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Increased Access to Finance Stakeholder Consultation Workshop

Final Report

Shawkat Hossain, Zunaed Rabbani, and Shahran Ahmed

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INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE
IFPRI

Increased Access to Finance Stakeholder Consultation Workshop

Final Report

Shawkat Hossain*, Zunaed Rabbani, and Shahran Ahmed****
with IFPRI technical assistance[1]

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**LightCastle Partners (consultant)*
***Agro-Input Retailers Network and The Right Kind (consultants)*

[1]Please contact Akhter Ahmed (a.ahmed@cgiar.org) with any comment or query.

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ACRONYMS

a2i	Access to Information program
ACI	Advanced Chemical Industries
APSU	Agricultural Policy Support Unit
BARC	Bangladesh Agricultural Research Council
BARI	Bangladesh Agricultural Research Institute
BDT	Bangladeshi Taka
BKB	Bangladesh Krishi Bank
BRDB	Bangladesh Rural Development Board
DAE	Department of Agricultural Extension
DC	District Commissioner
ERP	Enterprise Resource Planning
GOB	Government of Bangladesh
IFPRI	International Food Policy Research Institute
JCF	Jagorani Chakra Foundation
KSC	Konika Seed Company
MFI	Micro-finance institution
MRA	Microfinance Regulatory Authority
NGO	Non-governmental organization
NPL	Non-performing loan
PKSF	Palli Karma Shahayak Foundation
RIC	Resource Integration Centre
SME	Small and medium enterprise
UAO	Upazila agriculture officer
UCB	United Commercial Bank
USAID	United States Agency for International Development
ZOI	Zone of Influence
ZOR	Zone of Resilience

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1 INTRODUCTION

1.1 Overview of Stakeholder Consultation Workshops

On September 18, 2020, USAID requested IFPRI to conduct 15 stakeholder consultations on three thematic areas across five districts in the Feed the Future Zone of Influence (ZOI) and Zone of Resilience (ZOR): Barishal, Cox's Bazar, Dhaka, Jashore, and Khulna. The thematic areas are: (1) Increased Access to Finance, (2) Commercialization of Oilseeds and Pulses, and (3) Commercialization of Agricultural Research and Biotechnology. IFPRI agreed to conduct these stakeholder consultations and, on October 21, 2020, USAID approved IFPRI's Increased Access to Finance concept note.

1.2 Program Format and Participation

The Increased Access to Finance virtual stakeholder consultation workshops were conducted from November 22-26, 2020, co-moderated by Mr. Shawkat Hossain and Mr. Zunaed Rabbani.

Each of the five Increased Access to Finance stakeholder consultation workshops were approximately two hours. **Table 1.1** provides the workshop agenda, which illustrates a briefing on the Zoom technical functionalities (e.g., mute, raise hand, using the chat box), followed by welcome remarks, an overview presentation by the two technical moderators, approximately 1.5-hour breakout sessions (one technical moderator per breakout session), and concluding remarks from the technical moderators. **Appendix 2** provides the designed workshop agenda that was projected during the workshops.

Table 1.1 Increased Access to Finance workshop agenda

Time (BDT)		Topics
9:20	9:35	Introduction to Zoom Functionalities
9:35	9:40	Welcome/Introductory Remarks by USAID and IFPRI
9:40	9:48	Overview Presentation and Objectives of the Consultation
9:50	11:25	Discussion with Stakeholders [Breakout Room Format]
11:25	11:30	Concluding Remarks

Between in late October and early November 2020, IFPRI and Feed the Future activities nominated potential stakeholders who were familiar or involved with access to finance, interested and available to participate, and had sufficient digital literacy to participate effectively in a Zoom consultation.

Table 1.2 presents the estimated number of participants for the Increased Access to Finance stakeholder consultation workshops, by the 10 stakeholder categories proposed by USAID. **Appendix 1** features the Bangla and English invitation letters that were sent to the nominated stakeholders.

Table 1.2 Increased Access to Finance district workshop participation, by stakeholder category

	District Workshops					
Stakeholder Categories	**Barishal**	**Cox's Bazar**	**Dhaka**	**Jashore**	**Khulna**	**Total**
Academia	0	0	0	1	2	3
Value Chain Actors	15	3	8	11	26	63
CSOs	0	0	0	0	0	0
Donor/Donor-Funded Activities	11	9	21	22	13	76
Government	9	7	16	8	8	48
Judiciary	0	0	0	0	0	0
Media	1	0	1	0	2	4
NGOs	13	8	6	9	3	39
Private Sector	1	2	15	14	1	33
Financial Institutions	9	1	17	6	4	37
Total	59	30	84	71	59	303

Note: Participant numbers exclude workshop facilitators, including IFPRI, Green Ink, The Right Kind, and the moderators.

1.3 Organization of Report

This report is organized into four sections. Section 2 contextualizes the status of access to finance in Bangladesh. The remaining three sections of the report focus on the findings distilled and synthesized from the five Increased Access to Finance virtual stakeholder consultation workshops. These findings are framed according to USAID's primary outcomes for the consultations, highlighting (1) the challenges associated with increasing access to finance in Bangladesh, (2) the opportunities related to increasing access to finance, and (3) recommendations to increase access to finance. Each section highlights the recurring themes that emanated from the five district workshops, as well as highlights district-specific points that may affect access to finance differently based on the geographic area. The findings presented in this report reflect the discussions from the workshop as they took place. The authors have sought to remain objective in presenting this information.

Participant names have been excluded from the report to protect their confidentiality; instead, organizations and designations are presented to convey the participants' perspectives.

2 STATUS: INCREASED ACCESS TO FINANCE

As countries undergo structural transformation and develop, economies shift from focusing on lower productivity areas like traditional agriculture to higher productivity areas, including industry and services.[1] Bangladesh has been rapidly growing, with an average gross domestic product (GDP) growth rate of 6.8% over the last decade.[2] Bangladesh's expanding ready-made garments manufacturing industry and recent forays into cheaply assembled consumer electronics have propelled the country's economic growth, minimizing the role of agriculture in the economy, as expected. Although the share of agriculture in GDP declined from 31% in 1990 to 13% in 2018/2019, the agricultural sector continues to be the largest employer in Bangladesh, involving about 47% of the total labor force in 2010 and 41% in 2016/2017 (Labor Force Survey (LFS), 2016-17, referred to in BBS 2019). Agriculture—including crops, animal husbandry, forestry, and fisheries—is the largest income source of household heads in Bangladesh (37.8%).[3] Therefore, despite the diminishing role of agriculture in Bangladesh's economy, agriculture remains a cornerstone of the economy and livelihoods.

Over the past decade, agro-loan disbursement has steadily increased in tandem with more production and local market demand, from BDT 92.84 billion (US$1.1 billion) in fiscal year (FY) 2009 to BDT 209.99 billion ($2.5 billion) in FY 2019. The rolling default rates have likewise increased.[4] Farmers generally require loans to access capital to cover production costs. The duration between applying for a loan from a traditional financial institution (e.g., bank) and receiving it is often a long process, with farmers and agricultural value chain actors typically receiving loans from traditional financial institutions after costly investments have been made. Moreover, it can create an extra burden of paying interest for a late-sanctioned loan, which may lose its usefulness.

Given delays in farmers' access to finance from traditional financial institutions, farmers may seek assistance from moneylenders or loan sharks, who may provide faster access to capital, yet on less favorable terms. For example, interest rates are often exorbitant, and farmers may have disadvantageous repayment conditions, such as selling their harvest to lenders at very cheap rates.[5] Farmers may also opt for the middle ground—that is, loans from non-governmental organizations (NGOs), which use mostly micro financing. Still, interest rates usually go up to 24% (as approved by the Microcredit Regulatory Authority, or MRA)[6]. These rates are generally higher as microfinance institutions (MFIs) acquire loans from banks at a low rate, but then have to pay operational costs, such as staffing fees at remote locations and monitoring expenses for farmers. In essence, many of the financing options available for farmers and other agricultural value chain actors come at a high cost of borrowing.[7]

[1] Ocampo (2005)
[2] World Bank (various years)
[3] BBS (Bangladesh Bureau of Statistics) (2017)
[4] Rahman, Mosfiqur Md (2019)
[5] Hossain, Emran (2019)
[6] The Business Standard (2019)
[7] Hossain, Ismail (2019)

There are several types of financing options available for agricultural value chain actors in Bangladesh, and these options are constantly evolving. **Table 2.1** provides a broad overview of the types of options, characteristics, and key players.

Table 2.1 Overview of agricultural financing options in Bangladesh

Source	Interest rate	Time taken	Documents Required
Bank	9% per annum	1-3 months	Rigorous
MFI	24% per annum	7-15 days	Manageable for small amount
Moneylender	120% per annum	2-3 days	Minimal
Credit purchase	10-20% for 2-3 months cycle	Immediate	Loanee is often forced to buy poor quality input

Source: Constructed by authors

Unfortunately, agro-loan products in Bangladesh do not consider the cultivation period of crops; rather, farmers are expected to repay the loan in weekly or monthly installments, irrespective of the source of financing. It is extremely challenging for farmers to repay any loans until *after* they have harvested and sold their crops. Therefore, this situation paves the way for a vicious cycle where farmers are forced to acquire even more loans at exorbitant rates to pay off their existing loans to avoid being harassed by bank/MFI officials or threatened with litigation or police involvement.[8]

Finally, when farmers can harvest their crops, it is not without a considerable level of apprehension as every stakeholder that they took loans from requests quick repayments. Farmers are then forced to sell their harvest at whatever price is made available to them at the local market (without any avenue for surveying or holding for a fair price).[9] As a result, the market system is slightly skewed against the average farmer.

The government tries to assist farmers, but with so many variables present, principally around unpredictable market dynamics where other actors such as dealers and traders clearly have leverage, it is difficult to provide assistance via fixed prices, storage facilities, collection points, and so on without constant monitoring. A lack of policy change could explain how initiatives like the coronavirus stimulus package of 5,000 crore may not have made its way to poor farmers (but rather into the hands of businessmen).[10]

As farmers become more disillusioned with the lack of access to finance, they begin to default on their loans and use the money for unintended purposes (e.g., paying back current outstanding loans, purchasing livestock/inputs, mending their houses, etc.). Forcing themselves to work within this financial system that they do not fully comprehend or understand, farmers learn to do with what they have. Given this context, monitoring farmers is a valid response, but it is only with an empathetic understanding of their life circumstances that this should be conducted. Educating and supporting farmers would pay dividends in the long run.

[8] Islam, Rezaul and Karim, Md Aminul (2018)
[9] Star Business Report (2020)
[10] Murtaza, HM and Manik, Rezaul Karim (2020)

The question is whether enough is being done to facilitate low-cost loans to farmers, keeping the circumstances of their income and cash flow in mind.

2.1 Summary of consultation findings

The five-day consultation workshops gleaned insights from an array of stakeholders based or working in Barishal, Cox's Bazar, Dhaka, Jashore, and Khulna districts around agriculture and agriculture finance in Bangladesh.

There are various loan providers for agricultural value chain actors. But throughout the consultation, it was highlighted that mostly farmers and input retailers were facing the most difficulties in accessing finance:

- ***Moneylenders*** enable farmers to borrow money quickly, yet typically at much higher interest rates compared to the other options. The interest rates will vary since it is unregulated and depends on the relationship between lenders and farmers. A respondent highlighted one such arrangement where farmers pay 10% interest monthly, meaning if the farmers pay back in three months, the interest rate becomes 30%, whereas a repayment after a year would be equivalent to a 120% interest rate. Usually, farmers sign a bond to receive the loan, but it can also be based on a verbal contract in the presence of other people. In this case, they do not need to present national identity cards, passport-sized photos, and other documents like agriculture cards. Failure to repay this loan can become both financially and socially risky for the farmers. Moneylenders typically do not require weekly or monthly tranches, which makes it slightly easier for the farmers.

- ***MFIs/NGOs*** that operate under the Microfinance Regulatory Authority (MRA) are an alternative loan provider, which are regulated to some extent, but their interest rates vary. In most cases, they charge more than what banks offer, but some MFIs are funded by different projects/donors, which allow them to offer loans at an attractive interest rate. Usually, the projects cover their operational cost, and in some cases, provide credit guarantee schemes. However, outside of project support, MFIs usually charge 18-25% annually, or a 10% flat rate instead of a reducing rate, for which farmers repay in instalments but end up paying more. MFIs, too, do not need that much of documentation compared with a formal financial institution, but they collect every week or month in instalments.

- ***Banks*** provide a significant amount of agricultural loans in Bangladesh; however, they still fall short of their disbursement target. According to the Annual Report of Bangladesh Bank 2019-2020, agricultural banks disbursed BDT 227 billion ($2735 million) among 3.07 million farmers in FY 2019/20, which fell short of the BDT 241 billion ($2904 million) target. Banks often use other finance actors to disburse loans. Of the BDT 227 billion worth of loans that were disbursed, over half (BDT 114 billion, or $1373 million) was disbursed by MFIs for crop loans, whereas banks disbursed BDT 6 billion ($72 million) directly. The overwhelming majority (84.2%) of this loan is short-term and 15.8% is long-term for irrigation machinery, agri machinery, livestock, etc.

Banks offer varying interest rates, which have a wider repayment options, from monthly to at the end of tenure. Interest rates are usually lower as they are bound by guidelines from the central bank, but banks are hardly present in the remote areas. Banks also require the submission of documents according to the guideline by the Bangladesh Bank, which can be cumbersome for farmers. Examples of documents required by banks include national identity cards and passport-sized photos of applicants. However, it is difficult for farmers in remote areas to keep and manage these documents. Banks also tend to prefer large borrowers instead of smaller ones. All these present barriers for rural, remote farmers and other smaller value chain actors.

According to Clause 5.05 of the Agricultural Rural Credit Policy & Program of the Bangladesh Bank, banks do not require any document other than a demand promissory (DP) note, letter of guarantee, and letter of hypothecation for agricultural loans to cultivate up to 5 acres of land. Even though banks are not supposed to require any collateral or extensive farm-related documentation for loans up to BDT 50 lac ($60.24 million), the consultation participants indicate that actual practice is different. For example, farmers with more influential networks seem more likely to get bank loans. Another problem is that banks provide loans based on credit records, which farmers usually do not have as they do not have a bank account.

With this context, farmers must decide where they should borrow from, accounting for trade-offs of different financial actors. For instance, farmers must choose whether they should opt for the quickest option of borrowing from moneylenders or MFIs or seek assistance from banks, which offer lower interest rates but with a longer waiting period and a process that requires extensive documentation. Sometimes time delay becomes a challenge when banks demand paperwork as farmers who need the loan do not plan that far ahead. In sum, there are various agricultural financing options; however, there are few farmer-friendly options, which are hassle-free, are available quickly, and have minimal requirements. Effective loans would not only provide access to proper, customized financing to farmers, but also consider variables, such as timely fund acquisition and payback periods in tandem with harvest times. This last point is vital because agricultural production takes 3-5 months, and it is not helpful if lenders start collecting money in weekly or monthly instalments, which is the case for most MFIs and some banks. Most lenders think farmers would not be able to pay back if smaller instalments are not collected in regular intervals. Participants from financial institutions tended to exhibit a lack of trust or confidence on farmers' money management. Farmers' limited financial literacy compounds these challenges, yet could be addressed if given priority.

This report provides a list of recommendations on how to increase access to finance based on the discussions at the stakeholder consultation workshops. These generally push us to think about current systems and how they could be improved to provide a better platform for farmers and other market actors, such as input retailers and traders applying for financing.

2.2 District-Specific Scenarios

A common scenario in all five districts was that the farmers had to travel several miles just to arrive at a financial institution.

Overall, participating farmers and traders confirmed that they had managed to acquire financing somehow; however, banks were typically less willing to support farmers and traders. In Cox's Bazar district, however, there were three farmers who were successful in applying for and receiving loans from the Bangladesh Krishi Bank (BKB). It should be mentioned, however, that the current default rate for agro-loans at this particular BKB branch is just above 40 percent, which is commercially unviable for private banks to function at; the success claimed here unfortunately, perhaps does not offset the larger, general situation in the market. Generally, farmers or traders indicated that they were disqualified or discouraged from applying for or receiving loans; consequently, representatives from state-run banks, private commercial banks, and MFIs continued to indicate that each was meeting its targets and that all farmers were being accounted for.

In general, banks, and especially government-owned ones, did not have the capacity or manpower to reach small farmers. They tended to focus on the 'large farmers'–mostly repeat customers with demands for larger loans. In addition, the high rate of non-performing loans among public banks (40% mentioned in the consultation for the specific branch and more than 20% in Sonali Bank, as per a recent article published in the newspaper[11]) is not viable for private banks, as they require profits to survive in the market. While public banks such as BKB can take a financial loss, a 20-40% default rate is a high credit risk, which many private banks cannot afford in the long run.

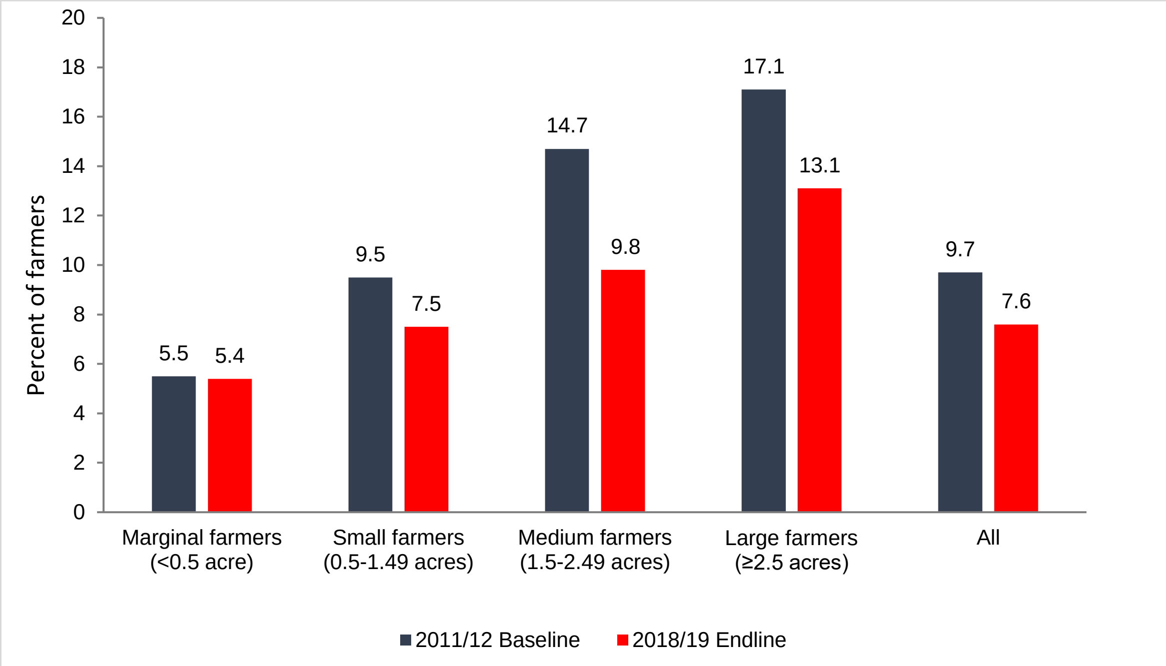
In the previous paragraph, a reference was made to 'large farmers.' It is important to emphasize that participant references to 'large' or 'small' farmers are subjective, and do not relate to specific cut-offs. The key point, however, is that there are genuine differences in access to finance by farmer size. Results from IFPRI's Bangladesh Integrated Household Survey (BIHS), which collected plot-level data on marginal farmers (operating less than 0.5 acres of land); (2) small farmers (operating 0.5 to 1.49 acres of land); (3) medium farmers (operating 1.5 to 2.49 acres of land); and (4) large farmers (operating 2.5 acres or more of land), support participants' conjectures.[12]

Figure 2.1 shows that there is a relatively low access to Bangladesh Krishi Bank (BKB) loans overall in the Feed the Future ZOI, which only decreased further between 2011/2012 and 2018/2019. In 2018/2019, the proportion of large farmers who received BKB loans is 2.4-times and 1.7-times higher than marginal farmers and small farmers, respectively. Therefore, although disparities in access to finance by farmer size is shrinking, there is a persisting gap in the Bangladesh ZOI, with small farmers still lagging behind.

[11] The Business Standard (2021)

[12] These four farm size groups match the cut-off points of the six operated farm size groups presented in the Bangladesh Bureau of Statistics (BBS) 2010 Household Income and Expenditure Survey (HIES) report by aggregating the smallest two HIES farm size groups under the marginal farm category and the largest two groups under the large farm category.

Figure 2.1 Loans from Bangladesh Krishi Bank, by farm size group, Feed the Future ZOI



Source: IFPRI's Feed the Future Bangladesh ZOI survey, 2011/2012 and 2018/2019

The stakeholder consultation workshops revealed persistent problems related to formal financial institutions, which are undercutting access to agricultural finance in Bangladesh. In addition to high interest rates, several participants—both from the supply-side (e.g., banks) and demand-side (e.g., farmers, other types of value chain actors) indicated that many banks (mainly their branches) deviate from Bangladesh Bank guidelines. Specifically, some banks take *dolil* (title deeds) as a mortgage for loans below BDT 50,000 ($602), or require owning a minimum of 1 acre of land, which is not set by the central bank. Nevertheless, branch managers impose these regulations to avoid defaults and score better points that helps their individual career progression. Participation from private banks was relatively low in the consultation, which may reflect their lack of interest in reaching the rural population; it could be argued that most private commercial banks with savings from rural customers are more inclined to finance the business of urban, high net worth, steady income (fixed income employee) or industrial borrowers where returns are not only handsome but more secured. Ultimately, banks are a profit-making enterprise. From their perspectives, rural penetration is costly, and may be easier for MFIs outside of Dhaka. Due to field-level outreach and monitoring, MFIs are charging high interest rates. But banks, being regulated by the central bank, can hardly charge additional amounts, which makes the entire rural market not that profitable in comparison with loaning out to large agro-companies. Moderators and policymakers advised using technology, using alternative distribution channels such as private input companies, social enterprises, or development partners who are already operational in the field. Collaborating with partners to train and improve financial literacy of farmers can reduce overall monitoring costs to borrowers. For instance, collaborators can be paid a certain percentage for each loan sanctioned. Moreover, if the training provider or collaborator gets a farmer ready for loans, banks can share profits with them or provide them with some fees.

There have been some cases where insurance products were introduced to farmers funded by different donor projects. Commercially, as a stand-alone product, it is not well known whether any insurance company is running their products for this segment of population (farmers) without project support or at scale. Farmers are open to the idea of paying a small premium on top of their loans as insurance against such calamities as weather or market prices out of equilibrium. Unpredictable events such as the coronavirus pandemic and Cyclone Amphan have hurt many farmers' livelihoods, yet systematic barriers, such as highly stressful payment schedules (monthly/weekly instalments, even though harvest of some of the major crops takes at least three months), pressurizes them to take on several loans to pay each other off, and having to sell harvests for paltry sums to be free of exorbitant interest rates are still very real issues in an inefficient system. Our respondents also pointed out that they do not get space in government or private warehouses; and even if they do, the cost of transporting produce and paying rent is not cost-efficient for them. Most warehouses hoard potatoes and one or two items. These warehouses are mostly owned by local influential people who would prioritize large farmers over medium- and small-scale farmers. Therefore, although there are successful examples in other countries where farmers can store crops in warehouses (e.g., Babban Gona model in Nigeria), these opportunities may not translate to the current context in Bangladesh.

3 CHALLENGES AND OPPORTUNITIES

3.1 Challenges

3.1.1 Need for documentation

Loan approvals require extensive paperwork, which can be challenging for many marginal and smallholder farmers who often do not have access to the required documentation, such as a land deed in their name, passport-sized photos, or an agriculture card.

The issue is mainly two-pronged:

First, farmers often are unable to fully comprehend the loan requirements. For instance, a farmer from Jashore, reported that even on multiple trips to Janata Bank, which is 5 kilometers (km) away from his home, officials refused or discouraged him from applying for loans even when he had the requisite documents. He was later approached by local middlemen who, for an undisclosed percentage of commission (which ranges from 10% to 50% of the loan value), would help him get a loan. He secured a loan from the government-led Bangladesh Rural Development Board (BRDB). However, BRDB is not a financial institution. It mostly disburses money from their different projects, which is not sustainable.

According to the 2018/2019 Annual Report of Bangladesh Bank, in the FY 2018-2019 BDT 1,072.33 billion has been disbursed as microcredit where BRDB disbursed BDT 4.77 billion ($57 million).[13] Non-performing loan of BRDB is 30%, which indicates the inefficiency of the system and puts the future of such a program into a disarray. The overarching problem is the state of commercial banks' share of the burden, which—accounting for 52% of the non-performing loans in the country[14]—has shown an average default rate of 24.8% from 2014-2019.[15]

According to the 2019/2020 Annual Report of the Bangladesh Bank, in June 2019, non-performing agricultural loans represented BDT 66.9 billion ($806 million) and 15.6% of total loans, which dropped to BDT 60.6 billion ($730 million) and 13.3% of total loans in June 2020.

Secondly, banks are more inclined to disburse agro-loans to larger traders and dealers where the operational cost and hassle are lower, and loans can be more easily monitored. A fish farmer in Khulna supported by a USAID funded Bangladesh Aquaculture Activity, illustrated this issue from her own recent experiences. She visited various banks, after she and her fellow farmers were declined loans from the Bangladesh Krishi Bank (BKB). No bank facilitated her small and medium-sized enterprise (SME) loan that the government mandated at 4% due to the COVID pandemic. Banks told her that the full amount of that loan had already been disbursed to existing clients; even after speaking with SME representatives, banks were unwilling to release the loans. She also expressed her concerns regarding how female entrepreneurs are in a disadvantageous position in terms of getting loans from the formal banking system.

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[13] BRDB (Bangladesh Rural Development Board) (2020)
[14] Haradhan Sarker (2020)
[15] Tanzirul Islam (2020)

Furthermore, in Khulna, one farmer notes that if farmers want to get loans through middlemen and guarantors, they first make farmers sign a blank sheet of paper, after which the middlemen and guarantors develop the terms of the loan. This demonstrates that farmers' rights are often violated when they trying to get access to formal financial products. These people take advantage of farmers' illiteracy or in many cases create a syndicate that takes advantage of their social hierarchy or network.

Farmers who are unable to acquire loans through official channels are often forced to pursue local moneylenders and jewellery pawn shops, who may charge up to 10% interest per month, equivalent to 120% per year. The Bangladesh Bank removed any requirements for farmers to prove land ownership when applying for loans. This was intended to help farmers who operate on leased lands. Even the basis of such rural lease agreements is on good faith, where farmers agree to terms with landowners upon a verbal contract in front of witnesses. However, a consistent finding across the district workshops is that bank representatives repeatedly ask farmers for documentation, citing that these are internal regulations that they have no control over. As alluded to above, it could be the branch manager, instead of the bank as an institution, which suggests that branch managers are still holding onto old practices. Similarly, Alamgir (2009) found that some banks, such as BKB and RAKUB, mainly targeted—and still target—the small, medium, and large farmers who could offer land as mortgage.

MFIs are regulated by the Microcredit Regulatory Authority (MRA), not the Bangladesh Bank. Although land ownership is a common criterion that MFIs use to target the poor, prioritizing households owning less than 0.5 acres ('functionally landless'), few MFIs take title deeds of land as a security for sanctioning a higher loan amount. For example, BRAC takes deeds for loans amounting to BDT 100,000 or more. Generally, this has limited use given that it is not a registered mortgage. Without a registered mortgage, MFIs cannot foreclose on land in case of a default.

In practice, however, many MFIs deviate from the use of land criteria due to competition in the MFI sector.[16] Therefore, although the MRA does not have any restriction related to land deeds, field officials/credit officers do not always follow the targeting criteria, leaving landless or smaller farmers at a disadvantage irrespective of the official requirements. Moreover, farmers' documents are often not in order, especially, where there are mistakes in their national identification (ID). During the workshops, Department of Agricultural Extension (DAE) officials noted that they can assist in providing lists of farmers to the banks, which may facilitate loan approval and disbursement for farmers from banks. But DAE officials who participated in the stakeholder consultation workshops indicated that they are seldom consulted about loan disbursement. Although government agencies responsible for agriculture, fisheries and livestock extension services face resource limitations both in manpower and finances, they said their recommendation may allow genuine farmers to access finance and can lead to better yield for farmers.

A representative from the Ministry of Agriculture noted that although Ministry of Agriculture-registered agriculture cards previously assisted in identifying farmers for loans, new cards have not been issued since FY 2014-2015. Without these cards, farmers are now asked to provide a certified note from the local administration, such as the *upazila chairman or union parishad*. This

[16] Alamgir (2009)

often requires farmers to provide personal information to local officials, which farmers and other value chain actors often do not want to provide due to suspicion about how this information will be (mis)used. In absence of a national identification card (NID), or in addition to NID, many are asked to present this agriculture card. But farmers avoid it citing that such a testimonial requires them to be ally with the local influential people or to pay up. Therefore, this represents yet another barrier in the way of access to finance for those in need.

The stakeholder consultation participants indicated that different types of financial institutions have varying timelines for processing loans: banks take one to three months, even with agent banking; MFIs take one to two weeks; and local lenders can facilitate loans within two-seven days.

Crops and input demands are seasonal. Stakeholder participants noted that if the loan arrives even a week late, it becomes a useless burden for the borrowers. Without convenient channels to secure timely loans, farmers continue to be locked in a vicious cycle of borrowing and repaying loans without ever having any financial stability in their lives.

3.1.2 Poor market prices & impractical loan repayment schedules

Once farmers secure financing, either from MFIs or middlemen, they are beset by the pressures of weekly or monthly repayment in smaller tranches. However, the agricultural sector typically does not provide steady, monthly cash flow, which makes it difficult to repay loans based on payment schedules that do not account for the timing of farmers' cash inflows. Ideally, farmers would receive a loan, use it to purchase agricultural inputs to enhance agricultural productivity, which may provide a bountiful harvest/yield 3 to 4 months later, which after selling, could help them repay loans. Even moneylenders who may not require weekly or monthly instalments, pressurize farmers to for repayment as soon as the harvest is ready, which does not give farmers enough time to compare prices with other markets or to store harvest and wait for a better market price.

Unfortunately, many loans require weekly or monthly repayments within one month of taking the loan. Farmers face immense challenges meeting these stringent, time-sensitive requirements since this requires them to start repaying the loan before they have made any income from their farming activities. Interestingly, when asked if this weekly or monthly repayment schedule can be dropped, all representatives of MFIs and agriculture input companies echoed the same thing that the farmers are not good at money management. If weekly repayment is not ensured, farmers are most likely to default at the end of the 6-month or 12-month long tenure. This suggests a lack of trust in farmers or in farmers' capacity in managing money.

Although impractical loan repayment schedules are relatively prevalent, many MFIs and banks have started to integrate agri-process-friendly loans into their portfolios. For instance, an Assistant Technical Officer from the Resource Integration Centre (RIC) in Cox's Bazar mentioned that they can provide farmers with seasonal loans after evaluating farmers' harvest and general market prices for an applied crop. RIC claimed that they provide a flat 8% interest rate, which comes around 15-16% per annum at a declining rate by securing funds from the Palli Karma Shahayak Foundation (PKSF).

However, it is not only to the banks or MFIs that the farmers are beholden. Most farmers purchase inputs from retailers on short-term suppliers' credit plans (30- 90 days) to expand their farming activities based on nominal loan amounts. It is here that another set of issues arises – farmers being forced to repay loans immediately after the harvest. Due to this suppliers' credit, farmers hardly have any bargaining power, and have to buy what the input retailers recommend. Retailers, on the other hand, push products that give them higher margin, and it is often observed that average and below average companies allow higher margin. So instead of recommending the best possible products to farmers, some retailers promote low-quality products, and recommend higher dosage of input than what is required.

But input dealers and retailers have also narrated their side of the story. An input retailer from Khulna, mentioned that about 50 percent of his 700-800 farmer clients purchase inputs on credit. Among his clients who purchase inputs using credit, nearly half are unable to pay on time. A good number of farmers delay the payment, but some farmers do not pay back, despite having cash. This kind of behaviour from farmers leads to input dealers pressurizing farmers to repay immediately after the harvest starts.

Suppliers' credit is an alternative to formal financing, which *can* help farmers, but also comes with challenges. The age-old *dadon* system is well known for limiting farmers' options for selling produce to anywhere else other than the lender. But the suppliers' credit also limits farmers' options of selecting inputs because they have to listen to the retailer selling the products. A good outcome is that many reputed companies are trying to move away from this system; however, its prevalence over a long period has transformed it into a culture of practice, which will be difficult to replace.

Across all the district workshops, farmers consistently discussed the unrelenting pressures to pay back loans (with frequent visits from NGO personnel and visits from moneylenders right after the produce is harvested). Amidst these pressures and to keep up with sensational interest rates, farmers are required to immediately sell their harvest at whatever price they get first at the market.

A farmer in Barishal stated that they cannot bear loans under the harsh conditions set by local moneylenders and MFIs, and are forced to sell their crops (mostly rice) at a lower price to pay off their debts. If they had more time to survey the market and hold onto their crops like a rice farmer from Khulna pointed out, they could easily fetch a higher price.

Asymmetrical information on market prices along with the pressures of short repayment windows compel farmers to settle for less than fair or competitive prices of their harvested crops, which may not have been the case if they had time and access to information from nearby markets. Although price information can be helpful for farmers, there are other factors that limit or constrain farmers' marketing practices, such as access to transportation, proximity to other markets, and so on. This begs the question: if farmers are tethered to their lenders/retailers to repay their loans, often by unreasonable timelines, can s/he really exercise freedom to sell anywhere else or outside of their usual market? Social hierarchy also comes into place, which may pose questions: even if the farmers get to know of better prices elsewhere and can manage transportation, can they break away from the social chains that are prevalent due to social hierarchy, often feudalistic in nature?

In sum, farmers and other agricultural value chain actors seek access to finance, in spite of unfavorable, unclear, and sometimes predatory terms and conditions, to receive money quickly, yet impractical payment timelines and unfair price almost inevitably lead to loan defaults, more borrowing to make up for these overdue loans, and a state of financial disrepair.

3.1.3 Accessible loans from local moneylenders and middlemen

One of the most convenient sources of financing is from local moneylenders, mostly influential people and traders living in the same village or union. Where banks may take up to a month or more, farmers can easily secure loans from local lenders within days. MFIs may have wider outreach but as per some MFI representatives, the market is still too big for MFIs to cover. Two respondents said more than 70% farmers are still beyond the reach of MFIs.

Loans from these sources come with extremely disadvantageous caveats, often requiring farmers to repay up to 120 percent per annum of their loan amount by the end of the borrowing period. It has also become a common practice for middlemen to facilitate access to loans for farmers from public commercial banks by asking for a fee, or often 10 percent of the face value of the loan. A finding that emerged from the workshops is that private banks are least interested to provide loans to small farmers because of the small loan size, high operational and monitoring cost, and lack of their field presence, which makes them too much dependent on external parties, and thus vulnerable to outside controls. A few banks are operating an agent-banking model where ‘entrepreneurs’ in a district or upazila are given license to provide limited banking services. However, in many cases, it was found out that the agents need to improve their entrepreneurial skill as they wait for customers just like shop owners, instead of doing outreach to increase their customers.

Farmers who require access to loans often need to present land under their own names, which could become a costly affair because many farms are still under their fathers’ names. For example, an input dealer of Konika Seed Company (KSC) in Jashore, points out that the average farmer must pay tax registration fees to transfer land titles under their names from their parents and a registration fee, which almost amounts to the loan amount. “If the farmer has to pay BDT 12,000 registration fee for a BDT 30,000 loan, how can s/he be interested?”

Many farmers are not financially literate or have no access to information to guide their decision making. Between the two sides of the scale, they take the option that they see the most apparent benefits and least apparent drawbacks. Officers of Manu Farms in Dhaka noted that middlemen often bar banks from facilitating loans by using social status and unfair contracts to exploit farmers. These middlemen provide farmers with financing themselves, at exorbitant rates which ultimately cannot be paid back in full; subsequently as a penalty, the farmers’ dairy products must be sold to such middlemen at very low rates upon which they are able to turn handsome profits themselves. It is important to establish whether or not local influential market actors are truly barring loan facilitation by discouraging farmers from approaching banks; most of these individuals hold high positions within the socioeconomic hierarchy within their communities and should be addressed in a tactful way.

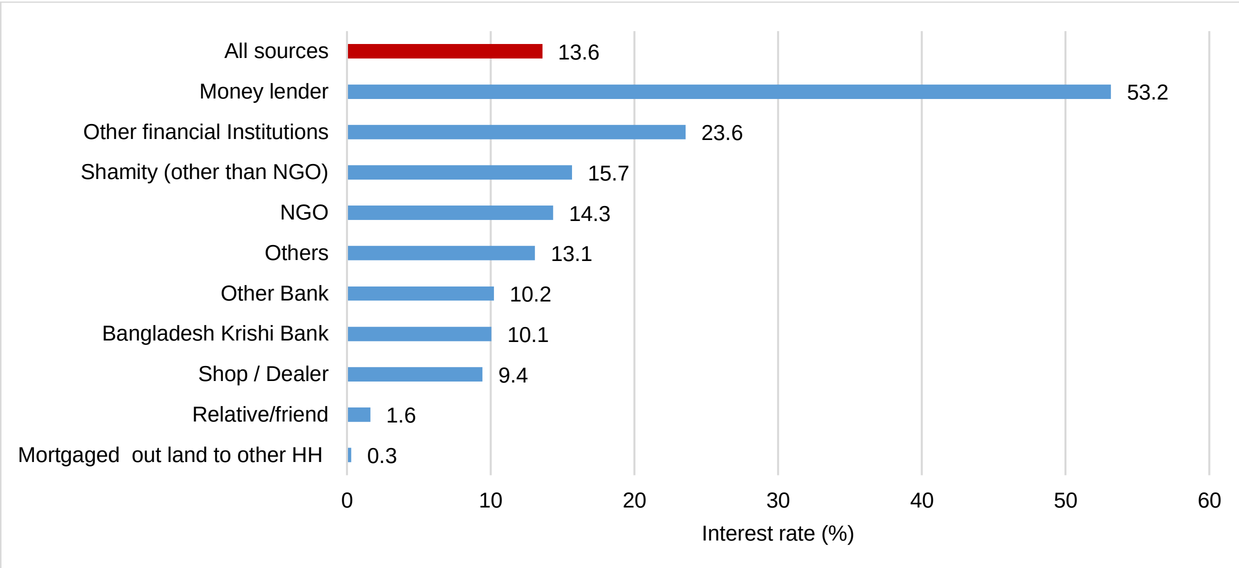
This is where information can become key. Although it may not be possible to transform the social hierarchy in a day, if information is disseminated and farmers are more aware, it is more likely that they will pursue loans at a moderate interest rate from more viable options. Most farmers are comfortable in the informal economy. However, if they need to be given the benefit of moving to formal economy, their initial fears need to be addressed, which may require intervention from the development partners. Many of them back off when trade license and bank information are sought of them, meaning they fear being taxed or harassed.

3.1.4 High interest from MFIs & NGOs

The average size of loan and interest rate varies by the source of loan in rural Bangladesh. IFPRI's Feed the Future (FtF) Zone of Influence (ZOI) 2018/2019 survey results show that the average size of loans taken out by rural FtF households is BDT 57,543.10, with an average interest rate of 13.6%.

Average interest rates vary widely by the source of loan. **Figure 3.1** shows that money lenders, on average, charge 53.2% annual interest rate, which is over double of what other financial institutions charge, and over five-times more than Bangladesh Krishi Bank and other banks.

Figure 3.1 Average interest rate, Feed the Future ZOI



Source: IFPRI's Feed the Future Bangladesh ZOI survey, 2018/2019

As outlined in the consultation workshops, the government mandated banks to provide agriculture loans up to 9%, which is the rate many MFIs are securing loans at. If these organizations can secure multiple loans at between 9-13%, why is the interest rate to farmers and retailers going up to as high as 24%? The answer has been the same across the five stakeholder consultation workshops. One of the PKSF Funds officials in Barishal pointed out that PKSF is providing funds to most MFIs at a 7.5% rate annually. However, operating expenses at each MFI begin to increase the ultimate cost, at which financing becomes available to the farmer. Additional costs include field offices, reaching remote farmers, operational overheads, staff management and farmer monitoring are examples of additions.

MFIs represent a middle ground among loan providers in terms of interest rate and how quickly loans can be acquired. Farmers can typically secure faster loans at a lower interest rate from MFIs compared to the local moneylenders; however, when the interest payments are scheduled at monthly or weekly intervals, it becomes yet another quagmire for farmers and other market actors, such as input retailers or traders, to balance periodic loan payments with an expected income source weeks ahead. A farmer of Dhaka notes that he is unable to pay off the monthly installments on his loans as his harvest takes time, at least 3-4 months. To pay the installments, he takes another small loan and then another one to pay off that one, and then another.

Generally, technical people from MFIs are sent to help farmers with financial planning and better cultivating practices, but this farmer notes that they only visit to pressurize repayment.

In many countries, governments have established mandatory ceiling rates because institutions previously charged the poor extraordinarily high rates; therefore, ceiling rates were intended to protect the poor from predatory lenders.[17]

In Bangladesh, the demand for unsecured small loans is high, yet the availability is relatively limited. Since many farmers want these loans, but the supply is limited, there is minimal incentive to lower the ceiling rate. To exacerbate this issue, even as MFIs make high profits from these high interest rates, they do not lower the rates; rather, these profits are being transferred to other ventures, such as universities.

These organizations were simply charging the ceiling rate prescribed by the Microcredit Regulatory Authority (MRA) of Bangladesh. Moderators pointed out that there was nothing stopping them from lowering rates from the prescribed figure, which elicited no response from the participants. Considering the plethora of costs associated with reaching remote farmers, monitoring their timely payments while processing their paperwork, MFIs have had considerable success in curbing their non-performing loan (NPL) ratio (much lower than the banks) and have improved vastly upon the culture of defaults in agro-loans, especially in rural settings. This may suggest that farmers need to be monitored closely to ensure repayment.

There is ample opportunity to reduce these costs still. Although there are some exceptions, most MFIs were not too keen or proactive in reducing the interest rate. An official of the Association for Rural Opportunity and Human Initiative (AROHI) in Barishal noted that AROHI was providing loans to farmers at 6%—even below the government-mandated 9% rate. He said that this subsidy was possible through providing loans to local businessmen at a higher rate.

3.1.5 Farmers demotivated by lack of government support

Throughout the district workshops, farmers or retailers indicated that they do not notify government officials about not receiving facilities sanctioned by the Bangladesh Bank from local banks. Also, farmers who have tried to access assistance through banks have not been successful, often hearing hollow promises of help with little or no delivery. For example, the Department of Agricultural Extension (DAE) Officer in Savar, Dhaka, noted that they had made a list of 3,000-4,000 farmers operating at a loss, for the government's BDT 5,000 crore agro-loan stimulus, from which 350-400 needy farmers were shortlisted. This stimulus package was designed by the Bangladesh Government to aid small and medium-sized farmers amidst the COVID-19 pandemic to help recoup their losses and supplement their livelihoods.[18] Upon conducting meetings with the union committee members as well as banks to explore potential facilitation for these farmers, she received no response. "The loans are not reaching farmers, rather some banks distributed the funds to businessman clients under the guise of agro-loans" she said. The agriculture coordination meetings at district level under the leadership of Deputy Commissioner (DC) of the district, set to take place every three months, had only occurred twice since her tenure began in 2019.

[17] Helms and Reille (2003)
[18] UNB (2020)

In the end, it is mostly the farmers who are in good favor with banks or have connections that can repeatedly secure loans. A DAE official in Cox's Bazar mentioned that banks scarcely contact government offices and attend agriculture meetings to improve coordination. He notes that farmers no longer approach him or his field agents regarding complaints about bank loans. Bank representatives also stated that the list of individuals approved for loans from the government agencies could be politically motivated. So, they would rather find farmers on their own.

3.1.6 Farmers utilizing loans improperly, defaulting regularly

A prominent issue that emerged during the stakeholder consultation workshops was that farmers were not repaying their loan installments on time or were utilizing loans for other purposes (e.g., pay for marriage expenditures, repay other loans, etc.).

As stated by agricultural value chain actors throughout the stakeholder consultation workshops, financial liquidity and stability are rare. It is only a matter of time between growing interest payments and the pressure to pay back instalments that the farmers or retailers begin to seek avenues such as multiple additional loans to try and pay back current debts on a monthly basis.

The problems here are manifold. Essentially, farmers do not have access to proper financial planning or literacy, the loan products are not customized to reflect the standard farming business model (six-month term loans, not monthly repayments) and farmers are often being threatened by MFIs and banks.

A civil surgeon in Jashore noted that banks should have a separate financial literacy wing to train agents on how to educate farmers on the finer points of financial literacy as this will only add to their own business in the long run. However, banks want financially literate customers, and rarely show interest in training customers. In the absence of banks taking this responsibility, development partners may support farmers on this.

A representative of the Chamber of Commerce in Cox's Bazar noted that MFIs are secondary choices for farmers in securing loans, with private and government banks being the first. He said that loans to farmers should consider the costs and benefits. Building upon this, a florist based in Dhaka representing a union of 600 flower farmers said that installments should meet the cultivation period, which takes anywhere between 3-4 months.

According to a small-scale dairy product entrepreneur in Jashore who secured loans from an MFI as they were less complex than banks–there is an immense pressure to pay back the loans with the MFIs, often threatening litigation. Adding to this, a representative of the highly circulated daily Bangla newspaper *Prothom Alo* noted that marginal and poor farmers are often the first to face harassment from police officers as MFIs file cases against them without mediating first; there have been many instances whereby police escort tied up farmers, dehumanizing them in front of their families and neighbours.

3.1.7 Are banks doing enough to reach the rural customers?

Banks are trying to provide agro-loans to farmers and commercial loans to businessmen or traders within rural markets, but much of their work seems to be stagnated at a certain stage. Of the 26 banks with Agent Banking licenses, only two banks participating in the stakeholder consultations (Bank Asia and City Bank) visit agricultural value chain actors in rural areas.

Perhaps it is not a matter of agent banking outlets but rather sustainable channels and genuine interest to reach farmers. It could be a viable approach to reach farmers through private input companies (similar to what Konika Seed Company is employing) or social enterprises working with farmers and input retailers (similar to how The Right Kind is supporting Bank Asia). It should be noted that not all bank agents in the field are enterprising individuals, often waiting on farmers or customers to visit them, rather than venturing out in search of providence themselves. It needs to be noted that not all individuals/organizations/companies in the field are willing to diversify or take additional responsibility. Hence, there is a need for organizations who routinely work with and understand farmers at the grassroots level.

Subsequently, Bangladesh Bank's mandated 9% interest rate is not really an attractive product for banks in these markets as monitoring is costly. The banks would need to monitor farmers similar to MFIs, which would again increase their operational costs. An alternative could be working with companies or entities who are already present in the field who will benefit from assisting banks. If MFIs are charging 15-24% interest rate because of their high operational costs, why is it expected that banks will provide loans at 9% interest rate, especially when banks' cost of capital is in the range of 5-6% for their existing business, allowing them 3% margin? Does it make business sense for banks to move to remote areas, cover operational and monitoring costs all by themselves?

In addition, banks are allowed to earn a 'spread' (that is, the difference between cost of fund and average interest income) by Bangladesh Bank which is equivalent to 5%. Spread covers loan loss expenses and operating expenses and the rest contributes towards taxes and profit. Since the loan size of agricultural loans is small and borrowers are typically remote, the operating costs of crop loans are higher. This is why banks are inclined to provide larger loans. Moreover, bank staff normally have a target for loan disbursement, which is difficult to achieve with lending small amounts. In fact, capping the interest rate has disincentivized banks to provide agri-loan by making them less profitable (or even incurring losses).

3.1.8 District-specific challenges

One district-specific challenge emerged in Jashore with input from the Bangladesh Flower Society. A representative clarified that, out of 6,000 flower farmers in his area, only 30 were granted loans from United Commercial Bank (UCB). He added that due to Cyclone Amphan and the coronavirus pandemic, flower shops and flower farmers had hit rock bottom. With no social events being held, demand as well as their harvests dried up.

An application was made to the Ministry of Agriculture to help recuperate the flower farming industry, and they even approached Prime Bank on a scheme for provisioning loans. Prime Bank officials took everyone's names and identified potential candidates; however, even after three months, there has been no sign of the loan provided from the bank. The florist stated that the agro-loan committee meetings happen every three months at the district-level and that their problems had been communicated.

Flower farming is a local boon for Jashore residents, and USAID provides considerable funding towards enhancing its cultivation. However, as mentioned during the Increased Access to Finance stakeholder consultation workshops, expanding flower cultivation into new breeds will be extremely challenging without access to sufficient financing.

3.2 Opportunities

3.2.1 Utilizing technology such as Enterprise Resource Planning or Credit Scoring Model to monitor repayments

Private banks set up in rural areas via agent banking since it allows them to provide certain services at a reduced cost. Currently, a large portion of their costs is allocated towards hiring agents/staff to monitor farmers on whether they are utilizing their loans in the correct channels/purpose and whether they are making timely repayments. One way that this could be easily monitored and followed up is the use of proper tools such as an Enterprise Resource Planning (ERP) software. World Bank published a brief about the collaboration between leading technology firms and start-ups to support farmers in India. ERPs were used to automate across the value chain, ensure traceability, provide intelligence on borrowers' creditworthiness and claims payouts to banks and insurers, and farmers could use this platform for information on yields, weather, and pest and disease attacks.[19] Another technology that has been used to improve repayment is text messages: research from field experiments in the Philippines found that reminders (e.g., text messages) improve savings and likelihood of repaying loans.[20] Furthermore, many countries are practicing person-to-person lending for small amounts. In these cases, intermediation is replaced by a platform that charges lower fees than banks' agricultural loan spread.

The question is whether farmers with literacy barriers would be able to partake in such a system. The Chairman of Oggro Dairy in Dhaka has collaborated with Bank Asia and provided the necessary paperwork to 12,000 farmers who enjoy convenient access to loans through a sophisticated ERP system. Farmers get an injection of capital, and loan instalments are simply deducted from the farmers' earnings at the dairy company. This shows how private companies can play the role of an aggregator or facilitator for banks.

Another method could be the introduction of a credit scoring model. Data from farmers across the country could be collated onto a central repository either within single banks themselves or across a shared platform of several banks. A credit score could also help reduce the need for excessive documentation and pave the way for a faster/cheaper method of disbursing loans more quickly. Agents could determine what degree of monitoring is required, previous history of the client as well as suggest or provide additional banking services if they deem fit.

3.2.2 More banks could adopt agent banking through Local Service Providers

MFIs often incur high operating costs due to having to hire field agents/staff who travel to remote farmers for disbursement and collection of loans. However, this work could perhaps also be done through mobile financial services.

The Team Lead of Support Market Systems & Social Inclusion at ACDI/VOCA noted that identifying and selecting farmers for loans was a very difficult step, which is why she applauded KSC's initiative within the Jashore region. KSC worked with City Bank and identified input

[19] Krishnaswamy (2020)
[20] Karlan et al. (2016)

dealers and retailers or networks who already work with thousands of farmers in the region. These market actors already have intimate knowledge of farmers and the potential for them to be solvent loan recipients. Moreover, these market actors can also help raise awareness among farmers, financial planning, and arranging paperwork for loan processing. Mainly, they could act as bank agents, helping to identify farmers as well as monitor them.

However, these initiatives are often successful on a small scale. If this practice is to be scaled up beyond donor funding, banks must be willing to share profits with referral channels, such as retailer networks or social enterprises or NGOs. Otherwise, they will not be doing the legwork for banks.

3.2.3 Increasing the deposit-credit ratio for both Banks and Agent Banking

Banks are often accused of channelling rural deposits to finance urban businesses and consumers. There is a stark rural-urban disparity in loan deposit ratio in Bangladesh. According to the Bangladesh Bank Annual Report 2018-2019, the loan deposit ratio for rural areas hovered between 41-42% between 2017 and 2019. In contrast, according to the Bangladesh Bank 2018/2019 Annual Report, the loan deposit ratio for urban areas was 95 percent in 2019 which was 94 percent in 2018 and 90 percent in 2017.[21] Currently the deposit to credit ratio is sitting at 1:0.85 for banks and 16:1 for Agent Banking. This means that a sizeable chunk of the agent bank's liquidity is tied up as unapplied cash assets or transferred for financing in urban area. If banks or agent banking portals were to tap further into their savings deposits, they could develop larger volumes of, small package loans for farmers, designed specifically around the cultivation and harvest seasons. The scenario is different for MFIs. A representative of the Jagorani Chakra Foundation (JCF) in Jashore commented that had the deposit mobilization restrictions been reduced, MFIs would be able to provide 50 percent more loans.

Currently, banks seem to be amassing large deposits of savings within rural markets while engaging their loan portfolios in more profitable urban or industrial markets. As mentioned throughout the workshops, farmers are being turned away at bank branches citing that loans are no longer available to them. Ideally, however, savings mobilized from the rural bank customers should be circulated back into the local economy by way of loan financing; agent banking is a step in the right direction for deeper penetration of this market, but perhaps newer avenues can be identified to economically develop rural localities.

3.2.4 Decreasing the MFI interest rates

During the stakeholder consultation workshops, it was found out that MFIs are following the MRA-approved interest rate ceiling of 24% for microfinancing; however, no organizations were taking steps to reduce overhead costs and, in turn, interest rates to farmers. This begs the question: what should be an acceptable interest rate? MFIs are bound by different rules of MRA to mobilize savings. Those rules may be relaxed to mobilize low-cost deposits in order to lower the cost of funds of MFIs. If banks are not that interested to reach the rural market at 9% annual interest rate, and MFI's 24% become too burdensome for farmers, does that mean that perhaps a median figure should be explored?

[21] Bangladesh Bank (2019)

3.2.5 Increasing the number of Agent Banking portals

Currently, 26 banks have the Agent Banking license; however, across the stakeholder consultation workshops, only City Bank and Bank Asia were present as Agent Banking ambassadors. What is inhibiting banks from working towards increasing access to finance for marginalized farmers in the most remote parts of the country? Perhaps it is the substantial costs related to investments in setup or gathering and maintaining human resources. Much of the agent banking model is uncharted territory for banks; hopefully, either by themselves or through strategic partnerships, they may enter this forum of financial service provision.

A relationship officer at Bank Asia in Dhaka noted that development agencies could help expand agent banking, both by helping to identify a rural client base and training the banks on how to interact with remote customers.

3.2.6 Provide mechanization loans to reduce labor costs

A significant cost to farmers is labor. If labor costs could be offset by employing capital machinery, it would not only increase the farmer's margin and efficiency, but also provide a platform for them to pay back their loans within minimum amounts. A representative from ACDI/VOCA in Jashore noted that local service providers could provide machinery that may potentially reduce labor costs for farmers in the realm of BDT 12-13 lacs per year; if the farmers were provided a loan on the cost of the machinery, it would be a viable option for farmers considering the cost-benefit of more efficient farming and yield.

There are successful models that tackle these issues in other countries, such as 'Hello Tractor' in Nigeria and Kenya.[22] Hello Tractor uses technology to link tractor owners with smallholder farmers, which improves access to agricultural mechanization, while minimizing the risk for farmers and other value chain actors. The Bangladesh Government may consider these options for the agriculture sector in Bangladesh.

3.2.7 Insurance for farmers

A key opportunity for increasing access to finance in Bangladesh is weather-based crop insurance. Although this type of crop insurance has been tested on a small-scale in the country, this has been mostly supported by development partners and has not been scaled up more broadly. Also, Green Delta Insurance Company (GDIC) initiated weather-based agricultural insurance coverage, covering livestock and crop agriculture. In 2020, they collaborated with different private sector companies that have contract farming arrangements for approximately 40,000 farmers. Their challenges are that the premium is too high, ranging from 3-12% based on the area, product, time, etc.

One of the moderators asked a farmer who had recently met with unforeseen accidents whether an additional 2% to their loan interest rate would be worth it for them as an insurance premium. A Dhaka farmer replied that he would be willing to take the insurance if it meant that he would be paid even if his produce is destroyed by pest infestation, cyclone, or any other natural cause. This suggests that weather-based crop insurance has a market among Bangladeshi farmers.

[22] For more information on Hello Tractor, please visit: https://hellotractor.com/

A Chief Scientific Officer and Head, Seed Tech Division, BARI from Dhaka opined that, in addition to government mandated prices in the market, suitable insurance schemes should be devised for farmers, not only in the realm of natural calamity insurance but also for low yields or market prices.

4 RECOMMENDATIONS AND WAY FORWARD

This section summarizes recommendations raised by participants and the moderators during the five stakeholder consultation workshops to guide programmatic decisions.

4.1 Negotiating a fair market price for agricultural products

A recurring topic of debate throughout the stakeholder consultations has been the assignment of a fixed and fair *floor price* for agro-products in the market by the government. Although there are spirited arguments for a free market system, there are often too many variables and negative externalities in the equation (principally middlemen and opportunistic market actors) who are profiting off the farmer's asymmetric knowledge as well as their struggles to meet repayment schedules on their loans. Even when the government tried to set a market price for paddy and rice, it was found that in most cases, these prices were not followed by the market players.

A DAE official in Khulna explained that the price generally set by the government for agricultural products considers a generous margin for businessmen and retailers; however, more often than not, businessmen will illegally stock products and inflate prices even more until they can turn an even higher profit. Monitoring of the local market is essential according to him.

It is often difficult to make market actors adhere to a fixed pricing schedule. The power hierarchy in local aroths[23] or collection points need to be monitored so farmers get a fair price. There were some success stories of government and NGO-backed weekly collection points. But the question is: why is a separate collection point needed? It implied that local markets would inherently try to undervalue a farmer's yield under normal circumstances (i.e. without government/NGO monitoring). Perhaps this can be addressed through empowering farmers with better market pricing knowledge or price assurance protection.

A more synergistic approach would be to involve more market players into the equation, especially more private agro-traders so that the added competition from demand can ensure farmers get a higher price in the market. Currently, the remote and localized markets work in favor of a monopoly for traders and buyers, leaving farmers in a predicament. In these small rural markets, a few large traders and retailers monopolize demand, thus dictating prices by pressurizing farmers to compromise. Development partners can either link more buyers for farmers' harvests (farmers could sell outside their local markets and perhaps get competitive prices from several different buyers) or help social enterprises or companies aggregate the farmers' offerings to get a better bargaining power with large buyers (by banding together, the farmers have control over a large portion of the supply in a region and they can decide to whom they will sell and at what price they will settle).

E-commerce and F-commerce (that is, commerce that takes place on Facebook) is another channel through which farmers can reach buyers more effectively. E-commerce outlets include Khash food and Parmeada, and supermarkets like Swapna, Agora, and Meena Bazar are also purchasing few agri-products directly from farmers. Looking at it from a holistic macroeconomic perspective, the more money farmers get from local markets, the more they can spend, which in

[23] "আড়ৎ" or Arat means warehouse or a wholesaler

turn grows the local economy. As household income slowly increases community demand, farmers will receive better prices for their yields.

4.2 Providing financial literacy training to farmers

Unfortunately, many average farmers have limited financial literacy. Many farmers do not understand relatively fundamental financial concepts, such as the difference between flat and compounding interest rates, or how to complete the paperwork properly. This lack of financial literacy has serious costs for farmers. For example, many farmers do not realize that when MFIs charge 12% interest, this equates to the MFI collecting BDT 12 for a BDT 100 loan in regular installments (the installment interval depends on the provider). In effect, the interest becomes 24% as the usable amount reduces gradually with the repayment. This knowledge gap presents practical issues that negatively affect farmers' finances.

Teaching farmers the basics of financial competence ensures that s/he can understand periodic costs and incomes within their household. Tracking cash flow and looking at trends can help farmers plan their future better as well as understand the consequences of their decisions today will have on their livelihoods further along the season or year.

In-person classroom trainings for improving farmers' financial literacy are not necessarily conducive for value chain actors because of their demanding schedules, lack of access to the training venue, and so on. As mobile phone penetration is relatively high in Bangladesh, further attention can be given to the feasibility of developing and rolling out phone applications, which can integrate financial literacy trainings for farmers into the platform design. Banks may also consider using phone applications to simultaneously expand their reach of services to more remote farmers while reducing their operational costs, including loan applications.

Development partners with years of experience need to orient and imbue these marginalized individuals with the financial know-how to plan and live their lives optimally. Financial institutions should find a sustainable mechanism for providing financial literacy for the farmers as an embedded service. If needed, they can outsource this to a partner.

The Head of Business, Agribusiness, at Advanced Chemical Industries Limited (ACI) recommended that farmers receive a mandatory training session to claim their first loan, as this not only orients them on the disbursement process but explains to them why and how the bank processes the loan. Adding to these sentiments, the Deputy Manager at PKSF-Dhaka also opined that along with financial literacy training, farmers could also be provided hands-on training on optimal cultivation methods and new technology; it could be a combined workshop between the bank's agro officer, farmers, and development partners.

4.3 Use of technology to optimize monitoring and curb costs

Most participating MFI or bank representatives indicated that they do not utilize any specific technologies like monitoring systems or a digital roster to monitor farmers' loan repayments. Apart from some large banks who have initiated mobile banking at the grassroots-level, very few MFIs or NGOs provide this service. There were some project-backed initiatives of having call centers and mobile applications to reach farmers, but hardly any of those sustained beyond project life. This is mainly because these technologies need to be embedded with buying and selling of products: farmers and market actors are highly unlikely to pay for only information. Farmers value this information, but may not be willing to pay for it. This is why a standalone mobile application or call center is not likely to be sustainable. Many companies run their own call centers, but they will only recommend solutions that benefit their brands.

4.4 Increased collaboration between banks, MFIs, development partners, social enterprises and government

During the stakeholder consultation workshops, participants suggested taking a collaborative approach between the financial service providers, development sector, social enterprises, and the government to increase access to finance for farmers and other agricultural value chain actors. A concrete suggestion provided was for banks to train and orient third parties on financial literacy, planning, and the loan provision process, who can then train farmers on these principles. This was suggested because NGOs may have more bandwidth and networks in more remote areas to better support farmers and value chain actors, as well as even identify needy farmers who could benefit from access to finance. Furthermore, these training can be designed to be packaged with other complementary interventions on agricultural production. In this regard, the government's agriculture offices and other field-level officers may also work alongside development partners and financial services providers.

Officials at the Ministry of Agriculture suggest that collaborative learning and a space for discussion with peers can help farmers gather their paperwork, have better access to the market, and identify critical market information that will ensure that they receive a fair market price for their efforts. Representatives from three sectors of the Ministry of Agriculture covering crop agriculture, livestock, and fisheries should come together and establish fruitful agro-loan meetings.

4.5 Increased monitoring of the agri-loan process; controlling wildcards such as moneylenders and middlemen

A central theme across the five workshops is that rogue elements, such as the local moneylenders, have created a system where they can disrupt the financing market. In such a system, farmers' needs are not only unfairly capitalized upon, but in their silent approval, they do not engage local government to intervene. Awareness can be increased by teaching farmers about better financial planning practices and helping them understand the long-term consequences of adopting such channels of finance. Similarly, service capacity of local banks should be improved so that they do not turn away as many farmers to the throes of opportunistic moneylenders in the region. There should be mechanisms to make this information easily available to farmers, too.

A Professor of Khulna University stated, "If the third parties barring the government banks and farmers could be reduced, the farmers would benefit." However, in the existing social hierarchy, it is not easy to ignore local influential figures. Local government could work with these groups and make policy changes. While local moneylenders play a vital role in absence of banks and MFIs reaching the rural farmers, information and competitiveness can allow those informal interest rates to come down. At the very least, it could help legitimize these alternative financing options in rural areas and keep a record of loans disbursed and rates charged. Although the government's Access to Information (a2i) program, based in the Prime Minister's Office, is in the preliminary stages of developing a database of farmers, participants indicated that localized databases of farmers, delineated by region, loan demand, their land size, pre-uploaded NID copies and passport-sized photos and other data such as comments from DAE officials could be created to help banks better identify and work with them. Unfortunately, creating such a list is not only an arduous process as many do not like to share information, but also difficult to promote as it has been seen that similar lists being ignored by banks even when handed to them via government officials.

Nevertheless, a database could expedite loan application review and provisions. Although there have been reports of DAE officials using their ability to influence who receives a loan, a database could help make loan provisions more transparent.

4.6 Revitalizing the Agriculture card; working with platforms like bKash and Nagad to digitize payments

Physical currency can be replaced by digital means to provide loans and purchase agro-inputs. Such models are being tested by bkash in partnership with City Bank, and banks like Bank Asia in partnership with various development partners and social enterprises such as CARE Bangladesh. Unfortunately, the existing model only connects retailers with farmers. In the next phase, it should connect retailers with companies or dealers, and farmers with all other stakeholders relevant to agriculture such as collectors, service providers, etc. Positively, mobile and alternative banking solutions such as bKash or Nagad are emerging, which can move the market forward. The government has very recently approved the use of QR codes, which can be used by agricultural value chain actors who have access to smartphones for more convenient payments (e.g., for agricultural inputs, other purchases).[24] Although this development may not benefit marginal and small farmers, who typically do not own smartphones - this demonstrates Bangladesh's progress in enhancing digital financial inclusion, which may help increase access to finance for some value chain actors.

[24] Hasan, Mehedi (2020)

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APPENDIX 1: INVITATION

FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

Dear Participant,

I am delighted to invite you to attend a virtual workshop on Increased Access to Finance, organized by USAID and facilitated by IFPRI. The virtual workshop will be held on November 22, 2020 from 9:30-11:30 a.m. using Zoom. The workshop will be conducted in Bangla, with written interpretation provided in English. Please see the joining information below:

Zoom link: www.tinyurl.com/session-22nov-2020

The purpose of this workshop is to learn from relevant stakeholders about the challenges, opportunities, and recommendations related to Increased Access to Finance. Your inputs will be valuable for this workshop. We have also sent a calendar invite following this e-mail with the same information.

To join the Zoom workshop, we recommend that you participate in a location with good internet connectivity. Our team will contact you before the workshop to remind you of the event date and provide other details.

Thank you and we very much hope that you will accept our invitation.

Best regards,
Akhter Ahmed
IFPRI Country Representative for Bangladesh

FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

সম্মানিত অতিথি,

ইউএসএআইডি (USAID) আয়োজিত এবং ইন্টারন্যাশনাল ফুড পলিসি রিসার্চ ইন্সটিটিউট (IFPRI) সঞ্চালিত ঋণ প্রাপ্তির সহজলভ্যতা শীর্ষক ভার্চুয়াল কর্মশালাতে অংশ নেওয়ার জন্য আপনাকে আমন্ত্রণ জানাতে পেরে আমরা আনন্দিত। এই ভার্চুয়াল কর্মাশালাটি অনুষ্ঠিত হবে আগামী ২২ নভেম্বর, ২০২০ সকাল ৯.৩০টা থেকে ১১.৩০ টা পর্যন্ত জুম (Zoom) অনলাইন প্লাটফর্মে। উক্ত কর্মশালাটি বাংলায় পরিচালিত হবে ও একই সাথে ইংরেজিতে লিখিত ব্যাখ্যাও প্রদান করা হবে। জুম মিটিং এ যোগ দেয়ার জন্য প্রয়োজনীয় তথ্য নিচে দেয়া হল।

জুম মিটিং লিঙ্ক ঃ www.tinyurl.com/session-22nov-2020

এই কর্মশালার উদ্দেশ্য হল, ঋণ প্রাপ্তির সহজলভ্যতা (Increased Access to Finance) বিষয়ক চ্যালেঞ্জ, সুযোগ-সুবিধা এবং সুপারিশসমূহ জানা। এই বিষয়ে আপনার মতামত অত্যন্ত মূল্যবান।

জুম কর্মশালাতে যোগদানের জন্য আমরা পরামর্শ দেব যে, আপনি এমন একটি স্থান থেকে অংশগ্রহণ করবেন যেখানে ইন্টারনেট নেটওয়ার্ক ভালো। কর্মশালা শুরুর আগে আমাদের দল আপনাকে কর্মশালাতে যোগদানের জন্য প্রয়োজনীয় সমস্ত তথ্য সরবরাহ করবে।

আপনাকে অসংখ্য ধন্যবাদ এবং আমরা আশা করছি যে, আপনি আমাদের আমন্ত্রনটি গ্রহণ করবেন।

শুভেচ্ছান্তে,
আখতার আহমেদ
IFPRI বাংলাদেশ কান্ট্রি রিপ্রেজেন্টেটিভ

APPENDIX 2: WORKSHOP PROGRAM