

## **Bank Keshavarzi (Agricultural Bank of Iran) Profile and Flagship Projects**

Bank Keshavarzi (Agricultural Bank) at the outset began its operation in 1933 as a financial institution supporting the agriculture sector. Its financial resources had been provided by government, mostly through capital. Thus, before 1980s, the bank was less concerned over supply of its financial resources and its basic performance was the distribution of the resources supplied by government, acting indeed as a credit fund for agriculture sector up to that time.

Restriction of the financial resources of the bank, on one hand, and more demands for credit facilities in agriculture sector, on the other, as well as lack of profitability and the loss-incurring of the bank during early 1990s, resulted in the emergence of the need for a change in strategy of the bank and to decide over a new approach for it. This approach put an emphasis on self-reliance through resource mobilization and absorbing public savings by the bank itself and entrance into the universal banking activities rather than receiving the financial contributions from the government and their disbursement in agriculture sector.

The bank has been adopting new strategies to meet the ever-increasing demand for finances in agriculture sector to mobilize resources. The bank has broadened its range of activities by introducing new services to its depositors in many town and villages and to gear up to the new challenges, it now offers more than hundred various banking services to customers in its branches throughout the country. Bank Keshavarzi (BK) is evidently the only major body in charge of the financial affairs of Iran's agriculture sector.

Owing to its competent management and human resources, the bank now has over 1858 branches and thirty million customers around the country, acquiring a unique status both in Iran and across the globe. Bank Keshavarzi has won **"the bank of the year (2006) award," writes The Banker** for Fourth successive years.

Rural poverty is regarded a complicated phenomenon which is the function of many factors such as social, economic, and political structures in countries. Thus, poverty alleviation is mainly seen as a multi-dimension challenge to be realized through investment in creating productive assets, technology and knowledge exchange, training purposes, and offering financial and non-financial services. Rural micro finance is also a part of the challenge, which includes increasing access of rural poor communities to financial resources, meeting the needs of rural households and businesses, and creating more employment facilities.

Micro finance has been flourished as one of the vital tools of development and poverty alleviation in developing countries for the last two decades. However, it must be taken into consideration that some were successful and stable with a vast range of coverage whereas some were encouraging but with limited coverage and others were unstable and unsuccessful. "Linkage Banking" was one of these successful pilot programs, undertaken and innovated by member countries of Asia-Pacific Rural and Agricultural Credit Associations (APRACA), being implemented with promising and optimistic results in nine Asian countries.

In September 2002, "Rural Micro Finance Support Project" was initiated as a pilot exercise aimed at localizing the practice in four Iranian provinces. Following phase I of the project, completed in June 2004, phase II is being executed at the moment. The overall objectives of the project are as follows: 1) Increasing the target groups' access to financial

services through linkage banking; 2) Job-creation for rural women and young adults and increasing earnings of low-income rural households.

The project is financially supported by International Fund of Agricultural Development (IFAD) and Bank Keshavarzi, hereinafter BK. In this regard, IFAD's financial resources are provided to offer consultancy and technical assistance, social mobilization, and capacity building in the bank, civil organizations and target groups, whereas BK extends its financial services in forms of micro credit, and savings as well as livestock and agricultural products insurance, if needed.

The executive agency of the project is "The International Enterprise for Development of Rural Micro Finance Services (DRMFS-International)", in cooperation with BK and local non-governmental organizations, which designs and implements the project in target provinces, i.e. East Azerbaijan, West Azerbaijan, Ardebil and Kurdistan in which target groups consisting of rural women, young adults and low-income individuals are populated.

Identification of target groups and increasing more awareness about the socio-economic conditions dominating over their environment, were the first steps taken in implementing the project. Simultaneously, a socio-economic survey was conducted using the random sampling method in 12 different villages located in underdeveloped regions of these four provinces, including 713 sample rural households. The most significant objective of the survey was estimate the accessibility of rural population to formal and informal credit resources. The survey data have clearly and evidently revealed that: Out of 713 sample households, 36.2% have received the required financial facilities from formal credit sources, 2.5% from Qard-al-Hassanah Fund (Interest-free loans) and Relief Committee, as well as 19.7% from informal sources, especially relatives and intimate members of their families. The survey also represented that BK had the highest share in disbursing financial credits, amounting to more than 65%.

The most noteworthy finding of the survey was related to the objective of the project, namely the accessibility of "wives as well as the first and second children" in sample households to disbursed credits, reportedly reaching %1.5 with regard to the fact that the data might have been miscalculated. However, the results disclosed various problems which severely restrict the access of rural women and young adults to credit resources, especially the formal ones.

The targeting strategy of the project in phase I was based on: 1) Choosing the underdeveloped and deprived villages but with development potentials; 2) Using the local knowledge to identify the target groups; and eventually 3) Self-goal orientation. Self-goal orientation is a concept which implies the project to be accepted by target groups, a process requiring concentration on creating awareness about the project objectives and placing priority on women, youth and low-income households.

The practice of micro finance services is a comprehensive and far-reaching concept and although credit is an important part of micro finance, saving is also regarded as its indispensable and inseparable component. Personal savings usually consist of meager deposits, but stable and continuous, increasing in the course of time. An efficient and effective financial system must be in coordination and proportionate with capabilities and potential needs of two

different demanding groups, namely a group which is risk-taker and equipped with capability of entrepreneurship and a group which is known to be risk-averse. Thus, a practical approach towards micro finance must take the small and micro credits into consideration and the amounts of loans vary based on the internal conditions, expected return and the applicant's capabilities.

Micro finance may be in form of a self-help movement, undertaken by the mass of people or encouraged and disseminated by foreign resources. One of the most significant strategies, set up to increase poor communities' access to micro finance services is direct the institutional capacities of the commercial and state-owned banks aimed at offering micro finance services through linking these banks to local financial intermediaries.

Creation and expansion of local self-managed institutions owned by members, as financial intermediaries for linkage banking, are the main pivots of the project, on which BK's participation in "Rural Micro Finance Support Project" has also been based. The project of developing rural micro finance services through linkage banking has undertaken two models including the self-help and solidarity groups.

### **Achievements of "Rural Micro Finance Support Project"**

During phase I and the first half of Phase II (November and December 2005), 213 solidarity groups successfully passed the whole processes of capacity building. These groups had personal and group saving accounts and met Bank Keshavarzi's requirements to receive loans through choosing a trade name, designing the articles of association, holding regular meetings, and registering the negotiation proceedings for acceptance of chain guarantees.

As a result, 2300 individuals from the above-mentioned groups received small and micro credits from Bank Keshavarzi amounting to Rials 22 Billion (around \$ 2.5 Million). Bank Keshavarzi utilized its internal resources to disburse credit facilities, which implies the bank's confidence in these groups and placing priority over the project. The repayment of the loans was 100% in the first year and the monitoring reports represented that repayment percentage of loans by the loanees was also around 100% in the second year. Thus, it can be asserted with adequate assurance that the model has proved to be capable of being used in wider ranges and nationwide. The specifications of the project, to be described in next parts, represent the potential impacts of implementing the model for poverty alleviation purposes in villages as well as social and cultural changes occurred in rural areas, in comparison with the status before implementation of the model:

1. Nearly 83% of groups' members became bankable for the first time and managed to have access to bank loans without any collateral and individual guarantor, merely based on the organizational capacity of their groups.
2. Nearly 53% of solidarity groups' members in Phase I and 58% of groups' members in Phase II consisted of women.
3. The age average of members was around 30; more than 75% of who were young people aged 18 to 35 including men and women.
4. The rural women, as a result of active participation in their local integrated organizations, were granted independent decision-making opportunities, self-confidence and higher self-reliance.

5. All received credits were utilized for asset-creating, job-creation or small businesses development purposes.
6. Monitoring reports revealed that more than 15 agricultural businesses were resulted from injecting small amounts of capital into rural communities and helped create more diversity in rural economies. Around 15% of solidarity groups gradually and independently acquired the specifications and duties of self-help groups and initiated granting micro credit facilities to their members using the internal capital of the groups. Such phenomenon as well as the survey data shows that the path is paved for transitioning from solidarity groups phase to self-help groups period. Therefore, required resources to establish 30 self-help groups and realizing their objectives have been provided.

### **Conclusion and Recommendations**

1. Regarding the afore-mentioned achievements and the large number of young people and rural women, who are in need of small and micro credit services to make the best use of facilities, Bank Keshavarzi faces a new and vast market, in which it can influence and make significant benefits through linkage banking approach. Accordingly, not only will Bank Keshavarzi be benefited from this new market, but effective steps will be taken in rural areas regarding job creation, avoiding immigration of rural residents to urban areas, poverty alleviation, and eventually helping materializing socio-economic justice.
2. Solidarity groups and more importantly self-help groups (as the final output of the project) in local organizations are independent, self-managed and belong to rural population who are considered invaluable social capital.
3. To achieve the intended objectives, two general suggestions, related to the bank's policies, are made:
  - A. Preparation and design of a five-year plan to expand the model of solidarity groups in 8 to 10 deprived provinces of the country.
  - B. Design and declaration of a preliminary guideline to pilot the model of self-help groups in some sample regions and then to finalize the guideline based on the results of the pilot study.
4. The survey indicates that Bank Keshavarzi is the most important resource of micro finance for rural poor population. Therefore, it can be taken for granted that in case of disbursing credit facilities to projects proposed by established groups in the framework of IFAD-BK joint project, the bank's share in disbursing required credits to poor groups will increase noticeably. Regarding BK's seventy odd-year-experience in granting credit facilities to the country villages, especially the poor farmers, as well as BK's capacity, structure, equipment, experienced staff and active presence in villages, the bank can play a more effective role in development of rural regions and poverty alleviation, provided that more financial resources, nationally and internationally, are allocated to the bank.

Providing financial services for rural areas development and poverty alleviation is vital and indispensable but insufficient. In addition, non-financial services, such as empowerment activities, training courses, dissemination services, infrastructure investment, as well as modern agricultural and technological inputs, must be offered to rural population. Although offering appropriate financial and non-financial services creates the necessary foundations, it can be

more efficient when required opportunity is also created to make the best use of these services. Such achievement is possible to be made when villagers' affairs are done by villagers, themselves, in form of public establishments and through sincere collaboration.

As per the afore-mentioned, the continuation of "Rural Micro Finance Support Project" and its prevalence in more rural regions, in collaboration of IFAD and Bank Keshavarzi as two specialized and experienced financial institution in provision of financial resources, can be considered as an essential step towards poverty alleviation in the country rural areas.

## **Agricultural Bank of Iran Measures Taken to Reduce Rural Vulnerability**

Agricultural Bank of Iran (ABI) did remarkable actions to reduce rural vulnerability and poverty. In terms of eliminating rural vulnerability, these actions are categorized in 3 items, which are: Development of agriculture sector, Development of rural industries and Development of services. In terms of poverty alleviation, these plans are categorized as some frameworks such as: "Hazrat Zeynab Project".

### **1. Development of Agriculture Sector**

**Sub-sectors of Gardening, Agriculture, Animal Husbandry, etc.** In line with its mission to contribute to agriculture sector, ABI has been providing a noticeable share of financial resources required by the sector. Based on the findings of studies, more than %55 of the resources, required in agricultural sector, is financed by ABI. In other words, by the end of 2006, IRR 53,000 billion has been disbursed to the sector. It is noteworthy that %37 of ABI's total granted facilities, amounting to IRR 19,388 billion, has been allocated to agriculture sub-sectors, %9 to gardening sub-sectors, amounting to IRR 4,767 billion, and %27 of the total facilities, amounting to IRR 14,252 billion, to animal husbandry sub-sectors.

**Granting Facilities to SME Projects:** Subject to the emphasis of the government of the Islamic Republic of Iran made on granting facilities to SME projects, one third of the bank's facilities have been allocated to SME projects in agriculture sector. By the end of 2006, granting more than 101,713 SME facilities, amounting to IRR 11,194 billion, and creating 212 thousand job opportunities can be marked as effective measures taken by ABI aimed at development of rural sustainability.

**Agricultural Crops Insurance Fund:** Agricultural crops insurance activities commenced in 1984. Growth trend of the fund continued, aimed at obtaining the government's support of increasing production capacity, confronting risks and natural catastrophes, and paving the ground for new investment in agriculture sector. At the present time, 91 agricultural activities and products in sub-sectors of agriculture, gardening, animal husbandry and natural resources are under insurance coverage. The number of insurance policy holders has increased to 1.6 million persons by the end of the crop year 2006-2007 during which the amount of indemnity paid to farmers reached to IRR 2517 billion. Such statistics indicates the acceptance of agricultural crops insurance among farmers.

**Relief Fund of Agricultural and Livestock Loss-sustained Producers:** ABI annually disburses grants to producers who have sustained losses due to natural disasters. The fund has

so far disbursed grants, amounting to more than IRR 3565/2 billion, to loss-sustained farmers and producers.

**Supporting Projects of Sprinkler Irrigation:** In order to confront with the shortage of water in agriculture sector, ABI has prioritized the expansion of sprinkler irrigation systems in disbursing facilities. The bank has so far disbursed more than IRR 1,000 billion in form of facilities to 10,000 persons in 439,000 hectares.

**Opting for Electric Water Well Pumps:** In an effort to reduce the reliance on fossil fuels, to reduce environment pollution, to optimize the energy consumption of agricultural water wells and to economize in foreign currency spending, By the end of 2006, ABI has granted facilities, amounting to nearly IRR 2900 billion, to electrify water pumps in 56000 wells.

## **2. Development of Agricultural Processing and Rural Industries**

In order to promote employment in rural areas and empower rural population, ABI has granted facilities aimed at creating jobs in handicrafts and carpet weaving industries. The bank has also disbursed more than IRR 1700 billion and \$ 610 million, in form of foreign currency facilities, to support processing projects associated to agriculture sector. To support expansion of handicrafts industry, the bank has also granted more than IRR 540 billion to hundreds of craftsmen by the end of 2006.

## **3. Development of Services (Domestic and Foreign Tourism)**

In order to create and stabilize rural employment, to increase income level of rural and nomadic population, to direct public and private investment in rural areas, to reduce social and cultural gaps between rural and urban areas, to increase the awareness level of domestic and foreign tourists, and to protect cultural heritage and native traditions in different regions of the country, ABI has granted rural tourism facilities, amounting to IRR 985 billion, to some of the selected villages aimed at constructing reception and accommodation units and other similar purposes.

## **Agricultural Bank of Iran Measures Taken to Alleviate Rural Poverty**

Most development planners believe that the human resources of a country are the major factors in social changes and economic growth. As about half of the human resources are women, they are an essential goal and issue of development policies. The increasing cooperation of women in production of agricultural products, for example, is one of the indicators of social development. It is observed that rural women present in the socio-economic scene of society, by performing their different roles, including management of home economy, educating children, working on the farm, etc. function as an always active element of society. Although, having a multi-aspectual role, they are not given the proper recognition they deserve. Their role in economic sustainable development is left unconsidered.

In Iran, in the rural development and agricultural fields, in many cases, the women's role is more difficult than men's. Such as: transplanting, weeding, and carpet weaving ...etc. The contribution of female labor is estimated at 40% of the agricultural labor. Therefore, providing financial support for rural women in Iran located on the focus of governmental policies for achieving country development objectives. Agricultural Bank of Iran (ABI) has been performed

remarkable plans with this regard, besides its various actions in the field of rural sustainable development; which one of its most effective plans is implementing a credit scheme called "Hazrat Zeynab Project" with the goal of providing facilities for rural women head of household who include in this plan due to death of husband or divorce. Since the beginning of this scheme, more than 129'000 women have benefited, as the credits disbursed to these women amounting more than 2.6 billion US Dollars at the end of 2006. It is notable that ABI assumes to support all the women in country as its mission in addition with taking the rural women head of household under its shelter. So, in another project called "Iran Plan", this coverage contains all females such as: employees, housewives, urban and rural women and in general every Iranian female who open a deposit account and keeping it active in ABI branches, can be a member of this plan and enjoys from the privileges. With opening this account, women can use from the miscellaneous benefits and taking part in annual Qard al Hassan saving accounts lottery according to their account daily average deposit and also they can enjoy from self-employment loans, wedding costs facilities, and tuition fees loans for themselves or their children, house repairing credits, according to the rules and regulation.

Dr. Mohammad Talebi  
Chairman and Managing Director  
Organization: Bank Keshavarzi (Agricultural Bank) of I.R Iran  
Tel: +98 21 88252155 Fax: + 98 21 88250133  
Email Address: Talebi@agri-bank.com