POLICY RECOMMENDATIONS

1. Treatment of Smallholder Farmers as the Providers of Public Goods
   As the key contributors of the food production and food security, smallholder farmers’ produce should be considered and declared as a public good, and thus the smallholder farmers should be provided with well-deserved and accruable resource and budgetary support. In budget and all other policy documents, smallholder and marginal farmers should come up as a sub-sector of agriculture.

2. Financing Smallholder Farmers, especially Women as a Subsector of Agricultural Financing
   The immediate need is to recognize ‘Smallholder and Women Farmers’ as a separate segment of the agricultural financing sector by the Bangladesh Bank to offer due impetus. Through policy intervention, the Central Bank may incentivize banks to on-lend smallholder farmers using BB’s refinancing facilities and designing specialized credit products at favorable interest rates at favorable loan terms. Financing data of the segment should be disclosed separately.

3. Extensive Policy Support and Coordination for Agriculture Insurance Product
   For installing an effective agriculture insurance market, it is important to strengthen overall legal, regulatory and supervisory insurance environment in the country. To facilitate smallholder farmers, insurance products bundled with credit and subsidized premium-interest might be useful. IDRA, BB and MRA are required to have strong coordination for enforcing such ventures.

BACKGROUND

The agriculture sector, a core sector of Bangladesh, has been receiving special and favorable treatment of the Government since independence that helped achieve record levels of agricultural produce. However, concerns remain over inadequate and effective policy measures and support for small farmers. Especially, ‘access to finance’ remains one of the key challenges of the smallholder farmers as this low income group are not in a position to draw benefits of the existing policy supported agricultural financing activities. Only 17 percent of country’s smallholder farmers have access to loan services in both specialized and commercial banks which is even very marginal of less than 2 percent for small female farmers, a FAO survey revealed in April 2019.

The rural economy of Bangladesh is clearly dominated by agriculture, farm activities and small businesses, and thus financing requirements of the rural areas are relatively smaller in size. Smallholder farmers are the key actors of the rural economy who are still comfortable with high cost funds provided by the informal lenders and have very low access to the institutional credit of the banks and financial institutions. Micro Finance Institutions (MFIs) have a very good stake in the rural financial market of the country, and many of these MFIs target women clients. The rural banking market in Bangladesh comprise of rural branches of government controlled commercial banks, two state-run specialized banks (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) and private commercial banks. Close to half of the bank branches of the country operate in the rural areas that receive around one-fifth of their total deposits, and disburse only slightly over one-tenth of the total advances. Smallholder farmers generally have insignificant transactions with banks and very low awareness about their activities. Limited ideas on formal loan process and documentation; lack of collateral security; absence of awareness on crop insurance and limited trust towards insurance companies; and distance from home are among the key challenges for smallholder and women farmers in rural Bangladesh. Considering these challenges, availability of suitable financing products at favorable interest rates, crop insurance at affordable prices, enhanced market access, and fair pricing of the agricultural produce demand due attention of the policy makers of the country.
The policy brief has been prepared as part of a project titled ‘Engagement of Financial Institutions for Smallholder Farmers’, funded by MEDA INNOVATE and implemented by the Krishi Utsho Micro Franchise of the CARE Bangladesh, which is aiming at creating a secure financial network in agriculture sector with modern banking and insurance services for increasing financial accessibility of the smallholders and women farmers. The policy brief attempts to prescribe national strategies and policies to engage financial institution for last mile farmers in the context of Bangladesh. As the methodology for preparing the brief, relevant policy documents of the Government and other financial organizations were reviewed and analyzed. The evidences, practices and lessons learnt in the ‘nontraditional financing services at last mile’ research project was an important source of information. In addition, relevant stakeholders were consulted.

PRESENT POLICY OVERVIEW

Government of Bangladesh attempted to install an appropriate institutional system of providing credit to the agricultural sector in the National Agriculture Policy. The National Food Policy Plan of Action, 2008-2015 was another effort to improve productivity of smallholder agriculture mainly through enhancing access of small and marginal farmers to the key services including credit. In addition, the Perspective Plan of Bangladesh (2010-2021) and recently formulated National Financial Inclusion Strategy have elements to support engagement of financial institutions for smallholder farmers.

BB formulates separate policy for agriculture and rural credit and has a separate department for promoting agricultural credit and programs. The Central Bank has given a firm push to ensure private banks including foreign banks to meet agriculture financing targets; and banks were asked to formulate a separate agriculture department/cell in their head offices and to assign an officer in the branch level to handle different issues linked with agricultural credit.

Currently, the Central Bank runs several refinancing schemes to offer credit to the farmers at concessional interest rate and has arrangement of interest subsidy. For example, for the production of pulses, oil seeds, spices and maize the interest rate at farmers’ level have been set at 4 percent under interest-loss subsidy facilities. The maximum interest rate determined by BB for agricultural and rural credit at the client level is 9 percent.

BB has certain initiatives to reach smallholder farmers under its own refinancing and donor funded programs. To support sharecropper farmers with collateral free and easy credit, BB introduced refinance scheme in partnership with BRAC in 2010. Innovations in mobile banking are supported by the Central Bank to facilitate rural transactions. For easy channeling of credit to the agriculture and rural areas, banks are encouraged for agriculture and rural credit through their agent banking /booth banking services.

Currently there is very limited support for the development of crop insurance. Established in 2011, the current regulatory agency of the insurance companies, the Insurance Development and Regulatory Authority (IDRA) has limited initiative to develop crop insurance. In recent time, weather index-based crop insurance was piloted in three areas of Bangladesh for rice farmers with the ventures of farmers, government, and the project financier.

In spite of some notable policy interventions for promoting agriculture financing in the country, the ground reality show that a lot to be done for the smallholder farmers of the country by engaging financial institutions.
CHALLENGES WITH THE PRESENT POLICY FRAMEWORK

- The existing policy interventions of the Government and Bangladesh Bank have direct and indirect implications for the agriculture and crop sector, however, smallholder farmers failed to draw benefits out of these. Smallholder farmers are getting access to saving and payment services in limited extent only in response to some policy interventions. Financial institutions like banks show little interest in financing smallholder farmers because of higher operational costs in rural areas compared to urban areas and the risks associated with timely repayment of loans by the smallholder farmers.

- Though BB has taken a number of initiatives to make agriculture loan farmer friendly, in several instances timely disbursement is a key barrier in getting access to agricultural finance. Higher effective rate of interest and collateral based financing are other major challenges. Moreover, the documentation and collateral valuation process of banks are not favorable to the smallholder farmers.

- Bangladesh is one of the world’s most exposed countries to natural disasters, including floods, cyclones, and drought, which have large impact in agriculture. Natural calamity is a key source of default risk in agricultural finance by the farmers. Practically, agriculture insurance is yet to receive recognition and acceptability as an essential risk management tool amongst the common people in Bangladesh. The market has hardly any agricultural insurance product to address weather related risks faced by the smallholder farmers.

- Uncertainty over fair prices of agricultural produce is a major challenge of financing from banks and insurance for the farming sector. Farmers’ capacity to repay loans depends largely on prices of their produce and growers fall in trouble to pay back loans when they do not get fair prices of their crop. Similarly, uncertainty over prices also discourages farmers from paying due premiums for insuring crops and livestock, increasing risks of losses of their investments in the event of weather shocks.

POLICY ALTERNATIVES

Over the years, the policy interventions brought positive changes in the agricultural and food production, however, true contributors of the food security of the country i.e. smallholder

---

Smallholder Farmers Deserve Special Support of the Policy Makers as the Producers of the Public Goods

The existing institutional financing has been supporting agricultural production as a whole and does not exactly have the required support factor or conditionality to promote smallholder farmers. Smallholder farmers deserve special support and attention of policymakers as the producers of the public goods. Although less directly than other sectors as environment or health, food security should be considered as global public goods and food insecurity can be responsible for a threat to peace.
• It is recognized that women SME enterprises need more favorable treatment than other SMEs, and likewise women smallholder farmers need more favorable treatment than that of the male farmers. Farmers are also highly exposed to the weather events that adversely affect their livelihoods and capacities as good borrowers. In this context, agriculture insurance is particularly suitable for smallholder farmers.

• There is huge potential of designing and offering insurance products for agricultural sector and bundling insurance with credit products targeting smallholder and women farmers. Considering limited financial capacity and understanding on the insurance products, smallholder farmers need to be supported with tax-free and subsidized crop insurance products.

• Use of technology may bring notable changes in designing and channeling financing products at rural areas at reasonable costs. Smallholder farmers also need updated knowledge and information about available financing options and the processes.

Specially Designed Banking and Insurance Services

Banks and insurance companies need to reach at the rural doorstep with dedicated and specially designed banking and insurance services. There is huge scope to redesign payment, credit and deposit products of banks by incorporating appropriate technology, smooth processes, documentation, and flexible interest and pricing in line with the requirement and capacity of smallholder and women farmers.

OTHER POLICY RECOMMENDATION

Price Discovery Mechanism for Agricultural Produce to Support Smallholder Farmers

As a measure for price discovery, Bangladesh Securities and Exchange Commission (BSEC), currently mandated for setting up exchanges, is required to start the preparatory work and assessment for setting up of an agricultural commodity exchange. BSEC would need strong coordination and cooperation of the Bangladesh Bank. Thus a separate body may start working that consists of representatives from BSEC, BB, IDRA, MRA, Ministry of Finance, Ministry of Agriculture, Ministry of Commerce, Transport and Warehouse Associations, donor agencies (engaged in the relevant areas), and experts and researchers from the relevant field.

Fair Price for the Produce

Price and financing are clearly linked. A real concern at the core of farmers’ distress is a fair price for the produce that require policy attention. Because of the absence of the product like ‘Loan against Warehouse Receipt’, smallholder farmers are unable to receive fair prices and generally sell their products soon after harvest because of the immediate cash need for repayment of loans and other reason when the prices are generally low. Though, as a price risk management tool in commodity trading, the Central Bank allowed commodity hedging, however, absence of formal commodity market remained a critical challenge for price discovery of the agricultural produce in the country.
Loan against Warehouse Receipt for Smallholder Farmers

Farmers are provided crop production credit and in most cases, they do not afford to hold the produce to avail off-season higher prices. Financing institution also needs to have control over the goods to ensure loan repayment. To facilitate that provision, it is necessary to have Loan against Warehouse Receipt system in the country. At this stage, Bangladesh Bank may form a body consists of its executives from Agricultural Credit Department and representatives from BSEC, IDRA, MRA, warehousing companies, donor agencies (engaged in the relevant areas), and expert and researchers to install a Warehouse Receipt System. Initially, over the counter transactions may be allowed for negotiability, however, ultimately it should be traded as part of a commodity exchange.

Technology Driven Solutions for Easy and Smooth Financing

Handling higher transaction costs in facilitating smallholder farmers needs to be addressed. Mobile banking already delivered much success for facilitating payment services to the smallholders. Farmers’ credit card for instant financial support; fund transfer using mobile technology with reasonable cost; and POS (Point of Sales) machine at agro shops are upcoming requirements to ensure access to the non-traditional financing facilities by the smallholder farmers. Agent and booth banking might bring notable positive changes in rural financing. BB has already allowed banks to use agent and booth banking for agricultural and rural financing; however, smallholder farmers and women might truly be benefitted if especially designed (like credit bundled with insurance) products are delivered using appropriate technology and agents/booths by undertaking due policy measures.

Cluster and Cooperative Approach for Farmers

Cluster and cooperative approach might be very useful to address collateral related challenges of bank financing to the smallholder and women farmers. BB has already undertaken measures to promote cluster financing to facilitate SMEs; and some green financing model like solar irrigation has already successfully been implemented using cooperative or networking approaches. However, clusters or farmers’ cooperatives cannot automatically be developed with the required cooperation, competition and interdependence. Government and BB should work on the development of cluster and farmers’ cooperatives for promoting value chain and group financing models.

Supporting Smallholder Farmers using CSR Funds

Contribution through CSR funds improved remarkably in terms of the volume allocated by banks. BB has been encouraging financial institutions in this regard, and BB’s Disaster Management and Social Responsibility Fund, Climate Risk Fund are good additions. Currently, most CSR funds of the financial institutions are used for philanthropic purposes. CSR funds of smallholder farmers and women to incorporate the use of CSR funds within the core banking functions.
Awareness Development and Financial Literacy for Smallholder Farmers

Awareness and literacy have no alternative to address information gap. Alongside designing targeted products for the smallholder farmers and women, financial institutions should be encouraged to design strategy to aware and literate smallholder farmers and women with the benefits, use, and process of their products. A collaborative policy approach of BB, IDRA, BSEC, and MRA for financial literacy might be effective. Donors are expected to contribute with the marketing, awareness and capacity development programs of the key stakeholders.

Collaborative Approach to Support Smallholder and Women Farmers

An integrated approach of the policy maker and the industry is the key to promote sustainable financing to the smallholder farmers and women. Initiating with the ‘Regulatory and Policy Approach’, the ultimate target has to be the ‘Collaborative Approach’ for ensuring ownership of market participants i.e. a movement of the policy makers in partnership with the associations of banks and insurance companies.

REFERENCES

3. Care Bangladesh and MEDA (undated) Engagement of Financial Institutions for Farmers-Lesson Learning and Achievement.

This policy brief is a culmination of a MEDA INNOVATE funded project titled “Engagement of Financial Institutions for Smallholder Farmers” implemented by Krishi Utsho Microfranchise (KU), an emerging social enterprise of CARE, Bangladesh. This work was carried out with the aid of a grant from the International Development Research Centre (IDRC), Ottawa, Canada. The views expressed herein do not necessarily represent those of MEDA, IDRC or their respective Board of Governors.

Lead Author
Dr. Shah Md. Ahsan Habib
Professor & Director
Bangladesh Institute of Bank Management (BIBM)

Key Contact
Maruf Azam
Coordinator - Access to Inputs and Services
Email: maruf.azam@care.org