

Priority Sector Lending: A Demand Side Analysis

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Foreword

As part of the ongoing dissemination of BIBM research outputs, this research monograph contains the results and findings of the research paper titled “Priority Sector Lending: A Demand Side Analysis”. The Priority Sector Lending (PSL) mainly intends to ensure the assistance from the banking system to those sectors of the economy which have not received adequate support of institutional finance even after having huge national importance. In the context of Bangladesh, a few studies have been found on PSL based on demand side analysis. The study aims to assess the status of PSL in Bangladesh and to identify the obstacles along with probable solution of this preferential lending extended by banks in Bangladesh. Accordingly, the paper has reviewed the regulations linked with the priority sector lending for banks and also identified the problems faced by the borrowers in availing of loan schemes available for financing preferential sectors in Bangladesh and way out to overcome those obstacles.

This paper has been finalized after incorporating the valuable comments and suggestions of the distinguished panelists, participants of different banks and the academicians joined in the seminar held on this topic.

It gives me immense pleasure to publish and distribute this research paper to the policymakers, practitioners, academics and common readers. I hope this will be a useful treasure of knowledge to understand as well as overcome the challenges of demand side in availing of priority sector finance in Bangladesh.

Md. Akhtaruzzaman, Ph.D.
Director General

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We express our gratitude to eight MBM students who took pains in collecting data from the respondents.

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Abbreviations

A2I	Access to Information
API	Application Programming Interface
BDBL	Bangladesh Development Bank Limited
BPSL	Banks' Priority Sector Lending
CAGR	Compound Annual Growth Rate
CMSEs	Cottage, Micro and Small Enterprises
DOE	Department of Environment
ESRM	Environmental and Social Risk Management
FFYP	First Five Year Plan
MFIs	Micro Finance Institutions
NPLs	Non-Performing Loans
PSL	Priority Sector Lending
PSs	Priority Sectors
RBI	Reserve Bank of India
WEDU	Women Entrepreneurs' Development Unit

Executive Summary

Eradication of poverty and equitable distribution of income have always remained a matter of concern in the domains of public policy. In line with that, the Government of Bangladesh from its First Five Year Plan (FFYP) to the successive five-year plans kept on addressing equitable distribution of income; food self-sufficiency; employment generation and poverty reduction; agribusiness and rural non-farm business; cottage, micro and small business; climate changes and women owned enterprises for building an inclusive society.

Bangladesh Bank being a vital part of implementing national economic agenda has been emphasizing adequate financing by the banks and FIs to priority sectors like agriculture, SMEs, women enterprises and other socially important sectors at concession rates of interest through policy support including a number of refinancing packages. The continued policy support and the engagement of the banks in serving priority sectors naturally invites a research question about the achievement of all these efforts in quantitative and qualitative terms. The available research findings indicate increasing share of priority sector finance of banks but also point out some obstacles both on the part of the borrowers and financing institutions to ensure more smooth and hassle-free operations. The existing literature mainly attempt to find out the barriers to expand lending among marginal/priority sector borrowers from the view point of the supply side. However, a very few studies capture the aspect of the demand side of the market in the context of Bangladesh. The extant study has taken an endeavor to fulfill this research gap for covering a number of objectives like to review the regulations linked with the Priority Sector Lending (PSL), examine the composition of PSL and its impact on business, income and social status of borrowers as well as to identify the problems faced by the borrowers in getting finance and way out to overcome the obstacles. The study covers four segments of PSL i.e., agriculture; Cottage, Micro and Small Enterprises (CMSEs); women credit and sustainable financing. Apart from using some secondary data to examine the supply side, the study has been conducted depending mostly on primary data because the objective of the paper is to examine the demand side of the market. Primary data was collected from all divisions largely in proportion to the share of each division in PSL by following stratified random sampling. Responses have been collected through four sets of semi-structured questionnaires from a sample of 460 bank-financed borrowers who took the loan since 2015. Method of data analysis includes common accounting and statistical tools like Compound Annual Growth Rate (CAGR), tabular and graphical presentation approaches. A non-parametric test named Mann Whitney U Test was also used for the statistical precision.

As regards to the supply side, it shows that both banks and Micro Finance Institutions (MFIs) are progressively increasing their stake in the rural credit market which was historically dominated by landlord, mohajons, traders, relatives, etc. The ratio between banks and MFIs in disbursement amount of credit to PSL is 1.20 in 2021 indicating MFIs also capture a big segment of priority sector lending in Bangladesh. Important to note, the growth rate of disbursement of credit of banks to the priority sector is only 3.35 between 2019- 2021 which is far below than the credit growth at national level for the public sector and private sector. Crop loans dominate among all types of agriculture credit with

50.53 % in 2021 although it is below 60% of total agriculture loan which is required by banks as per the “Agriculture and Rural Credit Policy and Programs’ of BB. Among the four sectors covered in the study, CAGR of CMSEs (10.87) was higher than agriculture financing (7.17) during 2010-2021. Credit to the agriculture sector is only 3.21% indicating that this sector is still underfinanced by banks. The growth phenomena of sustainable financing were found exorbitantly high because of its relatively initial stage of development and policy support of BB. Weighted average cost of funds of MFIs is always higher than that of banks. Operating expense to total deposit and borrowing for MFIs is also significantly higher than banks’ expenses. High monitoring cost of MFIs is ultimately shifted to the marginal borrowers that leads borrowers to go again to the usurious informal markets. Banks are financing 63% to 65% of their total agri -finance by using own branch networking, the remaining portion is being disbursed under NGO linkage portion. This pushes the borrowers into the trap of NGO finance. In case of agriculture loan, overdue as percentage to outstanding loan came down significantly from 35.23% in 2009 to the level 12.8% percent in 2021, which is higher than the national average of overdue loan (9.36%). The same ratio for CMSEs portrays a more deteriorated picture with an increasing trend from 12.67% to 13.14% during 2019 – 2021.

A survey of the demand side covering the perception of the borrowers which is the major theme of the paper reveals that own fund was by far the most dominant source among others before taking bank loan i.e in 72%, 98% and 71% cases for agriculture, CMSEs and women borrowers, respectively. Convenient location of the bank branch and opinion of the friends and relatives have been found as the most important driving forces behind choosing banks by the borrowers except for sustainable financing. Presence of familiar person in bank and having bank account are two other significant reasons for bank borrowing in case of agriculture and women entrepreneurship financing. A total of 78% of priority sector respondents took loan from a single bank whereas rest of the respondents borrowed from multiple organizations. As regards to future plan for further borrowing, almost all the Agri – borrowers (98%) and a large majority of CMSE, women and sustainable financing recipients have found to have a plan to increase their borrowed amount from the banks that justifies the appropriateness of bank lending for the priority sectors. The survey findings clearly demonstrate the positive impact of the bank borrowing on the growth of business as opined by the 86%, 92%, 86% and 90% borrowers relating to agriculture, CMSE, women entrepreneurship financing and sustainable financing, respectively. Thus, the result proves the bright prospects of bank lending in expanding the priority sector business. Different types of non-financial benefits arise from bank loan that predominantly includes the enhancement of social prestige in all but sustainable financing sectors under interest with a number of 80, 65 and 45 borrowers respectively for agriculture, CMSE, and women borrowers. The second most noted benefit for agriculture, CMSE, and women borrowers comes in the form of increased affordability of the respondents to ensure better education for their child. Women are also found to become motivated more to undertake new business followed by the opportunity to borrow from the banks. One major problem perceived by the agri and women borrowers is the high interest rate that increases production cost significantly. Getting less than the applied amount has been reported as the most acute problem as per the opinion of CMSE borrowers whereas agri and women borrowers rate it as the second and third ranking problem. Inflexibility in repayment schedule has been identified as a limitation by a good

number of borrowers particularly women borrowers and agri borrowers. A total of 18 out of 300 agri-borrowers report the issue of hidden charge in getting loan indicating that maximum borrowers do not face this problem. Non-financial problems faced by the borrowers include collection and filling up documents, lack of financial knowledge, existence of middlemen, longer processing time for lending, fulfilling a large set of terms and conditions, collection of guarantees, and collateral related issues. The study finds that the majority of the borrowers do not face any uncertainty in their minds in making the regular repayment of bank loan. Based on the research findings the study came up with the following suggestions:

(1) Bangladesh Bank may contemplate for formulation of a comprehensive policy framework for PSL by defining Priority Sectors (PSs), establishing criteria for considering any sector/individual under priority sectors and broad-based lending guideline. Each bank should also have its own priority sector lending policy to be approved by the Board of Directors keeping the spirit of the BB guideline. Internally generated bank level policy segregated into different segments such as agriculture, CMSE financing, and women entrepreneurship financing will ensure engagement of the CEO and operational heads in building an in-built approach for better progress in priority sector financing.

(2) Banks may come forward to increase their stake in PSL and motivate priority sectors to borrow increasingly by addressing the constraints they encounter like hidden charge, more processing time, burden of documentation, etc. for replacing the large amount of loan now given by MFIs and informal sectors.

(3) Banks may think flexible repayment schedule which will allow readjustment of installment payment during periods with low agriculture / business returns to periods when agriculture / business return are high. A close coordination is also required among banks, borrowers, tax office, department of environment and sub registry office for erasing the payment of illegal money which is a major part of hidden charge carried out by priority sector borrowers.

(4) The regulatory purpose of the PSL is to ease the lending procedure of this important and deprived sector of the economy but the procedure to avail these loans is still time consuming and involves collection and submission of documentation manually. In this case, a dedicated as well as active desk is required to be created at each branch for helping Priority sector borrowers. Further, PS borrowers may be encouraged to submit the loan application with necessary documents through online from their smart phone or union parshad or any other comfortable places.

(5) The banks can take the responsibility of offering or arranging of imparting financial literacy regarding the nitty-gritty starting from the submission of loan application ending with its final adjustment. The banks need to place right person at the desired and right place, by which the officer can offer banking knowledge to existing and prospective borrowers.

(6) Banks can make their agent banking and sub-branch units as centers for collecting loan application, primary scrutiny of documents, loan disbursement and collection of repayment by retaining the rest of the important tasks like processing loan application, sanctioning and monitoring loan in the custody of

banks. Electronic delivery channels with appropriate Apps might be thought as the ultimate solution for reaching mass borrowers across the country.

(7) All banks may be allowed to hold the right of doing registered mortgage in their own office like BKB and RAKUB for lending to the priority sector. Banks may also accept group guarantee / individual guarantee as the alternative of collateral security. Ultimately, banks may go for creating a common platform in collaboration with NBR, DOE and Ministry of Land for retrieving any relevant information/ documents relating to borrowers on real time basis. For the time being, banks may go for doing integration and collecting permission through Application Programming Interface (API) with relevant authorities.

8. Apart from initiatives on behalf of Banks and FIs to drive PSL, growth of this preferential lending will not be reached at desirable level without deepening and widening financial inclusion. Under the umbrella of existing policy support, banks may give strong drive to bring at least one person from each family under the formal financial service. In this perspective, authority may think to announce 'A Banking Week', so that all banks collectively may use their all resources for bringing unbanked people under formal financial services.

Priority Sector Lending: A Demand Side Analysis

1.1. Introduction

Economists have always accentuated the removal of poverty and equitable distribution of income of people. John Rawls in his book, *A Theory of Justice* (1971) introduces his ‘difference principle’ suggesting that the less-advantaged sectors and people be given more benefits so that in the end the distribution of wellbeing among the entire population tends to be equalized. Keeping this in mind, the Government formulated its First Five Year Plan (FFYP) after independence by outlining food self-sufficiency, employment generation and poverty reduction as the foremost objectives (Mandal, 2020). As experiences were gathered with the passage of time, further agribusiness; rural non-farm business; cottage, micro and small business; climate changes and women-owned enterprises have gradually got more attention in the successive five-year plans.

In poverty reduction, both classical and neoclassical approaches overemphasize monetary aspects, the individual as opposed to the group, and a limited role of government (Philip et al. 2015). Bangladesh Bank has been emphasizing member banks and FIs giving out loans on time for priority sectors like agriculture, small enterprises and socially important sectors at concession rates of interest where the maximum people belonging to the lower strata in the society including women are involved. As a result, Bangladesh Bank has emerged as a central bank with the developmental role to ensure wider participation of stakeholders including those who are at the bottom of the rudder and have mostly been either unserved or underserved by the banks and FIs (Rahman, 2020). It is encouraging to note that Bangladesh Bank has come out with some financing as well as refinancing packages focusing on agriculture, SMEs, women enterprises and informal unorganized sector and climate-sensitive industries to keep the production initiatives of these sectors on the move. In the case of proper implementation of these packages, the bottom pyramid of the economy would have been not only more afloat but also vibrant at the end of the execution.

This provokes a question of whether objectives of the Priority Sector Lending (PSL) have been achieved or areas earlier defined as priority sectors have been graduated into the next level of development or vice versa. In quantitative terms, banks and FIs have achieved the target. But in qualitative terms, there is an apprehension among the bankers that the advances to the priority sector resulted in a loss for them because of subsidized lending rates, high supervision costs, poor recovery and a raising volume of Non-Performing Loans (NPLs). However, these cannot be acceptable reasons for lending a lower amount of loans, as priority sectors are always critical for ensuring food security, employment generation, poverty alleviation, balance and

sustainable growth and the creation of entrepreneurs. Further, it is required to be kept in mind that except for borrowing from formal as well as informal sources of finance, these sectors do not have the option of sourcing finance from the equity and bond market.

On the contrary, it has been reported that constraints faced by the borrowers concerning borrowing for priority sectors are cumbersome application forms, inadequacy of loan amount, inability to find guarantors and provide collaterals, illegal payment, higher rate of interest, delay in disbursement, the influence of local touts, absence of suitable bank products, inflexible repayment schedule and behaviour of bankers. Islam (2020) opines that ‘generally loans of larger sizes are charged lower interest rates. Such discriminatory practice adversely affects the poor. There is substantial inequality in financial access due to the excessive geographical concentration of loans in Dhaka and Chottogram. The small entrepreneurs and farmers are continued to be under credit constraints which are filled up by the lending of the informal sector particularly in rural areas indicating that there are no demand constraints of PSL rather it is enormous. Further, tech and data-driven agriculture and agro-based industries, impressive diversification into a wide variety of seeds and new crops need more loan amount steadily from Banks and FIs. Swelling CMSs in rural and sub-urban areas, the growing role of women in a variety of business and climate-sensitive initiatives will create scope for banks and financial institutions to lend in PSs more. To increase the lending to the preferred sector for attaining the desired goal of the economy, knowing the current status of PSL as well as understanding the opinion of the borrowers owning to the priority sector is, needless to say, highly important. This paper is an attempt to report the position of priority sector lending extended by banks in Bangladesh and diagnose the various lacunas of priority sector lending considering the views of the demand side in the context of policies given by the Bangladesh Bank.

1.2. Background Literature

Priority Sector Lending (PSL) and social banking concepts have been crystallized and adopted for credit deployment in post-1969 (Gupta and Kumar, 2004). Uppal (2009) opines in his study that the term ‘priority sector’ indicates those activities which have national importance and have been assigned priority for development. Henceforth, the espousal of the priority sector notion for bank lending reflects the effort to synchronize the lending activities of banks in line with national priorities. Dave (2016) also refers priority sector as those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small-value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low-income groups and weaker sections.

Ahmed (2010) stated in his study that the Reserve Bank of India emphasized agriculture (direct and indirect finance), small-scale industries, small road and water transport operators, small

businesses, professional and self-employed persons, education, housing, micro-credit, weaker sections¹ etc. as priority sectors. Later on, the Reserve Bank of India (RBI) revised its guidelines for lending to the priority sector in March 2015, with loans to medium enterprises, sanitation and renewable energy sectors coming under the ambit of priority sector lending. Gaur and Mohapatra (2019) mention some categories under the priority sector², which are - agriculture, micro and small enterprises, education loans, housing loans and others. Among these- agriculture, small industries and other small business were the neglected sectors and for bank credit, they have been categorized as the priority sector.

The PSL mainly intends to ensure assistance from the banking system to those sectors of the economy which has not received adequate support from institutional finance. Here the attainment of the socio-economic priorities of the government like- the growth of agriculture, promotion of small entrepreneurs and development of a backward area, etc. are the major responsibilities. The Narasimham committee (1998)³ comes up with the findings that sufficient credit to the priority sector is very indispensable for intended beneficiaries. In searching for the main objective of PSL, Kumar et al (2016) draw that it is to secure adequate and timely availability of credit to vulnerable sectors of society. Among various sources of credit facilities available to the beneficiaries of mentioned priority sectors, undoubtedly banking channel is a crucial and formal one. Kohli (1997) observes the existence of significant linkages between bank credit and investment in both agriculture and industries in India.

It has been stated that the constraints faced by bankers concerning the deployment of credit to the priority sector is lack of viable credit products (Shete, 2002). As retrieved by Jain et al. (2015), most of the bankers indicate that high cost in managing the priority sector accounts is the most crucial factor that obstruct banks to lend to the priority sectors. International experience also shows that directed credit programs, like PSL, proved very costly, with the highest costs borne by the banking industry. Das and Ghosh (2006) reveals a huge quantum of Indian banks credit go to the priority sector, which has a less interest rate, which decrease the profitability of banks. Patidar and Kataria (2012) analyze the effect of Priority Sector Lending on non-performing assets of banks and find a liner relationship between the priority sector lending and non-performing assets. In this regard, Uppal (2009) suggests that, though the development of the priority sectors is unavoidable, commercial banks are struggling with PSL on issues such as lower profitability, higher NPAs and high operating costs of maintaining an account.

² Master Circular- Priority Sector Lending- UCBs Circular UBD.CO.BPD. (PCB) MC. No.7/09.09.001/2014-15 dated July 01, 2014.

³ Govt. of India (1998) Report of the Committee on Financial System, Ministry of Finance, (Narasimham Committee-II), April.

From demand side analysis, some respondents opine that their business is running under loss, due to the insufficient amount of loan provided by the bank under PSL and the study also suggests that the employees should come out of bank in order to create a bond with the borrowers of the bank (Manjusree & Giridhar, 2018). Fund diversion is a big challenge and it becomes a matter of worry when the loan amount is diverted to any unproductive purpose. Ahmed (2010) also reveals that the agriculturists and poor people could not repay the loans because they spend their loan on consumption purposes rather than productive purposes without bothering the liability of making repayment because of illiteracy.

In general, the constant failure of monsoon, natural calamities such as famine flood, and willful default are the chief reasons for non-recovery of loans under PSL. The reasons behind poor recovery may also be attributed to many other factors like- lack of supervision of end use of fund, owing to lack of vehicle, scarcity of staffs, defective processing of loan applications, political interferences, loan recovery mechanism and communication gap between banker & customer (Ahmed, 2010).

To ensure prompt recovery in PSL, especially for agriculture sector seems very tough job sometimes. In this regard, Shete (1992) has given some very operative propositions and has brought out some lessons for Indian commercial banks based on the experience of agricultural loan recoveries of some developing countries. Intensive education campaign for proper use of funds by borrowers in Sri Lanka, commodity-oriented programmes in Philippines, provision of infrastructure, farm supportive prices and extreme penalty for willful defaulters in China are some of the examples which facilitate prompt recovery of agricultural loans. Another challenge used to face by demand-side is about collateral. Because the risk of undiversified assets in agriculture cannot be solved by combining corporate ownership of land with rentals to farmers. Although renting or sharecropping land would eliminate the risk to the farmer of a decline in the value of the land, the fact that farmers who can own their land almost always choose to do so is prima facie evidence for the relative efficiency of land ownership (Jain and Ghosh, 2015).

In the context of Bangladesh, a few studies have been found on PSL and within the limited research findings, some have been there regarding renewable energy (one of the mentionable sectors under PSL). Mahmud and Roy (2021) state that a lack of demand-side data acts as a significant barrier to renewable energy penetration in Bangladesh. Demand side is also suffering from limited knowledge about their specific demand and alternative sources of renewable energy. Sometimes, local people understand solar PV to be the only form of renewable energy. Besides, the consumers do not have enough knowledge/training of the operation, maintenance, battery handling, and inter-seasonal solar PVs performance variation.

As per Uz Zaman and Islam (2011) access to finance particularly working capital finance and investment finance to enable the entrepreneur to expand their business is a prime constraint facing by SMEs in Bangladesh. Banks in general do not consider SME financing as profitable activity and also consider the SME entrepreneurs as high-risk borrowers because of their low capitalization, insufficient assets, high mortality rates, and consequently, banks are not keen to offer them credit at comparable interest rates. On the other hand, women involved in various MSMEs in Bangladesh take challenge to work in a male-dominated society, competitive economic and business environment. The other challenges include lack of access to credit, infrastructure and utility services, limited access to market information, bureaucratic complexity, traditional technology, and so on (Lovely and Jia, 2012). Shoma (2019) reveals that access to finance is the greatest challenge faced by women in Bangladesh in starting and operating CMSMEs.

Given the above review of literature, it is observed that a number of research studies on PSL covering the opinion of the demand side is very limited although a number of studies have been conducted to find out the barriers to expand this lending among marginal borrowers contemplating the views of supply side only. Importantly, studies in the area of PSL in the context of Bangladesh is very scanty.

1.3. Objective of the Study

The objective of the study is to review the regulations linked with the Priority Sector Lending (PSL), examine the composition of priority sector lending, measure the impact of priority sector lending on business, income and social status of borrowers and identify the problems faced by the borrowers in availing of loan schemes available for financing preferential sectors and way out to overcome the obstacles.

1.4. Data and Methodology

The study is finalized by applying standard tools keeping in view the objective and scope of the study. The data collection has been completed in the following ways.

- I. **Secondary Data:** The secondary data have been collected from the Annual Report, Bangladesh Bank; Scheduled Bank Statistics and Bangladesh Microfinance Statistics.
- II. **Primary Data:** As the current study is a demand side analysis, we have depended mostly on primary data. In order to get better representation of borrowers, multistage sampling strategy has been adopted to draw a representative sample with geographic and sector coverage. Primary data was collected from all divisions by following stratified random sampling.

The sample size was determined based on the following formula:

$$(Z^2 \times P \times Q)/d^2$$

where Z= 1.96, standard normal variation at 5% level of significance.

Since there is no measurable indicator available for the satisfaction level, we assume a restrictive measure of P= 0.5, that is 50% of borrowers might consider the priority sector lending effective. Thus, q = 1-p = 0.5. The estimate of precision is considered as d=0.05 (5%). Thus, the required sample size would be:

$$(Z^2 \times p \times q)/d^2 = 384$$

Although the adequate sample size is, 384, we have covered 460 (250 for agriculture financing + 100 for CMS financing + 90 for women entrepreneurs + 20 for sustainable financing) respondents. Thus, a sample of 460 respondents would make a representative sample of borrowers. The second column of the following table shows the share of rural financing in each division. The sample respondents have been selected based on the share of division-wise rural financing assuming that a major portion of the rural financing is linked with priority sector lending (Table-1.1).

Table 1.1: Distribution of Sample Depending on Share of Rural Financing in Divisions

Divisions	Rural Financing (Percentage of Total)	Distribution of Sample			
		Agriculture	CMSEs	Women	Sustainable Financing
	%	Numbers	Number	Number	Number
Dhaka	40	100	40	36	20*
Chattogram	21	52	21	19	
Barishal	4	12	4	4	
Khulna	9	22	9	8	
Rajshahi	10	25	10	9	
Rangpur	7	17	7	6	
Mymensingh	5	12	5	5	
Sylhet	4	10	4	3	
Total	100	250	100	90	

Source: Survey Conducted

* Data relating to sustainable financing have been collected from respondents of the Dhaka division only.

The age of 15% of respondents was between 20-30 years, 35 % between 31-40 years and the age of the remaining 50% of respondents was above 41 years representing the maturity of the respondents. The study covers borrowers who took the loan since 2015, because loans taken by borrowers before that period may not be the client of banks further now. The study has adopted a distinctive measure to represent total priority sector lending by covering four

sub-segments i.e., agriculture; Cottage, Micro, Small and Medium Enterprises (CMSEs); financing to women entrepreneurs, and sustainable financing. So, other priority sectors such as export financing, and housing loans have not been brought under study. Four sets of semi-structured questionnaires were administered for each of the segments covered under the study. A list of the agri-borrowers was collected from the Agriculture Credit Department of Bangladesh Bank and a list of remaining borrowers from the respective banks. After collecting the list, respondents were selected from all divisions by following stratified random sampling. Afterwards, a pilot survey was conducted to verify the suitability of the survey queries placed in the questionnaires.

A total number of eight enumerators collected data from the respondents over mobile phones. They have been briefed about the questions and desired behaviour patterns in conversation with the borrowers by the research team before starting to collect data. The members of the research team monitored the interviews and provided feedback to the enumerators regarding the interview as and when required. Data management has been done by focusing on the interview schedules, data entry, cleaning, processing and analysis. However, the lack of financial literacy of the demand side act as a significant barrier to collecting data. Seventy-five per cent of the respondents are having education under the secondary school level and the remaining twenty five per cent has education at higher secondary level and above. Sometimes, the borrowers do not have enough knowledge about the problems they face.

Method of data analysis includes common accounting and statistical tools like Compound Annual Growth Rate (CAGR), tabular and graphical presentation approaches. A non-parametric test named Mann Whitney U Test was also used for statistical precision. It may be noted that the paper has been finalized by incorporating the suggestions of the discussants and participants of the seminar.

1.5. Organization of the Report

This report is organized as follows. After this introductory Section-1 covering the literature review, policies, objective of the study, data and methodology, and conceptual aspect of the priority lending is delineated in Section-2. Section-3 reviews the selected policies and programs associated with PSL. Section-4 shows the anatomy of PSL. Section-5 demonstrates a comprehensive analysis of priority sector lending in terms of investment, access to finance, the purpose of taking loans, faced by borrowers, etc. Section-6 presents findings and policy suggestions.

2. Priority Sector Lending: Conceptual Aspect

The initiation of the priority sector credit in Bangladesh can be traced to the beginning of the 1970s after the independence of the country when Bangladesh Bank directed banks to ensure

the flow of available credit to the essential sectors like agriculture, jute and tea (Annual Report, Bangladesh Bank 1974-1975), although these sectors were not formalized as the priority sector. Needless to say, the establishment of Bangladesh Krishi Bank (President Order no 27 of 1973) was also done to confirm easy and hassle-free bank credit to the agriculture sector. Likewise, BASIC Bank Limited and Bangladesh Development Bank Limited (BDBL) bank were also created.

Countries like India, China, Malaysia, Pakistan, Nepal, Indonesia, and so on continue to follow the idea of priority sector credit. As per the Reserve bank of India (RBI), priority sector advances constitute lending to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. The priority sector comprises agriculture, micro and small enterprises, education, housing, export credit and advances to weaker sections (Dave, 2016). Bank Negara Malaysia, Central Bank of Malaysia, in its policy document titled lending/financing to the priority sector included Bumiputera SMEs as well as purchasers of affordable houses as the priority sector lending. Further, (a) Green technology; (b) Biotechnology; and (c) Innovative sector which are the Government's agenda in promoting new growth areas are also treated as the priority sectors (Bank Negara, 2015.) In Nepal, the priority sector credit policy is designed to ensure easy credit availability to the vulnerable group, sections and society for the upliftment of the economy through the intervention of the central bank (Thapa, 2019).

Bangladesh Bank does not have a similar priority sector lending policy as such. However, programs like financing to agriculture, Cottage, Micro and Small Enterprises (CMSEs), green finance, export sector and weaker section of the society like women entrepreneurs, new entrepreneurs and BDT 10 accounts holders have been prioritized by BB to finance through providing preferential treatment in terms of providing subsidized interest rate, less provisioning requirements, refinancing facility, setting disbursement target and reporting to BB in detailed means.

With the gradual addition of new sectors in the production and services baskets of the country, the list of the priority/preferential sectors now needs a relook and review. In recognizing any industry or sector or section as the priority sector, criteria like importance to the national economy, affecting large sections of society, sectors facing difficulty in getting bank credit, substantial employment generation, benefitting small borrowers and akin with the national interest might be contemplated. This study has contemplated sectors which have already got preferential financial support as the priority sector lending and propose some more areas which might be considered as the priority sectors too like the software industry, infrastructure sector, venture capital, housing credit and education credit.

Table 2.1: Sectors for Priority Sector Lending (PSL)

Sectors Already Treated for the PSL		Proposed Sectors for Treating For PSL	
Sectors	Reasons for Treating as Priority Sectors	Sectors	Reasons
1. Agriculture Sector	*Importance to the national economy, *Affecting large sections of society,	1. Housing credit	*Importance to the national economy, *Affecting large sections of society, *Substantial employment generation, *Akin with the national interest
2. Cottage, Micro and Small Enterprises (CMSEs).	*Sectors facing difficulty in getting bank credit, *Substantial employment generation, *Benefitting small borrowers and	2. Software industry	*Importance to the national economy, *Akin with the national interest
3. Weaker Sections of the Society (Women Entrepreneurs, New Entrepreneurs and BDT 10 accounts holder)	*Akin with the national interest	3. Venture capital	*Importance to the national economy, *Sectors facing difficulty in getting bank credit, * Akin with the national interest
4. Sustainable Finance	*Akin with the national and global interest and *Importance to the national economy	4. Infrastructure Sector	*Importance to the national economy, *Affecting large sections of society, *Sectors facing difficulty in getting bank credit, *Akin with the national interest
5. Export Sector ⁴	* Importance to the national economy and * Akin with the national interest		

Source: Authors' Compilation.

The study has however adopted a distinctive measure to represent total priority sector lending by classifying it into four sub-segments i.e., agriculture; cottage, micro and small, women's credit and sustainable financing. The export sector is not included as the priority sector in this study as borrowers involved in this sector are usually affluent.

3. Priority Sector Lending : Selected Policies and Programs

Bangladesh Bank provides new policies or brings amendments in previous policies and programs to ease PSL for marginal people. This section covers the selected policies and programs closely linked with PSL.

3.1 Agriculture Financing: Policies and Programs

Bangladesh Bank has recently released its Agriculture and Rural Credit Policy and Programs (ARCPP) for the FY 2022 and 2023 as its annual event. Selected sections are reviewed below.

⁴ This sector was not covered as part of PSL in this paper.

3.1.1. Agriculture Financing: Target, Composition, Interest Rate and Provision

Directions like setting disbursement targets of agriculture credit by each bank⁵, and allocation of a certain percentage of agriculture finance to crop, fisheries and livestock sectors are made available in the ARCPP 2022-2023 (Table-3.1). To achieve these targets, several other supporting issues like maximum days for resolution of a loan case, avoiding CIB in case of loan amount below 2.5 lacs, and subsidised interest rate and less percentage of provision requirements for agri-finance are also delineated in this policy.

Table 3.1: Regulatory Supports for Lending in Agriculture

Particulars	Supports
Agricultural Financing	Minimum 2.5% of total loans and advance of each bank.
Crop, Fisheries and Livestock	At least 60 % in the crop, 10% in fisheries and 10% in livestock
Time for Resolution of Loan Application	Necessary to solve the issue within 10 working days.
CIB	CIB report is not required for new loans or renewals if the loan amount is less than 2.5 lakh. However, all outstanding loans be reported in CIB.
Interest Rate at Borrowers	8 per cent (4 per cent for some schemes)
Provisioning Requirement	1% for all unclassified loans

Source: Agriculture & Rural Credit Policy and Program 2022-2023, Bangladesh Bank.

3.1.2. Agriculture Financing: Target

The country's banking industry has set a target of disbursement of BDT 30,911 crore for agricultural and rural loans for the FY22 (Table-3.2). SOCBs, BKB and RAKUB always play a key role in distribution of agriculture and rural finance in the backdrop of their dispersed branch networks in rural areas. The planned per centage of agricultural lending for PCBs is 59.47 representing their budding involvement with PSL. In case of individual bank, if any one fails to achieve the disbursement target (2.5%), the policy has a provision of financial penalty. The policy has provisions for incentives for the banks that will achieve agricultural credit set by BB.

Table 3.2: Agricultural Credit Targets for Banks in FY 2022-2023

Banks	Disbursement Target (BDT in Crore)	Disbursement Target (In %)
SOCBs, BKB and RAKUB	11758	38.03%
PCBs	18382	59.47%
FCBs	771	2.50%
Total	30911	100

Source: Agriculture & Rural Credit Policy and Program 2022-2023, Bangladesh Bank.

⁵ The policy states that each bank must allocate at least 2.5 per cent of its overall loans and advances to agriculture finance. However, the BB sets agricultural credit at 2.10 per cent of net loans and advances disbursed to all sectors of the economy as of March 31, 2022.

3.1.3. Agriculture Financing: Refinance Schemes

BB has formed a number of refinancing schemes to promote agriculture production. Under these schemes, borrowers are entitled to get loans at subsidised interest rates.

Table 3.3: Refinance Schemes Linked with the Agriculture Sector

Name	Purpose	Size of the Scheme (in BDT Crore)	Interest Rate for Borrowers
Refinance Scheme for Agriculture	Ensuring food security	5000	4 per cent
Refinance Scheme for Wheat and Maize	For increasing the production of wheat and maize	1000	4 per cent
Refinance Scheme in Covid-19	Mitigating financial problems during the pandemic	3000	4 per cent
Refinance Scheme for Milk Production	Increasing milk production	200	5 per cent

Source: Bangladesh Bank, 2022

3.2 CMSME⁶ Financing: Policies and Programs

3.2.1. CMSME Financing: Policy and Definitions

SME and Special Programs Department was established by BB in 2009 for formulating policies for the CMSME sector as well as overseeing and monitoring financing. In 2019, BB released a master circular or guideline on the operational aspects of CMSME financing of banks and FIs in line with the goals of the National Industrial Policy of Bangladesh. The definition of CMSME provided in this policy is provided below.

Table 3.4: Definition of Cottage, Micro and Small Manufacturing and Service-Oriented Businesses

Industry Category	Industry	Criteria for Determining Industry Category	
		Total Fixed Asset	Number of Employees
Cottage	Manufacturing	Below BDT 10 lac	Not more than 15
Micro	Manufacturing	From BDT 10 lac to < BDT 75 lac	From 16 to ≤ 30
	Service	Below BDT 10 lac	Maximum 15
Small	Manufacturing	From BDT 75 lac to BDT 15 crore	From 31 to 120
	Service	From BDT 10 lac to < BDT 2 crore	From 16 to 50
Medium	Manufacturing	Above BDT 15 crore ≤ BDT 50 crore	From 121 to 300; Maximum 1000 for Ready Made Garments Industry
	Service Sector	From BDT 2 crore to BDT 30 crore	From 51 to 120

Source: Bangladesh Bank, 2022

⁶ As some policies were formulated targeting CMSME in a place, in this section CMSME have been covered in stead of only CMSE.

3.2.2. CMSME Financing: Targets

The CMSME financing policy directs banks to create their own goals for funding CMSM Enterprises. For financing CMSME, BB has set certain targets to achieve within 2024 (Table- 3.5). In the fixation of target, it is clearly noticed that BB intends to flow more money to the CMSME. Grace period is also allowed in favour of CMSME borrowers. Banks are permitted to offer 03 (three) months of grace period for loans with a term of 1 year and 03 (three) to 06 (six) months of grace period for loans with medium to long terms.

Table 3.5: Targets to be Achieved By 2024 in CMSME Financing by Banks

Particulars	Targets to be Attained by 2024
CMSME financing	25 per cent of total financing in all sectors
Cottage, Micro, and Small	50 per cent of total CMSME financing
Manufacturing, Service, and Trade	At least 40 per cent for Manufacturing, 25 per cent for service, and 35 per cent for trade
Provisioning Requirement	0.25 per cent for all unclassified loans

Source: Bangladesh Bank, 2022

3.2.3. CMSME Financing: Responses of Government and BB During Covid-19

The GoB and BB have announced a number of stimulus initiatives for the CMSME sector in an effort to mitigate the effects of the Covid-19 on firm closures, employment losses, and a decline in sales (Table-3.6). In addition, BB launched a Credit Guarantee Scheme of BDT 20000 crore for small, cottage, and microbusiness owners to assist them in addressing the Covid-19 epidemic situation.

Table 3.6: Different Forms of Stimulus Packages and Refinancing Scheme Announced During Covid-19 for CMSME

Particulars	Government-Funded Stimulus Package	Bangladesh Bank Funded Revolving Refinancing Scheme
	Working Capital Financing	Working Capital Financing
Target Group	CMSMEs Customers	CMSMEs Customers
Size of the Fund	BDT 20,000 (BDT Twenty Thousand) Crore	BDT 10,000 (BDT Ten Thousand) Crore
Rate of Interest to CMSME Borrowers	4 per cent	7 per cent

Source: Bangladesh Bank, 2022

3.3. Financing to Women Entrepreneur: Policies and Programs

3.3.1 Financing to Women Entrepreneur: Regulations and Policies

Bangladesh Bank has mainstreamed financing to women entrepreneur in its policy provisions. These policies have been formulated for creating new women entrepreneur, ensuring hassle free flow of finance, addressing any harassments faced by women, extending loan to small woman entrepreneur without collateral security, etc (Table- 3.7).

Table 3.7: Financing to Women Entrepreneur: Regulations and Policies

Subject	Details	Objects
Women Entrepreneurs' Development Unit (WEDU) and Dedicated Desk	Setting up a dedicated desk in each branch and to form a WEDU at Bank's head office	Helping and monitoring the women entrepreneurship and allied activities to increase women's participation in getting credit facility
Finding out New Women Entrepreneurs	Instructions to find out at least three women interested in having enterprise or becoming women entrepreneurs 'within the catchment area for imparting training in the field of their interest in capacity building and above all extend credit facilities to minimum one of those training receivers	Extending credit facilities to new women entrepreneurs
Problem Solutions Centre of SME & Special Programmes Department, BB.	If any women entrepreneur face problem or harassment in availing CMSME loan facility or interested to know CMSME related information, advice, and consultation, they can directly contact the Problem Solutions Centre of SME & Special Programmes Department	Safeguarding the women entrepreneur from any sort of problems or harassment in getting CMSME loan and related services
Collateral Free Loan.	Regulatory provision for women entrepreneurs to lend up to BDT 25 lac against personal guarantee. Banks & FI have been advised to consider social security, personal guarantee & group guarantee, also not to put any pressure or to compel them for guarantee of specific person viz high officials, well-off relatives & husband	Lending without collateral to small women entrepreneur

Source: Bangladesh Bank

3.3.2. Financing to Women Entrepreneur: Target and Incentives

Several targets and incentives are being put in place by BB to create a women friendly banking environment in Bangladesh (Table-3.8). For example, maintaining currently 10% of total CMSME loan portfolio financing to women entrepreneurs and increasing it to at least 15% by the year 2024 will be a great motivation factor for women to create themselves as entrepreneurs.

Table 3.8: Financing to Women Entrepreneur: Target and Incentives

Schemes	Coverage	Provisions
Refinancing Scheme Fund (BDT 30,000 crore) *	Female borrowers both in microcredit and micro enterprise credit segments	25.0 per cent of allocated fund for Women.
Incentive for Women Entrepreneurs	CMSME sector	Offering 1% incentive to borrowers who have adjusted their loan on time
Stake of Women Entrepreneur Financing in Total CMSME loan portfolio	Financing to women entrepreneurs by Banks/FIs must maintain 10% of their total CMSME loan portfolio and the per centage will have to be raised to at least 15% by the year 2024.	Encouraging more participation of women entrepreneurs in CMSME loan portfolio

Source: Bangladesh Bank, 2022

* Preferential instructions are also kept for financing women entrepreneur in other refinancing schemes too.

3.4. Sustainable Banking/ Financing: Policies and Programs

3.4.1 Sustainable Financing: Policies

BB has always been keen to incentivize sustainable financing. It has already issued a number of guidelines like Sustainable Finance Policy 2020, Environmental and Social Risk Management (ESRM) guideline for Banks and Financial Institutions and such more considering the requisition of time (Appendix Table-1). Further, a number of refinance schemes have been formed to soar the flow finance to environment friendly activities as well as other components of sustainable financing. (Appendix Table-2)

4. Priority Sector Lending: An Anatomy

Although the study focuses on the demand side of priority sector financing, it is imperative to examine the pattern and growth trend of priority sector financing. This is necessary to develop an understanding about the status, strength and potential of the priority sector lending.

4.1. Rural Financing: Per Head Banks' and MFIs' Financing

Banks have penetrated the rural credit market with 24 basis point more compared to MFIs in 2021. Table-4.1 shows that per head outstanding rural financing stood at Tk 24,583 .71 at the end of 2021 which was only Tk. 3235.75 in 2009 registering CAGR of 17.46 (Table-4.1). It shows that both banks and MFIs are progressively increasing their stake in the rural credit market which was historically dominated by landlord, mohajons, traders, relatives, etc. This was happened because of the growing financial inclusion in the rural Bangladesh and declining share of informal sources of finance to total loans in rural areas. Per head rural financing of banks and MFIs of TK. 13,615.00 and TK. 10968.71, respectively indicates that apart from progressive growth of finance by Banks, MFIs are also playing a very dominating role in this credit market.

Table 4.1: Rural Financing: Per Head Banks and MFI Financing

Year	Rural Financing by Banks (Outstanding)		Financing by MFIs (Outstanding)*		Ratio between the Rural Financing by Banks and MFIs Financing	Total Rural Financing	
	BDT in Billion	Per Head (in BDT)	BDT in Billion	Per Head in BDT		BDT in Billion	Per Head in BDT
2009	184.42	1821.82	143.13	1413.93	1.29	327.55	3235.75
2010	232.07	2292.54	145.02	1432.60	1.60	377.09	3725.14
2019	1034.98	10304.83	946.09	9419.79	1.09	1981.07	19724.61
2020	1185.27	11867.60	1047.26	10485.77	1.13	2232.53	22353.37
2021	1356.00	13615.00	1092.44	10968.71	1.24	2448.44	24583.71
Growth Rate (2009-2010)	25.84		1.32			15.12	
Growth Rate (2019-2021)	9.32		4.86			7.24	
Growth Rate (2009-2021)	17.30		17.66			17.46	

Sources: 1. Scheduled Bank Statistics, Bangladesh Bank; 2. Annual Report, Microcredit Regulatory Authority

*Note: The total amount of MFIs' finance has been considered as the rural finance.

4.2. Priority Sector Lending (PSL): Disbursement Amount of Banks and MFIs

Banks are steadily intensifying their lending activities to priority sectors covering agriculture, CMSE, women and sustainable financing. The disbursed amount was 629.64 billion in 2010 and reached Tk 2042 billion in 2021, increased by 9.87 per cent over 12 years. The ratio between Banks and MFIs in disbursement amount of credit to PSL is 1.20 in 2021 indicating MFIs also capture a big segment of Priority sector lending in Bangladesh. Important to note, the growth rate of disbursement of credit of banks to the priority sector is only 3.35 between 2019- 2021 which is far below than the credit growth at national level for the public sector and private sector.

Table 4.2.: Priority Sector Lending (PSL): Disbursement Amount of Banks and MFIs

Year	Banks' Priority Sector Lending (BPSL) (Disbursed Amount in Billion BDT)	MFIs' Priority Sector Lending (MPSL) (Disbursed in Billion BDT) *	Total PSL by Banks & MFIs (Disbursed Amount of Loans in Billion BDT)	Ratio of BPSL and MPSL
2010	629.64	252.94	882.58	
2011	642.58	238.23	880.81	
2019	1848.33	1654.54	2924.97	1.12

Year	Banks' Priority Sector Lending (BPSL) (Disbursed Amount in Billion BDT)	MFIs' Priority Sector Lending (MPSL) (Disbursed in Billion BDT) *	Total PSL by Banks & MFIs (Disbursed Amount of Loans in Billion BDT)	Ratio of BPSL and MPSL
2020	1719.52	1614.95	2686.79	1.06
2021	2042.71	1707.57	3080.89	1.20
Growth Rate (2010-2011)	2.06	-5.82	-0.20	
Growth Rate (2019-2021)	3.35	1.05	1.73	
Growth Rate (2010-2021)	9.87	16.51	10.52	

Source: Authors' calculation based on data available in Annual Reports of Bangladesh Bank and Microcredit Regulatory Authority

4.3. Priority Sector Lending: Agriculture Credit Disbursement

The information regarding the actual amount of disbursement of agriculture credit to its different segment is noted in the Table 4.3A. This table shows that crop loans dominate among all types of agriculture credit with 50.53 % in 2021 (Table-4.3B). Even though crop loans dominate in total agriculture loan, still this is below 60% of total agriculture loan which is required to be maintained by banks as per the “Agriculture and Rural Credit Policy and Programs” of Bangladesh Bank. In terms of CAGR, lending for purchasing and installing of irrigation equipment shows the highest growth rate of 39.15%, followed by livestock and fisheries, respectively (Table-4.3A.). The disbursed amount for purchasing and installing of irrigation equipment has increased from Tk. 06 billion to Tk.4.4 billion between 2009 and 2021 representing growing technology-based agriculture sector of the country. The share of lending for poverty is however showing the declining trend (4.3B).

Table 4.3A: Priority Sector Lending: Agriculture Credit Disbursement (BDT in Billion)

Areas	2009	2010	2011		2019	2020	2021	Growth Rate (2009-2011)	Growth Rate (2019-2021)	Growth Rate (2009-2021)
Crop loans (Other Than Tea)	28.54	33.19	36.88		118.8	114	128.9	8.92	2.76	12.30
Livestock	3.15	4.08	4.27		32.5	31.7	35.3	10.67	2.79	20.43
Fisheries	3.42	3.99	4.65		26.8	26.1	29.5	10.78	3.25	18.03
Poverty Alleviation	12.35	13.61	16.29		19.5	20.9	20.4	9.67	1.52	3.94
Purchase and Installation of Irrigation Equipment	0.06	0.52	0.53		3.2	2.7	4.4	106.72	11.20	39.15

Areas	2009	2010	2011		2019	2020	2021	Growth Rate (2009-2011)	Growth Rate (2019-2021)	Growth Rate (2009-2021)
Marketing of Agricultural Goods	0.79	0.62	0.3		1.2	1.3	1.8	-27.58	14.47	6.54
Other Agricultural Activities	21.61	26.77	29.18		34.3	30.9	34.9	10.53	0.58	3.76
Total	69.92	82.79	92.1		236.2	227.5	255.1			

Source: Authors' Calculation based on Data available in BB's Annual Report.

Table 4.3B: Priority Sector Lending: Agriculture Credit Disbursement (%)

Areas	2009	2010	2011		2019	2020	2021
Crop loans	40.81	40.09	40.04		50.3	50.1	50.53
Livestock	4.5	4.93	4.64		13.75	13.93	13.83
Fisheries	4.9	4.82	5.04		11.34	11.45	11.55
Poverty Alleviation	17.67	16.44	17.69		8.25	9.19	8.00
Purchase and Installation of Irrigation Equipment	0.08	0.64	0.57		1.34	1.85	1.72
Marketing of Agricultural Goods	1.14	0.75	0.34		0.5	0.55	0.7
Other Agricultural Activities	30.9	32.33	31.68		14.52	12.93	13.67
Total	100	100	100		100	100	100

Source: Authors Calculation based on Data available in BB's Annual Report

4.4. Priority Sector Lending: Sector wise Actual Disbursement

Information on Priority Sector Lending (PSL) by banks covering its selected four sectors from 2010 to 2021 can be seen in Table-4.4. The Table reveals that agriculture financing was increased from Tk. 111.17 billion to 255.11 billion registering 2.29 times higher and CAGR of 7.17 over 12 years. During the same period, banks provided relatively more amount of credit to CMSMEs, increased from Tk. 518.47 billion to Tk. 1787.6 billion recording 3.45 times higher and CAGR of 10.87. This reveals that credit flow to the agriculture sector is not as high as CMSMEs. It is noteworthy to mention that credit to the agriculture sector is only 3.21% indicating that this sector is still underfinanced by banks. This means that a large of agrarian people is still out of the bank loan schemes and may finance their activities from NGOs or informal sources. Finance to women owned enterprise was increased at CAGR of 13.61 which is higher than that of financing to agriculture and CMSMEs. The growth phenomena of sustainable financing were found exorbitantly high representing that recent policy support of

BB to increase sustainable finance is effectively working for expansion of environment friendly finance.

Table 4.4: Priority Sector Lending: Actual Disbursement (BDT in Billon)

Year	Bank Based Financing				
	Agriculture	Cottage, Micro & Small and Medium Enterprises*	Enterprises Owned by Women	Sustainable Venture	Total
2010	111.17	518.47	-	-	629.64
2011	121.84	520.74	20.07	-	642.58
2019	236.16	1612.17	60.01	155	1848.33
2020	227.49	1492.03	82.44	768	1719.52
2021	255.11	1787.6	82.87	1133	2042.71
Growth Rate (2010-2011)	9.60	0.44			2.06
Growth Rate (2019-2021)	2.61	3.50	11.36	94.07	3.39
Growth Rate (2010-2021)	7.17	10.87	13.61		10.30

Source: Annual Report, BB; SME Portal, BB; Quarterly Report of Sustainable Finance, BB.

***Note:** CMSMEs data were considered here, as data were not maintained on CMSEs separately for 2010 to 2021 in BB's SME portal.

4.5. Priority Sector Lending: Bank Groupwise Actual Disbursement: Agricultural Credit

SOCBS, BKB and RAKUB have been providing increased amount of agri-finance finance during 2009- 2021 and thereby they serve agriculture sector continuously. BKB and RAKUB lent individually 25.86% and 7.17%, respectively documenting that they are trying to justify the purpose of their establishment. However, PCBs participation in agri financing is clearly discernible. They have increased their share in total agri-finance from 20.7% to 53.1% during the study period. Of course, policy compulsion of BB in providing agri finance works behind this accomplishment. However, only 3.32 % finance was provided by FCBs in 2021 indicating their tiny participation in agri-finance (Table-4.5).

Table 4.5: Priority Sector Lending: Bank Group wise Actual Disbursement (BDT in Billion): Agricultural Credit

Year	Banks' Group										Total
	SOCBs		BKB		RAKUB		PCBs		FCBs		
2009	15.89	18.51%	38.24	44.54%	8.8	10.25%	17.8	20.7%	5.13	5.97%	85.86
2010	19.82	18.97%	45.67	43.72%	10.6	10.15%	22.84	21.9%	5.54	5.30%	104.47
2011	22.14	19.37%	52.34	45.78%	10.1	8.83%	24.28	21.2%	5.46	4.78%	114.32

Year	Banks' Group										Total	
	SOCBs		BKB		RAKUB		PCBs		FCBs			
2019	32.74	13.86%	61.34	25.97%	18.85	7.98%	115.6	48.9%	7.64	3.23%	236.17	
2020	25.6		11.25%	61.97	27.24%	15.95	7.01%	116.54	51.2%	7.42	3.26%	227.48
2021	26.9		10.54%	65.97	25.86%	18.28	7.17%	135.49	53.1%	8.47	3.32%	255.11
Growth Rate (2009-2011)	11.69		11.03		4.7		10.9		2.1		9.48	
Growth Rate (2019-2021)	-6.34		2.46		-1.02		5.43		3.5		2.61	
Growth Rate (2009-2021)	4.13		4.28		5.78		16.9		3.93		8.08	

Source: Authors' Calculation Based on data available in BB's Annual Reports.

4.6. Priority Sector Lending: Bank Groupwise Actual Disbursement: CMSME⁷s

The total amount of finance to CMSMEs was increased by around 3.45 times during 2010-2021 with CAGR of 10.87. This shows that banks are supporting CMSMEs segment, the main organ of the industrialization of the country, by providing growing amount of finance uninterruptedly. The role of PCBs in financing CMSMEs is, however, more noticeable among all groups of banks. PCBs with 88% of total amount of finance in 2021 and CAGR of 12.00 are demonstrating their significant involvement in this financing. The share of SOCBs and SBs in this financing has been declining. The share of FCBs with 2.00% of total financing in all years except 2019 indicates their subdued contribution to this financing. Here one observation is noteworthy. SOCBs and SBs with their huge networking across the country and FCBs with their strong funding and Fintech support could have come forward more aggressively in financing these sectors.

Table 4.6: Priority Sector Lending: Bank Group wise Actual Disbursement (BDT in Billion) CMSMEs

Year	Banks' Group								
	SOCBs		SBs		PCBs		FCBs		Total
2010	7523.98	15%	2694.66	5%	40494.5	78%	1133.93	2%	51847.14
2011	4158.88	8%	2563.55	5%	44109.72	85%	1241.35	2%	52073.5
2019	13702.55	8%	2004.86	1%	143488.00	89%	2020.97	1%	161216.6
2020	11660.00	8%	2428.00	2%	132480.00.00	89%	2635.00	2%	149,203.00
2021	14445.00	8%	3475.45	2%	157814.00	88%	3026.41	2%	178,761.00
Growth Rate (2010-2011)	-44.72		-4.87		8.93		9.47		0.44

⁷ Information for CMSMEs were considered here, as since 2010 data for CMSEs were not maintained separately.

Year	Banks' Group							
	SOCBs		SBs		PCBs		FCBs	Total
Growth Rate (2019-2021)	1.77		20.13		3.22		14.41	3.5
Growth Rate (2010-2021)	5.59		2.14		12.00		8.52	10.87

Source: Authors' Calculation Based on data available in BB's Annual Reports.

4.7. Interest Expenses to Deposit and Borrowing

Interest paid by banks and MFIs in collecting funds is reported in Table-4.7. This clearly indicates that weighted average cost of funds of MFIs is always higher than that of banks which incites MFI to charge more interest on the marginal borrower. One observation is that apart from getting funds from Palli karma Sahayak Foundation (PKSF), MFIs collect substantial amount of funds from banks which eventually increase the cost of funds for MFI.

Table 4.7: Interest Expenses to Deposit and Borrowing (%)

Year	Banks	MFI	Gap (Banks- MFIs)
2009	3.36	7.34	-3.98
2010	5.12	7.81	-2.69
2011	5.17	8.02	-2.85
2019	3.36	7.17	-3.81
2020	3.44	7.01	-3.57
2021	3.64	-	-

Source: Annual Reports of Banks and MFIs.

Note: Weighted average interest expenses of 6 banks (Sonali, Janata, Agrani, Rupali, BKB and RAKUB) and one MFI was covered in this computation.

4.8. Operating Expenses to Deposit and Borrowing

Operating expenses is an important component of loan pricing. The Table-4.8 reveals that per centage of operating expense to total deposit and borrowing for MFIs is excessively high over banks' expenses. The operating expenses of MFIs is showing 4.36 per cent higher in 2020 as compared to Banks. This expense is happened because MFIs incurs a substantial amount of cost for the monitoring purpose. This burden is being shifted ultimately to the marginal borrowers as part of interest. This may lead borrowers to go to again to the usurious informal markets. If banks will come forward aggressively to finance MFIs' borrowers as well as unbanked people through their financial inclusion initiatives, priority sector borrowers may get rid of this curse.

Table 4.8: Operating Expenses to Deposit and Borrowing* (%)

Year	Banks	MFIs	Gap (Banks- MFIs)
2009	2.27	5.84	-3.57
2010	3.25	5.76	-2.51
2011	2.9	5.37	-2.47
2019	1.84	6.36	-4.52
2020	1.48	5.84	-4.36
2021	1.62	NA	-

Source: Weighted average operating expenses of 6 banks (Sonali, Janata, Agrani, Rupali, BKB and RAKUB) and one MFI

***Note:** NA stand for Not Available.

4.9. Interest Income to Loan Amount

Weighted average interest income of the MFI from its loan amount is excessively high as compared to weighted average interest income of selected banks (Table-4.9). The weighted average interest income to loan amount of banks was 6.75% in 2021 which was far below than MFI's relative interest income of 22.00%. This exorbitantly high rate of interest income of MFIs ultimately moves to the shoulder of the marginal borrower. In this situation, if the borrower fails to utilize the loan in productive venture, and rate of return is lower than the rate interest, the loan would be difficult to repay. This brings misery to thousands of priority sector borrowers.

Table 4.9: Interest Income* to Loan Amount (%)

Year	Banks	MFI	Gap (Banks- MFI)
2009	8.35	17.38	-9.03
2010	8.44	18.17	-9.73
2011	9.47	18.37	-8.9
2019	5.59	24.2	-16.28
2020	6.51	26.23	-19.63
2021	6.75	22	-15.25

Source: *Weighted average interest income of 6 banks (Sonali, Janata, Agrani, Rupali, BKB and RAKUB) and a MFI.

4.10. Amount Disbursed of Agriculture Credit under Credit Linkage Programs by All Banks

Dependency of banks on NGO linkage finance for agriculture financing is visible in Table 4.10. Banks are financing 63% to 65% of their total agri -finance by using their own branch

networking, the remaining portion is being disbursed under NGO linkage programs. This pushes the borrowers into the trap of NGO finance. It is reported that MFIs take recourse to coercive techniques for collecting overdue loans besides charging more interest rate on loan. As a result, borrowers are being forced to take loans from several NGOs for repaying loan of MFI from which respondents have borrowed money earlier.

Table 4.10: Amount Disbursed of Agriculture Credit under Credit Linkage Program by All Banks

Financial Year	Disbursement of Agriculture Credit through its Own Network		Disbursement of Agriculture Credit through NGO Linkage		Total Disbursement of Agriculture Credit through its Own Network and NGO Linkage
	Amount (In Billion Tk.)	% of Total	Amount (In Billion Tk.)	% of Total	
2018- 2019	153.18	65%	82.98	35%	236.16
2019 - 2020	140.57	62%	86.91	38%	227.48
2020 - 2021	159.62	63%	95.5	37%	255.12
Growth Rate (2019-2021)	1.37		4.75	-	-

Source: Bangladesh Bank.

Note: Banks having 500 and more branches are not allowed to disburse agriculture credit through MFIs Linkage Program.

4.11. Priority Sector Lending: Overdue as Percentage of Outstanding Loan

In case of agriculture loan, overdue as percentage to outstanding loan was observed overly high during 2009 -2011. This came down significantly in subsequent years and reached 12.8 per cent at the end of 2021, this is higher than the national average of overdue loan (9.36%). The position of overdue loan of CMSEs sector portrays a more deteriorated picture during 2019-2021. The overdue percentage of CMSEs has been showing an increasing trend from 12.67% to 13.14% during 2019 – 2021. MFIs have kept their overdue loan under a tight grip during the period (Table-4.11). A close monitoring system of MFIs works behind this achievement although it is not price less which is again borne by the borrowers. It is further noticed that overdue per centage of MFIs increased in 2021 as compared to previous years due to mainly the pandemic situation.

Table 4.11: Priority Sector Lending: Overdue as Per centage of Outstanding

Year	Banks		MFIs*
	Agriculture Loan	CMSEs	
2009	35.23	-	3.79
2010	31.89	-	4.66
2011	26.43	-	3.93

Year	Banks		MFIs*
	Agriculture Loan	CMSEs	
2019	15.6	12.67	2.29
2020	13.3	12.11	2.40
2021	12.8	13.14	4.69

Source: Annual Reports and Financial Stability Report, Bangladesh Bank.

Note: Average rate of overdue as per centage of outstanding of Grameen Bank, BRAC, ASA, Proshika, TMSS and BURO Bangladesh

5. Priority Sector Lending: A Demand Side Analysis

5.1 Sources of Finance before Borrowing from Banks

One area of research interest is to look at the sources of business finance before approaching banks by the borrowers which is shown in Table-5.1. As is understandable, own fund was by far the most dominant source among others before taking bank loan i.e in 72%, 98% and 71% cases for agriculture, CMSEs and women borrowers, respectively. However, in case of sustainable finance, 18 out of 20 entrepreneurs started their operations with bank borrowing and 2 others utilized own fund for starting business. Loan from individuals and family members together remain as significant sources of fund for agriculture (16%) and women borrowers (29%). Dependence on income from sale of crops in advance by few borrowers in agriculture (8%) is also evident (Table-5.1). One striking feature is that CMSE borrowers almost fully (98%) depend on formal sector/banks to start their business.

Table 5.1: Sources of Finance before Borrowing from Banks

Sectors Sources	Agriculture		CMSEs		Women		Sustainable Financing	
	Number	%	Number	%	Number	%	Number	%
Self-Fund	175	72	98	98	67	71	2	10
Loan from Individuals	30	13	2	2	15	12	-	-
Income from Sale of Crops in Advance	19	8	-	-	-	-	-	-
Family Members	6	3	-	-	8	17	-	-
Income from Crop Selling	5	2	-	-	-	-	-	-
Others*	3	2	-	-	-	-	18**	90
Total Respondents	242	100	100	100	90	100	20	100

*Note: Others include NGOs, Mohajon, etc.

** In sustainable finance, 18 respondents borrowed from banks before starting their business.

5.2 Reasons for Choosing Banks for Borrowing

The reasons for choosing banks as a source of fund by the priority sector borrowers have significant policy implications in enhancing the share of bank finance which is considered as the most inclusive and growth potential approach for the small-scale producers. Convenient location of the bank branch and opinion of the friends and relatives as commonly perceived driving forces behind choosing banks for borrowing matches largely with the opinion shown in Table-5.2 except for sustainable financing. Good banking environment has been observed as the most dominant reason (50%) in case of sustainable financing with the significant role of bank marketing (20%) and easy loan processing system (20%) in choosing banks for borrowing. Presence of familiar person in bank and having bank account are two other significant reasons for bank borrowing in case of agriculture and women entrepreneurship financing. The noticeable impact of bank marketing, bank account and congenial banking environment on choosing bank borrowing is also observed for CMSE borrowers.

Table 5.2: Reasons for Choosing Banks for Borrowing

Reasons \ Sectors	Agriculture		CMSEs		Women		Sustainable Financing	
	Number	%	Number	%	Number	%	Number	%
Convenient Location	55	23	25	25	8	9	2	10
Recommendations from Friends and Relatives	48	20	11	11	31	34	-	-
Familiar Person in Bank	38	16	-	-	17	19	-	-
Less expensive/Lower Rate of Interest	6	2	-	-	-	-	-	-
Bank Marketing	14	6	18	18	-	-	4	20
Existence of Bank Account	24	10	25	25	4	5	-	-
Religious Belief	15	6	-	-	1	1	-	-
Good Banking Environment	19	8	21	21	10	11	10	50
Agents Information	14	6	-	-	11	12	-	-
Easy Processing System	8	3	-	-	8	9	4	20
Total Respondents	241	100	100	100	90	100	20	100

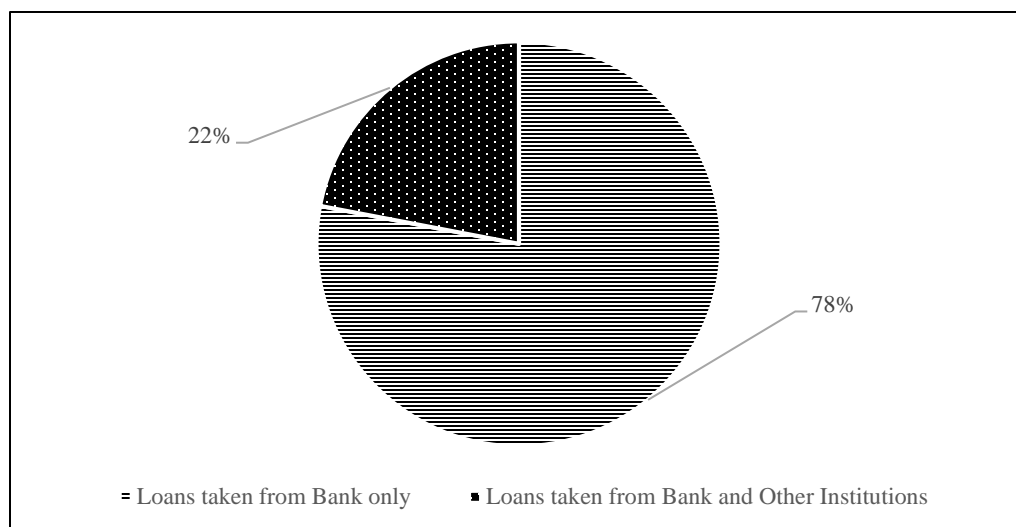
Source: Questionnaire

5.3 Loan Taken from Banks as well as Other Institutions

Borrowers may take the opportunity to repay bank's loan by borrowing money from multiple financial institutions like banks, FIs or MFIs and vice-versa. The Figure-5.1 shows that 78% of priority sector respondents select only one bank for getting loan meaning that they might have good intension to use the loan amount in business properly and repay the money to bank from the profit of the business. Only 22% respondents borrow from multiple organizations.

These borrowers might have taken the chance to repay bank's money through borrowing from other institutions.

Figure 5.1: Loan Taken from Banks as well as Other Institutions*



Source: Questionnaires

Note: *Other Institutions include microfinance institutions such as Grameen Bank, BRAC, ASA, etc.

5.4. Future Plan for Further Borrowing

The advantages and satisfaction level as experienced by the respondents are expected to be reflected in their planned future bank borrowing which is presented in Table-5.3. Almost all the agri-borrowers (98%) and a large majority of CMSE, women and sustainable financing recipients have plan to increase their borrowed amount from the banks that justifies the appropriateness of bank lending for the priority sectors.

Table 5.3: Future Plan for Further Borrowing

Sectors Planning	Agriculture		CMSEs		Women		Sustainable Financing	
	Number of Borrowers	%	Number of Borrowers	%	Number of Borrowers	%	Number of Borrowers	%
Increasing	185	77	98	98	71	79	14	70
Decreasing	28	12	2	2	11	12	6	30
Remain Same	28	11	0	0	8	9	-	-
Total Respondents	241	100	100	100	90	100	20	100

Source: Questionnaires

5.5. Purpose of Taking Loan

The purpose behind bank loan expresses the strength of the various reasons on the part of the demand side in the market. Table-5.4. displays the various motives for bank loan of three different sectors. Crop loan with 39% borrowers ranks top the list as the reason in agri-financing followed by cattle and fisheries sector with a share of 23% and 19% respectively. Trading and general store covering 50% respondents stands far ahead of other purposes as a reason in CMSE financing. The other noticeable purposes in this regard include fisheries, poultry farm, rice mill, furniture, saloon, and sports. A significant number of women borrowers depend on bank loan for cattle farm (31%), fisheries business (19%) and crop production (13%). Export oriented RMG industry and automatic brick manufacturing are said as the most important purposes (60%) for taking bank loan by the sustainable financing related borrowers.

Table 5.4: Purpose of Taking Loan

Agriculture			CSMEs			Women			Sustainable Financing		
Purpose	Numbers	(%)	Purpose	Numbers	(%)	Purpose	Numbers	(%)	Purpose	Numbers	(%)
Crop Loan (Other than Tea)	90	39	Construction, Building, and Transportation Materials	7	7	Cattle Farm	28	31	ETP Project	5	25
Cattle	54	23	Pharmacy, Cosmetics and Diagnostic Centre	6	6	Crop	12	13	Export RMG Industry	8	40
Fisheries	43	19	Local Garments and Clothing	5	5	Fisheries	17	19	Automatic Brick Manufacturing	4	20
Poultry	8	3	Trading and General store	50	50	Poultry	4	5	Commercial Trade	2	10
Buying Agri Machineries	5	2	Fisheries, Poultry Farm and Rice Mill	15	15	Others	29	32	Others	1	5
Poverty Alleviation	13	6	Furniture, Saloon and Sports	10	10	-	-	-	-	-	-
Others	20	8	Others	7	7	-	-	-	-	-	-
Total Respondents	233	100	Total Respondents	90	100	Total Respondent	90	100	Total Respondent	20	100

Source: Questionnaires

Note: Others include Manufacturing, Trading, Tong Business, Cycle store, etc.

5.6. Nature of Business Growth after Taking Loan

The impact of bank loan on the growth of business is certainly a matter of common interest for the borrowers as well as for the banks. The sustainability of priority sector lending and the

repayment capacity of the borrowers primarily depend on the borrowing induced business outcome. The survey findings clearly demonstrate the positive impact of the bank borrowing on the growth of business as opined by the 86%, 92%, 86% and 90% borrowers relating to agriculture, CMSE, women entrepreneurship financing and sustainable financing borrowers respectively (Table-5.5). A negligible number of respondents observed declining impact on business after taking bank loan. Thus, the result proves the bright prospects of bank lending in expanding the priority sector business.

Table 5.5: Nature of Business Growth after Taking Loan

<div> <div>Sectors</div> <div>Nature of Growth of Business</div> </div>	Agriculture		CMSEs		Women		Sustainable Financing	
	Number of Borrowers	%	Number of Borrowers	%	Number of Borrowers	%	Number of Borrowers	%
Increasing	202	86	92	92	77	86	18	90
Decreasing	10	4	2	2	5	5	2	10
Remain Same	22	10	6	6	8	9	-	-
Total Respondents	234	100	100	100	90	100	20	100

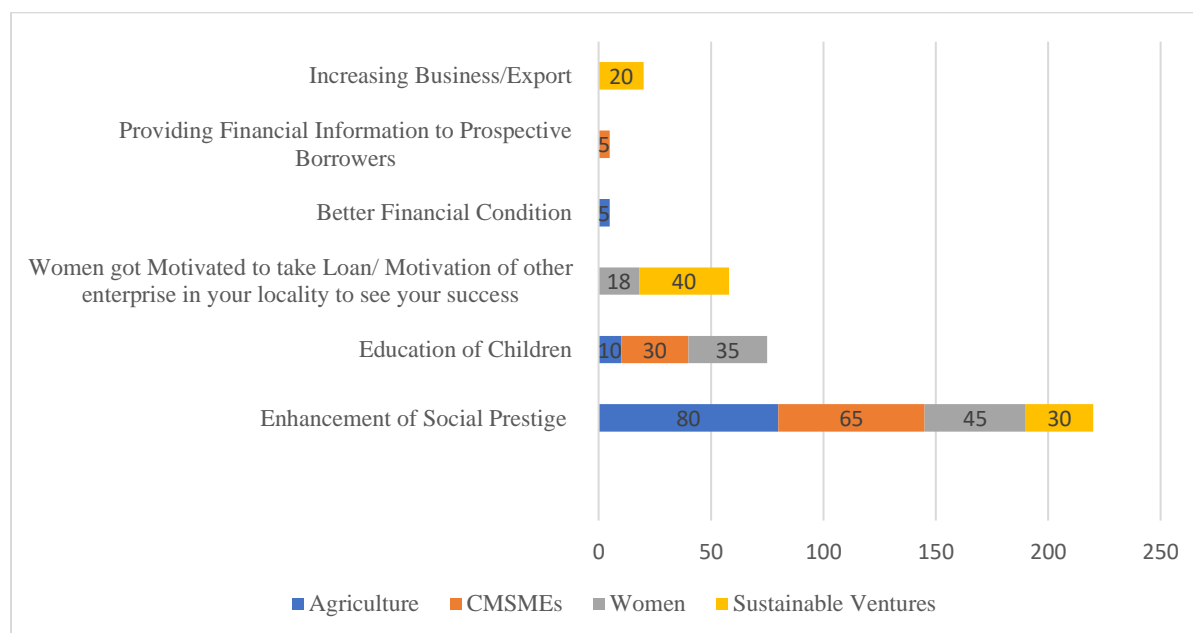
Source: Questionnaires

5.7. Non-Financial Benefits Received After Getting Loan

Bank loan especially at the marginal level or to the unserved/underserved sections of the productive sectors are likely to create some non-pecuniary benefits after taking the bank loan due to higher integration of those sectors to the more formal institutions.

Figure-5.2 exhibits different types of non-financial benefits arising from bank loan that predominantly includes the enhancement of social prestige in all but sustainable financing sectors under interest with a number of 80, 65 and 45 borrowers for agriculture, CMSE, and women borrowers, respectively. Motivation to other enterprises has been opined as the most significant (40%) non-financial benefit by the sustainable financing borrowers. The second most noted benefit for agriculture, CMSE, and women borrowers comes in the form of increased affordability of the respondents to ensure better education for their child. Women are also found to become motivated more to undertake new business followed by the opportunity to borrow from the banks.

Figure 5.2: Non-Financial Benefits Received After Getting Loan



Source: Questionnaires

5.8. Problems Faced by Priority Sector Borrowers

Loans to the Priority Sector (PS) along with investments in this sector are relatively low in consideration to the share of this sector to GDP. Problems originated from both financial and non-financial arena undermine the potential of the sector.

5.8. A. Financial Problems Faced by Priority Sector Borrowers

A number of important financial constraints faced by priority sector borrowers have been reported in Table-5.6.A.

A. 1. Interest Rate

The Table reveals that agri and women borrowers consider interest rates as overly high. A total of 118 respondents from 230 agri -borrowers and 41 out of 86 women borrowers mention that it is very challenging for them to continue their business with this high interest rate as production costs are being increased steadily. This high interest rate has been rated as the first acute financial problem as per the frequency of the opinion of agri and women borrowers. It is worthy to *note* that even after lower interest rate applicable for agri and women borrowers, and subsidized interest rate offered during the pandemic time as per the policy support of BB, this finding appears as a cause of concern before the policy makers. On the other hand, only 9 out of 81 CMSE borrowers claim that interest rate is high to them indicating it is not likely a very serious limitation to CMSE borrowers.

A.2. Sanctioned Amount Less than the Applied Amount

Lending required amount for running agriculture and business activities is a prerequisite for success of small borrowers as they do not have scope to get access to multiple sources of funds. However, this does not happen all time. This has been highlighted as the first ranking problem as per the opinion of CMSE borrowers whereas agri and women borrowers rate it as the second and third ranking problem. A total of 26 out of 81 CMSE borrowers assert that they always get loan less than their applied amount, this is supported by 90 out of 230 agri respondents and 11 out of 86 women borrowers. Borrowers report that sanctioned amount and given limit are fixed by banks by considering the value of collateral instead of prospect of business and agriculture activities. They desire to get loan amount at a time without delay or at installment, if applicable, with the sufficient money to complete each stage of the agri and business activities.

Table 5.6.A: Problems Faced By Borrowers in Getting Loans: Financial Problems

Sectors Problems	Agriculture		CMSEs		Women		Sustainable Venture	
	Frequency	Rank*	Frequency	Rank*	Frequency	Rank*	Frequency	Rank*
Sanctioned Loan Less than the Applied Loan	90	2	26	1	11	3	2	3
High Interest Rate	118	1	9	3	41	1	2	2
Inflexible Repayment Schedule	47	3	11	2	21	2	NR	NR
Hidden Charges on Loan	28	4	NR	NR	NR	NR	4	1
Total Respondents	230		81		86		20	

Source: Questionnaires

Note : *Ranking has been done based on the frequency of the opinion of the borrowers.

NR= No Response.

A.3. Inflexible Repayment Schedule

Inflexibility in repayment schedule has been identified as a limitation by a good number of borrowers particularly women borrowers and agri borrowers. A total of 21 out of 86 women borrowers and 47 of 230 agri-borrowers raise these constraints. In their opinion, paying the money within the given time with the static repayment schedule is a critical barrier they

encounter in paying the money on time. They add that during the loss period of their business, they are pressurized to repay the loan which make them bound to take loan from other banks/institutions. This makes them indebted to many organizations. Borrowers demand for flexible repayment schedules which will allow readjustment of installment payments during periods with low agricultural/ business returns to periods when agricultural/business returns are high.

A.4. Hidden Charge

A total of 18 out of 230 agri-borrowers report the issue of hidden charge in getting loan indicating that maximum borrowers do not face this problem. They state that lawyer cost, clerk cost and middlemen cost are required to be paid in case of new loan as well as renewing the loan. The problem of hidden charge is also observed as a major financial problem for borrowers belonging to sustainable financing category.

B.1. Collection and Filling Up Documents

Problems relating to documents seems the most severe barrier to borrowers in getting loan for priority sectors. This is ranked by agrarian borrowers as the top most problem whereas SME borrowers treat it as the third most acute problem. Respondents mention that collecting genuine documents of land, having trade license and filling up forms are the important causes of their agony. Borrowers need to collect Khatian (RS, CS and BS) number and Dag number, environment certificate, Tax certificate where they need to pay additional money. Allocation of land among different generations again augments this problem. Getting trade licenses is also a troublesome task for marginal borrowers, as mentioned by them. In their opinion, difficulty to collect many papers demanded by the trade license authorities, longer time needed to get trade license and additional money claimed by the miscreants create barrier to get trade license on time or make them less interested to collect trade license. A good number of borrowers has also indicated that filling up application form is a barrier to them.

B.2. Lack of Financial Knowledge

Lack of financial knowledge has been documented by agri-borrowers as the second highest problem whereas CMSE borrowers rank it as the most awful problem in getting and operating loan (Table-5.6.B). They state that level of their financial knowledge is very low; at the same time there has not been sufficient initiative from banks or other institutions to educate farmers and CMSE borrowers about the required financial knowledge. In their opinion, they have very little idea on savings products, types of banks' loan, refinancing schemes available, loan appraisal process, actual interest they are paying, consequence of loan non-repayment and money transfer methods. These shortcomings create fear of rejection of loan application among priority sector borrowers and invoke unhealthy relations between bankers and

borrowers. They have suggested that banks may offer or arrange to offer training about required minimum financial literacy for getting and operating savings and loans activities.

Table 5.6.B: Problems Faced by Borrowers in Getting Loans: Non-Financial Problems

Sectors Problems	Agriculture		CMSEs		Women		Sustainable Financing	
	Frequency	Rank*	Frequency	Rank	Frequency	Rank	Frequency	Rank
Documentation	100	1	15	3	36	2	2	5
Terms and Conditions in Lending	56	5	16	2	25	4	4	2
Middlemen	70	3	13	5	22	5	NR	NR
Collateral	25	7	10	6	6	7	2	4
Guarantee	45	6	7	7	29	3	2	6
Lack of Financial Knowledge	90	2	25	1	46	1	4	3
Processing Time Taken by Banks to Lend Money	63	4	14	4	7	6	6	1
Total Respondents	230		81		86		20	

Source: Questionnaires

Note : *Ranking has been done based on the frequency of the opinion of the borrowers.

NR= No Response.

B.3. Existence of Middlemen

The existence of middlemen in getting loan has been marked as the third ranked problem by agri borrowers. Borrowers mention that middlemen maintain liaison with officials of banks which help agri borrowers to get loans quickly. But assistance comes from the middlemen is not without costs. This unnecessary hassles and costs provoke borrowers to borrow money from NGOs and money lender even at the high interest rate. However, only 13 out of 81 CMSE respondents see the presence of middlemen as a problem. Seemingly their education, financial knowledge and relationship with bankers are better than agri borrowers which offset the requirement of the middlemen.

B.4. Longer Processing Time for Lending

Getting loan on time is a prerequisite for utilizing the loan in the areas declared in the loan application. A total of 63 out of 230 agri and 14 of 81 CMSE borrowers have opined that time taken for sanctioning and disbursing loan is too much. This has been found as the fourth ranked problem the borrowers face. Long processing time has been reported as the top most non-financial problem by the sustainable financing borrowers. This is happened because borrowers sometimes cannot submit the required documents on time and at the same time branch take

more time for lending decision. In view of borrowers, banks take 35-40 days in lending money. In this context, both banks and borrowers need to have a positive mind set towards each other to serve the best interest of both.

B.5. Setting More Terms and Conditions

Terms and conditions like collection of certificates of genuine farmers, guarantee of two acceptable persons, keeping a certain amount as deposit in banks, payment to lawyer for re-mortgaging land, etc. have been ranked as the fifth acute barriers to borrowers in getting loan. The table shows that this is more challenging to CMSEs and women borrowers.

B.6. Collection of Guarantee

Women and agri borrowers face difficulties in collecting guarantor. As per the opinion of the borrowers, this problem has been rated as the third and sixth ranked problem to women and agri borrowers, respectively. A total of 29 out of 86 women and 45 of 230 borrowers consider collection of guarantee is a problem to them and in contrast, CMSEs borrowers do not see this problem as a very critical one as only 7 of 81 borrowers report that collection of guarantees is a problem. Respondents mention that banks do not want to accept the guarantors they offer and it is again tough to them to find out a guarantor with a good financial profile and acceptable to banks. They add that relatives as well as familiar persons don't want to be a guarantor because they are low-income people.

B.7. Collateral

A few respondents see that providing collateral is a barrier to get loan, this is contemplated as the seventh ranked problem by agri and women borrowers, and sixth as the CMSE borrowers. Respondents who face this problem mention about the complexity of valuation process, entertainment and additional cost incurred for persons involved in valuation process and limited scope to revalue the collateral if they want to increase their loan limit or take another fresh loan.

As per Mann–Whitney *U* test applied among four groups of respondents, it is found that there is difference between the opinions of all groups of respondents. It indicates that all groups of priority sector borrowers are not facing identical problems.

5.8.B. Non-Financial Problems Faced by Priority Sector Borrowers

The non-financial problems faced by priority sector borrowers along with its severity as per opinion of the respondents can be seen in Table-5.6.B

5.9 Uncertainty in Repaying the Loan as Perceived by the Borrower

One common barrier in extending loan to the priority sector on the part of the banks is the higher perceived default probability of those sectors as compared to the other conventional segments. The probability of inability to repay the bank loan can be directly assessed by examining the feeling of uncertainty that exist among the borrowers in making loan repayment as per the terms and conditions. But, the study finds, to the contrary, a major portion of the borrowers does not face any uncertainty in their minds in making the regular repayment of bank loan (Table-5.7). More on that, very few of them feel high level of uncertainty in paying bank loan on a regular basis. This finding strongly supports the viability of the priority sectors as far as bank financing is concerned.

Table 5.7: Uncertainty in Repaying the Loan as Perceived by the Borrower

Level of Uncertainty Sectors	High Level of Uncertainty		Medium Level of Uncertainty		No Uncertainty	
	Number	%	Number	%	Number	%
Agriculture	11	5	90	38	134	57
CMSMEs	5	5	20	20	75	75
Women	8	9	25	28	57	63
Sustainable Venture	2	10	6	30	12	60

Source: Questionnaires

6. Findings and Policy Suggestions

Increasing volume as well as growth of Priority Sector Lending (PSL) is indispensable as it promotes inclusive growth, productive capacity, youth employment and reduces poverty by unlocking opportunities for the neglected sectors and marginal people. But the growth of PSL of banks is still behind the progress of overall credit growth of the economy. On the other hand, there exists MFIs and informal sectors which provides credit to the priority sector particularly agricultural and CMSEs at higher rates of interest, which indicates that there are no demand constraints. Banks may move forward to penetrate this unexplored credit market by addressing the constraints faced by the demand side. The following observations may imperative in this respect.

1. Bangladesh Bank has prioritized to finance agriculture, CMSEs and export sectors along with weaker sections of the society like women entrepreneur, new entrepreneur and BDT 10 accounts holder, etc. by initiating sector wise separate policy. A complete policy for Priority Sector Lending (PSL) delineating definition of Priority Sectors (PSs), criteria for considering

any sector/individual under Priority Sectors (PSs) and lending policy thereto is however missing here. BB may contemplate for formulation of a comprehensive policy framework for PSL by addressing aforesaid issues as well as other relevant factors like importance of PSL in the national economy, impact of it on large sections of society, benefitting of small borrowers and difficulty of priority sectors in getting loan.

2. Each bank is different in terms of their mission and vision, nature of ownership, positioning in the market and so on. An optimum level of involvement in priority sector considering the bank specific environment is thus warranted to achieve the objectives of PSL and ensuring sustainable operations on the part of the banks. Thus, each bank should have its own priority sector lending policy to be approved by the Board of Directors keeping the spirit of the BB guideline. Internally generated bank level policy segregated into different segments such as agriculture, CMSE financing, and women entrepreneurship financing will ensure engagement of the CEO and operational heads in building an in-built approach for better progress in priority sector financing.

3. The share of agri- financing is only 3.21 of total outstanding loan indicating this sector is underfinanced in consideration of its share to GDP. Again, the share of crop loan in total agriculture loan is less than the regulatory requirement of 60%. In financing CMSMEs, growth rate of all banks' credit except PCBs is less than the overall growth rate of credit. Further, disbursement of the significant amount of their priority sector loan through credit linkage program with MFIs deprive the PS borrowers from getting the actual benefits of PSL. Banks may therefore come forward to increase their stake in PSL and motivate priority sectors to borrow from banks by addressing the constraints they encounter like hidden charge, more processing time, burden of documentation, etc. for replacing the large amount of loan is now given by MFIs and informal sectors.

4. As per the Agriculture and Rural Credit Policy and Program for the FY 2022-2023, bank can charge a maximum 8% simple interest rate on loan. Further, a number of refinancing schemes are available for priority sector lending with the subsidized interest rate. However, the study shows that interest rate on loan is being considered high by the agri as well as women borrowers. So, there is a need to inquire the reason about it. A substantial portion of agriculture credit (37% in FY 2020 -2021) is given by banks through MFIs which may increase interest rate. Also, banks must improve operational management to ensure cost effectiveness so that they do not need to pass on high operational costs to the borrower's end. In contrast, only a few CMSEs consider interest rate is high indicating that this may not be a problem to maximum borrowers of this segment. Respondents further add constraints like less amount of sanctioned loan compared to applied amount, inflexible repayment schedule and existence of hidden charges. In this case, banks need to follow the BB's guideline properly. Banks may think

flexible repayment schedule which will allow readjustment of installment payment during periods with low agriculture/ business returns to periods when agriculture / business return are high. A close coordination is also required among banks, borrowers, tax office, department of environment and sub registry office for erasing illegal money which is a major part of hidden charge carried out by priority sector borrowers.

5. The purpose of the PSL is to ease the lending procedure to important and deprived sectors of the economy but the procedure to avail these loans is still time consuming and involves collection and submission of documentation manually. In this case, a dedicated as well as active desk is required to create at each branch for helping Priority sector borrowers. Further, PS borrowers may be encouraged to submit the loan application with necessary documents through online from their smart phone or union parshad or any other comfortable places. This will reduce processing time for lending decision and help them see the status of loan application from their home, get message of sanctioning loan as well as rejecting loan application with reasons. In this case, original documents can only be submitted physically if loan is sanctioned. Noteworthy to mention that under a pilot scheme named “Agriculture and Rural Credit Easing Up” project in Access to Information (A2I) program, agri-borrowers from Chattogram district can now send loan application form through www.onlinekrishi.gov.bd or krishi loan apps which might be extended across the country after completing the piloting activities.

6. In the primary survey, it is found that borrowers are facing problems like complexity of documentation, existence of middlemen, disbelieve regarding charged interest amount and spending additional money. These are happened because of lack of financial knowledge of the borrowers. Borrowers suggest that banks can take the responsibility of offering or arranging of imparting financial literacy regarding the nitty-gritty starting from the submission of loan application ending with its final adjustment. In our view, posting of sufficient staff of banks with good financial knowledge and positive mindset of staff in sub-urban and rural branches of banks can only minimize this gap. So, the banks need to place right person at the desired and right place, by which the officer can offer banking knowledge to existing and prospective borrowers.

7. Borrowers prefer to avail of loan facility from the branch which is located nearest to them. Factors like recommendations from friends and relatives, familiar person in branch and its environment, existing bank account in a branch also act as important factors behind selection of a branch for loans. It is therefore required to spread banking to the doors of the people. In this context, banks can make their agent banking and sub-branch units as centers for collecting loan application, primary scrutiny of documents, loan disbursement and collection of repayment by retaining the rest of the important tasks like processing loan application,

sanctioning and monitoring loan in the custody of banks. If both agents and banks will involve in lending process, close coordination is highly important for the sake of quick processing. Electronic delivery channels with appropriate Apps might be thought as the ultimate solution for reaching mass borrowers across the country.

8. In case of agri loan, if loan is taken for cultivating land more than 5-acre, all banks except BKB and RAKUB demand for registered mortgage of collateral security from the sub-registry office which incurs cost for stamp duty as well as occasionally additional money for satisfying the office bearers. Further, collection of landowner's certificates in sharecropper financing, and documents from Tax Office and Department of Environment (DOE) is the unpleasant task for the borrowers. In this viewpoint, all banks may be allowed to have the right of doing registered mortgage in their own office like BKB and RAKUB for lending to the priority sector. Banks may also accept group guarantee/ individual guarantee as the alternative of collateral security. Ultimately, banks may go for creating a common platform in collaboration with NBR, DOE and Ministry of Land for retrieving any relevant information/ documents relating to borrowers on real time basis. For the time being, banks may go for doing integration and collecting permission through Application Programming Interface (API) with relevant authorities.

9. Apart from initiatives on behalf of banks and FIs to drive PSL, growth of this preferential lending will not be expected at desirable level without deepening and widening financial inclusion. At most basic level, formal financial inclusion starts with having a deposit or transaction account at a bank/ FIs. Afterwards, financially included person steadily get access to appropriate credit from formal financial institutions. BB with its agriculture credit policy and programs, credit facilities for sharecroppers, 10 Taka account for farmers, SME credit policy and program, school banking and mobile banking is providing all out supports for pursuing financial inclusion. Under this policy support, banks need to give strong drive to bring at least one person from each family under the formal financial service. In this perspective, authority may thing to announce 'A Banking Week', so that all banks may collectively use their all resources for bringing unbanked people under formal financial services.

10. The traditional form of financing to agriculture and other priority sectors in the form of lending products is not adequate to reap the growth potential of the priority sectors unless the whole value chain is brought under the financing through innovative financial products. Banks may launch products like factoring, reverse factoring, dealer financing, warehouse financing, venture financing for lending to the whole spectrum of value adding activity from production to the end users of borrower's business.

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Appendix Table 1: Sustainable Financing: Policies

1.	Green Banking Policy for Banks-2011
2.	Green Banking Policy for NBFIs- 2013
3.	Climate Risk Fund Policy 2015
4.	ERM Guidelines for Banks and NBFIs-2011
5.	Annual Green Finance Target for Banks and NBFIs-2014
6.	Environmental Initiatives in Bank Branches-2016
7.	Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh -2022
8.	Sustainable Finance Policy-2020
9.	Sustainable Finance Unit-2016
10.	Product Development Policy for Green Finance-2017
11.	Sustainability Rating-2020
12.	Annual Sustainable Finance Target for Banks and NBFIs-2021

Appendix Table 2: Sustainable Financing: Refinance Schemes

Sl. no.	Schemes	Year	Objective/Features	Amount
1.	Environment-friendly products/ initiatives/ projects	2009	<ul style="list-style-type: none"> Financing green products or initiatives at a lower cost of funds. Maximum 6 per cent interest for financing solar irrigation pumping system. 	BDT 4 billion
2.	Financing Brick kiln Efficiency improvement project supported by Asian Development Bank	2012	<ul style="list-style-type: none"> Improving the brick industry especially environment-friendly brick kilns through energy-efficient technology for reducing greenhouse gas and suspended particulate matter. 	Revolving lending comprising USD 50 million equivalent to BDT
3.	Green Transformation Fund	2016	<ul style="list-style-type: none"> For all export-oriented sectors to ensure sustainable export growth of the country. To facilitate access to financing in foreign exchange to import capital machinery and accessories for implementing environment-friendly initiatives. 	USD 200 million Euro 200 million
4.	Refinance scheme for Islamic Banks and Financial Institutions for investment in green products/initiatives (Islamic Refinance Fund)	2019	<ul style="list-style-type: none"> To encourage the greater involvement of Shariah-based banks and NBFIs in green finance. Bangladesh Bank issued an integrated and comprehensive SFD Master Circular in 2018 with a new title of the scheme as “Refinance Scheme for Islamic Banks and Financial Institutions for Investment in green products /initiatives”. Covers 51 products segregated into 8 categories viz. renewable energy, energy-efficient and energy-saving technology, alternative energy, waste management, recycling and recyclable product, environment–friendly brick production, environment-friendly installations and miscellaneous. 	The cumulative amount up to June 2021 stood at BDT 476.73 million.

Sl. no.	Schemes	Year	Objective/Features	Amount
5.	Refinance Fund for Technology Development /Up-gradation of Export-Oriented Industries.	2021	<ul style="list-style-type: none"> • It offers to refinance facility for the modernization and technological development/up-gradation of export-oriented industries in Bangladesh. • The fund facilities 32 industrial sectors mentioned in the Export Policy, 2018-2021 under 11 initiatives/categories. 	BDT 10 billion

Source: Bangladesh Bank Annual Report 2020-2021, Bangladesh Bank.

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