

Evaluation of Management of Agricultural Credit – A Case Study on Bangladesh Krishi Bank

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Abstract

Agricultural sector is the single largest contribution to GDP of Bangladesh. But the agricultural credit delivery process of the country faces many problems. In the present study an attempt has been undertaken on evaluation the loans and advance management of Bangladesh Krishi Bank (BKB). The study finds out that the credit delivery procedure and services of the bank do not satisfy the expectations of the borrowers. More over BKB faces a huge amount of non-performing loans which affects its profitability and productivity. The study finds out the factors that cause non performing loans of banks. The study also suggests a number of measures relating to credit delivery supervision, and recovery and implementation of some policies by the Government relating to legal and administrative reforms.

Key words: Fund allocation policy, Productivity, Profitability, Nonperforming loans.

1.1Prelude:

Contribution of agriculture sector to GDP of Bangladesh is gradually decreasing but still it is the single largest contributor (35.7%) (Bangladesh Bureau of Statistics 2009). Agriculture sector still remains the largest employing sector which provided employment to about 63.2 percent of the workforce (Hossain et al., 2003). Bangladesh economy is mostly dependent on agriculture which is the potential sector in the country. Infrastructures of this country have centered about agriculture and activities related to it. More than 60 percent of the country's labor forces are engaged in agriculture. Making agriculture into a profitable avenue will pave the way for rural poverty alleviation and upliftment of standard of living of the majority people. Agro products, agro processing products and leather goods were included in the export policy of the highest priority list. In the export policy agro processing industries were given tax the country is engrossed by many problems. National agriculture policy has been formulated with the objective of revitalizing agriculture and restructuring agricultural production into a profitable concern. But the agricultural financing of of agricultural sector, the government of Bangladesh has established two specialized Banks, namely Bangladesh Krishi Bank (BKB) and Rajshai Krishi Unnayan Bank (RAKUB). These banks are continuously trying to provide support for the advancement and development of the agricultural sector of the country. The present study has been undertaken to evaluate loans and advance management of Bangladesh Krishi Bank. (BKB) for the period 2007 – 2011.

1.2Objective of the study

The main objective of the study is to evaluate the agricultural loan of BKB. The specific objectives of the study are mentioned below:

1. To To examine the financing pattern (sources and application) of agriculture loan.
2. To evaluate sector wise evaluation of agriculture loans of BKB
3. To examine the recovery position of agriculture loan of BKB.
4. To evaluate the impact of agriculture loan on productivity and profitability of BKB.

1.3 Literature Review

Uddin (2005) in his article examined the costs involved loan received by the loanee in rural areas and the purpose of loans. The study found out that the real cost of loan is much higher than the official rate. Ali (1989) in his article, found that the loanees of the study village needed credit for capital expenditure, for current expenditure, for investment in small trade, for family consumption and for repayment of old debt. They (the loanees) resorted to institutional and non – institutional sources of credit 40.92% and 21.56% respectively. The study concluded that supervisors of the BKB was insufficient and the overall supervision was ineffective.

Prince (2004) in his article examined the micro finance pattern of rural village, where Bangladesh Krishi bank was the only formal source of credit. The study found out that village people prefer BKB loan because of easier for obtaining loans, avoiding harassment, exploiting the advantage of getting larger volume of loans, maintaining good relationship with the bankers and the like.. According to Ahmed (1980), though Bangladesh inherited an agrarian economy, agriculture did not get importance. As such the farmers did not find change of their lot, rather the number of landless and marginal farmers increase day by day.

Mahmud (2006) observed that the rural poor generally have low income to sustain their livelihood. They do not have the capacity to start any income generating activities due to lack of financial capital. They also have very limited access to the formal financial institutions because the inability to fulfill formal collateral requirement. Jahur and Azad, (1998), in their article found that 85% of agricultural credit demand is met by informal sources and the rest by formal sources. Performance of formal rural financial institutions in respect of loan sanctioning, disbursing, collecting and supervising the credit performances are found to be not satisfactory. The study pointed out that cost of lending is higher than normal return on agricultural portfolios, which puts considerable strain on the financial viability of lending institutions. At the end, the study gives some suggestions to endure better credit management of financial markets in rural areas of Bangladesh.

1.4 Scope and methodology of the study

The present study has been carried out to evaluate the agriculture loan of Bangladesh Krishi Bank (BKB). The study has been based on the data from primary and secondary sources. The relevant data and information were collected from annual reports of the bank, Bangladesh Bank annual report, Securities and Exchange commission report and websites of BKB. Relevant articles and literature in this context have been reviewed. For primary data collection a structured questionnaire was designed and the 15 respondents of BKB executives including Loan officer, Marketing officer, Branch manager, Vice president were interviewed. The study covers five years from 2007 to 2011. Different statistical tools such as average, correlation and regression have been applied.

2.1 Examination of Sources and application of agricultural loan of BKB :Of all the financial policy of an enterprise of any type, its fund allocation policy is the most important one. The evaluation of the bank fund allocation policy will help us understanding and proper appraisal of the credit management of BKB.

The following table – 1 shows the financing pattern or the position of sources of fund and deployment of fund in 2007 to 2011.

	2007		2008		2009		2010		2011	
	Sources	Deployment	Sources	Deployment	Sources	Deployment	Sources	Deployment	Sources	Deployment
A. Internal Fund Generation	1368		1540		2059		2345		2412	
3 Long term sources and deployment										
share capital										
fixed deposits	59002		52460		65929		74216		171849	
gross fixed assets		980		1148		1713		1724		1739
share debenture		3.00		1451		1511		1564		1438
	60371	983	54000	2599	67988	3224	76471	3288	1742161	3177
C. Short term sources and deployment										
Saving deposit	22572		24218		27240		31123		35237	
current A/C & other deposits	16752		18911		21211		24397		30408	
other liabilities	19846		20651		24374		27934		28143	
cash in hand with BB		4768		5729		13423		18811		11664
balance with other bank		354		357		3432		3168		1
Advances		78443		89141		98306		113354		139490
other assets		19892		19954		22428		21304		22341
	44070	103457	63780	11518	72825	13789	83454	156637	93788	173496
Grand Total (A+B+C)	104440	104440	117780	117780	140813	140813	159925	159925	176673	176673

Source:AnnualReportofBKB,fortheyear2007-2011

It is revealed from the table-1 that the long term deployment is less than the long term sources including internal generated funds all the study period. The long term sources of fund were TK 60370 million, Tk. 54000 million, Tk. 57988 million, Tk. 76471 million and Tk. 171849 million during the period 2007 to 2011 where as the long term uses of the fund were Tk 983 million, Tk 2599 million, Tk 3224 million Tk 3288 million and Tk 3177 million, during the study period respectively. But there appeared surplus of long term fund on an average Tk 814963 million and which were deployed to short term uses.The total short term uses of fund were Tk 103457 million, Tk 115181 million, Tk. 137589 million Tk. 156637 million and Tk 173496 million during the study period 2007-2011 respectively as against the total short term sources of Tk 44070 million, Tk 63780 million, Tk. 72825 million, Tk. 83454 million, Tk. 93788 million for the period 2007 to 2011 respectively. As a result there appeared short term deficit of the fund. It is depicted from the table that overall long term uses were less than the long term sources where as the overall short term uses were higher than the short term sources. As a result, BKB has to use the surplus balance of long term sources to meet the deficit balance of short term uses. Such a practice of heavy deployment of long term resources to short term uses leads to unprofitable use of bank funds. Therefore the fund allocation policy of the BKB prove to be poor in 2007 to 2011.

2.2 Examination of Loan Recovery Position of BKB

Sustainable and profitable loan practice depends on regular recovery of loans. The field officer of BKB focused

their attention and take necessary measure to recover the loans.

Against this back drop the following table – 3 shows the loan recovery position of BKB for the period 2007 to 2011

Table – 2 Loan recovery position of BKB

Year	Disbursement	Recovered	Non performing loans
2007	78443	51004 (65.02%)	27439(34.98%)
2008	89141	65563 (73.55%)	23578(26.45%)
2009	98306	74182 (75.46%)	24124(24.54%)
2010	113354	85276 (75.26%)	28077(24.74%)
2011	139490	103206 (74.29%)	30883(25.71%)
Average	103746.8	77046.2 (74.26%)	26700.2(25.73%)

Source: Annual Report of BKB for the period 2007 to 2011.

Note: Calculations have been made by the researcher. Figures in the parenthesis indicate percentage of recovered loan and non performing loan to total loans.

Table – 2 depicts that the loan recovery position of BKB was poor during the study period. The percentage of recovered loan to total loan was 65.02%, 73.55%, 75.46% and 74.26 and on an average it was 74.26% during period 2007 to 2011 respectively. The percentage of non-performing loan was highest in 2007 which was 34.98% and lowest in 2009 which was 24.54% of the total loan. The percentage of non performing loans to total loans showing an increasing trend from 2009. So BKB has been showing a poor performance in credit collection during study period which adversely affects the productivity and profitability performance.

2.3 Examination of productivity position of BKB

Generally productivity means the relationship between the inputs and the outputs. The measurement of productivity in agriculture farms and manufacturing industries is relatively easier than service oriented industry like banking where the outputs are not homogenous. There are controversies among the scholars about the identification of inputs and outputs of bank. Some considers bank loan and investment as its outputs while financial liabilities, capital, man power etc. as its inputs. In this study we consider bank's gross income as its output and gross expenditures as its input. So bank's productivity may be defined as income divided by expenditure. Against this back drop, the following table-4 shows the productivity ratio of BKB.

Table – 3: Productivity of BKB during 2007 to 2011

Year	Gross Income	Expenditure	Productivity
2007	992	2479	.400
2008	787	2754	.28
2009	3304	3178	1.03
2010	4357	4214	1.04
2011	3675	5218	0.704

(Tk. In million)

Source: Annual report of BKB, for the period 2007 to 2011.

Note: computations have been made by the researcher.

It is revealed from table – 3 that the productivity ratio of BKB has been fluctuating tendency during the study period. It is depicted that productivity ratio 0.40, 0.28, 1.03, 1.04 and 0.704 during the period 2007 to 2011. The productivity ratio was highest in 2010 which was 1.04 and lowest in 2008 which was 0.28. One of the main causes of deterioration of productivity of BKB is the classified loan and maintaining loan provision account for classified loan.

2.4 Examination of profitability of BKB

Profitability is the most commonly used criteria for determining the efficiency of banks. Enhance profitability is generally considered to be the pre requisite for vigorous expansion of operation on a long term basis. Against this back drop, the following table shows the profitability position of the sample banks, for the period 2007-2011 by examining return on asset (ROA) and Return on Equity (ROE).

Table – 4: Profitability performance of BKB for the year 2007 to 2011.

Year	ROA	ROE
2007	(1.40)%	(4.31)
2008	(1.66)%	(4.22%)
2009	0.24%	0.25%
2010	1.2%	1.1%
2011	(1.1%)	(1.00%)

Source: Annual report of BKB for the period 2007 to 2011.

Note: Computations have been made by the researchers. Figures in the bracket indicates negative performance.

Table – 4: depicts that the profitability performance of BKB was very poor during the study period. It is from table – 5 that return on asset ratio was (1.40%), (1.66%), .24%, 1.2% and (1.1%) during the period 2007 to 2011. The highest ratio of 1.2% was observed in 2010 and lowest ratio (1.66%) in 2008. It is also seen that the return on equity ratio was (4.31%), (4.22%), 0.25%, 1.1% and (1.00%) during the study period. The highest ratio of ROE was (1.1%) observed in 2010 and lowest ratio of ROE (4.31%) was observed in 2007. The existence of highest amount of non performing loans decreases the profitability of the bank. It is observed that, highest percentage of classified loan was 26.45% in 2008 which directly hampers the profitability.

3. Relationship between variables

It is proved that loan is an important variable for making income and profit for the banks, but at the same time the variable was responsible for creating liquidity shortage, producing more credit risk and enhancing more risk weighted assets for them. In short loan variable is related not only with profitability but also with productivity. Against this back drop the following table shows the relationship.

3.1 Regression of profitability against loan

Table – 5(appendix-1) shows a regression analysis of the profitability of commercial banks against loan variable. The table shows that the co-efficient of determination of the linear regression of profitability against the loan is explained by 58.8 percent.

From table – 5 it is observed that slope co-efficient of regression equation explains that a unit increase in loan will causes 0.767 unit of decrease of ROA (Profitability)

From table 6 and 7, (appendix-2 and appendix-3) it is revealed that the results of ‘t’ test and ‘F’ statistics were found highly significant. This means that the loan variable is capable of influencing the profitability.

3.2 Regression analysis of productivity against loan

Table – 8 (appendix-4)shows a regression analysis of the productivity of BKB against loan variable. The table shows that the co – efficient of determination of the linear regression of the productivity against the loan is explained by 13.8 percent.

From table – 8 it is also revealed that the slope co – efficient of the regression equation explains that a unit increases in loan will cause 0.0371 unit of decrease in productivity.

From table – 9 and 10,(appendix-5 and appendix-6) it is revealed that the results of ‘t’ test and ‘F’ statistics were found highly significant. This means that the loan variable is capable of influencing the productivity.

The study found that profitability and productivity variables of BKB are significantly correlated with the loan variable. The greater the amount of loan decreases the profitability and productivity of BKB because the large amount of non-performing loans exists in the loan portfolio.

4.Examination of the causes of poor loans recovery

To identify which causes are responsible for poor recovery of loans of BKB. The researcher studied existing literatures, took bank official a responses and identified various causes of problem loan. The following table shows the respondents response in percentage about the causes of poor recovery of loan of BKB.

	No. of the respondents	Percentage
1. Lower price of agricultural products	12	80
2. Crop damages	12	80
3. Inadequate supervision due to shortage of field officer	14	93
4. Lack of aggressive credit collection method	13	87
5. Delay in obtaining loan	12	80
6. Diversion of borrowed fund	15	100
7. Insufficient credit	10	67
8. Willful default	14	93
9. Lack of proper investigation before lending	8	53
10. Lack of good communication facilities	10	67

Source: Field survey

Note: Number of respondents = 15.

5.Conclusion and recommendations

The majority of the farmers in Bangladesh are landless, marginal as small and their savings rate is negligible. In fact, consumption expenditure of largest part of them is higher than their real income. Therefore, capital formation in agriculture sector from private sources is scarce. In most cases, poor farmers depend on loans from Mahajans or money lenders at an exorbitant rate of interest. The journey of agricultural banks has started in Bangladesh in the year 1973. After commencement, the agricultural banks play a vital role in the economic

development of the country. But BKB faces a financial crisis for the last few years. It is reflected from the study that there is no consistent pattern for agricultural loan recovery. The study revealed that the fund allocation policy of BKB was poor during the study period which implies the inefficient loans management of BKB. Moreover high percentages of non performing loan reduces the profitability and productivity of BKB. Therefore banks should take effective initiative for reducing the non-performing loans.

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Appendix-1

Table – 5: Regression analysis of profitability against loan model summary (Profitability)

Model	R	R-square	Adjusted R-square	Std error of Estimated
1	(0.767)	0.588	0.354	0.3823

A predictor (constant) loan

Appendix-2

Table 6: 'F' Test of the regression analysis of profitability against loan

ANOVA					
Mode	Sum of squares	df	Mean square	F	Sig.
Regression	0.843	1	0.843	0.496	.002
Residual	5.10	3	1.700		
Total	5.944	4			

a. Predictors (constant) loan

b. Dependent variable: Profitability

Appendix-3

Table – 7: 't' test of the regression analysis of profitability co-efficient against loan

Model	Un standardized		Standardized	t
	B	Std error		
Constant	0.089	1.0742	(-0.767)	0.083
loan	-1.008	0.000		-0.704

dependent variable: Profitability

Appendix-4

Table – 8: Model summary

Model	R	R square	Adjusted r Square	Std error of the estimate
1	(0.371)	0.138	-.150	0.37548

a. Predictors: (Constant) loan

Appendix-5

Table – 9: ‘F’ test of the regression analysis of productivity against loan

ANOVA

Model	Sum of squares	df	Mean Square	F	Sig.
1 regression	0.068	1	0.068	0.479	0.002
Resident	0.423	3	0.141		
Total	0.490	4			

- a. Predictors (constant) Loan
- b. Dependent variable: Productivity

Appendix-6

Table – 10: ‘t’ test of the regression analysis of productivity co-efficient against loans

Model	Unstandardized		Standardized	t	Sig
	B	Std error			
(Constant)	0.870	0.309	-0.371	2.819	0.000
loan	-3.077	0.000		-.692	0.002

- a. Dependent variable; Productivity

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