

Sessions: Financing and Investing in Agricultural Innovation and Technology



Presentation On Access to Agricultural Financing: The Experience of ASA, Bangladesh



**MD. FAYZER RAHMAN
EXECUTIVE VICE PRESIDENT, ASA**

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Objectives and Methodology



Objectives

- ❑ **Highlighting ASA's experience on providing client/ farmer friendly product and services with special attention to the agricultural finance.**
- ❑ **Drawing attention to the challenges and recommendations for improving agricultural sector and turn into food security.**

Methodology

- ❖ **The presentation has been prepared based on practical experience and empirical knowledge.**
- ❖ **The information and data shown are from primary and secondary sources.**
- ❖ **Conduct assessment on investing agricultural loan and present ground level case.**

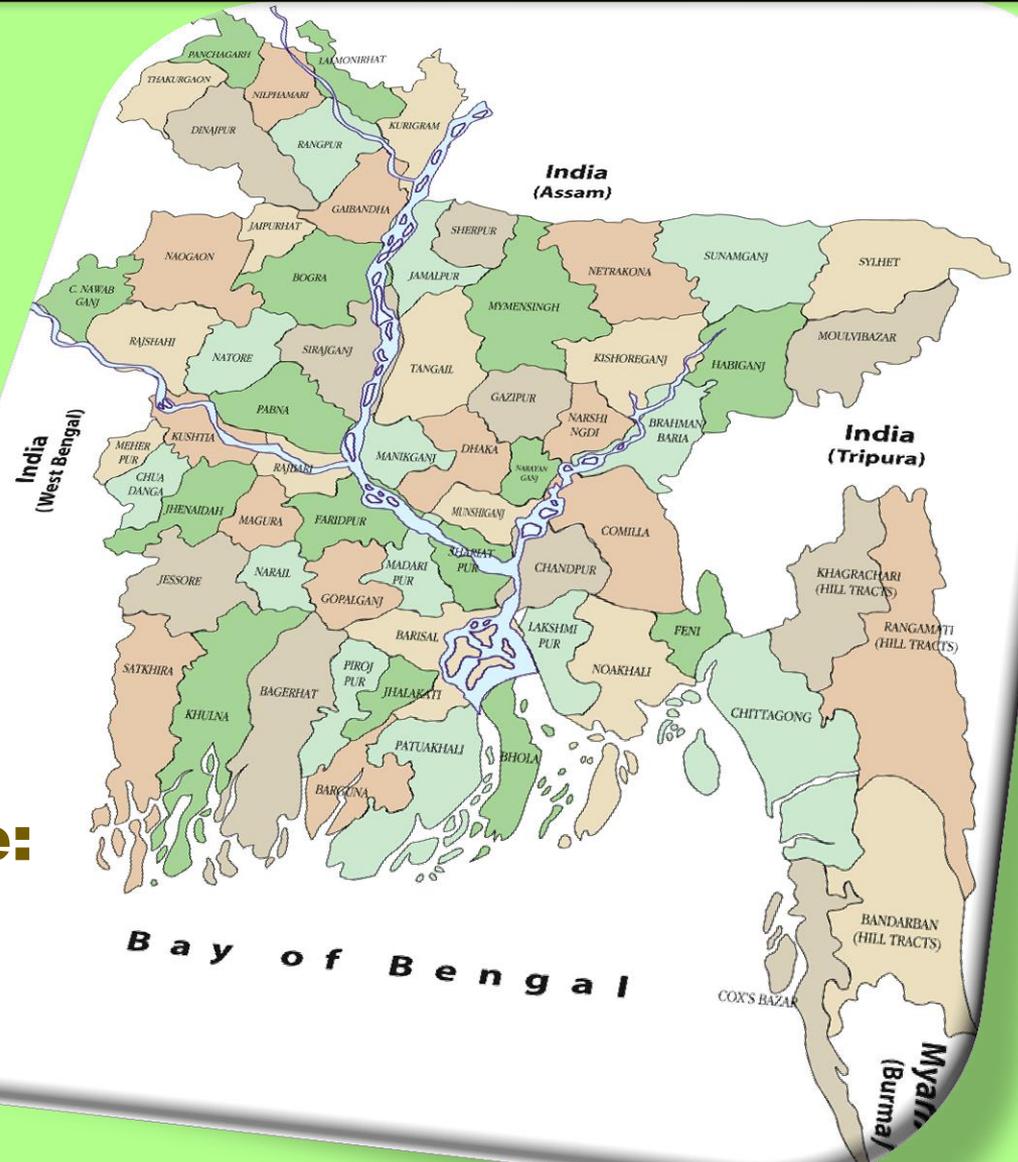
Presentation Outline



- Overview of Bangladesh and scenario of agriculture.**
- Access to food.**
- Access to finance in agriculture.**
- Background and overview of ASA.**
- ASA products and services.**
- Agribusiness development project.**
- Challenges and recommendations.**
- Conclusion.**

Bangladesh: An Overview

- ☐ **Total Area:
147,370 Sq. Km.**
- ☐ **Total Population:
160 Million**
- ☐ **Population Below
the Poverty
Line: 30%**
- ☐ **Per Capita Income:
USD 1,190**



Status of Agriculture in Bangladesh



- **Agriculture in GDP: 19.29%.**
- **Employment in agriculture 47.3% of total population.**
- **People living in rural areas: 70%.**
- **Almost 90% population depend on rice as staple food.**
- **79.45% of the total cultivable lands are under rice production.**
- **Agriculture determines people's live and livelihood of the country.**

Characteristics of Bangladesh Agriculture



- ➔ **Cropping intensity: 191%.**
- ➔ **Irrigated land: 56%.**
- ➔ **Surface water 20% and ground water 80%.**
- ➔ **Land-man ratio: 0.081 ha.**
- ➔ **Mainly subsistence farming.**
- ➔ **Inadequate agro-processing.**
- ➔ **Mainly non-mechanized farming.**
- ➔ **Fragmented land.**
- ➔ **Dependence largely on nature.**

Source: BBS.

Access to Food



Access to Food Depends in a Market Economy



In a market economy, the access to food depends on the four elements:

- ❑ Production-based element that depends on ownership of land and it also refers access to food from self-production.**
- ❑ Trade-based entitlement that depends on market price of food; it refers trading/importing food considering market price.**
- ❑ Labour-based entitlement that depends on the employment and wages. It refers the income of the households who depend on selling labour in the market.**
- ❑ Transfer-based entitlement that includes gifts, relief and subsidies obtained from the government. It also includes some safety-net programs such as – Test Relief, Vulnerable Group Feeding, Food for Work, etc.**

Concern Areas of Access to Food



- ✦ **Losing of arable land:** Arable land is shrinking fast by 0.6% each year because of building/houses, industries, infrastructure and river erosion.
- ✦ **Continuing population growth:** The population size is increasing with 1.8 million people every year which creates pressure on food.
- ✦ **Climate change and global warming:** One sixth of the land usually submerged seasonally due to rising of sea level as consequences of climate change.
- ✦ **Financial restriction:** More than 30% populations have limited access to food for financial constraint.

Concern Areas of Access to Food

Cont.



- ✦ **Unequal distribution of land:** Almost 30% households do not hold any land and another 30% own only up to a half acre. Such tiny landownership is insufficient to meet the food needs of four to five member households.
- ✦ **Tenancy on agricultural land:** Terms and conditions of tenancy do not favor tenants. So, a large portion of marginal farmers have to go to market for access to food as their own production (after payment of rent and interest of loan) is inadequate to meet the household needs.

Access to Finance on Agriculture



Mainly, three sources of financing on agriculture in Bangladesh.

- **Local moneylenders.**
- **Agriculture/Commercial banks.**
- **Microfinance institutions.**

Special features of each source

- Local moneylenders**
- **Holding rural power structure**
 - **Exorbitant rate of interest**
 - **Respond quickly**
 - **Disparity/disproportion share cropping**
 - **Money lenders hold land papers, gold etc. as collateral**

- Agriculture/ Commercial banks**
- **Limited access due to high formalities and procedures.**
 - **As a competitive and cost-effective strategy; major banks focus on large scale of loans instead of providing small scale loan to the smallholder farmers.**
 - **Poor banking infrastructure in the rural areas.**
 - **Requirement of proper documentation and collateral.**
 - **Lack of suitable/diversified loan product structure for the smallholder farmers.**
 - **Un-friendly treatment.**
 - **Loans are not disbursed on time due to highly centralized system.**

Access to Finance on Agriculture **Cont.**



- MFIs**
- **Easy access to credit without any hassle.**
 - **Diversify loan and savings products.**
 - **Client-friendly door-step services.**
 - **Right financing at the right time.**
 - **Quick service and response.**

Comparison of Disbursement of agri-loan by MFIs and FIs



Figure in USD million (USD 77.77)

Year	All MFIs	All FIs	Comparison (MFIs: FIs)	ASA's contribution against all MFIs
2011-12	1,933.52	1,688.57	1.15: 1	38%
2012-13	2,244.31	1,885.95	1.19: 1	37%
Total	4,177.83	3,574.52	1.17: 1	37%

* FIs = Agricultural & Commercial Banks

Source: Bangladesh Microfinance Statistics 2011 by CDF and Annual Report-2012-13, Bangladesh Bank.

Disbursement ratio in farming & non-farming by All MFIs



Year	Farming	Non-farming & Others	Comparison (Farming: Non-farming)	ASA's contribution	
				Farming	Non-farming
2011-12	48	52	0.92: 1	66%	34%
2012-13	46	54	0.85: 1	68%	32%

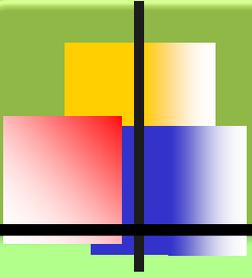
* FIs = Agricultural & Commercial Banks

Source: Bangladesh Microfinance Statistics 2011 by CDF and Annual Report-2012-13, Bangladesh Bank.

Key areas of microfinance on agriculture



- ⊙ **MFI branches are located in the remote areas.**
- ⊙ **MFIs arrange training for the poor farmers if needed.**
- ⊙ **Genuine farmers and farming families are selected to ensure proper utilization of loan and good repayment.**
- ⊙ **Most of the MFI workers are from rural areas and familiarized with agricultural activities.**
- ⊙ **Loan schemes are closely monitored and supervised by the MFI staffs.**
- ⊙ **Recovery rate is nearly 100% that debunk the myth that the farming areas/farmers are risky destinations for microfinance.**



Overview of ASA Products and Services for Smallholder Farmers



Background of ASA and its Microfinance Intervention



- **1978:** ASA was formed as an NGO with a view to empower the oppressed through people's organization, mobilize for social action against exploitation and to provide legal aid to fight for the poor people.
- **1991:** ASA shifted its focus towards specialized and sustainable microfinance program to provide financial assistance to the poor people.

ASA At a Glance

(As on June 2014)

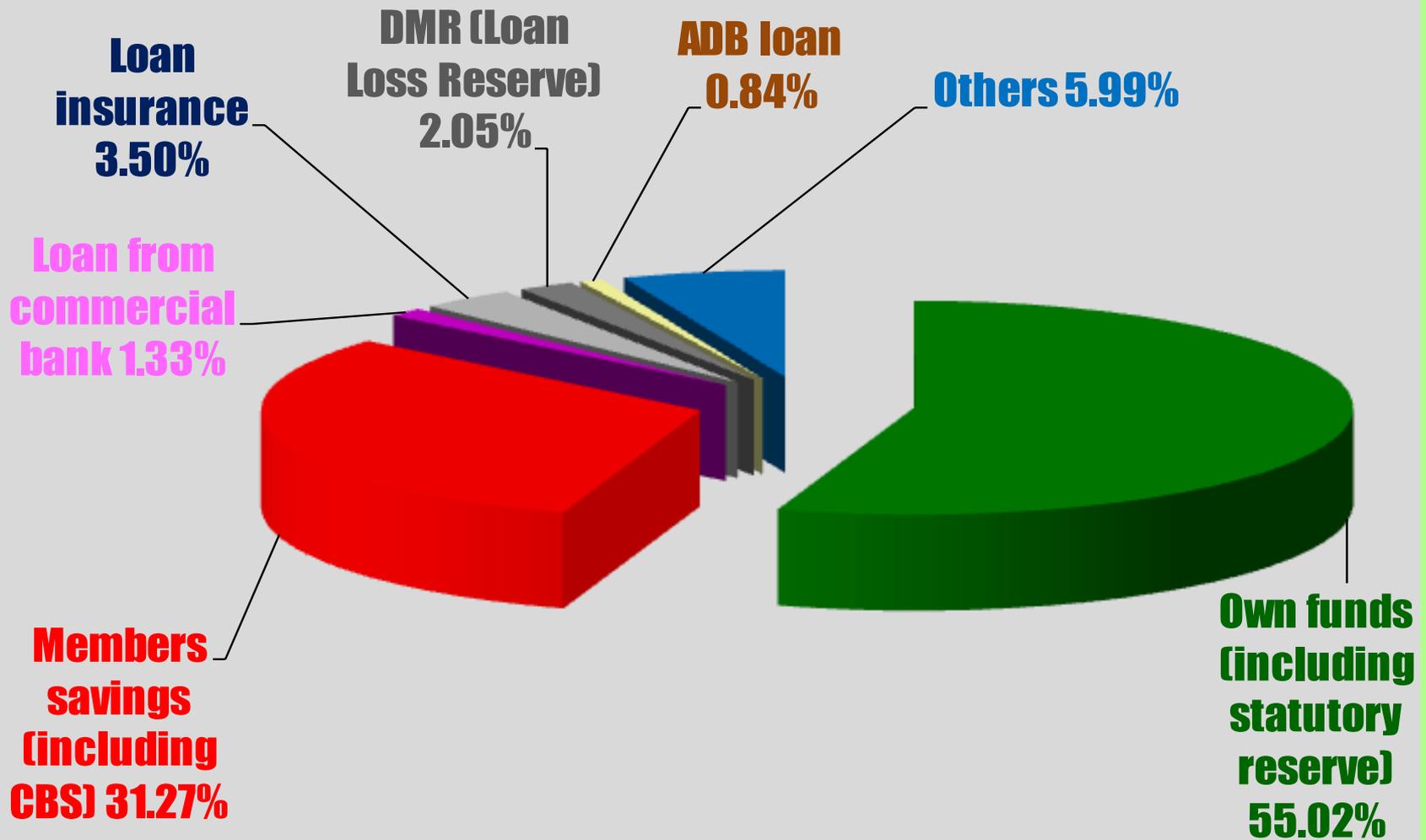


1	Total number of branch offices	2,931
2	Total number of staff	20,294
3	Amount of savings balance (USD in Million)	365.46
4	Total number of active clients (in million)	4.44
5	Amount of loan outstanding-Principal (USD in Million)	763.55
6	PAR (%) – 1 day	3.66%
7	Operational self-sufficiency (OSS)-December'13	202.72%
8	Financial self-sufficiency (FSS)-December'13	127.03%

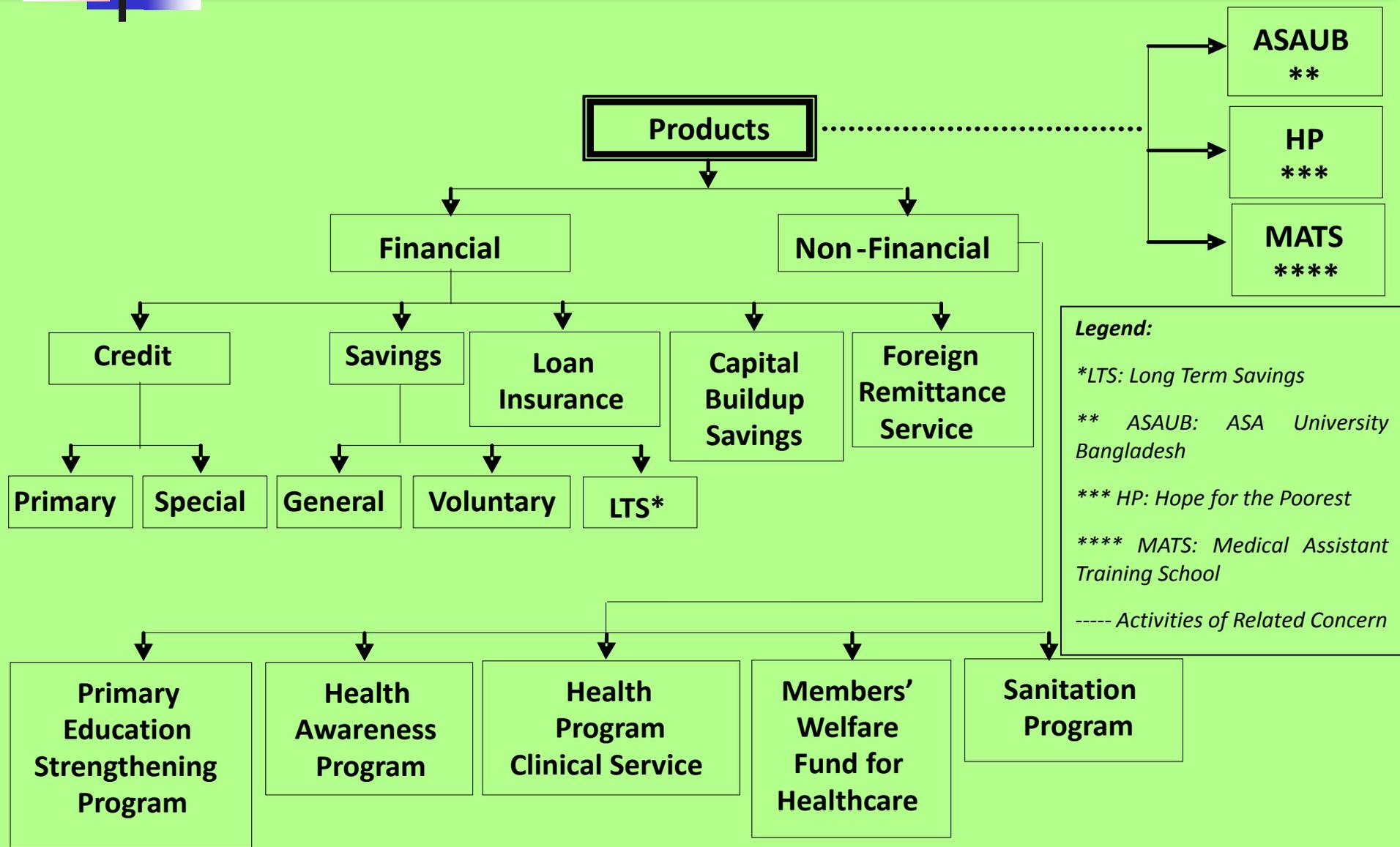
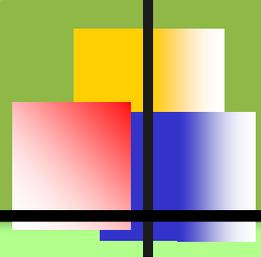
BDT 77.77 = 1 USD

Sources of Fund

(As on June 2013)



ASA Products & Services



Loan Products



ASA's loan product has been categorized into two major types considering the size of loan. These are– primary loan and special loan.

Primary Loan

- **Minimum loan size: USD 103**
- **Loan ceiling: USD 900**
- **Enabling Smallholder households to engage in IGAs.**

Special Loan

- **Initial loan size: USD 913**
- **Loan ceiling: USD 12,858**
- **Developing small entrepreneurship and expanding small business.**

Sector Specific Loan

- **Agribusiness: Min. Loan size \$ 450**
Loan ceiling: \$ 4,500
- **Education**

Specialties of ASA's Loan Product



- ① **Loans are not disbursed based on group liability/ group guarantee approach, rather loan disbursed to the individual under the banner of a group.**
- ① **Providing collateral free loan.**
- ① **Flexible Loan duration**–4 months, 6 months, 12 months, 18 months, 24 months and 30 months as per nature of scheme and choice of the clients.
- ① **Mode of repayment**–weekly, monthly and one time at the end of cycle, which are determined as per nature of scheme and choice of the client.
- ① **Disbursement of loan**–7 days after enrollment and for next or subsequent loan; same day after full repayment of previous one.

Specialties of ASA's Loan Product

- ① **No penalty for late payment.**
- ① **Up front deduction is strictly prohibited.**
- ① **Collections of loan installments are suspended at the time of any sort of natural disaster or sickness of the client, which are collected at the end of cycle.**
- ① **Providing interest free loan for the farmers those who affected by the natural disaster.**
- ① **Rescheduling of loan without charging further interest for the affected farmers by the natural disaster.**

Savings Services



ASA has designed its savings services considering client's protection and ensure easy access to their deposit. ASA has introduced three types of savings for its organized members–

- 1. Normal savings,**
- 2. Long-term saving and**
- 3. Capital buildup savings (CBS)**

Loan Insurance and Foreign Remittance Services



Loan Insurance (LI)

Premium : In every loan cycle, **Tk. 7** for female and **Tk. 3** for male clients' per thousand received loan.

Benefits : Covers the death.

: For female client, covers client and spouse.

: For male client, cover only client.

: Loan outstanding are exempted and deposited savings are refunded.

Remittance Services (RS)

From the beginning to October 2013, a total number of 1.0 million transactions and the amount of USD 317.59 million were transacted.

Agri-business Development Project



Asian Development Bank (ADB) introduced its Bangladesh Agribusiness Development Project (BADP) since January 2006, where ASA is a sub-borrower.

Objectives of the Project:

- ◆ **Assist the farmers/entrepreneurs in producing the agricultural products, product supply, marketing, processing for creating additional values.**
- ◆ **Increase the added value of the unusual crops and Agro related products through processing and packaging, with a view to enhance the daily income of the poor people and also for creation of new employment.**
- ◆ **To enhance the skills of the financial institutions through extending financial support, so that they can ensure their long term Agro related businesses without least hesitation.**
- ◆ **Provide loan facilities among the farmers/ entrepreneurs engaged in small scale agro trades.**

Internal Study on Agri-business Development Project



Agribusiness Development Project:

A Good Example



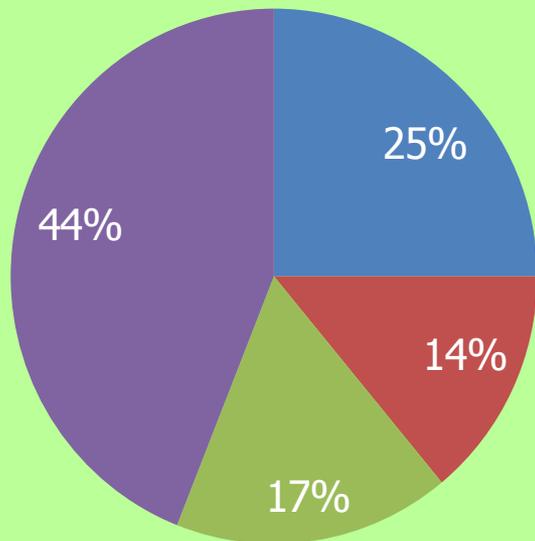
With regard to the use of loan; it is learnt from the study report that as many as 25% of the farmers/ entrepreneurs used their loan money in rearing cattle, its fattening and dairy, 17% for fish cultivation, 44% farmers/ entrepreneurs for crop production and the rest 14% promoting poultry bird and other multidimensional activities.

Field Survey: Client's Perspective



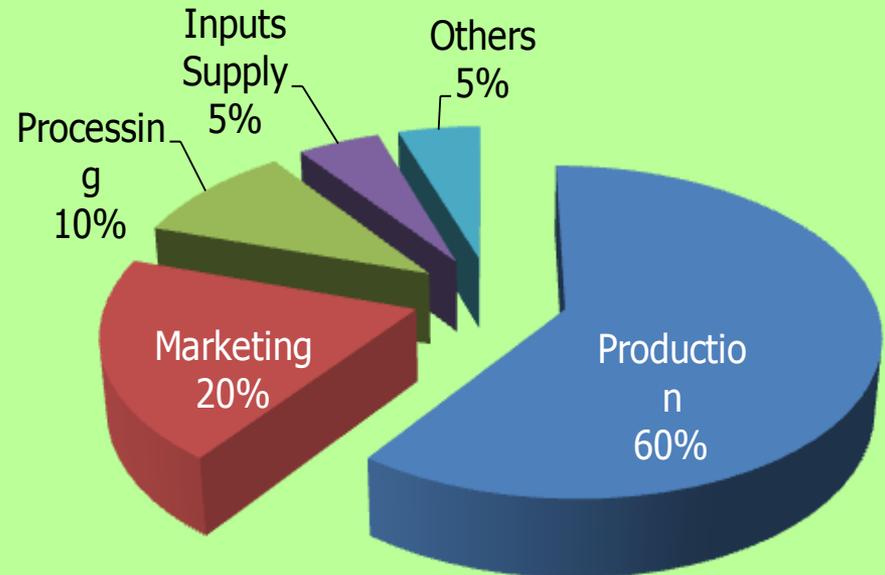
The following graph shows the uses of loan on agricultural/ agribusiness activities:

Use of loan on agricultural/ agri-business activities



■ Cow rearing ■ Poultry ■ Fisheries ■ Crops

Use of loan related to production, processing, marketing and input supply

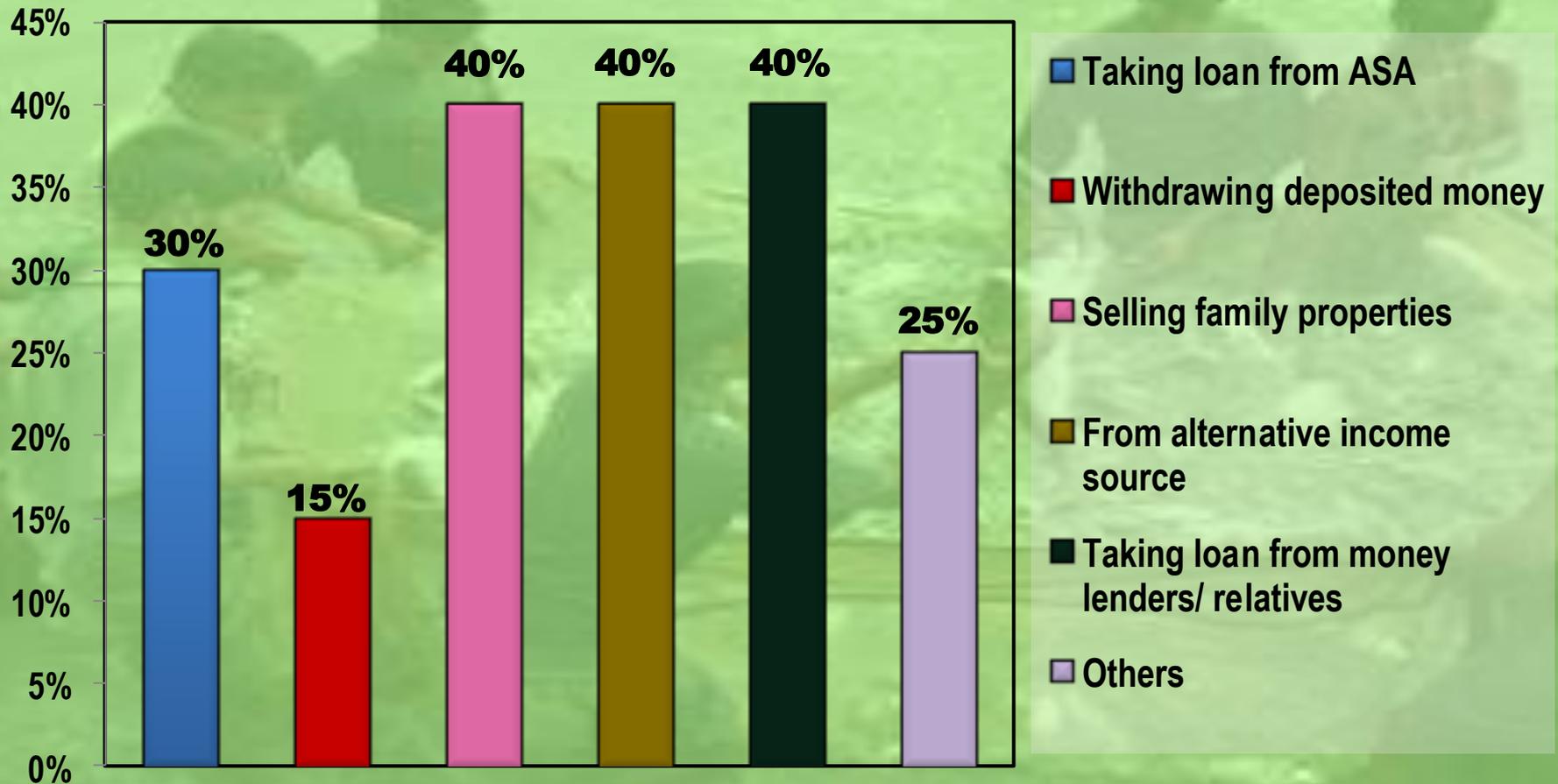


Case study : Risk Mitigation in Gomantali Fishery



- **About 85% households Gomantali village under Satkhira were involved in rearing fish. They encountered 4 major risks: disease of fish (95%), low price for not proper marketing due to political unrest/strike (40%), low price of spawn (5%) and submerged (40%).**
- **The respondents took initiative to mitigate risks with funding support as in **chart**.**
- **It was found that only 30% respondents borrowed from ASA, while majority of them faced adverse terms in collecting fund from other sources. They did not find any expert advice for treatment of fish. These factors turned the initiative into a failed one.**

Sources of money to mitigation risks in Gomantali



Multiple responses

Source: Fieldwork in the Gomantali village.

ASA Intervention in Deepening Rural Financial Inclusion



It is to be mentioned here that the presence of commercial bank in rural areas is insufficient due to disrupted communication and also lack of security and safety. As a result, poor and marginal farmers have to rely on money lenders with exorbitant rate of interest for agriculture purpose. But from the beginning, ASA has been shifted its special attention to provide financial rural people. Some mentionable areas are mentioned below –

- ❑ Operating loan in the rural areas by setting-up branches where no commercial bank's branches are available.**
- ❑ Opening outpost/mini branch.**
- ❑ Providing both of financial and technical assistance to the local NGOs/MFIs in rural areas through partnership approach.**

ASA's Initiatives/role in Finance on Agricultural Technology



Providing loan on power tiller: Considering the growing demand of the poor farmers for power tiller; ASA had imported around 5,000 power tillers through agents with a view to make it available to the poor farmers in reasonable price.

Very recently, ASA is going to select agents throughout the Bangladesh and to provide them loan with soft interest so that they can make power tiller available to the farmers in reasonable price. The agents are responsible to provide technical know-how and ensure spare-parts in case of any necessity/ emergency.

Why ASA emphasizes on providing power tiller to the smallholder farmers?

- Ploughing of old method by using bullock are being decreased gradually.
- Engine of power tiller have multiple uses like- paddy husking, thrashing, carrying goods etc.
- It saves time and cost.

ASA's Initiatives/role in Finance on Agricultural Technology

Cont.



Vermi-compost: ASA has undertaken a project on vermi-composed considering the following:

- **Protect cultivable land from imbalanced use of chemical fertilizer.**
- **Regain soil fertility.**
- **Create self-employment for the poor farmers.**
- **Maintain ecological balance and prevent pollution.**

Initiatives undertaken by ASA:

- **Recruited trainers on producing vermi-compost.**
- **Selection of farmers for producing vermi-compost.**
- **A number of 15 demonstration farm have been established.**
- **Training and seed money have been provided to the farmers for production.**

It may be mentioned here that initial cost for establishing this project are borne by ASA's own fund.

Training Provided under Agri-business Development Project



Training for the Farmers/Entrepreneurs:

Under the agribusiness development project, a number of 5040 entrepreneurs received necessary training as on December 2013 and out of total trainees, 3560 are male and the remaining 1480 are female. The following table shows clearly about the latest statistics in this context.

Sl. No.	Categories of training	Number of farmers received training	Sl. No.	Categories of training	Number of farmers received training
1	Crops production	1,370	5	Fish rearing	1,291
2	Dairy farming	1,387	6	Nursery/vegetable	180
3	Layer farming	199	7	Ag. Mach. & equip.	222
4	Broiler farming	237	8	Beef Fattening/ rearing	154
		Total			5,040

Challenges



- 1. Loss of arable land:** Bangladesh is losing almost 0.6 percent arable land each year on an average. Major factors responsible for land loss are urbanization, human settlement, building of infrastructure, rapid industrialization and river erosion. The loss indeed is very alarming and therefore, needs to be addressed immediately.
- 2. Climate change:** The country is affected frequently by flood, drought, cyclone and salinity due to climate change. As a result, soil fertility, crop productivity, and food security would be seriously threatened.
- 3. Sharp fall of ground water level:** Farmers have to depends on ground water, where irrigation cost in Bangladesh is relatively high due mainly to high price of diesel and electricity. Although solar water pump is being used for irrigation in small scale but due to technical difficulties it is not being extended as expectation.

Challenges

Cont.



- 4. Imbalanced use of fertilizers:** Chemical fertilizers are not normally integrated with organic compost. It is evident that farmers virtually do not use balanced fertilizers that are necessary for high productivity.
- 5. Inadequate credit support to farmers:** About 90% farmers of Bangladesh are small and marginal (below 2.5 acres). They have limited access to banks for borrowing money due to various reasons. Although microfinance institutes provides fund to them; is not adequate.
- 6. Unfair price of agricultural produces:** The poor/marginal farmers do not have either Farmer's Association or Farmer's Co-operative to bargain for fair prices of their produces. They are thus forced to sell their produces at low prices to intermediaries. Since the farmers are often unable to meet procurement requirements of the government, they cannot sell their produces at the price fixed by the government.

Challenges

Cont.



- 7. Absence of crop insurance:** In Bangladesh there is no crop insurance policy either undertaken by the government or any insurance company as such. Hence, poor farmers are being affected in one hand and loan giving agencies are being affected by default of loan on the other hand.
- 8. Political unrest/instability:** Political unrest like strike, campaign etc. create obstacle for disbursing loan and collection in due time and also affects production and marketing to some extent.
- 9. Use of formalin in food items like fish, fruits, vegetable, etc.:** Consumption of food containing formalin results in malfunctioning of the important organs like liver, kidney, stomach, brain and in some cases caused for cancer.

Recommendations



- ❑ It is essential to review the present land use policy with the relevant experts, professionals and farmer's representatives and make it update based on their suggestions. The policy should be enacted and put into operation immediately to stop further loss of arable land.
- ❑ To encourage the use of balanced fertilizers and farmers should be motivated to reduce their dependence on the use of chemical fertilizers to maintain soil fertility.
- ❑ It is necessary to expand other economic crops, such as, oilseeds, pulses, spices and fruits considering climate change and economic benefit for the poor farmers.
- ❑ It is important to ensure credit for the poor/marginal farmers following easy terms and condition.
- ❑ Crop insurance policy need to be introduced to protect the marginal farmers affected by natural disaster/ environmental degradation.

Recommendations

Cont.



- ❑ **Storage facilities may be established in rural areas for the farmers to store their produces and sell the same at better prices. Alternatively, the government and NGOs should take initiative to establish growers/farmers level association and facilitate to link with wholesalers to ensure fair price of their produces.**
- ❑ **Government should enact law for banning use of formalin in food items and vigilance teams with magistracy power should gear-up holding mobile courts to protect use of formalin. Moreover, government, NGOs and media should play role for creating awareness.**
- ❑ **Since banks have poor infrastructure in the rural areas; so banks may provide loan to the MFIs with soft interest. So that MFIs can relend it to the marginal farmers as per their needs.**

Recommendations

Cont.



- ❑ Central bank may earmark for the commercial banks around 20% of total investment as priority sector lending for agriculture.
- ❑ Multi stakeholder effort is needed to formulate strategic framework, policy, regulatory issues for diversified crop production, ensure food security and protect the farmers from loss of selling crops during harvesting time.
- ❑ Formation of an Asian Steering Committee (ASC):
 - Role of the committee:**
 - 1st – Country assessment:** The assessment can be conducted in two ways—direct/physical assessment and indirect assessment through e-mail by sending questionnaire to concern dept. and NGOs.
 - 2nd – Classify countries by capacity, quality and needs.**
 - 3rd – Develop country proposal, determine requirement for technical support, training and overall capacity building**

Results

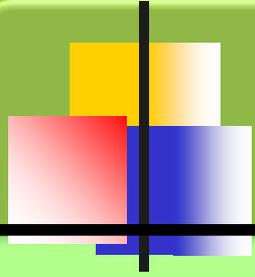


- ▣ **It is expected that access to diversified agro-befitting credit products and technology for agriculture will be developed, ensuring high productivity and food security as well.**
- ▣ **It is also expected that challenges will be encountered by combined and coordinated effort and necessary policy will be in place to bring in desired outcome.**

Conclusion



- ⊙ **Initiatives have to be taken for accelerating hassle-free financing for the poor and smallholder farmers.**
- ⊙ **Challenges and threats need to be encountered and addressed by the appropriate authority.**
- ⊙ **New strategies, technologies and approaches are still required to cope with changing and competitive environment through coordinated effort.**



THANK YOU