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Abstract- The study specifies and estimates the necessity of credit portfolio management of Bangladesh Krishi Bank. Portfolio management of any banking institution involves both liabilities and asset management. Estimating deposit and loan liabilities need in most efficient manner is the central point of portfolio management in a bank. Through portfolio management of banks in Bangladesh is considered by a number of factors, the recent introduction of financial sector reform measures has injected an element of dynamism and necessitated the need for diversification of credit in the portfolio management of banks. This article is an attempt to describe the present credit portfolio management practice of Bangladesh Krishi Bank and provide some suggestions to overcome those problems associated with credit port folio management.

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I. Introduction

Deregulation and globalization of economy are the two most talked subjects of the day. About 140 countries all over the world are now practicing these reform programs in the name of structural adjustments with financial and technical assistance from the World Bank. Bangladesh is one of them. A key element in the structural adjustment strategy is the adoption of far-reaching trade and financial reforms or adjustments based on economic liberalization. The liberalization measures are designed to eliminate distortions in the allocation of resources, increase competition and encourage productivity in order to achieve higher and sustainable rates of growth. A central component of such reforms is the restructuring of the portfolio through credit diversification with a view to increase the productivity and profitability of the organization.

Bangladesh Krishi Bank has moved a long way since liberation in the field of rural financing activities. It was committed to economic development with prime objective of ensuring social welfare, to bed assisted by an efficient and effective monetary and banking system. But prior to reform programs, government and Bangladesh Bank intervened extensively in credit allocation programs. These programs designated priority sectors imposed compulsory lending targets. Rapid credit expansion to priority sector delivered mainly through BKB, in response to government directives without due attention to the quality of loans have left the Bank unprofitable. The current financial distress position of BKB is partly responsible for inclusion of directed credit programs in its credit portfolio.

Following reforms in the financial sector, banks now enjoy freedom in the allocation of credit. Thus to make the organization profitable and sustainable it is essential to restructure its credit portfolio. Financing facilities need to be extended to diversified activities where from maximum profit to be earned. If we analyze, different variables of Bangladesh Krishi Bank, it will be clear to us why we must diversify our activities. After implementation of loan classification measures at BKB since, 1991, it could not make any profit. Rather it is losing each year and the figure is increasing which may be seen from the following table-I.

Table I : Showing profit and loss position of BKB since implementation of loan classification measures.

Year	Profit/Loss
2007-08	(-)144.42 crores
2008-09	(-)73.13
2009-10	(-)193.13
2010-11	(-)165.07
2011-12	(-)238.37

Source: Central Account and Fund Management Department, BKB, HO, Dhaka-2013

As we know current years invested funds become due to recovery in the next year .If we do not invest more than the recovered amount in the same year, the scope for recovery in the next year will be contracted. Thus, for business expansion, more investment is a must. But where to invest, Day by Day, the scope for investment in traditional items like farm activities are becoming very limited. Some are becoming defaulter and some are landless. Therefore, we are to look for alternative prospective activities.

Now the question comes, where to diversify and how to do it? Thus, for survivability and sustainability of BKB, we have to identify the potentiality of the branch area and diversify our financing activities irrespective of the heads of enterprises or economic activities and also develop appropriate mechanism effective for successful implementation of the credit programs.

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II. Conceptual Framework of Credit Portfolio Diversification

Portfolio management of any banking institution involves both liabilities and asset management. Estimating deposit and loan liquidity needs in most efficient manner is the central point of portfolio management in a bank. Through portfolio management of banks in Bangladesh is considered by a number of factors, the recent introduction of financial sector reform measures has injected an element of dynamism and necessitated the need for diversification of credit in the portfolio management of banks. Banks try to influence the volume of certain kinds of deposits they receive in order to provide customers with credit and to conduct other elements of banking business at lowest cost.

Funds for short term uses can be provided through encashment of assets or by liability increases. Likewise, inflows of fund may lead to asset increase or liability decrease. A bank will choose the least cost method for fulfilling its needs. It is widely recognized that the activities or success of any organization depends upon its ability to establish and maintain a good fit between itself and its changing environment. Therefore, the process of diversification of credit portfolio of any banking institution implies what activities/enterprises it was financing, what activities/enterprises it is financing and what activities/enterprises it will need be financing and how to make necessary changes in the credit portfolio. The goal of diversification is to retain or improve comparative advantages in the emerging environmental changes. Since, diversification follows strategy, new strategies must be supported by appropriate policies and programs, which in turn will influence the performance the organization. Considering the continuous changed circumstances of socio-economic environment of the country different banks and financial institutions are taking steps in diversifying their credit portfolios.

Analysis of Bangladesh Krishi Bank's Credit portfolio Management: the past and the present:

Bangladesh Krishi Bank, a state owned specialized bank, since its birth acting as a pioneer credit institution in agricultural sector for the economy. In section 2(a)of the BKB's order, the term "Agriculture" has been defined to include the raising of crop of any kind, horticulture, forestry, animal husbandry, poultry farming, dairy farming, bee keeping and sericulture and other agro industries.

Bangladesh Krishi Bank was originally created with a view to cater the credit needs of the farmers. In order to rehabilitate the war ravaged agricultural sector, special measures were taken t grant loans to the poor farmers. The credit portfolio of BKB in addition to, Governments special credit programs (like Tarabi loan, Flood loan, Cyclone loan etc.) and crop financing programs including financing and development of agriculture and agricultural produce, horticulturwe, dairy, fishery, poultry, sericulture, tea plantation, irrigation equipment, farm machinery, processing and marketing of agricultural or fish produce, employment generation and poverty alleviation programs. In transacting the business, the board of director of the bank as far as possible gave preference to the credit need of the small and marginal farmers including share croppers (the Bargadar) and disadvantaged segment population of the country. Till 1976, BKB was almost a monopolistic organization in rural financing. The special agricultural credit program (SACP) was launched in 1977 with taka 100.00 cores in addition to normal agricultural credit program and six nationalized commercial banks were involved in financing agriculture sector. From 1982, Government introduced integrated irrigation credit program (IICP) and matidak credit program to boost up agricultural productivity through over the country. During that period BKB, started its credit diversification, with giving due importance to different channel or agricultural marketing. In addition, more importance was given to financing agro-based industries and small and cottage industries.

BKB has given due importance (more priority) in advancing loans to crop sector, tea plantation, working capital loans, marketing of agri products, export credit, dairy and poultry farming, small and cottage industries, tea development, project loans and loans against other ancillary business and at the same time reduced advances against traditional sectors like irrigation equipment, farm machinery, fishery and aquaculture and transport sectors. From above position it can be concluded that BKB has already started diversifying its activities from traditional sectors to commercial one's.

III. Objectives of the Study

- To provide the present credit portfolio management practice of Bangladesh Krishi Bank.
- To identify the problems associated with the credit portfolio management of Bangladesh Krishi Bank.
- To give some suggestions to overcome those problems.

IV. Methodology of the Study

This study is basically descriptive in nature and mainly based on secondary information. This study analyses published books, different published research work, newspapers, different government officials, various reports and websites. Different officials of Bangladesh Krishi Bank were interviewed to obtain relevant data.

V. Findings

1. Initially Bangladesh Krishi Bank was not established for earning profit. Ultimate goal was to ensure welfare of the rural people of the country.

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2. The conceptual frame work of BKB's functioning is not yet clear to all. Some one term it as development financial institutions (DFIS), while others term it as a bank. First of all, it should be clear. If it is a DFI, then profit would not be the main motto. In that case, welfare would get priority over profitability. Here government should give subsidy if needed. On the other hand, if it to be termed as bank, it should be allowed to run on banking principles.
3. Agriculture and agro related activities financing are risky business.BKB has been restricts not to finance beyond eighteen heads of activities. To run the bank on commercial considerations, this restriction need be withdrawn, BKB should be allowed to finance irrespective of heads of activities.
4. Commercial activities like letter of credit(LC) business, purchase and sale of foreign currencies and other international business is very negligible at BKB, out 836 no. of branches only 10 no. of branches are involved with foreign exchange business, which is only 1.2% of total branches. This business need be expanded.
5. The performance of poverty alleviation credit programs of BKB has been found very successful. But its involvement is only (3-4) % of the total credit portfolio. This sector needs special attention.
6. Area approach credit programs ensuring marketing channel like BADC contract growers schemes depict a success story. This program may be intensified.
7. There are three parties in financing project/activities. The entrepreneur, the enterprise or project and the financer. The banker invests for the enterprise/project, invest for human resources development (HRD) of its staff and officers through imparting training, but do not invest proportionately for entrepreneurship development.
8. Mere diversification of loan port-folio may not fulfill the objectives of the bank if appraisal of the loan proposal remains defective.

VI. Suggestions

One the basis of the fore going discussion, the following suggestions are made:-

1. Bangladesh Krishi Bank has no alternatives but to diversify its credit port folio.
2. Off farm activities especially (microcredit) should be given top priority in the credit portfolio. Of the total credit budget at least (50to 60) % should be earn marked for this sector. Financing big size loans should be discouraged as far as possible.
3. Area approach credit program like, BADC contract growers program, sugar cane growing at Faridganj thana of Chandpur district, nut plantation at Noakhali, Battle leaf cultivation at Moheshkhali thana of Cox's bazaar district etc as for examples(That is specified enterprises at specific areas)may be planned and implemented. At initial stage these may be undertaken on model basis. If found successful may be multiplied later on.
4. More branches might be given foreign exchange business license to diversify business activities.
5. To reduce liquidity problem, and to encourage diversifying credit portfolio, foreign credit lines at low rate of interest might be explored. To do so project planning diversion of BKB head office, Dhaka might lined up foreign credit from different international agencies like ADB, IDA, IFAD, UNDP/FAO, Norad, etc.
6. Since, BKB is financing agro and agro related activities, which are very much risky business and it cannot realize the cost of fund as a result its loss figure is increasing year after year. Arrangement may be made to claim loss subsidy from the government for financing this sector.
7. To make credit diversification program successful man power planning must be re-structured.
   - Bank need to recruit fresh graduates.
   - They might be trained on the diversified activities financing. If needed specialized training programs might be imparted to fresh recruited.
   - Motivational training program in respect of change of attitude, leadership development and moral development may be organized for the in service personnel of the bank.
8. BKB has to develop entrepreneur class. In addition to conducting training programs for the bank officials, training programs for the entrepreneur must be organized. For this purpose long run training perspective plan must be developed and implemented properly.
9. Similar training programs may be organized regularly by training institute. Transparency of the work done by each officers/staff must be visualized and accountability might be fixed and get work done must be ensured. To ensure these, monitoring, follow-up and supervision system has to be reorganized. Field officials, engaged in the field work might maintain creditor contract register, where in they would maintain all records of the creditor.
10. For successful implementation of the credit programs, the field officials of each branch might do the following works.
    a) Conduct socio-economic survey of his allotted area (say a union) and to identify all business potentiality. All these data to be recorded and maintain in a source data register (Branch manager will maintain the same for the whole branch area).
    b) Should maintain creditors list/register (village and union wise).There should have identification mark for the classified loans showing SS, DF and BL.

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c) Should maintain loan recommendation register, wherein he will keep records of recommending different types of loans in each month.

d) Should maintain performance register as per the pro-forma, Branch Manager will keep these records in a separate register for all the field officials month wise. For better monitoring and follow up of the activities of the field officials by regional office, branch manager should send this statement within 7th day of the following month to Regional manager's office.

11. To collect deposit from the Bangladeshi people working at abroad, field officials might be given monthly target to collect address (Both Bangladeshi local address and foreign address) of the person living abroad. Branch manager will record their address in a register and will send letters to the foreign address requesting him to open accounts in his branch. Account opening from including form including specimen card indicating places of his signature may be send to him. At chandpur region, by applying this technique BKB got better result. This practice may be implemented at all regions.
12. Mere diversification of credit portfolio will not be fruitful unless credit proposals are appraised properly. In present practice, for appraisal for a loan proposal more importance is given to the security and business potentiality aspect rather than behavioral aspect. The cause behind is that no systematic techniques for analyzing the behavior aspect has yet been developed. As it has been observed that among the three risk factors, the behavioral risk factor occupies the number one risk for non recovery of the loan.Thus, top priority should be given in analyzing tools might be developed and followed rationally. The responsibility for designing such a tool may be given to the research and statistics department of BKB, Head office, Dhaka.

    In designing the same, entrepreneurs address, age, health, education, training local reputation, financial dealing, sister concerned business, business condition, ownership position of assets, equity bearing ability, liability position, other sources of income, past history of his family background etc. may be taken into consideration. Rating system through applying number in each aspect may be introduced. Entrepreneurs, securing above 60% number may be treated eligible for getting selection as a banking entrepreneur.
13. Both over financing and under financing are to be avoided.
14. Valuation of security property especially at city areas might be increased on the basis of real market price and MCL to be fixed accordingly.
15. Diversified credit system is to be introduced even there should be provision for expanding credit facilities to meet the consumption need at lean period as well as to meet their socio culture needs in emergencies, so as to free them from the exploitation of money lenders.
16. There should be provision for adequate conveyance facility in every branch for proper follow-up and direct contact with the lenders when required, motor cycle may be supplied to each branch.
17. Different campaign through mass media and educational program should be carried on to develop positive attitude and sound motivational support of the people towards banks and its utilization.
18. A group fund may be created for each credit program which will reduce the volume of risk premium. Similarly emergency fund may also be created to take care of some of the needs of the target groups during post disaster period.
19. Gurantee scheme both for the lending institution and the rural farmers may be introduced.Gurantee fund should be created for the purpose of protecting the banks form losses due to administered by the central bank or the ministry concerned.

VII. Conclusion

Bangladesh Krishi Bank,is a development financial institution(DFIS)established with a view to ensure welfare of the rural people of the country through financing different agro and agro related and other activities. At the initial stage its main activities were concentrated to primary agriculture. Later on it has diversified its activities to secondary agriculture. During 1980's BKB has started diversifying its credit port folio in multifold aspect, through initiating foreign credit lines. During 1990, with the introduction of financial sector reform measures, especially classification measures, the real financial position of the bank became transparent to all concerned. Continuously, running on loss for the last six years, since introduction of classification measures, BKB has to rethink in respect of restructuring its credit portfolio. As a result it is felt need from all concern to further diversify the credit portfolio of BKB.

Under the existing socio economic condition of the country, BKB for its survivability and sustainability must diversify its credit portfolio and also restructure its operational procedure, including improvement of appraisal techniques. In the credit portfolio of BKB, in addition to agro and agro related activities of all types of commercial activities (both agricultural and non agricultural) need to be incorporated. Micro-credit especially off-farm activities financing should be the main head of financing. If fund possible, at least 50% of the total credit budget may be allocated for micro – credit. To implement the same, strict supervised credit system might be introduced and implemented properly. Monitoring, follow-up and supervision system need to be intensified and redesigned in such a manner so that

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accountability can be fixed transparency is visualized and ensure get work done. The sooner, these may be ensured better result is expected. However, we are waiting for those good days.

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