The study aims to investigate agricultural loan disbursement and recovery problems faced by Bangladesh Krishi (agricultural) Bank and suggest measures to overcome these problems. Survey data were collected from 90 bank officials entrusted with the responsibility of disbursing and recovering loans. Secondary data were also used for this purpose. The findings indicated that to the extent that a reporting system allowing for timely monitoring and follow-up action was established, an incentive system for on-time payment was instituted, proper credit worthiness evaluation was done and work mechanisms were free from political interference and pressure, the loan disbursement and loan recovery problems would reduce to a great extent.

Key words: Loan disbursement, loan recovery, Krishi, marginal farmers.

INTRODUCTION

Bangladesh is predominantly an agrarian economy. The major occupation of the people of Bangladesh is "Krishi". Krishi is a Bengali word which means "agriculture". Agriculture is the single largest producing sector of the economy comprising about 18.6% (data released on November, 2010) of the country's GDP and employs around 45% of the total labor force (CIA Fact Book, 2011). The performance of this sector has an overwhelming impact on major macroeconomic objectives like employment generation, poverty alleviation, human resources development and food security. But this sector, because of the lack of farmers' access to desired finance, has not been able to deliver self-sufficiency in food. The vast majority of the farmers need credit to purchase agricultural inputs such as seeds, insecticides, fertilizers, irrigation equipments, etc. Though, after independence in 1971, successive governments felt the need for increased need for agricultural credit for transforming cultivation of crops into mechanized cultivation, there is no denial to the fact that finance has still remained a severe bottleneck for the farmers.

Presently four Nationalized Commercial Banks (NCBs) and the Bangladesh Krishi Bank (herein referred to as BKB), (the agricultural bank) provide loans to rural farmers. Bangladesh Krishi Bank, one of the two specialized development financial institutions, has the largest share in annual disbursement of agricultural credit. In fiscal year 2009 BKB alone disbursed around 52% of the total disbursement of agricultural credit (Bangladesh Bank Annual Report 2009 to 2010). Therefore, the effectiveness of its role would depend on how efficiently the bank's resources could be utilized, especially in handling and managing Krishi (agriculture) loan.

The Bangladesh Bank (BB) (the Central Bank), based on recommendations from the Ministries of Finance and Agriculture, assigns this bank and others a quota of loans it must disburse each year. Most of these programs are funded by foreign donors. Until recently this system encouraged making loans, but recovery of agricultural loans by these banks is dismal. For example, in the Fiscal Year 2008 BKB alone could not recover 40% of actual disbursed loan (Bangladesh Bank Annual Report, 2008). The incentive system for the banks stressed disbursement rather than recovery. Recovery drives of...
the banks to ensure repayment of agricultural loans were not properly carried out in the past. Problems in recovering overdue loan are numerous (Chowdhury and Chowdhury, 2011; Kahlily et al., 1997).

Thus, in our view, it is important that these problems be identified and overcome when disbursing and recovering loans. Since BKB disburses most of the agricultural loans and there has been gradual expansion of branches and manpower to keep up with the increasing need to finance agricultural activities, it is of great importance to have a clear understanding about the effectiveness of BKB in handling agricultural loan disbursement and recovery. Very few research studies have been conducted on this topic. Keeping this in mind, an attempt has been made in this paper to identify and overcoming constraints to loan disbursement to and recovery from rural and sub-urban farmers.

The purpose of the study is, the twofold: it first investigates BKB face in loan disbursement and recovery. Second, it suggests measures to remove the constraints to loan disbursement and recovery.

As these issues are complex and not enough studies in the context of Bangladesh exist on this topic, the present study constitutes a field study and will hopefully contribute to better understanding of the constraints that affect the functioning and dynamics of loan operations by BKB. The contention is that the findings of this study will lead to identification of problems in loan disbursement and recovery by BKB and thus facilitate for the strengthening of loan recovery by this specialized bank.

**BKB: A BRIEF INTRODUCTION**

In order to meet the increased need for agricultural credit and its proper management BKB was established under the Banking Company Act-1991. The primary objective of BKB is to provide credit facilities to the farmers for the development of agriculture and entrepreneurs engaged in development of agro-based and cottage industries. The bank is guided in accordance with the policies and principles of the Government of the Peoples Republic of Bangladesh.

BKB has an authorized capital of Tk. 15,000 (Taka Fifteen Thousand Million) only and paid up capital of TK. 9,000 Million (Taka Nine Thousand Million) only which is fully paid by the government (Bangladesh Bank Report 2009-10). It may be mentioned here that taka is the name of Bangladesh currency. The bank started commercial functioning since 1977 to generate more loan fund from the idle rural and urban savings and invest them for the betterment of the economy. The responsibility of BKB affairs and overall business operations and administration are vested with the Board of Directors. The Bank operates its function through its 952 branches (except Rajshahi Division) of which 822 are rural and 130 are urban. In addition, it has 15 foreign exchange (Authorized Dealer) branches.

BKB offers farmers short, medium, and long-term credit for financing production, processing, warehousing, and marketing of agricultural and agro-based industrial products. Short term loans are usually given for seasonal agricultural production, medium-term for farm machinery, different types of pumps, and long-term loans for advanced capital expenditures including purchase of tractors, deep tube wells, establishment of agro-based industries, investment in horticulture, forestry, fisheries, etc.

**AGRICULTURAL CREDIT PERFORMANCE**

There have occurred ups and downs in the trend of agricultural credit disbursement. There was an upward trend in the disbursement of agricultural credit from the year 2003 to the year 2006. During fiscal year 2006 total disbursement was Tk. 55 billion, but there was a shrink in the volume in 2007, the figure came down to Tk. 52.9 billion marking a negative growth in the total disbursement (Bangladesh Bank, Annual Report, 2008). Deposit, loans and advances, recovery of loans and advances are the main segments of business of the BKB.

Secondary data, as revealed in Table 1, reveal that the actual disbursement of taka (excluding local private and foreign banks) increased by 16.51% in 2008 compared to fiscal year 2007. The table also indicates that total outstanding loan in the agricultural sector in fiscal year 2008 increased by Tk. 13.67 billion to Tk. 159.49 billion (8.69 percent increase) over 2007 year level.

Table 2 depicts three features: (1) actual disbursement has fallen short of targeted disbursement (2) for most of the fiscal years recovery has not been satisfactory, and (3) there has been upward trend in the increase of overdue loans. In other words data show a very dismal picture of loan disbursement and loan recovery by Bangladesh Krishi Bank.

Accordingly, the objectives of the paper are:

1) Identifying the constraints to loan disbursement and recovery of overdue loan.
2) Identifying the causes of loan default.
3) Suggesting measures to recover overdue loan.

**LITERATURE REVIEW**

The above discussion indicates that the contribution of formal lending organizations to credit availability to farmers is still negligible in Bangladesh. To fill the lacuna, many of these farmers patronize informal credit associations. Farmers prefer to take loan from the informal sources as it requires less formality. The informal sources include money lenders, shopkeepers, relatives, friends, well to do rural people, market intermediaries and others.

<table>
<thead>
<tr>
<th>Fiscal Year (FY)</th>
<th>Disbursement target</th>
<th>Actual disbursement</th>
<th>Recovery</th>
<th>Overdue</th>
<th>Outstanding</th>
<th>Overdue as % of outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>43.79</td>
<td>40.48</td>
<td>31.35</td>
<td>62.65</td>
<td>127.06</td>
<td>49.31</td>
</tr>
<tr>
<td>2005</td>
<td>55.33</td>
<td>49.57</td>
<td>31.71</td>
<td>57.81</td>
<td>140.4</td>
<td>41.18</td>
</tr>
<tr>
<td>2006</td>
<td>58.92</td>
<td>54.96</td>
<td>41.64</td>
<td>66.53</td>
<td>153.77</td>
<td>43.27</td>
</tr>
<tr>
<td>2007</td>
<td>63.51</td>
<td>52.93</td>
<td>46.76</td>
<td>66.35</td>
<td>145.82</td>
<td>45.5</td>
</tr>
<tr>
<td>2008</td>
<td>69.75</td>
<td>61.67</td>
<td>43.75</td>
<td>58.37</td>
<td>159.49</td>
<td>36.83</td>
</tr>
</tbody>
</table>

Source: Agricultural Credit and Special Programs Department, Bangladesh Bank; **Lenders include: four specialized commercial banks (SCBs), Bangladesh Krishi Bank (BKB), Rajshahi Agricultural Krishi Unnayan Bank (RAKUB), and others.

Table 2. Agricultural credit performance by Bangladesh Krishi Bank (2005 to 2010) (in billion taka).

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Targeted loan disbursement</th>
<th>Actual loan disbursement</th>
<th>Recovery</th>
<th>Overdue loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>42.8</td>
<td>47.1</td>
<td>40.5</td>
<td>84.0</td>
</tr>
<tr>
<td>2006-07</td>
<td>49.8</td>
<td>47.2</td>
<td>40.9</td>
<td>86.4</td>
</tr>
<tr>
<td>2007-08</td>
<td>55.15</td>
<td>52.1</td>
<td>48.1</td>
<td>95.8</td>
</tr>
<tr>
<td>2008-09</td>
<td>55.6</td>
<td>63.4</td>
<td>63.9</td>
<td>109.3</td>
</tr>
<tr>
<td>2009-10</td>
<td>68.3</td>
<td>87.9</td>
<td>93.5</td>
<td>120.9</td>
</tr>
</tbody>
</table>

Source: Compiled from annual reports of Bangladesh Krishi Bank.

Others. But the problem of this source is that the interest rate is quite high. In the process of repaying the loan, farmers lose their output and sometimes even have to sell their small holdings and become landless. Moreover, there are various inefficiencies in the institutional sources regarding interest rate and there is no insurance facility available to the farmers who are vulnerable to natural disasters.

Khalily et al. (1997) observed that though credit is necessary for agricultural development vis-à-vis rural economic development, loan recovery rate is low in Bangladesh. This has adverse impact on revolving of loanable fund and viability of rural financial system. Mahmud (2006) observed that rural farmers have low income to sustain their livelihood and do not have the capacity to start any income generating activities due to lack of financial capital. They also have very limited access to the formal financial institutions because of the inability to fulfill formal collateral requirement (Mahmud, 2006). Chowdhury and Islam (2007) stated that deposits and loan and advances of Specialized Banks (SBs) are more sensitive to interest rate changes than those of Nationalized Commercial Banks (NCBs). This impacts the ability of the farmers to repay their loan.

Borrower characteristics and institutional characteristics are equally important in repayment of loans and that both factors need to be taken into account if loan default is to be minimized (Derban et al., 2005). Loan repayment by borrower farmers is influenced by timeliness of input supply, participation in off-farm activities, and yield loss due to natural calamities, among other things (Hundie et al., 2005).

Lack of banks in the rural areas and low disbursement of credit to the agricultural sector by the private commercial banks have led to the inadequacy of finance in the credit market for the small and marginal farmers in the rural areas. Even though the Non Government Organizations (NGOs) and the non-institutional sources of credit require high interest rate, farmers are forced to take loans from these sources as they have very negligible amount of financial assets to serve as collateral. Depressed farm gate price that the farmers get for their products also lead to their insignificant assets. Farmers in the rural areas have very low savings due to low level of surplus they get from production. And from the field level observation it has been seen that whatever they save is not spent on productive purposes in most cases. As such, they depend on the credit market to a large extent. The low level of savings and investment of farmers contribute to the lack of access to financial assets, which in turn leads to chronic poverty and deprivation.

Past research (Olomola, 1989; Okorie and Iheanacho, 1992) made several recommendations in respite of increasing credit availability to farmers. These include disbursement of loans in kind, the adoption of informal agencies’ loan recovery strategies and the involvement of credit agencies in marketing of farm produce. Jabbar et al. (2002) also recommend inventory finance for community level input suppliers and service provide.

Mahfuz (2009) reported a host of loan disbursement problems such as (1) farmers’ unawareness of bank credit facilities; (2) lack of farmers’ ability to fulfill bank requirements; (3) branch managers’ unwillingness to take
the risk of giving loan as they are accountable to their 
authority for the loan default by farmers; (4) inability of 
marginal farmers to come with collateral for the loan; and 
(5) bank officials’ inability to understand the risks involved 
in agricultural projects and lack of agricultural background 
as well.

Since finance is a key issue in the evolution of the 
agricultural sector, strengthening this sector requires, 
amongst others, better accessibility to financial services. 
Majority of people in Bangladesh live in rural areas and 
are involved in agriculture activities. In this country, agri-
culture is the pillar of the economy and the other sectors 
of activity such as industry, commerce, and public and 
private services largely depend on it. Therefore, proper 
use of loan is the precondition of recovery of loan.

The foregoing literature suggests that agricultural credit 
is crucial for realizing the potential gain from agriculture 
as a profitable activity. Loans that are not recovered are 
double damaging: (a) the vitality and very existence of 
the entire financial system in Bangladesh is threatened 
by the widespread defaults and (b) this destroys the 
important product that financial markets create: debt 
capacity. Therefore, this study is aimed at identifying and 
overcoming constraints to loan disbursement and 
recovery by BKB. This study is useful in the sense that it 
constitutes an aid to policy makers and researchers for 
improving various aspects of loan disbursement and 
recovery issues of BKB.

METHODOLOGY

To achieve the objectives of the study a sample of ninety bank 
officials from 30 branches of BKB dealing with loan disbursement 
and recovery was chosen to investigate into loan disbursement and 
loan recovery problems. The sample population was predominantly 
males (72.7%) and young, with nearly two-thirds (64.8%) under 35 
years of age. About 58% had bachelor degree; nearly 28% had 
master degree; 11% had completed 2 year college degree; only 3% 
had agricultural education background.

Data collection

The study is based on both primary and secondary data. Primary 
data were collected by direct interview method with the help of a 
questionnaire for self guidance. All officials were interviewed 
separately to know their independent views about the problems as 
perceived by them. Mean and standard deviation including 
frequency were used to analyze most of the data. Correlation 
between variables was also used. Correlation technique allowed 
the researchers to explore and analyze the relationship between 
two or more variables at a time (Gall et al., 1996) and also provided 
information concerning the degree of relationship among the 
variables studied (Gall et al., 1996). Therefore, a correlation method 
was used to explore the relation between overdue loan and other 
variables namely political pressure, shortage of skilled manpower, 
competition with NGOs, etc.

For collecting primary data, the areas have been selected based 
on agricultural production and operation of BKB. The areas are 
Barguna, Pirojpur and Patuakhali districts in Greater Barisal 
region. These areas are known for production of large amount of 
rice and other agriculture products (grains, vegetables and pulse) in 
Bangladesh.

Fifty BKB branches from these three districts have been 
selected. Among them twenty four branches are located in rural 
areas and the rest of twenty six branches are located in sub-urban 
areas. A stratified random sampling is administered on each strata 
based on branch codes and location of the branches. Fifteen 
branches are selected from each stratum. In each branch, three 
levels of people were selected for collection of information. Firstly, 
branch manager; secondly, officer in charge of giving loan and 
finally, field officer in charge of monitoring the status of loan. In all a 
total ninety bank officials were actively involved in our sample.

The questionnaire was distributed to ninety officials of the bank. 
One item was: Local political pressure and interference is a problem 
in loan recovery and disbursement. The reliability coefficients of the 
items was: Alpha (α) =0.6589.

The secondary data came from a number of literatures, 
government publications, Bangladesh Bank Annual Report, BKB 
Annual Report, statement of loan disbursement and recovery from 
statistical year book, books and journals.

ANALYSES AND FINDINGS

The major problems, as reported by the respondents 
(bank officials) are reported in Table 3 (for rural population) and Table 4 (sub-urban areas). Correlation 
among the factors reveal that overdue loan is one of the 
major problems of BKB branches both in rural and sub-
urban areas, which is triggered by local political influence 
(r = 0.754) The loans taken with the help of local political 
are never repaid and used for agricultural purpose, thus 
defeating the ultimate purpose of BKB. The table also 
explores that competition of NGOs is high in the rural 
areas comparing to sub-urban areas (rural r = 0.481> 
sub-urban r = 0.211). The poor farmers are influenced by the 
NGOs field officers to take loan with high interest to reply 
the overdue loan of BKB and it becomes impossible for them to repay the loan at a higher rate of interest and to 
repay the loan sometimes they even have to sell their 
small holdings and eventually become landless. Shortage 
of manpower in BKB branches is severe both in rural (r = 
0.371) and sub-urban areas (r = 0.522), which lead to 
time consuming loan disbursement and recovery 
procedure. Consequently farmers lose motivation to 
utilize loan amount for agriculture purpose, rather they 
spend the loan money for their personal consumption. 
This tendency is high in sub-urban areas.

Causes of loan defaults

The customer is the best source of information on the 
reasons for default. Additional sources, such as neigh-
bors, suppliers, clients, other financial institutions, should 
also be consulted to confirm the validity of the information 
given. This information-gathering process is usually done 
by the loan officer. There has been no exception to this 
study. The information —gathering process on reasons of 
default as indicated below was done by loan officers of
Table 3. Correlation between variables, mean and standard deviation (rural areas).

<table>
<thead>
<tr>
<th>Location of branch</th>
<th>Nature of problems</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural location</td>
<td>1</td>
<td>1.00</td>
<td>0.127</td>
<td>0.481**</td>
<td>-0.228</td>
<td>0.014</td>
<td>0.754**</td>
<td>4.13</td>
<td>0.430</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>0.127</td>
<td>1.00</td>
<td>-0.030</td>
<td>0.371*</td>
<td>0.454*</td>
<td>0.143</td>
<td>4.09</td>
<td>0.466</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>0.481**</td>
<td>-0.030</td>
<td>1.00</td>
<td>0.386*</td>
<td>0.214</td>
<td>-0.545*</td>
<td>3.69</td>
<td>0.311</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>-0.228</td>
<td>0.371*</td>
<td>0.386*</td>
<td>1.00</td>
<td>-0.021</td>
<td>0.135</td>
<td>4.31</td>
<td>0.596</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>0.014</td>
<td>0.454*</td>
<td>0.214</td>
<td>-0.021</td>
<td>1.00</td>
<td>-0.046</td>
<td>1.96</td>
<td>0.572</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>0.754**</td>
<td>0.143</td>
<td>-0.545*</td>
<td>0.135</td>
<td>-0.046</td>
<td>1.00</td>
<td>3.82</td>
<td>0.453</td>
</tr>
</tbody>
</table>

*p<0.05; **p<0.01.
Notes: 1 = Political pressure and influence; 2 = Shortage of skilled manpower; 3 = Competition with non-government organizations (NGOs); 4 = Lengthy and cumbersome procedures; 5 = Using fund in non-agricultural sector; 6 = Overdue loan.

Table 4. Correlation and inter-correlation between variables, mean and standard deviation (sub-urban areas).

<table>
<thead>
<tr>
<th>Nature of problem</th>
<th>Correlation</th>
<th>Descriptive statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Sub-urban Areas</td>
<td>1</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>0.112</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>0.211</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>-0.181</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>0.447**</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>0.697**</td>
</tr>
</tbody>
</table>

*p<0.05; **p<0.01.
Notes: 1 = Political pressure and influence; 2 = Shortage of manpower; 3 = Competition with NGOs; 4 = Lengthy and cumbersome procedure; 5 = Using fund in non-agricultural sector; 6 = Overdue loan.

the BKB under study. They all confessed that the information they have revealed to us are gathered from their customers (borrowers). Causes of default as reported by them are: (a) inadequate income; generation; (b) crop failure due to bad weather; (c) high installment of repayment; (d) lack of understanding of terms; (e) liquidity problem; (f) excessive debt taking; (g) ineffective storage/marketing; (h) improper selection of borrowers; (i) political pressure and interference; (j) lack of co-operation from the government; (k) lack of proper supervision; (l) political pressure and interference; and (m) lack of proper supervision.

During the time of borrower selection, lending institutions need to examine the credit worthiness of the borrowers. In many cases due to shortage of field staff and due to shortage of time BKB find it very difficult to evaluate the credit worthiness of borrowers. Consequently, the loan goes to the wrong people of the sub-urban and rural areas. These wrong people never repay the loan. They are reportedly in the shelter of the local political leaders of the different political parties of the country, especially the ruling party. This is why, the BKB is not able to recover loan from them.

Co-operation from the Government Officials is helpful to have a good recovery of loan. But the Government officials have no directives from the Government to help BKB, if required. Most of the Government officials do not extend help to BKB.

Monitoring, supervision and control of loan in every stage of loan management is an important and very essential factor to ensure the proper utilization of loan. If the utilization is not supervised, the loans tend to use the loan for immediate consumption purposes. When the loan is not invested in income-generating activities, the borrowers cannot repay it and become defaulters.

SUGGESTED MEASURES

Against the aforementioned loan disbursement and loan recovery problems faced by Bangladesh Krishi Bank, possible needs of assistance that could help solve these problems were also explored. Based on the findings of the study (100% respondents reporting), those needs are:
a). Evaluating credit worthiness of applicants and rejecting those with a lack of repayment capacity.
b.) Establishing a reporting system which allows for timely monitoring and follow-up action by loan officers.
c). Establishing a reporting system that gives up-to-date information about portfolio quality trend and default risk factors.
d). Policy of loan remission by the Government should be stopped. Remission of loan adversely affects the repaying habit of the borrowers. It breaks down the discipline of loan recovery. Borrowers think that loan received from the BKB will not have to be repaid since they assume it is a grant or relief from the Government.
e). Establishing an incentive system for on-time repayments.
f). Setting maximum levels for late payments and default as benchmarks for the institution.
g.) If substantial late payment and default problems prevail, set strict but realistic target level to gradually reduce the numbers.
h.) Instilling an ethos in the institution free from political and governmental interference that makes late payments unacceptable.

Conclusion

Defaults scar both lenders and borrowers. Loans that are not repaid decrease the loanable funds and make it difficult to assure safe deposit and to attract savings, absorb scarce managerial time and undermine integrity of the lender. BKB is a major financial institution in agricultural and rural credit of Bangladesh. Serious problems arise with failure to proper loan appraisal. Failure to conduct proper loan appraisal is a major reason for default and the existence of problem loans. There is no substitute for a thorough loan appraisal. Over and above, the loan officers must have a very understanding of the dynamics of customer's business and agricultural production. Otherwise, it may result in inappropriate cash-flow projection and inappropriate repayment plan.

IMPLICATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

The study implies that a positive environment through encouragement and a positive reinforcement of stable loan disbursement and loan recovery policy free from political interference and pressure will foster a positive climate in proper loan disbursement and recovery. This study has taken one bank into consideration. Further study can be undertaken to include all lending institutions in granting agricultural loans to look at the intensity of constraints and their implications for this sector of the economy. Finally, the role of government in eradicating political interference and pressure on the lending institutions for the smooth functioning of loan disbursement and loan recovery may be an important study.

REFERENCES


