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Performance Evaluation of Agricultural Credit of Banks in Bangladesh

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Keywords: *Bangladesh, agriculture, agricultural credit, scheduled banks.*

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PERFORMANCEEVALUATIONOFAGRICULTURALCREDITOFBANKSINBANGLADESH

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Performance Evaluation of Agricultural Credit of Banks in Bangladesh

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Abstract- The term agriculture is an essential organ of the economy of Bangladesh. In order to ensure long-term food security, a cost-effective, sustainable and environment-friendly agricultural system is very decisive. Agricultural sector plays an irrefutable role in achieving the overall growth and development of the economy of Bangladesh. Agricultural credit plays an inevitable role in agricultural productivity, since it has increased the quantity and quality of inputs used in production process. Timely and adequate flow of agricultural credit is tremendously important for Agricultural productivity. This paper investigates the performance of overall agricultural credit of banks over time; evaluate the performance of agricultural credit of various types of banks in Bangladesh, analyze performance of agricultural credit disbursed to agricultural sub-sector and reveals status of the beneficiaries of agricultural credit. This study collected time series data from various source and analyze in a meaningful way to discover the true performance of agricultural credit of banks in Bangladesh.

Keywords: Bangladesh, agriculture, agricultural credit, scheduled banks.

I. Introduction

The term agriculture is an essential organ of the economy of Bangladesh. Agricultural sector plays an irrefutable role in achieving the overall growth and development of the economy of Bangladesh. The agricultural sector contributes 14.79% of the country's Gross Domestic Product and 45% of the total labor force directly involved in this sector. This sector also plays vital role in economic growth by providing inputs to agro based industries, creating employment, attracting foreign direct investment. Besides its economic importance this sector notably contributes to important social issues like food and nutrition, standard of living, poverty alleviation etc. Agriculture is a tremendously important sector when viewed from an environmental angle. Through its effect on land and water as well as on air quality and biodiversity it can have a considerable impact on environmental issue.

Agricultural productivity depends upon many factors like fertility of soil, climate, seed quality, fertilizer, irrigation, household characteristics, rural infrastructure, labor efficiency, managerial capability, use of modern technologies etc. Besides above mentioned factors agricultural credit plays an inevitable role in agricultural productivity, since it has increased the quantity and quality of inputs used in production process. In order to ensure long-term agricultural development, the Govt. is trying to establish a purposive, cost-effective; true-user ensured agricultural credit system. Initially the Govt. supplied subsidized agricultural credit through specialized banks like Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank. But unfortunately due to inefficiency, corruption, bureaucratic problem, political interference the outcome was not up to the mark at all. Receptively for the last nine years all scheduled private and foreign commercial banks are incorporated under agricultural credit program as a modification of agricultural credit policy by Bangladesh Bank. Although specialized and commercial govt. bank as well as NGO & MFIs have their decentralized branch network system in remote areas throughout the country but private and foreign commercial bank does not have that network. So, they are suggested to distribute credit facility with the affiliation of NGO and MFI. As per the policy modification of central bank, for the last nine years agricultural credit has been disbursed at union parishad office rather than bank to ensure that only genuine farmers can get the facilities.

a) *Objective of the study*

1. To evaluate overall performance of agricultural credit of banks in Bangladesh.
2. To explore agricultural credit policy adaption by banks of Bangladesh.
3. To identify problems and challenges regarding agricultural credit of banks in Bangladesh.
4. To recommend some suggestions about problems and challenges of agricultural credit.

II. Review of Related Literature

Akther, Younus, Parveen and Chowdhury (2016) in a study found agricultural credit played significant role in reducing rural poverty and thus increased sustainable economic development in Bangladesh. In that study agricultural credit, rural employment, female employment, agricultural production, credit to gross domestic product and per capita income have been used as independent variables to examine the determinants of rural poverty in Bangladesh for the sample period from 1984 to 2014. The empirical estimation suggests that all the explanatory variables in the model are significant and are found to be negatively related to rural poverty.

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Rahman, Luo and Cheng (2011) in a study investigate a strong positive correlation between agricultural credit and agricultural productivity. In that study it is found that the performance of agricultural credit of various lenders improved due policy modification including inclusion of new financial intermediaries and modification in loan disbursement methods by Bangladesh Bank. However both the allocation of credit to agriculture and target attainment had found less satisfactory.

Alauddin and Biswas (2014) in a study explore that formal sector has flourished in recent years in disbursing agricultural credit where previously informal sector dominated the rural credit market for agriculture. A timely flow of agricultural credit can meet farmers demand to ensure agricultural productivity. Since NGOs have a stronger network throughout the country thus many local and foreign commercial banks are using these channels to provide agricultural credit.

Sharmeen and Chowdhury (2013) is a study reveal that in the last several years, the growth in the broad agricultural sectors seems steady as well as upward sloping and their contribution in GDP is quite significant. A positive correlation has been found between available agricultural credit and greater production in the context of Bangladesh, whereas, several empirical evidences have been presented here which provide both positive and weak relationship in between them.

Ariful, Rayhan, Mahmudul and Luthful (2014) in a study found that in Bangladesh mainly NCBs and SBs are burdened with heavy classified agricultural loan. Small credits have proven viable to the poor for rural development. Proper application of rural people's effort, experience and knowledge with the help of timely and adequate flow of agricultural credit can bring prospect to rural areas.

Tanbir Ahmed and Sarahat Salma (2011) in a study state that for efficient performance of agricultural sector, proper credit facilities and adequate support is essential both from government and private sector. It is observed that agricultural banks are able to achieve a steady growth in terms of employees, branches, deposits, loans and advances during the period 2004-2008.

III. Methodology of the Study

This study has been done mainly based on secondary data collected from Bangladesh Bank (BB), Bangladesh Economic Review (BER), and Bangladesh Bureau of Statistics (BBS) publication of various years. Secondary sources of data have been used and analyzed due to availability and accessibility. Besides these data other relevant data have also been collected from Ministry of Finance, Ministry of Agriculture, Ministry of Fisheries, Ministry of Livestock etc. These available sources confirmed data for the year 2001 to 2016. Some cases available data of the year 2017 is also used.

The collected time series data analyzed on the basis of overall agricultural credit performance includes its growth, share to total credit etc. Data also analyzed from the view point of lenders. Agricultural sub-sector also analyzed on the basis of target allocation and attainment. MS Excel software was applied for analyzing and presenting data in a meaningful way.

IV. Analysis and Findings

Table-1: Comparative analysis of target and actual disbursement; recovery; outstanding, overdue and overdue as percentage of outstanding of agricultural credit during 2001-16

(Tk. in Billions)

Year	Disbursement (Target)	Disbursement (Actual)	Gap/ Achievement (%)	Recovery	Total Outstanding Loan	Overdue	Overdue as percent of outstanding
2001	32.66	30.20	92.47	28.78	111.37	67.59	60.69
2002	33.30	29.60	88.89	32.60	115.00	67.60	58.80
2003	35.61	32.78	92.05	35.16	119.13	65.26	54.78
2004	43.79	40.48	92.44	31.35	127.06	62.65	49.31
2005	55.38	49.57	89.51	31.71	140.40	57.81	41.18
2006	58.92	54.90	93.18	41.64	153.76	66.50	43.27
2007	63.51	52.93	83.34	46.76	145.82	66.35	45.50
2008	69.75	61.67	88.42	43.75	158.49	58.37	36.83
2009	74.66	69.92	93.65	66.14	171.70	60.49	35.23
2010	84.53	82.79	97.94	76.51	199.61	63.66	31.89

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2011	89.86	92.10	102.50	89.19	225.99	59.72	26.43
2012	138.00	131.32	95.16	123.59	259.75	60.52	23.30
2013	141.30	146.67	103.80	143.62	310.58	52.09	16.77
2014	145.95	160.37	109.90	170.46	346.84	76.12	21.95
2015	155.50	159.78	102.80	154.07	329.37	67.29	20.43
2016	164.00	176.46	107.60	170.56	344.77	56.78	16.47

Source: Bangladesh Bank Annual Report (2001-2016)

Generally performance of agricultural credit has been measured based on credit disbursement achievement, recovery situation and overdue as percent of outstanding overtime. In Table-1 we see the comparative analysis of credit disbursement achievement, recovery situation and overdue as percent of outstanding during 2001-16. In this 16 years data we have seen that most disbursement gap found in the year 2007 which is only 83.34 percent of targeted disbursement and most disbursement achievement found in the year 2014 which is 109.90 percent of targeted disbursement. We have also found that before policy modification of agricultural credit average disbursement gap (Year 2001-2007) was 90.27 percent of targeted disbursement and after policy modification of agricultural credit average disbursement achievement (Year 2008-16) stood at 100.19 percent of targeted disbursement.

In 2001 overdue as percent of outstanding was 60.69 percent which is highest during 2001-16. As mentioned earlier agricultural credit initially disbursed through Govt. banks and due to inefficiency & corruption of the employees and bureaucratic problem & political interference in Govt. institutions this performance was very poor. Before policy modification of agricultural credit average overdue as percent of outstanding (Year 2001-2007) was very alarming 50.50 percent and after policy modification of agricultural credit average overdue as percent of outstanding (Year 2008-16) stood 25.48 percent. Participation of private commercial and foreign commercial banks, their effective management & strategy as well as establishment of good governance in Govt. banks improving this performance of agricultural credit. In 2016 overdue as percent of outstanding was 16.47 percent which is lowest during 2001-16.

Table-2: Comparative analysis of Banks Total outstanding, agricultural credit disbursement, percentages of agricultural credit from total bank credits and Agricultural Credit Growth during 2001-16

(Tk. in Billions)

Year	Total Bank Credit Outstanding	Actual Disbursement of Agricultural Credit	% of Agricultural Credit from Bank Credit	Agricultural Credit Growth (%)
2001	645.53	30.20	4.68	-
2002	732.60	29.60	4.04	-1.99
2003	832.60	32.78	3.94	10.74
2004	974.50	40.48	4.15	23.49
2005	1197.66	49.57	4.14	22.46
2006	1439.56	54.90	3.81	10.75
2007	1651.19	52.93	3.21	-3.59
2008	1966.40	61.67	3.14	16.51
2009	2259.34	69.92	3.09	13.38
2010	2782.50	82.79	2.98	18.41
2011	3476.76	92.10	2.65	11.25
2012	4135.30	131.32	3.18	42.58
2013	4482.15	146.67	3.27	11.69
2014	5047.49	160.37	3.18	9.34
2015	7463.01	159.78	2.14	-0.37
2016	6654.76	176.46	2.65	10.44

Source: Bangladesh Bank Annual Report (2001-2016)

Table-2 shows the total banks credit outstanding, actual disbursement of agricultural credit, percentage of agricultural credit from total banks credit outstanding and growth of actual agricultural credit disbursement during 2001 to 2016.

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In the following Table-3, we have found the performance of various types of banks in Bangladesh. Performance is measured by overdue as percentage of outstanding. From the table, we see the performance of State owned commercial banks (SCBs) was very alarming at the beginning of the period. 15 years average overdue as percentage of outstanding of SCBs is 47.39%. On the other hand 15 years average overdue as percentage of outstanding of State owned specialized banks (SBs) is 28.54%. As a part of policy modification of agricultural credit, Private commercial banks (PCBs) and Foreign commercial banks (FCBs) have been providing agricultural credit since 2008. 9 years average overdue as percentage of outstanding of PCBs is 3.08% which is very much satisfactory. On the other hand 9 years average overdue as percentage of outstanding of FCBs is only 0.02% which shows extraordinary performance of FCBs.

Table-3: Comparative analysis of Overdue as the percentage of the total outstanding agricultural credit by various banks during 2002-2016

(Tk. in Billions)

Year	Outstanding Agricultural Credit				Overdue				Overdue as % of Outstanding			
	SCBs	SBs	PCBs	FCBs	SCBs	SBs	PCBs	FCBs	SCBs	SBs	PCBs	FCBs
2002	33.46	66.03	-	-	24.17	30.55	-	-	72	46.27	-	-
2003	34.80	68.96	-	-	24.19	28.4	-	-	69.51	41.18	-	-
2004	37.5	73.2	-	-	23.6	27.1	-	-	62.9	37.02	-	-
2005	40.89	81.65	-	-	18.45	26.44	-	-	45.12	32.38	-	-
2006	49.69	85.37	-	-	28.06	25.08	-	-	56.47	29.38	-	-
2007	49.11	85.89	-	-	29.32	32	-	-	59.70	37.26	-	-
2008	49.57	98.92	16.73	3.01	26.33	28.81	0.50	0.00	53.12	29.12	2.99	0.00
2009	53.19	108.37	18.55	5.73	26.63	29.78	0.31	0	50.06	27.48	1.67	0
2010	60.99	128.32	21.08	5.19	26.46	32.93	0.38	0.00	43.38	25.66	1.80	0.00
2011	64.36	149.37	26.62	3.31	25.83	29.42	1.25	0.00	40.13	19.70	4.70	0.00
2012	67.56	147.37	42.56	2.26	23.99	35.22	1.31	0.00	35.51	23.90	3.08	0.00
2013	73.63	174.47	59.78	2.70	24.57	25.26	2.26	0	33.37	14.48	3.78	0
2014	79.07	199.42	64.01	3.83	25.39	47.95	2.78	0.0004	32.11	24.04	4.34	0.01
2015	84.04	177.09	66.11	2.13	26.21	38.94	2.14	0.0036	31.19	21.99	3.24	0.17
2016	87.16	175.08	80.24	2.29	23.02	32.01	1.75	0.0030	26.41	18.28	2.18	0.13

Source: Bangladesh Bank Annual Report (2002-2016)

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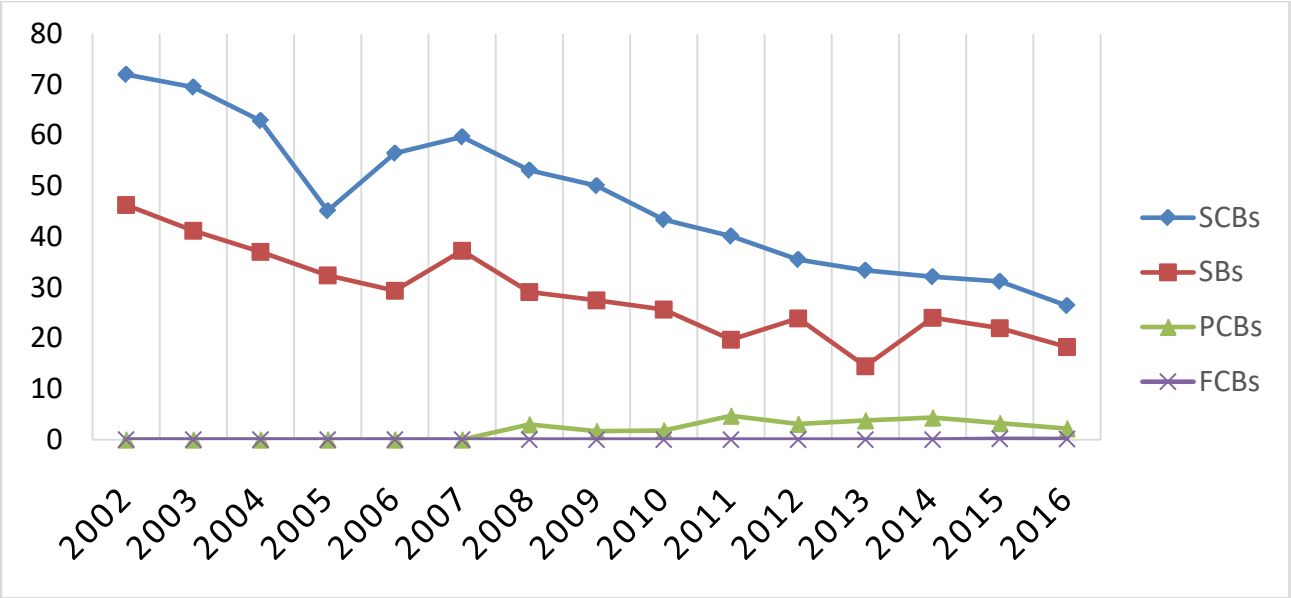


Figure-1: Performance of various types of banks in Bangladesh. Measured by overdue as percentage of outstanding (plotted in vertical axis) during the year 2002-16 (plotted in horizontal axis)

Table-4: Agricultural Credit Allocation and Target Attainment by Sub Categories (2001-16)

Year	Crops		Livestock		Fisheries		Poverty Alleviation		Others	
	Share (%)	Attainment (%)	Share (%)	Attainment (%)	Share (%)	Attainment (%)	Share (%)	Attainment (%)	Share (%)	Attainment (%)
2001	45.10	83.87	2.62	65.83	2.68	61.83	14.27	65.2	35.33	120.33
2002	43.11	68.64	3.72	76.92	2.27	62.62	15.67	79.0	35.24	112.95
2003	51.77	90.31	4.51	79.57	1.71	47.46	8.96	91.3	32.94	71.98
2004	45.58	78.31	6.13	89.21	2.74	63.79	9.98	116.8	35.57	87.19
2005	42.53	75.61	5.75	74.22	2.70	48.38	13.69	82.8	35.32	163.37
2006	40.10	77.33	5.02	57.74	4.20	76.49	27.62	108.51	23.05	146.81
2007	43.19	75.47	5.04	50.00	4.55	68.08	23.71	111.4	23.50	151.22
2008	39.95	78.82	4.80	54.11	5.24	68.14	27.38	115.3	22.62	148.98
2009	40.82	91.77	4.49	50.65	4.89	70.37	30.90	116.4	18.88	166.12
2010	40.09	92.50	4.93	56.20	4.83	73.66	32.33	126.8	17.82	161.30
2011	40.04	98.58	4.64	58.17	5.05	85.48	17.69	104.76	32.58	124.42
2012	48.55	94.86	5.86	75.50	5.93	76.32	11.80	155.47	27.87	99.44
2013	43.87	98.41	12.29	133.06	9.01	104.18	11.30	131.27	23.53	93.12
2014	44.47	102.7	12.45	130.80	8.59	108.68	11.62	167.03	22.87	97.89
2015	47.59	100.4	12.87	123.17	10.35	107.62	9.27	130.26	19.92	87.49
2016	49.27	107.3	14.81	154.31	11.25	118.30	8.83	162.90	15.83	70.32

Source: Bangladesh Bank Annual Report (2001-2016)

Table-4 represents the percentages of credit allocation/share over total agricultural credit disbursement and target attainment by sub-categories during 2001-2016. In these table agricultural credit performances is analyzed by sub-category levels. Sub-category includes crops, livestock, fisheries, poverty alleviation and others (purchasing irrigation equipments, marketing agricultural products and other agricultural activities).

Crop's share of agricultural credit had reached maximum level at 51.77% in 2003 while it dropped to a minimum of 39.95% in 2008. 16 years average share of crops over total agricultural credit is 44.13%. Hence, target and actual disbursement of crops credit gradually increased overtime. Before policy modification 7 years average target attainment of this sub-sector was 78.51% and after policy modification 9 years average target attainment of this sub-sector stood 96.15%.

Livestock's share of agricultural credit had reached maximum level at 14.81% in 2016 while it dropped to a minimum of 2.62% in 2001. 16 years average share of livestock over total agricultural credit is

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6.87%. Before policy modification 7 years average share of this sub-sector over total agricultural credit was 4.68% and after policy modification 9 years average share of this sub-sector over total agricultural credit stood 8.57%. Hence, target and actual disbursement of livestock's credit gradually increased overtime. Before policy modification 7 years average target attainment of this sub-sector was 70.49% and after policy modification 9 years average target attainment of this sub-sector stood 92.86%.

Fishery's share of agricultural credit had reached maximum level at 11.25% in 2016 while it dropped to a minimum of 1.71% in 2003. 16 years average share of fishery over total agricultural credit is 5.37%. Before policy modification 7 years average share of this sub-sector over total agricultural credit was 2.97% and after policy modification 9 years average share of this sub-sector over total agricultural credit stood 7.24%. Hence, target and actual disbursement of fishery's credit gradually increased overtime. Before policy modification 7 years average target attainment of this sub-sector was 61.23% and after policy modification 9 years average target attainment of this sub-sector stood 90.31%.

In case of poverty alleviation share of agricultural credit had reached maximum level at 32.33% in 2010 while it dropped to a minimum of 8.83% in 2016. 16 years average share of poverty alleviation over total agricultural credit is 17.18%. Before policy modification 7 years average target attainment of this sub-sector was 78.51% and after policy modification 9 years average target attainment of this sub-sector stood 96.15%.

Other's share of agricultural credit had reached maximum level at 35.57% in 2004 while it dropped to a minimum of 15.83% in 2016. 16 years average share of Purchasing irrigation equipments, marketing agricultural products and other agricultural activities over total agricultural credit is 26.43%. Hence, target and actual disbursement in this sub-sector gradually decreases overtime.

Table-5: Comparative statement of no. of total beneficiary of agricultural credit , female beneficiary, % of female beneficiary, amount of agricultural credit disburse to female beneficiary and % of amount disburse to female beneficiary out of total disbursement of agricultural credit during 2011-17

(Tk. in Billions)

Year	No. of Total Beneficiary	No. of Female Beneficiary	% of Female Beneficiary	Amount Disburse to Female Beneficiary	Actual Disbursement of Agricultural Credit	% of Amount of Agricultural Credit Disburse to Female Beneficiary out of total Agricultural Credit
2011	2700408	332334	12.31	7.25	92.10	7.87
2012	3036144	320428	10.55	7.35	131.32	5.60
2013	3310024	444546	13.43	12.45	146.67	8.49
2014	3285936	589942	17.95	16.12	160.37	10.05
2015	3194950	265562	8.31	9.00	159.78	5.63
2016	3426130	1519578	44.35	44.80	176.46	25.38
2017	3856635	1847065	47.89	62.40	209.98	29.71

Source: Bangladesh Bank's Agricultural & Rural Credit Policy and Programme (2011-2017)

Table-5 reveals the women's participation and share on agricultural credit during 2011-2017. From this table we observed that no. of beneficiary of agricultural credit increases over time. Percentage of no. of women had reached maximum level at 47.89% in 2017 while it dropped to a minimum of 8.31% in 2015. Encouragingly for the last two years this rate is 47.89 and 44.35% which is more than twice of its average rate 22.11%.

Amount of agricultural credit disburse to women is also increases over time. But their share on amount of agricultural credit disbursement is not at a rate of their participation rate. That is in 2017, out of every 100 beneficiaries of agricultural credit 48 are female but out of every 100 taka disbursement they got only 29.71 taka. Same type of situation exists during 2011-16 as well. This situation reveals that there is discrimination in per head credit disbursement between male and female beneficiary.

V. Major Challenges of Agricultural Credit

- The first and foremost challenge of agricultural credit is to ensure its use and user properly. Many times instead of true user other people got the agricultural credit and use it in other purpose. Sometimes true user also misuses this loan to repay paternal debt., marriage, education, medical expenses etc.
- Sometimes it takes too time and formalities to process agricultural credit. Farmers always feel fear about formalities and documentation of financial institutions. This lengthy procedure sometimes

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hampers the productivity of farmers as they incapable to purchase agricultural inputs on time.

- Financial institutions in Bangladesh are mostly urban biased. For balanced sector wise and regional development decentralized financial institutions are very much needed. This unban bias baking operation is a major threat of agricultural credit.
- Unfavorable interest rate, repayment procedure and terms and conditions of some financial institutions restrain agricultural credit. PCBs and FCBs having limited banking operation in rural areas and provide agricultural credit through NGO-MFIs which is very costly to farmers. Weekly repayment procedure pattern of NGO-MFIs is also not suitable for agricultural sector.
- Lack of collateral by the farmers, formalities & fear regarding collateral submission most farmers lost their intention to receive the loan as most of them are illiterate.
- Political interference is acts as a major obstacle for agricultural credit. Sometimes loans are processed on the basis of political influence and sometimes agricultural loan used in political affairs as well.
- In Bangladesh agricultural insurance system yet to develop. Agricultural credit performs more if agricultural insurance system will spread and function properly.
- Allocation of agricultural credit as compare to total bank credit is very small. Considering the importance of agricultural sector, agricultural credit has to be increased.
- Credit allocation among sub-sector, livestock and fishery sector are very much neglected. Share on agricultural credit and target attainment is very poor in those sub-sectors.
- Discrimination exists in allocation of agricultural credit between male and female. Per head disbursement of agricultural credit to male beneficiary is much higher than female beneficiary.
- Performance of agricultural credit of NCBs and SBs is very alarming. Though the situation is gradually improving. Despite their performance should be increased to the acceptable level.

VI. Conclusion and Suggestions

In order to ensure long-term food security, a cost-effective, sustainable and environment-friendly agricultural system is very decisive. Being a developing country Bangladesh has to rely on agricultural sector in every respect of economic activities. This crucial importance of agricultural sector guided us to give appropriate care and concentration towards this sector. Evaluating the performance, trends and patterns of agricultural credit over the time the following suggestions are recommended for further potentiality of agricultural credit:

- ✓ Banks and financial institutions should ensure the true user of agricultural credit and make sure they use the credit for true purpose. Close supervision and monitoring of the officials can improve this situation.
- ✓ Though Bangladesh Bank time to time make policies and program regarding agricultural credit but the flow of agricultural credit is too small in compare to growing need of this sector. So flow of credit should be increased in a meaningful way that ensures both quality and quantity of agricultural credit.
- ✓ Among agricultural sub-sectors, allocation of credit and target attainment should be increased in livestock and fishery.
- ✓ Financial institution should ensure timely and adequate flow of agricultural credit. For that calendar of agricultural production process should be follow. Unnecessary terms and conditions, loan processing time and documentation formalities should be reduced as much as possible.
- ✓ Financial institutions and financial services should spread at the remote and rural areas. Inclusive financing strategy and agent banking system can be a powerful weapon for that.
- ✓ Financial institutions particularly state owned financial institutions should be monitored and regulated strictly. For that accountability and responsibility should be ensure within the stakeholders.
- ✓ Financial institutions especially state owned financial institutions should be free from political interference. Zero tolerance policy should be taken for any sort of corruption and irregularities. Honest and efficient person should be place as policy maker.
- ✓ Discrimination on credit disbursement between male and female should be reduced. Special importance should be provided to women farmers. Proper training and awareness program should also be established.
- ✓ Group lending, crop diversification, formation of co-operatives should be encouraged to ensure the best outcome of agricultural credit and to ensure the protection of farmers from any unfortunate circumstances.
- ✓ The farmers willing for taking agricultural loan from financial institutions must be brought under insurance coverage. For that an effective agricultural insurance system should be developed with the joint collaboration of Bangladesh Bank and Insurance Development and Regulatory Authority.

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