



# IFI Watch Bangladesh

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Financial Institutions and Trade Organisations**

## Credit to Agriculture and the FCBs

### Introduction

In the wake of rising inflation and alarming food crisis, Bangladesh Bank (BB) in a directive in September 2008 asked all banks to disburse agricultural credit at the beginning of every fiscal from July to June. In the latest monetary policy statement the BB has also made it mandatory for all banks including private and foreign commercial banks in agriculture lending. Besides the BB also enlightened the promotion of well functioning crop insurance arrangements suggested earlier to protect the interest of growers would also be beneficial in reducing risks for agricultural loan providers. To ensure food security and sustainable growth in the agriculture sector, a certain portion of each bank's total loan portfolio was made mandatory for agricultural credit disbursement. In the period from July 2007 to June 2008, a rapid growth in consumer credit for non-essential uses on the one hand and double-digit inflation, inadequate availability of food items and lack of agricultural loan on the other compelled the central bank to enforce all banks for expanding credit to the sectors that generate employment, agricultural output and farm production.

According to the monetary policy statement, "BB policies accord priority to expansion of relative shares of supply side loans such as those for agriculture and SMEs, and not of non-essential demand side consumer loans". Bangladesh Bank gave special emphasis on availability of farm credit during boro season so that the country could reach near self-sufficiency in food production.

To achieve the desired goal, the central bank also

declared the banks, having not enough branches in rural areas, would be allowed to use non-governmental organisations (NGOs) linkage for disbursement of farm credit.

However, the evidence is that the private commercial banks (PCBs) have played a little or no role in this regard. Although some of the local CBs step up the effort marginally, the performance of the foreign commercial banks (FCBs) to promote agriculture and rural development is dismal. Neither these banks have adequate rural branches to promote credit into the rural area nor have these banks undertaken any measures to facilitate credit into the rural areas so far. Up on the directive by the Bangladesh Bank, although few of the local PCBs have initiated sporadic measures, for example, channelling credit through NGOs as they lack adequate rural branches. However the concern is that the credit became too costly for the farmers to have their production profitable. This is because the NGOs borrow these funds from the PCBs at high interest rate; after adding their cost the mark-up interest rate on credit become above 20-22%, which is well above the market rate of interest available for industrial credit. The apprehension is that at such a high interest rate the agriculture production would not be viable. In addition such initiative is ludicrous since cost of agricultural credit is higher than the cost of industrial credit, making the agriculture production a luxurious venture!

Moreover, it has been understood that International Financial Institutions (IFIs) especially WB, IMF, ADB which has predominantly moderate national policy at country's private sector development have



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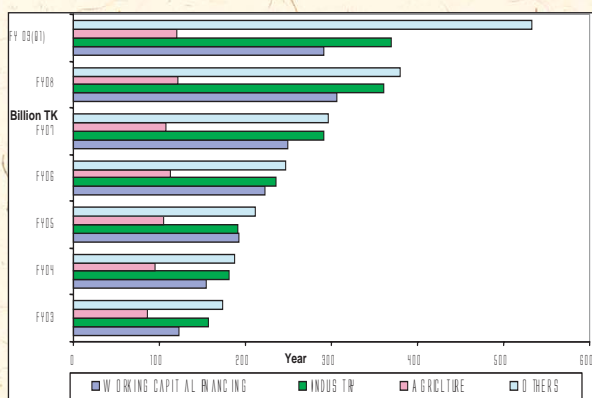


done little to integrate the private sector development with agriculture development, let alone pursuing these profit-making bankers to ensure their role in rural development.

**Trend in agricultural credit:**

If we look into the trend in agricultural credit disbursement by banking sector, lending amount has slightly increased in the last five years. Most of the bank credit has gone to the industrial sector, working capital financing and other consumer products. Even few years back only state owned and specialised banks like Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank distributed agriculture loan and other credits.

**Figure 1: Bank Advances (private Sector) by Economic Purposes**



Source: Quarterly Update, Oct 2008, BB

In recent time, agricultural and rural finance programme seems to have improved as the private commercial banks began to participate along with the state-owned commercial banks (SCBs). In fiscal year 2007-08, 30 private commercial banks, disbursed Tk 1560 crore in farm loans while nine foreign commercial banks disbursed only Tk 854 crore. Four state-owned and five specialised banks, including Bangladesh Krishi Bank, disbursed Tk 6,167 crore and Tk 5,293 crore farm credit in 2007-08 and 2006-07 respectively. The foreign commercial banks operating in Bangladesh did not disburse any agricultural loan before the last fiscal year ended in June 2008.

**Agriculture credit disbursement in current fiscal year:**

During the first half of the current fiscal year, the performance of the commercial banks particularly the foreign banks in disbursing agriculture credit was poor. Most of the foreign banks have failed to disburse any farm loans in the last six months despite a mandatory rule by the central bank. In the fiscal year 2008-09, some eight public financial

institutions and private commercial banks are to distribute Tk 9,379 crore in agricultural loans. In the first six months till December, 2008 of this fiscal, 45 per cent or Tk 4,228 crore in loans has been distributed, according to the review report of Bangladesh Bank.

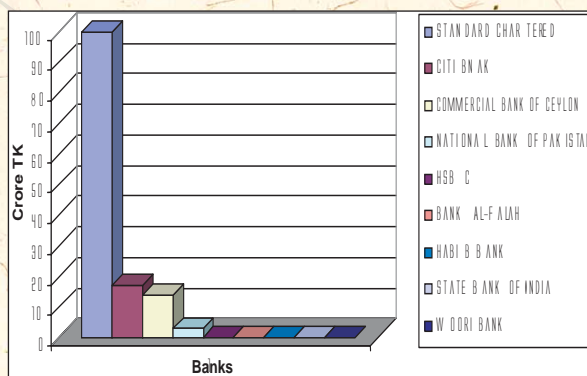
The eight financial institutions have disbursed Tk 3,335 crore or 45.49 per cent of their target of Tk 7,331 crore. The private commercial banks disbursed Tk 893 crore or 43.61 per cent of their target of Tk 2,048 crore. Five foreign banks did not disburse any agricultural loans and private commercial banks disbursed agricultural loans between Tk 1 crore and Tk 3 crore each and Tk 134 crore in total.

**Table 1: Targeted and distributed Agricultural Credit FY09 (Q1)**

	Targeted (TK cr)	Distributed	% of total target
<b>Total</b>	<b>9379</b>	<b>4,228</b>	<b>45</b>
<b>Financial Institutions</b>	<b>7331</b>	<b>3335</b>	<b>45.49</b>
<b>Private Commercial Bank</b>	<b>2048</b>	<b>893</b>	<b>43.61</b>

The BB made the farm credit disbursement by all local and foreign banks mandatory. The loans have been given to eight agro-based sub-sectors like crops, irrigation equipment, livestock, agricultural products marketing, fisheries and poverty alleviation. However, from the graph below we see only four foreign banks distributed about Tk 134 crore in total and others contributed nothing. BB data showed nearly Tk 134 crore distributed by Standard Chartered Bank, Citi Bank NA, Commercial Bank of Ceylon and National Bank of Pakistan. The banks did not distribute any amount are HSBC, Bank Al-Falah, Habib Bank, state Bank of India and Worri Bank

**Figure 2 : Farm Credit Disbursement by Foreign Banks**



Source: Bangladesh Bank



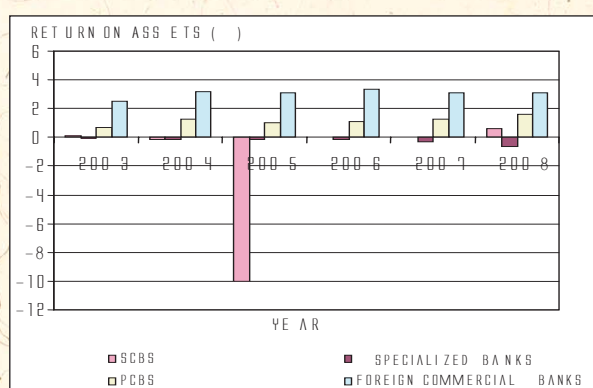


### Return of assets and equity of different banks:

Four biggest foreign banks have started their operation in Bangladesh a decade ago. However their contribution to farm credit is very small. For example, for the last six months Hong Kong and Shanghai Banking Corporation (HSBC) has failed to disburse a single penny as farm credit despite BB's strict policy. HSBC bank, one of the biggest foreign banks, started business in Bangladesh in 1996 and opened 10 branches so far. All of the braches are located in major cities of Dhaka, Chittagong and Sylhet. They refrained from disbursing their share of farm loan on the pretext of having no presence of their braches in rural areas. But the central bank allows banks that have no rural braches to distribute farm credit through NGOs and other banks.

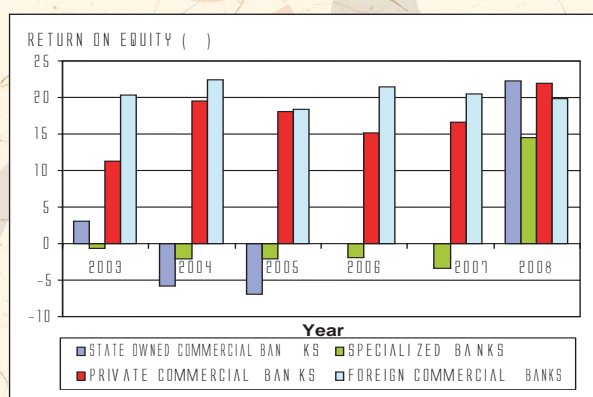
The following figures in the next page depict return of equity for different type of banks since 2003. The state owned banks (including Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) and specialised show a negative return of equity except in fiscal year 2008. The private commercial banks and foreign banks are following a positive trend with a significant magnitude of return.

Figure 3: Return on Assets



Source: Monthly Update, Dec'08, BB

Figure 4: Return on Equity



Source: Monthly update, Dec'08, BB

### Inadequate branches in rural areas:

Accessibility of banks is necessary for availability of loan to marginal farmers. However, an opposite scenario is visible in Bangladesh. State-owned banks are seen for decades at upazila level whereas private commercial banks are recently emerging in those areas. None of the foreign banks have any branch in rural areas.

Table2: Number of Banks and their Branches in Urban and Rural areas.

Banks	Number	Branches	
		Urban	Rural
State-owned	04	1238	2146
Specialized	05	155	1203
Private	30	1295	490
Foreign	09	49	0

The table above indicates there are about 2200 braches of SOBs and 1200 of specialised braches established in the countryside. There are only 490 out of 1785, i.e. 27 per cent, of total private commercial bank (PBs) braches in the rural areas. Nine of foreign banks have 49 branches in Bangladesh and all of them are in the metropolitan city areas.

### Roles of IFIs in Agriculture:

The farmers became victims of policies as IMF appeared in this country with its promise for economic recovery. It is usually assumed that in Bangladesh, the government proposes the development programmes and the loans are financed by the World Bank. But in reality, the WB only supports and develops programmes where they can help stakeholders make large profit.

In Bangladesh there are a large number of projects supported by the WB. The bank has lent funds in the names of irrigations projects, water and energy development/privatisation. It is creating a huge land crisis, environmental degradation largely without any positive outcome. This has created landlessness, unemployment, marginalization and massive migration of people from rural to urban area. The IMF/WB projects escalated poverty causing a livelihood crisis.

After introducing Green Revolution, farmers using wonder seeds (known as HYV), found their field yielding three times more. It requires a lot of inputs - water, fertiliser and pesticides. That needed a lot of money requiring credit and supportive investment from the government on flood control and irrigation. The WB and other donors came forward. The



government forked out subsidies for the inputs. The BADC was given monopoly to import modern agricultural inputs. With the expansion of usage of agriculture input (fertilizer, power pumps), agriculture subsidies became a heavy burden on the government. In the mean time, the development partners came up with their proposals of cutting subsidy and privatisation of the input distribution system. But this liberalisation increased the cost of agricultural inputs by which the poor farmers were affected. The situation forced the government to think about agriculture credit and Bangladesh Bank made agriculture credit disbursement obligatory for all banks.

Here also, IFI's play a hidden role in agriculture credit disbursement in Bangladesh. From our earlier findings, it is seen that all foreign banks currently operating in the country failed to disburse agriculture credit during the first quarter of FY 09 even after being directed by Bangladesh Bank. The foreign banks are based in urban areas where they provide lion share of their loans for business prospects and non productive sector. The reason lies behind this may be all the foreign banks being operated here are from those developed country's where the roots of the Breton woods giants like World Bank and the International Momentary Fund (IMF) lies. The foreign banks are giving credit for development of industry, service and infrastructure. But they are totally out of the major sector like agriculture. This certainly indicates their premise of corporate globalisation including the neo-liberal hegemony often been criticized as anti-people for their imperialist and capitalist roles.

### **Concluding Remarks**

The government continues with its efforts to simplify the procedures for agriculture credit disbursement. The poor performance of the private commercial banks especially a very inadequate share of foreign banks in agriculture credit disbursement during the first quarter of FY 09 made the BB authority disappointed. It might compel the central bank authority to think further steps on forcing the banks to provide agricultural credit and strengthen monitoring at all levels of credit distribution. The district agricultural credit committee should be made more effective to monitor fast credit disbursement and credit recovery. Along with these initiatives Bangladesh Bank should also keep in mind about the donors' attitude and position of rapid expansion in

production in Asia during the green revolution -- "Asia had achieved food security and so there is no further need for supporting agriculture research and irrigation"!! We should not follow all the policies and proposals imposed by WB and IMF as they will not suggest in line with our needs. It is our responsibility to pay attention on farmers' interest. Therefore, the bank must make sure the availability of agriculture credit by advancing the foreign banks so that the farmers can have access to agriculture inputs during the required production period.

### **End Notes**

*BADC: Bangladesh agriculture Development Corporation.*

*Return of Assets: An accounting ratio expressing the amount of profit for a financial Return of Equity: The net income of an organization expressed as a percentage of its equity capital*

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The Nijera Kori is a continuous and diverse movement focusing on social mobilisation and ensuring accountable democratic structures, targeting the most marginalised groups through the development of autonomous landless organisations with an emphasis on gender equity.



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