) Fisheries	19.85	24.13	24.64	26.80	26.10	29.50
f) Poverty alleviation	15.59	18.85	21.50	19.50	20.90	20.40
g) Other agricultural activities	24.24	31.68	29.96	34.30	30.90	34.90

[33] Perspective Plan of Bangladesh, 2021-2041

The table above shows the amount disbursed by banks in crop and non-crop agriculture over the past six years since FY 2016. Figures show that crop credit has been the predominant portion of agricultural credit during this period thanks to the central bank's guideline instructing banks at least 60% of total agricultural credit for crop sector alone. Livestock sector has been the next most recipient of agricultural credit by banks. However, credit trend in livestock sectors shows a rather flat growth which fisheries sector saw a steeper growth, nearly doubling in six years. Credit for irrigation and agricultural equipment has also risen by percentage over these years; however the amounts invested appear inadequate for enhancing modernization in agriculture. Marketing of agricultural commodities requires a significant amount of investment while credit delivery in this sector is the lowest indicating that farmers tend to sell most of their agricultural produces in nearby local markets which might have been a hindrance for getting a fair price for their agricultural yield. The data also indicates that a significant portion of credit went for poverty alleviation and other income generating activities thanks to the growing bank-MFI linkages.

SECTION FOUR

AGRO-BASED PROJECT FINANCING

Agro-based projects may be defined as projects that process agricultural products to make it usable as food, feed, fibre, fuel or industrial raw material. Hence, the scope of the agro-processing industry encompasses all operations from the stage of harvest till the material reaches the end users in the desired form, packaging, quantity, quality and price.[34]

Total agricultural output of Bangladesh was around 70 million metric tons in 2019-20 with rice, potato and sugar crop accounting for around 80% while fruits, vegetables and spices accounted for 17% of the output. The agro-food processing industry alone contributes about 1.7 per cent to GDP and employs about 250,000 people. Its share of total exports now stands at around 3.5 per cent35.

Agro-based industry contributes a significant portion of national income and the prospect of employment generation is increasing. According to a study[36] among agro-based industries the prospect of employment generation is superior for food processing, tanning and leather finishing, leather industry, saw milling and wooden furniture. All the agro-processing industries except edible oil generate higher income of which tanning and leather finishing, jute bailing, rice milling and sweeteners generate high level of income. The highest employment is generated in the livestock sector followed by poultry. The agro-industries having large multiplier values were the edible oil, leather finishing, rice milling, ata and flour milling and fish processing Agro-food processing involves primary and secondary processing. The former is associated with processing of agricultural products in their basic form and the latter requires conversion into final products like jams, biscuits etc. The primary inputs for the industry include crops, poultry and livestock, fishery and some forestry products.[37]

Food processing industry now employs about 2.2 per cent of total workforce in the country of which close to 70 per cent are unskilled labour. Its share of total exports now stands at around 1.5 per cent. Some researchers indicate that the country has much higher potential to explore enhancement of exports from this industry as reflected in their estimated revealed comparative advantage (RCA). Bangladesh now exports about US$400 million processed agro-food products and has the potential to rise further in the near future.[38]

Dominance of Large Firms: The agro-based industry in Bangladesh remains highly concentrated and dominated by a limited number of firms, thus the market can be described as oligopolistic in nature. While agro-processing units of Pran, BRAC,City Group, Square Group, etc are increasing employment and making export earnings such concentration of market power enables these firms to use their market power in depressing the price of agricultural inputs thereby creating scopes of taking advantage of seasonality of agricultural output. The supply chain between the farm and the processing unit is also marked by agents and traders which may act against the financial interest of farmers.

Food Safety Issue: One of the major constraints faced by the food processing industry is food safety (non-toxic food) issue. This problem starts right at the farm level where the use of pesticides, insecticides and fertiliser is very common, then flows on to the production and packaging levels as reflected in the presence of harmful chemicals in many processed food items in Bangladesh. They all together negatively impact on the domestic demand for processed food. The industry has a vital role to play to ensure

[34] R. P. Kachru, Agro-Processing Industries in India—Growth, Status and Prospects, Journal Indonesian Agroindustries.
[35] <https://bida.gov.bd/agro-processing>
[36] Md. Abdul Quddus, Bangladesh J. Agric. Econs. XXXII, 1&2 (2009) 31-48
[37] Md. Abdul Quddus, Bangladesh J. Agric. Econs. XXXII, 1&2 (2009) 31-48
[38] https://www.thefinancialexpress.com.bd/views/agro-food-processing-industry-in-bangladesh-an-overview-1572707863

consumer food safety which may enable the country to achieve the objective as defined by the FAO in 1996 to ensure food for all that is of good quality in sufficient quantities and in accordance with local cultures.[39]

Export: The food processing industry has been increasingly focusing on export markets.
Bangladesh exported US$374 million in 2017-18 which was a 41 per cent increase from the previous year. The captains of the industry believe that the country is poised to hit US$1.0 billion in export earnings from this industry by 2020-21. Bangladesh government provides both tax holidays and cash incentives for exporting processed food. But granting of such incentives for export promotion remains very problematic from the economic efficiency point of view. In fact, such micro-level industry-specific incentives can lead to macroeconomic inefficiency by distorting efficient allocation of resources.[40]

The main exports from this industry are composed of frozen fish, shrimp and other frozen food products, tea, spices, fruits including dry fruits and some other processed agricultural products. The major export destinations include the European Union (EU), the US, the middle East and the Gulf, but targeting ethnic food niches in those countries with strong presence of Bangladeshi and South Asian migrants and settled communities from those countries.

There are some critical constraints to the development of the agro-processing sector in Bangladesh[41].

Market access: The agro food processing industry faces both tariff barriers and non-tariff barriers to enter into the high end export markets. Also some procedural obstacles, is a concern for the exporters of agro-processing products from Bangladesh. Compliance with SPS standards, especially in high-end destination markets, such as in the EU and the US, remains a challenge for many Bangladeshi agro-processing exporters. For SMEs in particular, the burden is much higher.

Utility and Infrastructural limitations: Despite the improvement in the availability of electricity in recent years, many firms, especially SMEs, still face problems related to accessing new connections to the power supply and accessing quality power. The lack of cold storage, mills, warehouses for storage and equipment, such as scales and packing machines, has led to difficulties in meeting health and sanitation requirements. There are also problems related to poor air cargo management, inadequate cold storage and cold chain transportation facilities for vegetables and lack of processing unit near the airport. High transport costs resulting from road congestion and transportation related delays, affect business operations.

Access to finance: Access to finance is one of the most critical problems affecting supply and export responses. The problem is even worse for SMEs, including export-oriented ones. Although Bangladesh Bank has taken a number of refinance programs to promote agro-based industries, still the flow of funds in the industry seems far from being adequate. GoB's cash incentive plays a vital role in the export of agro-food processing products, exporters complain about difficulties in access to this subsidy due to bureaucratic and other procedural obstacles. Sometimes misuse of subsidies by some dishonest business people makes the procedures even harder for the genuine medium business entrepreneurs.

Bangladesh Bank launched a special credit programme named "Refinance Scheme in Rural Based Agro-processing Industry" from its own source with a view to create employment opportunities in rural areas and to reduce poverty. Due to the huge interest created among field level entrepreneurs and for the increasing refinance applications from the banks, in December 2012, this fund was made 200 crore taka

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[39] https://www.thefinancialexpress.com.bd/views/agro-food-processing-industry-in-bangladesh-an-overview-1572707863
[40] https://www.thefinancialexpress.com.bd/views/agro-food-processing-industry-in-bangladesh-an-overview-1572707863
[41] https://www.tbsnews.net/supplement/challenges-agro-processing-industry-bangladesh-366286

which initially started with a revolving fund of 100 crore taka in 2001. This fund is operated by the SME and Special program Department of Bangladesh Bank.

Agro Based Industry under Refinance Scheme:
Investments in the following agro-based industries are considered by Bangladesh Bank for refinance:

1) Processed fruit (jam, jelly, juice, pickle, sarbat, syrup, sausage etc.) producing industry;
2) Processing of fruits (tomato, mango, guava, sugar cane, jack fruit, litchi, pineapple, coconut etc.), vegetables and pulses;
3) Producing of bread, biscuit, semai, lachha, chanachur etc.
4) Processing of atta, flour and suji;
5) Processing of mushroom and Spirulina;
6) Starch, glucose, dextrose and other starch product producing industry;
7) Milk processing (milk pasteurization, powder milk, ice-cream, condensed milk, sweet, cheese, ghee, butter, chocolate, curd etc.)
8) Processed food derived from potato (chips, potato flex, starch etc.)
9) Various spices-powder producing industry;
10) Refining of edible oil and hydrogenation industry;
11) Salt processing industry;
12) Processing and freezing of shrimp and other fishes;
13) Herbal and medicinal cosmetics producing industry;
14) Eunany and ayurvedik drugs industry;
15) Feed industry (poultry, dairy and fish);
16) Seed processing and preservation;
17) Jute based goods producing (rope, thread, chot, bag, carpet, sandal etc.);
18) Silk producing industry;
19) Producing and repairing of agro machineries and equipments;
20) Processing of rice, muri, chirwa, khoi etc.;
21) Aromatic rice;
22) Tea processing industry;
23) Coconut oil producing industry (if raw crop is collected from local coconut);
24) Processing of rubber tap and lakhkha;
25) Cold Storage (Processing and preservation of potato for both consumption and seed, fruit and vegetables produced by local farmers.);
26) Making/producing of furniture from wood, bamboo and cane (excluding cottage industry);
27) Flower processing and exporting farm;
28) Meat processing farm;
29) Organic fertilizer, compost fertilizer and guti urea;
30) Producing of bio-pesticides and neem-pesticides;
31) Apiculture/honey producing industry;
32) Project of rubber goods production
33) Particle board;
34) Mustered oil producing industry;
35) Poultry and dairy industry;
36) Project for bio-gas and electricity production from rice husk and cow dung and
37) Edible oil from rice bran industry

Equity and Entrepreneurship Fund (EEF) : With a view to promote investment in potential food processing and agro based industry and in ICT sector Equity and Entrepreneurship Fund (EEF) was started with a fund of 100 crore taka budget during FY 2000-2001. . The main objective of EEF is the development of socio- economic environment of the country by developing agro based industry and ICT sector and by creating employment opportunity. Policy was made easy in required field to create more opportunity of participation of more entrepreneurs and to make the EEF fund more entrepreneur-friendly. The minimum limit of project expenditure in both agro and ICT sector has been reduced to 20 lakhs taka from previous limit of 50 lakhs Tk. So that it became very easy to get EEF support for the small entrepreneurs. Many agro sectors are included in the EEF fund. These are: organic fertilizer production; soya food production and soya bean processing; fruits and vegetables-processing and preservation; apiculture and honey processing; jam jelly, pickles and sausage production for both local and export market; cultivation and processing of betel-nut; tortoise hatchery and cultivation; establishment of palm-oil mills. At present, projects of non-resident Bangladeshi entrepreneurs, freedom fighters, women entrepreneur (projects having lady managing director), tribal's' entrepreneurs and the projects of hill tracts and "monga" affected area are getting priority in sanctioning EEF support. Huge employment opportunity has been created in EEF supported projects. Besides, the EEF fund is playing an important role in fulfilling the demand of protein specially fish meat and egg by implementing agro-based projects. Though from the beginning Bangladesh Bank has been totally concerned about EEF program but from 1st June 2009, on basis of the approval of government, Bangladesh Bank has been carrying out only the policy making, fund management and program supervision. The rest operational activities are conducted by the Investment Corporation of Bangladesh (ICB).

Case Study 3
Lack of Vegetable Storage Facility are Behind Losses of Bumper Onion Production

Bumper onion yields earlier this year gave farmers in northern parts of Bangladesh reason to cheer but the lack of adequate storage facilities has soured their prospects of profiting from the cash-crop as adverse weather conditions continue to wreak havoc on their produce, according to market players. Md Kamruzzaman, a farmer and trader of Durgapur village in Pabna's Sujanagar upazila, cultivated onions on 82 bighas of land to produce more than 5,000 maunds of the crop.

He then kept about 3,000 maunds of onion in his homemade bamboo-loft storages in March with a view to selling them year-round. However, he is now worried about being able to save even half the crop. "The scorching heat and untimely rains are causing rampant damage to the onions in my storages," Kamruzzaman said,

Md Chand Miah, another onion farmer from the same village, told The Daily Star that around 30 per cent of his produce has gone rotten and he is now concerned about recovering the production cost. "It cost more than Tk 1,200 per maund to grow onions this year but the market price was Tk 800 to Tk 900 per maund during the harvesting period," he said. "And even though each maund is currently selling for Tk 1,300, the damage to my crops means that I have to count losses of Tk 200 per maund," Miah added.

The onion farmer went on to say that farmers are forced to keep onions in homemade storages due to the lack of modern facilities in the region. But farmers cannot control the temperature and moisture levels inside a bamboo-loft and so, the stored onions are at risk of being destroyed as they remain at the weather's mercy, a farmer said. "I produced over 6 maunds of onion this year but we did not sell them after harvesting considering the poor price," said Liton Mondol, another onion farmer. As is the case with others, more 30 per cent of Mondol's stored onions have gone rotten and he is now worried about being able to sell the remaining portion in time.

However, Shoilendronath Majumder, chief scientific officer of the Spice Research Center in Bogura, informed that there are no designated storage facilities available for onions as they have yet to refine the required technology. "So, we need specialised cold storages for onion as developing such facilities in Pabna, Faridpur and other cultivating areas would help save the crops and subsequently reduce imports", he says. [Abridged from the Daily Star, 18/7/2022][42]

[42] https://www.thedailystar.net/business/economy/news/bumper-onion-yields-going-bad-lack-storage-3072861

SECTION FIVE

PROCEDURES AND COLLATERALS IN AGRI-FINANCE

Agricultural finance is referred to the financing for agricultural activities starting from land preparation to harvest. Purposes of agricultural finance includes crop cultivation, fish farming, poultry rearing, livestock rearing, etc. Agricultural machinery purchase and installation for the purpose of agricultural production and financing for post harvest marketing is also considered as agricultural finance. But agro-based industry finance is not considered as agricultural finance according to agricultural/rural finance policy of Bangladesh Bank.

Procedures involve detailed step by step process in conducting an activity. While methods may refer to different ways of doing a job, procedures are detailed steps of doing a job as per prescribed policy and systems.

The first and most important part of loan procedure in borrower selection. A widely practiced process of borrower selection is guided by the principles of five C's of credit to determine a risk and creditworthiness of the borrower. The five C's are: Character, Capacity, Capital, Condition and Collateral. Some banks may have point systems for each category for calculating the strength of each category, while others may consider the 5 C's of credit using their judgment during the approval process. Although these characteristics are weighted differently from lender to lender, most use the same aspects to evaluate each category.[43]

Character: By character banks actually understand the history and background of the customer. Banks are generally risk-averse and hesitant to lend money to borrowers with poor credit history or reputation. When banks and lenders consider character and the five C's of credit, they look at the individual's personal and business credit history, and they might also look at the customer's reputation, business or personal references, and how the prospective customer have interacted with those references.

Capacity: Capacity can be seen from different aspects. While repayment is a vital consideration, capacity may be seen as capacity to repay; but it does also mean the capacity to utilize the fund, capacity of running the business, etc. The banks usually assess capacity of the small farmer based on discussion. However for large loans, banks generally evaluate past performance of the prospective borrower through analysis of financial statements and try to understand the capacity of the customer in undertaking the proposed project.

Capital: By capital, the bank means what the borrower owes vs what the borrower own. To understand capital of the prospective agricultural credit customer, the bank tries to understand the land ownership, nature of the land, the crop intensity, of that land. The bank also wants to know whether the customer has any other loans from the formal and informal sources and whether the farmer wants the loan for farming purpose or just to repay his previous loans. For considering larger amounts of loan the bank may calculate debt to equity ratio to measure capital for both individuals and businesses. Net worth is defined as the value of all non-financial and financial assets. Debt to net worth shows how financially stable the customer is as an individual or business. A lower ratio suggests minimal debts, meaning a less risky borrower.

Condition: By condition the lender bank wants to understand the conditions that surround a potential borrower. Given not every industry or business faces the same set of conditions, learning about the overall economic environment and how the borrower looks to use their funds after approval helps. Therefore the bank may also want to understand how a borrower plans on using the funds, economic factors, interest rate, and the size of the loan. In case of business the bank may analyze market, the business's industry, economic environment, interest rate, and the size of the loan.

[43] https://fitsmallbusiness.com/5-cs-of-credit/

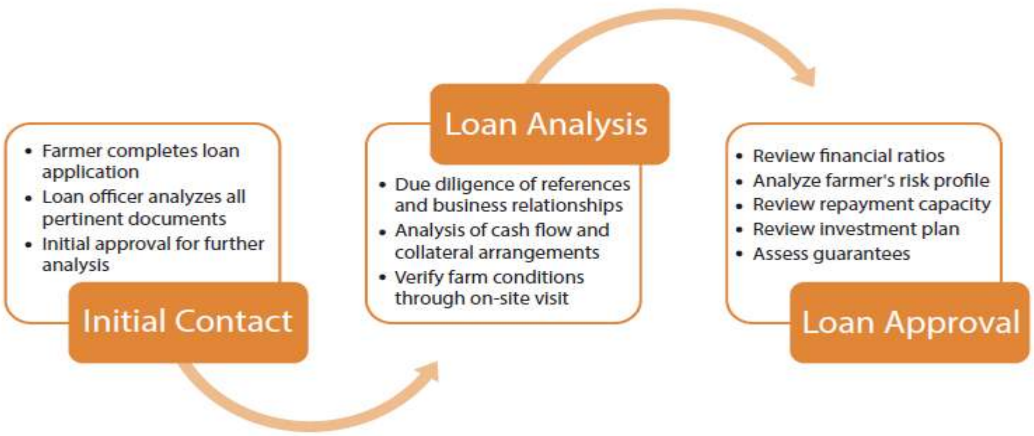
Collateral: Collateral usually means the available Assets for the lender. For large amount of loans often the bank's credit policy suggests to take collateral to secure the loan. While the agricultural and Rural Credit Policy of Bangladesh Bank discourages banks in taking collateral/mortgages, banks usually take the details and whereabouts of the lands the borrower posses for it gives a psychological benefit in favor of the bank.

Steps of agricultural procedure

Loan processing is a complex set of task performed for different levels in a bank. It often involves decisions from different offices. There are several of loan processing that is divided into the following three major parts, they are:

i) Initial Contact: Identifying new customer
ii) Loan Analysis: Client information and credit history analysis
iii) Loan Approval: Approval and disbursement of loan

Lending Procedure of Agricultural Client[44]



Above is an agricultural financial model developed by IFC. While this model not fully applicable for financing the small farm holdings still it is helpful and may be used upon customization.

Initial Contact: Identifying new customer

1) First client contact and screening with the loan officer
2) Information session- Loan officer informs the potential client about agricultural products of the bank branch.
3) If the loan officer determines that the client has a qualifying project, he/she assists the client in completing an agriculture loan application form
4) Loan officer opens a client file
5) After completing loan application, the borrower gives documents to loan officer
6) Loan officer assigns a day to meet the client on-site to get more detailed information to complete the loan assessment forms
7) Verification officer conducts due diligence and verify all documents and records carefully and verify inventory, land records, etc.
8) Upon satisfaction the loan proposal is processed to the next stage.

Loan Analysis: Client information and credit history analysis

The client's information and credit history is analyzed in great detail in the second stage.

[44] Agricultural Lending: A How to Guide, IFC, World Bank Group

9) Verification officer conducts due diligence by carrying out reference checks of suppliers, customers, and, where possible, the bank records of customer, as well as checking market and competitors, cash flows, etc.
10) Branch Manager reviews and provides approval for submission to agriculture credit committee

Loan Approval: Approval and disbursement of loan
In this third phase, the credit committee will either give its final approval and disburse the loan or reject the loan.

11) Loan officer submits loan application to credit committee.
12) If approved, committee signs on loan approval form; if rejected, client is provided with a list of deficiencies and can resubmit when these are addressed.
13) Loan officer informs client of loan decision.
14) Loan officer requests any additional documentation required to fulfill conditions and for closing.
15) In case of bigger size loan, the operations officer arranges collateral registration and insurance documentation with local and/or district government
16) Operations officer prepares loan/collateral agreements based on credit committee decision and also ensures that all disbursement conditions have been met.
17) Loan officer walks client through disbursal of loan proceeds at the branch
18) Operations officer follows through on fulfillment of all conditions of loan disbursement.
19) Client and guarantor sign documentation
20) Loan officer provides repayment schedule to client
21) Teller disburses loan to client.

Disbursement agricultural credit is a top priority for the government. Timely disbursement of adequate amount of credit help the farmers procure agricultural inputs such as ploughing and irrigation equipment, seeds, fertilizer, pesticides, etc in time so that best possible yield may be harvested. However, the bank has to follow some procedures in agricultural financing. To facilitate agricultural financing Bangladesh Bank has made agricultural credit procedures easier. Salient features of agricultural credit procedures are discussed below:

Identification of Prospective Borrower: The aim of Agricultural and Rural Credit Policy of Bangladesh Bank is to ease the procedures of agricultural credit by minimizing paper work by bank and thereby reducing hassle for customers. According to the policy, banker will identify gentility of prospective customer of agricultural credit with minimum paper requirements. National Identity Card is now made available for almost all adult citizens of the country. While most farmers receive agricultural input assistance card provided by the government. These two cards are sufficient to identify a farmer. For farmers who have opened no frill accounts with these documents, only the passbook of the bank can serve the purpose of customer identification. Some farmers may not possess agricultural input assistance card. In that case a certificate mentioning that the person is a farmer issued by the Chairman of Upazila Parishad/Pricipal of local college/Head master of local school or a certification from any person acceptable to the bank should serve the purpose instead.

Eligibility of Borrower: Those who are directly involved in agricultural activity will be eligible for agricultural credit. Even person who are involved in rural income generating activities may also receive agricultural/rural credit. Landless farmers, small farmers, sharecroppers will also be eligible to get agricultural/rural credit. Banks may according to their own policy provide credit to such people with marginal level of income both individually or by forming groups. However, default customer will not be eligible for new loan.

Application for Agricultural Credit: A borrower must apply in writing seeking agricultural loan. Bangladesh Bank has already instructed banks to simplify agricultural credit application forms. Especially the application forms for crop credit has to be as simple as possible. The forms should not be made heavy with unnecessary information. Bangladesh Bank has also supplied a specimen form for agricultural credit which banks may customize and use accordingly. The loan applications should be made available on the websites of the banks.

Loan Processing: Banks have to follow the credit norms and disburse agricultural credit at one go; not part by part. Banks should also take necessary actions well ahead so that agricultural credit may be disbursed before the crop season start. Banks have to acknowledge all applications for agricultural credit and try to process loan application within 10 days after application is submitted to the bank. In case any additional information or document is required, the prospective borrower has to be communicated in one sitting. The rejected applications have to be stored in separate file mentioning reason for any future audit. Agricultural credit has to be processed without charging any fee from the customers. Only fee that the banks can charge is the interest on outstanding loan. No other charge such as loan processing fee/monitoring fee or in any other name is allowed in agricultural credit.

Maximum limit of agricultural credit: Banks may provide agricultural credit following the credit norms to individuals for a maximum of 15 bigha (5 acre or 2 hectares) of land each following the credit norms where amounts required for each agricultural activity is indicated. In case of land size higher than that, bank may provide loan according the bank's own policy/norms.

CIB Reporting and CIB Enquiry for Agricultural Credit: It is not mandatory for banks to search for CIB report in case of processing new loan application for agricultural credit, unlike commercial loans. However, the banks have to make sure so that no default customer gets new loan. Banks can use lead bank mechanism for easy disbursement of agricultural credit. However, it is to be mentioned that all overdue agricultural credit has to be reported in the CIB system as per ACD Circular Letter No-02 of 03 December, 2018.

Area allocation among banks for agricultural credit disbursement: There is a lead bank system in place for making agricultural credit disbursement. According to this system, each union has a designated bank branch for agricultural credit disbursement for the residents of that particular union. Lead bank system was mainly developed for easy disbursement of agricultural credit by avoiding the hassle of CIB report checking. As the residents of one union can receive agricultural credit from one particular bank branch, it is easier for banks to comply with Section 27 of the Bank Company Act, 1991 that makes default customers ineligible for new loan. It is easier for a bank branch to comply with this rule if there is only one branch for one customer. However, as the banks have become more familiar with information technology, most bank branches are now online; while CIB inquiry has also been made easier for banks. Therefore, Bangladesh Bank has also allowed that customers can apply for agricultural credit from his/her nearest bank branch subject to NOC from the lead bank.

Interest in Agricultural Credit: Bank can determine the rate of interest for different sectors and subsectors of agricultural credit by maintaining interest rate cap set by Bangladesh Bank which is 8% as in July 2022.

Collateral: Generally, bank can provide agricultural credit without collateral and against crop hypothecation only for cultivation in upto 5 acres of land. In case of loans for income generating activities, bank may provide loans based on group guarantee. Bank will determine the collateral policy for larger size loans. However, the banks may take the following charge documents to secure any agricultural loans: a) Demand Promissory Note (DP Note); with adhesive stamp valuing Taka 10-50 as applicable according to government policy b) Letter of Hypothecation (no need to use stamps) c) Letter of Gurantee in case of personal gurantee (no need of stamp)

SECTION SIX

PROBLEMS OF AGRI-FINANCE

Bangladesh's rural economy, and specifically agriculture, has been powerful derivers of poverty reduction since 2000, the World Bank observes. While much of the country's economic development was due for the success in agriculture; the sector still requires further development to meet future challenges. Agricultural finance is pivotal for the future development of the economy that Bangladesh is eying to. But according to government estimates only 25% of the agricultural credit need is currently being met by the banking sector. This indicates that Banks still do not find agricultural finance profitable enough.

While policymakers sensitize banks for increasing their participation of agricultural finance and have already implemented mandatory agri-credit disbursement policy; banks in general are not comfortable in direct delivery of agricultural finance. Many farmers on the other hand find agricultural finance from formal sources difficult and cumbersome. It would therefore be fair to discuss the problems of agricultural finance from both demand and supply side perspectives.

The problems of agricultural finance faced by the demand side are discussed below:

a) Long institutional procedure: Long institutional procedure in getting agricultural credit from banks is one of the main impediments of securing agricultural credit from the formal sector banks. A research work conducted by Ruhul Amin Sarkar (2006) supports this arguments saying that 90 percent of all size farmers identify long institutional procedure as the major barrier in securing loans from institutional source. Recently, Bangladesh Bank, through its Agricultural and Rural credit Policy took some special initiatives including easing borrower identification process, simplifying of crop credit application form has tried to address the issue. This has improved credit disbursement to a certain extent but still there is ample scope in improving efficiency of banks in agricultural credit sector.

b) Urban Bias of banks: In our country, Banking deposits are mobilized from rural areas but are funneled into commercial/industrial credit operations in the urban areas. This argument is supported by the figures presented in the table below. The information in the table shows that the per capita credit disbursement is highest in Dhaka division with 1.95 lakh per person; then comes Chittagong; with 69 thousand taka per person. Per-capita advances are lowest in Mymensingh and Sylhet division with only 13 thousand taka per person each. Advance to deposit is 70% to 80% in different divisions while Sylhet and Rangpur are outliers with ADR ratio of 25.5% and 100% respectively. The reason lower ADR ratio may partly be explained by higher than average savings thanks to the foreign remitters. For Rangpur division, both savings and deposits are quite low- only 16 thousand taka per person, making the ARD 100%[45]. Moreover, the credit concentration of banks is highest in Dhaka and

Division-wise Distribution of Per-capita Deposit and Advances
AS oN 31-12-2021
(Amount in Lakh Taka)

Divisions	Per capita Deposits	Per capita Advances	Deposit Advance Ratio
CHATTOGRAM	0.990	0.690	69.70%
DHAKA	2.210	1.950	88.24%
KHULNA	0.350	0.260	74.29%
RAJSHAHI	0.280	0.220	78.57%
SYLHET	0.510	0.130	25.49%
BARISHAL	0.300	0.150	50.00%
MYMENSINGH	0.180	0.130	72.22%
RANGPUR	0.160	0.160	100.00%

[45] Scheduled Bank Statistics, BB

Chittagong Division for most banks. These facts points strongly to the urban bias of the formal credit operation in Bangladesh.

c) Limited banking operation in rural areas: Until year 2011 banks were allowed to maintain 4:1 ratio for urban to rural branches. The policy was revised making the rural urban ratio for new branches as 1:1. While this latest data confirms that Bangladesh has made slight improvement in population to bank branch ratio with over 10 branches per one hundred thousand adult populations, the ratio is still poor for agriculture dependent non-urban community; given that only 47% branches (5243) are located in rural areas where around 65% of the population live.[46] Moreover there are complains that banks tend to take the opportunity of definition of 'rural branch'[47] and open branch in unions which are outside City Corporation but virtually urbanized. This inhibits farmer to get access to cheaper formal sector credit.

d) Higher non-interest cost of institutional credit: Though interest rate is generally significantly low in institutional sources compared to non institutional sources it often has some related costs. The farmer has to pay on his own for the transportation cost to and from the bank. Often the farmer has to visit the branch a number of times and wait for long hours. Thus the transportation cost, the cost of daily labour adds up to the total cost and together combined, all these indirect cost increases the non interest cost for bank loans. It may be mentioned in this regards, as part of reducing non interest cost of agricultural loan, Bangladesh Bank has prohibited banks from taking any fees other than the interest rate and according to ACP no charge for loan application and loan processing will be applicable for crop credit.

e) Farmer's inability to provide collateral: Formal sector wants collateral as security of the credit that they disburse to the farmer. Although agricultural productivity depends on the combination of human labor and capital with the productive powers of land, the access to financial capital through institutional credit depends largely to the entitlement of the land. Through according to the Agricultural and Rural Credit Policy of Bangladesh Bank, commercial banks are supposed to provide agricultural credit, especially crop credit against crop hypothecation alone and without any additional collateral, reality is not always the same.

f) Lack of timely loan assistance: Agriculture is sensitive and dependent on nature to a great extent. Farmers must show seeds, for some crops, when there is rain. When irrigation is need, only delay or a day can ruin the total crop in the dry season. On the other hand banks are not always responsive to timely loan assistance needs of the small farmer group. The same scenario is found to exist in case of agricultural loan from RAKUB as farmers reported that they did not get credit in time. Similar question raised to recipient of credit from GB (Grameen Bank) found no such problem relating to this issue. Many researchers find the inefficiency in time management by banks is the reason why farmers are leaning more towards MFIs for credit.

The problems of agricultural finance faced by the supply side are discussed below:

a) High cost business: Agricultural credit is often directed credit and many countries impose interest rate ceiling especially for crop loans. On the other hand agricultural credit disbursement and recovery is a highly supervised process requiring more costs than regular loans. In addition, agricultural credit is usually small in size therefore there is no scope for the bank to reduce cost by economies of scale. Due to the interest rate ceiling banks cannot determine interest rate considering all costs and rather only disburse only upto the mandatory amount.

b) Lack of risk reduction mechanism: Agricultural production depends largely on nature's favor. Climate change impacts are further adding to uncertainties associated with agriculture. In some countries agricultural insurance system is developed to reduce the losses for the farmers and the financing

[46] Bangladesh Bank Statistics Department
[47] Situated outside city corporation and pourasabha areas

organizations. Bangladesh is still in the process of experimentation regarding agricultural insurance. In absence of a well established agricultural insurance system; risk-averse banks may keep themselves away from agricultural financing.

c) Lack of incentive: While Grameen Bank is performing well regarding agricultural credit BKB and RAKUB are lagging far behind. The real reason for poor performance of public sector banks in agriculture sometimes lies to a great extent in inappropriate institutional incentives. Repeated loan weaver for agricultural credit during the early years on 1990s have given a wrong signal among farmers that agricultural credit is like a grant from the government and need not to be repaid. Thus loan write-offs and interest remissions have rewarded delinquent borrowers and punished the honest[48]. Moreover, weak governance in the public sector banks along with absence of incentive and disincentive for performance and non performance of employees respectively is another reason for weak supervision.

Poor Institutional Capability: The specialized banks (Such as BKB and RAKUB) are not solvent and a major portion of the government fund provided to these organizations are spent to meet operational expenses of the bank and is therefore not actually reaching the marginal, small and the mid size farmers. In addition to this, there is lack of capacity within the bank due to inadequate staff in formal institutions (like BKB and RAKUB) agricultural facilities is limited to mostly rich and influential farmers in the locality.

Case Study 4
Inadequate scope of Agricultural Insurance in Bangladesh
(Adapted by the author from different sources)
Bangladesh is ranked as the world's fifth most exposed country to natural disasters, including floods, cyclones, and droughts[49]. Production losses of major cereal crops due to natural disasters over the past three decades or so have been equivalent to an average of 6.4 percent of the national crop production every year. Annual crop losses could increase even further in the context of climate change. Given the scarcity of affordable and suitable risk-management tools, when exposed to adverse shocks low-income households may be forced to reduce food consumption, take their children out of school, and sell productive assets, which then jeopardize their economic and human development prospects.[50]

Challenges for the Development of Agricultural Insurance in Bangladesh include institutional, technical, financial, and operational challenges[51].

Institutional challenges include a) Limited agricultural insurance provision, b) Limited agricultural insurance provision, c) Farmers have limited awareness of agricultural insurance, d) Lack of a national framework for agricultural insurance: i) The current insurance legislation does not recognize the informal livestock insurance programs implemented through the NGOs/MFIs, ii) The Insurance Act 2010 allows NGOs/MFIs to register as insurance intermediaries and to act as potential delivery channels for agricultural insurance products to their members.

Technical challenges include: a) Lack of exposure to international agricultural insurance practice, b) Limited supply of agricultural insurance products, c) Lack of sufficient Data and information

[48] Md. Alauddin and Jyotirmay Biswas, Agricultural Credit in Bangladesh: Trends, Patterns, Problems and Growth Impacts, The Jahangirnagar Economic Review, Vol. 25, June 2014
[49] https://agris.fao.org/agris-search/search.do?recordID=US2014601427
[50] Agricultural Insurance in Bangladesh: Promoting Access to Small and Marginal Farmers, June 2010, The World Bank, Report No. 53081-BD

[51] Agricultural Insurance in Bangladesh: Promoting Access to Small and Marginal Farmers, June 2010, The World Bank, Report No. 53081-BD

Financial challenges related to agri insurance may be seen from two sides: a) Private commercial insurance companies in Bangladesh have limited financial capacity b) NGOs/MFIs have limited financial capacity needed to operate agricultural insurance, and none of their micro insurance programs are currently reinsured.

Operational Challenges: Operational challenges include the following: a) Private commercial insurers do not have rural branch networks to underwrite smallholder crop and livestock insurance policies, and they currently operate under high transaction costs; moreover b) high administrative costs of agricultural insurance for small farms.

Some Recent Initiatives: Recently in 2015 IFC, a member of the World Bank Group, in partnership with a private insurer Green Delta Insurance developed insurance products for individual farmers, agribusinesses, and financial institutions lending to farmers for protection from weather-related risks such as drought, excess rain, and cyclones. [52] With the assistance of IFC Green Delta, an IFC equity client, developed insurance products that minimize the impact of crop losses due to natural disasters, provide advisory support for distributing and administering these products, increasing lending and business to farmers and improving their risk profile[53].

Moreover, ADB also piloted weather index-based crop insurance for rice farmers in three areas of Bangladesh, including drought-prone Rajshahi implemented through MFIs. Crop insurance is a useful instrument to transfer financial risk away from the government and farmers. Insurance protection needs to include crops, livestock, and aquaculture, while the market requires enabling policy and regulatory settings to develop. Even though the pilot has shown some success, with more pilot projects, insurers can learn more about designing weather indices and correlating them with yield losses. Given the sizable financial exposure associated with correlated losses, insurers' low experience and the lack of access to reinsurance on competitive terms, the feasibility for setting up an agriculture insurance pool is still unclear in Bangladesh, according to experts.[54]

[52] https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=24484

[53] Source: IFC Website

[54] Arup Kumar Chatterjee, https://www.thefinancialexpress.com.bd/views/the-state-of-crop-insurance-in-bangladesh-1567174854

SECTION SEVEN

ROLE OF COMMERCIAL BANK AND BANGLADESH BANK IN AGRI-FINANCE

Rural financial system in Bangladesh comprises of formal, semiformal and informal institutions. Formal sector comprises of banks, semiformal sector comprises of the NGO/MFIs and informal sector comprises of money lenders, friends, relatives, etc. The formal financial system comprises of the central bank as well as the banks. Banking sector includes commercial banks including state owned commercial banks, private commercial banks, foreign banks and the specialized banks for agriculture. Bangladesh Banking system including Bangladesh Bank, state owned commercial banks; state owned specialized banks for agricultural finance and private banks plays a vital synergy in agricultural financing in Bangladesh.

Role of Bangladesh Bank: Bangladesh Bank does not provide any loan to the farmers. In fact the central bank is not supposed to finance any individual. But Bangladesh bank provides policy support for smooth and sufficient flow of funds in the rural and agricultural sector. Moreover, Bangladesh Bank has a number of refinance schemes that provides low cost liquidity in the banking sector with a view to facilitate thrust sector agricultural finance.

Some of the policy measures taken by Bangladesh Bank for agricultural finance is described below:

i) Bangladesh Bank is publishing renewed and extended Agricultural and Rural Credit Policy and Program by incorporating new measures and issues since FY 2009-2010. The purpose of the ACP is to ensure adequate amount of credit delivery, proper use of the credit delivered and satisfactory recovery of the credit disbursed.
ii) Bangladesh Bank also time to time issues circulars instructing banks with additional policy guidelines that may be required time to time.
iii) For motivating banks in timely delivery of agricultural credit and credit to other thrust sectors, Bangladesh Bank provides refinance facilities to banks.
iv) Bangladesh Bank often undertakes special projects to be implemented by other organizations and provides financial, supervisory support for successful implementation of such projects.
v) Bangladesh Bank assist in coordination between banks and other governmental or other organizations working in agricultural development
vi) Bangladesh Bank monitors annual target of agricultural credit by banks and monitor disbursements on monthly basis.
vii) Bangladesh Bank sets maximum interest rates applicable for banks financing in the agricultural sector.
viii) Bangladesh Bank provides trainings as and when necessary to bankers.
ix) Bangladesh Bank collects data from banks and produce research reports regarding agricultural credit disbursement by different banks in different sectors and subsectors of agriculture.
x) Bangladesh Bank takes measures for financial inclusion including opening and monitoring of no-frill account for farmers in different commercial and specialized banks.
xi) Bangladesh bank has introduced a mandatory agricultural credit target for all banks working in Bangladesh. Each bank has to announce a minimum of 2.5% of their total credit target to be disbursed purely in the agricultural sector.

Agricultural Refinance Scheme: Refinance scheme for agricultural sector was introduces with Bangladesh Bank's own fund. Salient features of the refinance schemes are as follows:

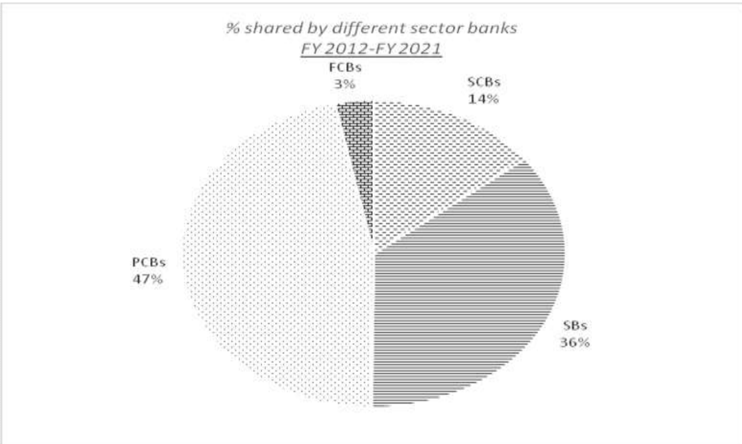
i) Bangladesh Bank undertakes special refinance scheme for pulse, spices and oil seeds. Under this program banks are allowed to take fund from Bangladesh Bank for the particular import substitute agricultural products at 4% interest rate against disbursements at 6% at the farmer level.

ii) Bangladesh Bank also introduces a special 500 crore taka refinance scheme for share croppers. Under this proram, sharecroppers who do not have access to traditional banks receive credit through

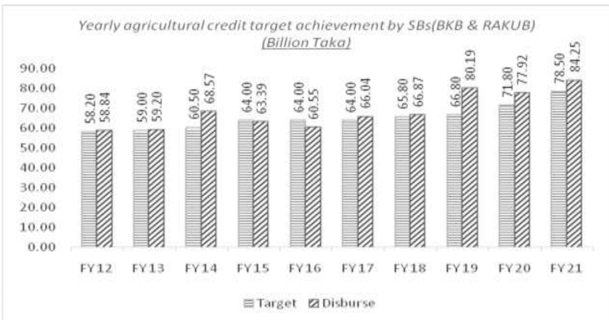
BRAC. Under this program BRAC receives fund from Bangladesh Bank at bank rate and on lend to share croppers in a lower interest rate and under a flexible repayment system matching the crop seasons.

Role of Commercial Banks: Based on the functions and approaches, banks may be of two types: i) commercial banks and ii) developmental banks. Commercial banks are scheduled banks while developmental banks may be scheduled or non scheduled banks.

The main focus of commercial banks is to make profit by taking part in financing the economic activities of the country prudently. Commercial banks usually run without subsidy and assistance from government and have to rely on their own income and profit for sustainability. Examples of commercial banks include privately owned banks such as Prime Bank Ltd, Dutch Bangla Bank Limited, etc as well as the state owned commercial banks such as Sonali Bank Limited, Janata Bank Limited, etc. Developmental banks also generate income and make profit but through financing in some thrust sectors where commercial banks usually do not finance to avoid risks. Developmental banks are sometimes specialized banks to finance specialized sectors such as agriculture or small and cottage industries, etc. Examples of developmental banks include Bangladesh Krishi Bank, Grameen bank, etc.



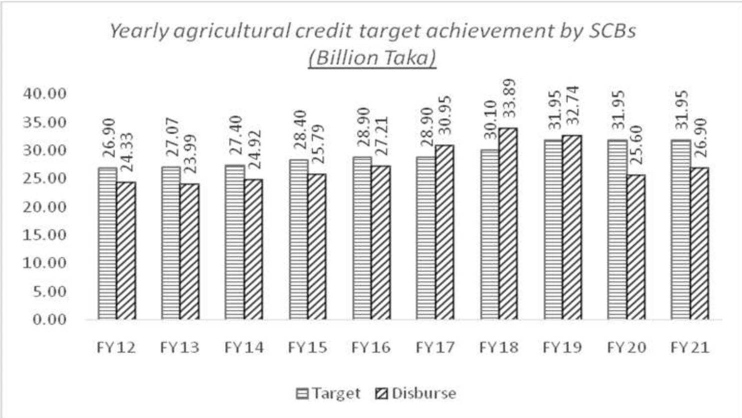
Currently, all banks in Bangladesh has to set a target of disbursing agricultural credit at least 2.5% of their total loan portfolio. Traditionally Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank disburse significant portion of agricultural credit. As per new policy the state owned commercial banks, private banks and the foreign banks also set agricultural credit target and disburse accordingly. However, banks that do not have sufficient number of branches in the rural area can disburse agricultural credit through MFI linkages, meaning banks disburse bulk amount to the MFIs while the MFIs will relend to the real farmers in the rural level. However banks have to ensure that it is disbursed in the agricultural sector.



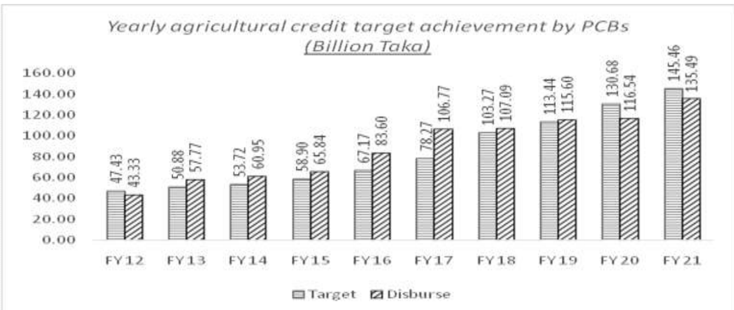
The disbursement target of agricultural credit by all scheduled banks was fixed at TK 28391.00 crores for FY22, which was 7.98 percent higher than TK 26292.00 crores targeted for FY21 and 11.29 percent higher than actual disbursement TK 25511.25 crores of FY21. The disbursement targets of all State-Owned Commercial Banks (SOCBs) and State-Owned Specialized Banks (SOSBs) together, and Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs) together were fixed at TK 11045.00 crores and TK 17346.00 crores, respectively. These disbursement targets were 38.90 percent and 61.10 percent of the total agricultural credit disbursement target respectively.

BKB and RAKUB: Bangladesh Krishi Bank (BKB) and the Rajshahi Krishi Unnayan Bank (RAKUB) are both developmental as well as commercial banks. BKB and RAKUB have relatively better branch network in the rural areas of Bangladesh. The two banks have wide branch network across Bangladesh compared to other banks. BKB and RAKUB disbursed taka 61.97 billion and taka 15.95 billion respectively in FY 2020. It may be mentioned that BKB exceeded their disbursement target by 12.67% in the same fiscal year.

Performance of SCBs: The four state owned banks (namely Sonali Bank Ltd, Rupali Bank Ltd, Janata Bank Ltd and Agrani Bank Ltd) have branches are disbursing agricultural credit though their branches spread across the country.. However their disbursement growth is rather flat and has risen around only 10% in 10 years since FY 2012. All four SCBs in combined disbursed taka 25.60 billion out of their total disbursement target of taka 31.95 billion during FY2020; which are still not considered adequate compared to the needs of the farmers.



Performance of FCBs: Foreign banks in Bangladesh were late to join in agricultural credit program in Bangladesh and only joined recently due to the mandatory agricultural credit disbursement policy by BB. However, they disbursed taka 7.42 billion in FY 2020 exceeding their agricultural credit disbursement target by around 9%. The reciovery by the FCBs were taka 6.44 billion taka and total outstanding at the end of the fiscal year was taka 5.28 billion.



Performance of the PCBs: The private commercial banks do not have sufficient branch networks in the rural areas. As such their direct disbursement in the rural areas is not significant. However, together are now leading in agricultural credit disbursement using the MFI linkages. Al the PCBs in combined have disbursed a total of 116.54 billion taka out of their total disbursement target of taka 130.68 billion in FY 2020. Since, 2012 the agricultural credit growth has risen to reach over three fold in 10 years to reach today's level, thanks to the bank-MFI linkages.

SECTION EIGHT

MONITORING AND RECOVERY OF AGRICULTURAL CREDIT

Agricultural credit disbursement has always been a priority since independence of Bangladesh; while recovery seems to have been an ignored area and was not properly emphasized until only recent years. Generally speaking the recovery rate of agricultural credit has always been unsatisfactory. Because of unsatisfactory recovery many financial institutions remain wary of investing more money on agriculture sector resulting in inadequate supply of agricultural credit to deserving farmers.

It is true that agricultural credit bears inherent risks associated with agriculture. Events such as natural disasters, bad yield due to pest attack or low seed quality or weather variations, fall of price level due to over production can negatively affect agricultural credit recovery. On the other hand, it is also true that Grameen Bank and the Micro Finance Organizations (MFIs) deal with almost same segment customer as the specialized banks such as BKB and RAKUB but producing a much better performance as far as recovery is concerned.

Question comes, what then are the key factors making difference in recovery level between banks that are providing traditional agricultural loan and MFIs providing micro credit? There comes the issue of monitoring. Knowing the customers and their businesses are crucial for monitoring loans.

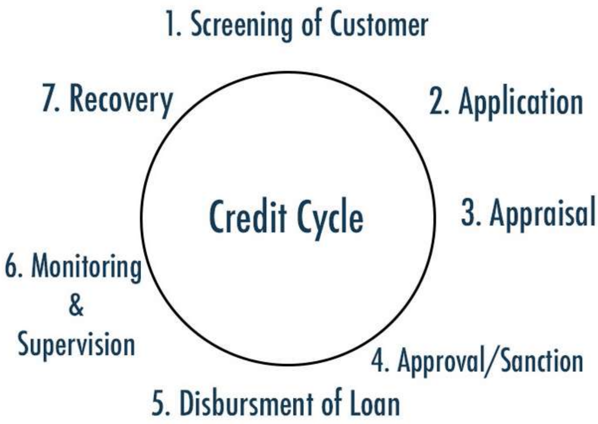
Know your business: To monitor anything, one needs to know what to monitor, when to monitor and how to monitor. For these the financing institutions need to have insightful knowledge about the business they are financing for. KYC or know your customer is a familiar jargon in the banking industry but KYB or know your businesses not so familiar and much less understood. By knowing the important aspects of agriculture-form land preparation to seed collection, fertilizer purchase to hiring agricultural equipments, pesticides to harvesting will realize where the funds are required and how much and accordingly the bank can design product and monitor the progress and appropriateness of loan usage.

Know your Customer: Knowing the customer is a key to success for any project lending by a financial institution. Knowing the customer may also include knowing the business and the collaterals. The bank must verify the business address/farm address, residential address, address of the recommender/guarantor, etc. For small amount of agricultural credit, banks are not supposed to seek collateral, however for bigger amount of loans banks have to check the genuineness and forced salability and forced sale value of the property under consideration of mortgage. By knowing the customer, the financial institution can effectively monitor the loan.

Objectives of Monitoring:
The main objectives of the agriculture and rural credit monitoring as per the Agricultural and Rural Credit Policy of Bangladesh Bank focuses more on loan disbursement and utilization as proper utilization helps recovery and reduce default risks. Objectives of monitoring of agricultural credit program are as follows:

a) Achievement of the overall agricultural and rural credit disbursement target;
b) Ensuring disbursement of 60% of the total agricultural credit in the crop sub-sector;
c) Emphasizing on the disbursement of credit to fisheries and animal resources so that at least 10% of the credit is disbursed in these two sub-sectors of agriculture;
d) Using area approach method for loan disbursement i.e. focusing the crop for the area it suits the best;
e) Extending credit facilities to the neglected people of less developed areas including char, haor, costal belts, etc;
f) Ensuring credit facilities to real farmers in a transparent way;
g) Ensuring proper utilization of loan towards recovery of the disbursed loan.

Monitoring is an important part of the credit cycle.



Better monitored loan has a higher chance of recovery. However, monitoring of loans, especially agricultural and rural credit being smaller in size involves huge cost from the lenders perspective. However, the cost is generally offset by the benefits of high recovery rates.

While the recovery rate of agricultural and rural credit by state owned commercial banks are not upto the mark, Grameen Bank enjoys a much better recovery rate, thanks to their good borrower selection, and intense monitoring.

Due to the importance of agriculture and nature of financial industry engaged in agricultural credit over the time a multilayer monitoring system has been developed in Bangladesh. The system is basically a triple layer monitoring system.

a. Central monitoring system by Bangladesh Bank
b. Monitoring by participating banks
c. Monitoring by district agricultural credit committee

Monitoring by Bangladesh Bank:
With a view to ensure an effective monitoring system to implement the Agricultural and Rural Credit Policy Bangladesh Bank has a monitoring division at the head office and also monitoring units at Bangladesh Bank Branches.

The main features of agricultural credit monitoring of Bangladesh Bank are as follows:

- Conducting off-site monitoring by collecting monthly statements containing required information of agricultural and rural credit disbursement and recovery from the scheduled banks.

- On-site monitoring of agricultural and rural credit program of scheduled banks is also conducted by the bank inspection department (DBI) of Bangladesh bank head office and branch offices. Besides, Agricultural Credit and Financial Inclusion Department also examine the proper uses of agricultural loan from time to time on sample basis.

- Monthly discussion meeting with the state-owned commercial banks and specialized banks and bimonthly meeting with the private and foreign banks held regularly with a view to discuss the progress of agricultural and rural credit program. Alongside progress of loan disbursement, barriers to achieve target, transparency in loan disbursement, ensure the qualitative value, loan recovery etc are also discussed in the said meetings.

- Many private and foreign banks are disbursing agricultural and rural credit through Micro Finance Institutions (MFIs) due to limited branches in rural areas. In this case banks are advised to supervise the agricultural and rural credit program directly at the borrower levels. Bangladesh Bank is also conducting on site inspection on sample basis after analyzing the report and statement submitted by the participating banks. The accountability is ensured by the participation of state-owned banks as well as the private banks or their nominated MFI representatives in the District Agricultural Credit Committee. It is to be mentioned that Bangladesh Bank officials also attend those meetings.

- Banks are also motivated to disburse loan publicly in presence of local elites with a view to increase transparency in loan disbursement. In last three years there is a large number of banks conducted this kind of publicly loan disbursement. Officials of different levels of Bangladesh Bank head office and branch offices have been attending these meetings.

- Thanks to the subsidized interest rate of 4% and awareness, there is growing interest for cultivating some specific crops (pulse, oil seeds, spices and maize) among the farmers. Bangladesh Bank separately motor the disbursement and recovery of agricultural credit disbursed in subsidized rate.

- Bangladesh Bank collects cell phone numbers of borrowers from the banks to communicate with farmers directly to know about the transparency, loan utilization, bank's service etc. Honorable Governor communicates with farmers directly over cell/phone.

- Bangladesh Bank takes necessary steps on receiving any written or telephonic complaint concerning agricultural and rural credit.

Customer Interest Protection Centre of Bangladesh Bank: With a view to protect the customers from harassment in receiving service in banking and financial sector including agricultural and rural credit and to settle any complaints in a possible quickest time, Customer Interest Protection Center (CIPC) has been established in Bangladesh Bank. Farmers can call directly from any phone on a hotline (no- 16236) to make complaints on any banking issues if they are not getting service from the concerned bank. Bangladesh Bank takes necessary measures against their complaints. Besides, the email, phone, mobile and fax number of the Customer Interest Protection Center (CIPC) of branch offices of Bangladesh Bank are also available in Bangladesh Bank website for the welfare of public and stakeholders.

Monitoring by District Agricultural Credit Committee: The District Agricultural Credit Committee has been playing an effective role in successful implementation and coordination of the Agriculture/Rural Credit Program at field level under 'Lead Bank' system. Under this system, the State-owned Commercial or Specialized Bank branches have been allotted with specified union(s) for disbursing agricultural loan. The Deputy Commissioner of the district is the Chairman of the District Agricultural Credit Committee and a specified bank holds the Secretarial responsibility as the 'Lead Bank' of the district. The District Agricultural Credit Committee holds monthly meeting to discharge its supervision and coordination functions related to agricultural and rural credit. At present, disbursement of agricultural credit is compulsory for all private and foreign banks operating in Bangladesh. Many private banks do not have branches in all districts as well as rural areas. Due to inadequate no of branches in rural areas, the private and foreign banks are disbursing agricultural and rural credit through their branches and/or with the partnership of Micro Finance Institutions (MFIs) approved by the Micro-credit Regulatory Authority (MRA). In view of the participation of all banks in rural credit operation and in order to make the agricultural credit activities more effective and coordinated, the representation of private and foreign banks in the District Agricultural Credit Committee alongside the State-owned Commercial and Specialized Banks is essential.

Agricultural and Rural Credit Recovery: The concerned branch/regional officials themselves are supposed to determine the installment size and timeline for repayment of the loan in the light of the repayment schedule annexed with Agricultural and rural credit policy. At the beginning of the harvesting season as well as at the marketing time, the bank branches take all out effort for recovery of loan. It should be kept in mind that loan disbursement will be hampered if loans are not recovered. Practice of credit waiver should be avoided; because credit waiver for delinquent loans is a disincentive to good borrowers and may make the borrowers reluctant to repay the loan in future. However, loan recovery can be postponed/delayed in consultation with Bangladesh Bank in case of natural calamities. In order to avoid financial loss and liquidity crisis due to classification of loans and to ensure the best use of the fund, banks should gear up recovery activities, agricultural and rural credit policy of Bangladesh bank suggests.

With a view to raising awareness regarding the importance of recovery among the common public, banks should undertake awareness programs related to Agricultural and Rural Credit recovery in public places.

The following steps may be considered to expedite the agricultural and rural credit recovery:

a) The banks may award certificate/incentives under their own policy to encourage the officials for recovery of loan.
b) Banks may allow rebate on interest rate as reward for the borrowers who repay the loan in time.
c) Effective steps shall be taken to settle the long pending Certificate Cases. In this regard, incentives may be arranged for repayment of outstanding loan at a time.
d) Initiatives may be taken to reschedule classified loans in consultation with Bangladesh Bank.
e) To recover loans, a separate 'Recovery Cell' may be constituted at branches where the amount of classified/overdue loan is more than 50% of the total loan portfolio.
f) Arranging 'Agricultural Credit Recovery Camp' at places of farmers gathering with prior publicity to recover loan.
g) The use of information technology to recover agricultural credit may be encouraged.

Public Demand Recovery Act

The Public Demand Recovery Act is applicable for recovery of agricultural credit by state owned banks such as: Bangladesh Krishi Bank and the Rajshahi Krishi Unnayan Bank. Public Demand recovery Act (PDR Act) was promulgated in 1913 to help recover any public recoverable. The certificate cases to recover classified agricultural loans provided by the state owned banks are carried out according to the Public Demand recovery Act, 1913. Proceedings are initiated under Section 4 of the PDR Act, 1913 when satisfied that recoverable dues of Government and Semi-Government Institutions are not lapsed. A notice is issued to the debtor as per section 7 stating what the claimant owes. The debtor either pays the claimed dues or can file an objection denying the full/partial claim. At the end of the hearing the objection is disposed of. Debtors can file an appeal within thirty days of the Certificate Officer's order without accepting the Certificate Officer's order. If there is no basis for filing an objection or appeal and the debtor fails to pay the amount demanded within the stipulated time, first the arrest warrant and then the movable and immovable property are sold at auction and auction to recover the debt.

SECTION NINE

SECTOR AND SUB-SECTOR OF AGRICULTURAL FINANCE

Sectors and subsectors of agricultural credit are presented in the following chart as per the Agricultural and Rural Credit Policy of Bangladesh Bank.

Short term credit

1.1 Crop Credit
- a) Aman crop
- b) Rabi crop
  - i) Boro
  - ii) Wheat
  - iii) Potato
  - iv) Sugar cane
  - v) Mustard seeds/nuts
  - vi) Other Rabi crops (pulse seeds and winter vegetables)
- c) Summer Crop
  - i) Aush
  - ii) Jute
  - iii) Corn
  - v) Other summer crop (Sesame, summer vegetables)
- d) Cotton
- e) Seeds production
- f) Other crops (ginger, aram, etc)

1.2 Fisheries Development
- a) Fish farming
- b)Shrimp cultivation
- c) Aquaculture
- d) Production of fish fries
- 1.3 Salt cultivation
- 1.4 Other short term activities
- 1.5 S/grain storage and marketing

Long term credit

2.1 Agricultural Equipments
- a) Deep tubewell
- b) Shallow tubewell
- c) LLP
- d) Hand pump/water pump/ i treadle pump

2.2 Livestock development
- a) Bull/Buffalow
- b) Development of livestock
  - i) Beef fattening
  - ii) Dairy farm
  - iii) Goat/lamb farm
- c) Poultry farm
- d) vermin-compost

2.3 Agricultural Equipments
- a) Power tiller
- b) Tractor
- c) Mechanical harvester
- d) Other agri-equipments

2.4 Nursery, pine apple, bau kul, oil palm, etc
2.5 Betel leaf cultivation
2.6 Mushroom cultivation
2.7 Income generating activities
2.8 Rural communication (boat, rickshaw, van, bullock cart, etc
2.9 Management of open water bodies (jalmahal)
2.10 Other long term activities (sericulture, Laksa, tea (upto leaf leaf cultivation), etc

NB. Term loan may be distributed in fisheries sector as well

SECTION TEN

METHODS OF AGRICULTURAL CREDITS DISBURSEMENTS

Methods and procedures may often seem synonymous but there are differences. Procedures are sequences or step by step process to be followed for performing some job while methods are the ways of doing a job.

Banks may apply several methods in agricultural credit delivery according to the Agricultural and Rural Credit Policy of Bangladesh Bank. They are as follows[55]:

a) Direct credit delivery among farmers through the branch network
b) Agri-Credit delivery through MFI linkage
c) Agri-Credit delivery through agent banking
d) Agri-credit delivery through contract farming
e) Open credit delivery through credit camps

a. Direct credit delivery among farmers through the branch network: Appropriate amount of agricultural credit delivery to the real farmers through the rural branches of state owned commercial banks, state owned specialized banks for agricultural and the private banks can help develop the rural economy. Banks are supposed to make profit and many bankers may perceive agricultural credit not being profitable. But one must remember that agriculture is not important for food production alone; it is also the backward linkage for many other industries that the banks finance in. If the agricultural production is not well, the food processing industry and the other agro-based industry will not get the raw materials and therefore they will not be able to function well. Bankers therefore must realize that agricultural credit disbursement is not the duty of BKB and RAKUB alone. Each bank should try to disburse adequate amount of agricultural credit directly to the farmers.

With a view to reaching more rural areas with banking services, BB issued a circular on bank-branch expansion in 2011 and re-fixed the rural urban branch ratio to 1:1. In FY21, a total of 205 new bank branches were opened. The number of bank branches as on 30 June 2021 stood at 10,793.[56]

Some banks may think that they are disbursing agri-credit through MFI linkage and they do not need to provide agricultural finance anymore. But, given the low interest rate offered by banks; financial flow from different sources not only enhance the farmers' scope to borrow but create a healthy competition among the financial institutions that may help improve service delivery and keep the interest rate low for the poor farmers.

In FY21, two specialized banks (BKB and RAKUB) and six SCBs disbursed BDT 111.15
billion or 43.57 percent of total disbursement of BDT 255.11 billion mainly through direct delivery[57].

b. Agri-Credit delivery through MFI linkage: All scheduled banks including the private and foreign banks operating in Bangladesh have been compulsorily brought under the Agricultural Credit Progamme since the FY 2008-2009. Every bank now has to fix an agricultural credit target at least 2.5% of their total portfolio. To meet this target the banks that do not have adequate branches in rural areas, may conduct the agri-credit operations in partnership with the Micro Finance Institutions (MFIs) licensed by Micro Credit Regulatory Authority (MRA) under the following terms and conditions:

i) The Banks disbursing agri-credit through partnership with MFIs partially or fully shall have to ensure the

[55] Agricultural and Rural Credit Policy of Bangladesh Bank from different years since 2011-12
[56] Bangladesh Bank Annual Report, FY 2020-21
[57] Source: Bangladesh Bank Annual Report

receipt of loan by borrower. Concerned Banks and MFIs shall have well defined work plan and monitoring system in place. However, the concerned Bank shall be responsible for submitting all required information and statements to Bangladesh Bank.

ii) The Banks shall consider to provide the credit line to the MFIs on the basis of a credit proposal submitted by them specifying the amount of loan, probable size of each loan at borrower level, number of borrowers, tenure, sector/sub-sector, applicable rate of interest at borrower level, project area (district/upazilla) etc. and shall be incorporated clearly in the corresponding sanction advice /loan agreement.

iii) While releasing the loan amount at the first installment by the banks, MFIs shall have to submit a detailed information of financing containing the number of borrowers, tenure, sector/sub-sector, applicable interest rate at borrower level, project zone (district/upazilla) etc. to the respective banks and at the time of releasing subsequent installments they will submit a certificate on each occasion mentioning that previous loan has been used in agricultural and rural activities properly. d) Under the Bank-MFI partnership, the fund released by the bank to the MFIs will be treated as agricultural and rural credit by Bangladesh Bank only after the disbursement of the fund to the farmers/borrowers level.

iv) The banks, disbursing the agri/rural credit through MFIs partially or fully, shall ensure disbursement of 60% of target amount as crop loan as per policy guidelines. For the purpose, the MFIs shall have to disburse crop loan along with the income generating and poverty alleviation activities.

c. Agricultural Credit Delivery through Agent Banking: Agent banking has opened up enormous scope to deepen financial inclusion. Under the agent banking system banks can deploy agents to work for the bank in remote areas where establishing branch network is not feasible for banks but scope of banking in limited scale such as small deposits, small loans, foreign remittance delivery, etc are prevailing. As of June 2021, 28 banks were engaged in agent banking. A total of 12,912 agents were deployed with 17,145 outlets in FY21 which was 47.33 percent and 37.72 percent higher than 8,764 agents and 12,449 outlets in FY20 respectively. Total number of accounts up to June 2021 was 12,205,358 and total balance of these accounts was BDT 203.79 billion. The distribution of foreign remittance, through agent banking in FY21 was BDT 679.54 billion which was 154.98 percent higher than BDT 266.51 billion in FY20. From the above statistics it is clear that agent banking is gaining growing popularity. Banks can use the agent banking channels for agricultural credit delivery keeping in line with the agent banking guidelines of Bangladesh Bank.

d. Agri-credit delivery through contract farming: Contract farming is a new approach of financing involving a contract between the large agro-based industry and the farmers why supply raw material to the industry. The `contract farming' system may play an important role by reducing the marketing cost as well as to ensuring fair price for the produce of the farmers. Due to establishment of agro-processing industries, increase in export of agro-commodities and creation of additional demand for domestic consumption, the contract farming system is getting popularity day by day. Bank may provide credit to the farmer/entrepreneur engaged in contract farming in order to ensure timely supply of quality raw materials to the producers of juice, chips, chanachur, poultry feed, cattle feed, fish feed, etc.

To provide loan in contract farming the banks have to ensure the following:
A valid contract between the farmer/farmers and entrepreneurs will have to be signed for contract farming arrangement. Following conditions must be mentioned in the contract:

- The contract must be accomplish 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 contract must be ensured the credit assistance for supply of necessary inputs (such as seed, fertilizer etc.) for producing crops, assistance for getting loan, utilization of advanced technology, opportunity to increase farmers skill, fair price and marketing on due time.

- If crops are damaged due to natural disaster, the remedial measure or compensation system in favor of the farmers must be mentioned in the contract.

- The procedure for adjustment of the credit disbursed to the farmers and maximum interest rate of the credit must be mentioned in the contract.

Qualification of the entrepreneur of contract farming:

- Must be a company registered under registrar of joint stock companies and firms;
- Must have experience in preservation, marketing and processing of agricultural commodities;
- Must have experience to work with the farmers in the field level. It is mentionable here that, a copy of the accomplished contract between the farmer/farmers and entrepreneur engaged in contract farming must be submitted to the Agricultural Credit & Financial inclusion Department in order to sanction loan in favor of the entrepreneur.
- Banks have to take prior permission from Bangladesh Bank for sanctioning each loan provided to the entrepreneur.
- The actual rate of interest for contract farming loan provided in favor of the farmer will be complied by the interest ceiling may be determined by BB time to time and will have to calculate on reducing balance method. The interest rate could be fixed on the basis of banker-customer relationship for disbursing loan in favor of the entrepreneur.
- Information and account statement of the farmers engaged in contract farming must be preserved by the enterprises and will have to supply to the concerned bank on demand.

Despite allowing contract farming Bangladesh Bank emphasizes on a strong monitoring in this respect. The reason behind this could be that there is a risk of misreporting of agro-based industries as agricultural financing. It may be mentioned that agro-based industrial financing is not treated as agricultural financing though the sector gets indirect befit. This may be substantiated by the fact of very low compulsory agricultural credit target (2.5%) in Bangladesh than India (18%) by the Reserve Bank of India. Moreover, as a policy making institution Bangladesh Bank might have also kept in mind about the chances price discrimination against the farmers.

e. Agricultural credit through credit camps: With a view to disbursing loans in a transparent way, banks are encouraged to arrange credit camps in local haat (marketplace) or in other open space in the local area where people may gather. Various banks arranged to disburse loan in open gathering at union level in presence of local public representatives, agricultural officers, teachers and other respectable persons. During FY2020-21, around Tk. 519.48 crore agricultural credit was disbursed among over eighty thousand farmers through 14,702 open credit disbursement programmes arranged by different banks.

SECTION ELEVEN

USE OF IT IN AGRICULTURAL CREDITS

It is now widely accepted that Information Technology (IT) enables sophisticated product development, better market infrastructure, and implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets. Internet has significantly influenced delivery channels of the banks. Internet has emerged as an important medium for delivery of banking products and services.[58]

Use of information technology by banks is beneficial to the banks, to the customers and it increases the service quality.

IT's benefit to banks:

- Innovative, scheme, addresses competition and present the bank as technology driven in the banking sector market
- Reduces customer visits to the branch and thereby human intervention
- Inter-branch reconciliation is immediate thereby reducing chances of fraud and misappropriation
- On-line banking is an effective medium of promotion of various schemes of the bank, a marketing tool indeed.
- Integrated customer data paves way for individualized and customised services.

IT's benefit to bank customers:

- Anywhere banking no matter wherever the customer is in the world. Balance enquiry, request for services, issuing instructions etc., from anywhere in the world is possible.
- On-line purchase of goods and services including online payment for the same.
- Anytime Banking — Managing funds in real time and most importantly, 24 hours a day, 7days a week.
- Convenience acts as a tremendous psychological benefit all the time.
- Cash withdrawal from any branch / ATM

Adoption of Information Technology by banks: Many banks in Bangladesh have modernized their services with the facilities of computer and electronic equipments. The electronics revolution has made it possible to provide ease and flexibility in banking operations to the benefit of the customer. The e-banking has made the customer say good-bye to huge account registers and large paper bank accounts. The e-banks, which may call as easy bank offers the following services to its customers:

- Credit Cards/Debit Cards
- ATM
- EFT (Electronic Funds Transfer)
- Mobile Banking
- Telephone Banking
- Internet Banking

Impact of IT on the Service Quality: The most visible impact of technology is reflected in the way the banks respond strategically for making its effective use for efficient service delivery. This impact on service quality can be summed up as below:

[58] https://www.mbaknol.com/business-finance/role-of-information-technology-it-in-the-banking-sector/

- Automation provides a level playing field among banks irrespective of their sizes. With automation, service no longer remains a marketing edge with the large banks only. Small and relatively new banks with limited network of branches become better placed to compete with the established banks, by integrating IT in their operations.
- With technology the banks cannot take a lifetime relationship with the customers as granted and they have to work continuously to foster this relationship and retain customer loyalty.
- Automation has also negatively impacted some service. The technology on one hand serves as a powerful tool for customer servicing, on the other hand, it itself results in depersonalizing of the banking services. This has an adverse effect on relationship banking.
- Automation and use of IT has increased cost for many banks. In order to reduce service delivery cost, banks need to automate routine customer inquiries through self-service channels. To do this they need to invest in call centers, kiosks, ATM's and Internet Banking that require IT infrastructure integrated with their business strategy to be customer centric.[59]

Status of IT adoption in Financial Sector of Bangladesh banks:

- Number of ATMs per 100,000 adult persons in Bangladesh has increased from 7.09 in 2015 to 10.18 in 2020 (44 percent increase in 5 years)
- Number of registered mobile money agent outlets per 1,000 square kilometre has increased from 4,408 in 2015 to 8,141 in 2020 (85 percent increase in 5 years)
- Number of registered mobile money accounts per 1,000 adult persons in Bangladesh have increased from 310 in 2015 to 825 in 2020 (166 percent increase in 5 years)
- Value of mobile money transactions as percentage share of GDP has increased from 11.26 in 2015 to 20.45 in 2020 (82 percent increase in 5 years)

It should be obvious from the discussion that digital financial service (DFS) has made reaching the "bottom of the social pyramid" possible for the financial service providers at a low cost and with high pace. DFS has not only proven its efficiency and reliability to the private sector and/or the non-state actors, but also the government itself.[60]

Status of Information Technology in Agricultural banks: However, there is no denying of the fact that adoption of information technology has not been equitable among the banking sector. While the Privately owned banks and foreign banks in Bangladesh have utilized the benefits of information technology to the fullest, the state owned banks especially the specialized banks for agriculture are training way back.

BKB boasts in their website that all account holders of BKB get Q-cash Debit Card and ATM facility for 24 hour banking convenience. But the reality is that the bank has only 08 (eight) ATM booths. While privately owned DBBL alone has 4907 ATM booths, according to the bank's website. BKB claims that all their bank branches are online, however there are lot of complaints from the BKB customers regarding getting real-time online banking services.

Impact of IT on Privacy and Confidentiality of Data: Data being stored in computers is now being displayed when required throughout internet banking, mobile banking, ATMs, etc which has given rise to the issue of privacy and confidentiality

- The data processing capabilities of the computer, particularly the rapid throughput, integration, and retrieval capabilities, give rise to doubts in the minds of individuals as to whether the privacy of the individuals is being eroded.

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[59] https://www.mbaknol.com/business-finance/role-of-information-technology-it-in-the-banking-sector/

[60] Dr. Atiur Rahman, In search of digital financial inclusion in Bangladesh, The Daily Star, Tue Feb 15, 2022

- So long as the individual data items are available only to those directly concerned, everything seems to be in proper place, but the incidence of data being cross referenced gives rise to privacy problems.
- Customers feel threatened about the inadequacy of privacy being maintained by the banks with regard to their transactions and link at computerized systems with suspicion.

Adoption of modern technology in agricultural finance has many scopes. FinTech provides a set of opportunities keeping in mind the recent advancements in technology that are mentioned below. It may provide enormous benefits to those who have been excluded from agricultural credit system[61].

I. By integrating mobile banking service with traditional banking system many services such as making of agricultural payments may be more customers friendly.

II. The government to Public (G2P) payments such as agricultural input assistance may provided without using the banking channel, thereby reducing burden of banks and saving time for the farmers

III. Bangladesh already has a credit information bureau that is maintained by the central bank. However, some exceptions have been allowed in CIB searching in case of giving new agricultural loans to facilitate smooth agricultural credit. However, this can only be an interim solution and rural bank branches should be strengthened enough so that they can seek CIB and give input to CIB database. This will reduce risk of giving loan to default borrowers. Moreover farmers will have the liberty to take credit from any bank branched without the need of NOC from the concerned lead bank. This would create competition among banks and also the scope of cooption will be reduces.

IV. The problem of building asset and credit registries, as has been noted by many technical experts, appears to be an ideal application of distributed ledger technology. A blockchain registry network would have the same features as a common distributed ledger network technology, but the blockchain feature could also be used to ensure that the historical record of ownership as well as the transfer of assets, lands, automobiles, homes, and land was current and unambiguous.

V. A coordinated regulatory push on FIs to require information sharing, particularly on smallholder loans. Emphasis should be on the “ladder of credit,” requiring sharing between small (microfinance) and large (private commercial) lending institutions so that the entrepreneurial poor can use credit reputation as a tool for economic mobility.

VI. To make agricultural sector more productive, poor friendly and sustainable; successful financial literacy programs may be strengthened to ensure that individuals are aware of new FinTech options, able to interact with systems and price compare, and using tools to plan for the future. Gender is an important part of financial literacy and programs tailored to specific demographics are more effective.

VII. To make agricultural credit successful Bangladesh needs ICT-driven agricultural extension services (such as Olam, Precision Agriculture for Development, etc.) that allow smallholder farmers to improve quality, improve profits, and feed output into higher-value supply chains.

VIII. ICT-driven trading platforms are needed to give smallholders access to price information and deeper markets. Shallow markets inhibit smallholders from investing in productivity enhancement because prices fall when output increases.

[61] Craig McIntosh & Caio Scuarcialupi Mansini, 2018, The Use of Financial Technology in the Agriculture Sector, Asian Development Bank Institute

IX. Land titling and land registries to permit farmers to collateralize land into credit. Land-collateralized credit may need to be paired with explicit credit insurance to allow borrowers to avoid “risk rationing” on the demand side. Providing agricultural insurance to banks is not sufficient if the banks do not extend this conditionality explicitly in their loans.

Case Study 5
Examples of IT innovations by banks in Bangladesh

a) Online Krishi by GoB Agrani Bank Ltd joint initiative: With a view to provide easy, fast and hassle free access of agricultural credit to the poor farmers Prime Minister’s office’s A2i project has taken an innovative project in collaboration with Agrani Bank Limited. Under the project farmers are supposed to receive agricultural credit through the following some easy steps.To apply, the farmer has to register using his NID and mobile number through www.onlinekrishi.gov.bd website or using Mobile App named “Krisholoan” either by himself or he can take assistance from the Union Digital Centers (UDCs). Then the farmers can mention his loan requirement amount and other information in the same app and apply for the loan, just by clicking a button. Then genuinely of the farmer is verified by the concerned upazila agriculture/fishery/other related officer. Documents are cross checked by the authorized officer of the branch. Final approval of loan is provided by the branch manager of the bank. The applicant can monitor the status of loan application using mobile app while staying in his home. Upon approval the applicant will be notified by an SMS. Upon conformation the farmer can collect the loan from the bank. In this process; the farmer has to visit the bank just once which will save from unnecessary spending of time, energy and money for seeking bank loan. Currently the project is being implemented through all branches of the state owned banks in Chittagong and two branches of each private bank in Chittagong on pilot basis[62]. If successful; the project will bring a revolution in the agricultural credit procedures in Bangladesh and help farmers in receiving agricultural credit in a hassle free manner.

b) BKB Janala: Bangladesh Krishi Bank has also launched a mobile app namely BKB Janala in the year 2018. While customer cannot apply for loan through this app; all sorts of information regarding eligibility to get loan, crop calendar, products and interest rates of BKBloan products, sample application form. Etc are available in the free mobile application.

c) Digital Loan: City Bank in collaboration with bKash, the mobile banking operation of BRAC Bank Ltd have started offering a first-of-its-kind Digital Loan that will enable users to request and receive loans instantly through bKash mobile banking account. Loan amount may vary between BDT 500 to BDT 20,000. Loan tenor for this loan is only 3 months repayable in installments. The interest rate is 9% per annum but the interest is calculated daily basis. For example, for a Tk 1,000 Digital Loan for 3 months, the customers have to repay approximately Tk 15 as interst. The customer will be charges additional 0.575% during loan disbursement as loan processing fee. This initiative has been launched for the first time in Bangladesh with the approval of Bangladesh Bank and this service aims to facilitate and expand financial access to the unbanked population and contribute towards the journey of financial inclusion. City Bank’s instant digital loan is expected to bring impactful changes to micro-entrepreneurs, marginalized people, students or absolutely anyone to meet their emergency personal or business needs.

[62] ACP, FY 2021-22, Bangladesh Bank

SECTION TWELVE

ROLE OF BANKS IN AGRICULTURE SECTOR FINANCING

Agriculture is a key driving force of the economy of Bangladesh. Agriculture sector alone contributes to 13.35% of the gross domestic product of Bangladesh. Moreover 40.60% of the total workforce of the country is employed in the agriculture sector. In line with the agriculture friendly policies of the government the banks are participating in implementing the agricultural and rural credit policy and program of Bangladesh Bank.

No-frill account of farmers: As part of the financial inclusion initiatives of the Government as well as by Bangladesh Bank, in the last few years a total of 10.2 million no-frill bank accounts have been opened in different state owned and other commercial banks. This is helping the farmers overcoming psychological barriers. Now they are visiting bank branches for savings and withdrawal purpose. Many banks are also disbursing agricultural credit through these accounts.

Credit Disbursement: In the recent years the private commercial banks and the foreign banks have joined in implementing the agricultural and rural credit policy and program of Bangladesh Bank alongside the state owned commercial and specialized banks in agricultural credit disbursement. This has given a renewed momentum in agricultural credit disbursement.

In FY20 banks were able to disburse a total of taka 227.49 billion against the disbursement target of taka 241.24 billion taka. The lion's share of the amount disbursed (84.19%) was disbursed as short term loan while the rest 15.81% was disbursed as long term loan for the purpose of purchasing cattle's and agricultural machineries. Around 60% (59.50%) of the short term agricultural credit was disbursed for crop cultivation.

Performance of the PCBs: The private commercial banks together are now leading in agricultural credit disbursement. Al the PCBs in combined have disbursed a total of 116.54 billion taka out of their total disbursement target of taka 130.68 billion in FY 2020. Together they now disburse more agricultural credit than BKB, RAKUB and the all 4 state owned banks (namely Sonali Bank Ltd, Rupali Bank Ltd, Janata Bank Ltd and Agrani Bank Ltd) combined. However, as the private banks have limited number of branches in the rural areas and they are allowed to disburse agricultural credit through MFI linkages, a sizable portion of their total disbursements were actually made to the MFIs who then disbursed the amount among farmers and poor rural households for income generating activities. The PCBs recovered taka 111.00 billion during the financial year and total outstanding in the sector by the PCBs were taka 119.57 billion at the end of the fiscal year.

Performance of BKB and RAKUB: Bangladesh Krishi Bank (BKB) and the Rajshahi Krishi Unnayan Bank (RAKUB) disbursed taka 61.97 billion and taka 15.95 billion respectively in FY 2020. It may be mentioned that BKB exceeded their disbursement target by 12.67% in the same fiscal year. BKB and RAKUB recovered taka 52.59 billion and taka 16.86 billion respectively in the financial year. Total outstanding of agricultural credit by both BKB and RAKUB are 175.59 billion and 44.76 billion taka respectively, compared to which recovery is not impressive at all.

Performance of SCBs: The four state owned banks (namely Sonali Bank Ltd, Rupali Bank Ltd, Janata Bank Ltd and Agrani Bank Ltd) disbursed taka 25.60 billion out of their total disbursement target of taka 31.95 billion during FY2020. They recovered taka 25.55 billion during the same time period; which apparently looks great but cuts a sorry figure compared to the total outstanding of taka 11.73 billion at the end of the fiscal year.

Performance of FCBs: Foreign banks in Bangladesh were late to join in agricultural credit program in Bangladesh and only joined recently due to the mandatory agricultural credit disbursement policy by BB. However, they disbursed taka 7.42 billion in FY 2020 exceeding their agricultural credit disbursement target by around 9%. The recovery by the FCBs were taka 6.44 billion taka and total outstanding at the end of the fiscal year was taka 5.28 billion.

SECTION THIRTEEN

REGULATORY POLICIES FOR AGRICULTURAL AND FARM SECTOR FINANCING

Timely disbursement agricultural credit to the real farmers in a hassle free manner is a top priority for the government. Bangladesh Bank being the central bank of the country is the regulator of banking sector working for financing the appropriate sectors. Section 29 of the Bangladesh Bank Order, 1991 empowers Bangladesh Bank to instruct banks about the upper limit of the loan to be given; the ratio to be maintained between the total amount of an advance and loans of other kind; the purposes for which advances may or may not be given; the rate of interest to be charged on advances. With a view to facilitate agricultural financing Bangladesh Bank has issued several policy circulars to be followed by the banking industry. Salient features regarding the regulatory policies for agricultural and farm sector financing is discussed below:[63]

Mandatory agricultural credit target and disbursement: Every year, banks including specialized banks for agriculture, state owned commercial banks, privately owned banks and foreign banks have to declare a target for agricultural credit disbursement. Generally the banks have to declare minimum 2.5% of their total loan portfolio. However, for the last few years Bangladesh Bank has allowed upto 2.1% for private and foreign banks. However the banks may use MFI linkage in disbursing agricultural credit.

Sector Allocation: Crop sector including cereal (rice and wheat) and other vegetables and fruits plays a very important role in enhancing food security of the country. Therefore, Bangladesh Bank in its Agricultural and Rural Credit Policy calls for the banks to disburse 60% of their total agricultural sector to crop cultivation alone. To supply adequate amount of credit in two other important sectors namely fisheries and livestock Bangladesh Bank has also instructed the banks to provide 10% of their agricultural credit target.

Identification of Prospective Borrower: Agricultural and Rural Credit Policy of Bangladesh Bank has eased the procedures of agricultural credit by minimizing paper work by bank and thereby reducing hassle for customers. According to the policy, banker will identify genuineness of prospective customer of agricultural credit with minimum paper requirements. National Identity Card is now widely available, while most farmers receive agricultural input assistance card provided by the government. These two cards are sufficient to identify a farmer. For farmers who have opened no frill accounts with these documents, only the passbook of the bank can serve the purpose of customer identification. Some farmers may not possess agricultural input assistance card. In that case a certificate mentioning that the person is a farmer issued by the Chairman of Upazila Parishad, Pricipal of local college or Head master of local school or certification from any person acceptable to the bank will be acceptable instead.

Eligibility of Borrower: Those who are directly involved in agricultural activity will be eligible for agricultural credit. Even person who are involved in rural income generating activities may also receive agricultural/rural credit. Landless farmers, small farmers, sharecroppers will also be eligible to get agricultural/rural credit. Banks may according to their own policy provide credit to such people with marginal level of income both individually or by forming groups. However, default customer will not be eligible for new loan.

Credit Norms: Bangladesh Bank Publishes annual Agricultural and Rural credit Policy and Programs for banks each year. The policy contains credit norms and cropping season for major crops. The credit norms helps the banks determine the appropriate credit amount for the farmers.

Loan Processing: According to the Agricultural and Rural Credit Policy of Bangladesh Bank, banks should process loan application within 10 days after application is submitted to the bank. In case any

[63] The instructions given in the circulars of Bangladesh Bank should be deemed final in case of any confusion arose from this reading material.

additional information or document is required, bank will communicate it to the prospective borrower in one sitting.

Storing rejected Application: The rejected applications should be stored in separate file mentioning reason for any future audit.

No Loan Processing Fee: Agricultural credit has to be processed without charging any fee from the customers. Only fee that the banks can charge is the interest on outstanding loan. No other charge such as loan processing fee/monitoring fee or in any other name is allowed in agricultural credit.

Maximum limit of agricultural credit: Banks may provide agricultural credit following the credit norms to individuals for a maximum of 15 bigha (5 acre or 2 hectares) of land each. In case of land size higher than that, bank may provide loan according the bank's own policy/norms.

CIB Reporting and CIB Enquiry for Agricultural Credit: It is not mandatory for banks to search for CIB report in case of processing new loan application for agricultural credit. However, the banks have to make sure so that no default customer gets new loan. Banks often use lead bank mechanism for easy disbursement of agricultural credit. However, it is to be mentioned that all overdue agricultural credit has to be reported in the CIB system as per ACD Circular Letter No-02 of 03 December, 2018.

Lead Bank System: There is a lead bank system in place for agricultural credit disbursement. According to this system each union has a designated bank branch for agricultural credit disbursement for the residents of that particular union. Lead bank system was mainly developed for easy disbursement of agricultural credit without taking the hassle of CIB report checking. As the residents of one union can receive agricultural credit from one particular bank branch, it is easier for banks to comply with Section 27 of the Bank Company Act, 1991 that makes default customers ineligible for new loan. It is easier for a bank branch to comply with this rule if there is only one branch for one customer. However, as the banks have become more familiar with information technology, most bank branches are now online; while CIB inquiry has also been made easier for banks. Therefore, Bangladesh Bank has also allowed that customers can apply for agricultural credit from his/her nearest bank branch subject to NOC from the lead bank.

Interest in Agricultural Credit: Bank can determine the rate of interest for different sectors and subsectors of agricultural credit by maintaining interest rate cap set by Bangladesh Bank which is 8% as in July 2022.

Classification: According to the Master Circular on Loan Classification and Provisioning of Bangladesh Bank, (BRPD Circular no-7/2012) the Short- term Agricultural and Micro-Credit will be considered irregular if not repaid within the due date as stipulated in the loan agreement. If the said irregular status continues, the credit will be classified as ' Substandard ' after a period of 12 months, as 'Doubtful' after a period of 36 months and as ' Bad/Loss' after a period of 60 months from the stipulated due date as per the loan agreement.

Waiver of Loan: Though due to some government decisions, agricultural credit upto 5000 taka was waived. But the later governments realized that such waiver facility creates a sense of delinquency among the borrowers in paying off the credit which destabilize the regular loan disbursement and recovery system. When the banks cannot recover loan, it cannot give loan to new customers which hamper agricultural production. Bangladesh Bank does not allow waiver of principal of any loan and encourages banks and customers for regular recovery of loans.

Collateral: Generally, bank can provide agricultural credit without collateral and with crop hypothecation only for providing agricultural credit in upto 5 acres of land. In case of loans for income generating activities, bank may provide loans based on group gurantee. Bank will determine the collateral policy for larger size loans i.e for loans agaist cultivation of more than 5 acres of land each. However, the banks may take the following charge documents to secure the loans:

a) Demand Promissory Note (DP Note); with adhesive stamp valuing Taka 10-50 as applicable according to government policy

b) Letter of Hypothecation (no need to use stamps)

c) Letter of Gurantee in case of personal gurantee (no need of stamp)

Chapter Two:

Micro Credit and Micro Finance: Evolution, Legal Framework and Products

Module B: Micro Credit and Micro Finance: Evolution, Legal Framework and Products
Historical Development of Micro Credit, Micro Credit and Micro Finance, Micro Credit and Poverty Alleviation. Government Policy and Legal Framework Regarding Micro Finance in Bangladesh, Micro Credit Regulatory Authority (MRA) in Bangladesh, Requirements of Collateral Security, Collateral Substitutes, Saving-Compulsory Deposit System, Insurance, Payment Services, Social Intermediation, Enterprise Development Services.

SECTION FOURTEEN

HISTORICAL DEVELOPMENT OF MICRO CREDIT

Bangladesh is not only the pioneer of microcredit but also the largest practitioner of the same with the largest number of microfinance organizations and the highest number of microcredit clients in the world. Micro sized financing for rural development were present in different forms and models since long, even before the birth of Bangladesh. After the independence of Bangladesh with a view to develop the rural economy there were experimentation and re-experimentation to find out a suitable model to ensure fund flow to the rural areas; especially among the poor and marginalized people. Finally, the ideas of `microcredit`, got a shape with the birth of Grameen Bank and soon there was a proliferation of organization providing microfinance by replicating the grameen model according to their own customization. The development of micro finance organization (MFI) as the term is understood nowadays went through development and change in terms of policy and practice to reach today's mature stage.

Historical development of Microfinance in Bangladesh went through development and change. Researchers see the historical development of MFI to have gone through different stages. Lieberman[64] divides the path of microfinance to its current position encompassing four key phases of commecialization: (1) developing the business model and demonstrating profitability and scalability; (2) developing a deep supporting ecosystem and institutional capacity; (3) "cracking" mainstream international capital markets; and (4) transformation and commercialization.

Kabir[65] divides the development path into four stages, but from a different perspective: i) Stage I (1971 to1982): Traditional institutions, Stage II (1982 to 1989): Birth of modern microfinance institutions, Stage III (1990 to 1996): Growth phase of MFIs and Stage IV (1997 to present): Matured stage of MFIs. While the perspective of Lieberman is to see the role of subsidy in microcredit from global perspective; from subsidy dependence to complete elimination of subsidy; Kabir sees the stages along the development of Bangladesh's financial system and he considers the traditional small size credit by traditional banking system as microcredit as well.

The Centre for Microfinance, University of Zurich stages the development of MFIs in Bangladesh through the following four simple stages: a) Action research phase in the 1970's b) Microcredit development phase in the 1980's c) Expansion phase in the 1990's and d) Increased competition and formalization phase from 2000 onwards. We discuss the stages of the historical development of microfinance in Bangladesh considering all above but in a simpler way as discussed below:

I) Pre independence economic deprivation: Economic inequality between east and West Pakistan was a major point of concern for the Begalees which ultimately became a significant cause of dismemberment of East Pakistan. For example, East Pakistan was a Jute producing region and jute was a major export of Pakistan during the 1950s and 1960s (Haq, 1966). But the lion's share of export income from jute that went to the central exchequer was spent for the development of West Pakistan while East Pakistan remained neglected.[66]

The industries of the East Pakistan were chiefly owned by the West Pakistanis who were one way or otherwise, beneficiaries of financial aid from the central government. The traditional Bengali small-scale and cottage industries wasted away when West Pakistanis established big industrial units in East Pakistan. The internal allocations of foreign economic and military aid, by and large, went to the Center and the West Pakistan provincial government. East Pakistan received only 25 percent of the the foreign

[64] Dr. Ira W Lieberman, President and Chief Executive Officer of LIPAM International
[65] Dr. Kabir Ahmed, General Manager, Bangladesh Bank
[66] Azhar et al, Conflict and Development: A Case Study of East Pakistan Crisis, 1971, International Journal of Research and Innovation in Social Science (IJRISS) |Volume II, Issue VIII, August 2018

aid and hardly any of the military monies. Although both wings were producing about the same quantities of food grains, the comparable nutritional level of the Bengalis was lower due to their larger population[67] (O'Donnell, 1984).

There were eight land mortgage banks in East Pakistan which used to provide credit as new loans and also to repay old loans. Due to collateral requirement the beneficiary of this banks were usually the elite class alone. By the end of 1940s the total amount of agricultural credit was about 30 million rupee in Pakistan which came down to only 4 million rupee in by 1959.

II) Cumilla Model: Pakistan Rural Development Academy was established in Cumilla District of East Pakistan in 1959 by eminent cooperative activist Dr. Akter Hamid Khan in response to the Village Agricultural and Industrial Development (VAID) that was established in West Pakistan with assistance from the USA. The academy made some successful experiments in agricultural financing known as "Cumilla Model". After independence of Bangladesh the academy was renamed as Bangladesh Academy for Rural Development (BARD). The Cumilla model had a combination of the following features including small savings and credit options:

i) infrastructure development such as: irrigation and drainage system development, cold storage development

ii) Capacity development initiatives such as: establishment of training centre, arranging training for farmers
iii) Capital development in the form of mandatory small savings by farmers. Each member of the group had to save at least fifty paisa (0.50 rupees during Pakistan period) as a criteria for receiving small loans
iv) A member could receive loan upto 10 times of their savings.
v) Loans could be repaid either in cash or in kind.

The Cumilla model gave vive to the rural cooperative movement and the recovery rate was also over 99% at the initial stage. But later the elite class among the groups started to capture the cooperatives and the success could not sustain for long. One important lessons learnt from the Cumilla model was that group loans can be a good alternative to traditional credit but the group comprising both poor and wealthy do not function well.

III) Post independence initiatives: Bangladesh became an independent nation in 1971 through a nine month long war with (West) Pakistan; but only with an already weak economy desolated further by the war. The priorities for the newly independent country were to take appropriate initiative to overcome the economic deprivation was one of the bases for war of independence while rebuilding the ravaged infrastructure and humanitarian assistance were crying need.

Reaching the rural population with the existing banking network and capacity had been a great challenge for the policy maker in the newly independent Bangladesh. At that time the state owned specialized bank for agriculture (Bangladesh Krishi Bank) and cooperative societies were primarily engaged in rural financing activities in Bangladesh. But with a very limited number of branches (only 75 branches in 1972) in the entire country the task of rural finance was very hard to meet.

At that time the traditional rural financial market was seen as a development tool and the approach to this market was different from that of urban market. Much like neoclassical economics doctrine developed after World War II the traditional approach focused on investment rather than paying attention to savings. The belief was that the poor cannot save and therefore the approach of the government was to provide cheap credit to drive out money lenders. During that time lending to the rural sector were made mainly through Bangladesh Krishi Bank and Bangladesh Jatiya Samabay Bank at a concessional interest rate.

[67] O'Donnell, 1984, quoted in Azhar et al, Conflict and Development: A Case Study of East Pakistan Crisis, 1971, International Journal of Research and Innovation in Social Science (IJRISS) |Volume II, Issue VIII, August 2018

However, despite all attempts and encouragement, the reach of the banks and rate of repayments both remained unsatisfactory to the great owe for the government.

IV) Shift of focus from top-down to bottom-up approach: In 1973, the World Bank president Robert MacNamara (1973) told his audience that no programme would help small farmers if it was designed by people who had no knowledge of the farmers' problems, and implemented by those who had little interests in their future. Eventually, the 'bottom–up' approach, or 'participation and participatory methods', began to dominate policies of bilateral and multilateral agencies (Stigliz 1999; Wolfensohn 1999).The new policy regime accorded greater roles to NGOs in the distribution of international aid earmarked for poverty alleviation.

V) Efforts and experiments for a new viable model: The war of independence in 1971 might had ravaged the economy of Bangladesh; it gave a moral boost and sense of confidence and self reliance for the people of Bangladesh. Both the government and the people seems to have believed that with a new nation there was no exploitation, and the nation would be as successful as the young people work for to achieve it. There were nation building efforts both by the government and by the voluntary organizations led mostly by the young educated people; including many who took part in the war of independence.

In 1970s, a number of volunteer organizations came into being mainly as part of the concerted efforts in providing humanitarian assistance to the war ravaged nation. The Bangladesh Rural Advancement Committee (BRAC), today's one of the largest MFIs was one such volunteer organizations that came into being in 1972. Organizations such as BRAC started working among the rural community mostly with foreign assistance. Government of Bangladesh on the other hand took a number of action research and field research to find a viable model for two persistent problems: reaching credit to the rural poor and making it viable (Rashid Lila 2019). ASARRD, RFEP and GBP were among such experimental projects that were undertaken in 1970s.

a) **ASARRD Project:** Asian Survey of Agrarian reform and Rural Development (ASARRD) was basically undertaken in 8 Asian countries and Bangladesh was one of them. As per joint initiatives by Food and Agricultural Organization (FAO) and United Nations Development Organization (UNDP) the field workshop was conducted in Bangladesh in 1974 and the project was officially launched in Bangladesh in 1976. The main objective of the project was to organize small farmers and landless laborers into groups under different activities to raise their income through a process involving active participation of people.

b) **RFEP:** The Rural Finance Experimental Project (RFEP) was launched in 1978, in collaboration of the GoB and USAid. The project wished to experiment with eight different models that included savings as an integral part. In addition, it wanted to charge higher interests to some credit to cover all costs including inflation to make the lending institutions viable. The objective of the project was to find a way to identify at least one credit model which may be successful at extending credit to, and receiving it back, forms the target groups[68].

c) **GBP:** Grameen Bank Project (GBP) was another early experiments that the Bangladesh Bank launched in 1979 with the initiative of Professor Muhammad Yunus of Chittagong University. The `Jobra Landless Society' initiated by the young Professor in 1976 became familiar enough to be supported by Bangladesh Bank with personal initiative of the then Deputy Governor *A. K. Gangopadhyay* who arranged credit support for the GBP from Janata Bank. After successful implementation of the GBP in some selected areas of the country, the project was later converted into an institution named `Grameen Bank' under a special Ordinance, The Grameen Bank Ordinance, 1983.

VI) Birth of Grameen Bank: Grameen Bank was established as a body corporate under extending credit exclusively to the landless men and women of rural areas of the country. The principal objective of the

[68] Lila Rashid, 2019, Institutionalising Microfinance in Bangladesh, Players, Games and Outcomes, Chapter 3.

Grameen Bank Project (GBP) was to develop an organizational structure, which can provide collateral free credit to the landless people in a reasonably dependable form. The project also explored the potentiality of the poor to generate productive self-employment with marginal financial support at reasonable terms and conditions.

The main function of Grameen Bank is to provide collateral-free credit facilities in cash or in kind to landless people for various types of income-generation and livelihood activities. The Bank also accepts money or deposit, borrows money for the purpose of its business excluding foreign exchange transactions. The Grameen Bank invests in government securities, provides professional counsel to landless persons regarding investment in small business and cottage industries, and carries out survey and research.

The bank runs its credit program with the philosophy that credit for self-employment is a fundamental human right. Taking credit to the doorsteps of the people works as a powerful instrument in ensuring access of the poor to credit which provides them a chance to improve their economic conditions. Through small loans Grameen Bank enables the landless, rural women to start their own businesses and thereby gain reasonable economic independence, self-sufficiency, self-respect and self-empowerment. Credit delivery mechanism and the mode of repayment of the loans has become a model in Poverty alleviation efforts in Bangladesh, other developing countries[69]. For the contribution of poverty reduction through micro-credit Professor Muhammad Yunus and Grameen Bank jointly was awarded the Nobel Peace Prize 2006.

The Grameen approach broke all barriers for reaching the poor with credit by introducing the following critical steps[70]:

a) Target the poor people, mainly women who bear the burden of poverty. This has been made operational by accepting members/clients who own less than 0.5 acre of land (functionally landless). By targeting exclusively the poor the approach ensures services for the poor and eliminates possibility of enlisting rich people taking advantages of the service;

b) Accept primarily women as clients who repay loans on time, invest money for productive purposes and spend income to improve the quality of life of family members; the process empowers them (women) as well;

c) Groups of 5 persons are formed and 30-50 members form a Kendra/centre, which is the organizational structure in a para/village where bank staff visits to make transactions;

d) Loans are collateral free; but to ensure repayment poor women are organized into groups to take responsibility of repayment (over the years it has been found that group responsibility has eroded considerably but still poor people repay more or less regularly);

e) Loans are small that is manageable by the poor and repayment are also small collected in weekly installments;

f) Instead of poor coming to the bank; the approach takes financial service at the door of the poor; Bank's staff members collect supervise and take care of all management tasks similar to any commercial bank.

g) Procedures for loan applications and other administrative steps have been simplified to suit the poor.

[69] < https://en.banglapedia.org/index.php/Grameen_Bank>

[70] Dewan A. H. Alamgir, 2009, State of Microfinance in Bangladesh, Tnstitute of Microfinance (InM)

h) All financial transactions are made in public to eliminate any possibility of corruption.

i) Experience shows that loan money is normally invested in commonly available activities such as livestock rearing, trading, agriculture production and small processing operations.

VII) Replication of Grameen Model: Grameen Bank's innovative approach in delivering credit to the rural poor without collateral along with outstanding recovery rate encouraged many Non Government Organizations (NGOs) that emerged after liberation and were already working in the remote areas of Bangladesh, quickly jumped into micro-credit arena mingling with their existing health/education/social programs. Moreover, the rural financial market saw proliferation of new NGOs: with microcredit activities as well as other social projects.

Name of MFI	Year of Registration[71]
BRAC	1981
RDRS	1981
ASA	1982
Proshika	1983
TMSS	1987
Jagorani Chakra	1987

The success of the Grameen Bank Project was widely circulated among the development practitioners around the world and a good number of NGOs that were already working in Bangladesh joined the grameen movement. Some of them, including BRAC, RDRS and ASA received registration from the government even before the promulgation of the Grameen Bank Ordinance in 1983. Proshika, TMSS, Jagarani Chakra Foundation followed soon after and secured registration by the end of 1980s.

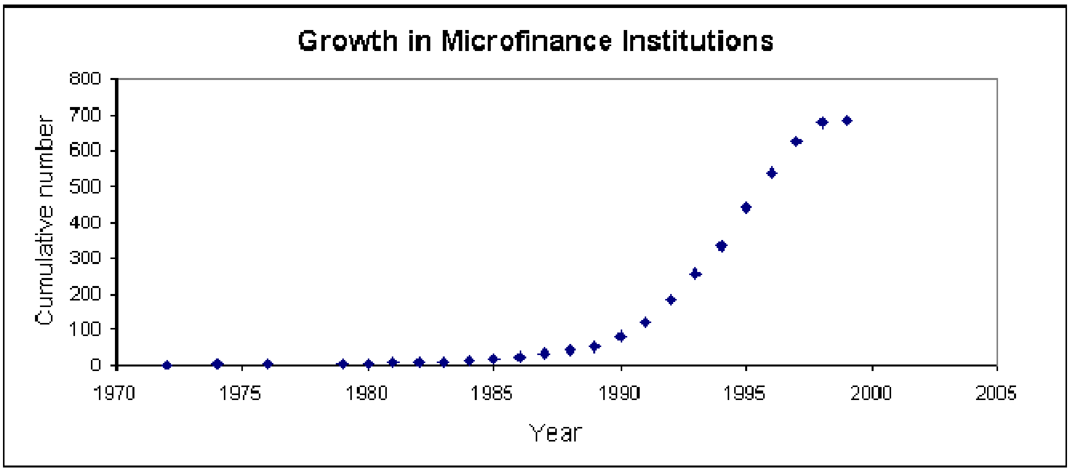
VIII) Birth of KPSF: In 1990, the Palli Karma-Sahayak Foundation (PKSF) was established. The PKSF is financed by the government and the World Bank and it acts as apex wholesaler of microfinance. The inception of PKSF improves systems and governance of NGO/MFIs and their stimulated faster growth thanks to the quasi regulatory role of PKSF coupled with low cost refinancing. Additionally, the PKSF provides NGOs with technical assistance to enhance their institutional infrastructure and management information systems –a prerequisite for expanding outreach, improving efficiency, increasing self-sufficiency and reducing dependence on grants other than PKSF (Microfinance industry report: Bangladesh,2009)[72].

IX) Proliferation of NGO/MFIs: Number of microfinance organizations popularly termed as NOS started to grow since mid 1970s. The years between early 1980s to late 1990s saw a proliferation with steep growth of number of NGOs in Bangladesh. By the beginning of 21st century, there were over 26 thousand NGOs registered under the NGO affairs bureau. Almost all of the NGOs had microcredit programs. Some of the NGOs were practicing micro credit as a part of their combination of activities while some of them were working with micro credit alone. So, from the operational point of view most of these NGOs were micro finance organizations.

The proliferation of NGOs might have been influenced by several factors including the demonstration effect by the early replicators of the grameen bank project, flow of donor funds being channelized to the sector and the closure of many rural bank branches to reduce losses.

[71] Source: NGO Affairs Bureau

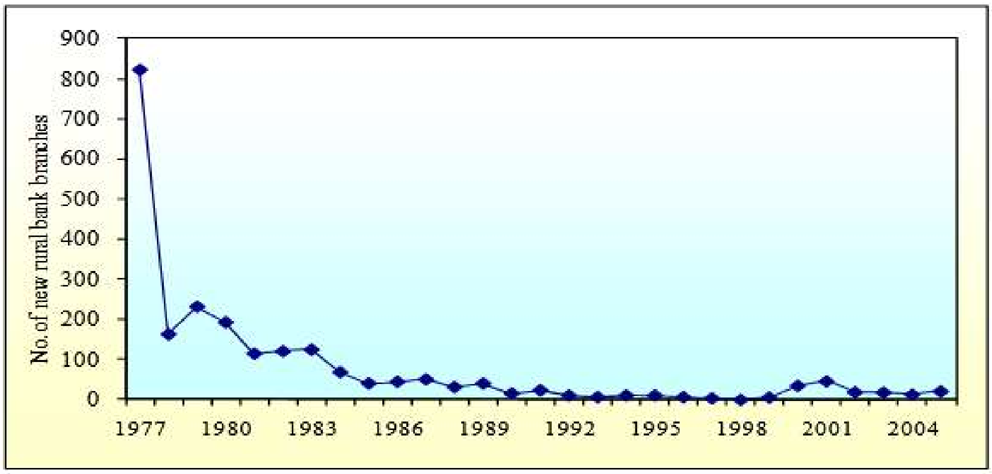
[72] https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-microfinance-industry-report-bangladesh-may-2009.pdf



Source: Credit Development Forum

In 1990, the Bangladesh Bank undertook a financial sector reform program under the guidance of development partners[73]. This reform program was motivated mainly by commercial consideration to reduce losses of the nationalized commercial banks but was diverged a great extent from the social objectives of rural bank branches. On the other hand, the NGOs were receiving sizable amount of donations from abroad. The World Bank report (2003–2004) indicated that 34.1% of the foreign aid ($379.4 million) received by Bangladesh was allocated for the NGO sector. A good number of NGOs received donor funds directly or through some other local partners.

Chart 1: Number of new rural bank branches



Source: Annual reports (various issues), Bangladesh Bank

The suggestions for closure and mergers of loss-making branches influenced state owned banks' branch expansion, caused merger and closures of some of the loss-making bank branches and slowed down the expansion of rural bank branches in rural economy throughout the 1990s. Branch expansion in the latter

[73] Dr. Md. Kabir Ahmed, 2013, Regulation and Supervision of MFIs in Bangladesh

part of the 1990s was almost stagnant. Rather rural branches of the NCBs marginally declined during the period of 1991 to 2004.[74]

NGO/MFIs impact on rural finance: The proliferation of NGO/MFIs brought in a huge change in the rural financial market of Bangladesh. A study finds that the share of money lenders in rural finance was over 26%, highest among the participants; which reduced to 14.8% in 2008 mainly due to the NGO/MFI intervention.[75]

Changes in rural financial market of Bangladesh, 1988-2008[76]

Source of Credit	**Percent of households borrowing from the source (US$)**		**Average loan for borrowing households (US$)**		**Share of the Source in Total loan**	
Sectors/Year	1988	2008	1988	2008	1988	2008
Banks	9.0	4.8	136	735	20.7	21.0
MFIs (NGOs+Grameen Bank)	3.8	34.1	102	184	6.7	37.0
Money lenders	14.6	4.6	155	537	39.0	14.8
Friends and relatives	16.9	4.9	115	920	33.6	26.8
All sources	44.3	44.8	131	374	100	100

Micro-finance institutions alone held the lion's share of the market by 2008 which was the lowest back in 1988. While the household borrowing from different sources remained rather static (around 44%), it is evident that the significant market share taken by the MFI sector is not only from money lenders but also from the banking sector.

Impact As the micro credit institutes reached the expansion phase some strategic issues arose. Some of the strategic issues were as follows[77]:

(a) **Targeting the poorest versus achieving financial sustainability**: Microcredit programs were successful in improving the economic condition of the members. However, there has not been any significant decline in the overall levels of poverty in the country. This apparent contradiction may be partially due to the fact that the microcredit programs have not been very successful in including the hard core poor, who constitute about half of the poor in Bangladesh. The reason for non inclusion of the hardcore poor and destitute seems contradictory, given the MFI's mandate for poverty alleviation; but is rationalized by the MFIs second aim i.e. to be able to operate with own income in the absence of donations and subsidy.

(b) **Widening the target group**: By the 3rd phase MFIs covered approximately 35 percent of the target households in Bangladesh. This means that MFIs have the potential to expand horizontally. As older borrowers graduate to higher income brackets, new products need to be devised to meet their changing needs. These new products may also help the MFIs to expand vertically by tapping borrowers outside the target group. A possible way to expand horizontally is to include more men. Research in Bangladesh and elsewhere shows that men usually borrow larger amount; however, their repayment record is not as good as women.

74 Dr. Md. Kabir Ahmed, 2013, Regulation and Supervision of MFIs in Bangladesh
75 Bayes, seen from Lila Rashid, 2019, Institutionalising Microfinance in Bangladesh, Players, Games and Outcomes.
76 Bayes, seen from Lila Rashid, 2019, Institutionalising Microfinance in Bangladesh, Players, Games and Outcomes
77 Dr. Salehuddin Ahmed, Managing Director, Palli Karma-Sahayak Foundation (PKSF) who later became Governor of Bangladesh Bank

(c) **Access to money as donor funds shrinks**: As the donor funds shrinks, the NGO/MFIs have to look for new source of funding to continue operations. It is more likely that they have to look for commercial funding. This option might be open only to large and well-established MFIs and may not be feasible for small MFIs. This means that MFIs have to look for new avenues to fund their activities, potential source of fund is to mobilize saving and deposits of members as well as non-members. Another alternative is to try to tap commercial source of funding such as commercial banks, the local stock market and financial market.

(d) **Governance and Leadership Development:** Research in Bangladesh and other places show that a crucial element for the success of a credit granting NGO-MFI is the quality of leadership. Most successful NGO-MFIs were started by a charismatic leader or a group of energetic leaders. This phenomenon has positive as well as negative consequence. The positive aspect is that society is able to produce these innovators, but then it raises the issue of where is the next generation of leaders going to come from?

(e) **Issue of Interest Rate:** The issue of service charge (interest rate) that an MFI should charge on its loan given to the poor borrowers has received attention with mixed interpretations. Many think that it is too high and many think it is tolerable. In most of the countries the MFIs change at a flat rate ranging from 12% to 27% per annum. Many researchers argue against interest rate cap for the sake of competitiveness and provision of quality services. However, questions are there how ethical the fact is while the rich enjoy low interest rate (from banks finances) and the poor have to pay high rate of interests).

(f) **Regulatory Framework:** Microcredit movement evolved in a regulatory vacuum. In particular, there is no regulatory framework that caters to the special nature of MFIs. Given the proliferation of NGO/MFIs and outreach of microcredit necessity to develop a rational regulatory framework emerged.

Progress of NGOs and Public Policy and Governance Issues: The World Bank published a report namely `Economics and governance of nongovernmental organizations in Bangladesh' in 2010. The report credits the government's pluralistic service provision that enable NGOs work with social services helping improved the social indicators for Bangladesh over the last 15 years. According to the report, Nongovernmental organizations (NGOs) have significantly expanded their services during this period (1995-2010) and have shown that it is possible to scale up innovative antipoverty experiments into nationwide programs. However, the rapid growth and diversification of the NGO sector has also given rise to public policy concerns. These include the viability of a regulatory framework developed when the size and scope of NGOs was far more limited, the appropriate political and commercial spaces for NGO activities, trade-offs between NGO sustainability and pro-poor orientation, the impact and quality of NGO services as they have scaled up, NGO corporate governance, and the implications of different ways of financing NGOs. There has been little systematic review of the public policy implications of the changing character of NGOs in Bangladesh[78].

Initiation of Regulation and the MFIs:

In 2006, the government of Bangladesh established the Microcredit Regulatory Authority (MRA) under the "Microcredit Regulatory Authority Act" with eight members of its board of directors and with the governor of the Bangladesh Bank as its chairperson. One of the prime concerns of establishing a regulatory authority for micro finance organizations was that the MFIs not only provide

[78] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/105291468207267279/ economics-and-governance-of-nongovernmental-organizations-in-bangladesh

credit but they receive deposit as well. More over there were incidences that some unscrupulous people were running away with deposits collected from people. The MRA is is empowered and responsible for implementing the act and bringing the microcredit sector of the country under a full-fledged regulatory framework including issue and cancel licenses for micro finance operators and oversee, and to ensure transparency and accountability of microcredit activities of the NGO-MFIs in the country.

Post MRA Sustainability:

Initial Impact of MRA: Number of NGOs working in Bangladesh before the MRA came into operation were numerous and even MRA does not have the exact figure. However, more than 4000 (four thousand) NGOs applied seeking registration from MRA. Most of the applicants were too small to be sustainable according to the MRA benchmark. The NGOs having fewer than 100 borrowers and having less than USD 58,000 equivalent loan outstanding were not considered for MRA license. By April 2010 MRA approved license in favour of 503 NGOs only.

Recent Trends of MFIs in Bangladesh: Fifteen years have passed since MRA came into being. An analysis regarding the trends of MFIs after 5 years of operations of MRA was conducted; the results of which may be relevant to mention here. After five years, it was observed that during that time the number of clients and borrowers increased by 31.61% and 39.48% respectively while number of branch network of the MFIs increased by 133% in the same time. This implies that the MFIs opened new branches at a higher rate than they could acquire new customers. This tendency posed many risks for the operating MFIs such as i) increase in operational cost ii) unhealthy market competition iii) decline in efficiency iv) increase of multiple borrowing by individual clients. This may also mean that the MFIs are facing sustainability crisis not because of MRA but because of other market conditions and poor expansion policy by the MFIs themselves.

After over 15 years of the initiation of Microcredit Regulatory Authority, the microfinance sector of Bangladesh saw some changes. MRA provided license to 877 organizations while revoked license of 118 MFIs. Number of MFIs working in Bangladesh stood at 759 as of June 2021. These MFIs has been providing services to over 30 million customers. As of end June, 2021 the total savings of the MFI clients stood at taka 302 billion and outstanding of loans stood at 1350.02 billion.

AS the donor funds started becoming scare since late 1990s, many MFIs were facing fund crisis. Some policy initiatives by the Government as well as by Bangladesh Bank came as blessing for the MFIs facing fund scarcity. For example, according to agricultural and rural credit policy of Bangladesh Bank each bank has to lend at least 2.5% of their total loan portfolio to agriculture sector. Banks having limited network in the rural areas are allowed to disburse agricultural credit through MFI linkage. Due to this policy a significant portion of credit is going to the MFIs. However, it is observed that most banks rely on the large MFIs while giving credit to reduce default risk.

SECTION FIFTEEN

MICROCREDIT AND MICROFINANCE

Microcredit is small amount of credit supplied to poor individuals/groups for getting employed in income generating activities to overcome poverty. Microcredit programmes provide mainly one kind of service, namely lending and recovery of loans. On the other hand microfinance programmes provide several financial and organizational services including credit, savings, insurance, and community development.

Many researchers argue that the synonymous use of the terminologies creates confusion and misunderstanding in both development discourse and policy making.[79] The issue important as underlined by Yunus (2004a): 'The point is that every time we use the word "microcredit" we should make it clear which type (or cluster of types) of microcredit we are talking about. Otherwise we'll continue to create endless confusion in our discussion ... I am arguing that we must discontinue using the term "microcredit" or "microfinance" without identifying its category.' The categories broadly identified by Professor Yunus are as follows:

- Traditional informal micro-credit: moneylenders, pawn shops, friends and relatives, consumer credit in the informal market
- Micro-credit based on traditional informal groups.
- Activity-based micro-credit through conventional or specialised banks: agricultural credit, livestock credit, fisheries credit, handloom credit, etc.
- Rural credit through specialised banks
- Co-operative micro-credit: credit unions, savings and loan associations, savings banks, etc.
- Consumer micro-credit
- Bank/NGO partnership-based micro-credit
- Grameen-type micro-credit, or Grameencredit
- other types of NGO micro-credit
- other types of non-NGO non-collateralised micro-credit

Microcredit preceded microfinance: Microcredit is often termed as the first revolution in rural finance meaning microcredit came first; the concept of microfinance came later. The advent of micro-credit evolved as a part of paradigm shift in development thinking. The most important contribution of micro credit is that it provides a model of micro loans without collateral that has a good recovery rate.

The key methods used in micro-credit schemes are the following: a) a standardized and limited set of products and services, b) group lending c) social collateral d) forced savings e) small initial loan size f) loan size tied to savings g) standardized loan repayment and disbursal schedules

Micro-finance movement is often described as the second revolution in credit theory and policy.[80] The first revolution concerned micro-credit, and was focused on overcoming the structural barriers to providing savings and credit services to the poor. These barriers include information asymmetries, lack of collateral, high cost, high risk, and systematic market bias. The idea of microfinance came later when different types of demands were coming from the microcredit borrowers in addition to credit.

Product centered vs customer centered: The promoters of the second revolution describe the innovations of micro credit as 'inward-looking', saying that their primary purpose was to satisfy

[79] Khandakar Qudrat-I Elahi and M. Lutfor Rahman, Micro-credit and micro-finance: functional and conceptual differences, Development in Practice, Volume 16, Number 5, August 2006.

[80] Woller, Gary (2002) 'Introduction to the second microfinance revolution: creating customer centered microfinance institutions', Journal of International Development

organisational and donor demands, not the demands of their customers or clients. Microcredit programmes provide 'product centred' services, as they find customers to match the demands of their product (small loans), rather than developing products to match the demands of their customers. Thus the proponents of the second revolution recommend replacing the product-centred approach with the customer-centred approach[81].

Services of microcredit and microfinance: The basic functional difference between micro-credit and micro-finance programmes concerns the type of service that they provide. The former, such as Grameen, provide mainly one kind of service – loan distribution and recovery – which is linked to group formation and compulsory savings. Microfinance programmes, on the other hand, provide all kinds of financial service, including microcredit. Thus microcredit is a necessary, but not sufficient, element of the new financial sector that seeks to cater to the credit needs of the poor who do not have access to formal sources[82].

Microcredit and Microfinance: Conceptual Differences at a Glance

Sl	Difference area	Microcredit	Microfinance
1	Components	Microcredit programmes provide mainly one kind of service: loan distribution and collection, and the financial and organizational activities associated with such operations.	Micro-finance programmes provide a range of financial and organizational services, including credit, savings, insurance, and community development.
2	Focus	The concept of micro credit is product-centered. Micro credit organizations find customers that match the demand of their product.	The concept of micro finance is customer-centered. Organizations dealing with microfinance work for developing and providing financial services that customers want.
3	Source of fund	Mainly foreign donations	Mainly income from operations, bank loan and deposits.
4	Implementing Organizations	Initially implemented by non government organizations	Being implemented by microfinance instituted converted from NGOs or newly established but are under the regulations of MRA
5	Profit motive	Microcredit is essentially a non-profit approach to development and depends on external support,	Microfinance programmes seek to return enough profit to be self-financing.
6	Interest rate	Given there is no interest rate cap, interest of microcredit is supposed to be lower than microfinance.	Given there is no interest rate cap, interest of microfinance is supposed to be higher than microcredit.
7	Collateral	Collateral substituted by peer group pressure	Mandatory savings, Collateral substitutes such as: peer group pressure
8	Transformation	Microcredit was a innovation that included borrower selection, group formation	Microfinance is a transformed version of microcredit with wider scope
9	Sustainability	The approaches of involved organization were altruistic and many microcredit organizations either transformed or are closed out along with waning of donor support.	The motto of microfinance programme/organization is to become sustainable by covering operational expenses from own income.

[81] K.Q. Elahi & M.L. Rahman, 2006, Microcredit and microfinance: functional and conceptual differences, Development in Practice, Volume 16, Number 5, August 2006
[82] K.Q. Elahi & M.L. Rahman, 2006, Microcredit and microfinance: functional and conceptual differences, Development in Practice, Volume 16, Number 5, August 2006

Profit motives of microcredit and microfinance organizations: The conceptual differences between microcredit and microfinance are fundamental because they involve both the underlying motives and the ways in which the two types of venture operate in practice. Microcredit is essentially a non-profit approach to development and depends on external support, while microfinance programmes seek to return enough profit to be self-financing.

Micro-credit organizations are generally NGOs, and so are not motivated by the wish to make profit. They differ from charitable bodies because, rather than assuming that poverty is the result of personal failings on the part of the poor, micro-credit NGOs believe that poverty is created through social processes that deprive the poor of their rightful access to social resources, including credit. The advocates of microfinance on the other hand suggests that without generating profit an organization cannot continue in the long run. If the organizations fail to continue with microfinance program; ultimately the poor people will be in the losing side as well. Therefore they advocate for a minimal profit making microfinance institutes and not the subsidy based NGOs providing low rate credit[83].

NGOs work for Govt and MFI work for banks: Micro credit NGOS are voluntary organizations who compliment the initiatives of the government and reaches people with services at places where government often cannot reach. Microfinance organizations on the other hand compliment banking.

To increase people's participation donors instead of depending on governments to channelize funds started to involve nongovernmental organizations popularly known as NGOs. NGOs are characterised by their independence from the government, their non-profit status, and their motivation to serve humanitarian, social, or cultural interests (World Bank 1996). It was attributed that NGOs can help the governments in achieving their development objectives. NGOs were taken to be capable of providing goods and services not usually supplied by the state or the private sector and in areas not easily reached by others. In that very backdrop Grameen Bank along with NGOs such as BRAC were evolved.

On the other hand, some critics opine that microfinance is simply banking; but the target customers are different. Remenyi and Quinones Jr take the traditional banking view of micro-finance: Banking, defined as financial intermediation, involves bringing together 'the independent acts of savers and borrowers to facilitate one another's goals'[84]. But the critics who believes that the only difference between micro-finance and the formal banking system is that the latter is geared to rich urban clients, while the market for micro-finance services consists primarily of poor rural people who need credit in order to pursue their small enterprises in the informal economy seem to undermine microfinance's contribution to development as a collateral free banking for the poor groups of people[85].

[83] K.Q. Elahi & M.L. Rahman, 2006, Microcredit and microfinance: functional and conceptual differences, Development in Practice, Volume 16, Number 5, August 2006

[84] Remenyi,J. and B. Quinones Jr (eds.) (2000) Microfinance and Poverty Alleviation – Case Studies from Asia and the Pacific, London and New York: Pinter

[85] K.Q. Elahi & M.L. Rahman, 2006, Microcredit and microfinance: functional and conceptual differences, Development in Practice, Volume 16, Number 5, August 2006

SECTION SIXTEEN

MICROCREDIT AND POVERTY ALLEVIATION

Understanding Poverty: Though poverty is seen globally in almost every country; the idea of poverty is understood differently by different people and organizations based on their frame of minds. Not having a house may be the definition of poverty for someone living in the developed world; not having television in the household may be considered poverty in some places, while not having enough to feed all the family members may also be considered as poverty. However, the World Bank definition for extreme poverty defined by income is measured as the number of people living on less than $1.90 per day. While the World Bank's definition is widely accepted and used the microfinance organizations has their own set of criteria for selecting the poor as their group members. These are often more practical and easy to use by the MFIs and their beneficiaries.

Simplified identification of poor by MFIs: While the World Bank's definition is widely practiced, the NGOs and MFIs define poverty differently, in a simplified manner. For example Grameen Bank targets the poorest of the poor, with a particular emphasis on women, who receive 95% of the bank's loans. The explicit criterion for individuals to be eligible for Grameen microcredit loans is "landlessness." For instance, borrowers are eligible to obtain loan if they come from households, "owning less than 0.5 acres of cultivable land" or from households in which "total assets do not exceed the value of one acre of medium quality, single-cropped land in that area.[86]

Indicators of assessing poverty by Grameen Bank: Grameen bank uses 10 simple measures to assess whether individual members have ome out of poverty. The indicators are simple and easy to measure or verify. They include the following:

1) The family lives in a house worth at least Tk. 25,000 (about US$370) or in a house with a tin roof, and each member of the family is able to sleep in a bed.
2) Family members drink clean water drawn from arsenic-free tubewells, or that is boiled, or purified using alum, bleaching powder, tablets or filters.
3) All children in the family over six years of age attend school or have finished primary school.
4) The minimum weekly loan installment of the borrower is Tk. 200.
5) The family uses a sanitary latrine.
6) Family members have adequate clothing for everyday use (including warm clothing for winter, such as shawls, sweaters, blankets, etc.) and mosquito nets.
7) The family has sources of additional income, such as a vegetable garden or fruit-bearing trees, which the family may fall back on when they need additional money.
8) The borrower maintains an average annual balance of Tk. 5,000 in her savings accounts.
9) The member's family is able to afford three square meals a day throughout the year. That means no member of the family goes hungry at any time of the year.
10) The family can take care of their health. If any member of the family falls ill, the family can afford to take all necessary steps to have the patient treated

Bangladesh's Journey from Poverty to Prosperity: Bangladesh was born in 1971 amid genocide, squalor and starvation. When Pakistani forces surrendered on December 16, 1971, the newly-independent South Asian nation's economy was in tatters. Over 80% of the population was living in extreme poverty. In the 1970s, the US Secretary of State Henry Kissinger referred to Bangladesh then as a "basket case" and it was argued that "if development is possible in Bangladesh, it is

[86] Rahman, Aminur. Women and Microcredit in Rural Bangladesh

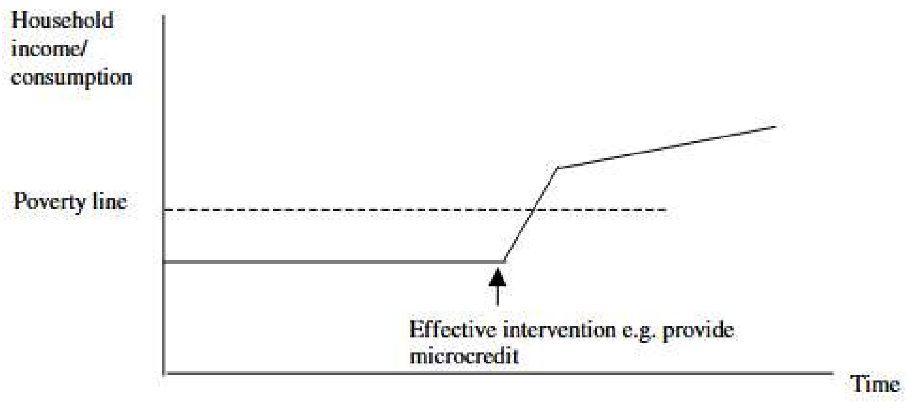
possible in any other country,"[87] Fifty years later, when Bangladesh celebrates golden jubilee of its independence, the influential US newspaper 'The New York Times' publishes in entitled "What Can Biden's Plan Do for Poverty? Look to Bangladesh"[88]. The article written by veteran journalist Nicholas Kristof highlights Bangladesh's success in poverty reduction and requests the US president to learn from Bangladesh.

	HIES 2005	HIES 2010	HIES 2016
Lower Poverty Line			
Rural	28.60	21.10	14.90
Urban	14.70	7.70	7.60
National	25.10	17.60	12.90
Upper Poverty Line			
Rural	43.80	35.20	26.40
Urban	28.40	21.30	18.90
National	40.00	31.50	24.30

Sources: HIES data (2005), (2010) and (2016).

Poverty reduction in Bangladesh in recent years: Bangladesh has made remarkable success in poverty reduction and development. From being one of the poorest nations at birth in 1971, Bangladesh reached lower-middle income country status before 50 years. The country is on track to graduate from the UN's Least Developed Countries (LDC) list in 2026. Poverty declined from 43.5 percent in 1991 to 14.3 percent in 2016, based on the international poverty line of $1.90 a day (using 2011 Purchasing Power Parity exchange rate). Moreover, human development outcomes improved along many dimensions[89]. However, no single sector may be credit for this success.

Can microfinance help reduce poverty?: Poverty is a complex issue and it takes a concerted effort from the government and the private sectors in multiple modalities to address the issue. The actions that are called for to reduce poverty ranges from investing in infrastructure development such as roads and bridges, increase availability of resources such as water and electricity, human development such as primary, secondary and technical education, access to health care, generate employment, enhance food security. While microfinance alone cannot effectively reduce poverty, increasing access to finance such as micro credit is considered an important developmental tool as it can help address many other problems/issues.



87 https://www.dw.com/en/bangladesh-economy-50-years-on/a-57015896
88 https://www.nytimes.com/2021/03/10/opinion/biden-child-poverty-bangladesh.html
89 The World Bank, https://www.worldbank.org/en/country/bangladesh/overview

Effective intervention such as micro credit can help increase household income and/or consumption of the rural poor through income generating activities can help uplift people who were otherwise remaining below the poverty the line.

Development of microfinance in Bangladesh: When Bangladesh's microfinance sector was first established in the 1970s, its main goal was reducing rural poverty by providing microcredit loans for non-crop activities such as trading, and raising livestock and poultry. These loans were funded mainly by the government of Bangladesh and bilateral donors through group-based savings and lending programs.

Latest Microfinance Statistics: Today, Bangladesh's MFIs cover around 35 million members and in FY 2020-21 the micro finance actors in Bangladesh including Grameen Bank and the MFIs registered under the Micro Credit Regulatory Authority and the state owned banks/cooperatives disbursed over Taka 1734 billion billion to 45.2 million people across Bangladesh[90]. Instead of relying on the savings of borrowers, MFIs now have access to institutional funds, including commercial banks. Modern microfinance in Bangladesh has expanded its scope from home-based activities and self-employment to include savings and insurance, microenterprises, and productive employment.

Debates regarding Micro Finance: As microfinance institutions (MFIs) grow in many countries worldwide, debate continues over whether such programs truly benefit the poor. The advocates of microfinance emphasize the need for innovative ways to provide poor populations access to financial services while the critics argue any successes may be temporary. In addition, some critics fear that beneficiaries of MFIs due to the high interest rates or due to loan dependency may be borrowing more than they can pay back and becoming further trapped in poverty.

Earlier studies regarding impact of microfinance: The impact of micro-finance at macro level is not is not clear (CPD, Task force Report, 2001), and is not beyond debate. However, it is well understood that it has some impact at micro level on the society both in terms of economy and social values. While studies on this impact assessment of micro-finance are scarce, the findings are as follows[91]:

1. Due to micro finance interventions by MFIs, dependency of poor people on the moneylender or richer people has been reduced substantially in the society and people are getting access to institutional sources for credit. The good recovery by MFIs have increased confidence of the banks on the poor for lending money, which is a qualitative change in the rural society due to micro-finance intervention, CPD study finds.

2. Employment opportunities of the poor have increased to a great extent in terms of both longer working hours and new employment. The targeted households that are eligible for participation in micro-finance programs have a higher probability of being self-employed than their counterparts in non-program villages.

3. Before nineties the wage rate for women labor force had been considered unimportant, women labor were sold at a very low non-bargaining rate. The intervention of micro-finance in the rural market is one of the main reasons for this change. Therefore, the labor force of rural areas now has the ability to influence rural wage rate.

4. Being the main target group of micro-finance, women have gained an augmented financial power over men. Though women are dominated by men culturally, their access to credit and capacity to do their own business has increased their confidence on their own ability. This is especially true for the rural poor women. Now more and more rural women move outside their home and go to offices, banks, shopping centres and other places without a male company. This is a positive indicator of women empowerment as well as narrowing of gender gap.

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[90] https://www.jugantor.com/corporate-news/543864/Microfinance-in-Bangladesh

91 Microfinance in Bangladesh : Paper for the SAARCFINANCE Seminar on Microfinance, https://www.bb.org.bd/saarcfinance/seminar/cpbdesh.php

5. The main focus of micro-finance is to alleviate poverty, but it could not reach the poorest of the poor. One of the reasons might be the failure to reach the hard-core poor by these programs. Therefore, it has been seen that there are big successes of micro-finance at micro level that do not show any significant impact at macro level. In the recent literature it is often mentioned as the problem of "Macro-Micro Mis-match" (Sen, 2001)[92].

Latest study on MFIs' impact on poverty reduction

Empirical Study finds positive impact of MFI credit[93]: Recent studies find MFIs enhanced role in poverty alleviation. *Beyond Ending Poverty,* a new book published by the World Bank and authored by Shahidur Khandker of IFPRI, Baqui Khalily, and Hussain Samad, examines the debate whether the microfinance help improve poverty or push them deeper in the poverty trap in the context of Bangladesh, finds that microfinance institutions have sustained benefits over two decades in reducing poverty and increasing incomes. The authors compared the operational efficiency data for Bangladesh's leading MFIs with comparable data for MFIs in India, Indonesia, Mexico, Thailand, and Vietnam and report that two of Bangladesh's top MFIs (Grameen Bank and BRAC) are among the world's most efficient microfinance institutions. The authors concluded that microcredit accounted for a 10 percent reduction in rural poverty in Bangladesh during that time—meaning MFIs lifted some 2.5 million Bangladeshis from the ranks of the poor.

Diversification of economic activities: Microcredit helps to diversify borrowers' economic activities, boosting incomes in the process. Household income grew over the study period, driven by rising non-farm income. For households diversifying into non-farm activities, income growth was almost 29 percent higher than that of their counterparts who stuck exclusively to farming. The reduction in moderate and extreme poverty for this group was almost 8 percent higher. Better access to credit was found to be a key factor in promoting this shift.

Focus on farmers: The study also finds that though MFIs traditionally focus on non-farm activities, have also aided farmers. Borrowing from an MFI raised farm income and reduced reliance on wage income, producing significant positive effects for women and marginal farmers. A 10 percent increase in women's credit use was found to increase crop income by 3.5 percent, non-crop income by 2.8 percent, and total farm income by 0.7 percent. In addition, borrowing by both men and women has had important impacts on income, labor supply, household assets and net worth, and children's schooling.

Conclusion: Some earlier studies based on micro-level data found positive impact of MFIs while macro data showed a not so hopeful picture. But based on data from household long panel surveys covering the period 1991-92 to 2010-11 covering 20-years, the authors finds positive impact of microcredit in poverty reduction. The authors argue, because the benefits of microfinance programs—such as increased income generated through new self-employment schemes—take time to realize; in addition, given the growing complexity of the microfinance sector in Bangladesh, this broad range of data was useful in untangling the true effects of MFIs on the country's rural poor[94].

[92] Referred by Md. Abul Basher in Towards understanding the mismatch between micro- and macro-level effects of microcredit: Causes and imperatives, https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-towards-understanding-the-mismatch-between-micro-and-macro-level-effects-of-microcredit-causes-and-imperatives-2001_0.pdf

[93] Sara Gustafson and Shahidur Khandker, 2016, https://www.ifpri.org

[94] Sara Gustafson and Shahidur Khandker, 2016, https://www.ifpri.org

SECTION SEVENTEEN

GOVERNMENT POLICY AND LEGAL FRAMEWORK REGARDING MICRO FINANCE IN BANGLADESH

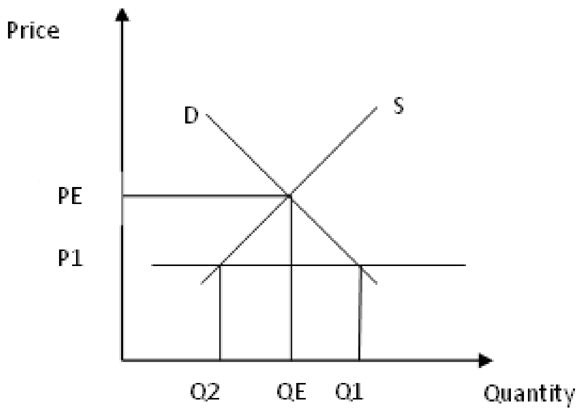
With a view to reduce poverty through financial inclusion, government policies have always been conducive to the development of microfinance sector in Bangladesh. Over time government has tried to respond to the demand of people as well as feedbacks from different stakeholders and has taken additional policy measures so that the poor people's interests are better served by the microfinance institutions.

Evolution of microfinance Regulations in Bangladesh: During the nascent stage of microcredit in Bangladesh in 1970s, government and Bangladesh Bank came up with active support to the microcredit innovators. The Grameen Bank Project was finance by Janata Bank with special initiative from Bangladesh Bank. With a view to promote the idea of banking for the poor; without hassle and collateral government of Bangladesh stood by Professor Muhammad Yunus and passed special ordinance namely the Grameen Bank Ordinance in 1983. When other voluntary nongovernmental organizations came up with the intention of replicating grameen model according to their own customization, government allowed the NGOs to work with microfinance with simple organizational registration practically without any regulation. When there were questions raised regarding proper utilization of foreign donations, the Government established the NGO affairs bureau under the umbrella of the Prime Minister's Office, to monitor foreign donations. Taking registration from the NGO Affairs Bureau helped the NGOs in receiving foreign donation. In 1990, government established the Palli Karma Sahayak Foundation (PKSF) with a view to provide low cost fund to the NGOs working in the microfinance sector. The establishment of PKSF also helped institutionalizing the sector through quasi fiscal regulations. When the NGOs started taking deposits from customers again there were concerns for the government from the perspectives of protecting the interest of the depositors. Moreover, when some NGOs forfeited depositor's money, the affected depositors were facing difficulty in getting legal protection. On the other hand, the NGOs working with good intentions were facing difficulties in maintaining the depositor's trust in absence of regulation. After several years of discussion and research through the Microcredit Research and Reference Unit of Bangladesh Bank, the government finally established the Micro Credit Regulatory Authority (MRA) under the MRA Act, 2006.

Policy and legal framework of microfinance includes interest rate policy, government mandated credit allocation system, deposit policy, statutory requirements of the MFIs, licensing requirement, governance related regulation, level of monitoring by the government, etc. Salient features of policy and legal framework of microfinance are briefly discussed below:

Interest Rate Policy: Microfinance institutions work in a highly supervised manner. Therefore, the cost structure of microfinance is generally higher than that of banks. Given the cost structure of microfinance, many critics argue against interest rate restriction for MFIs. Interest rate restrictions usually undermine the institutions ability to operate efficiently and competitively. Typically interest rate restrictions do not achieve their public policy purpose for protecting the most vulnerable sectors of population. Instead they drive informal lenders underground, so that poor borrowers fail to benefit from the intended low cost financial services[95].

[95] Joana Ledgerwood, Microfinance Handbook, The World Bank



Let us assume that equilibrium interest rate determined by the market forces was PE and the amount of loan disbursed at this equilibrium point was QE. After interest rate ceiling is imposed below PE at P1, quantity demanded for loan at new interest rate rises to Q1 while quantity supplied at this point reduces to Q2 creating supply shortage of Q1-Q2 leading to inefficient credit delivery and adverse selection.

Dual Objectives: While determining interest rates, the MFIs often face the dual challenges between customer satisfaction and organizational sustainability. As objectives of MFIs are to serve the unbanked poor with financial services; from ethical point of view the interest rate should be lower than the regular bank interest rates. But due to the highly supervised nature operational cost is usually higher for MFIs than banks. On the other hand, in absence of subsidy, the MFI must earn profit to continue business and make expansion as per customers need. To earn profit, an MFI must charge higher interest than banks to meet operational expenses and servicing of loans that they themselves have borrowed from commercial sources such as traditional commercial banks.

Interest Rate Ceiling: Bangladesh has gone through regimes of dictated interest rates to market interest rate; and then again shifted to impose interest rate ceiling. Currently the interest rate ceiling for banks is 9%, while some special sector such as agriculture enjoys interest rate ceiling of 8%. Interest rate ceiling for MFIs in Bangladesh is 27% when the global average interest rate in the MFIs is 35%; according to a data by Asian Development Bank (ADB)[96].

Government-mandated credit allocations: In many countries, government mandates that formal financial sector institutions provide a certain percentage of their portfolio or a certain volume of their assets to the informal or poorer segments of society or to certain economic sectors. Special windows are often created in commercial banks or rediscounted lines of credit are provided. Critics argue that for the most part, sectoral allocations do not work well because there are no incentives for banks to participate. Many banks prefer to pay penalty than to meet their obligations.[97] While some MFIs may benefit from government credit allocations through accessing funds from the commercial banks, sectoral mandates tend to distort the market.

Licensing Authority: No MFI can legally operate in Bangladesh with microfinance activities without having a license from the Microcredit Regulatory Authority (MRA) that came into being in 2006. Number of NGOs working in Bangladesh before the MRA came into operation were numerous and even MRA does not have the exact figure. However, more than 4000 (four thousand) NGOs applied seeking registration from MRA. But most of the applicants were too small to be sustainable according to the MRA benchmark. The NGOs having fewer than 100 borrowers and having less than USD 58,000 equivalent loan outstanding were not considered for MRA license. By June 2020 MRA issued license to 877 MFIs but revoked 118 licenses due to gross noncompliance and a total of 759 MFIs that are licensed by MRA has been operating in Bangladesh.

[96] https://www.adb.org/sites/default/files/linked-documents/51269-002-ea.pdf
[97] Joana Ledgerwood, Microfinance Handbook, The World Bank

Governance Structure of an MFI: According to Section 51 of the Microcredit Regulatory Authority Act, 2006, the Authority is empowered to prepare and circulate microfinance regulations. The MRA has detailed rules regarding governance structure of individual MFIs. As per MRA guidelines, every MFI shall have a general body comprising 15 to 31 members. Out of them, at least two shall be female. A general body member shall not be involved in the general bodies of more than five institutions. An executive or governing body shall be elected from the general body members for maximum three-year terms. The members of this body shall not be fewer than 5 or more than 10 in number, and at least two members of the executive body shall be female. Chairperson of the executive body will be the chairperson of the general body. A member cannot be a member of the executive body for more than three terms. A full time chief executive officer shall be appointed who will be in charge of the institution. The chairperson and chief executive shall not be close relatives or family members. Two or more family members shall not be in signatory of the bank account. Meetings-Meetings of the executive body shall be held at least once in every three months.

Reserve fund: According to the rules of MRA, every MFI have to maintain 10% of retained earnings as a reserve fund in a scheduled bank. This cannot be used for other purposes without approval of the Authority. The remaining 90% of retained earnings may be used as funds for microcredit and for other activities to alleviate poverty with the approval of the Authority.

Sources and utilization of funds by MFIs:

- An MFI may accept donations from its general body members as well as from local and foreign organizations under proper agreement.
- MFI may accept deposits from clients; however at least 70% of the clients shall be borrowers at any point of time
- MFI can receive loans from local financial institutions and from foreign financial institutions after receiving permission from concerned authorities.
- An institution is also permitted to raise funds through securitization with the approval of the Authority.
- Funds shall not be used for unauthorized purposes, which include loans to members of the general body (clients who are members of the general body remain outside the scope of this rule.)

Services to be offered: MFIs may provide credit, deposit and insurance services to their clients. The institution can extend credit services to individuals and/or to groups. Total volume of microenterprise loans shall not exceed 50% of total loan portfolio at any point of time. Interest rate/s on credit shall be determined on the basis of policy guidelines provided by the Authority.

At least 70% of the clients shall be borrowers at any point of time. In case of liquidation of the organization, depositors shall get highest priority to receive payment against liability. Institutions must have written policies for loans, deposits, insurance, loan classification, etc. The institution shall operate microfinance activities directly through its own system.

Deposit: MFIs may receive the following three types of deposit from clients, depending on the individual institution's length of operation and performance:

a) **Compulsory deposit** – An institution may collect weekly mandatory deposits from clients, the amount of which should be uniform for a particular group.

b) **Voluntary deposit**-Clients may deposit any amount at mutually agreed terms. However, institutions having experience of less than five years, or a cumulative recovery rate less than 95% for five consecutive years and/or current recovery rate less than 90%, are not allowed to offer voluntary deposit services. Moreover, total volume of voluntary savings shall not exceed 25% of total capital fund.

c) **Term deposit** -Clients can deposit any amount for any term at mutually agreed conditions. However, institutions having experience less than ten years, or cumulative recovery rate less than 95% for ten consecutive years and /or current recovery rate less than 90%, are not allowed to offer term deposit services. Moreover, total volume of term deposits shall not exceed 25% of total capital fund.

Some other Regulatory Guidelines to MFIs licensed under MRA

- Total deposits (compulsory plus voluntary plus term) shall not exceed more than 80% of total loan portfolio (outstanding loans) at any point of time. Institutions shall announce the rates offered on deposits beforehand. Deposits shall not be used to purchase any asset.

- Insurance Institutions offering insurance services shall have detailed insurance policies that specify coverage under insurance, amount of premium, payment against claims, etc.

- Liquidity reserve - 15% of total deposits shall be kept liquid; a maximum of 5% shall be as cash and the rest shall be as fixed deposit.

- Inspection and investigation The Authority reserves rights to inspect and investigate any information of the institutions at anytime.

- Maintenance of accounts and bookkeeping Institution shall maintain accounts and books of financial transactions as required by the Authority.

- Loan classification Loans shall be classified and provisions set aside according to the guidelines by MRA

- External Audit - External audit shall be carried out by a listed Audit firm according to the terms of reference of the Authority, and the report shall be submitted within three months after the end of the financial year.

- Preparation and submission of reports NGO-MFIs shall submit reports on management, operations and financial transactions to the Authority in prescribed formats after every six months .

Quasi-regulation by PKSF: Palli Karma Sahayak Foundation (PKSF) or “Rural Employment Support Foundation” was established in 1990. The birth of PKSF, a wholesale funding agency for microcredit organizations, coincided with the MFIs’ growing need for fund. Access to seed fund from PKSF for microcredit operations changed the landscape of microcredit activities by facilitating rapid growth of the industry. As a funding agency, the Foundation sets some criteria and conditions in getting access to its financial resources. These standards and conditions can be argued as introduction of quasi-regulations for microcredit activities in Bangladesh. The funded organization requires meeting the following criteria[98].

- The microcredit organization needs to have a legal basis for conducting its business mandating it to operate credit program and borrow money from the government, semi-government, private and any other organizations for self-employment and income generating activities of the landless and assetless households.

[98] Md. Kabir Ahmed, 2013, Regulation and Supervision of MFIs in Bangladesh

- The sponsor of the organization should be socially reputable with honest intention to serve the poor people while the organization requires having a definite structure with a full time Chief Executive along with adequate number of staffs to ensure proper implementation of microcredit programme.
- The organization is needed to maintain a sound accounting system including an information system on the details of microcredit operation.
- The Organization should have at least 400 members who are landless, assetless, like-minded and organized in groups and have six months practice of regular savings deposit.
- The groups should be organized within the 10 km radius of the project office.
- The organization needs to have Taka 0.20 million outstanding loan at field level and is required to maintain a minimum loan recovery rate of 98 percent on a continuous basis.
- Furthermore, PKSF developed a number of other non-prudential guidelines for the funded organizations, which are also known as partner organizations (POs). These guidelines are as follows: (i) Guideline for Accounting; (ii) Policy for Loan Classification and Debt Management Reserve; (iii) Guidelines for Designing Internal Control System for POs or PKSF; (iv) Guidelines for Management of Savings; (v) Guidelines for Management of Service Charge Earnings; (vi) Guidelines for Avoiding Overlapping (vii) Management Information System; (viii) Guidelines for Performance Standards and Categorization of POs; (ix) Financial Ratio Analysis; (x) Policy for the Utilization of Disaster Management Fund; (xi) Business plan for POs; (xii) Guidelines for Management Audit of POs; (xiii) Guidelines for Internal Audit of POs; (xiv) Audit TOR for External Auditor of PKSFfor Auditing PKSF; (xv) Audit TOR for External Auditor of PKSF for Auditing POs; (xvi) Audit TOR for Auditors appointed by POs; and (xvii) Policy for Loans for Institutional Development.

Progress of NGOs and Public Policy and Governance Issues: The World Bank published a report namely `Economics and governance of nongovernmental organizations in Bangladesh' in 2010. According to the report, nongovernmental organizations (NGOs) have significantly expanded their services during this period (1995-2010) and have shown that it is possible to scale up innovative antipoverty experiments into nationwide programs. However, the report raises concern that the rapid growth and diversification of the NGO sector has also given rise to public policy concerns. These include the viability of a regulatory framework developed when the size and scope of NGOs was far more limited. There has been little systematic review of the public policy implications of the changing character of NGOs in Bangladesh[99].

Dedicated Credit target and Bank-MFI Linkages in Bangladesh: In Bangladesh, dedicated credit allocation seems to have showed positive results for both agriculture sector as well as for MFIs. In 2008, Bangladesh Bank advised banks to provide a certain percentage of their loan portfolio to agriculture sector and wanted banks to declare agricultural credit disbursement target at the beginning of the fiscal year. However, banks were allowed to set the amount of target on their own. In the same year BB also allowed banks having limited branch network in the rural areas to disburse agricultural credit through MFIs. Later Bangladesh Bank set a minimum agricultural credit target for banks to the tune of at least 2% of their outstanding loan portfolio and increased it further to set at 2.5% in the next year with the option of imposing penalty in case a bank fails to disburse the minimum targeted amount in agriculture sector.

An analysis of bank credit as a source of fund for MFIs shows that MFI's dependency on bank credit rose continuously between 2010 and 2019. Covid-19 has slowed down the flow of bank credit to MFIs a bit but still MFIs resort to banks for funds while banks find MFIs as comparatively safer customer while meeting some policy targets by the government such as meeting agricultural credit target through MFI linkage. As of June 2021, the amount of bank credit to the MFIs was 16 thousand seven hundred and seventy nine crore taka or 167.79 billion taka. Still banks have scope to fund more to MFIs, according to the Micro Credit Regulatory Authority.

[99] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/ 105291468207267279/ economics-and-governance-of-nongovernmental-organizations-in-bangladesh

SECTION EIGHTEEN

MICROCREDIT REGULATORY AUTHORITY IN BANGLADESH

Introduction: Microcredit Regulatory Authority was established by the government in 2006. However the birth of MRA came through a process of research and discussions with stakeholders. The path towards MRA is discussed below:

Path towards MRA

I. **GoB form Committee to see scopes of NGO regulation:** Bangladesh Bank and other stakeholders and the development partners raised the necessity of regulation for this sector to the government. Under these circumstances, the government formed a Committee of seven members with the chairmanship of the Governor of Bangladesh Bank in October 1999 in order to (i) recommend an effective credit and savings policy for this sector, (ii) ensure transparency and accountability into their activities and (iii) make some recommendations regarding a regulatory framework and to propose a body to regulate and supervise these institutions.

II. **Recommendations by GoB Committee:** This Committee prepared its report after discussing the issue with policy makers, stakeholders, academicians and other civil society members at national level and finally submitted the report to the government in March 2000. The major recommendations of the committee consist of suggestions for formulating the following policies and actions:

- Policy regarding establishment of linkage between NGOs and formal financial sector to solve NGOs' funding problem,
- Policy for loan classification, provisioning, interest rate, reserve requirement against savings/ deposit, and investment of savings/ deposits,
- Legal basis to recover default loan,
- Proper definition of member and non-member,
- Policy for uniform accounting standard, internal and external audit,
- Fix up the upper limit of administrative expenses of NGOs,
- Formulation of a prudential guideline for the microfinance sector,
- Formulation of performance standard to monitor and rating NGO-MFIs,
- Policy to remove overlapping problem,
- Creation of a separate regulatory body or a subsidiary organization of Bangladesh Bank to regulate NGO-Microfinance Institutions (NGO-MFIs).

III. **Formation of MRRU:** On the basis of the above recommendations a Unit namely "Microfinance Research and Reference Unit (MRRU)" was established in Bangladesh Bank under the supervision of a National Steering Committee formed in June 2000 to formulate policy guidelines to ensure transparency and accountability of this sector. The Governor of the Bangladesh Bank headed this Committee along with 10 other members selected from both government and private sectors.

The National Steering Committee prepared a draft structure of a legal framework after consulting the issue with the sector representatives. The draft law suggested for an independent regulatory authority that would be responsible for providing license to the MFIs and monitoring their activities.

SWOT Analysis of MRA[100]

Strengths of MRA	**Weaknesses of MRA**
➢ A statutory body formed under special law (The Micro Credit Regulatory Authority Act) ➢ MRA has a strong independent Board, chaired by the Governor of Bangladesh Bank ➢ Policies of MRA have been formulated after long consultation process with different stakeholders ➢ Operations of MRA are based on government approved policies ➢ Knowledge and information already gathered are under IT based information processing system ➢ Disclosure of information made to the public	➢ Support from the government is of limited nature. Fund constraints are there. ➢ Lack of appropriate number of qualified staff. Large numbers of NGO-MFIS are working throughout the country, but MRA does not have presence outside Dhaka. ➢ Lack of strategic planning and weak links to clients. ➢ Image of MRA to some extent is tied to the image of Bangladesh Bank. ➢ Coordination with relevant stakeholders is not very effective.
Opportunities for MRA	**Threats for MRA**
➢ High acceptability of MRA within the sector. ➢ Partial success acknowledged by stakeholders. ➢ Have access to other government agencies.	➢ Sudden change in government policy might inhibit the operations of the MRA. ➢ Huge number of formal and informal microcredit organizations in the field. ➢ External influence in decision making cannot be ignored, since there are some leading MFIs/ network agencies with very strong lobbying power at the national as well as international level.

MFIs under MRA Regime: As mentioned earlier that the Microcredit Regulatory Authority (MRA) was established by the government in 2006. Number of NGOs working in Bangladesh before the MRA came into operation were numerous and even MRA did not have the exact figure. However, more than 4000 (four thousand) NGOs applied seeking registration from MRA. But most of the applicants were too small to be sustainable according to the MRA benchmark. The NGOs having fewer than 100 borrowers and having less than USD 58,000 equivalent loan outstanding were not considered for MRA license. By June 2020 MRA approved license in favour of 877 NGOs but later 118 licenses were revoked due to severe regulatory noncompliance and only 759 MFIs has been functioning.

[100] Adapted from Lila Rashid, 2019, Institutionalising Microfinance in Bangladesh, Players, Games and Outcomes,

SECTION NINETEEN

REQUIREMENT OF COLLATERAL SECURITY AND COLLATERAL SUBSTITUTES IN MICROFINANCE

Traditionally financial intermediaries consider property, land, machinery and other fixed assets as collaterals. This is widely practiced by banks internationally as well as in Bangladesh. Even in case of informal lending, moneylenders and pawn brokers used to take some sort of backup against their finance such as: title deed of land or jeweler and other valuable utensils. But the case is totally different for microfinance institutes.

Before going into that detail, let us discuss a bit further about collateral security. In the banking sector there are two common terms: primary security and collateral security. Though they both serve as cushion for the investment made by the banks but they are characteristically different.

Concept of Collateral: When an asset is acquired by a loan and the same asset is offered to the lender it is treated as primary security for the bank. Collateral security is the additional security that bank asks to secure its investment in addition to the primary security. The same kind property may be treated as primary security in one loan while secondary security for another loan.

Example: 1) Suppose, Mr.Karim has borrowed a housing loan of Taka 10 million from a commercial bank to acquire a residential flat. The bank asks Mr. Karim to mortgage the same flat against the loan. This will be called as Primary Security. **2)** Let us also assume that another Mr. Rahim has borrowed a project loan of Taka 100 million from a commercial bank to acquire establish a garment industry. The whole project including land, building, machinery acquired out of the loan facility will be treated as primary security. If the bank also asks for the apartment owned by Mr. Rahim valuing taka 10 million; this will be treated as collateral security. **3)** Finally lets us assume, Mr Obaid has a factory A established out of his own fund. Now he seeks a bank loan for expansion of his business. So he seeks loan from the bank for factory B. The bank agrees with the loan but seeks collateral security of the land, building and machinery of Factory A in addition to the land, building and machinery of Factory B as the primary security.

Form the above examples; we see that the same property may be treated as primary security or collateral security based on the loan terms.

In the microfinance arena, concept of collateral is different. Microfinance institutes (MFIs) generally lend to low income customers who often have very few assets. As a result, traditional collateral such as property, land, machinery and capital assets are not available.

Given this backdrop, various innovative means have been developed to cushion the small loans disbursed by the MFIs. However, they may be classified in two groups:

i) Collateral substitutes that include the following:
   a. Group guarantee
   b. Character based lending
   c. Frequent visit to the business by the credit officer
   d. Risk of public embarrassment
   e. Risk as legal action

ii) Alternative forms of collateral that include the following
   a. Compulsory savings
   b. Asset pledged at less than the value of the loan
   c. Personal guarantee

Group guarantee: Group guarantee is an innovative idea that requires members to jointly guarantee each other's loans. The initial step of Microfinance institutions generally starts with group formation. Number of members in a group may vary among different MFIs. One MFI may work with 15-20 members in each group while another MFI may form village development group comprising 35 to 40 members. Type of guarantees may also vary; it may be implicit or explicit. Example of implicit guarantee includes: other members will be unable to access loan if all members are not regular in their loan repayments. On the other hand in case of explicit or actual guarantee, each group members are liable if other group members default on their loans.

Character based lending: Some MFI lend to people based on a good reputation in the community. Before giving out loan the MFI staff visits various establishments in the community and asks about potential client's character or behavior.[101]

Frequent visit to the business by the credit officer: Frequent visit by the credit officer of the concerned MFI help ensure that the client is maintaining the business in the same sector as declared and thus intends to repay the loan. Frequent visits help the MFI official have clearer idea about the amount, terms and frequency of payment required for the business. Moreover frequent visit helps develop a professional but friendly relation between MFI and customer based on mutual respect.

Risk of public embarrassment: Sometimes some borrowers despite having capacity do repay, do not intend to repay the loan and repay only when they feel that they can be embarrasses in front of the family members and neighborhood. The MFIs may announce name of defaulters in community people as a weapon of recovery.

Risk as legal action: Some MFIs take post dated cheques as collateral against relatively larger size of credit provided to small entrepreneurs. This enables the MFI to sue against the customer in case of default. Sometimes, the risk of legal repercussion is enough to encourage repayment.

Compulsory savings: Compulsory savings is a form of savings that is not available for withdrawal until certain conditions are fulfilled. In case of MFIs compulsory savings is a form of savings that require the client to hold a specific amount of money or a percentage to become eligible for a loan. The compulsory savings amount may bear interest but it is not generally allowed for withdrawal until the loan is fully recovered. In this way, compulsory savings is a form of collateral. From the MFI perspective, compulsory savings also serves as a source of fund as they can utilize it in making out loans to new borrowers.

Asset pledged at less than the value of the loan: Household asset pledge is basically a traditional method of security used by moneylenders and pawn brokers. This is not a widely practiced method by MFIs. However, some MFIs may practice this method for some borrowers and not all; given the law permits. Handbook of Micro Credit[102] by the World Bank recognizes this as alternative collateral for the MFIs. The reason being regardless of actual value of the assets owned by the borrower, the act of pledging gives a message to the borrower that they are serious about recovery of the credit.

Personal guarantee/Reference: Generally, micro borrower themselves do not have the ability to guarantee their loans but they may have friends and relatives who are capable of paying such small loans. The personal guarantee of genuinely credit worthy persons (but not the actual borrowers) may secure the high amount of loans provided by the MFIs. In some cases list of proposed guarantors along with the communication of the MFI personnel with them serves as collateral for small loans.

[101] Joana Ledgerwood, Microfinance Handbook, The World Bank
[102] Joana Microfinance Handbook, The World Bank

SECTION TWENTY

PRODUCTS AND SERVICES OF MFIS

The product and services of microfinance institutions differ from that of traditional banks. The customer segments that the MFIs deal with are generally different in many aspects from the customers of the banking industry. Not only that MFI customers generally live in remote areas or that they are poor, but many of them have no tangible assets and they are mostly illiterate. Sometimes in some areas such as in Chittagong, Sylhet, Noakhali, target customers of MFIs talk in such local dialects that are not easily understood by the credit officers of the financial intermediary. Therefore, MFIs have to develop a mechanism to bridge gaps created by poverty, illiteracy, gender and remoteness.

Microfinance institutes offer an array of products and services to their clients, including financial service, which is probably the foremost one, but not necessarily the first one. First services usually are those that prepare their customers for availing the rest of the services such as: social intermediation, enterprise development and social services, etc offered by MFIs based on the approach the particular MFI is practicing. Based on the approaches followed by a particular micro financial institution and needs of its customers it may have a limited number of services or a combination of services.

MFIs that provide limited services involving only financial transaction and a minimum of social services such as group formation are said to be followers of minimalist approach. On the other hand, the MFIs that believe that financial services alone cannot help eradicate poverty and cannot bring sustainable change generally try to follow an integrated approach There is debate whether MFIs should follow minimalist approach or integrated approach combining an array of services in addition to the financial services offered by the practitioners of minimalist approach.

Minimalist approach: MFIs using the minimalist approach usually offer financial intermediation with occasion limited social intermediation. Minimalist approach believes that financial services as the only “missing piece” for enterprise growth.

MFIS working with minimalist approach enjoys cost advantage as it provides only financial services against those MFIs working with integrated approach that generally has to provide other services for free along with financial service. Again, it also helps the MFI staying focused as it is often difficult to differentiate between the four services. If there are customers who demand integrated services; it is not much of a problem for the MFI since other organizations are assumed to provide those.

Integrated approach: MFIs that seek to work on holistic approach takes a more holistic view of the client. They provide a combination or range of financial and social services namely: financial intermediation, social intermediation, enterprise development and social services.

Case Study 6
The story of Joyce Wafukho, Kenya
Joyce Wafukho used her small savings to open a hardware store in 1994. But with insufficient capital, she was able to sell only a few items. After five years of being turned down by lenders, she approached the Kenya Women Finance Trust for a $680 loan. Today, after five more loans from KWFT, Wafukho employs 25 Africans full-time in her business, which now also includes contracting and selling lumber. The business has assets of $27,000 and Wafukho is able to pay for not only her children’s health and education, but for her sister to go to college for a master’s degree.[103]

[103] https://nextbigwhat.com/microfinance-success-stories-worldwide/

Approaches of MFIs

MINIMALIST APPROACH | **INTEGRATED APPROACH**

Financial Intermediation
- Credit
- Savings
  - Voluntary
  - Mandatory
- Insurance
- Working Capital
- Fixed asset loans

Social Intermediation
- Group formation
- Leadership training
- Cooperative training

Enterprise Development Service
- Marketing
- Business training
- Production training
- Subsector analysis

Social Service
- Education
- Health and nutrition
- Literacy training

Services of MFIs in Bangladesh: MFIs in Bangladesh provide a wider spectrum of financial services, which are created through a demand driven innovative process in meeting the poor's complex livelihood and heterogeneous needs. The industry provides different types of savings products so that the poor can save, everyday though may be only a very little amount. Although some of the products appear to be similar to those of formal banking sector, their inherent characteristics such as terms and conditions, collateral requirements, size of installment and period of repayment are different and in line with the economic activity of the poor. Furthermore, living and working in the marginal economy often exposes the poor to different types of household-specific and environmental risks such as: loss of earnings due to sickness, urgent medical expense, theft, insecure condition of employment, natural hazards, and harvest failure. In dealing with those emergencies, MFIs provide different types of insurance services. Since September, 2011 they have initiated mobile financial services as agents/partners of local banks. These mobile financial services include disbursement of inward foreign remittances; person to business payments such as utility bill payments and merchant payments; business to person payments such as salary disbursement, dividend and refund warrant payments, vendor payments etc.; government to person payments such as elderly allowances, freedom-fighter allowances, subsidies etc.; person to government payments such as tax, levy payments; person to person payments (one registered mobile account to another registered mobile account) while other payments include microfinance, overdrawn facility, insurance premium, DPS etc. By February 2013, 14 MFIs have been allowed by MRA to start mobile financial services under Bank-led Agent Model where they have to sign an MOU with commercial banks for subsequent approval from Central Bank. In a further move, BB is has allowed expansion of mobile financial services by allowing loan disbursement and repayment activities under agent/partnership agreement.

Voluntary Savings and Compulsory Savings

Voluntary savings is a kind of savings which is not obligatory for a customer. Compulsory savings on the other hand is often a mandatory requirement for receiving loan and there is a withdrawal bar until the loan is adjusted.

The requirement of compulsory saving and the mobilization of voluntary savings are completely different both in practice and from the conceptual perspective. The principle of mandatory savings is founded on the belief that poor people cannot save and they must be taught to save as part of the financial discipline. The advocates of voluntary savings on the other hand believe that poor people already save, but they need to save institutionally.

While mandatory savings serve as a collateral as well as source of fund for further investment for the MFIs there are some preconditions for compulsory savings:

i) Appropriate legal and regulatory framework, reasonable level of political stability and suitable demographic condition together provides an enabling environment for mandatory saving.
ii) Adequate and effective supervisory capacity to must be there to protect the depositors.
iii) The MFI must have the capacity from the perspective of good management, financial solvency and good loan recovery rate to make compulsory saving scheme an effective one.

Voluntary savings is more popular among the customers. Requirement of effective voluntary savings are as follows:

1. The MFI must have legal authority to collect savings from clients. They must follow the limitations, if any. Sometimes limitation might be like: they can receive saving from members. Or they can receive savings up to a certain amount or certain percentage of loans; which they must follow accordingly.
2. The MFI must have the credibility so that the customer feel-safe in saving with them
3. If the interest rate offered by the MFI is too low (for example: lower than inflation); the customers will not feel interested to save.
4. Flexibility and diversity of savings instruments allow different customer segments to choose their suitable saving option.
5. If the customer has easy access to the MFI (for example; not too far from their house) they may be more interested to save.
6. Last but not the least easy access to deposit is a very important consideration from the client perspective. If they know that they may encash the deposit at moments of emergency they will feel more interested to save.

Social Intermediation

Social intermediation is a development tool that involves group formation, networking and capacity building through training on financial literacy, book keeping and business management among the group members.[104]

Financial intermediations are generally established based on trust. Where neither traditional system nor modern institutions provide a basis of trust, financial intermediation systems are difficult to establish[105]. This is one of the main reasons why poor people were left out from formal or semiformal financial intermediation despite widespread popularity of the banking industry. With social intermediation developed by the microfinance innovators, it became easier to establish sustainable financial intermediation system with the poor in societies that encourage cooperative efforts through local clubs, religious associations or work groups.[106] Thus social intermediation may be understood as a process of building the human and social capital required for sustainable financial intermediation with the poor.

Social intermediation can result in a range of capacity building; such as:

i) Training group members in participatory management
ii) Train the members regarding financial record keeping skill
iii) Training on basic financial management skills
iv) Enhance self management capacity
v) Increase cohesiveness of group

Micro Insurance

Insurance reimburses an individual for some or all of a financial loss that is linked to an unpredictable event or risk. This protection is accomplished through a pooling mechanism whereby many individuals who are vulnerable to the particular risk are joined together into a risk pool. Each person pays a small amount of money, known as a premium, into the pool, which is then used to compensate the unfortunate individuals who do actually suffer a loss. Insurance reduces vulnerability by replacing the uncertain prospect of large losses with the certainty of making small, regular premium payments. This risk-pooling concept makes insurance an efficient means for protecting against certain types of risk; it also causes complexities in designing and delivering insurance products (ILO)[107].

The insured unit could be a person, a company or a household. Here our focus is on the individual client of an MFI.

An insurance product has to explicitly identify the following four elements[108]:

i. Insured Event: The trigger event (e.g., death of the policyholder) that leads to the payment of a claim.

ii. Benefit Amount: The amount of the claim that becomes payable upon the occurrence of the insured event (e.g., a fixed sum of US$400 or the outstanding balance of a loan); the risk pooling mechanism makes it possible for the benefit amount to be much greater than an individual's premium payments.

iii. Beneficiary: The party that receives the benefit amount if the insured event occurs.

[104] Mbaluka, S. (2013). Impact of Microfinance Institution on Growth and Development of SMEs: A Survey of Machakos Town
[105] Joana Ledgerwood, Microfinance Handbook, The World Bank
[106] Joana Ledgerwood, Microfinance Handbook, The World Bank
[107] Making Insurance Work for Micro institutions, ILO, 2003, https://www.ilo.org/public/libdoc/ilo/2003/103B09_30_engl.pdf
[108] Making Insurance Work for Micro institutions, ILO, 2003, https://www.ilo.org/public/libdoc/ilo/2003/103B09_30_engl.pdf

iv. Term of Cover: The period within which the insured event must occur for a claim to become payable.

These four items must all be addressed in an insurance policy, which is the legal contract between an insurer and its client the policyholder (who is sometimes referred to as the insured).

MFIs are beginning to experiment with other financial products and services such as insurance, credit cards, and payment services. Many group lending programs offer insurance or guarantee scheme. A typical example is Grameen Bank. Each member is required to contribute 1 percent of the loan amount to an insurance fund. In case of the death of a client this fund is used to repay the loan and provide the deceased client's family with the means to cover burial costs. Insurance is a product that will likely be offered more extensively in the future by MFIs, because there is growing demand among their clients for health or loan insurance in case of death or loss of assets (Microfinance Handbook)[109].

Payment Services

In traditional banks payment services include check cashing and check writing privileges for customers who maintain deposits (Caskey 1994). In this sense the banks' payment services are bundled with their savings services, suggests the Microfinance Handbook of the World Bank. MFIs may offer similar payment services either with their savings services or separately for a fee. If payment services are bundled with savings services, the MFI can pay an artificially low interest rate on customer deposit accounts to cover the cost of those services. Otherwise, a fee is charged to cover these costs, which include personnel, infrastructure, and insurance costs. Fees can be based on a percentage of the amount of the check or they can be a flat minimum fee with additional charges for first-time clients. Microfinance clients often need transfer services, remittance services, etc however, the amounts that formal financial institutions require to make a transfer may be beyond the limits of the client. Remittance service by banks are often time consuming. Without transfer services clients may be forced to carry (relatively) large amounts of money with them, thus incurring unnecessary risks. To offer payment services MFIs must have an extensive branch network or relationships with one or more banks. This is often difficult to achieve. Few MFIs are currently offering these services. MFIS such as ASA, BURO are providing remittance services to their customers in collaboration with banks. It is anticipated that in the future more and more MFIs will recognize a demand for payment services and will boost their ability to cover the costs associated with such services[110].

Enterprise Development Service[111]

Generally the following organizations provide enterprise development services:

- NGOs/MFIs running microfinance program in integrated approach
- Training institutes
- Professional Networks
- Universities
- Private firms that train different agencies based on requirements
- Producer groups
- Government Agencies such as those meant for small business assistance or export promotion.

Enterprise development service programs could be divided into: a) Enterprise formation programs, offering training in sector-specific skills such as weaving as well as training for persons who might start up such businesses and b) Enterprise transformation programs, providing technical assistance,

[109] Joana Ledgerwood, 1999, Microfinance Handbook, The World Bank
[110] Joana Ledgerwood, 1999, Microfinance Handbook, The World Bank
[111] Adapted from Joana Ledgerwood, 1999, Microfinance Handbook, The World Bank

training, and technology to help existing microenterprises make a quantitative and qualitative leap in terms of scale of production and marketing.

An additional distinction lies between direct and indirect a service, which has to do with the interaction between the provider of services and the enterprises: a) Direct services are those that bring the client in contact with the provider and b) Indirect services are those that benefit the client without such direct contact, as in policy level interventions.

All enterprise development services have as their goal to improve the performance of the business at hand, which in turn improves the financial condition of the owner or operator. In a sense, enterprise development services are a residual or catch-all category—they can be almost everything except financial services. As a result, they are a far broader and more complex arena in which to work than credit and savings.

Some experts suggest that enterprise development services be provided by a different institution than the one providing financial services. However, if an MFI chooses to provide such services, they should be clearly separated from other activities and accounted for separately

Case Study: 7
Layer Farming: Revolutionary change of Jolly Begum
Jolly Begum, a poor woman from Noagaon village under kamalgonj upazilla in Moulvibazar district, is an active member of “Kakoli Mohila Samity”. She has a big family consisting of 6 members when her husband works as a day-labor and ironically he is the only earning member of this family. The family thus runs with problems and difficulties. Jolly Begum had been included herself to an MFI’s Microfinance group before a long time ago but she did not get any notable assistance from there, especially in terms of generating new source of income. At regular weekly group meeting, credit officer discussed about hybrid layer farming and showing interest on layer rearing. So, the technical officer visited her home and giving instruction for the place of farm establishment Previously she used to rear indigenous chicken variety in a very small scale, but she was nearly ignorant about layer farming and their management. So it’s the time to get her capable of receiving information and for that reason she was awarded a two-day training program organized by HEED Bangladesh, an MFI. From the training sessions she acquired a basic concept about layer farming. The training was technical but also motivational, which inspired her further to establish a layer farm in her home .Through the training she gathered the knowledge of stage construction, feed management, light management, vaccination and biosecurity etc.

She received an amount of 20,000/- as loan to run the farm smoothly, such as purchasing feed regularly. The technical team of HEED Bangladesh arranged for the farm vaccines and medication. The success story was started when she noticed the chickens laying eggs on her farm at the age of around five months. When the age of the birds reached to 26-27 weeks, she got around 95% of the production level from the hens, which is following a steady manner till now. She earns around 760/- taka from daily selling of eggs which are rated around 8/- taka per piece on average. Thus she is earning 10,000-12000/- taka per month as profit. With the earned money, she started a grocery shop for her brother, through which the family income has further increased. She addressed gladly the method of layer farming on stage as more efficient to clean, nearly no use of litter materials and providing safeguard from many diseases as well. [Source: HEED Bangladesh]

Chapter Three
Micro-financial Institutions (MFIs)

Module C: Micro Financial Institutions and their Objectives, Target Market and Impact Analysis, Formal, Semi-Formal and Informal Financial Institutions, Institutional Growth and Transformation, Linkages Among Different Types of MFIs and between Banks and MFIs. Social Services of the MFIs.

SECTION TWENTY ONE

MICRO FINANCIAL INSTITUTIONS AND THEIR OBJECTIVES

Micro Financial Institutes (MFIs) are special type financial institutes that provide microfinance to the poor who are generally left out by the traditional banking system mainly due to their inability to provide collaterals. The Microfinance handbook of the World Bank defines Micro Financial Institution (MFI) as a collection of assets-human, financial and others-combined to perform activities such as granting loans and taking deposits over time.[112]

The Microcredit Regulatory Authority (MRA) in Bangladesh tends to see the terms 'microcredit' and 'microfinance' synonymously. Microcredit Regulatory Authority (MRA) Act, 2006 defines Micro Credit Organization as any microcredit organization in whatever name it is called, certified to operate run microcredit program under the said Act and registered under (a) The Societies Registration Act, 1860 (b) The Trust Act, 1882 (c) The Voluntary Social Welfare Agencies Ordinance, 1961 (d) Cooperative Societies Act, 2001 or (e) Company Act, 1994.

An MFI must be a legitimate entity in the given country context having permitted in giving small loans and taking small deposits from target population with specific objectives. In Bangladesh currently no organization can carry out microcredit activities without obtaining license from MRA with few exceptions that such as Grameen Bank that was established by the government under separate law.

Some features of MFIs

- Generally started voluntarily
- Have branches in rural areas far away from traditional bank branches
- May be regulated or unregulated
- Registered mainly for social service/cooperative activities; though some countries require specific license to perform activities

Some features of MFIs Customers

- Borrowers are low-income groups and landless people
- The loans are for small amounts
- Loans are without collateral
- Loans are usually for income generating activities, rural housing and other purposes

Vision, Mission, Core values and Objective: Vision, mission core values, etc are guiding principles for an organization while objectives are specific for a project or a particular activity by an organization. Vision and mission are wider and often hard to quantify. Objectives on the other hand are more specific and may be quantifiable. A small organization that has a single program such as micro credit may together have the same objective both for the organization as well as for the project. For large organizations such as BRAC, microfinance is only a part of the operation while the organization has a wide range of other activities in Bangladesh and abroad operated by separate wings. While one wing deal with an education project other with social business and another with health program. In such case the organization may have vision, mission, core values which are expressed broadly while the wings may have objectives.

[112] Reinhardt Schmidt, in Microfinance Handbook, The World Bank page 93

	BRAC	ASA
Vision	A world free from all forms of exploitation and discrimination where everyone has the opportunity to realise their potential.	The vision of ASA is to establish a poverty free society.
Mission	To empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large scale, positive changes through economic and social programmes that enable women and men to realise their potential.	The institutional mission of ASA is to support and strengthen the economy at the bottom of the socio-economic pyramid by facilitating access to financial services for the poor, marginalized and disadvantaged.
Core Value	Integrity. Innovation. Inclusiveness. Effectiveness.	Innovative and non-conventional management for achieving cost-effectiveness and sustainability.

Objectives of Micro Finance Organization

Objectives of an MFI may include aims such as : improving standard of living of the target group by way of developing microenterprises. An MFI has a well defined function and setup and run to perform their function on permanent basis. MFI being an institute is different from a one-time activity such as “project” though MFI may undertake projects.

The general objectives of microfinance institutions are typically similar to the objectives of the microfinance program itself. MFIs finance poor people to generate income among the poor household with a view to alleviate poverty. In addition there could be some specific objectives for specific MFIs. Therefore objectives of MFIs may be classified as:

(i) General Objectives &

(ii) Specific Objectives

General Objectives of MFIs[113]

a) Provide access to Funds: MFIs provide small funds to poor people including men and women who generally do not have access to bank credit due to lack of collaterals. MFIs dismiss such requirements and provide small loans at relatively higher interest rates than banks and thus provide MFIs the income they need to continue operation.

b) Encourage Entrepreneurship and Self-sufficiency: Financial poverty does not necessarily mean poverty of ideas. Underprivileged people may have potentially profitable business ideas that they can manage. But they cannot put those ideas into action because they lack sufficient capital for start-up costs. Microcredit loans give clients just enough money to materialize their idea and earn profit thereof. They can then pay off their micro-loan and continue to gain income from their own micro businesses.

[113] Adapted (from a to e) by the author from Jenna Foote from https://bizfluent.com/list-6654232-objectives-micro-finance.html

c) Manage Risk: Microcredit can help underprivileged people in achieving financial stability to cross from simply surviving to being able to make some savings. This gives the MFI customers resilience from sudden financial shocks. Savings also allow for educational investment for children, improved nutrition, better living conditions and reduced illness for the family members.

d) Empower Women: Women make up a large proportion of microfinance beneficiaries. Traditionally, women in general have not been able to readily participate in economic activity. Microfinance provides women with the financial backing they need to start business ventures and actively participate in the economy. It gives them confidence, improves their status and makes them more active in decision-making.

e) Community-Wide Benefits: Generally speaking, microfinance institutions seek to reduce poverty worldwide. With funds and services obtained from MFIs, the recipients not only benefit by themselves but there is a trickledown effect to other members in their families and communities. New business ventures can provide jobs, thereby increasing income among community members and improving their overall well-being.

Dual objectives of MFIs: General objective of an MFIs is to provide finance to the poor with a view to alleviate their poverty. Ideally the interest rate should be lower than the regular bank interest rates, as bankable population are generally better off than the MFI clients. But due to the highly supervised nature of MFI services, their operational cost is usually higher than that of banks. Micro Finance Institutions (MFIs) primarily serves the poor and unbanked with a broader goal of contributing towards poverty alleviation. But if an MFI has to continue providing service to the poor it must become sustainable even in absence of subsidy. Meaning the MFI must be able to meet the operational expense with its own income and after meeting all expenses must stay in the breakeven point, at least. If the MFI want to expand its activities to serve more people with microcredit; it will require fund. In absence of subsidy or donation, it must borrow from commercial sources and service the debts. To earn profit MFI much charge higher interest than banks; to meet operational expenses and serving of commercial loans. So the MFI must try to maximize profit for their survival. But the profit comes only at the cost of service charge provided to the MFIs by the poor people that the MFIs are obliged to serve. So, there come the conflicting objectives: to serve the poor and to maximize profit from them. Between these two objectives: one social and other financial, the MFI has to maintain a balance to perform sustainably and improve financial inclusion.

Specific Objectives of MFIs: The Specific objectives of MFIs will vary based on the size and capacity of the MFI, its location, the people that the MFI is working with and the needs of the society/country. Some example of specific objectives are stated below:

a) By year (say 2025), MFI (ABC) will have serviced the need for microfinance services of (say 30,000) poor rural clients.
b) By year (say 2030), MFI (MFI ABC) will have reached 1 lakh clients resulting in improved standards of living, better asset build-up and stronger civil society.
c) MFI shall continue to operate as a licensed and regulated MFI under the laws of the Government of XXX.
d) In certain time (say in next ten-years), ownership of MFI will be diversified to include socially responsible institutional investors, employee stock ownership, and individual investors.
e) In given time (say in next twelve-years), membership in the Board of Directors will be expanded to include new shareholders.
f) By (say 2030), MFI (ABC) shall be a major MFI player with highly trained personnel and an effective and systematic strategy to reward excellent staff performance.

Identifying a strong MFI: To understand the strength of the MFIs under consideration of financing; banks can analyze the following indicators in addition to analyzing their financial statements.

A strong microfinance institution has the following key characteristics[114]:

i) Vision: A strong MFI has specifies vision and mission statement that defines target market and services offered and the vision/mission is endorsed by the management and staff. The management should have a strong commitment for pursuing microfinance as profitable and sustainable.
ii) Organizational Structure: The MFI should have a clear organogram for the human resources. The staff should have clear job description, regular performance review, training options and
iii) Financial Services: Simple financial services should be adapted to best suit the local context and the demand of the target customers and in line with the mission-vision of the organization.
iv) Administration and Finance: Should have operational manual clearly understood by the operational staff. Loan processing and operational activities will be based on the set manual.
v) Management Information system: There should be system in place for providing timely and accurate information on key indicators that are most relevant to the MFI's operation and regularly used by staff and management in monitoring and guiding the operation.
vi) Institutional Viability: Apart from all necessary registration the constitution of the MFI should clearly define the rights and responsibilities of the owners, board of directors and management. There should be a second level of technically trained managers.
vii) Outreach and financial sustainability: The MFI should cover a large number of underserved clients to achieve economies of scale. The coverage of operational and financial cost should clearly progress towards the organization's sustainability.

Why objectives of MFIs are important for commercial banks:

The depth of bank-MFI partnership has been deepening continuously since 2010. An analysis of bank credit as a source of fund for MFIs shows that MFI's dependency on bank credit rose continuously between 2010 and 2019. Covid-19 has slowed down the flow of bank credit to MFIs a bit; but still MFIs resort to banks for funds while banks find MFIs as comparatively safer customer while meeting some policy targets by the government such as meeting agricultural credit target with the help of the MFIs.

As of June 2021, the amount of bank credit to the MFIs was 16 thousand seven hundred and seventy nine crore taka or 167.79 billion taka. According to the Micro Credit Regulatory Authority still banks have

[114] Microfinance Handbook, The World Bank

scope to fund more in MFIs as there is demand in the field level while the MFIs have lack of own capital and the foreign funds have shrunk.

From the above perspective, it is important for the banks to know the objectives of an MFI. If an MFI, for example has the mandate for working with small traders only, a bank has little scope to provide loan to that MFI as a part of agricultural and rural credit policy on Bangladesh Bank. Because according to the policy, bank can provide agricultural credit through MFI linkage, but the bank has to ensure that at least 60% of the loan goes to the crop sector. On the other hand if a bank wants to finance an MFI that work with women members only it can choose an MFI that has an objective of working solely with female groups.

SECTION TWENTY TWO

TARGET MARKET AND IMPACT ANALYSIS

Every successful organization, be it for-profit or not-for-profit, need to define its target market. Without proper identification of target market it cannot properly design products and services to be offered. According to the Microfinance Handbook of the World Bank, target market is a group of potential clients who share certain characteristics, tend to behave similar ways and are likely to be attracted to a specific combination of products and services.[115]

A target market has the following characteristics:

a) it is a definable market segment
b) the clients of the market are identifiable
c) the clients represent the potential demand for the specific product

While selecting a target market for microfinance services, MFIs need to consider the following:

a) determine MFI's own objective
b) understand what motivates a group of clients
c) assess whether the target market can be reached
d) whether working with the target market will be financially sustainable for the MFI
e) whether the market chosen is based on the effective demand of the financial services and the capacity within the market

There are two ways of targeting a market: i) direct targeting and ii) indirect targeting.

Direct Targeting: When a specific amount of fund is allocated to provide credit to a particular sector of an economy or community or population, it is called direct targeting. The organizations that practice direct targeting believe that certain groups (such as: the poor, fisheries, agriculture, etc.) are unable to access the credit at an affordable price, credit must be made accessible to them by some agency (such as: government, donor) at a lower often subsidized price.

Disadvantages of direct targeting: Despite of good intentions of direct targeting strategy following are some of the disadvantages:

a) Recipients know better what is good or more suitable for them. In a supplier driven decision, there is more scope of under utilization or less efficient utilization of funds; making the micro projects less likely to be sustainable.

b) The strategy being a copycat of the developed world is too much production centric. While giving too much emphasis on income generation it often tend to ignore the need of consumption by the poor under-fed population. This in turn makes the projects less likely to become successful.

c) Due to fungibility of money in direct targeting, it is difficult to know where the given fund is actually being used. So there is higher possibility of fund diversion.

Indirect Targeting: The organizations that tend to practice indirect targeting aim to design product and services for the people who are beyond the frontier of formal finance. Their belief is that many people cannot take the advantage of income generating activities because of market imperfections or other barriers to financial services. Instead of allocating a specific fund to particular groups they focus on self-selection by virtue of the design of microfinance services.

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[115] Microfinance Handbook, The World Bank

Difference between direct and indirect targeting of market: The primary difference between direct and indirect targeting lies in the means how the groups are targeted rated than in the target group itself. Same group of population may be served with microfinance from direct target approach and indirect target approach. While direct targeting imposes some eligibility criteria; indirect targeting focuses on appropriate product and services based on needs of the target market.

The MFIs should consider the following while determine their target market:

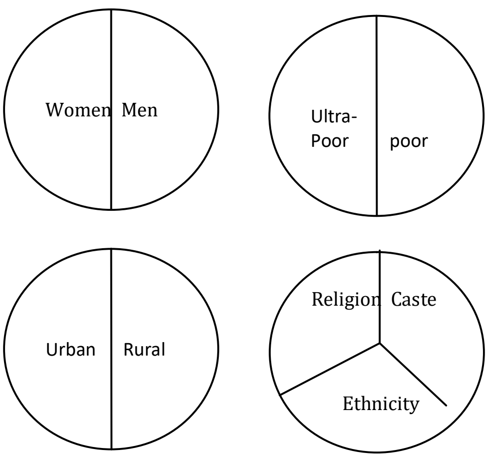
Debt Capacity of the Client: No matter how the target market is identified, it is imperative for MFIs to ensure that each client and target group generates enough cash to repay the loan on time. Therefore it is important to consider debt capacity of the individuals. In doing so the MFIs must consider the cash flow of their clients and prospective clients. It is safer for the MFIs to be conservative while estimating debt capacity of a potential target market.

Minimal Equity Requirement: It is universally acknowledged among the financing sector that higher equity increases the likelihood of a project being successful and therefore the likelihood of repayment. Minimal equity requirement for MFIs does not mean that the MFI need to press on equity to debt ratio. Because too much pressure on higher equity requirement may in turn exclude those part of the population who needed the credit most. Rather the MFIs should ensure that there is a minimum amount of equity and should not finance the entire business activity. A good example of minimal equity requirement is forced savings which is widely being practiced my Grameen Bank, BRAC, ASA and other players in the microfinance market in Bangladesh.

Avoiding Moral Hazard: Moral hazard is the risk that a party has not entered into a contract in good faith or has provided misleading information about its assets, liabilities, or credit capacity and thus causing loss to the other party. Moral hazard arises from lack of information. For example, a borrowers effort to repay may be largely unobservable by an MFI; it cannot readily determine what is attributable to the lack of effort by the client as opposed to external forces or bad luck.[116]

Market Size: It is important for the MFI to estimate the size of the market such that the financial services provided by them bring in benefits for both the client and the MFI and observes a high likelihood of good repayment to the lender. The MFI also needs to consider whether the initial demand will be further expandable in the long run. A limited survey work is to answer such questions while determining target market will increase success rate of the operation of the particular MFI.

Characteristic of Population Group: The goals of profit making companies and not-for-profit institutions are different but they both need to choose target clients. Understanding the characteristics of the target market helps MFIs design product and services that attract different groups as opposed to target them directly[117]. The MFIs should consider socioeconomic characteristics such as: gender, poverty level, geographic location/focus, ethnicity, caste, religion, literacy level, language spoken, occupation, etc.



Mike Goldberg of CGAP has developed an easy to follow diagram to better understand client characteristics which is mentioned in the Microfinance Handbook of the World Bank given here: Goldberg differentiates target group such as men vs women, poor vs ultra-poor, urban vs rural and also suggests to keep in mind the region, caste and ethnicity of people to maintain harmony within group.

[116] Microfinance Handbook, the World Bank, page 36

[117] Joanna Ledgerwood, Microfinance Handbook, The World Bank, page 37

Impact Analysis

Impact analysis is a process that seeks to determine whether an intervention has had its desired outcome. Microfinance impact analysis is the process by which one determines the effect of microfinance as an intervention. The effects examined depend on the outcomes that were sought by the MFI. Analyzing the impact of microfinance program is important to justify microfinance as a tool for poverty alleviation. However, Impact analysis involves engagement of resources including: time and cost. Moreover, impact assessment process may cause disruption of ongoing program.

The users of impact assessment of microfinance operation are: (a) Microfinance practitioners, (b) Policymakers, (c) Donors, (d) Academicians (e) Banks/financers

Impact of Microfinance activities may be assed to know specifically the economic, sociopolitical/cultural or personal/psychological impacts[118].

Economic Impact: Economic impact may be seen from macro to micro economic perspective. To see the micro level impact one MFI may seek outcomes at the level of the enterprise. To get a broader picture another MFI may seek net gain in income within a subsector such as: among rickshaw pullers. Another MFI may seek impact even broader aspect such as: in terms of aggregate accumulation of wealth at the community level. Another may seek positive impacts in terms of income or economic resource protection.

Sociopolitical and Cultural Impacts: An MFI may seek to shift in the political-economic status of a particular subsector. For example an MFI in the rural area may expect to help shift rural people from barter to monetary economy. One MFI may seek to find whether women members have gained power in terms of decision making within the family.

Personal or Psychological Impact: Microfinance can increase the borrowers' sense of self respect. For example a person who feels more confident may be willing to take new kinds of risks such as starting a new business or expanding the existing business.

Time of Impact Assessment: Impact assessment ideally should be done thrice. (a) Before Intervention: Impact assessment before intervention will give the baseline information about the client group based on which further assessments will compare the changes took place due the intervention. (b) After Intervention: Generally impact assessments are done at the end of a project to see the impact of a particular intervention by comparing data set with the baseline or before intervention. (c) During intervention: Impact assessment during the intervention, preferably at the middle of the intervention offers the managers to find out the weaknesses and based on those take corrective measures for greater success of the intervention.

Challenges of Impact Assessment of Microfinance: Conducting impact analysis is not only expensive it is also difficult to perform a credible impact analysis. Client transparency and honesty is important for credible impact assessment. : As money is fungible, someone may take a loan and not invest in the stated purpose. If the customer does not provide correct information during the assessment process; the results may be imperfect, unreliable or misleading.

Why target market and impact analysis are important for banks: Banks do finance with specific objectives; MFIs also have their own objectives. If their objectives are in line; chances are A bank, for example, may want to finance an MFI under agricultural and rural credit policy; its (the bank's) target market actually are farmers who grow crops or are engaged in fish farming or poultry rearing or livestock rearing. If the MFI also have similar target market a successful linkage may happen between the bank and the MFI. If the MFI works with industrial workers only, the bank which is willing to provide agricultural finance cannot make partnership with that particular MFI and has to search for a new MFI that work on

[118] Micro Finance Handbook, The World Bank, Page-47.

agricultural income generating activities. Understanding the target market of an MFI thus helps the bank in making investment decision to the particular MFI. Both the bank and the MFI may like to see the impact of the linkage program at the field level such as whether agricultural production was increased or income of the families engaged in agricultural production has increased.

SECTION TWENTY THREE

FORMAL, SEMI FORMAL AND INFORMAL FINANCIAL INSTITUTIONS

A financial system consists of the market players as well as the policy environment. In combined this is often called as the country context. The country context includes demand side, supply side and the contextual factors. Demand side includes clients including women, micro-entrepreneurs, small farmers, low income people, etc. In the supply side are the financial intermediaries. The contextual factors include economic and social policies of the government such as: financial sector policies, interest rate restrictions, Government mandate, sector specific credit target, etc.

The rural financial market is served by an array of financial actors. The financial intermediaries, i.e. the supply side of the financial market includes: formal, semiformal and informal financial institutions.

According to Bangladesh Bank, the **formal** sector includes all regulated institutions like Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs)[119]. The **semi formal sector** includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions such as Samabay Bank, Grameen Bank, Non Governmental Organizations (NGOs) and discrete government programs.[120] The **informal sector** includes private intermediaries which are completely unregulated. Players of this market give service mainly to well-known individuals without any formal collateral. Record keeping of informal financial sector is often absent. Sometimes records are kept in a very primitive/informal manner without any legal bindings.

However, according to the Microfinance Handbook of the World Bank, formal financial institutions are ‘subject to banking regulation and supervision’ and semiformal institutions are ‘not regulated by the banking authorities but are usually licensed and supervised under other government agencies’. According to this definition, both MRA and the Grameen Bank are semiformal institutions; while according to the definition posted by Bangladesh Bank in their website MFIs that are licensed by MRA are formal financial institutions whereas Grameen Bank is a semiformal financial institution.

Case Study 8
Fake NGO officials flee with clients' money in Sirajganj

Officials of a fake NGO named so called Norway Development Project International (NDPI) have gone hiding from Sirajganj town following misappropriation of about Tk 20 lakh of clients. Police sealed off the office of the fake NGO yesterday. Seven people introducing themselves officials of the NGO took an office at Fazlul Haque road a few months ago. They bought furniture and other articles on credit from traders in name of decorating the office. They also took a large quantity of clothes including saree and lungi from different cloth traders in Belkuchi saying they would distribute those among the beneficiaries. Later, they started collecting money from traders and poor men and women promising them a good return with high interest rate of money. Thus they collected about Tk 20 lakh and later misappropriated it before going into hiding. On information, Sadar Police Station acting officer-in-charge Nurun Nabi confirmed that police had sealed off the office. 'An investigation is going on and a hunt is on to arrest the culprits,' he said. Meanwhile Masum, a furniture trader and Mojnu Mian, another cloth trader here said they lodged separate general diary (GD) with police following failure of the NGO officials to pay money for purchasing furniture and cloth on credit. [Source: The Daily Star, 03/8/2008, https://www.thedailystar.net/news-detail-43949]

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[119] https://www.bb.org.bd/en/index.php/financialactivity/index
[120] https://www.bb.org.bd/en/index.php/financialactivity/index

Following is a chart of formal, semiformal; and informal sector finance providers adapted from Micro Finance Hand Book of the World Bank (original source: Food and Agricultural Organization 1995).

Formal Sector	Semiformal Sector	Informal Sector
Central Bank		Savings associations
Banks Commercial Banks Merchant banks Savings banks Rural banks Postal savings banks Labour banks Cooperative banks MFIs regulated under MRA	Grameen Bank Multipurpose cooperatives Employee cooperatives Cooperatives by prof. groups	Individual moneylenders Commercial Noncommercial (friends, relatives, neighbors)
Development banks State owned Privately owned	Credit Unions	Traders and shopkeepers (by giving product on credit)
Other non-bank institutions Finance Companies Term lending institutions	Development Projects	Rotating savings and credit associations
Contractual Savings institutions Pension funds Insurance companies	Registered self-help groups	Non registered self-help groups
Securities market Stocks Bonds	Pre MRA registered NGOs that were providing microcredit	

SECTION TWENTY FOUR

INSTITUTIONAL GROWTH AND TRANSFORMATION

Most of the Micro Finance Institutes were originally created as semiformal institutions. Some of them were voluntary non-governmental organizations popularly known as NGOs; some were credit cooperatives of family owned welfare trust. Due to this semiformal nature of institutional structure they are often limited by lack of funding sources and by the inability to provide additional products. For MFIs that are structured as formal financial institutions, such as development banks, the issue of growth and transformation are not that significant.

Importance of understanding Institutional Growth and Transformation: understanding the processes and paths of institutional growth and transformation in the context of Bangladesh when the Micro Credit Regulatory Authority is already in place for many years, is important for two obvious reasons: i) to study the transformation process of some of the large MFIs such as BRAC or ASA and ii) to analyze the prospects of transformation of some MFIs that are licensed under MRA but are too small and transformation is necessary for the sake of their sustainability.

Expansion within an existing structure: Depending on the country context where the MFI is working and considering its own objectives, an NGO or cooperative may be the most appropriate structure that is likely to grow and continue to grow as an MFI and meet the demand of the target market. Before the MRA came into being in 2006, with few exceptions such as Grameen Bank, mostly the NGOs were providing microfinance and other social service among their target markets in the absence of regulation. Many of these NGOs later expanded microfinance operation and turned themselves as complete MFIs.

BURO Bangladesh, for example was a national non-government social development organization established in 1990 and intended to work for the poor and rural people to reduce human poverty and also increase the income. Over the period, the organization emerges as a front ranking specialized microfinance institution. According to its website, BURO Bangladesh is one of the first MFIs in the country to articulate a clear, unequivocal commitment to achieve financial sustainability by using commercial capital, and establish itself as an independent institution.

Expansion with a different Structure: Some MFIs particularly those partnering with international NGOs may choose to create an apex institution as means of managing growth and accessing additional funding. Credit and Development Forum (CDF) is a national association of Bangladesh's Microfinance institutions. This Forum has already earned an eminence as an effective and useful network through relentlessly pursuing its multi-dimensional activities dedicated to creating and maintaining an enabling environment for microfinance for its fight against poverty.

Creating a formal financial intermediary: This approach involves the transfer of the NGO's or cooperative's operations into a newly created financial intermediary. In 2001, BRAC Bank Ltd was incorporated with over 46% of the banks ownership to BRAC, the NGO that was already offering and still does offer micro finance services. The entrepreneurs of BRAC Bank wanted to create a banking window for microcredit graduates-those who are not eligible for microfinance anymore but facing difficulty in getting traditional bank loans. At a time when it was hard for the SME entrepreneurs to get financing from the banking sector in Bangladesh, BRAC Bank stepped forward and started to finance these unbanked SME entrepreneurs.

It may be mentioned that creating a formal financial institute also implies additional costs and restrictions as the MFI becomes regulated and supervised. However, in environments where new era of micro credit regulations come into place (as in Bangladesh) the NGOs that were engaged in microfinance has only two options: either take license under the new regulatory framework or close business.

Governance and ownership: The term governance is a relatively new terminology to the development sector and were discussed since the early 1990s an unavoidable concept when discussing economic and social development issues. First used with reference to governments and companies, the term governance is now applied to microfinance.

In microfinance literature, the term governance first appears in 1997 (CGAP) and usually refers to the relationships between the board of directors and the management of an MFI. However, the “good functioning” of the board of directors is not enough to guarantee the mission and assets of an MFI. When discussing governance, it is necessary to broaden the scope of study to include all stakeholders involved (employees, managers, elected officials, clients, donors, bank partners, shareholders, the government, etc.) as well as any organizational form with a “governing” role that may have been set up at the onset of the institution. Furthermore, it is critical to understand how these elements can change in different socio-economic contexts.

Answer to the question: ‘Who has the decision making power’ help understand the governance status of an MFI. Microfinance institutions must achieve a balance between operating as a financial sustainable business and pursuing a mission of general interest: reducing financial exclusion.[121]

MFIs, particularly those formed by a visionary sometimes face governance issue after formalization. These visionaries are not usually interested in profits but rather have social objectives of improving livelihoods of the poor. Only after the MFI begins to grow does the visionary reaches the conclusion that the MFI needs to adopt more businesslike approach.[122]

Accessing Capital market: The majority of MFIs were used to fund their activities with donor or government funding through grants or concessional loans. However donor funds started to shrink at the beginning of the 21st century and now majority of the MFIs are facing a critical stage of growth and expansion. As the MFIs realize that they cannot sustain with donor support anymore they have to seek for alternative fund sources as the deposit mobilization seems insufficient to continue and expand operations for most MFIs. In such scenario some MFIs are accessing the international capital markets. There are various ways that and MFI can access new capital, including:

- Debts accesses through guarantee funds
- Loans and deposit mobilization
- Equity
- Equity investment funds
- Socially responsible mutual funds
- Securitization of the loan portfolio

As per section 18(1) (Cha) and 18(1)(Cha) MFIs have the scope to obtain funds from the capital market. Recently, in June 2021 MRA has issued a guideline regarding the process how MFIs may obtain funds from the capital market.

Accessing Debt: To access commercial source of funds, it is generally necessary to be financially self sufficient in absence of any kind of donation and/or subsidies. An analysis of bank credit as a source of fund for MFIs in Bangladesh shows that MFI’s dependency on bank credit rose continuously between 2010 and 2019. Covid-19 has slowed down the flow of bank credit to MFIs a bit but still MFIs resort to banks for funds while banks find MFIs as comparatively safer customer while meeting some policy targets by the government such as meeting agricultural credit target with the help of the MFIs. As of June 2021, the amount of bank credit to the MFIs was 16 thousand seven hundred and seventy nine crore

[121] Handbook for the analysis of the governance of microfinance institutions by Cécile Lapenu (CERISE) and Dorothée Pierret (IRAM), <https://www.fi-compass.eu/sites/default/files/publications/handbook-for-the-analysis-of-the-governance-of-microfinance-institutions.pdf>

[122] Microfinance Handbook, The World Bank

taka or 167.79 billion taka. Still banks have scope to supply more funding to the MFIs as there is demand in the field level, according to the Micro Credit Regulatory Authority[123].

It is worthwhile to note that only 5 to 10 MFIs dominates the microfinance market. In such a situation, it is quite evident that the large and dominant players in the market will also be the receiver of bank finance because of their reputation and financial strength. On the other hand many MFIs are facing capital crisis in absence of funding from donor or government. Credit guarantee scheme in favor of small but potential MFIs such as in India, can open up the bank funds for those MFIs, either government or PKSF or international donors may come forward with such scheme to maintain a healthy competition in the microfinance market of Bangladesh by keeping the struggling MFIs alive.

[123] MRA Annual Report FY 2020-21

SECTION TWENTY FIVE

LINKAGES AMONG DIFFERENT TYPES OF MFIS AND BETWEEN BANKS AND MFIS

Reaching agricultural credit to the remotest area and to the deserving people has been a challenge for policy makers as well as financial institutions. Microfinance institutions came into being during late 1970s and through the next forty years have been able to provide microfinance services to the poor people even in the remote areas. In the recent years however, the role of MFIs are at crossroad due to dominance of a few MFIs while many small MFIs are facing severe fund crisis.

Bank-MFI Linkage

Bank-MFI linkage for agricultural credit disbursement came as a welcome policy measure for rural finance in Bangladesh. Bangladesh Bank through ACSPD Circular number: 10 of 29/9/2008 allowed Banks to disburse agricultural credit through MFI linkage. With a view to improve agricultural production by providing adequate fund for agricultural inputs banks were instructed to mandatorily declare agricultural credit target and disburse the same.

MFIs	**Bank-MFI Linkage**	**Banks**
1. Broad customer base in the rural areas		1. Limited number of customers
2. Adequate number of staff		2. Limited number of staff making it difficult to search and serve new customers
3. Tested-by-time experience in e in small size credit disbursement and recovery	Bank's fund is disbursed by MFIs	3. Some banks have experience; but the private and foreign banks lack experience in small size credit disbursement and recovery.
4. Door to door service making it easy for customers		4. Customers have to visit banks a number of days to avail of credit.
5. Lack of fund as customers don't usually save in MFIs except mandatory savings		5. Banks have funds. Moreover they must disburse a minimum of 2.5% of total portfolio for agricultural sector as per Bangladesh bank's policy.

The Chart above sets forth to demonstrate how bank-MFI linkage can help each other. The depth of bank-MFI partnership has deepened continuously since 2010. An analysis of bank credit as a source of fund for MFIs shows that MFI's dependency on bank credit rose continuously between 2010 and 2019. Covid-19 has slowed down the flow of bank credit to MFIs a bit but still MFIs resort to banks for funds while banks find MFIs as comparatively safer customer while meeting some policy targets by the government such as meeting agricultural credit target with the help of the MFIs. As of June 2021, the amount of bank credit to the MFIs was 16 thousand seven hundred and seventy nine crore taka or 167.79 billion taka. According to the Micro Credit Regulatory Authority still banks have scope to fund more in MFIs as there is demand in the field level while the MFIs have lack of own capital and the foreign funds have shrunk.

Microfinance organizations that are licensed under MRA may be divided into three groups: i) Very large (MFIs having over 5 lakh credit customers) ii) large (MFIs having more than one lakh but less than five lakh credit customers) iii) medium (MFIs faning more than 10 thousand but less than one lakh credit customers) and iv) small (MFIs having less than 10 thousand credit customers). It is observed that the largest 5 MFIs together account for over 65% of the total deposits collected by the MFIs and over 62% of the total credit disbursed by the MFIs. On the opposite side, a total of 571 small MFIs having less than ten thousand borrowers each in combined account for only 2,51% of total MFI credit and 2.53% of total savings in the MFI sector. The figures on one side presents the sustainability threat for the small MFIs while on the other hand scopes for low cost relending option for large MFIs through MFI-MFI linkage.

SECTION TWENTY SIX

SOCIAL SERVICES OF THE MFIS

Microfinance Institutes provide micro financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. The target groups of the MFIs are generally undeserved, impoverished communities and the services they offer traditionally include social services such as capacity building, financial literacy, livelihood promotion, preventive healthcare, education and training, water and sanitation, etc. besides their core financial functions such as micro-credit, savings, insurance, etc.

Social intermediation is a development tool that involves group formation, networking and capacity building through training on financial literacy, book keeping and business management among the group members.[124]

Financial intermediations are generally established based on trust. Where neither traditional system nor modern institutions provide a basis of trust, financial intermediation systems are difficult to establish[125]. This is one of the main reasons why poor people were left out from formal financial intermediation despite widespread popularity of the banking industry. With social intermediation developed by the microfinance innovators, it became easier to establish sustainable financial intermediation system with the poor in societies that encourage cooperative efforts through local clubs, religious associations or work groups.[126] Thus social intermediation may be understood is a process of building the human and social capital required for sustainable financial intermediation with the poor.

Social intermediation can result in a range of capacity building such as:

vi) Training group members in participatory management
vii) Train the members regarding financial record keeping skill
viii) Training on basic financial management skills
ix) Enhance self management capacity
x) Increase cohesiveness of group

The proponents of microfinance believe that poverty is a phenomenon caused by deprivation from access to education, health services, information, banking facilities, etc. The MFIs that work from the perspective of holistic approach as opposed to minimalist approach provide an array of social services to the clients in addition to microfinance.

Social services have been the integral part of the NGO-MFI services traditionally offered by the first generation MFIs including the Grameen Bank and the early replicators of Grameen Bank. Grameen Bank borrowers adopted the Sixteen Decisions to inculcate common values that would guide them as members of Grameen in their day-to-day lives and help their families move out of poverty[127]. The sixteen decisions of Grameen Bank sets forth an example how important and powerful social intermediation can become.

1. We shall follow and advance the four principles of Grameen Bank—Discipline, Unity, Courage and Hard Work—in all walks of our lives.
2. We shall bring prosperity to our families.

[124] Mbaluka, S. (2013). Impact of Microfinance Institution on Growth and Development of SMEs: A Survey of Machakos Town
[125] Joana Ledgerwood, Microfinance Handbook, The World Bank
[126] Joana Ledgerwood, Microfinance Handbook, The World Bank
[127] www.grameenfoundation.org

3. We shall not live in dilapidated houses. We shall repair our houses and work toward constructing new houses at the soonest.
4. We shall grow vegetables all year. We shall eat plenty of them and sell the surplus.
5. During the planting seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure we can earn enough to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink arsenic-free tube well water. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry when our sons marry, nor shall we give any dowry when our daughters marry. We shall keep our Center free from the curse of dowry. We shall not practice child marriage.
12. We shall not inflict any injustice on anyone, nor shall we allow anyone to do so.
13. We shall collectively undertake bigger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
15. If we come to know of any breach of discipline in any Center, we shall all go there and help restore discipline.
16. We shall take part in all social activities collectively.

Capacity building: NGO/MFIs consider training and capacity building of the clients as an important strategy for poverty alleviation. Generally the training and capacity development trainings are organized in group basis. Due to this group method, in addition to capacity building, the importance of unity is felt and affinity within group is strengthened. The most important part of the capacity building training is to motivate the beneficiaries for their own social and economic upliftment.

Primary and Preventive Healthcare: Problems related to health is a major barrier to socioeconomic development. NGO/MFIs such as BRAC provide primary healthcare packages targeting women and child health. The integrated health and population program of BRAC is now widely acclaimed for its successful interventions in the recent past. In collaboration with the Government and other donor agencies, BRAC provides health packages that include care for pregnant women and new mothers, family planning awareness and services, universal immunization for children and health and nutrition awareness program.

Financial literacy: NGO/MFIs train their customers regarding book keeping. These include the record keeping of weekly loan, recovery and mandatory savings of the group members. Usually the passbook and ledger of individual group is maintained by the group members with assistance of the NGO/MFI personnel. Through this practice, many NGO/MFI beneficiaries gain the capacity and confidence to keep record of his/her own small business which ultimately help entrepreneurship skill development of the customers and contribute to their poverty alleviation initiatives.

Water and Sanitation: At the early stages of development in Bangladesh, it was found that the root causes of a number of health problems tormenting the rural poor were associated with water and sanitation. Diarrhea, cholera, typhoid were common diseases among the rural poor. The reason was, people were drinking water from unsafe sources such as river, unprotected ponds and used them as drinking water without any purification measure. Promotion of tube-wells and drinking tube-well water helped overcoming many waterborne diseases but ground water in some areas were contaminated with arsenic. Then the NGO/MFIs took initiative to test tube-well water and color the tube-wells according to findings. Arsenic free tube-wells were colored green while tube-wells with high arsenic levels were colored red. The tube wells with unsafe arsenic level were not removed or abandoned because many other household purposes may be served with water from those tube wells such as washing, bathing except cooking and drinking.

Chapter Four: Working Capital, Special and Priority Sector Financing

Module D: Working Capital, Special and Priority Sector Financing: Working Capital Assessment for Fishery, Poultry, Dairy, etc. Finance in High Value Crops, Tissue Culture, Oil Palm Cultivation, Nursery, Salt Cultivation, Cereal Cultivation, Silk Cultivation, Roof-top Gardening, Mushroom Cultivation, Betel Leaf Cultivation, etc. Value Chain - Developing Commodity Markets.

SECTION TWENTY SEVEN

WORKING CAPITAL ASSESSMENT FOR FISHERY, POULTRY, DAIRY

Working Capital: Generally two types of loans are required in projects: working capital loans and fixed capital loans. Working capital loans are used to meet the current expenditures that occur in the normal course of business. Working capital refers to investment in short term assets to be used within one year. Working capital loans are supposed to meet those short term expenses. A loan made for working capital should have a loan term that matches the business cycle of the borrower.

To start a poultry hatchery for example, fixed asst requirements might include: incubator, baskets, wire and holder, thermometer, shelves which would require one shot loan. On the other hand to meet the expenses for poultry feed, eggs, egg sterilization, wrapping cloth, electricity bills working capital loan may be required.

Difference of working capital and fixed capital may be shortly described as in the chart below:

Difference Area	Fixed Capital	Working Capital
Definition	Investing capital in the long term assets of an enterprise.	Working capital is the capital invested in the current assets of an enterprise.
Type of Asset Acquired	Used to acquire non-current assets for the company	Used to acquire current assets for the company
Tenure of investment	Usually long term.	Less than one year
Liquidity	Fixed capital is not at all liquid. It is hard to convert into cash.	Working capital is highly liquid. It is easier to convert into cash.
Objective served	Serves strategy oriented objectives	Serves operational objectives

Working capital requirements will be deferent for different types of businesses based on their nature, size, length of operational cycle, fluctuations in operating cycle, scale of operation, technology used, level of raw materials, level of competition, growth prospects, market fluctuations, etc.

Current asset is considered as the gross working capital while difference between current asset and current liability is the net working capital.

Sources of Working Capital

i) **Short term bank loans**: Short term bank loan is the main source of working capital for an established business. It is often easier for an established business entity to get bank loan for working capital. When the bank officials see that the entrepreneur has already invested a sizable amount on the company having long term/fixed assets, it feels safer in making out short term loans. Commercial banks give loans in the form of over draft, cash credit, etc. On the other hand it is often a challenge for the entrepreneur to secure working capital as some of the working capital need immediate financing while banks take a considerable time in processing of loans.

ii) **Nonbank short term loan:** Nonbank short term loans are often provided by sources outside banks. Some entrepreneurs may need immediate working capital. For example, a commercial farm needs to buy pesticides but suddenly the price of pesticides have been increased so much that it is not afforbale by the planned budget and contingency funds. In such cases the entrepreneur may get loan from friends, relatives, etc as s/he cannot wait for the bank's loan processing time for it would ruin his total yield. This kind of financing may be called as non bank short term loan.

iii) **Internal source:** Internal source is often the main source of working capital by small entrepreneurs. This is often made from contingency fund of the business or of the entrepreneur's personal contingency fund. This is why this is often called self financing.

Disadvantages of Inadequate Working Capital: When the level of working capital for a farm is inadequate, then the firm has to face many problems like the following:

- The business may be closed due to inadequate working capital.
- Fixed assets may not be utilized properly generating loss.
- Firm may face problem in repair and maintenance.
- The farm may lose attractive cash discount given by sellers
- The farm may not be able to implement the plan properly causing depletion of profit
- The firm may not achieve desired growth.
- The farm may lose experienced staff for not being able to pay remunerations.

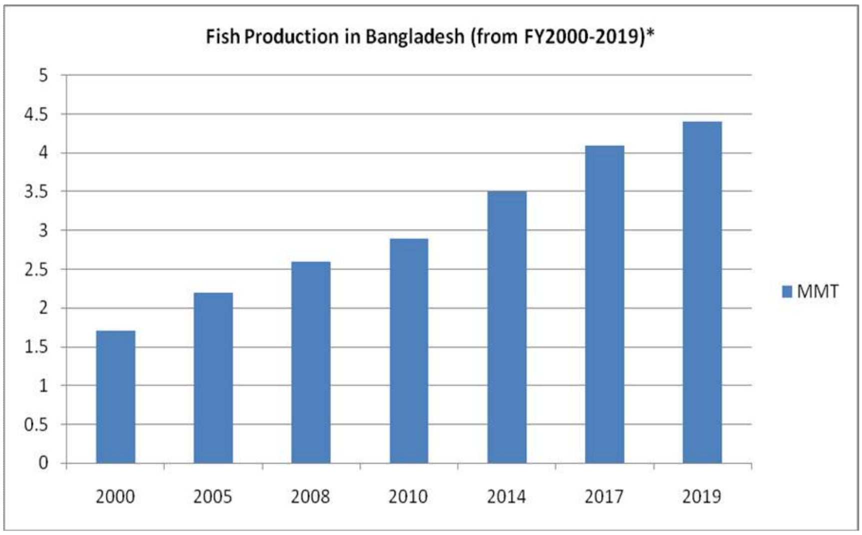
Disadvantages of excess Working Capital: Having excess working capital is also not desirable. Disadvantages of excess working capital are as follows:

- Inventory may be stocked unnecessarily causing theft, spillage, etc increased.
- The enterprise may have to incur extra cost in paying interest of bank loans which were not required.
- Balance is not made between liquidity and profitability

Working Capital for Fishery Sector

Fisheries sector meets significant portion of daily protein needs of the country. Apart from marine fisheries, fisheries in open water bodies and farming of carp, shrimp, Pangas, Telapia, indigenous fish varieties such as : koi, magur, shing, etc are becoming popular and profitable now-a-day.

Self Sufficiency in fisheries and Beyond: Growth in fisheries production for the past few decades has led to an aquaculture revolution for Bangladesh. The commendable overall growth performance of inland aquaculture was due to need-based extension services at farmer’s level and implementation of development projects. Total fish production more than doubled from 1.7 million metric ton (MMT) in FY2000 to 4.3 million metric ton (MMT) in FY2019 making Bangladesh self-sufficient in fish production with a per capita fish consumption of 62.58 gram per capita per day against the set target of 60 gram per capita per day.[128]



Considering the contribution of fisheries sector in national economy Bangladesh government is implementing result-oriented specific programs for sustainable fisheries management through innovation and dissemination of environment-friendly new fisheries technologies. According to the FAO report The State of World Fisheries and Aquaculture 2018, Bangladesh ranked 3rd in inland open water capture production and 5th in world aquaculture production.[129]

Rising Income to bring change in food preference: As Bangladesh is going through a transition from low income to middle income country, it is expected that choice of food for mass people will go through a change. With increased income, general tendency is to consume less rice and more protein such as fish and meat. The Agriculture Policy and Program of Bangladesh Bank encourages bank to finance in the fisheries sector with a view to keeping pace of fisheries production along with meeting the future demand of protein.

Types of Financing

i) Financing for fish farming in ponds
ii) Financing for fish farming in cage/pen
iii) Financing to the fishermen going for marine fisheries
iv) Financing to fishermen for fishing in inland open water-bodies/rivers

The fishermen and fish farmers need financing facilities to meet daily expenses i.e. working capital and long term investment for purchase of boats& equipments, construction of cage, ponds, tanks, etc.

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128 Perspective Plan of Bangladesh, Vision 2021-2041
*Source: Adapted by the author from Yearbook of Fisheries Statistics of Bangladesh
129 Perspective Plan of Bangladesh 2021-2041

Working Capital financing: Fish farming in ponds

Fish farming in pond is a common method in Bangladesh. Pond is a small shallow and closed man-made water body. The area, depth of a pond may vary. Moreover the soil quality of ponds is also important for fish farming. The banker should have a basic knowledge about fish farming in pond before doing pre finance assessment. Some important features are mentioned below:

Characteristics of ideal pond

- Pond should be flood protected, the dyke should be high enough to protect from flooding
- Depth of pond should be from 0.75 meter to 2.00 meters
- Shape of the pond should be tectangular. An ideal pond should cover 20-25 decimal; which is easy to manage.

Example of working Capital Calculation for Fish Cultivation per Acre (Pond)

(Amount in Thousand Taka)

Type of Fish farming	**Pangash**	**Carp Golda Mixed**	**Koi fish**	**Pabda**	**Telapia**
Production Calendar	12 months	12 months	4-5 months	4-5 months	4-5 months
Cost Area	Cost in 000 tk	Cost in 000 tk	Cost in 000 tk	Cost in 000 tk	Cost in 000 tk
Cost of preparation/ renovation of pond	15	15	15	15	115
Cost of leasing of pond	30	30	15	15	150
Cost of fish fries	36	54	50	70	375
Cost of fertilizer (organic/nonorganic)	2	2.5	2	2	2.5
Cost of additional fish feed	987.5	290.8	400	100	490.7
Cost of medicine/chemical for fish	10	12	10	10	10
Labour cost	120	120	40	60	45
Electricity/utility cost	3.6	3.6	1.5	1.8	1.2
Miscellaneous expenses	8	8	12	10	8
Fish collection and marketing cost	20	8	15	10	8
Total cost per acre	1232.1	543.9	560.5	293.8	632.9
Loanable amount	1232.1	543.9	560.5	293.8	632.9

Working Capital financing: Fish farming in Cage method

Due to the technological advancement and prospect of profitability, fish farming in Cage method is gaining growing popularity in Bangladesh. In method, cages are installed in different water bodies such as pond, beel or river and fish in higher density are cultivated inside the cages. Cage culture was initiated in Thailand in the early 1950's. Initially, the fish were raised in bamboo cages. The cages have been changed subsequently to wooden planks which are easier to make and handle. Recently, the technology has been replicated in Dakatia river under Chandpur District and has drawn public attention. There is prospect of adopting the same technology in the haor areas of Kishoreganj, Netrokona, Sunamgonj, Natore.

The Agricultural and Rural Credit Policy (ACP) of Bangladesh Bank has advised the banks to consider financing in cage method. Following is an indicative working capital assessment chart adapted from ACP FY2021-2022.

Cage Farming	Suitable fish in 10 Cages (Amount in Taka)
Production Calendar	7-8 months
Cost Area	
Cost of cage installation (10 cages)	200,000
Cost of fish fries/fingerlings	40,000
Cost of fertilizer (organic/nonorganic)	0
Cost of additional fish feed	432,000
Cost of medicine/chemical for fish	0
Labour cost	10,000
Electricity/utility cost	0
Miscellaneous expenses	0
Fish collection and marketing cost	0
Total cost per acre	682,000
Loanable amount	682,000

Case Study 9: Tanzania introduces cage fish farming to grow the economy and increase the sector's contribution to the GDP

For quite a long time, the contribution from the fisheries sector has remained minimal, contributing to only 1.71 per cent of the nation's GDP. President Samia Suluhu Hassan has directed the Ministry of Livestock Development to take bold steps to increase the sector's contribution to GDP.

With special measures for increased fish production through cage culture fish production increased rapidly. In the 2019/2020 fiscal year, fish production in Tanzania rose to 392,933 metric tonnes, earning the country $800million in revenue from $700m realized in 2018/2019. Experts attributed the rise in earnings to raft measures taken by the government to safeguard the industry.

Source: Business Insider, September 8, 2021

Working Capital Financing – Marine Fisheries

Many people who are permanently living in the coastal areas of Bangladesh are engaged in marine fisheries. Banks can finance such fishermen for procuring trawler, boat, net and other necessary equipments. Such type of loans may be made available to the fishermen in short/long term basis according to their needs. In addition finances may be made for related small businesses such as fish drying or marketing, etc. To meet the day to day expenses of the fishermen, banks can provide working capital financing to cover following items:

Items that usually require financing may include: purchase of fuel, ice, overhead expenses such as labor cost, packing items, etc. b Banks have been advised Bangladesh Bank to assess working capital for such financing along with determining the disbursement and repayment schedule in consultation with the officials of the fisheries department in the local region.

Working Capital Financing fishing in inland open water-bodies/rivers

Bangladesh Banks had advised to provide agricultural credit on group lending basis for fishermen and traditional fish farming in open water bodies such as haor, beel, etc. With a view to develop fisheries sector as well as to help fishermen become self sufficient, BB has advised banks to develop innovative products and provide loan facilities to fishermen accordingly.

Financing in the Poultry Sector

The rural Bangladesh has a long tradition of poultry rearing as part of backyard farming. In the beginning, commercial poultry farming started on small scales and got poor rural women and unemployed youth involved and thus employed. It also involved some semi-urban and urban poultry raisers which helped to meet the growing demand for eggs and meat.

In the recent years a significant annual average growth rate in the commercial poultry has been achieved. The commercial poultry gained 15-20% annual average growth rate in the recent years.[130] At present this industry has attained the capacity to fulfill the domestic demand of broiler, edible eggs and import substitute product like Parent Stocks & precooked poultry products. Now-a-day the poultry sector has emerged as the key provider of protein source in a relatively affordable price. However, still the supply of eggs and poultry meat is inadequate compared to the gross protein need of the economy.

The ministry of fisheries and livestock estimates that there will be an estimated demand of 32.9 billion and 46.4 billion pieces of eggs annually by the years 2031 and 2041 respectively[131]. With a view to support livestock policies of the government Bangladesh Bank also encourages banks in disbursing adequate amount of loans in easy term for the poultry sector. Bank loan in poultry sector may be disbursed through the following three approaches:

a) Loan to poultry sector may be disbursed for establishment of poultry farm, poultry feed and poultry medicine procurement. Bangladesh Bank has observed that poultry sector loans are concentrated in a few poultry clusters and has encouraged banks to break the barriers and provide loan to poultry sector in all geographic locations of the country.
b) In some areas of Bangladesh such as beel and marshland areas are suitable for duck rearing due to environmental and traditional reasons. Despite having a tradition of duck rearing, the farmers concerned hardly get any type of financing support from the banks. Bangladesh Bank has given emphasis to provide loans for duck rearing.
c) Some poultry farms use the poultry litter. Banks are also encouraged to finance in the integrated poultry farms for biogas production alongside poultry rearing and egg production.

To meet day-to-day expenses of poultry sector, working capital financing on revolving basis may be provided for all activities including the following:

- Purchase birds/ day old chicks
- Purchase of feed, chick feed and other raw materials
- Saw dust, wood, coal, medicines, water-filter, etc
- Vaccination, vitamin and other medication for poultry birds
- Over head expenses such as: labor, utility bills,
- Cost of fuel for generators & vehicles, transportation etc.
- Utensils for poultry bird feed etc.
- Low cost durables like utensils for water/ feed, chick guard, spray pumps, fumigants, weighing machines, tubs, water nipples, laying nets, PVC pipes & crates etc.
- Packing & Storage material for cold storage where applicable.
- Any other item required to meet day to day expenses for running poultry farm

[130] https://wpsa-bb.com/poultry-at-a-glance/
[131] Vision 2041

Indicative expenses/loan requirement for 1000 broiler chicken (for meat)

Purpose	Estimated Expenses in taka
Land	Own investment by the entrepreneur
Shed Preparation (Fixed Cost, required one time only)	6,00,000
Purchase of broiler chicks (1000 pc)	40,000
Poultry feed	1,62,000
Feeding and drinking pots purchase	15,000
Vaccine, medicine and vitamin purchase	35,000
Electricity (per month)	20,000
Other expenses	15,000
Total	**9,17,000**

Source: Agricultural and Rural Credit Policy and Program for 2020-21 by BB

Indicative expenses/loan requirement for 1000 layer chicken (For eggs)

Purpose	Estimated Expenses in taka
Land	Own investment by the entrepreneur
Shed Preparation (Fixed Cost, required one time only)	6,00,000
Cage purchase	2,50,000
Purchase of broiler chicks (1000 pc)	65,000
Poultry feed	6,50,000
Feeding and drinking pots purchase	20,000
Vaccine, medicine and vitamin purchase	1,20,000
Electricity (per 6 month)	50,000
Labour cost (6 months)	96,000
Other expenses	35,000
Total	**18,86,000**

Source: Agricultural and Rural Credit Policy and Program for 2020-21 by BB

Financing for Turkey Rearing: Turkey rearing is becoming growingly popular in Bangladesh. Turkey rearing does not require advanced infrastructure and therefore is less expensive than traditional poultry farming. On the other hand turkey meat contains more protein and less fat compared to beef for mutton and is therefore healthier than red meat. Many young entrepreneurs are getting involved in commercial turkey farming. Banks can support with adequate funding for the turkey entrepreneurs. Banks can provide funding in the following purposes of turkey farming:

a) Purchasing turkey bird, establishing of small infrastructure for housing upto 1000 turkey birds, expenses for poultry feed, medicines, vaccinations, etc for turkey.
b) As turkey rearing is relatively less expensive and may be reared as local chicken, the banks are encouraged to finance for turkey farming across the country.
c) Small loans may also be provided for turkey farming at the household level.

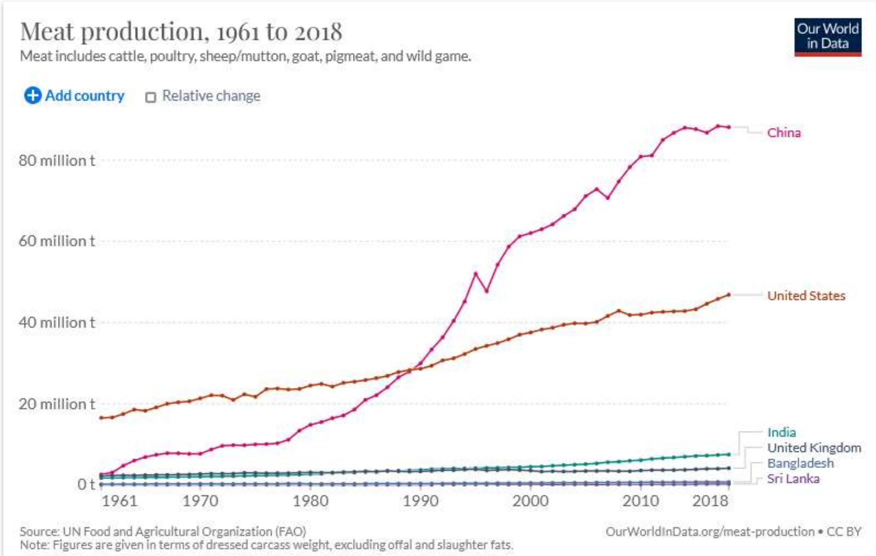
Estimate of expenses for 1000 Turkey chicken (For 6 months)

Purpose	**Estimated Expenses in taka**
Land	Own investment by the entrepreneur
Shed Preparation (Fixed Cost, required one time only)@4sft per turkey total 4000sft	16,00,000
Purchase of broiler chicks (1000 pc)	300,000
Poultry feed	6,75,000
Feeding and drinking pots purchase	40,000
Vaccine, medicine and vitamin purchase	1,80,000
Electricity	40,000
Labour cost (6 months)	120,000
Other expenses	35,000
Total	**29,90,000**

Source: Agricultural and Rural Credit Policy and Program for 2020-21 by BB

Financing in the Dairy/Livestock Sector

Livestock contributes to food and nutritional security, income generation, and forms an important livelihood base for millions of resource-poor livestock keepers in Bangladesh. Bangladesh also exports livestock-related products, including live animals, raw hides, processed leather and leather goods, gelatin, etc. Within the non-crop sector, the share of the livestock sub-sector has increased faster relative to crop, fisheries and forestry. The production of meat and eggs has also sharply increased. Furthermore, about 20% of the population is directly and 50% of the population is indirectly employed in the livestock sector[132]. Livestock may contribute to food security through increased output of livestock products and the creation of employment and income generation that may assure access to food.



The economy of Bangladesh is passing through a paradigm shift. As the country progresses to a low income to middle income nation, food preference is also expected to shift from rice dependency to other protein and nutrient rich foods. The ministry of fisheries and livestock estimates that there will be an estimated demand of 10.95 million Metric tons of meat by the year 2031 which would increase to 11.63 million metric ton by 2041. Demand for milk in the same period will be over 19.67 million metric tons and 24.47 million metric tons annually[133].

To meet the increased consumption need of meat and milk, banks need to support the livestock entrepreneurs with adequate financing support. To meet day to day expenses of the borrowers in livestock, banks can extend the working capital financing to cover following items:

Purchase and plantation of animal fodder and feeds, feed grinders, feed mixing machines and feed or milk containers.

- Vaccinations, vitamins and other medications for animals including artificial insemination.
- Overhead expenses i.e. labour, electricity, fuel, etc.
- Utensils for animal feeding, calf feeders, bangles, rope/iron chains, etc.
- Concentrate like cotton/oil seed cake, other additional expenditure, distribution cost, transportation charges on farm-milk processing, pasteurization and standardization.
- To finance receivables against deferred payment vouchers issued by milk processing units, sweetshops and meat processors/ traders/exporters having relationship with the bank and/or enjoying good credit worthiness.

[132] Perspective Plan of Bangladesh, 2021-2041
[133] Perspective Plan of Bangladesh, 2021-2041

Refinance Scheme for milk production and artificial insemination of Cows: According to a survey, the size of Bangladesh's milk market is $2,465 million and it is expected to rise over 5.0 per cent in annualised growth in the coming years. The local dairy market is dominated by unprocessed, raw milk, and the processed segment is dominated by imported powder milk.[134] Bangladesh imported 150 lakh tonnes of milk powder for Tk 2,800 crore in fiscal 2018-19, in the same year 99 lakh tonnes of the dried dairy product were produced locally, according to data from the Bangladesh Bureau of Statistics (BBS) and Department of Livestock.[135]

With a view to reduce import of milk powder as well as meeting the need for milk protein and create job opportunity of the young entrepreneurs in the dairy sector, Bangladesh Bank initiated a Refinance Scheme with a revolving fund of taka 2.0 billion. Banks can provide finance to dairy entrepreneurs for purchasing of cow, rearing of high yielding cross-breed cows, artificial insemination of cows and claim refinance from Bangladesh Bank later. The interest rate at the borrower level under this refinance scheme is only 3% while the banks claim 5% excess from Bangladesh Bank as subsidy. According to the Agricultural and Rural Credit Policy of Bangladesh Bank for FY 2021-2022 already 14 banks have signed participation agreement with Bangladesh Bank under this scheme and have already disbursed the allocated amount. Bangladesh Bank may consider increasing the amount of fund for such refinance scheme[136].

[134] < https://thefinancialexpress.com.bd/trade/milk-processing-a-cash-cow-ignored-for-import-bias-1633146976>
[135] < https://www.thedailystar.net/business/news/dairy-farms-demand-higher-tariffs-dried-milk-boost-local-industry-1914589>
[136] Agricultural and Rural Credit Policy, 2020-21, Bangladesh Bank

SECTION TWENTY EIGHT
FINANCE IN HIGH VALUE CROP

High value crops generally refer to non-staple agricultural crops such as the fruits, vegetables, flowers, etc that give higher net return per hector than staples or other widely grown crops. It may be relevant to mention here that high value crops and high yielding varieties are not same. While high yielding variety refers to genetically modified varieties of traditional staple crops that provides higher production; while high value crops refers to nontraditional crops that has higher market value and is more profitable to cultivate than traditional crops even using the high yielding variety seeds.

Rice is the staple food in Bangladesh and many farmers produce rice only for their living. However, ever reducing size of individual farm lands due to population growth, seasonality, fluctuation in market price and climate change induces natural calamities has made it hard for small farm households to generate enough income for the families. Some of them are engaged in other income generating activities, but it is not often possible in some hard to reach places of Bangladesh. According to a latest government survey Kurigram district in the northwest Bangladesh has the highest level of poverty compared to other 63 districts of Bangladesh. Not Just Kurigram, northwest region of Bangladesh is among the poorest in the country. Despite huge development in communication in the recent years, still there are many other areas in Bangladesh apart from northwest such as remote hill track areas, haor areas where people rely mainly on agriculture for livelihood. Non-farm employment opportunities are few and the development of trade, services, and industries are sparse in these areas. In areas such as the Northeast region, despite all available lands being used for cultivation and cropping intensity reaching at 175% a significant percentage of population fall below the poverty line. Despite agriculture's failure to provide better incomes for farmers, the region is actually well-suited for it. It has fertile soils, ample ground and surface water resources, varied climate favorable to a range of crops, and a relatively flat terrain[137]. Some infrastructural development such as opening of the revolutionary Padma Bridge has enhanced scope for people once treated as remote area to reach Dhaka within hours and now they will be able to transport agricultural produce easily to Dhaka and will get fair price. Many of the above regions are suitable for cultivation of high value crops and financing in high value crops may help improve farmers' incomes and raise their standard of living.

The Agricultural and Rural Credit Policy of Bangladesh Bank emphasizes on providing adequate amount of financing to high value crop cultivation. Various vegetables (corolla, brinjal, gourd, cabbage, carrot, cauliflower, borboti, bean, pea, ladies finger, potol, potato, pumpkin, tomato), fruits (banana, guava, boroi, litchis, mango, papaya, watermelon, Burmese grape 'lotkon', Lemon, Hog-plum, Sapota, Malta, baukul, strawberry, orange) and spices (pepper, garlic, ginger, onion, turmeric), oil seeds (hybrid sunflower, peanut and oil plum) and polao (aromatic) rice, hybrid maize, 'mug dal' etc. are considered as High Value Crops.

Second Crop Diversification Project (SCDP) started its operation in 2011 with USD 26.0 million funded by the ADB. The participation agreement was signed between BB, BASIC Bank Ltd. and Eastern Bank Ltd. The project implementation area covers 54 upazilas in 25 districts in the north and south-western zones of Bangladesh. From beginning to 30 June 2021, BDT 2.04 billion was disbursed to 0.204 million farmers[138]. The emphasis of the project is to reduce regional poverty through high value crop cultivation.

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[137] M. C. Dueñas & T. Maekawa, Asian Development Bank, Agriculture and Food Security, September, 2010
[138] Bangladesh Bank Annual Report, FY 2020-21

SECTION TWENTY NINE

FINANCING IN CEREAL CULTIVATOIN

Cereal: Cereal grains are grown in greater quantities and arguably provide more food energy worldwide than any other type of crop; they are therefore vital staple produce. In their natural form, as whole grains, cereals are a rich source of vitamins, minerals, carbohydrates, fats, oils, and protein. Cereals grow in grass type plants that are members of the monocotyledon, or monocot, family. All rice varieties, wheat, corn, etc fall under cereal category.

Cereal as nutrition source: Cereals have a significant role to play in food system transformation because of their vital importance in human diets. In developing countries, maize, rice, and wheat together provide 48% of the total calories and 42% of the total protein. In every developing region except Latin America, cereals provide people with more protein than meat, fish, milk and eggs combined, making them an important protein source for over half the world's population.[139] In addition to supplying starch and protein, the cereals serve as a rich source of dietary fiber and nutrients. Researches claim important contribution of wheat to healthy diets, linking the crop to reduced risk of type 2 diabetes, cardiovascular disease, and even colorectal cancer. The nutritional value of brown rice compared to white rice is also well known. [140]

Global cultivation of Cereals: According to 2017 figures, globally rice is grown on more than 167 million hectares, mainly in Asia and Africa. Wheat covers 218 million hectares, an area larger than France, Germany, Italy, Spain and the UK combined. Maize is grown on 197 million hectares. The total annual harvest of these crops amounts to about 2.5 billion tons of grain.

Cultivation intensity in Bangladesh: Cultivable land under three major cereal crops - rice, wheat, and maize - was 12.1 million hectares and cropping intensity was 215 per cent in 2017-18. Intensive rice cultivation is dominant in crop production systems and in boro season, 75 per cent of the area is covered by high-yielding varieties (HYV) and 21 per cent by hybrid rice varieties. In the aman season, about 73 per cent area is used for HYV and 27 per cent for local varieties. Wheat covers 370,000 hectares. Maize cultivation area is increasing and it has become an important cereal in terms of yield[141].

Paradigm shift and food preferences: A paradigm shift in agriculture is taking place at a rapid pace in Bangladesh which will be continue. Bangladesh has recently been elevated from the group of least developed countries (LDC) and is transitioning through to middle income and aspires to become a prosperous nation by 2041. As incomes rise, the structure of demand for food has also exhibits shifts towards improved nutritional intake. Considerable consumption diversification has taken place, and will be taking place in future. With a growing focus on nutrient rich food may reduce focus for cereal cultivation which may seriously hamper food security of the country.

Growing fragility of cereal sources: Reduction of arable land due to population growth and crop diversification cereal farming is getting apparently lesser attention and the growth in finance for cereal cultivation is less compared to other agricultural sector. While this might not posing any immediate risk to our food security but import of cereals are increasing. On the other hand, due to the recent fluctuations in global cereal production, supply chain disruptions due to war and pandemic such as the recent Covid-19 and the Ukraine war along with a looming financial crisis that many economists are fearing many

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[139] Martin Kropff & Matthew Morell, International Rice research Institute <https://www.irri.org/news-and-events/news/cereals-imperative-future-food-systems>

[140] Martin Kropff & Matthew Morell, International Rice research Institute <https://www.irri.org/news-and-events/news/cereals-imperative-future

[141] Md. Shafayet Hossain | September 10 < https://www.thefinancialexpress.com.bd/views/views/quality-cereal-seeds-required-for-sustainable-farming-1599664816>

countries are walking back towards protectionism rather than depending on imports and focusing on local production to strengthen food security.

Need for Credit: It is estimated that only around 25 percent total disbursement of rural credit is delivered by the public sector. The remaining 75% has been delivered by micro-finance institutions (MFIs). The demand for credit is much more than that met by non institutional sources. Given this backdrop as well as increased agricultural credit demand in the advent of new and diversified need and scenarios the supply side has to be more vibrant and proactive to meet the demand.

While overall income is rising and poverty decreasing; still there is no scope of complacency with approximately 25% of the population remaining poor and millions of people are being fed and will have to be fed under vulnerable group feeding and other social safety net programs. Many people around the world and in Bangladesh are still heavily dependent on rice alone which is still available in a cheaper price compared to many parts of the world. So it is important for the banks to keep continuing with increased amount of financing for the crop sector including cereals.

Hidden hunger and biofortification of cereals: While a large population depends chiefly on cereals such as rice dietary deficiencies remain as a concern. Nutrients such as vitamins, minerals, zinc, etc harm children's physical and cognitive development, and leave them more vulnerable to diseases. Sometimes called "hidden hunger," this condition is believed to cause about one-third of the 3.1 million annual child deaths globally attributed to malnutrition. Diverse diets are the preferred remedy, but the world's poorest consumers often cannot afford more nutritious foods. The problem is especially acute for women and adolescent girls, who have unequal access to food, healthcare and resources. The major cereals have undergone further improvement in nutritional quality during recent years through a crop breeding approach called "biofortification," which boosts the content of essential vitamins or micronutrients. The "biofortified" cereal and other crop varieties developed by CGIAR help address hidden hunger by providing higher levels of zinc, iron and provitamin A carotenoids as well as better protein quality, according to the Rice Research Institute (IRRI). Farmers in many developing countries are already growing these varieties.[142]

While more research is necessary before wide expansion of such rice varieties keeping production efficiency, disease resilience, etc in mind with proper supply source of seeds of such varieties may be helpful for the financial institutions to become aware of such rice varieties and proactively consider some financing in "biofortified" cereal cultivation properly analysing risks and benefits.

Need for Quality cereal seeds: Yield gap is higher for most of the crops produced in Bangladesh whereas the country needs to increase cereal production in order to maintain and strengthen food security. Among cereal crops, rice is the staple food which contributes calorie intake for over 65 per cent of the people. However, inadequate supply of quality cereal seeds is a key reason for lower yield. The country can increase crop yields by 15-20 per cent, by ensuring use of quality seeds if other factors of production remain constant. Good quality seed can immediately increase rice yield by 8-10 per cent, according to farmers' participatory experiments carried out in the Philippines and Bangladesh.[143]

To produce the three crops in the land areas under regular cultivation an estimated 3.3 lakh tonnes of cereal seeds is required whereas available supply is only 2.0 lakh tonnes. Hybrid rice seed accounts for around 3.5 per cent of the total seed requirement.[144] Currently, less than 50 per cent (46 per cent) farmers can use quality seeds and the rest cannot avoid use of poor quality seeds. Seed supplied by the state-run Bangladesh Agriculture Development Corporation (BADC), the private sector and NGOs are

[142] Martin Kropff & Matthew Morell, International Rice research Institute <https://www.irri.org/news-and-events/news/cereals-imperative-future

[143] Md. Shafayet Hossain | September 10 < https://www.thefinancialexpress.com.bd/views/views/quality-cereal-seeds-required-for-sustainable-farming-1599664816>

[144] Md. Shafayet Hossain | September 10 < https://www.thefinancialexpress.com.bd/views/views/quality-cereal-seeds-required-for-sustainable-farming-1599664816>

considered formal seeds. Public and private organizations supply 60 per cent of the total requirement of quality cereal seeds of rice, wheat and maize. The rest is produced traditionally by farmers, and those seeds are considered informal ones and not up to the required standard. Banks and other MFIs that are directly financing in the crop sector should be well informed about the seed sources and they need to finance the farmers for procuring quality seed well ahead of sapling season; following crop calendar.

Growing importance of minor cereals: Minor cereals (such as Sorghum and millets, etc) are environmentally friendly crops, and are much more resistant to different environmental stresses than are major crops such as maize, wheat, and rice. Excessive use of water and chemical fertilizers has resulted in serious environmental hazards in our agriculture, and growing minor cereals may be a solution to these problems. Also, there is a rapidly growing global market for diverse and healthy foods, and most of those minor cereals are recognized as healthy foods. Various studies demonstrates that regular consumption of minor cereals is associated with a reduced risk of chronic diseases such as: cancers and cardiovascular diseases. They are excellent source of carbohydrates, protein, B group vitamins, including folate and minerals, such as iron, magnesium, copper, phosphorus and zinc.

Some minor cereals are more resilient to climate change induces natural adversities: In recent years, there has been a growing interest and awareness about consuming healthy and nutritious foods. In this regard, particular attention is being paid to the consumption of cereal-based foods, because cereal grains contain many diverse nutritionally-valuable compounds and biologically active antioxidants. Grain yield, however is comparatively low for minor cereals that need to be addressed to meet up future demands for nutritious foods under changing climate and decreasing suitable lands for agriculture. If high-yielding varieties of minor cereals are available, it can be a climate-smart strategy in the future.

Sorghum and millets are crop having the capacity to sustain even under high temperature and low nitrogen conditions, it can play an important role in food and nutritional security. They are easily digestible, non-allergic and release lower volume of glucose, thus making it safer for consumption by diabetic patients. Moreover, they are rich in calcium, phosphorus, potassium and iron. Such qualities are highly desirable for nutritional security in Bangladesh. Some farmers grow minor cereals in Bangladesh under diverse ecological conditions and under unfavorable ecosystems.[145] While keep financing focusing traditional crops, banks may finance to some of the non-traditional crops upon proper analysis of risks..

Conclusion: Bangladesh's population will further increase to 186 million and 202 million by 2030 and 2050, respectively, according to a UN projection. If the total cultivable land remains more or less static, Bangladesh will have to feed 182.3 million people by 2025. In such context, long-term planning for food security is essential. A concerted effort regarding all sectors and stakeholders including seed producer and supplier, fertilizer and pesticide producer and suppliers, irrigation infrastructure and equipment related organizations as well as business, weather information system, climate resilient farming promotion, timely and hassle free delivery of agricultural credit especially for cultivation of traditional and non-traditional cereals are necessary for maintaining and strengthening the food security for our future.

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[145] Martin Kropff & Matthew Morell, International Rice research Institute <https://www.irri.org/news-and-events/news/cereals-imperative-future

SECTION THIRTY

FINANCING IN SOME SPECIAL SUBSECTORS

Financing for Tissue Culture: Plant tissue culture is a collection of techniques used to maintain or grow plant cells, tissues or organs under sterile conditions Through tissue culture, production of exact copies of plants that produce particularly good flowers, fruits, or have other desirable traits is possible. Different techniques in plant tissue culture may offer certain advantages over traditional methods of propagation.

Benefits of tissue culture:

- The plantlets are obtained in a very short time with a small amount of plant tissue.
- The new plants produced are disease-free. The plants can be grown throughout the year, irrespective of the season.
- Helps to quickly produce mature plants.
- The production of multiples of plants in the absence of seeds or necessary pollinators to produce seeds is possible.
- The regeneration of whole plants from plant cells that have been genetically modified.
- The production of plants in sterile containers that allows them to be moved with greatly reduced chances of transmitting diseases, pests, and pathogens.
- Helps production of plants from seeds that otherwise have very low chances of germinating and growing, eg. orchids.

The Agricultural and Rural Credit Policy of Bangladesh Bank advises bank to consider financing in tissue culture upon proper assessment to risk involved.

Financing for Oil Palm Cultivation: Annual requirement of total oils and fats in Bangladesh is about 2.30 million tonnes, of which, on an average, about 63 per cent share belongs to palm oil while 34 per cent to soybean oil, 2.0 per cent to canola/mustard oil and 1.0 per cent to others. Palm oil has been dominating edible oil sector in Bangladesh since 2003. From 2003 to 2015, palm oil has been in the leading position with an average annual import quantity of about 9.55 lakh tonnes i.e. about 66 per cent of total import of oils and fats; at the same time about 4.1 lakh tonnes of soyabean oil was imported which is about 28 per cent of total oil/fat imported.[146] Clearly there is a high demand of palm oil in Bangladesh market. To reduce the burden of import, government has encouraged oil palm production locally. The Agricultural and Rural Credit Policy of Bangladesh Bank also encourages banks for financing in oil palm cultivation. However, adequate caution should be taken as there are reports of a number of recent futile attempts of planting palm trees in different regions of Bangladesh by a few individuals and organizations mainly due to apparently unsuitable weather and soil condition for such plantations.[147]

Financing for Salt Cultivation: About 1.8 million MT crude salt is produced per year in Bangladesh of which nearly 95% is produced Cox's Bazar district alone. Cox's Bazar is the largest crude salt producing area in terms of volume as well as employment. Almost 15 per cent of the total rural households of this district are salt farmers. According to the recent report of BSCIC, currently, around 51,092 acres of land of Cox's Bazar district accounts for crude salt production by more than 30,000 salt farmers.

The salt industry being one of the largest labour intensive cottage industries of Bangladesh absorbs largely around 5 million people directly or indirectly. The total value chain of the salt industry in Bangladesh involves largely two sub-sectoral activities namely-- the refining process which is operated

[146] < https://thefinancialexpress.com.bd/views/progresses-and-prospects-of-palm-oil-in-bangladesh>
[147] < https://www.thedailystar.net/news-detail-117854>

by salt mills and the crude salt production process that involves a significant chunk of marginal farmers of coastal Bangladesh, specifically Cox's Bazar district.[148]

The Agricultural and Rural Credit Policy of Bangladesh Bank advises bank to provide financing to salt cultivators in areas from 0.5 bigha upto 2.5 acre as per credit norms circulated through ACD Circular Letter No.01/2011. Bangladesh Bank has also advised banks to charge only 4% interest rate for salt cultivation.

Financing to Nurseries: Nurseries play a positive role by supplying saplings of different types of plants including fruit, flower and trees. Nurseries also help the afforestation programs of the government through supply saplings of wood trees. With a view to supporting development of more nurseries in the private sector the Agricultural and Rural Credit Policy of Bangladesh bank advises banks to provide adequate amount of credit for establishing nurseries. In addition to establishing new nursery, credit may be provided for commercial cultivation of seeds and saplings of decorative plants, flowers, cactus, orchid, etc as well. The amount required for nursery cultivation may be determined in consultation with the concerned officials of horticulture and forestry department of the government.

Financing for Sericulture: The history of silk farming or sericulture, is said to have started in China some 5,000 or more years ago. The history of silk production in Bangladesh, is closely linked with India and dates back to the 1st century. Today, Rajshahi, located near the border of India, remains the top sericulture region of Bangladesh. The climate in this area is perfectly suited to growing mulberry trees, without which sericulture would not be possible, as the silkworm feeds exclusively on mulberry leaves.[149]

In spite of having a glorious history in the sericulture industry Bangladesh still is not a bright name in silk production and export. Although the agro-climatic situation in Bangladesh greatly favors the development of silk industry, Bangladesh produces very little amount of silk products every year, whereas India, situated beside Bangladesh, is the second largest producer of silk. Banks can finance in mulberry cultivation as well as sericulture according to the Agriculture and Rural Credit Policy of Bangladesh Bank.

The Bangladesh Sericulture Development Board was formed in 1978 through the Presidential Ordinance 1977. It is responsible for the welfare of sericulture workers and the promotion of the silk industry. The board owns Mulberry plantations for silk agriculture in Bangladesh. The board is responsible for Bangladesh Sericulture Research and Training Institute and also manages state owned silk factories in Bangladesh. Banks may consult concerned sericulture officer/agriculture extension officer in determining the loan amount and repayment calendar.

Financing for Rooftop Gardening: The unused or underused spaces of the roofs of the millions of building in Bangladesh can be beautifully decorated with well-planned gardening. Keeping in mind one’s demand and personal choice, one can create a vegetable garden, fruit garden, flower garden, or mixed gardens on rooftops. Fruits, vegetables, flowers and mixed plants based gardens are most popular among the city gardeners. Not only in Dhaka city but also other cities, high-rise buildings are being built at a rapid rate. It is estimated that over ten per cent of the roofs of Dhaka city has adopted rooftop gardening over a decade. Since the people’s awareness of climate change and to protect nature; city dwellers have started rooftop gardening as an alternative for regular plantation. To promote rooftop gardening, both the mayors of Dhaka City Corporations have promised a ten per cent holding tax rebate[150]. Bangladesh bank through Agricultural and Rural Credit Policy has encouraged banks to finance in rooftop gardening. Moreover the loans disbursed for rooftop garden are treated as agricultural credit according to the Agricultural and policy of Bangladesh Bank.

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[148] < https://thefinancialexpress.com.bd/views/the-economic-context-of-coastal-salt-farmers-of-coxs-bazar-1619016435>

[149] https://www.bangladesh.com/blog/sericulture-in-bangladesh/

[150] <https://www.newagebd.net/article/136855/rooftop-gardening-possibilities-and-challenges>

Betel Leaf Cultivation: Cultivation of betel leaf (Paan) is an inseparable component of Bengali tradition. Betel leaf has high demand in the local market and is also exported after meeting local demand. Betel leaf cultivation is highly profitable, but it requires high investment too for the cultivated land has to be covered under 'baraj' made by bamboo and straw. Upto 11.5 lakh taka is required for cultivating the sweet variety of betel leaf in one acre of land; while regular varieties require 6.5 lakh taka per acre, according to the credit norms (FY 2020-21) annexed with ACP of Bangladesh Bank. Betel leaf is widely cultivated in Barisal, Khulna, Rajshahi and Chittagong region and it is expanding in many other regions. In the sylhet region Khasia people cultivate betel leaf differently without baraj. Here betel leafs grow by climbing trees, most of them situated in forests and tea gardens.

The Agricultural and Rural Credit Policy of Bangladesh Bank has advised banks to provide adequate amount of credit for betel leaf farmers individually or in groups; based on needs. Betel leaf may be cultivated all the year round and credit may be provided accordingly following the credit norms for cultivation in upto 5 acres of land.

Mushroom cultivation: In the context of Bangladesh, mushroom is a promising crop and has a great importance as it is nutritious, tasty and has medicinal value. In densely populated and rapidly growing Bangladesh, the demand for food is increasing, but the supply is not adequate. On the other hand, the climate of Bangladesh is favourable for mushroom cultivation throughout the year. Mushroom farming is environment friendly and tolerant to natural disasters. According to Mushroom Development Institute, the opportunity of mushroom production is increasing rapidly and has increased four-fold in 15 years as output reached 40,000 tonnes, worth Tk 8.0 billion, in 2020. Apart from the domestic market, mushroom has a vast global market where Bangladesh can export a good quantity. According to MDI, it has so far brought 162 varieties of edible mushrooms from different parts of the globe and has developed technologies suitable for cultivating those in the country. To protect the interest of the local mushroom producers and traders proposed budget for the next fiscal year (FY'22) has imposed 20 per cent import duty on mushroom which was earlier 5.0 per cent.[151] Agricultural and Rural Credit Poly of Bangladesh Bank encourages banks for providing finance im mushroom cultivation. With newly imposed import duty, local producers can benefit from commercial cultivation of mushrooms.

Case Study 10
Mushroom farming brings economic success to Nipu Tripura

Nipu Tripura's life was full of uncertainty like the other women in the hills during the bad days of COVID-19. She couldn't even run her grocery store. But overcoming all obstacles she has now became an agricultural entrepreneur. Nipu, a resident of Thakurchhara Notun Bazaar area in Khagrachhari, watched one television episodes on mushroom cultivation of Magura's Babul Akhter and felt she could also start mushroom cultivation like Babul. Later, Nipu, who had no formal training in mushroom farming, went to Khagrachhari but couldn't obtain any training from there. But that couldn't not stop her. She then decided to meet Babul in Magura. Last year, she took a short training from Babul and started mushroom cultivation by taking Tk 3 lakh (USD 3462) from her husband.

In the first year, Nipu earned Tk 9 lakh (USD 10,387) by selling commercial mushroom spawns. Now, she is developing and producing 10 to 12 thousand spawns every month, but she dreams of producing 25,000 spawns per month. She has employed eight women at her mushroom farm and established herself as a woman entrepreneur within a short time. She has also formed a cooperative society with 20 women members and giving them free training.[152]

[151] <https://thefinancialexpress.com.bd/trade/mushroom-farming-expanding-in-bangladesh-1623037894>
[152] Source: Mushroom farming in the hills, written by eminent media personality Mr. Shykh Seraj , published in the Daily Star on May 13, 2022, < https://www.thedailystar.net/news /bangladesh/news/mushroom-the-hills-3022441>

SECTION THIRTY ONE

VALUE CHAIN FINANCE

Value chain finance is a comprehensive and holistic approach to finance in the agricultural sector. The concept of value chain recognizes the various actors who produce, transform or move the product from input suppliers and farmers at the bottom to those that sell the product to the final consumer at the top and consider the financing needs of each of these actors.

Concept of Agricultural Value Chain: The concept of agricultural value chain includes the full range of activities and participants involved in moving agricultural products from input suppliers to farmers fields, and ultimately, to consumer's tables. Each stakeholders or process in the chain has a link to the next in order for the process to form a viable chain. At each stage some additional transformation or enhancement is made to the product-ranging from transporting the product to processing and packaging. Therefore, a value chain may be defined as the sequence of value-adding activities, from production to consumption, through processing and commercialization. Each of these segments has one or more backward and forward linkages. A chain is only as strong as its weakest link and hence the stronger the links, the more secure the flow of products and services within the chain.[153]

Increase of efficiency: Calvin Miller, one of the most prominent value chain finance guru terms value chain as "farm to table" integration. He argues that this integration can increase efficiency and value through reduction of wastage, ensuring food safety, preserving freshness, decreasing consumer price, and improving farmer prices and incomes. He also argues that efficient value chains tend to reduce the use of intermediaries in the chain and strengthen value-added activities because of procurement from farm-gate, use of better technology and upgraded infrastructure such as cold chains. Through demand driven production, there is improved price opportunities, less wastage and it facilitates more secure procurement for food processing and exports.

Does not replace conventional Finance: Agricultural value chain finance does not replace conventional finance; but complements it by bridging some existing gaps within the value chain that are usually dominated by middlemen. Value chain finance is both to and through the chain and therefore depends at least in part on conventional sources and services of financing to the chain.

Financial instruments commonly used in agricultural value chain finance[154]

Category	Instrument
Product financing	• Trader credit • Input-supplier finance • Marketing and wholesale company finance • Lead-firm financing
Receivables financing	• Trade-receivables finance • Factoring • Forfaiting
Physical-asset collateralization	• Warehouse receipts finance • Repurchase agreements (repos) • Financial leasing (lease–purchase)
Risk mitigation products	• Insurance • Forward contracts • Futures
Financial enhancements	• Securitization instruments • Loan guarantees • Joint-venture finance

153 Calvin Miller, 2010, Agricultural Value Chain Finance, FAO
154 Calvin Miller, 2012, Agricultural Value Chain Finance Strategy and Design, IFAD, https://www.ifad.org/documents/38714170/39144386

Value chain financing are directed to chain activities and is largely short term financing. Thus the needs for household and agricultural financing still remain there. Rather due to the agricultural value chains financing the scopes of market and fair price increases for the small hold farmers.

Agricultural value chain finance offers an opportunity to reduce cost and risk in financing and reach out to small holder farmers. For financial institutions, value chain finance creates the impetus to look beyond the direct recipient of finance to better understand the competitiveness and risk in the sector as a whole and to design financial products that best fit the needs of the businesses in the chain.[155]

While the advocates for Value Chain Finance highlights increased efficiency in VCF they also emphasize on the cautionary issues that need to be taken into consideration. Miller (2012) mentions two reasons for caution:

- First, value chain integration may not be good for all parties involved; the least powerful links in the chain may be marginalized. VCF cannot address inequities that may be inherent in some value chain relationships. Governance through policies and enforcement may be required.
- Second, VCF can address only the financial needs related to the chain; the conditions for promoting broad-based financial services to all households and businesses must also be pursued.

Value chain finance has an important place in agricultural finance that augments, but does not replace, conventional finance; most important is its comprehensive, structured and market-competitiveness approach, which complements conventional finance, increasing access to capital and reducing risk for both clients and financiers[156].

Case Study 11
BRAC Chicken: successful value chain finance in Bangladesh
BRAC Chicken was established as a broiler processing enterprise in 2004, with the capacity to process approximately 10,000 chickens per day and was the only automated plant of its kind in Bangladesh. BRAC Chicken has also released a variety of processed chicken products, including chicken nuggets and chicken wings

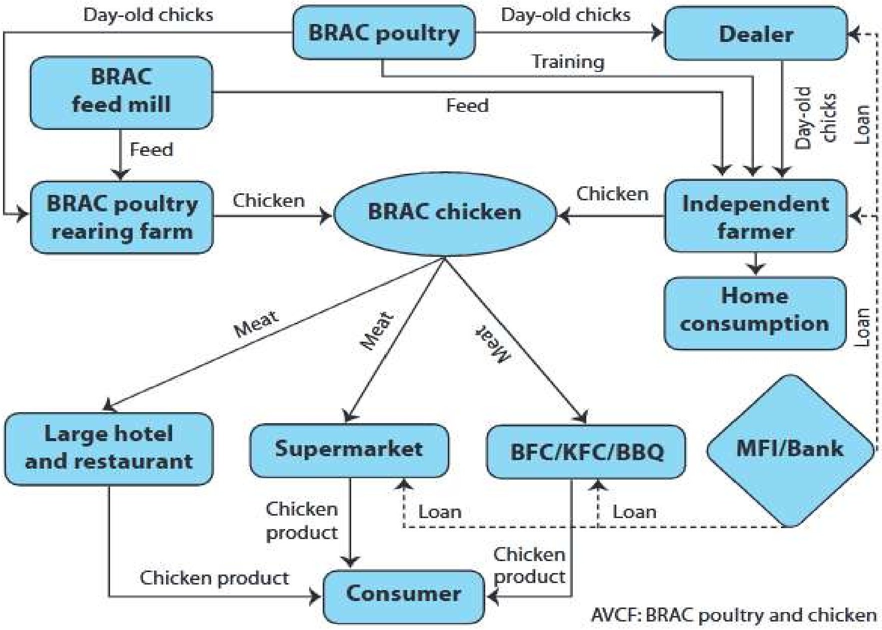
A highly integrated enterprise that cross-collaborates with a number of other BRAC enterprises, BRAC Chicken acquires 30-40 percent of its supply from BRAC's poultry rearing farms while the remaining supply comes from other independent farms, both rural and commercial. BRAC Chicken sells the preprepared meat to a variety of customers including large restaurants, hotels and supermarkets. Some of its major vendors include KFC, Westin Hotels, Radisson Hotels, Best Fried Chicken (BFC) and BBQ Bangladesh.

BRAC Poultry Rearing Farms purchase day-old chicks from BRAC Poultry. Instead of then directly selling these day-old chicks to individual farmers, BRAC Poultry sells them to dealers who in turn resell the chicks to farmers who rear the chickens, creating a more cost-effective supply model. BRAC's poultry farms use feed from BRAC Feed Mills. The collaboration among the enterprises, namely BRAC Chicken, BRAC Poultry Rearing Farms, BRAC Poultry and BRAC Feed Mills, creates a value-addition chain which allows BRAC Chicken to sell a high quality processed chicken product at a fair price. Chicken dealer, supermarket owner, restaurant owner and independent farmer can take loan for chicken purpose from

[155] Calvin Miller, 2010, Agricultural Value Chain Finance, FAO
[156] Calvin Miller, 2012, Agricultural Value Chain Finance Strategy and Design, IFAD, https://www.ifad.org/documents/38714170/39144386

different bank of microfinance institutions. Sometimes dealers and independent farmers purchase day old chicks with due payment.

BRAC Chicken manages the quality of its chicken along each step of the supply chain: BRAC trains chicken rearers on how to vaccinate their chickens and raise them hygienically, and hires veterinarians to handle more complex health issues. The poultry is always under regular supervision of the vets, particularly during the use of vaccines, medicine, antibiotics, etc. If the chickens are injected with approved antibiotics, a time period of at least 72 hours is given to allow the chemicals to leave their system before processing them. At the end of the processing chain, BRAC Chicken sells high quality chicken, achieving HACCP ('Hazard Analysis and Critical Control Point'; a systematic approach to ensuring food safety) certification. In the process, BRAC Chicken also tries to minimize any production activities that may harm the environment.



With consumers increasingly demanding healthy and convenient food options, BRAC Chicken plans to expand its chicken processing operation and introduce more variety in its product line. As the increased demand for poultry meat has spurred an increase in demand for day-old chicks, BRAC Poultry has scaled up its production to ensure sufficient supply to BRAC Chicken. BRAC's poultry rearing farms also plan to increase their capacity to serve this growing demand [Source: Value Chain Financing in Agriculture: Best Practices, Innovations and Experiences in Bangladesh, APRACA] [157].

[157] Sirajul Islam, Md 2015, Value Chain Financing in Agriculture: Best Practices, Innovations and Experiences in Bangladesh, APRACA https://www.apraca.org/wp-content/uploads/2017/06/AVCF-Bangladesh.pdf

SECTION THIRTY TWO

DEVELOPING COMMODITY MARKETS

Market is a not just a place for selling goods; but is a composition of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange of goods and services. Commodity market is a system that trades in the primary economic sectors rather than manufacturing goods. Agricultural commodities such as corn, wheat, rice, cocoa, fruits, sugar, etc are called soft commodities and mined or extracted commodities such as gold and steel are called hard commodities in the commodity market.

History of commodity market: While commodity market is a much talked about issue today, the history of commodity market dates back to ancient times. In the ancient commodity markets commodities were exchanged with other commodities which we call today as the barter system. Commodity market is believed to have been developed during 4500BC and 4000BC in Sumer region of the South Mesopotamia. The number of goats to be delivered, the delivery time and date that were written in clay writing tablets very much resembles today's futures market. In the later periods items such as pigs, rare seashells, etc were used as medium of exchange. Gold and silver trading evolved in classical civilizations.

The Amsterdam Stock Exchange, often cited as the first stock exchange, originated as a market for the exchange of commodities. Early trading on the Amsterdam Stock Exchange often involved the use of very sophisticated contracts, including short sales, forward contracts, and options. "Trading took place at the Amsterdam Bourse, an open aired venue, which was created as a commodity exchange in 1530 and rebuilt in 1608.

In 1864, in the United States, wheat, corn, cattle, and pigs were widely traded using standard instruments on the Chicago Board of Trade (CBOT). Other food commodities were added to the Commodity Exchange Act and traded through CBOT in the 1930s and 1940s, expanding the list from grains to rice, mill feeds, butter, eggs, Irish potatoes and soybeans.

Examples of Commodity Market in developing world: In Asia, India has the most developed commodity exchange. India, the fifth largest producer of agricultural commodities in the world. but developed commodity market in the world. The commodity future market was popular in India till early 1970s but there were some Government restrictions and regulations which hindered its growth. Later restrictions were relaxed in 2003, and trading of permissible commodities began in the exchange markets. India has experienced an unprecedented boom in transactions of agricultural commodities, ever since. Especially India's National Commodity and Derivatives Exchange (NCDEX) demonstrates stupendous performances in spot and future transactions in agricultural produce. The use of commodity derivatives started in the exchange in 2002 and future trading in commodities crossed USD 1.15 trillion mark in 2020. In Pakistan, National Commodity Exchange Limited (NCEL) started operation in 2003 where rice, cotton, wheat and palm oil are commonly traded and it started future trading in rice in 2008. The African commodity markets are commonly characterized by poor market information, lack of competition, absence of the systems of quality standards, lack of transparency, and absence of enforceable dispute resolution mechanism (Goggin et al., 2007)[158] The Kenya Agricultural Commodity Exchange (KACE) collects prices and traded volumes of a wide range of products from nine wholesale markets and disseminates them using Radio, SMS, interactive voice response service (IVRS), Internet and email. The operators admit that by only providing prices, systems are of little value and it cannot be recognized as a commodity exchange.

[158] https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Guidebook_on_African_Commodity_and_Derivatives_Exchanges.pdf

How Commodity Market Works: Successful commodity markets require broad consensus on product variations to make each commodity acceptable for trading, such as the purity of gold in bullion. Classical civilizations also built complex global markets for trading gold or silver for spices, cloth, wood and weapons, most of which had standards of quality and timelessness.

In the modern commodity markets goods are traded either on spot or through derivatives such as options, futures or swap. A Spot contract is an agreement where delivery and payment either takes place immediately, or with a short lag. Physical trading normally involves a visual inspection and is carried out in physical markets such as a farmers market. Derivatives markets, on the other hand, require the existence of agreed standards so that trades can be made without visual inspection. Derivatives evolved from simple commodity future contracts into a diverse group of financial instruments that apply to every kind of asset.

Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right. Transactions in financial derivatives should be treated as separate transactions rather than as integral parts of the value of underlying transactions to which they may be linked. The value of a financial derivative derives from the price of an underlying item, such as an asset or index. Financial derivatives are used for a number of purposes including risk management, hedging, arbitrage between markets, and speculation. (IMF)

Financial derivatives enable parties to trade specific financial risks (such as interest rate risk, currency, equity and commodity price risk, and credit risk, etc.) to other entities who are more willing, or better suited, to take or manage these risks—typically, but not always, without trading in a primary asset or commodity. The risk embodied in a derivatives contract can be traded either by trading the contract itself, such as with options, or by creating a new contract which embodies risk characteristics that match, in a countervailing manner, those of the existing contract owned. This latter is termed offsetability, and occurs in forward markets. Offsetability means that it will often be possible to eliminate the risk associated with the derivative by creating a new, but "reverse", contract that has characteristics that countervail the risk of the first derivative. (IMF)

Features of forward contract and futures contract are discussed below:

Forward contracts: A forward contract is an agreement between two parties to exchange at a fixed future date a given quantity of a commodity for a specific price defined when the contract is made. Such forward contracts began as a way of reducing pricing risk in food and agricultural product markets. By agreeing in advance on a price for a future delivery, farmers were able protect their output against a possible fall of market prices and in contrast buyers were able to protect themselves against a possible rise of market prices. For example, consider a mango farmer who enters into a forward contract with a food processing company (such as Pran, who makes and sells mango juice) on May 01, 2023 to deliver 100,000 kilograms of Ashwina Variety of Mango for a pre-determined price of taka 50 per kilogram to be delivered on the factory gate on August 10, 2023. Assume the cost of growing mango is taka 30 per kilogram. Such a contract benefit both parties, the farmer because he is assured of a buyer at an acceptable price and the processor because knowing the cost of mango in advance helps reduce uncertainty in planning. If the spot price of mango rises to say taka 70 per kilogram, the farmer misses the opportunity of extra profits. On the other hand, if the price declines to say taka 40, the processor will be paying more than its competitors who may be buying from the spot market. Hence the forward contract limits the risk and potential rewards. Thus it is ideal for hedging purpose.

Forward contracts involve a specific seller delivering a commodity or asset to a specific buyer at a fixed future price on a specific future date. Problem may arise if one of the participants of the contract fails to perform. The processor may go bankrupt, the farmer can go bust, the farmer might not be able to produce 100,000 kilograms of mango because of bad weather of the cost of growing mango jumps.

Whichever way the mango price moves, either the food processor or the farmer has an incentive to default. Even corporate giants like Coca-Cola and Westinghouse defaulted on their forward contracts.

Futures contract: Futures contracts are standardized forward contracts that are transacted through an exchange. In futures contracts the buyer and the seller stipulate product, grade, quantity and location and leaving price as the only variable. Futures contracts are different from the forward contracts in several ways. First, they are usually traded on a central exchange rather than over the counter market, leading to more efficient and accurate price determination. Secondly, the establishment of a clearinghouse means seller and buyer no longer face each other. Instead, the clearinghouse acts as seller to all buyers and buyer to all sellers. Thirdly, exchange listed futures contracts are standardized instruments. They specify the delivery of a specific quantity of a specific commodity that meets quality standards at pre determined places and dates. Fourthly, gains and losses of futures contracts are marked to market daily.

Commodity market development in Bangladesh: The agricultural commodity market of Bangladesh is fragmented and dominated by layers of middlemen. Crops are mainly produced for domestic supply and transaction cost is high. Price instability, asymmetric price information, dependency on monsoon, irregular flow of credit, reliance on money lender and lack of warehousing infrastructure denote the characteristic features of commodity market (Habib and Shah)[159].

Efficient commodities market is important for the incomes of primary producers, earnings from exports, expenditure on imports, revenues of governments, and incomes of enterprises. In a number of economies, organized agricultural marketing systems, known as agricultural commodity exchanges, have efficiently linked farmers and agricultural producers with both domestic and international consumers. It has been observed that commodity exchanges may offer a fast and low cost mechanism for discovering prices and resolving contractual disputes. UNDP (2007) lists three elements of orderly trading in an exchange: clearly defined contractual terms, financial stability and stringent rules against manipulation. Therefore, simply administrative decision on setting up commodity exchanges will not bring success. For sound operation of a commodity exchange, government has to play roles in the form of offering policy and regulations. A well-functioning warehouse receipts system is to be installed to offer finances to the farmers. And finally, on the way to form a long-term plan for the establishment of an effective agricultural commodity market in the country, there should be consultation and coordination among different government agencies, central bank, farmer associations, financial institutions, and civil society organizations.[160]

[159] SMA Habib and Pinky Shah, Marketing Agricultural Products in Bangladesh: prospects of Commodity Exchange, https://115.127.114.70/includes/pdf/Janata%20Bank_Journal_Final_16%20Sep.pdf#page=85

[160] https://www.researchgate.net/publication/298551667_Prospect_of_developing_an_effective_agricultural_commodity_market_in_Bangladesh

Chapter Five
Micro-financial Institutions (MFIs)

Module E: Role of Specialized Banks (SBs) and MFIs in Rural Finance and Poverty Alleviation in Bangladesh: Role of BKB, RAKUB, Grameen Bank, BRAC, ASA, PRASHIKA, BRDB and PKSF as the Micro/Rural Financial Institutions in poverty alleviation

SECTION THIRTY THREE

POVERTY AND STRATEGIES

What is Poverty: Poverty is easy to find but hard to define in concrete terms. Poverty is not a self defining concept. There has been a widely accepted method of understanding poverty through calorie intake meaning if a person consumes less than 2122 Kcal per day, he will go below the poverty line. Absolute poverty according to Amartya Sen (Sen, 1981) is a situation when a family consumption fails to maintain the minimum dietary standards. Khan (1997) believes this standard is adjusted over time across cultures. Poverty is "the lack of, or the inability to achieve, a socially acceptable standard of living," according to a latest synthesis by the World Bank[161].

While different researchers and activists may define poverty differently and different actors may address poverty differently, but still about 9.2% of the world, or 689 million people, live in extreme poverty on less than $1.90 a day, according to the World Bank.

Classification of Poverty: Riddell and Robinson (1995)[162] classify poverty in the third world into three categories: i) chronically poor ii) borderline poor and iii) new poor. ***Chronically poor*** are those who have always been poor; continuously below the poverty line. They suffer from acute deprivation and are generally severely malnourished. ***Borderline poor*** are like pendulum and they move in and out of poverty. Seasonal workers for example are better off when they are engaged in work and have earning but again dips down to poverty on the offseason; when they are workless. They however come out of poverty line again, once they get some new income source. ***New poor*** are those who were not poor in the usual course but some external factors such as economic recession, structural adjustment or accidents such as death of the only earning member of the family pushes them below the poverty line.

Measures of poverty: Reviewing available literature Glewwe & Van der Gaag (1988)[163] group available poverty measuring approaches in several broad categories:

i) Per-capita Income: Per capita income may be a good measure in understanding poverty. However per-capita income determination is often difficult due to seasonal variations in income and also due to not measuring the self employment income.

ii) Household consumption and percapita consumption: Consumption method is useful as welfare indicators. Considering both household and percapita consumption gives a more accurate picture of well being. However, it is often difficult to collect both data.

iii) Percapita consumption: This is often considered as a more useful method as it involves less but more accessible data.

iv) Food Ratio: The fraction of household budget spent on food is another measure of understanding well being. Households that spend more percentage of income spent on food tends to be poorer than those spending less percentage on food. This is however more useful in developed world than in developing countries. Another limitation is that sometimes household have to spend more on medical, education and other issues and has little left to eat gives out a low ratio for food while camouflaging the overall poverty situation of the family.

v) Calories: There has been a widely accepted method of understanding poverty through calorie intake such as if a person consumes less than 2122 Kcal per day, he will go below the poverty

[161] https://www.fao.org/3/am387e/am387e.pdf
[162] Mark Robinson and Roger Riddell, 1995, Non-Governmental Organizations and Rural Poverty Alleviation, OUP Oxford
[163] Glewwe, P & Van der Gaag, J (1988): Confronting poverty in Developing Countries, Living Standard Measurement Working Paper No 48, Washington DC: The World Bank.

line. However, this measure ignores the non-food component of economic welfare. Moreover this measure is too extensive for practical operation (Sen 1981).

vi) Medical Data: Low height for age, low weight for height, etc are good measure for well being of children. While medical data of children can be a good indicator for the overall wellbeing of the family as it generally has a positive correlation with the economic status of an individual household; but it is often difficult to collect data.

vii) Basic Needs: According to this measure, households are defined as poor if their food, clothing, medical, educational and other needs are not met.

Addressing Poverty in Bangladesh: For a country like Bangladesh that has very limited natural resources, a small piece of land sized less than 150 thousand square kilometer with a population of over 160 million to feed, poverty has never been a simple issue to handle. In fact poverty itself is the manifestation of many complex issues and is therefore hard and sensitive to address and improvements are often made fragile by natural disasters and other beyond control issues. Bangladesh was a very poor country when it was born in 1971 through a war that ravaged the country's economy; infrastructure and caused bloodshed of 3 million with still over 70 million people to feed. Global community, not many of them very optimistic, was curious to see how the country survives and advances in the path of progress.

Success in Poverty Reduction: As Bangladesh celebrates 50 years of independence the global community has already acknowledged that Bangladesh has an inspiring story of reducing poverty and advancing development. Bangladesh has reduced poverty by half in and has lifted more than 25 million out of poverty in less than 20 years, World Bank observes[164].

In the words of Amartya Sen[165] "Self-assured commentators who saw Bangladesh as a "basket case" not many years ago could not have expected that the country would jump out of the basket and start sprinting ahead even as expressions of sympathy and pity were pouring in. It is important to understand how a country that was extremely poor a few decades ago, and is still very poor, can make such remarkable accomplishments particularly in the field of health, but also in social transformation in general."

How Different Sectors in Bangladesh are working for Poverty Reduction: No single sector is to be credited for this success. Rather all sectors of the economy have contributed to poverty reduction. This has been accompanied by enhanced human capital, lower fertility rates and increased life expectancy, which have also significantly contributed to increase households' ability to earn more and exit poverty. The direction of change made possible by Bangladesh is due by a great extent to reducing gender inequality in health and education sector as well as by the initiatives of the NGOs Dr Sen observes.

Role of Government on Poverty Alleviation: Government of a country is responsible for taking short, long and medium term initiatives through appropriate planning to overcome problems and to ensure an environment that help achieve general well being for the population. Government may address poverty from two major directions: i) economic development and human development. Government is entrusted to create and maintain enabling environment so that the private sector develops on its own and generates employment and economic activities. Government spends on infrastructures such as roads, bridges and electricity alongside takes long term policies as part of creating enabling environment. Education and healthcare facilities are provided by the government so that human capacity is developed who ultimately contribute to overall development of the economy. In countries where hard core poverty persists, governments have to take some special programs targeting the poor.

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[164] Bangladesh Poverty Assessment, World Bank, 2019 <https://elibrary.worldbank.org/doi/abs/10.1596/32754>

[165] The Lancet,Volume 382, Issue 9909, Pages 1966 - 1968, 14 December 2013 < http://www.childsurvival.net/?content=com_articles&artid=2598>

Government Program for Poverty Alleviation in Bangladesh

Bangladesh has achieved significant improvement in reducing poverty. While poverty reduction has been a concerted effort by different development actors and stakeholders; the role of the government has always been in the forefront. A number of poverty alleviation program targeting the poorest, especially the social safety net programs in Bangladesh are considered to have been contributing to the reduction of poverty and vulnerability by addressing a range of population groups through different forms of assistance.

Unlike investing just in large infrastructural projects, the social safety net program of Bangladesh includes the provision of income security for the elderly, widows and persons-with-disabilities, generating temporary employment for working age men and women, and supporting the healthy development of young mothers and children. One of the main reasons of success of these programs more is pro-poor focus. In addition, over the years an administrative system has been developed to help identify the most vulnerable objectively, deliver benefits and services timely and efficiently, and strengthen citizen engagement.

The Government of Bangladesh has been consistently spending over 2.5% of GDP each year for the last few years to implement a wide spectrum of social programs. In FY 2020, a budget of approximately BDT 743.67 billion, or equivalent to 2.58 percent of the Gross Domestic Product (GDP), has been allocated for this purpose[166]. The amounts are spent with the aim to contribute to the fight against poverty and improving human capital.

1. Old Age Allowance: Bangladesh improved both in terms of reducing fertility and mortality declines which also means a growing elderly population for the country which is expected to grow further. Old age allowance was initiated by the government in FY 1997-98. This program targets the poor and vulnerable elderly (62 years and older for women; 65 years and older for men) and pays BDT 500 per month each to a maximum of 10 old age citizens (5 male and 5 female) covering over 4.4 million beneficiaries across the country.
2. Allowance for the widow: and destitute women: Bangladesh has shown steady progress over the years, but the poor and marginalized continue to face poverty amidst many social restrictions. Since the 1970s, the government has been implementing important social safety nets focused on vulnerable women. This program pays BDT 500 per month to over 1.7 million beneficiaries across the country.
3. Allowance for financially insolvent disabled: Persons-with-disabilities constitute about 7 percent of the population in Bangladesh. Despite various initiatives from public and private entities as well as NGO sectors, coverage of support has been limited. The program started in 2006 with 100,000 beneficiaries and has now expanded to 1.5 million beneficiaries who receive a monthly allowance amounting BDT 700 each.
4. Food for work/food for money: Under food for work program over 12 billion BDT was spent for 1.7 million people. Under work for money program another 7 billion for over 1.58 million people.
5. Vulnerable Group Feeding: Government of Bangladesh, in partnership with the World Food Program (WFP), launched the vulnerable group feeding program. The program provided a monthly transfer of 31.25 kg of wheat per household per month for a period of two consecutive years. To date, it continues to be a humanitarian program that provides food transfers to the poor during disasters and major religious festivals.

[166] https://www.worldbank.org/en/news/feature/2019/04/29/social-safety-nets-in-bangladesh-help-reduce-poverty-and-improve-human-capital

6. Vulnerable Group Development (VGD) and Vulnerable Group Feeding (VGF): Over 16 billion BDT was spent to as food assistance to over 14 million people under VGD program. Under the VGF program over 19 billion taka was spent as food assistance for over 8 million people.
7. School feeding program: Over 4 billion taka was spent in FY 2019-20 for 2.5 million students under the school feeding program. Due to the closure of school during Covid-19 pandemic the fund was reduces to this amount from over 6 billion in FY2018-19[167]

Poverty Reduction through microfinance: Poverty reduction through income generating activities with the help of small amount of credit has been popularized by successful operation of the NGO-MFIs. But this does not mean that the MFIs were the first to try this recipe. Rather, government projects had been trying this for decades. The reason why the poverty alleviation effort by the governmental organizations were not successful may be explained by two “market failures”. First of these market failure is a perceived situation of imperfect information. The poor people who need credit has poor knowledge of the formal credit system. On the other hand the formal financing institutions as well as prospective clients and has a lack of knowledge about the business environment of the rural sector. There was lack of knowledge how the credit could be used as in viable investment project making them capable enough to generate enough income to make repayments after meeting the day to day consumption needs. Second market failure is a perceived situation of imperfect enforcement. Due to lack of traditional collateral it was perceived that lending to the poor people will make it a loss project as recovery will be next to impossible.

Microcredit Regulatory Authority was created to regulate the microfinance organizations of Bangladesh. Most of the microfinance organizations were working in Bangladesh long before the MRA was born. History of NGOs or microfinance organizations in Bangladesh is nearly as old the country itself. In last 40 to 50 years the NGO MFIs went through a process of transformation. The transformations may be summarized as follows[168]:

- i) Microfinance organizations has expanded in both scope and scale over the year covering more than half of the rural population.
- ii) Almost one third of the microcredit is invested in micro enterprises creating full-time employment opportunities for some 10 million individuals;
- iii) Increasingly, larger loan sizes are being offered by the Microfinance Institutions (MFIs) to the more enterprising borrowers;
- iv) microcredit is invested in diversified activities including non-financial activities; and
- v) non-financial services like training and education have increasing presence in microfinance program design in Bangladesh.

These transformations have had a profound impact on the lives of the poor. Longitudinal studies in Bangladesh show that microfinance has contributed to i) creating substantial amount of full time employment; ii) increasing the intensity of financial inclusion; iii) improved productivity in microenterprises, iv) accumulation of assets, and iv) sustained reduction in poverty

When an intervention positively affects the economic lives of close to half of a country’s population, there is a good a priori reason to believe that it will have a positive effect on the overall economy as well.

[167] Source of information from point 1-7: The World Bank and Ministry of Finance, GoB, https://www.worldbank.org/en/news/feature/2019/04/29/social-safety-nets-in-bangladesh and https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd

[168] S. Raihan, S. R. Osmani & M. A. B.i Khalily, The Macro Impact of Microfinance in Bangladesh: A CGE Analysis

SECTION THIRTY FOUR

ROLE OF BKB AND RAKUB IN POVERTY ALLEVIATION

BKB

Bangladesh Krishi Bank (BKB) is the pioneer of agricultural credit in Bangladesh. BKB provides credit facilities for farmers, marginal farmers, extreme poor, sharecroppers and to the mass-people of Bangladesh who are the real players in making agricultural outputs and success of rural economy.

Legacy of BKB: In the year 1952 the government established a financial institute named Agricultural Development Finance Corporation` for financing the development of agriculture that started operation in 1953. Four years later, another financing organization, this time a bank namely `Agricultural Bank of Pakistan` was established by the government that started operation in 1958. In 1962, only five years after the bank was established, government merged the above two organizations to establish the "Agricultural Development Bank of Pakistan". After the independence of Bangladesh in 1971 the bank was called as Bangladesh Agricultural Development Bank.

Birth of BKB with renewed Role: Bangladesh Krishi Bank was established under the President Order No. 27 of 1973 to finance climate-dependent uncertain and risky agriculture sector by adopting the existing infrastructure and manpower of Agricultural Development Bank of Pakistan but with a modified objective. Before independence, the bank used to provide credit mainly to wealthy farmers, tea gardens and cold storages. After the independence of Bangladesh a good number of new rural branches were established and through these branches the bank started making out agricultural credit among small and medium farm holders as well.

Role of BKB in Agricultural Credit Disbursement: Bangladesh Krishi Bank (BKB) has been playing an important role in providing credit to the development of agriculture of Bangladesh. Through1038 branches of which 792 are located in rural areas Bangladesh Krishi Bank is financing to the farmers in at least 607 unions under 50 districts across rural Bangladesh[169]. The major sectors of financing by BKB are agricultural sector including farming, fisheries projects, poultry projects, poultry hatchery, etc. The bank is also financing for salt cultivation and agro-processing industries such as: rice mill, food processing and storages such as: food storage, cold storage, ice plant, fish freezing plant etc. The bank also provides credit for marketing of agricultural produces and rural income regenerating activities.

Functions of BKB: Though Bangladesh Krishi Bank is a specialized bank for the agricultural sectors it also operates normal banking like other commercial banks. In conjunction with its prime function of disbursing agriculture credit BKB is also involved in foreign exchange business, trade and investment finance, agro-based project financing, providing running capital to retail, wholesale and SMEs, microcredit and poverty alleviation activities.
BKB provides credit facilities to individual and corporate bodies engaged in crop production, horticulture, forestry and fisheries. It also offers financial and technical assistance to agro-based and cottage industries. Its charter requires the bank to act on commercial considerations but with due regard to the development of agriculture, and agro-based and other related industries in rural and urban areas. Under the provisions of its charter, BKB is supposed to give preference to the credit needs of small farmers and other disadvantaged groups. BKB, therefore, has to fulfill both social and economic objectives.

The bank offers short, medium, and long-term financing for production, processing, warehousing and marketing of agriculture and agro-based industrial products. Loan terms are determined by the purpose

[169] BKB Website: https://www.krishibank.org.bd/bkb-at-a-glance/

for which it is given, the gestation period, and income generating capacity. The bank provides short-term loans generally for seasonal agricultural production activities. The medium-term loans are sanctioned for acquisition of farm machinery, low lift pumps, hand pumps, agricultural implements, bullocks, carts, goats, dairy, poultry, and draft animals, transportation facilities for agricultural produces, and related development activities. Long-term loans are advanced for capital expenditures including purchase of tractors, power tillers and shallow tube wells, construction of ice plants, establishment of agro-based industries, extension of tea gardens or investment in horticulture, forestry and fisheries. Amortisation period for short-term loan is 18 months, for medium-term loans up to 5 years and for long-term loans over 5 years.

Apart from the above areas, BKB provides about Tk 14 billion annually in financing numerous projects and special programmes such as the Special Agricultural Credit Programme, and in helping contract growers of BADC, funding schemes of potato cultivation and preservation, tea plantation, and installation of hand pumps, shallow and deep tube wells, the Rural Finance Experiment Project, projects in dairy farming, poultry, fisheries, aquaculture and livestock, loans for production and marketing of tobacco, banana and cotton, the Betagi Community Forest Project, Swanirvar Bangladesh, and financing self-employment schemes of educated unemployed youths

BKB prepares annual work plan with a mission and vision to attain self-sufficiency in food through development of agriculture, producing import substitute agro products, meeting the growing demands for agricultural credit, and identifying appropriate areas for agricultural development projects to attain sustainable growth in the sector.

Agricultural Credit Disbursement Procedure by BKB: All banks in Bangladesh are supposed to follow the simplified procedures in agricultural credit disbursement as delineated in ACP by BB. Farmers have to apply for agricultural credit in a prescribed form. Any agricultural credit customer of the bank can identify the applicant. Banker may also identify the farmers based on their national identity card and agricultural inputs assistance card. Agricultural credit is allowed based in crop hypothecation, personal guarantee and against collaterals. Under the financial inclusion program, the bank opened no-frill account of over 35 lakh farmers by depositing only taka 10 each. Farmers may receive agricultural credit through these accounts.

Poverty alleviation and Micro-credit Programs/Projects: In consideration of the importance of Micro-Credit and with the objective of generating employment as well as encouraging social development BKB has undertaken several Micro-Credit programs of its own and also in collaboration with local and foreign agencies. The programs have been designed to cover all segments of poor population whether skilled or unskilled such as small and marginal farmers, landless labourers, destitute women, disabled, unemployed youth and rural artisans etc. About 1417047 beneficiaries have been provided with Tk. 14469.90 million since its inception (According to BKB website)[170].

BKB`s going Micro-Credit Programs under poverty alleviation are mentioned below:

- Credit program for the landless and Marginal Farmers:
- Beef fattening Joint Program:
- Swanirvar Credit Program:
- Small Farmers & landless Labourers Development Project (SFDP):
- South Asia Poverty Alleviation Program:
- United Nations Capital Development Fund(UNCDF):
- Rural Women Employment Creation Project ADB Loan No 1067 BAN(SF):
- BKB-NGO Micro Credit Program:
- Credit Under National Poverty Alleviation Program through Goat Rearing:
- Milching Cow Credit Program for the Women:
- Special Micro Credit Program for the Disabled:

[170] https://www.krishibank.org.bd/core-business/credit/proverty-alleviation-mcp/

- Monipuri Small Traders Credit Program:
- Special Credit Program for the Rakhains under the district of Cox`s Bazar:
- Tree Plantation Programs: In 2002 and 2003 BKB has launched 8 Tree Plantation Programs-viz:
- Establishment of Breeding Farm of Black Bengal Goat Program:
- Community Based Resource Management Project:
- Poverty Alleviation through Production and Improvement of Sheep:

Performance of BKB: Studies found that although the percentage of borrowers in the small farm category (0.05-2.5 acres) from BKB has the increasing tendency, but their share in loan disbursed has the declining tendency implying that average size of their loan is being lowered. The reverse is true for the large size category (12.5-33.0 acre).The proportion of loan of large size (over Tk. 20000) usually given to the large farmers has been substantiated by the evidence that the share of large borrowings (above Tk.20000) in BKB loan operation was only 2.5% in 1976 which rose to 36.5% in 1980-81[171].

Limitations of BKB:

a. Getting loan from Bangladesh Krishi Bank requires time. According to the Agricultural and Rural Credit Policy of Bangladesh Bank, maximum time that a bank can take upto 10 working days for processing a loan application in agricultural purpose. However, BKB often take more time due to several reasons including insufficient papers submitted by applicant. On the other hand, farmers often go to the BKB when he needs credit within a few days. Banks usually cannot process loan application that fast and the crop season is expired.

b. Bangladesh Krishi Bank has limited number of branches compared to needs. Moreover, during a crop season, demand for loan increases. When a good number of farmers approach to the bank branch for loan, the banker usually prefers the forms to be filled in by unofficially designated third party for saving time. This unofficial arrangement creates scope of corruption.

c. The credit officers in BKB are quite often not sufficiently equipped with training and logistic support. They may have knowledge of banking but have limitations about knowledge about the projects. The farmers also cannot properly communicate to the banks about their needs and cannot provide sufficient papers and documents. On the other hand, due to scarcity of human resources it is not often practicable to visit all the farm holdings by the branch officials. Thus information symmetry is created that remains chronic over years together. The information asymmetry created moral hazards and increases chances of loan defaults.

d. Though interest rate is generally significantly low in institutional sources compared to non institutional sources it often has some related costs. The farmer has to pay on his own for the transportation cost to and from the bank. Often the farmer has to visit the branch a number of times and wait for long hours causing him to employ extra labour in the farm holding.

e. Sometimes there are allegations of inefficiency, nepotism and corruption against the BKB officials which hinders the real farmers getting agricultural credit from BKB.

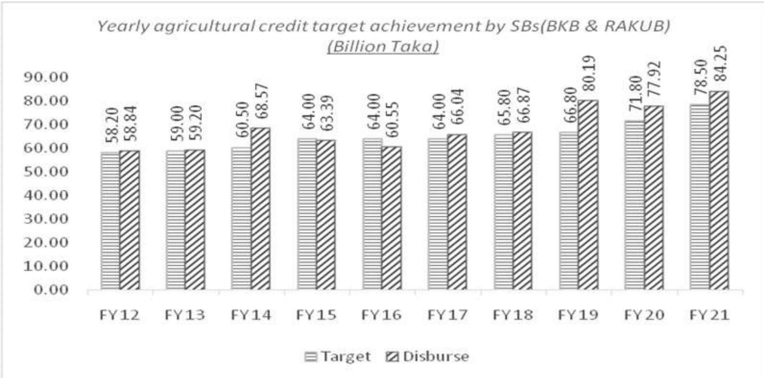
RAKUB

Rajshahi Krishu Unnayan Bank (RAKUB) was established by a Presidential Ordinance in 1986 and came into operation in 1986 by adopting 253 branch and other offices of Bangladesh Krishi Bank in the Rajshahi region along with their assets and liabilities.

[171] Saha,1985 in Alauddin and Biswas, Agricultural Credit in Bangladesh: Trends, Patterns, Problems and Growth Impacts, The Jahangirnagar Economic Review, Vol. 25, June 2014

The main purpose of establishing RAKUB was to support the agricultural development of North-eastern Bangladesh by maximum productivity utilization through providing financial support in crop production, agro-based industrial development, SME development, agro-processing industry development, socio-economic upliftment, poverty alleviation and other income generating activities.

The authorized capital of RAKUB determined by the Government is 1000 crore taka and paid-up capital of the bank at end June 2020 was 824.00 crore taka. However the bank had a capital shortfall of taka 13,420,686,292, which implies poor performance of the bank.[172]



As of end June 2020, RAKUB disbursed a total of 546.07 crore taka, through its 383 branches most of them among farmers in the Northwest region of Bangladesh.

RAKUB has different types of agricultural credit products such as:

- Farmers Credit Limit (FCL)
- Medium Term Agricultural Loan
- Agricultural Credit under green banking
- Agricultural credit to the flood/cyclone affected farmers
- Agricultural credit to freedom fighters

RAKUB is providing upto 50000 taka each as loan to farmers having no-frill account with the bank under a special refinance scheme of Bangladesh Bank for farmers having no frill accounts. Eligibility of farmers for availing this loan are:

1. Must have no-frill account opened by depositing 10 taka only.
2. Small/marginal and landless farmers and person who corresponds with agriculture as well as agricultural product yeilding and processing may apply for this credit.
3. Village/colony based small/micro entrepreneur and professionals are eligible.
4. Disaster ridden people, small/marginal/landless farmers.
5. Defaulters, borrowers of any reorganization scheme of Bangladesh Bank, borrowers of any government projects are not eligible.

Limitations of RAKUB in Agricultural Financing

- Getting loan from Bangladesh Krishi Bank requires time. According to the Agricultural and Rural Credit Policy of Bangladesh Bank, maximum time that a bank can take upto 10 working days for processing a loan application in agricultural purpose. However, BKB often take more time due to several reasons including insufficient papers submitted by applicant. On the other hand, farmers often go to the BKB when he needs credit within a few days. Banks usually cannot process loan application that fast and the crop season is expired.

- RAKUB has limited number of branches compared to needs. Moreover, during a crop season, demand for loan increases. When a good number of farmers approach to the bank branch for

[172] RAKUB Financial Statement, 2019-2020

loan, the banker usually prefers the forms to be filled in by unofficially designated third party for saving time. This unofficial arrangement creates scope of corruption.

- The credit officers in RAKUB are quite often not sufficiently equipped with training and logistic support. They may have knowledge of banking but have limitations about knowledge about the projects. The farmers also cannot properly communicate to the banks about their needs and cannot provide sufficient papers and documents. On the other hand, due to scarcity of human resources it is not often practicable to visit all the farm holdings by the branch officials. Thus information asymmetry is created that remains chronic over years together. The information asymmetry created moral hazards and increases chances of loan defaults.

- Though interest rate is generally significantly low in RAKUB compared to non institutional sources; it often has some related costs. The farmer has to pay on his own for the transportation cost to and from the bank. Often the farmer has to visit the branch a number of times and wait for long hours causing him to employ extra labour in the farm holding.

- Sometimes there are allegations of inefficiency, nepotism and corruption against the RAKUB officials which hinders the real farmers getting agricultural credit from RAKUB.

- Due to the cumulative losses, the bank does not have sufficient fund to invest and is almost solely dependent on injection of fund from the government.

- The bank does not have sufficient capacity and workforce to oversee whether the loans disbursed are truly being invested in agricultural productivity

- Sometimes there are illegal brokers surrounding BKB/RAKUB branches who tries to take bribe from poor farmers in exchange of helping them securing loan. This makes agricultural credit more expensive for the borrowers and also reduces the chances of timely repayment

Name of the Bank	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative (Up to February 2021)
Bangladesh Krishi Bank									
Disbursement	73.70	100.49	96.56	57.61	31.15	72.11	44.80	37.82	2026.25
Recovery	51.38	109.37	106.77	52.04	21.13	66.49	27.50	31.35	1776.10
% of recovery	69.72	109.84	111.00	53.17	67.83	92.20	61.38	82.89	87.65
No of Beneficiaries	28284	14919	16529	16044	7254	12080	7808	3240	1996725
***Rajshai Krishi Unnoyan Bank**									
Disbursement	39.04	38.23	24.88	12.73	25.67	22.94	22.94	2051.67	2105.11
Recovery	37.03	40.78	29.07	19.09	12.19	8.91	8.91	2142.40	1958.60
% of recovery	94.85	106.67	101.00	82.00	48.00	39.00	39.00	93	78
No of Beneficiaries	12602	10480	3832	6695	6253	3930	3930	143168	129074

Bangladesh Krishi Bank (BKB) and the Rajshahi Krishi Unnayan Bank (RAKUB) are both developmental as well as commercial banks. BKB and RAKUB have relatively better branch network in the rural areas of Bangladesh. The two banks have wide branch network across Bangladesh compared to other banks. BKB and RAKUB disbursed taka 61.97 billion and taka 15.95 billion respectively in FY 2020. It may be mentioned that BKB exceeded their disbursement target by 12.67% in the same fiscal year.[173]

[173] Bangladesh Baqnk Annual Report, 2020-21

SECTION THIRTY FIVE

ROLE OF GB, BRAC, ASA, PROSHIKA, PKSF & BRDB IN POVERTY ALLEVIATION

Grameen Bank, is a rural nonscheduled bank in Bangladesh that has earned fame as a bank for the poor. The bank along with its founder Professor Muhammad Yunus won Noble Prize for peace in 2006 for for their work to “create economic and social development from below”.

Historical Background: Grameen Bank was established as an autonomous body through a Presidential Order namely the Grameen Bank Ordinance, 1983. The “Jobra Landless Society” in Chittagong was established in Chittagong in 1976 by Professor Muhammad Yunus is considered as the embryo of Grameen Bank. The success of Jobra Landless Society drew public attention during 1977-1978[174]. Following its success “Grameen Bank Project” was initiated by Bangladesh Bank in 1979 in Tangail district with Professor Yunus being the Project Director.[175] In 1982 International Fund for Agricultural Development came forward to fund the Grameen Bank Project and finally, in 1983, the project was formalized as a “Bank”.

Vision and Mission: Vision of Grameen Bank according to its website is `Banking for the poor’ and the mission statement of Grameen Bank is: By providing comprehensive financial services, empowering the poor to realize their potential and break out of the vicious cycle of poverty.

Functions of Grameen Bank: According to Section 19 of the Grameen Bank Ordinance, 1983 ‘the Bank shall provide credit with or without collateral security, in cash or in kind, for such term and subject to such conditions as may be prescribed, to landless persons for all types of economic activities including housing, but excluding business in foreign exchange transaction’. Though the law was repealed as Grameen Bank Act, 2013 came into being. However the core function remained almost the same.

The mandated functions of Grameen Bank vs Bangladesh Krishi Bank: The stated function of Grameen Bank is more or less similar compared to other traditional banks; though there are operational differences and differences in approaches. A traditional commercial banks provide credit with or without collateral, the Grameen Bank is supposed to do the same. Grameen Bank however is restricted from doing foreign exchange business; unlike traditional commercial banks. But Grameen Bank was not alone facing this restriction. Bangladesh Krishi Bank also faced similar restriction; at least initially.

A comparison between Bangladesh Krishi Bank and Grameen Bank is relevant in the sense that they both are treated as developmental bank. While BKB was fully state owned, government had only 60% ownership of Grameen Bank. Ownership structure changes later with the stake of the government in Grameen Bank’s ownership reduced to 25%.

The function of Krishi Bank was also to ‘provide credit in cash or kind’ to agriculturists for the purpose of agriculture and to persons engaged in cottage and other allied industries in rural as well as urban areas; which apparently sound very similar to that of Grameen Bank. But there are differences in approaches. While traditional banks wanted customers to be credit worthy; Grameen Bank wanted to be borrower worthy. While customers are supposed to visit banks for borrowing money, Grameen Bank went to people with money to lend. While traditional banks wanted lands to be mortgaged in favor of bank as a security to the loan; Grameen Bank targeted the landless as their borrower[176]. In the recent years Bangladesh Bank, the regulatory authority of banks, have advised banks to provide agricultural credit; but it cannot change the mindset of bankers. Bangladesh Krishi Bank for example ‘scrutinizes’ the title

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[174] Lila Rashid, Institutionalizing Microfinance in Bangladesh

[175] Lila Rashid, Institutionalizing Microfinance in Bangladesh (Page.63-67)

[176] Based on information found in the websites of Grameen Bank and BKB

deeds of land ownership though according to the bank's website, though it does not take land collateral for small farm holding.

Activities of Grameen Bank: Main activity of Grameen Bank is its microcredit program. However, social intermediation is also there in the process of borrower selection and training and awareness programs. Grameen Bank Sixteen Decisions (kind of oath) to inculcate common values that would guide them as members of Grameen in their day-to-day lives and help their families move out of poverty[177]. They are as follows:

17. We shall follow and advance the four principles of Grameen Bank—Discipline, Unity, Courage and Hard Work—in all walks of our lives.
18. We shall bring prosperity to our families.
19. We shall not live in dilapidated houses. We shall repair our houses and work toward constructing new houses at the soonest.
20. We shall grow vegetables all year. We shall eat plenty of them and sell the surplus.
21. During the planting seasons, we shall plant as many seedlings as possible.
22. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
23. We shall educate our children and ensure we can earn enough to pay for their education.
24. We shall always keep our children and the environment clean.
25. We shall build and use pit-latrines.
26. We shall drink arsenic-free tube well water. If it is not available, we shall boil water or use alum.
27. We shall not take any dowry when our sons marry, nor shall we give any dowry when our daughters marry. We shall keep our Center free from the curse of dowry. We shall not practice child marriage.
28. We shall not inflict any injustice on anyone, nor shall we allow anyone to do so.
29. We shall collectively undertake bigger investments for higher incomes.
30. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
31. If we come to know of any breach of discipline in any Center, we shall all go there and help restore discipline.
32. We shall take part in all social activities collectively.

The loans are provided for activities identified and selected by each member, and members are expected to guide one another. There are several hundred activities that the Grameen Bank finances for. Member selections are discussed at group meetings and at meetings of centers, typically composed of five to eight group sand led by an elected center chairperson and secretary. Each center is assisted by a Grameen Bank employee, who visits several times on a weekly basis. The group chooses meeting discussion sand transactions by consensus, and every member is required to attend all group and center meetings. Center chiefs and group chairpersons, each selected among group members jointly monitor loan utilization on a daily basis. These elected office holders are not given any remuneration for organizing the group and center activities. Loan use is also monitored at the outset by Grameen Bank staff.[178]

As of October, 2021, Grameen bank has 2,568 branches in 81,678 villages across Bangladesh with 9.44 million members, 97 percent of whom are women. Recovery rate of Grameen Bank is also very high. Today Grameen bank is credited for bringing barriers in reaching the poor with credit in a financially viable manner.[179]

177 www.grameenfoundation.org
178 Shahidur R. Khandker, Baqui Khalily, Zahed Khan, 1995, World Bank Discussion Paper
179 Grameen Ban Website, https://grameenbank.org

Approach: It is already discussed how Grameen Banks approaches are different from traditional banks. This is however true for all MFIs, not just Grameen Bank. All MFIs take their services to the customers; rather than customers visiting their branches. No MFIs usually require collateral for upto a sizable amount of credit. However there are differences among the approaches of MFI's as well. When Grameen Bank's approaches are compared to some other contemporary MFIs such as BRAC the differences would be more vivid.

Approaches of Grameen Bank vs BRAC: Grammen Bank's approach is rather minimalist as opposed the comprehensive approach of BRAC's[180]. BRAC started as a relief organization in 1972 with its name elaborated as 'Bangladesh Rehabilitation Assistance Committee' and later renamed as the 'Bangladesh Rural Advancement Committee' as the organization wanted to be more than a relief organization and decided to extend its services. Later, BRAC increased its attention towards education and skill training and eventually micro-credit was also added as one of the major pillars of BRAC's programme. Grameen Bank, on the other hand, started from a rather 'minimalist' philosophy. Its founder, Professor Mohammad Yunus, believed that the situation of the poor could be improved purely through the provision of micro-credit. Nevertheless, throughout the years Grameen Bank has added some training and education to its programme. The approach however is still not as comprehensive as BRAC's[181].

Success of Grameen Bank: Over the years Grameen Bank along with other contemporary MFIs have proven that profitable and sustainable financial intermediation is possible with the poor[182], who are otherwise excluded from the formal credit system because of lack of collateral, and poverty reduction is possible through targeted credit.

The Success of Grameen Bank came by introducing the following critical steps[183]:

i. Target the poor people, mainly women who bear the burden of poverty. This has been made operational by accepting members/clients who own less than 0.5 acre of land (functionally landless). Women as clients are also found to repay loans on time, invest monies for productive purposes and spend income to improve the quality of life of family members.

ii. Loans are collateral free; but to ensure repayment poor women are organized into groups. Groups of 5 persons are formed and 30-50 members form a Kendra/centre, which is the organizational structure in a para/village where grameen bank staff visits to make transactions.

iii. Loans are small that is manageable by the poor and repayment are also small collected in weekly installments.

iv. Instead of coming to the bank the approach takes financial service at the door of the poor; Bank's staff members collect supervise and take care of all management tasks similar to any commercial bank. One big advantage of choosing female customers is that the poor women stays at home most of the time and are therefore easily accessible and traceable by the MFI officials.

v. Procedures for loan applications and administrative steps have been simplified to suit the poor.

vi. All financial transactions are made in public to eliminate any possibility of corruption.

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[180] Patrick Develtere & An Huybrechts, 2002, Evidence on the social and economic impact of Grameen Bank and BRAC on the poor in Bangladesh

[181] Patrick Develtere & An Huybrechts, 2002, Evidence on the social and economic impact of Grameen Bank and BRAC on the poor in Bangladesh

[182] Poverty Reduction Strategy: The Grameen Bank Experience, https://www.gdrc.org/icm/grameenbank.html

[183] Dewan A. H. Alamgir, https://inm.org.bd/wp-content/themes/inm/pdf/Bangladesh.pdf

vii. Experience shows that loan money is usually invested in commonly available activities such as livestock rearing, trading, agriculture production and small processing operations such as Chira,muri, etc.

Impact of Grameen Bank: Numerous studies have found social and economic upliftment of Grameen Bank beneficiaries compared to other control groups.

a) Studies found that the incomes of Grameen members increased significantly compared to control groups in villages where Grameen Bank has no operation and to nonmember control groups in the same village.[184]

b) Grameen members are also able to rely more on savings and their own funds to cope with crises rather than to borrow from moneylenders.

c) Female clients have increased household consumption for the family.

d) The children of Grameen borrowers compared to children of non-members show higher levels of schooling. For instance, almost all girls in Grameen households have had some schooling.

e) Grameen clients show a higher rate of contraceptive use than non-clients This has been attributed to clients' increased awareness of contraceptive programs.[185]

Limitations and Criticisms of Grameen Bank

Despite all the success story; there are criticisms against Grameen Bank as well. Some of the Some of the criticisms found in empirical studies as well as in the media reports are mentioned below:

- It is often alleged that some Grameen Bank recovery officers had been very harsh and sold household items of borrowers to recover loan.

- Despite the fact Grameen Bank has long prided itself on maintaining repayment rates, which are considerably higher than those of mainstream lenders. In recent years, however, the accuracy of these figures has been disputed and critics have argued that the bank's repayment rate has been declining and is in fact lower than 98%. Pearl and Phillips, for instance, have criticized the Grameen Bank's financial reporting procedures and suggested that recent repayment problems are being masked by non-standard accounting practices and Grameen would be showing steep losses if the bank followed the accounting practices recommended.[186]

- Some latest annual reports of Grameen Bank shows increased delinquency of borrowers. Percentage of borrowers that missed consecutive five installments have increased recently which had been less than 0.5% few years ago[187].

[184] Patrick Develtere & An Huybrechts, 2002, Evidence on the social and economic impact of Grameen Bank and BRAC on the poor in Bangladesh

185 Patrick Develtere & An Huybrechts, 2002, Evidence on the social and economic impact of Grameen Bank and BRAC on the poor in Bangladesh

186 Daniel Pearl and Michael M. Phillips, Grameen Bank, Which Pioneered Loans For the Poor, Has Hit a Repayment Snag, The Wall Street Journal, Nov. 27, 2001, https://www.wsj.com/articles/SB1006810274155982080

[187] Grameen Bank Annual Reports

- Although the definition of repayment rate varies widely over microfinance institutions, in the microfinance industry 30 days is a common breakpoint marking when a loan becomes delinquent; hence, Portfolio at Risk (PAR) 30 is considered to be a standard international measures of portfolio quality since it measures the portion of a portfolio which is deemed at risk because payments are more than 30 days past due. There has been a rise in delinquency for the Grameen Bank's core credit product, the basic loan, and for its flexible loans since 2002 due to the fact that there has been a rise in its Portfolio at Risk/30 days (Par 30) levels since the Grameen Bank's PAR 30 levels have remained consistently below the 5% threshold, the recent increase in PAR 30 is a red flag indicator that a repayment crisis could occur in the future if these levels are permitted to rise further[188].

- There are criticisms that the loans borrowed by the female members are not the user of the money; rather the money is appropriated by the male members of the family such as husband or son.

- Due the increased number of MFIs there is a tendency to borrow from different sources and it is often difficult for MFIs to motor the over borrowings.

- There are allegation of over borrowing from same source as well. It is often alleged that Grameen Bank reschedules loan inappropriately by simple, automatic loan rescheduling for borrowers who get into difficulty with their loans and often provide higher amount of loans only to adjust the previous loan[189]. This often questions the borrower viability of Grameen Bank meaning, whether the borrowers will still be better off once the loans are fully repaid.

- There are allegations that Grameen Bank does not provide finance to the ultra poor and they only finance the wealthier among the poor and the hardcore poor are being left out by the microfinance programs.

Conclusion: Despite all limitations and criticisms it is widely accepted that the limitations of Grameen type microcredit are overweighed by the benefits as millions of microfinance borrowers have been able to move themselves up from the poverty line.

BRAC

BRAC is one of the oldest nongovernmental organization that has been working for alleviating rural poverty in Bangladesh. BRAC was born in 1972 in response to the humanitarian need right after the independence of Bangladesh in 1971. However the organization has evolved with time and today is one of the largest microcredit provider of the country.

Mission: According to the mission statement of BRAC, it works with people whose lives are dominated by extreme poverty, illiteracy, disease and malnutrition, especially wo0men and children. The economic and social empowerment of the rural poor is the primary focus of the activities of BRAC.

Approach: BRAC sees development from a holistic approach. For BRAC, poverty is not just lack of income or employment but a complex syndrome resulted out of lack of many other attributes such as

[188] Ana Maria Moreno, 2010, Grameen Microfinance: An Evaluation of the Successes and Limitations of the Grameen Bank, https://repository.upenn.edu/cgi/viewcontent.cgi?article =1016&context=ppe_honors

189 Stuart Rutherford with Md Maniruzzaman, S K Sinha, and Acnabin & Co, http://www.microsave.net/files/pdf

health, education, gender inequality, etc. Addressing poverty therefore is not just endeavor to generate income rather it's a process of social mobilization, where income too is one component.

Activities of BRAC are therefore steered by the number of hypotheses that is summarized below:

i. Every individual irrespective of gender or financial condition is capable of improving his/her future if s/he is given the right opportunity.

ii. People are subjects and not passive objects and therefore active participation of people especially the women is essential for development process.

iii. BRAC calls itself as a 'learning organization" and there is no one size fits all approach. They believe that development process must harness the learning culture.

iv. BRAC believes that self reliance of people is the goal and conscientization is essential to empowerment.

v. BRAC has evolved by starting with small but with the belief that large is necessary. To become large, be it for entrepreneur or or organization, market perspective and entrepreneurial spirit is necessary.

Today BRAC is working in 12 countries with over taka 25019 crore microcredit outstanding (BRAC Annual Report, 2019)

While Grameen Bank was established purely from a minimalist perspective and slowly adopted limited scale of training and awareness programs; BRAC on the other hand started with relief operation then added education and health related activities and later started microfinance as another pillar in their development foundation and is working from integrated approach.

Poverty Reduction activities of BRAC: BRAC works with people whose lives are dominated by extreme poverty, illiteracy, diseases and other handicaps and strives to bring about positive change in the quality of life of these people. To reach the most disadvantaged, BRAC followed a targeted approach to work directly with women of households below the poverty line. The major BRAC programs include on credit-based income and employment generation, poultry and livestock, fisheries, sericulture, income generation for vulnerable group development, microenterprise lending assistance, human rights and legal support, and essential health care.[190]

BRAC has posted a big picture of their initiatives of poverty alleviation in the last 49 years since the inception of the organizations. Their contribution ranges from health to education, from financial inclusion through technological innovation to targeted program for upliftment of the ultra poor from poverty trap. The activities mentioned by BRAC are as follows[191]:

- Training more than 12 million households across the country to properly formulate oral rehydration solution at home to treat their children for diarrheal diseases through a network of community health workers from 1980-1990, contributing to a significant reduction in child deaths;

- Reaching millions of borrowers with affordable microfinance loans and 36 million people with digital financial services through bKash, helping contribute to Bangladesh's progress in expanding financial inclusion to nearly 66 percent of households and enabling families to manage shocks and invest in small businesses;

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190 Hadi andChowdhury,World Bank, https://web.worldbank.org/archive/website00811/WEB/PDF/BRAC.PDF

191 BRAC Website

- Reaching more than 12 million children who were excluded from the formal education system, with a focus on girls, with high-quality primary education, supporting Bangladesh's efforts to raise its primary school completion rate from less than 30% in 1981 to 98% today;

- Graduating 2 million families out of extreme poverty through BRAC's Ultra-Poor Graduation approach, which sparks lasting change by equipping women with the tools and skills to lift themselves out of extreme poverty.

Some specific activities/programs of BRAC that are targeted to reduce poverty in line with the Sustainable Development Goals (SDG) are as follows:

- Ultra-Poor Graduation (UPG)
- Integrated Development Programme (IDP)
- Community Empowerment Programme (CEP)
- Microfinance
- Disaster Management and Climate Change Programme (DMCC)
- Health, Nutrition and Population Programme (HNPP)
- Agriculture and Food Security Programme (AFSP)
- Water, Sanitation and Hygiene (WASH)
- BRAC Education Programme (BEP)
- Skills DevelopmentProgramme (SDP)
- Gender, Justice, and Diversity Programme (GJD)
- Migration Programme
- Human Rights and Legal Services (HRLS)

The SDGs on which BRAC will have direct impact on are discussed below:

SDG 1: No poverty: Despite significant reduction in the number of poor people, 12.9% of the people of Bangladesh are still living in extreme poverty. In the wetland areas (Haor), 3 out of every 10 people live below the lower poverty line. BRAC's work with the ultra-poor through the Urtapoor Graduation Program (UPG) has drawn particular attention both nationally and globally. ThroughUPG programme in Bangladesh BRAC has worked towards lifting 2 million poor above the international poverty line by 2020.

BRAC's Microfinance Programme has been instrumental in reducing the financial constraints and vulnerabilities associated with poverty. It had a powerful impact on promoting gender equality and empowering women, by supporting women led microenterprises, and providing platforms for women to gather and exchange information about social issues via the village organization. .

The BRAC Humanitarian Programme (BHP), formerly known as Disaster Management and Climate Change (DMCC) Programme, will lead BRAC's venture to address SDG 13 (climate action). It will also help achieve target 1.5 under SDG 1 which aims to build resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters. BHP provides support to district level governance bodies in selected climate vulnerable districts for planning and taking actions to respond to disasters towards disaster risk reduction. The programme sets a target of having more than 10% vulnerable households (amounting to around 543,000 vulnerable Households), as well as their communities and local governments in selected 14 districts adopt BRAC designed and locally compatible resilience packages to mitigate and cope with climate change challenges. BRAC designed an integrated approach to address the needs of 83,146 affected HHs from 2016-2018. We adopted the standard operating procedure (SOP) aligned with the national and local government strategies. This is at work in the district level contingency plan and Humanitarian and Disaster Risk Reduction Strategy as mentioned in SDG 1.5.3.[192]

SDG 2: Zero hunger: BRAC contributed to achieving SDG 2 (zero hunger) through 5 of its core programmes: Health, Nutrition and Population Programme (HNPP), Ultra-Poor Graduation Programme (UPGP), Agriculture and Food Security Programme (AFSP), Integrated Development Programme (IDP), and Water, Sanitation and Hygiene Programme (WASH).

SDG 3: Good health and well-being: In the context of SDG 3 (Good health and well-being), BRAC's works align with 9 of the 21 core indicators, spread over the 7 core targets under this goal. Three of BRAC's programmes are directly associated with these targets – HNPP, IDP, and WASH – while Aarong, a BRAC social enterprise, also has contributions.

SDG 4: Quality education: In alignment with SDG 4 (Quality Education), BRAC's Education Programme (BEP) has set its strategic plan for 2016-2020. As many as 7 of the 8 core indicators across 8 targets under SDG 4 are directly linked with BRAC's work. BEP, SDP, and IDP will be implementing BRAC's agenda for achieving quality education.

SDG 5: Gender Equality: BRAC provides a platform for 1.6 million women and girls to raise their voices through grassroots institutions and platforms which aim to close the gap between communities and local governments, take collective actions against any forms of violence and child marriage. BRAC works with local governments to improve governance through institutional strengthening and gender sensitization.

SDG 6: Clean water and sanitation: In SDG 6, BRAC's work connects to 3 indicators in 2 targets. Three BRAC programmes are directly tied to SDG 6 – WASH, BEP and IDP. WASH addresses this goal directly by improving access to safe water with facility support and providing support for access to hygienic sanitation. 43,714 people accessed safe drinking water, 207,404 people gained access to hygienic toilets till 2018. BEP adopted a module involving WASH procedures for BRAC school curriculum and trains staffs and BRAC school teachers on equitable access to safe, affordable drinking water and sanitation & hygiene.

SDG 8: Decent work and economic growth: BRAC has a number of programmes and social enterprises involved in this SDG. Seven programmes (UPG, SDP, IDP, MF, Migration, UDP, and WASH) contribute to the targets. BRAC provided training for skill development among over 33 thousand people across 46 districts supported with skills training, jobs and decent work interventions. BRAC Institute of Skills Development is offering government affiliated training and certification and is offering 10 courses. Many people (around 1.5 thousand) have already joined in 350 organizations including garment industries after receiving training from BRAC.

SDG 10: Reduced inequalities: Seven of BRAC's programmes (BEP, UPG, UDP, IDP, HNPP, HRLS, and Migration) are connected to two targets under this goal. BRAC's integrated organisational agenda of Gender Equality, VAWC and child marriage prevention all relate to this goal. The urban development programme (UDP) addresses social and economic exclusion of the urban population through its services. UDP reaches out to discriminated and harassed population through awareness efforts on violence against women and children, and prevention of child marriage[193].

SDG 11: Sustainable cities and communities: BRAC's UDP will lead its agenda to achieve 4 targets under SDG. Pro-poor urban development has been set as one of the key strategic objectives of BRAC for the 2016-2020 period. BRAC has Community Development Organisations actively improving 4 critical

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[192] https://bdplatform4sdgs.net/activities-and-engagements-by-brac/

[193] BRAC's activities in line with SDGs are sourced from to https://bdplatform4sdgs.net/activities-and-engagements-by-brac/

services (education, health, financial & crisis management services) in the slums. UDP works on comprehensive fire protection, prevention and response management system in its targeted slum dweller sites. It currently targets 100,000 people as well as local governments in 17 selected cities that adopt fire management practices.

SDG 13: Climate action: BRAC adopted a climate change strategy, an environment and social safeguard framework and an environment policy. Addressing climate change impacts and humanitarian emergency response holds a major position in the strategic plan of BRAC. Seven of BRAC's core programmes would be contributing to achieve five targets under the goal of climate action (SDG 13)[194].

Some recent activities of BRAC for Poverty Alleviation[195]:

- Over 1 lakh people graduated from extreme poverty in 2020.
- 118,242 participants received cash support, hygiene materials and awareness on COVID-19. Dry rations, agriculture and livestock inputs mobilised for 117,635 participants from government and village communities
- BRAC reached 8.18 million clients in 2020 with financial services with amounts equivalent to USD 4.5 billion disbursed in loans
- Over 6.5 lakh people in hard-to-reach situations such as *haor* (wetlands) regions were supported with healthcare, telemedicine services and climate-resilient technologies by BRAC in 2020.
- Over 5.5 lakh people received awareness traing from BRAC regarding activities on safe migration, human trafficking
- In the year 2020 a total of 50,000 households received holistic emergency response support in areas affected by flood and 10,600 households received holistic emergency response support in the aftermath of Cyclone Amphan
- Over 7.4 lakh students accessed inclusive learning opportunities in BRAC schools and neuro developmental disability centres in the year 2020
- Around 1.74 million symptomatic cases were screened for Tuberculosis by BRACin the year 2020 of which 230,049 cases were diagnosed and started treatment. 1.25 million symptomatic cases were screened for malaria and 1.31 million long-lasting insecticidal nets were distributed for malaria prevention
- 9.7 million people received reproductive, maternal, neonatal, child and adolescent health, nutrition, non-communicable diseases, disability and eye care services from BRAC in 2020

Microcredit Program by BRAC at a Glance[196]

NGOs	2014	2015	2016	2017	2018	2019	2020	Cumulative (Up to December 2020)
BRAC								
Disbursemen	15190.49	19298.28	24302.78	29317.13	35562.76	43171.58	38,426.29	286,879.81
Recovery	13281.72	171134.81	21563.66	26486.85	31551.41	38956.55	33,312.71	256,753.42
Beneficiaries	5510905	5957954	5957954	6483486	7114726	7496383	8,127,942	8,127,942
Female	4876445	5188206	5188206	5633121	6165119	6163392	6,827,96	6,827,496
Male	634460	769745	769745	850365	949607	1332991	1,300,446	1,300,446

194 https://bdplatform4sdgs.net/activities-and-engagements-by-brac/
195 BRAC Website
196 Source: Bangladesh Economic Review 2021, MoF, GOB

ASA

Association for Social Advancement (ASA) is one of the oldest Non Governmental Organization in Bangladesh and is one of the largest microfinance providers in the country. The journey of ASA began in 1978 as a "people's organization" with the motto of social mobilization against exploitation. However, in 1984 ASA saw itself shifting as it found its focus as a "family organization". The central to this idea is recognition of family as a social unit for development by involving both women and men[197].

Post independent Bangladesh called for relief and reconstruction giving birth to several nongovernmental voluntary organizations popularly known as NGOs. Most of the NGOs that came into being with an array of activities including microcredit were fully or mostly reliant on foreign grants and donations in performing developmental activities.

ASA came into operation rather late compared to BRAC and some other predecessors but was among the pioneers to realize the importance of 'self reliance' not just for the beneficiaries but for the organizations working with them. ASA is unique in the sense that it merged financial sustainability and empowerment of the poor through financial and social developmental services.

With the beginning of the 21st century as many NGOs that were working in the microcredit arena based on donor funding found it difficult to sustain as foreign donations were waning off from Bangladesh and focusing more in Africa, ASA stool tall as one of the largest financially sustainable NGOs.

The activities of ASA focuses on income generating activities with often involves both the male and female members of the family. Typically the income generating activities of ASA centre around agriculture related and easy to handle entrepreneurships. Paddy husking and puffed rice production are two signature projects of ASA.

Puffed rice is a product of great demand among almost all age group of people in urban as well as rural Bangladesh. The borrowers of ASA involved in puffed rice project usually goes to the market usually twice a week 40 weeks per year to conduct business. Cash is accumulated at roughly 4% per week of the invested amount after paying for all relevant cost and miscellaneous family expenditure. Through this process, AK Aminur Rashid writes[198], the initial and subsequent investments turn over makes considerable profit leading t9o a relatively stable and long term economic position for the investor while the economic condition of the family also improves after meeting family expenditure.

Salient Features of ASA Model[199]

- Self-explanatory written working manual
- Decentralization and delegation of authority to the branch level officials and participatory process in decision making
- Specialization in microfinance and rapid expansion policy
- Transparent and faster recruitment
- On-the-job training approach (Each one teach one method)
- Simple and cost-effective branch structure without a professional accountant
- Simple and least hierarchical organization
- Continuous onsite and offsite monitoring and supervision from both central and field levels

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[197] ASA Website and Who Needs Credit, 1997 by Geoffrey D Wood and Iffat Sharif, (Chapter 7)
[198] Who Needs Credit, 1997 by Geoffrey D Wood and Iffat Sharif, (Chapter 7)
[199] ASA Website

- Simple and transparent accounting and record- keeping system based on formats
- Cost-effective culture practiced from top to bottom
- Diversified loan products to meet clients' demand
- Simple and shorter loan processing
- No collateral for providing loans
- Loan disbursement within 07 (seven) days of membership
- Savings (short and long term) and Loan Insurance for the clients
- No group guarantee required for providing loan
- No compulsion to remain present in the group meetings
- Education loan for members' children
- Opportunity to withdraw savings at any time
- Special loan for natural disaster affected areas

Programs for Poverty Alleviation

Microfinance Program: ASA Microfinance Program began in 1991, after an era of its inception has emerged as one of the most efficient model in the realm of global microfinance for the elegances--innovation, scale, sustainability, and management efficiency. Under the program nearly seven million people of Bangladesh were brought under web of financial. On an average, ASA disburses micro loans, medium sized loans amounting nearly BDT. 300 billion (USD. 3.5 billion) each year among the clientele in Bangladesh[200].

Furthermore, it offers micro saving opportunity to the borrowers to deposit money with flexible withdrawal option which facilitated them in accumulating capital as well as shielding them from the unexpected economic disasters. At the end of 2021, the accumulated deposits of the clients amassed a formidable amount of USD 1 billion.

Micro Finance Program by ASA at a Glance[201]

*ASA								
Disbursemen	14638.57	20905.68	26958.63	29681.42	29681.42	28368.31	25,215.57	240,471.99
Recovery	11795.32	17650.08	23515.37	28953.34	28953.34	29,104.35	24,262.06	226,650.51
Beneficiaries	6902024	7686255	7839119	7577355	7577355	6,828,698	6,766,906	6,955,551
Female	6319502	7033521	7171271	6930474	6930474	6,235,926	6,143,657	6,306,804
Male	582522	652734	667848	646881	646881	592,772	623,249	648,747

Health Program: ASA Health Program caters healthcare services to thousands of underprivileged and under-cared people of Bangladesh predominately living in backward and remote areas. Under the program four Integrated Health Centers and 21 Primary Health Centers have established in various remote places are delivering health services. During 2021, Health Program of ASA provided healthcare service to 150,000 patients.

Education Program: Education Program of ASA assists the students of pre-primary, grade-1 and grade-2 belonging to the low-income households to perform better in classes and in school exams with an aim

[200] ASA Website

[201] Source: Bangladesh Economic Review, 2021, MoF, GoB

to curb dropout from the primary school. This program currently provides tuition assistance to 4,00,000 underprivileged children predominantly living in rural areas across Bangladesh[202].

Sanitation Program: ASA Sanitation Program facilitates poor households predominantly in rural areas for installing Offset sanitary toilet by providing soft loans and consultation. Besides, under the program training sessions are arranged to impart latest knowledge to the masons, sanitary entrepreneurs and vendors so that they could be able to develop low-cost and easy-to-build hygienic offset sanitary toilets.

PROSHIKA

Proshika came into being in 1976 with a vision of human development through participatory approach. With an objective to contribute to rebuilding the war-ravaged country, they formed Proshika Manobik Unnayan Kendra (Proshika centre for human development) and started working in a few villages of Dhaka and Comilla districts in 1976. Proshika is an acronym of three Bangla words, proshikkhan (training), shikkha (education) and kaj (action).

Proshika's development philosophy is summed up in its mission statement as "development through empowerment of the poor". The empowerment is achieved through raising awareness and equip people with organizational and practical skills trough training and support them with necessary resources so they can work to make their own income[203].

The credit program of Proshika involves a combination of following four services:

i. Mobilization of group savings and utilization of savings
ii. Provision of matching credit from a revolving loan fund
iii. Training for capacity building and technical assistance
iv. Provision for marketing assistance where needed.

At present, Proshika operates through 200 Area Development Centres (ADCs) spread in 24,213 villages and 2,110 urban slums in 59 districts. It works with 9,26 thousand women and about 5,30 thousand men drawn from poor rural and urban households organized into 1,10,920 primary groups. From the inception of proshika to till now, over 12 million poor people both male and female have so far been rehabilitated in various income generating activities. More than 1.14 million people have attained literacy, 168 thousand got medicare services and 717 thousand children received primary education during the period with the active support of Proshika. It also extended support to plant over 10 million saplings under the country's Social Afforestation programme.[204]

Microfinance Program by Proshika at a Glance[205]

Proshika								
Disbursemen	222.42	219.51	178.02	255.75	351.18	539.52	6730.20	7441.71
Recovery	215.98	215.22	162.78	231.68	297.85	473.52	6446.21	7081.70
Beneficiaries	108590	92535	79119	110483	140471	240335	2807497	2,807,497
Female	76013	74215	53801	78443	103949	186266	1766529	1,766,529
Male	32577	18320	25318	32040	36522	54069	1040968	1,040,968

[202] ASA Website
[203] Proshika Website, https://proshikabd.com/welcome/general_body
[204] Proshika website < https://www.proshika.org> viewed on 08/7/2022.
[205] Bangladesh Economic Review 2021, MoF, GoB

PKSF[206]

Palli Karma Sahayak Foundation (PKSF) or “Rural Employment Support Foundation” was established in 1990. Since inception PKSF is working is working as an apex microfinance funding and capacity building organization. PKSF does not work directly in the field level per se; rather it works with partner organizations that work for rural poverty eradication through providing microcredit. Though the name suggests that PKSF is supposed to work in the rural areas alone, later the organization has expanded operation to urban areas as well through its partner organizations.

The main objectives of PKSF are[207]:

a) To provide financial assistance including low cost finance to nongovernment, semi-government and government organizations as well as voluntary organizations, societies and local government bodies so that they (partner organizations) can undertake activities with a view to generating income and employment among the economically disadvantaged groups in the society.

b) To assist in strengthening the institutional capacity of the partner organizations so that they can manage their program in a sustainable manner.

Funding from PKSF

PKSF is allowed by the government to mobilize funds in the form of loans, grants or contributions from a variety of sources including the government itself, private individuals and organizations, foreign governments, international donors, lending agencies and even from the capital market. IDA/ World Bank, the Asian Development Bank (ADB), the International Fund for Agricultural Development (IFAD) and the Government of Bangladesh are the main source of fund for PKSF.

Eligibility of PKSF Fund

PKSF Provide credit to three types of partner organizations:

i) Organizations Operating in Small Areas (OOSA)
ii) Big Partner Organizations Operating in Large areas (BIPOOL)
iii) Pre-PKSF Pos

PKSF funds five categories of microcredit programs:

i) Rural microcredit
ii) Urban microcredit
iii) Micro-enterprise credit
iv) Ultra poor credit and
v) Seasonal Loans.

Interest Rates:

PKSF charges a lower interest rate for smaller OOSA partners (4.5% for example) while a little bit higher interest rate from larger or BIPOOL category of partners(7% for example).

Partner Selection:

Partner selection is crucial for PKSF as the success of PKSF depends upon the capacity of their partner organizations. In general, PKSF appraise partner organizations based on their organizational capacity, management, human resources, working area, field level activities, past performance, accounting practices and management information system of the organization.

PKSF Criteria for Funding: Palli Karma Sahayak Foundation (PKSF) or “Rural Employment Support Foundation” was established in 1990. The birth of Palli Karma-Sayayak Foundation (PKSF), a wholesale funding agency for microcredit organizations, coincided with the growing need for fund. Access to seed

[206] Information collected from PKSF Website
[207] PKSF Website, https://pksf.org.bd/about-us/

fund from PKSF for microcredit operations changed the landscape of microcredit activities by facilitating rapid growth of the industry. As a funding agency, the Foundation sets some criteria and conditions in getting access to its financial resources. These standards and conditions can be argued as introduction of quasi-regulations for microcredit activities in Bangladesh. The funded organization requires meeting the following criteria[208].

- The microcredit organization needs to have a legal basis for conducting its business mandating it to operate credit program and borrow money from the government, semi-government, private and any other organizations for self-employment and income generating activities of the landless and assetless households.
- The sponsor of the organization should be socially reputable with honest intention to serve the poor people while the organization requires having a definite structure with a full time Chief Executive along with adequate number of staffs to ensure proper implementation of microcredit programme.
- The organization is needed to maintain a sound accounting system including an information system on the details of microcredit operation.
- The Organization should have at least 400 members who are landless, assetless, like-minded and organized in groups and have six months practice of regular savings deposit.
- The groups should be organized within the 10 km radius of the project office.
- The organization needs to have Taka 0.20 million outstanding loan at field level and is required to maintain a minimum loan recovery rate of 98 percent on a continuous basis.
- Furthermore, PKSF developed a number of other non-prudential guidelines for the funded organizations, which are also known as partner organizations (POs). These guidelines are as follows: (i) Guideline for Accounting; (ii) Policy for Loan Classification and Debt Management Reserve; (iii) Guidelines for Designing Internal Control System for POs or PKSF; (iv) Guidelines for Management of Savings; (v) Guidelines for Management of Service Charge Earnings; (vi) Guidelines for Avoiding Overlapping (vii) Management Information System; (viii) Guidelines for Performance Standards and Categorization of POs; (ix) Financial Ratio Analysis; (x) Policy for the Utilization of Disaster Management Fund; (xi) Business plan for POs; (xii) Guidelines for Management Audit of POs; (xiii) Guidelines for Internal Audit of POs; (xiv) Audit TOR for External Auditor of PKSF for Auditing PKSF; (xv) Audit TOR for External Auditor of PKSF for Auditing POs; (xvi) Audit TOR for Auditors appointed by POs; and (xvii) Policy for Loans for Institutional Development.

Loan Disbursement (PKSF-POs): Loan disbursement of PKSF has recorded a steady growth. Loan disbursement from PKSF to Partner Organizations (POs) increased to BDT 36.99 billion in FY 2018-19, which is 12.31% higher than the previous year (Figure 3.0). During the FY 2019-20, amount of loan disbursement from PKSF to POs is BDT 38.67 billion, which is 4.54% higher than the previous year. In current FY 2020-21 (from July to December) amount of loan disbursement from PKSF to POs is BDT 21.79 billion[209].

Loan Disbursement (POs-Borrowers): Loan disbursement from POs to Borrowers stood at BDT 511.58 billion by FY 2018-19, which is 14.21 percent higher than the previous year. During the FY 2019-20, amount of loan disbursement from POs to Borrowers is BDT 471.62 billion, which is 7.81% Lower than the previous year. In current FY 2019-20 (July to December) amount of loan disbursement from POs to borrowers is BDT 273.69 billion[210].

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[208] Md. Kabir Ahmed, 2013, Regulation and Supervision of MFIs in Bangladesh

[209] PKSF Website: https://pksf.org.bd/lending-activities/

[210] PKSF Website: https://pksf.org.bd/lending-activities/

BRDB

The legacy of BRDB is closely related to the Cumilla model (see Module B for detail about the Cumilla Model. Until 1970, Comilla model for rural development was piloted in 20 police stations of Comilla district and 3 police stations outside the district. After Bangladesh achieved independence through the liberation war in 1971, the two-tier cooperative structure of the Comilla model was undertaken as a rural development program at the national level with the aim of building a war-torn country. Since then, the journey of Integrated Rural Development Program i.e. IRDP started. After a series of transformation and retransformation, the Government of Bangladesh converted the IRDP into a Board in 1982 through an Ordinance now known as the Bangladesh Rural Development Board (BRDB)[211].

Poverty Alleviation Program of BRDB: Poverty alleviation through the development of the rural economy is one of the pledges in the present government. To achieve this goal, Bangladesh Rural Development Board (BRDB) is working in the rural development programme. BRDB has been successfully implementing 118 projects/ programmes. At present (FY 2020-21), BRDB is operating 5 ADP listed projects/ programmes regarding poverty alleviation and social empowerment. These are[212]:

a) Participatory Rural Development Project-3,
b) Employment Guarantees Scheme for the Poor of Northern Region (UDKONIK)-2nd phase;
c) Comprehensive Village Development Programme;
d) Poverty Reduction through high valued nutritious Minor Crops production and Marketing programme and
e) Gaibanda Integrated Rural Poverty Alleviation Project.

In addition, BRDB implements different projects/programmes related to poverty reduction, women empowerment and microcredit through its own fund.

Ministry /Division	Department/ Division	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative progress (up to February 2021)
Rural Development & Cooperative Division	BRDB									
	Disbursement	815.03	884.54	985.88	1065.73	1173.52	1252.26	1282.41	1055.31	18561.08
	Recovery	789.64	816.80	910.42	999.48	1106.12	1138.80	1241.32	1000.74	16966.18
	Rate (%)	94.00	92.00	92.00	73.00	94.00	75.00	75%	67%	97%

Rural Livelihood Project (RLP), Rural Poverty Alleviation Program (RPAP), Palli Pragati Prokalpa (PPP), Integrated Poverty Alleviation Program (IPAP), Production and Employment Project (PEP), Self Employment Project for the Poor Women (DOMAK) are some of the major programs undertaken by BRDB. An regarding the above programs of BRDF finds that the number of enrolment in all the programs of BRDB is significantly decreasing except for the self employment project for poor women (DOMAK)[213]

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211 Source: BRDB Website, http://www.brdb.gov.bd/site/page/684286ee-1578-44f8-af1a-a09751a114b9/-
212 Source: Bangladesh Economic Review, Ministry of Finance, GoB https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/f2d8fabb_29c1_423a_9d37_cdb500260002/22.%20Chapter-13%20Eng-21.pdf
213 https://www.researchgate.net/publication/327545974_Analyzing_the_Performance_of_Poverty_Alleviation_Programs

Up to February 2021, BRDB cumulatively disbursed Tk. 18,561.08 crore. On the contrary, a total of Tk. 16,966.18 crore has been recovered at the same period.[214] While a large portion of the funds being utilized bt BRDB have been provided by the government as well as some donor agencies, a 2010 study by the Bangladesh Institute of Research and Development (BIDS) finds BRDB's contribution through all its programs to GDP at 1.93%.[215]

[214] Source: Bangladesh Economic Review, Ministry of Finance, GoB https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/f2d8fabb_29c1_423a_9d37_cdb500260002/22.%20Chapter-13%20Eng-21.pdf

[215] BRDB Website: http://www.brdb.gov.bd/site/page/684286ee-1578-44f8-af1a-a09751a114b9/-

Chapter Six
Performance Assessment of SBs and MFIs

Module F: Performance Assessment of SBs and MFIs: Repayment Rates, Financial Viability, Profitability, Leverage and Capital Adequacy, Borrowers Viability and Poverty Alleviation.

SECTION THIRTY SIX

REPAYMENT RATES: CALCULATIONS AND LIMITATIONS

Repayment rate is a ratio of the amount of payments received with respect to amount due. Repayment rate measures the historical rate of loan recovery for a particular loan or a portfolio of a financial intermediary. Repayment rate is a very useful measurement tool used by banks, MFIs and donors. Given that repayment rate is calculated correctly in a consistent manner; it is a good measure for monitoring repayment performance measure over time. It is also useful in projecting future cash flows based on the historical repayment behavior of a particular borrower or a homogeneous cluster of borrowers.

Limitations of Repayment Rate: Banks and MFIs should not use repayment rate to indicate the current quality of their outstanding portfolio. The Microfinance Handbook by the World Bank discourages MFIs for using repayment rates as an external indicator of success as a comparative measure with other organization. Some limitations of repayment rate are discussed below:

a) Though repayment rate in general is a very useful measurement tool, one needs to be cautious about using and interpreting repayment rates. Because repayment rate does not indicate the quality of a loan portfolio and it simply measures the historical rate of loan recovery.

b) There are many variations used to calculate repayment rates which make it difficult to use it as an indicator of success. For example if an MFI measures the repayment rate based on loans made in a certain period say the previous month – the repayment rate may be very high even though the number of loans and the portfolio at risk in the total outstanding portfolio may also be high but are not included simply because they are loans from previous months.

c) Some MFIs may calculate the repayment rate based on the amount disbursed, while others may calculate it based on amount still outstanding.

d) There are several measures of calculating repayment rate.
For example, one MFI may calculate it as:
i) Repayment rate = Amount received (including prepayments and past due amounts/Amount due (excluding past due amounts)

This formula overstates the amount received by the repayments and the amount receives on past due loans as it does not include past due amount in the denominator. In this method repayment rates can sometimes be greater than 100%. So, clearly this formula does not provide useful information about the ongoing performance of the portfolio and should not be used at all.

Another MFI may calculate it as:
ii) One time Repayment Rate=Collection of current accounts due less payments/Total current amount due

Another way of calculation might be as:
iii) Repayment Rate including past due amount =Collection on account amounts due plus past due less prepayments/Total current amounts due plus past due amounts.

The formulas ii and iii remove the effects of prepayments and show the actual rate of payments receives against expected payments either on time or taking into account past due amounts.

Case Study 12
Project Dungganon: Touting with Repayment Rates[216]

[216] Ledgerwood, 1999, Microfinance Handbook, The World Bank

Project Dungganon was created in October 1989 by the Negros Women for Tomorrow Foundation. It has been one of the most active Grameen Bank replicators in the Philippines. As of April 1995 there were 5953 active borrowers. Total loans outstanding were 4.4 million pesos (USD 174,000) and total savings collected in the Group Fund was 3.3 million pesos.

Project Dungganon was showing a historically recorded repayment rates ranging from 95% to 99%, calculated by dividing the amount received by the amount expected each month. This method of repayment calculation does not include any past due loan amounts in the denominator and does include repayments in the numerator. However, when further analysis of Dungganon portfolio was completed, it was found that 32% or 1.5 million pesos (USD 58,000) of the total outstanding loans in April 1995 was in arrears, the majority of them for more than two years.

Because the focus had been on the high repayment rate, the Project Dungganon was touted as one of the most successful Grameen replicators. In fact, if it had continued to operate with such poor loan portfolio quality, it would eventually gone out of business.

In April 1995 Project Dungganon began calculating portfolio quality ratios, realized its portfolio quality was poor, and implemented high effective delinquency management techniques. As of 1997 Dungganon reported a portfolio risk of 16% over 30 days but yet continued to report repayment rate of 99.4%. In June 1997 it wrote of 5% of its portfolio. [Source: Ledgerwood 1995 and discussion with Briget Helms, CGAP, World Bank.]

SECTION THIRTY SEVEN

FINANCIAL VIABILITY

Financial viability refers to an organization's ability to generate sufficient income to meet operating payments, debt commitments and to allow growth while maintaining the current service level.

Financial viability can be seen from organizational as well as from a particular financing perspective. To see from the organizational perspectives, an MFI cannot rely on donor funding to subsidize its operations. To determine financial viability an operation has to be self sufficient. Two levels of self sufficiency are calculated to measure financial viability of a MFI: i) operational self sufficiency and ii) Financial self-sufficiency.

When the assets of an MFI are invested to put to productive use; revenue is generated. Expenses need to be incurred to earn that revenue. Expenses incurred by a financial intermediary can be separated into four groups: financing costs, loan loss provisions, operating expenses and the cost of capital.

To determine financial viability, the revenue earned is compared with the expenses incurred. If revenue is greater than expenses, the MFI is self sufficient. Only operating revenue from credit and savings operations should be considered when determining financial viability or self sufficiency.

Operational self sufficiency may be calculated in two different ways for MFIs:

Firstly, operational self sufficiency is the ratio of operating income divided by operating expenses, financing cost and provision for loan losses in combined. Operational self sufficiency thus indicates whether or not enough revenue has been earned to cover the direct cost excluding cost of capital but including any actual financial costs incurred.[217]

On the contrary, some MFIs are accessing commercial funding sources (for example: from commercial banks) and there is another argument that MFIs should not be punished for such commercial borrowing. The advocates for such arguments prefer to calculate Operational self sufficiency in a second method, by diving Operating Income by the total of operating expense and provision for loan losses.

Many MFIs in Bangladesh had been engaged in microcredit operation much before they came under the umbrella of Microcredit Regulatory Authority (MRA). Many of the MFIs used to perform their microcredit operation with subsidized funds from different donor agencies. Some other form of subsidies can be:

i) Concessional rediscounting facilities from the central bank
ii) Donated equity
iii) Assumption of Foreign Exchange Losses on loan by the state or by the donor
iv) Exemption from reserve requirement
v) Interest rate cap for bank-MFI linkage loans, etc

An important characteristic of the MFIs in Bangladesh is that there are a number of big players such as BRAC, ASA, etc which there many small MFIs with limited operations are. With the waning of the subsidies it is important for the MFIs to find way out to become self sufficient.

Four factors are critical for reducing or eliminating subsidy dependence[218]. They are as follows:

i) Adequate on lending rates
ii) High rates of loan collection
iii) Savings mobilization and
iv) Control of Administrative costs.

[217] Joana Ledgerwood, Microfinance Handbook, page-217.
[218] Joana Ledgerwood, Microfinance Handbook, The World Bank, Page 220

There was a long perceived misconception that financing poor people with small amounts of credit is costly and is not financially viable. It was believed that financial intermediaries lending to farmers and poor entrepreneurs cannot sustain without subsidy. With the advent of microfinance this kind of misconception is a thing of the past. However, the financial institutions need to maintain some principles to become financially viable while lending to poor entrepreneurs. Rhyne and Holt[219] suggest a framework of 4 principles for viable lending to poor entrepreneurs as mentioned below:

1) Offer services that fit the preference of poor entrepreneurs.
    - Short loan term financing compatible with enterprise outlay and income patterns.
    - Repeat loans for customers who make full repayment of one loan
    - Allow relatively unrestricted uses so that clients may need to use funds for a mixture of household or enterprise purposes.
    - Very small loans, appropriate for meeting the day-to-day financial requirements of businesses.
    - A customer-friendly approach with extremely simple applications (often one page), and limit the time between application and disbursement to a few days.

2) Streamline operations to reduce unit costs: Standardize the lending process. Make applications very simple and approve on the basis of easily verifiable criteria, such as the existence of a going enterprise.

3) Motivate clients to repay loans: Concentrate on providing motivation to repay. These motivations might include: Joint liability groups or incentives on full repayment e.g. guaranteed reloan with increased amount, etc.

4) Charge full-cost interest rates and fees: The small loan sizes necessary to serve the poor may result in costs per loan requiring interest rates that are significantly higher than commercial bank rates (though significantly lower than informal sector rates)

[219] Read in Microfinance Handbook, The World Bank, Page 67

SECTION THIRTY EIGHT

PROFITABILITY, LEVERAGE AND CAPITAL ADEQUACY

Profitability

Profitability is a measure of an organization's profit relative to its expenses. Profitability ratios help investors and managers determine whether they are earning an adequate return on the funds invested. Profitability ratios measure an organization's net income in relation to the structure of its balance sheet.

Following are the most commonly used profitably ratios:

i) Return on Asset Ratio
ii) Return on Business Ratio
iii) Return on Equity Ratio

Return on Asset Ratio: The Return on Asset Ratio measures the net income earned on the assets of a financing institute. For calculating the return on assets, average total assets are used rather than performing assets. This ratio can also be calculated using only the average outstanding portfolios on the average performing assets as denominator to determine how some specific assets are performing.

For example, if an MFI earns 10,000 taka in net income and has average assets of 5,480,000 taka; then the return on assets will be:

Return on Assets = Net Income/Average Assets

=10000/5,480,000

= 1.8%

Return on Business Ratio: Return on business ratio is a comparison of how much income (adjusted) an MFI/bank earns compared to its average business. To compute this, an average business base is determined by summing the assets and liabilities and dividing the results by two.

Return on business (adjusted) = Net adjusted income/Average business base

The Return on business ratio accounts for the dual activity viz. collecting deposit and providing loan of the operations of financial intermediaries. Return on Business Ratio is especially useful for MFIs as they are taking deposits as well as providing loans. Some commercial banks can also calculate the return on business ratio, particularly if only a small amount of their business is off-balance sheet activities such as bank guarantee, Letter of Credit, etc.

The return on business ratio is directly affected by the capital structure of the financial intermediary. If the majority portions of the bank/MFI's assets are funded by equity the return on business ratio will be misleading and should not be calculated by that organization.

Return on Equity Ratio: Return on Equity (ROE) ratio is the ratio of net adjusted income to average equity. ROE provides management and investors with the information about the rate of return earned on the invested equity. The difference between return on asset ratio and return on investment ratio is that the later measures the return on funds that are owned by the MFI while the previous measure considers the total asset which by definition includes both liability and equity[220].

[220] Joana Ledgerwood, Microfinance Handbook, The World Bank, Page 223

The return on equity ratio varies greatly depending on the capital structure of the MFI. The MFIs that fund their assets primarily with equity show a lower ROE than those that fund their assets primarily with liabilities.

The Return on equity ratio allows the investors to determine how their investment in a particular MFI compares against alternative investments. ROE is particularly important for banks/MFIs that are seeking private investors to put in funds.

The chart below based on 2011 data of the Microcredit Regulatory authority shows a comparative picture of eight MFIs from the profitability point of view.

Name of the MFIs	Portfolio Yield[1]	Interest Rate Spread[2]	Return on Asset (ROA)[3]	Operational Self-Sufficiency (OSS)[4]
BRAC	28.83	22.33	2.77	111.09
ASA	26.32	22.61	10.27	159.26
Buro Bangladesh	31.80	20.79	0.52	95.93
TMSS	23.54	18.42	2.38	105.58
Jagorani Chakra Foundation (JCF)	23.1	16.24	5.88	135.87
Society for Social Service (SSS)	25.05	19.12	4.8	118.25
Shakti Foundation for Disadvantaged women	28.28	19.36	4.22	118.07
United Development Initiatives for Programmed Actions-UDDIPAN	24.67	18.96	1.8	103.12
Padakkhep Manabik Unnayan Kendra	21.84	15.42	1.12	92.67
RDRS Bangladesh	23.72	19.36	3.53	99.07
Average of Top Ten NGOs	25.72	19.26	3.73	113.89
Average of 576 NGOs	20.33	16.26	1.18	102.88

Portfolio Yield: Portfolio yield shows the average gross returns as a proportion of the portfolio outstanding. Portfolio Yield is the primary indicator of an institution's ability to generate revenue to cover its financial and operating expenses. The Operational self-sufficiency shows the ability of an MFI to cover costs of operations with the internally generated income. It is an important measure of sustainability of the lending operations.

Interest Rate Spread: Interest rate spread is the difference between interest rate charged by banks on loans to private sector customers minus the interest rate paid to customers for demand, time, or savings deposits. The terms and conditions attached to these rates often differ by country, however, limiting their comparability.

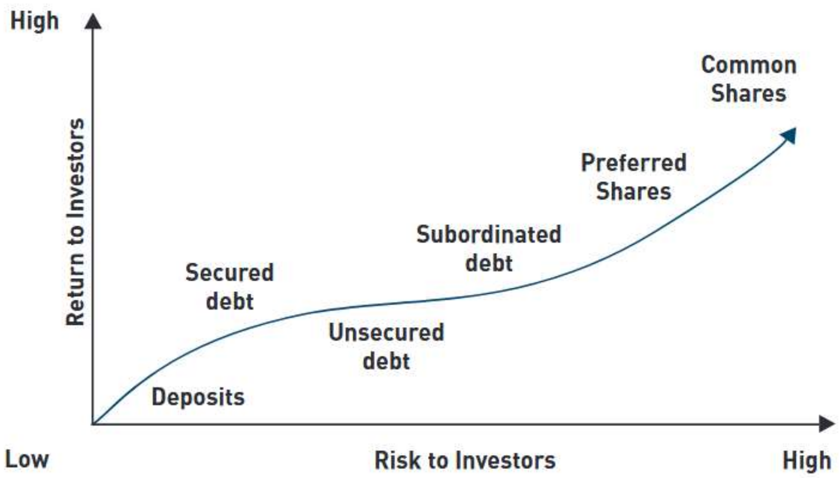
Operational Self Sufficiency: Operational self-sufficiency (OSS) is the ratio that is usually used in the Microfinance Institution (MFI) to analyze its ability in generating operating revenues or incomes in order to cover the total cost incurred in running the business.

Leverage and Capital Adequacy

Leverage and capital adequacy are some of the measures to assess performance of MFIs in terms of their sustainability. Leverage refers to the extent to which an organization borrows money relative to its amount of equity. Capital adequacy on the other hand refers to the amount of capital an organization has relative to its assets. While leverage states the relationship of funding assets with debt versus equity; capital adequacy relates to leverage in terms of adequacy.

Leverage: In finance, leverage is any technique involving borrowing funds to buy things or to invest, hoping that future profits will be many times more than the cost of borrowing. The term “leverage” is actually coined by borrowing the concept of “lever” in physics which amplifies a small input force into a greater output force. In finance, successful leverage amplifies the comparatively small amount of money needed for borrowing into large amounts of profit. However, the technique of leverage also involves the high risk of not being able to pay back a large loan. An organization/MFI that borrows too much money, and thus becomes a highly leveraged organization, face the risk of getting default during bad times in business; while an organization/MFI that borrows less, in other words, a less-leveraged organization/MFI might survive in such business downturn. While leverage magnifies profits, when the returns from the asset more than offset the costs of borrowing, leverage may also magnify losses. Normally, a lender will set a limit on how much risk it is prepared to take and will set a limit on how much leverage it will permit, and would require the acquired asset to be provided as collateral security for the loan.

Importance of Leverage in the context of MFIs in Bangladesh: The invention of microfinance in the late 1970s characterized group based lending to the poor for generating income with a view to alleviate poverty drew attention of the world mainly due to the success in terms of high recovery rate despite the absence of any traditional collaterals. In fact microfinance was like a revolution in the financial industry which drew donations and subsidies, interest free loans and soft loans bearing very low interest from different corners of the world. During the initial period covering almost two to three decades, many NGO MFIs were covering their operational costs with these subsidies. Over the years as subsidies have been waning off and the MFIs have to depend upon deposits and other commercial borrowings to generate enough profit for sustainable existence. Banks that are considering providing loans to MFIs must also oversee the leverage of the MFI to reduce the risk of default due to over-borrowing by the MFI.



Considerations for MFI managers: Top priority for MFI managers is to obtain the lowest cost funding. But according to a survey of CGAP and Grameen Foundation suggests that managers are not accurately assessing the true all-in costs, nor are they making fully informed comparisons of all the different funding options[221]. Incomplete or inaccurate analysis of monetary and nonmonetary costs can hurt profits or result in inappropriate leveraging.

Cost of deposit: Most MFI managers consider deposits to be the cheapest funding source. To their understanding, deposit is easier to obtain than other forms of debt. However deposit services are a highly valuable financial service for customers and the cost of deposit is not just the interest rate paid to savers. The implementing and managing a deposit program, including the impact of reserves required by supervisory authorities involves cost which should also be considered by the MFI managers.

Long term considerations regarding MFI deposits: Deposits can be the cheapest form of funding for an MFI when the right conditions are in place. Very small deposits are often not profitable on a standalone basis. But small deposits contribute to the long-term viability of the institutions by providing a service that customers value, attracting new customers, providing stable funds, reducing dependency on external borrowing, and providing platforms for cross-selling other products. Generally the interest provided to the depositors by the MFIs is considerably low. This may not be a problem for small deposits. But for larger amount of deposits made for long term, the MFIs must also compare the rate of interest provided by alternative institutions such as rural branches of commercial banks. MFI have to determine competitive interest rates to retain customers, in case of larger deposits. The choice between deposits and alternative funding sources should be made considering all these factors, not simply costs presently being incurred by the MFIs.

The chart below based on 2011 data of the Microcredit Regulatory authority shows a comparative picture of eight MFIs from the sustainability point of view.

Name of NGO- MFIs	Capital Adequacy Ratio (%)[5]	Loan Outstanding to Borrowing Ratio (in times)[6]	Ratio of Classified Loan to Total Loan Outstanding (%)[7]	Debt to Capital Ratio[8]	Current Ratio[9]
BRAC	28.76	3.20	10.87	2.67	2.56
ASA	61.69	27.48	3.46	0.86	22.32
Buro Bangladesh	14.24	1.65	5.43	7.04	5.77
TMSS	19.41	1.90	3.69	4.07	1.25
Jagorani Chakra Foundation (JCF)	13.54	1.25	4.59	1.03	1.00
Society for Social Service (SSS)	18.87	2.12	4.34	4.75	2.07
Shakti Foundation Disadvantaged women	10.81	1.69	3.87	9.91	2.75
United Development Initiatives for Programmed Actions (UDDIPAN)	12.24	1.52	7.12	9.90	3.30

Availability of subsidized loans: Despite the fact that subsidized fund sources are waning off, still some fund sources may be interested to make partnership with MFIs based on objectives. The availability of subsidized loans from both cross-border and domestic sources also affect the

221 https://www.cgap.org/sites/default/files/CGAP-Brief-MFI-Capital-Structure-Decision-Making-A-Call-for-Greater-Awareness-Aug-2007.pdf

attractiveness of savings mobilization as a funding strategy. For a number of large MFIs who have made reputation over time it may seem easier to rely on these cheap loans rather than develop a comprehensive savings mobilization strategy.

MFIs are generally underleveraged: MFIs are underleveraged compared with commercial banks (median MFI debt-to-equity ratios just under 2.0, while commercial banks tend to range from 9.0 to 12.0)[222]. Yet, most MFIs generally seek more equity, with a universal preference for foreign-sourced equity over domestic equity investors. The main reason behind such choice is that during earlier times of MFI revolution many donors have provided funds in unusual terms such as: “donated equity” and “grant equity”. Moreover, many socially oriented equity investors require minimal dividends or share appreciation. So the cost of their capital does not reflect the true cost of mainstream equity[223].

Capital Adequacy: Capital adequacy refers to the amount of capital an organization has relative to its assets. The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world. CAR is critical to ensure that banks have enough cushions to absorb a reasonable amount of losses before they become insolvent.[224] CAR is used by regulators to determine capital adequacy for banks and to run stress tests.

Capital adequacy is widely used in the banking industry and the banks usually have a minimum capital adequacy requirement set by their regulator. In case of microfinance institutions the case might be different. In most countries the MFIs are still working in a loosely regulated environment while some may enjoy stringent regulation while some are unregulated. Most of the MFIs are actually NGO turned MFIs, it is therefore practicable for the regulators to allow time for the MFIs to slowly build up their capital by making reserve out of their retained earnings annually. Capital adequacy however still is monitored by most regulatory authority for microcredit. Moreover, banks that are considering providing bulk loans to MFIs may also have their concern about sustainability ratios such as capital adequacy ratio and leverage ratios.

Loan Outstanding to borrowing: Loan Outstanding to Borrowing Ratio shows the comparison between an organization’s two major components – assets and liabilities. Higher Loan outstanding to borrowing ratio shows less dependency on borrowing. on the other hand low loan outstanding to borrowing ratio along with low current ratio suggests that the borrowed fund is used either in low income generating ventures or for purchasing fixed assets.

Classified loan to total loan ratio: Classified Loan to Total Loan Outstanding Ratio shows percentage of classified loan in relation to total loan outstanding. It is calculated by dividing the total amount of classified loan by total outstanding of loans. This ratio measures the asset quality of a bank or an MFI.

Debt Capital Ratio: The debt-to-capital ratio is a measurement of a company's financial leverage. The debt-to-capital ratio is calculated by taking the company's interest-bearing debt, both short- and long-term liabilities and dividing it by the total capital. It is also called the leverage ratio.

Current Ratio: The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. Current ratio is calculated by dividing the company's current assets by its current liabilities. Current assets are those that can be converted into cash within one year, while current liabilities are obligations expected to be paid within one year.

[222] MFI Capital Structure Decision Making, CGAP
[223] MFI Capital Structure Decision Making, CGAP
[224] https://www.investopedia.com/terms/c/capitaladequacyratio.asp

SECTION THIRTY NINE

BORROWERS' VIABILITY

While viability of MFIs is much talked about the important issue of borrower viability is often ignored by development actors working on poverty alleviation. Borrower viability generally means the sustainability of the borrower after full repayment of loan. While recovery of loans are important for financial institutions, the deeper goal is to make the borrower self sufficient in the long run. In the world of microfinance, understanding borrowers viability is in a sense more important than general businesses as the MFIs financing the borrowers will not want the borrower to fall back into poverty; it is not easy to measure borrower viability like other businesses.

The following are some of the measures used to understand the viability of the microfinance borrowers:

i) income of the borrower at the time of loan repayment
ii) employment status of the borrower
iii) land resources owned by the borrower and family
iv) value of major assets owned by the borrower other than land
v) expenditure met by the beneficiary in meeting day to day family needs
vi) savings with any bank or MFIs
vii) any other loans taken from informal lenders.

Difficulties in measuring borrower viability:

Accuracy of information: Borrowers viability is often measured by the MFIs that financed the borrower. Due to information being collected by the official from same organization and often by the same staff who provided the loan facility complicates the data integrity while collecting the pre and post finance data about the financial status of the borrower.

Changes in overall economic condition of the country: Over the years as the macro economic indicators improve; it is often difficult to conclude by slight improvement in income and other similar financial indicators.

Inflations: Inflation is another issue to consider. For example, the borrower who used to earn taka 5000 per month five years ago and earning taka 7000 taka per month now may actually worse off though income rises in simpler terms if the economy has gone through an average annual inflation of say 9%.

There are reports and allegations that microfinance is actually making poor people poorer. In Cambodia for example, the average loan provided by so-called microfinance institutions has ballooned sevenfold over the past decade to about $4,200, almost three times the country's average household income, data compiled by the Cambodia Microfinance Association show[225]. Women there have been pressured to sell their homes to repay loans, according to human rights groups and academics who have studied the matter. In Jordan, one of the few countries that still imprisons people for nonpayment of debt, more than 23,000 women were wanted by the police in 2019 for owing less than $1,400 each, Justice Ministry officials have said. In Sri Lanka, consumer-advocacy groups estimate 200 women indebted to microfinance companies committed suicide in the past three years.[226] Reports such as these clearly indicate not only lack of borrowers' viability but also improper loan management by the MFIs.

[225] https://www.bloomberg.com/graphics/2022-microfinance-banks-profit-off-developing-world/
[226] https://www.bloomberg.com/graphics/2022-microfinance-banks-profit-off-developing-world/

SAMPLE QUESTIONS

Module A

1. What is agricultural Finance? What agricultural industry and other business industries are different from each other and how they might affect the demand for agricultural credit?

2. What are some of the future scenarios that could grossly affect the agricultural sector of Bangladesh by year 2041? What could be some of the financing approaches to address such scenarios?

3. What are the emerging challenges in agriculture for Bangladesh? How banks can respond to those challenges?

4. How climate change is affecting and may affect the agriculture sector of Bangladesh? What is climate-smart agriculture? Why this is important for Bangladesh?

5. Who needs agricultural credit in Bangladesh? Why policy makers emphasize so much on agricultural finance in Bangladesh? /Write the importance of agricultural credit in Bangladesh from i) policy makes perspectives and ii) users' perspectives?

6. What are the institutional and no institutional sources of agricultural credit in Bangladesh? What are the advantages and disadvantages of institutional sources of agricultural credit?

7. Why farmers often choose agricultural credit from informal sources despite high interest rates? What are the advantages and disadvantages of non-institutional sources of agricultural credit?

8. What are the types of agricultural credit based on tenures? What are the types of agricultural credit based on purposes?

9. What is agro-based project financing? Is the amount disbursed for agro-based projects treated as agricultural finance by Bangladesh bank? How Bangladesh Bank supports agro-based project financing through refinance? Why is agro-based project financing important for agricultural development?

10. What are the procedures of agricultural financing? How banks determine good borrower? Why collaterals are discouraged in financing small farm holdings in Bangladesh.

11. How Bangladesh Bank plays an important role in agricultural finance while it cannot disburse a penny directly to the farmers? What is the importance of banks in agricultural finance in Bangladesh?

12. What is the importance of monitoring and recovery in agricultural finance? What is the objective of agricultural credit monitoring by Bangladesh Bank? How Bangladesh Bank monitors agricultural finance by the banking sector?

13. What are the sector and subsectors of agricultural finance?

14. What is the difference between procedures and methods of agricultural credit disbursement? Discuss the methods of agricultural financing.

15. Discuss the importance of use of IT in agricultural finance. Discuss some advancements in IT adoption by banks in Bangladesh. Why customer confidentiality is important in the age of IT?

16. What are the benefits of IT for banks as well as customers? How IT can impact service quality in Banks? What are the scopes of IT in agricultural finance?

17. What is the role of banks in agricultural sector financing in Bangladesh. Discuss the performance of SBs, SCBs, PCBs and FCBs in agricultural finance in Bangladesh.

18. Discuss the important Regulatory Policies for Agricultural and Farm Sector Financing in Bangladesh.

Short Notes:

a) What is the basis of legal authority of Bangladesh Bank to determine mandatory agricultural credit target for banks? Can Bangladesh Bank impose interest rate cap for agricultural finance?

b) Public Demand Recovery Act

c) Customer confidentiality in the advent of IT in Banks disbursing agricultural credit.

d) Climate smart agriculture

Short Question

1. What is agricultural finance?
2. What are the three major sectors of agriculture?
3. What is commercial farming?
4. What is subsistence level farming?
5. What is disguised unemployment?
6. What is marginal propensity to consume?
7. What is marginal Propensity to save?
8. What is dual economy in respect to agriculture?
9. What is modernization in agriculture?
10. Give an example of informal source of financing where interest rate is lowest?
11. What are the types of agricultural credit based on tenures?
12. What is agro-based project financing?
13. Is agro based project financing same as agricultural financing?
14. What are five ’C’s in credit?
15. What is interest rate ceiling?
16. What is the minimum agricultural credit target for banks in Bangladesh?
17. Does a foreign bank disburse agricultural credit in Bangladesh?
18. What ACP
19. What is the full form of MFI?
20. What is MFI linkage?
21. Can BB provide agricultural credit to the farmers?
22. What is HYV?
23. What is HVC?
24. What are the full forms of BKB and RAKUB?

25. What is FAO?
26. What is IFAD?
27. What is crop insurance?
28. What is climate smart agriculture?
29. What is different between uncertainty and risk?
30. What is uncertainty in agriculture?
31. What is share cropping?
32. Who is a landless farmer according to ACP?
33. What is crop diversification?
34. What is crop rotation?
35. What is land?
36. What is seasonal unemployment?

Module B

1. What is microcredit? How did the economic disparity in the then East Pakistan, the devastations of the liberation war in 1971, and the experiments for finding a sustainable model of rural finance might have played a precursory role for the Grameen Bank Project?
2. Why microcredit is treated as a revolution? Discuss historical development of microcredit in Bangladesh?
3. ‘Microcredit is more about an approach rather than loan size’, discuss. Why microcredit approach became so popular?
4. Why there was a proliferation of NGO/MFIs after the successful implementation of Grameen Bank Project? What are some of the critical issues that MFIs have been facing?
5. Discuss the conceptual and functional differences between microcredit and microfinance?
6. What is poverty? How poverty is measured? How NGO/MFIs customized their poverty indicators for easing borrower selection process? Please provide examples.
7. Discuss the role of NGO/MFIs in poverty alleviation in Bangladesh? Can microfinance alone reduce poverty without government support? Please explain.
8. Discuss the policies and legal framework regarding microfinance in Bangladesh.
9. How and why Micro Credit Regulatory Authority was established by the government? Critically examine the role of MRA in developing microfinance sectors in Bangladesh?
10. What is collateral? How traditional collateral is substituted in microfinance? What are the reasons for high recovery rate of microfinance without traditional collateral support?
11. What do you understand by minimalist approach and integrated approach of followed by microfinance institutions? How they are different by the product and services offered? Discuss the advantages and disadvantages of minimalist approach and integrated approach of microfinance.
12. What are the differences between mandatory savings and voluntary savings in microfinance? What are the requirements for effective voluntary savings?

Short Note

a) Social Intermediation
b) Enterprise development services
c) MRA

Short Questions

1. What is microcredit?
2. What is an MFI?
3. What are the first and second revolutions of rural finance?
4. What is NGO?

5. Are NGO and MFI the same?
6. What is poverty?
7. How poverty is measured?
8. What is MRA?
9. What is collateral?
10. What is mandatory savings?
11. What is minimalist approach in microfinance?
12. What is integrated approach of microfinance?
13. What is Grameen Bank Project?
14. What is PKSF?
15. What is BRDB?
16. What is BSBL?

Module C

1. What do you understand by 'Micro Finance Institution'? What are salient the features of an MFI and its customers? What are the general objectives of an MFI?

2. What is the difference between general and specific objectives of an MFI, discuss with examples. Why specific objectives of an MFI are important for a financing bank?

3. How an MFI target its market? What is meant by direct and indirect targeting? What are their and their advantages or disadvantages? What an MFI should consider while targeting its market?

4. What is meant by impact analysis of an MFI? When impact analyses are usually done? What are the challenges of impact assessment for an MFI?

5. What do you understand by formal, semiformal and informal financial institutions? Discuss growth and transformation of NGO/MFIs. What are some social services provided by the MFIs?

6. A modern MFI has to deal with conflicting/dual objectives. How Bank MFI Linkages and MFI-MFI linkages can deepen financial inclusion?

Short Notes:

a) Social Services by MFIs

Short Questions

1. What is an MFI?
2. What is the difference between goal and objective of and MFI?
3. What is direct targeting?
4. What is indirect targeting?
5. What is impact analysis?
6. When impact analysis is done?
7. What are the conflicting objectives of MFIS?
8. What is financial inclusion?

Module D

1. What is 'working capital' and how they are different from 'fixed capital'? What are the sources of working capital? Why shortage of working capital and excess of working capital negatively affects a business?

2. What is the importance of fisheries sector of Bangladesh? How working capital financing in the fisheries sector may be assesses. Discuss with example of at least one fish variety.

3. Discuss working capital needs for fisheries in the following sectors: a) cage cultivation b) marine fisheries.

4. Discuss the scopes of financing in the poultry sector of Bangladesh. What are the usual financial requirements for poultry businesses?

5. Discuss the scopes of financing in the livestock sector of Bangladesh. What are the usual financial requirements for livestock businesses?

6. What is the difference between high yielding variety (HYV) and high value crops (HVC)? How financing in high value crop can help reduce poverty?

7. What is value chain finance? Why value chain financing is considered as an emerging approach of agricultural financing?

8. What is do you understand by commodity market? Discuss the history of commodity market emphasizing some latest developments. What are some instruments used for reducing the risk of price fluctuations in commodity market?

Short Notes

a) Tissue culture
b) Oil palm cultivation
c) Salt cultivation
d) Sericulture
e) Rooftop cultivation
f) Mushroom cultivation
g) Financing in Nurseries
h) Value Chain Finance
i) Commodity Market

Short Question

1. What is 'working capital'?
2. What is fixed capital?
3. What is cage cultivation?
4. What is the simple formula for determining working capital?
5. What are the full forms of HYV and HVC?
6. What is value chain finance?
7. What is commodity market?
8. What is forward in commodity market?
9. What are futures in commodity market?
10. What is value chain finance?
11. What is high value crop?

12. What is tissue culture?
13. Which districts are prospective for salt cultivation?
14. What is sericulture?

Module E

1. Discuss how Bangladesh reduced poverty in 50 years of its independence? Discuss the role of government and NGO/MFIs in poverty alleviation of Bangladesh.

2. Discuss the role of specialized commercial banks (BKB and RAKUB) in rural finance and poverty alleviation of Bangladesh.

3. Discuss the role of Grameen Bank, BRAC, ASA, PRASHIKA and BRDB in poverty alleviation of Bangladesh.

4. Discuss the queasy regulatory and financing role of played by PKSF for developing the MFIs.

Short Notes

a) PKSF
b) Grameen Bank
c) BRAC
d) BRDB
e) ASA
f) PROSHIKA

Short Questions

1. What is poverty?
2. What is poverty line?
3. What is LDC?
4. When Grameen Bank was established?
5. What are the full forms of BKB and RAKUB?
6. Is Grameen Bank an MFI?
7. Is Grameen bank a schedule bank?
8. Who won Noble Prize for peace: Grameen Bank or its founder?
9. What are the specialized banks for agriculture in Bangladesh?
10. What is BRAC?
11. What is BRDB?
12. What is PKSF?

Module F

1. What is repayment rate, how repayment rate is calculated? Discuss how different measures of calculating repayment rates give misleading information about an MFI.

2. What is financial viability/operational self sufficiency of an MFI? What are the different measures of operational self sufficiency? What is borrower viability? How borrower viability may affect poverty alleviation efforts of a MFI?

3. What is profitability? What ratios are used to measure profitability of banks or MFIs? How some ratios of an MFI can be important for banker for considering Bank-MFI linkage proposal?

4. What is leverage? How fund managers of MFIs manage capital structure of an MFI considering different sources (deposit, bank loan, etc)

Short Notes

a) Return on equity ratio
b) Return on business ratio
c) Capital adequacy

Short Question

1. What is repayment rate?
2. How repayment rate is calculated?
3. What is financial viability?
4. What is operational self sufficiency of an MFI?
5. Give one example of operational self sufficiency measurement tool.
6. What is borrower viability?
7. What is profitability?
8. What is leverage?
9. What is return on equity ratio?
10. What is return on business ratio?
11. What is capital adequacy?

Sample MCQ

1. Which is most important reason for agricultural finance in Bangladesh?

(a). Due to capital intensive agricultural technologies.
(b). Due to small land holdings of farmers.
(c). Due to increasing population.
(d). Due to get higher crop production.

2. Which type of Organizations provide credit in rural areas?

(a). Banks.
(b). MFIs.
(c). Moneylenders.
(d). All of the above.

3. What is the basic difference between AF and other finance?

(a). Farmers are not aware of credit policies and procedures, and so on.
(b). Agricultural finance bear more uncertainties inherent to agriculture.
(c). Adequate infrastructural facilities are available.
(d). All of the above.

4. What type of cultivation is predominant in Bangladesh?

(a). Intensive farming.
(b). Subsistence farming.
(c). Scientific cultivation.
(d). Contract farming.

5. Time has a very significant influence on one of the following:

(a). Cost.
(b). Return.
(c). Both a and b.
(d). None of the above.

6. Which is true about credit?

(a). It is gaining control over the use of money at the present time in exchange for a promise to repay it at the same time.
(b). It is gaining control over the use of money at the present time in exchange for a promise to repay it at some future time.
(c). It is gaining control over the use of time at the present time in exchange for a promise to repay it at future.
(d). It is gaining control over the use of time at the present time in exchange for a promise to repay it at some future time.

7. Balance sheet is the summary of …………………
a. General Information
B. Financial position
c. profit and loss position
d. loan status

8. Two basic measures of liquidity are :
a. (A) Inventory turnover and Current ratio
B. (B) Current ratio and Quick ratio
c. (C) Gross Profit ratio and Operating ratio
d. (D) Current ratio and Average

9. Current Ratio is :
a. (A) Solvency Ratio
B. (B) Liquidity Ratio
c. (C) Activity Ratio
d. (D) Profitability Ratio

10. Nutritional level of food energy is expressed in the form of
a. (a) calories per day
B. (b) wheat consumption
c. (c) rice consumption per day
d. (d) none of the above

11. The calorie requirement is higher in the rural areas because:
a. (a) they do not enjoy as much as people in the urban
B. (b) food items are expensive.
c. (c) they are engaged in mental work.
d. (d) people are engaged in physical

12. The microfinance in Bangladesh has been initiated by
a. Grameen Bank
B. Grameen Bank Project
c. ASA
d. RAKUB

13. Which of these cannot be issued by MFI?
a) Clearing Cheque
b) Bank Draft
c) Credit Card
d) All of the above

14. Who is the founder of Grameen Bank?
a) Muhammad Yunus
b) Abdullah abu Sayed
c) Anu Muhammad
d) Atiur Rahman

15. A business where an individual is both the owner and conductor of the business affairs is called__________________.
a. Sole Proprietorship
b. Partnership
c. Corporation
d. None of the above

Glossary

Ability to Pay: Ability to pay is a subjective judgment predicated on some assumption as to what people ought to pay. Thus, the low-income clients are said to have a lower ability to pay than middle-income earners, irrespective of whether or not they buy the good/service. It is unclear whether the exponents of the ability-to- pay concept would agree that making credit available increases such ability. See willingness to pay. *Source: Virtual Library on Microcredit*

Active Clients: The number of clients with loans outstanding on any given date. An institution's official statistics on active clients are usually recorded as the number of clients with loans outstanding on the date its financial statements are filed. *Source: ACCION*

Assessment: Also called evaluation. Assessments include instrumental appraisals, rating exercises, and other activities that may determine how well an institution performs financially, operationally, and managerially. *Source: ACCION*

Asset Liability Management (ALM): The process of planning, monitoring and controlling asset and liability volumes, maturities, rates and yields. A primary goal of ALM is to minimize interest rate risk while still earning sufficient profits. ALM is more important and complex for institutions engaged in financial intermediation because interest rate risk tends to be higher for these institutions than for institutions engaged solely in credit or savings. Financial institutions manage interest rate risk by carefully maintaining a balance between different types and volumes of assets (in particular, loans) and liabilities (in particular, savings). *Source: CGAP*

Assets: Anything of value. Any interest in real or personal property which can be appropriated for the payment of debt. *Source: Renz and Massarsky*

Audit/Control: Examination of organizational input/output cash flow (ie. internal audits, external audits, fraud investigation). *Source: Calmeadow*

Average Number of Active Borrowers: (Beginning year Number of Active Borrowers + Year end Number of Active Borrowers). *Source: The MIX Market*

Bad Debt: A debt that is not collectible and is therefore worthless to the creditor. *Source: Renz and Massarsky*

Balance Sheet: Financial statement presenting measures of the assets, liabilities and owner's equity or net worth of business firm or nonprofit organization as of a specific moment in time. *Source: Renz and Massarsky*

Bank: A financial intermediary licenced by Bangladesh Bank under Bank Company Act, 1991.

Bankable: Bankable people are those deemed eligible to obtain financial services that can lead to income generation, repayment of loans, savings, and the building of assets. *Source: International Year of Microcredit 2005*

Benchmarking: Peer group benchmarking puts performance measurements in context by comparing an institution (e.g., an MFI) with similar institutions based on a common factor, such as region, size or methodology. A benchmark can also refer to the standard against which all similar institutions are compared. *Source: ACCION*

Bridge financing: Interim financing used to solidify a position until more permanent financing can be made. *Source: ACCION*

Business Development Services: Support services that contribute to the growth of enterprises (eg. business planning, client training, networking, marketing technical support). *Source: Calmeadow*

Business Plan: A document that describes an organization's current status and plans for several years into the future. It generally projects future opportunities for the organization and maps the financial, operations, marketing and organizational strategies that will enable the organization to achieve its goals. *Source: Renz and Massarsky*

Capital Adequacy: A quantitative and qualitative measure of an institution's level of equity versus the risk it incurs. This measurement shows a program's ability to absorb loan loss. *Source: ACCION*

Capital markets: The market for trading long-term debt instruments (those that mature in more than one year). *Source: ACCION*

Capital: Broadly, all the money and other property of an enterprise used in transacting its business. *Source: Renz and Massarsky*

Cash Flow Financing: Short-term loan providing additional cash to cover cash shortfalls in anticipation of revenue, such as the payment(s) of receivables. *Source: Renz and Massarsky*

Client Desertion: This key term deals with analysis of client exiting and desertion. *Source: Calmeadow*

Client Graduation: Microenterprise growth to medium-size enterprises and financial self-sustainability. *Source: Calmeadow*

Collateral: Asset pledged by a borrower to secure a loan, which can be repossessed in the case of default. In a microfinance context, collateral can vary from fixed assets (a car, a sewing machine) to cross-guarantees from peers. *Source: ACCION*

Commercialization: In a microfinance context, commercialization refers to the move by MFIs to provide services on a financially self-sufficient basis and under prevailing commercial principle and regulations. *Source: ACCION*

Community-based finance institution: The term "Community-based finance institution" (CBFI) has been formulated to define organizations which enable low-income groups to participate fully and democratically in the development process and which have their roots in the community. Frequently, these organizations are referred to as co-operatives, but some community-based organizations are in fact not co-operatives but groups with a similar structure and objectives. *Source: Virtual Library on Microcredit*

Compulsory / Mandatory Savings: Savings payments that are required as part of loan terms or as a requirement for membership, usually in a credit union, cooperative, microfinance institution, village bank or savings group. Compulsory savings are often required in place of collateral. The amount, timing, and level of access to these deposits are determined by the policies of the institution rather than by the client. *Source: CGAP*

Contractual / Programmed Savings: Savings in which the client commits to regularly depositing a fixed amount for a specified period of time to reach a pre-determined goal. After the maturity date, the client can withdraw the entire amount plus the interest earned. Early withdrawal is prohibited or penalized. *Source: CGAP* Contractual savings are mainly two types : Monthly deposits with fixed term withdrawals popularly known as deposit pension scheme (DPS) and Fixed deposit Receipt (FDR).

Cooperative/Credit Union: A non profit, member-based financial intermediary. It may offer a range of financial services, including lending and deposit taking, for the benefit of its members. While not regulated by a state banking supervisory agency, it may come under the supervision of regional or national cooperative council. *Source: The MIX Market*

Co-operative: A co-operative, as defined by the International Labour Organization is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking. *Source: Virtual Library on Microcredit*

Cost per Borrower: Operating Expense/ Period Average Number of Active Borrowers. *Source: The MIX Market*

Credit Bureau: An agency that contains information on the credit history of consumers so that creditors can make decisions about granting of loans. In Bangladesh Credit Information Bureau is managed by the Central Bank. *Source: ACCION.*

Credit Rating: Usually used to determine a bank or financial institution's credit risk, a credit rating is an evaluation of an individual's or company's ability to repay obligations or its likelihood of not defaulting; also see CAMEL. *Source: ACCION*

Credit Scoring: Measures the risk associated with each credit applicant/ microborrower. Credit scoring is an automated system that assigns points for various credit factors, providing lenders with the ability to grade prospective clients and to calculate the risk of extending credit. In a microfinance context, the credit scoring method is modified to take into account a microentrepreneur's experience, character and capacity to repay. The final credit score is an overall measure of the creditworthiness of the credit applicant. *Source: ACCION*

Credit Union: A nonprofit, cooperative financial institution owned and run by its members. Members pool their funds to make loans to one another. The volunteer board that runs each credit union is elected by the members. Most credit unions are organized to serve people in a particular community, group or groups of employees, or members of an organization or association. *Source: ACCION*

Current Accounts: Demand deposit accounts that allow the account holder to transact using checks. Account holders can also transact face-to-face in the branch and may be able to use ATMs or point of service devices. *Source: CGAP*

Current Asset: Assets that will normally be turned into cash within a year. *Source: Renz and Massarsky*

Current Liability: Liability that will normally be repaid within a year. *Source: Renz and Massarsky*

Current Ratio: Current assets divided by current liabilities -- a measure of liquidity. Generally, the higher the ratio, the greater the "cushion" between current obligations and a firm's ability to meet them. *Source: Renz and Massarsky*

Debt Service Reserve: Term used to refer to cash reserves set aside by a borrower, either by internal policy or lender covenant, to repay debt in the event that cash generated by operations is insufficient. *Source: Renz and Massarsky*

Debt Service: Amount of payment due regularly to meet a debt agreement; usually a monthly, quarterly or annual obligation. *Source: Renz and Massarsky*

Debt: An amount owed for funds borrowed. The debt may be owed to an organization's own reserves, individuals, banks, or other institutions. Generally, the debt is secured by a note, bond, mortgage, or other instrument that states repayment and interest provisions. The note, in turn, may be secured by a lien against property or other assets. *Source: Renz and Massarsky*

Default: Failure to make timely payment of interest or principal on a loan, or to otherwise comply with the terms of a loan. *Source: ACCION*

Delinquent: In a monetary context, something that has been made payable and is overdue and unpaid. *Source: Renz and Massarsky*

Deposit Insurance: Insurance to reimburse depositors for the loss of their deposits in the event that their financial institution fails. Deposit insurance is typically provided by government as an adjunct to regulation and supervision. It may also be required by regulation but provided by private insurers. *Source: CGAP*

Deposit interest rate (%): Deposit interest rate is the rate paid by commercial or similar banks for demand, time, or savings deposits. *Source: The MIX Market*

Deposit Rates: Usually refers to rates offered to resident customers for demand, time, or savings deposits. Often, rates for time and savings deposits are classified according to maturity and amounts deposited. *Source: The MIX Market*

Development Bank: Generally country-owned and state-based, these banks earlier offered agricultural credit originally and many of them have moved to offer microfinancial services. *Source: Calmeadow*

Development Finance: Term that encompasses all financial services provided to low-income clientele in less developed nations - including microloans, microsavings, microinsurance, etc. *Source: ACCION*

Disbursement: The actual transfer of financial resources. The disbursement of a microloan reflects the transfer of the loan amount from the lending institution to the borrower. *Source: ACCION*

Donations: Donations received in the financial year to apply towards operation of financial services. *Source: The MIX Market*

Downscaling: Formal financial institutions that offer a microfinance window. *Source: Calmeadow*

Due Diligence: Refers to the task of carefully confirming all critical assumptions and facts presented by a borrower. This includes verifying sources of income, accuracy of financial statements, value of assets that will serve as collateral, the tax status of the borrower and any other material facts presented by the borrower. *Source: Renz and Massarsky*

Empowerment: Impact of design for political participation, legal awareness, ability to exercise personal and socio-political rights and freedoms. *Source: Calmeadow*

Endowment or Trust: A fund that contains assets whose use is restricted only to the income earned by these assets. *Source: Renz and Massarsky*

Environment: Impact of programs on the natural environment, creation of environmental initiatives. This literature includes environmentally-focused loan funds. *Source: Calmeadow*

Equity: The value of property in an organization greater than total debt held on it. Equity investments typically take the form of an owner's share in the business, and often, a share in the return, or profits. Equity investments carry greater risk than debt, but the potential for greater return should balance the risk. *Source: Renz and Massarsky*

agreements). These estimates are derived on the basis of a simple average of the end-of-month market rates in the markets of the reporting country. *Source: The MIX Market*

External Audit: A formal, independent review of an institution's financial statements, records, transactions and operations. External audits are usually performed by professional accountants in order to lend credibility to financial statements and management reports, to ensure accountability for donor funds, or to identify internal weaknesses in an organization. The external audit process is key to transparency. *Source: ACCION*

Financial Expense: All interest, fees and commissions incurred on all liabilities, including deposit accounts of clients held by the MFI, commercial and concessional borrowings, mortgages, and other liabilities. *Source: The MIX Market*

Financial Intermediation: The process of mobilizing deposits and disbursing them as loans to clients or investing them in other types of financial instruments. Managing financial intermediation is significantly more demanding than managing credit alone. In particular, maintaining the quality of assets is more important in order to protect the value of deposits and managing liquidity, internal controls and assets vis-a-vis liabilities are more challenging. *Source: CGAP*

Financial Management: Financial management is a broad topic in microfinance operation management including interest rate setting, revenue generation, cost analysis, delinquency management, profit centres, credit bureaus and general accounting. *Source: Calmeadow*

Financial Self-Sufficiency (FSS): Total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses and funds. *Source: ACCION*

Financial Services Development: Innovative services for microcredit clients Eg. microleasing, insurance, money transfers. *Source: Calmeadow*

Fixed Assets: Long-lived property of a microentrepreneur or firm that is used in that business' production (i.e., a sewing machine is a fixed asset for a microentrepreneur who makes clothing). Fixed-asset lending is a type of microfinance product that disburses loans expressly for the purpose of purchasing these fixed assets, which aid in production volume and income. *Source: ACCION*

Fixed-Asset Lending/ Loan: Microfinance product in which loans are disbursed expressly for the purpose of purchasing fixed assets, which aid in production volume and income. *Source: ACCION*

Formal Financial Sector: Policy and processes involved with banks and other financial intermediaries regulated by the central bank/government including interest rates, exchange rates, inflation, market fragmentation and corrective measures. *Source: Calmeadow*

Fund Assets allocated to MF Investments: The fund's monies set aside specifically for investment in the Microfinance sector (as opposed to other industries/sectors/ type of projects that the fund may invest in). *Source: The MIX Market*

Fund Balance: Net worth in a nonprofit organization; total assets minus total liabilities. *Source: Renz and Massarsky*

Fund Manager: The individual(s) responsible for the overall fund strategy, as well as the buying and selling decisions of the securities in a fund's portfolio. *Source: The MIX Market*

Fungibility: The quality of money that makes one individual specimen indistinguishable from another. Anything used as money (gold, shells, bank notes) must have this quality. The fungibility of money makes it difficult for lenders to ensure that borrowers use the loan funds in the way lenders wish; one way they try to get round "misuse of funds" is to lend in kind. Often a person will borrow money for one stated purpose, but the effect of the loan is to finance another activity. *Source: Virtual Library on Microcredit*

GDP (current price): Gross domestic product (GDP) measures the total output of good and services for final use occurring within the domestic territory of a given country. Gross domestic product at purchaser values (market prices) is the sum of gross value added by all resident and nonresident producers in the economy plus any taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. *Source: The MIX Market*

GDP Growth (annual %): Gross Domestic Product (GDP) measures the total output of goods and services for final use occurring within the domestic territory of a given country, regardless of the allocation to domestic and foreign claims. Gross domestic product at purchaser values (market prices) is the sum of gross value added by all resident and nonresident producers in the economy plus any taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. *Source: The MIX Market*

Gender Relations: Focuses on women's bargaining power within the household, power imbalances between the genders, effects of microfinance on gender-related issues, empowerment and/or ill effects on women, girl/child issues. *Source: Calmeadow*

Gini Index: Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of zero represents perfect equality, while an index of 100 implies perfect inequality. GNI (gross national product, or GNP, in the 1968 SNA terminology) measures the total domestic and foreign value added claimed by residents. GNI comprises GDP plus net receipts of primary income (compensation of employees and property income) from nonresident sources. *Source: The MIX Market*

GNI per capita, Atlas method (current US$):

> GNI per capita (formerly GNP per capita) is the gross national income, converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population. GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI, calculated in national currency, is usually converted to U.S. dollars at official exchange rates for comparisons across economies, although an alternative rate is used when the official exchange rate is judged to diverge by an exceptionally large margin from the rate actually applied in international transactions. To smooth fluctuations in prices and exchange rates, a special Atlas method of conversion is used by the World Bank. This applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation. *Source: The MIX Market*

Governance: Process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects its assets. *Source: ACCION*

Gross Loan Portfolio: All outstanding principal for all outstanding client loans, including current, delinquent and restructured loans, but not loans that have been written off. It does not include interest receivable. It does not include employee loans. *Source: The MIX Market*

Group Lending: Lending mechanism which allows a group of individuals - often called a solidarity group - to provide collateral or loan guarantee through a group repayment pledge. The incentive to repay the loan is based on peer pressure - if one group member defaults, the other group members make up the payment amount. *Source: ACCION*

Guaranteed Loan: A pledge to cover the payment of debt or to perform some obligation if the person liable fails to perform. When a third party guarantees a loan, it promises to pay in the event of a default by the borrower. *Source: Renz and Massarsky*

Household: Family unit members of which that has are faced under the same cooking unit. Income levels, education, cash flow and savings acquisition impacts on at the household level. *Source: Calmeadow*

Housing Finance: A specialized loan product that allows households of both microentrepreneurs and wage-earners to finance home improvements or additions. Loans tend to be longer-term, and in larger amounts, than traditional microenterprise loans. In the case of microbusiness owners, home improvement loans can enhance at-home businesses. *Source: ACCION*

Human Resources: This key term relates to personnel incentive schemes, staff recruitment, profiles, establishing an institutional culture and staff management. *Source: Calmeadow*

Impact/Target Market: This category investigates the effects of programmatic activity on specified client populations. It also includes how to design programs for a specific client group. *Source: Calmeadow*

Individual Lending: Single-client lending where repayment relies solely on the individual. *Source: Calmeadow*

Inflation Rate (Changes in Consumer Prices): Indices shown for Consumer Prices are the most frequently used indicators of inflation and reflect changes in the cost of acquiring a fixed basket of goods and services by the average consumer. *Source: The MIX Market*

Informal Economy: The term "informal economy" became current in the 1970s as a label for economic activities which take place outside the framework of corporate public and private sector establishments. Such economic activities are characterized by the ILO as having the following features: small size of operations, reliance on family labour and local resources, low capital endowments, labour-intensive technology, limited barriers to entry, high degree competition, unskilled work forces and acquisition of skills outside the formal education system. Informal businesses usually do not comply with established regulations governing labour practices, taxes and licensing. *Source: Virtual Library on Microcredit*

Informal Finance System: "Informal" refers to types of institutions. Most community-based financial institutions are formal organizations, although they are not normally targeted for a particular purpose. While every group exhibits some degree of formality, the term "informal" is used principally to describe traditional systems of savings and loans. *Source: Virtual Library on Microcredit.*

Informal Savings: Savings held outside of a formal financial institution. Informal savings mechanisms include saving at home in cash or kind, savings groups, rotating savings and credit associations (ROSCAs), accumulating credit and savings associations (ASCAs). A financial institution should have a solid understanding of the local informal savings market before it attempts to develop savings services for poor people. *Source: CGAP*

Informal Sector/ Economy: A subset of the economy consisting of self-owned enterprises and the enterprises of informal employers, in both urban and rural areas. The businesses of the informal sector are not registered with any taxation or regulatory bodies. The main features of the informal sector are ease of entry, self-employment, small-scale production, labor-intensive work, lack of access to organized markets, and lack of access to traditional forms of credit. *Source: ACCION*

Interest Rate Risk: The risk associated with changes in market interest rates that can harm a financial institution's profitability. A financial institution exposes itself to interest rate risk when it mobilizes deposits at one interest rate and lends them out at another. *Source: CGAP*

Interest Rate Spread: The difference between the rate the financial institution pays for deposits and the rate it charges for loans. In a financially sustainable institution, this spread is large enough to cover operating costs, the opportunity cost of holding liquid reserves that earn no or low interest, losses in the value of the institution's assets due to inflation, the cost of provisions for loan and investment losses and capitalization. *Source: CGAP*

Intermediaries: Non- or for-profit institutions that have specialized lending capacities. They obtain capital in the form of equity and low interest loans from a variety of sources, including foundations and other funders, to form a "lending pool." They then serve as "wholesalers" who process large numbers of small loans or investments. This "economy of scale" often allows intermediaries to be more efficient than a foundation or funder could be if it considered each investment individually. Also, intermediaries often develop expertise in a particular field or region that foundations or funders cannot afford to develop. In the context of this study, non-financial intermediaries include community foundations and financial intermediaries include credit unions, venture capital and loan funds, banks, etc. *Source: Renz and Massarsky*

Internal Controls: Policies and procedures designed to minimize and monitor operational risks, in particular the risks of fraud and mismanagement. Because the unpredictable size and timing of cash deposits make financial institutions particularly vulnerable to fraud and errors, institutions that mobilize deposits must implement rigorous internal control policies and procedures. *Source: CGAP*

Leverage: Using long-term debt to secure funds for an organization. In the social investment world, often refers to financial participation by other private, public or individual sources. *Source: Renz and Massarsky*

Liabilities, Total Liabilities: Total value of financial claims on a firm's assets. Equals total assets minus net worth. *Source: Renz and Massarsky*

Limited Liability: Limitation of shareholders' losses to the amount invested. *Source: Renz and Massarsky*

Line of Credit: Agreement by a bank that a company may borrow at any time up to an established limit. *Source: Renz and Massarsky*

Liquidity Management: The process of effectively balancing between two requirements: 1) satisfying all cash outflow requests and reserve requirements without having to sell assets at a loss or borrow at a high cost; and 2) holding enough assets in forms that earn sufficient interest to assure that operations are viable. *Source: CGAP*

Liquidity Reserve Requirements: Government regulations mandating the percentage of deposits that a financial institution must set aside as liquid reserves to be able to meet withdrawal demands. *Source: CGAP*

Liquidity Risk: The risk that a financial institution will not have enough liquid assets to meet the demand for cash outflows, including saving withdrawals, loan disbursements, and payment of operating expenses. A lack of liquidity can put a quick and final end to a financial institution's efforts to mobilize deposits and, in the worst case, can cause it to collapse or close. *Source: CGAP*

Loan Agreement: A written contract between a lender and a borrower that sets out the rights and obligations of each party regarding a specified loan. *Source: Renz and Massarsky*

Loan Loss Provision Expense: A non-cash expense that is used to create or increase the Loan Loss Reserve on the balance sheet. The expense is calculated as a percentage of the value of the Gross Loan Portfolio that is at risk of default. *Source: The MIX Market*

Loan Loss Rate: Total write-offs divided by active portfolio. The loan loss rate is an indicator to measure unrecovered loans. *Source: ACCION*

Loan Loss Reserve Ratio (%): Loan Loss Reserve/ Gross Loan Portfolio. *Source: The MIX Market*

Loan Loss Reserve: A provision set aside to cover potential losses. Microfinance organizations often establish a loan loss reserve equal to 2-5% of the value of their active portfolios. *Source: ACCION*

Loan Loss Reserve: The portion of the gross loan portfolio that has been expensed (provisioned for) in anticipation of losses due to default. This item represents the cumulative value of the loan loss provision expense, less the cumulative value of loans written off. *Source: The MIX Market*

Loan Procedures: Lending policies and procedures, including client selection, paperwork, terms. *Source: Calmeadow*

Loan Products: Types of loans with particular sets of terms and conditions, and often for a particular use. Within the field of microfinance, loan products include fixed-asset lending, home improvement loans and solidarity group lending. *Source: ACCION*

Loss Reserves: That portion of a fund's earnings or permanent capital designated by the board of directors as a reserve against possible loan losses and, as such, unavailable for lending purposes. *Source: Renz and Massarsky*

Market Rate: The rate of interest a company must pay to borrow funds currently. Program-related investments generally are offered at below market rates or at no interest rate. *Source: Renz and Massarsky*

Marketing: Communication of products and services to external client population through various means, eg. Advertisements, referrals, publications. *Source: Calmeadow*

Microcredit: A part of the field of microfinance, microcredit is the provision of credit services to low-income entrepreneurs. Microcredit can also refer to the actual microloan. *Source: ACCION*

Microenterprise: A small-scale business in the informal sector. Microenterprises often employ less than 5 people and can be based out of the home. Microenterprise is often the sole source of family income but can also act as a supplement to other forms of income. Examples of microenterprises include small retail kiosks, sewing workshops, carpentry shops and market stalls. *Source: ACCION*

Microentrepreneur: Owner/ proprietor of a microenterprise. *Source: ACCION*

Microfinance Institution (MFI): A financial institution - can be a nonprofit regulated financial institution or commercial bank - that provides microfinance products and services to low-income clients. *Source: ACCION*

Microfinance: Banking and/or financial services targeted to low-and-moderate income businesses or households, including the provision of credit. *Source: ACCION*

Microinsurance: A developing field of microfinance that provides health insurance and other insurance products to microentrepreneurs and employees in the informal sector. *Source: ACCION*

Microloan Funds: Community loan funds or microcredit revolving funds in North America or Europe. *Source: Calmeadow*

Microloan: A loan imparted by a microfinance institution to a microentrepreneur, to be used in the development of the borrower's small business. Microloans are used for working capital in the purchase of raw materials and goods for the microenterprise, as capital for construction, or in the purchase of fixed assets that aid in production, among other things. *Source: ACCION*

Microsavings: Microsavings are deposit services that allow people to store small amounts of money for future use, often without minimum balance requirements. Savings accounts allow households to save small amounts of money to meet unexpected expenses and plan for future investments such as education and old age. *Source: International Year of Microcredit 2005*

Negative Covenants: Statements of actions or events of the borrower must prevent from occurring or existing, for example, additional borrowing without the lender's consent. *Source: Renz and Massarsky*

Net Operating Income: Financial Revenue (Total) less all expenses related to the MFI's core financial service operations, including Operating Expense, Financial Expense, and Loan Loss Provision Expense. It does not include Donations, or revenues and expenses from non-financial services. *Source: The MIX Market*

Net Working Capital: Current assets minus current liabilities. *Source: Renz and Massarsky*

Net Worth : Total assets minus total liabilities. Aggregate net value of the organization. *Source: Renz and Massarsky*

NGO: An organization registered as a non profit for tax purposes or some other legal charter. Its financial services are usually more restricted, usually not including deposit taking. These institutions are typically not regulated by a banking supervisory agency. *Source: The MIX Market*

Non-Bank Financial Institution: An institution that provides similar services to those of a Bank, but is licensed under a separate category. The separate license may be due to lower capital requirements, to limitations on financial service offerings, or to supervision under a different state agency. In some countries this corresponds to a special category created for microfinance institutions. *Source: The MIX Market*

Non-operating Expense: All expenses not directly related to the core microfinance operation, such as the cost of providing business development services or training (unless the MFI includes training as a requirement for receiving loans). *Source: The MIX Market*

Non-operating Revenue: All revenue not directly related to core microfinance operations, such as revenue from business development services, training, or sale of merchandise. *Source: The MIX Market*

Number of Active Borrowers: The number of individual who currently have an outstanding loan balance with the MFI or are responsible for repaying any portion of the Gross Loan Portfolio. *Source: The MIX Market*

Number of Active Clients: Number of individuals who are active borrowers and/or savers with the MFI. A person with more than just one such account (i.e. with a loan and a savings account) is counted as a single client in this measure. *Source: The MIX Market*

Operating Expense / Loan Portfolio (%): Operating Expense / Period Average Gross Loan Portfolio. *Source: The MIX Market*

Operating Expense: Expenses related to operations, such as all personnel expenses, rent and utilities, transportation, office supplies, and depreciation. *Source: The MIX Market*

Operating Expenses/Period Average Fund Assets: Fund Operating Expenses/((Beginning year Fund Assets + Year end Fund Assets)/ 2). *Source: The MIX Market*

Operational Self-Sufficiency (%): Financial Revenue (Total)/ (Financial Expense + Loan Loss Provision Expense + Operating Expense). *Source: The MIX Market*

Operational Self-Sufficiency (OSS): A measure of financial efficiency equal to total operating revenues divided by total administrative and financial expenses. If the resulting figure is greater than 100, the organization under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues. *Source: ACCION*

Opportunity Cost: The potential benefit that is foregone from not following the best (financially optimal) alternative course of action. *Source: Renz and Massarsky.* In the context of microfinance, opportunity costs include the time or anything "forgone" a borrower spends on applying and filling out the paperwork for a loan. *Source: ACCION*

Outreach: Active attempt to find/interact with clients in selected populations, geographic catchment areas or targeted initiatives. This term will often relate to impact studies and would also include market research and delinquency studies. *Source: Calmeadow*

Peer Lending: Peer lending relies on the peer pressure of group members to act as a guarantee in place of more traditional forms of collateral and credit scoring. *Source: Calmeadow*

Performance Standards: Normative levels set for specific performance measurements, like portfolio quality or leverage. In the field of microfinance, there are several entities and projects attempting to set universal performance standards for MFIs. *Source: ACCION*

Performance Standards: Organizational performance indicators/ performance standards. *Source: Calmeadow*

Population density (people per sq km): Population density is midyear population divided by land area in square kilometers.

Portfolio at Risk: Measurement of the total outstanding balance of loans past due - not late payments or payments not yet due - divided by the active portfolio. A more rigorous manner of assessing portfolio quality than portfolio past due/ delinquent portfolio. *Source: ACCION*

Portfolio:A combination of assets held for its investment benefits, including financial and non-financial returns. The asset mix is usually varied in kind and size to maintain an acceptable level of risk and return. *Source: Renz and Massarsky*

Poverty headcount, rural (% of population): Rural poverty headcount is the total number of rural population living below the national poverty line. *Source: The MIX Market*

Poverty Lending: Here the focus is on poverty reduction and empowerment of vulnerable groups. Usually, this method attempts to identify the causes of poverty and address them with a range of strategies, one of which would be microfinancial services. The target market is the poorest households in a certain geographic area. *Source: Calmeadow*

Principal: In commercial law, the principal is the amount that is received, in the case of a loan, or the amount from which flows the interest. *Source: Renz and Massarsky*

Private capital flows, total (% of GDP): Consist of private debt and nondebt flow. Private debt flows include commercial bank lending, bonds, and other private credits; nondebt private flows are foreign direct investment and portfolio equity investment. This is expressed as a percentage of GDP per capita. *Source: The MIX Market*

Profit Margin: Net Operating Income/ Financial Revenue (Total). *Source: The MIX Market*

Promissory Note: Promise to pay. Written contract between a borrower and a lender that is signed by the borrower and provides evidence of the borrower's indebtedness to the lender. *Source: Renz and Massarsky*

Ratio Analysis: Financial ratio analysis tool that examines organizational sustainability, efficiency and portfolio quality. *Source: Calmeadow*

Real interest rate (%): Real interest rate is the lending interest rate adjusted for inflation as measured by the GDP deflator. *Source: The MIX Market*

Receivables: Accounts receivable; an amount that is owed the business, usually by one of its customers as a result of the ordinary extension of credit. *Source: Renz and Massarsky*

Recourse: Refers to the right, in an agreement, to demand payment from the person who is taking on an obligation. A full recourse loan refers to the right of the lender to take any assets of the borrower if repayment is not made. A limited recourse loan only allows the lender to take assets named in the loan agreement. A non-recourse loan limits the lender's rights to the particular asset being financed -- an approach that is common in home mortgages and other real estate loans. *Source: Renz and Massarsky*

Regulated Microfinancial Institutions: Regulated institutions offering microfinancial services such as BancoSol, Mibanco, Grameen Bank, ADEMI. This section would include non-bank financial institutions that are regulated by special laws. *Source: Calmeadow*

Regulation: Government laws and rules that govern financial institutions. *Source: CGAP*

Remittance: Money sent by expatriate migrant worker to family in home country.

Resource-Dependent Communities: Primary resource-dependent communities, eg. fishing, forestry communities. These resources discuss microfinance as an alternative to activities that are heavily dependent on natural resources. *Source: Calmeadow*

Return on Assets (%): (Net Operating Income, less Taxes)/ Period Average Assets. *Source: The MIX Market*

Return on Equity (%): (Net Operating Income, less Taxes)/ Period Average Equity. *Source: The MIX Market*

Risk Management: A systematic approach to identifying, measuring, monitoring and managing business risks in an institution. *Source: CGAP*

Rotating Savings and Credit Associations (ROSCAs): Informal savings and credit groups in which each member deposits the same amount of money at the same regular interval; each time members deposit, they give the whole of the amount collected to one member. When there have been as many distributions as there are members, the ROSCA ends. *Source: CGAP*

Savings Mobilization: Programs intending to mobilize the capital of the poor and to provide savings accounts, as well as credit services, to microentrepreneurs and low-income households. *Source: ACCION*

Security: A pledge made to secure the performance of a contract or the fulfillment of an obligation. Examples of securities include real estate, equipment stocks or a co-signer. Mortgages are a form of security with strong legal standing, because they are publicly registered following a formal legal procedure. A mortgage gives the lender holding a mortgage security the right to reclaim the asset being financed, if repayment is not made. *Source: Renz and Massarsky*

Self-Help Groups: These are organizations that are used as a foundation to formalize credit and savings operations such as trust banks and/or village banks. *Source: Calmeadow*

Self-sufficiency: Self-sufficiency occurs when a microcredit programme can cover all of its operating expenses (including loan losses and the cost of capital) entirely with internally-generated sources of income. *Source: Virtual Library on Microcredit*

Subsidized Rates of Interest: Loan interest rates that are kept artificially low (below market rates) by the lending institution; often subsidized by donations. *Source: ACCION*

Supervision: Systematic oversight of deposit-taking financial service providers to make sure that they comply with the regulations governing them, or to close them if they do not. Supervision plays a crucial role in protecting depositors from losses due to mismanagement or fraud. *Source: CGAP*

Sustainability: An organization's ability to cover costs. There are varying degrees of sustainability, ranging from not sustainable to financially sustainable *Source: ACCION*

Term / Time Deposit / Certificate / Fixed Deposit: A savings product in which a client makes a single deposit that cannot be withdrawn for a specified period of time. *Source: CGAP*

Transaction Costs: Imputed costs from organizational operations and activities in relation to client services and other organizational interactions (eg. Processing fees). *Source: Calmeadow*

Transformation: In a microfinance context, transformation refers to the process by which a nonprofit community organization or an NGO becomes a regulated financial institution. *Source: ACCION*

Voluntary Savings: Deposits from the general public and members that are not maintained as a condition for accessing a current or future loan and are held with the institution. *Source: The MIX Market*

Willingness to Pay: The amount a consumer will pay for a particular quantity of a good or service. In consumer demand theory, willingness to pay automatically implies ability to pay. In contemporary social science writing, "ability to pay" is sometimes contrasted with willingness to pay. The implicit assumption here is that even though people are willing and actually do pay a certain amount, they lack the ability to pay because they should have spent this money on something else. Buying the good (e.g., water) results in a loss of consumption of some other good or service and places the purchasers further below some socially defined minimum- consumption standard. *Source: Virtual Library on Microcredit*

Write-off: Charging an asset amount to expense or loss. A microfinance institution writes off loans not expecting to collect them, while continuing to attempt collection. *Source: ACCION*