

**The Experiences of Financing Agribusiness Enterprises  
under ASA Microfinance Program**

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## **INTRODUCTION**

### **Profile of Bangladesh**

#### *Area:*

Bangladesh is a land of rivers. It is bordered by the Bay of Bengal to the south, India to the west, north and east and Myanmar to the south-east. Its land area covers 147,579 square km. Total labor force (15 years +) is 53.7 million and agriculture accounts for 48.4% out of total labor force (Bangladesh Economic Review, 2010).

#### *Population:*

Bangladesh has one of the highest population densities in the world- 990 persons/km<sup>2</sup>. About 88.4% live in the rural areas (Agricultural Census, 2008) and the population growth rate is 1.32 (Bangladesh Economic Review, 2010) which has always been a constraint on the economic development of the country.

#### *Income:*

With a gross national income of USD 684 per capita (Bangladesh Economic Review, 2010) Bangladesh ranks 146th out of the 178 countries in the United Nations Development Programs Human Development Index (Human Development Report, 2010).

#### *Poverty:*

According to the latest census carried out in the early part of 2011, it was reported that the size of population had already crossed over 160 million. And also the latest statistics, provided by the concerned department of Bangladesh, 31.5% of the total population has been living below the margin of poverty.

#### *Use of land:*

The major portion of the land is quite suitable for crop cultivation and also implementing any sort of agro- based industries throughout the country.

## **THE VALUE CHAIN FINANCE**

In Bangladesh now started value chain in Agribusiness and market linkages between farmer and retailer or processors. Thousands of Microfinance Institutions (MFIs) are active and they are offering flexible financial services among the poor community people especially among the women group in rural and urban areas in the country.

### **Economy of Bangladesh**

The economy of Bangladesh is strongly dependent upon agriculture. Agriculture is the single largest producing sector of the economy that accounts for 20.2% of GDP and 6.3% of export earnings (Bangladesh Economic Review, 2010). The net cropped area totals 7.85 million hectares and the cropping intensity is 180% (BBS, 2007). Cropping intensity is defined as the number of

cropping from the same field during one agriculture year (BRRI, 2008). Rice, wheat, pulses, vegetables, oil seeds, sugarcane and potatoes are the major crops grown in Bangladesh.

The major macroeconomic objectives such as employment generation, poverty alleviation, food security and human resources development are greatly influenced by the performance of the agricultural sector. In addition, the agricultural sector makes indirect contributions to other sectors of the economy apart from feeding 160 million people of the country.

### **Laboratory of Microfinance**

Bangladesh is a laboratory of Microfinance (Stuart Rutherford). Among the few major microfinance institutions those are playing vital role in implementing agriculture and agribusiness development projects throughout the country, the name of ASA, Grameen Bank (GB), Bangladesh Rural Advancement Committee (BRAC), Thengamara Mohila Somobae Samithi (TMSS) and RDRS are significant.

Bangladesh is the country that pioneered microcredit concept. It developed the unique innovation of credit delivery to enhance income generating activities (IGA) through a collateral-free group-based lending strategy (Yunus, 1999; Hulme and Mosley, 1996; World Bank, 1994).

### **Microfinance and its role in the field of Agriculture**

- The government has also become interested and come forward with a view to strengthening the microcredit sector, especially to promote agribusiness development projects throughout the country. As a result, the concerned ministries like the Ministry of Agriculture, Finance and Food are paying special attention in promoting agro- based industries through the major microfinance institutions like ASA, Bangladesh Rural Advancement Committee (BRAC), and TMSS.
- Due to the lack of formal credit, microcredit has become a popular means of providing credit to the economically active but financially constrained poor farm household as a powerful instrument of poverty reduction (Morduch and Haley, 2002).
- Bangladesh Bank (Central Bank of Bangladesh) has directed all nationalized, specialized, private commercial and foreign commercial banks provide loan and compared to the fiscal year 2008-09, the disbursement target of agricultural credit was set at Taka 115123 million which was higher by 22.8% in the fiscal year 2009-10 (Bangladesh Economic Review, 2010). The commercial banks and non-government organizations (NGOs) provide loan both in cash and kind for accelerating the agricultural production.

### **Importance of Training**

While the conducting the survey by ASA a significant number of the entrepreneurs emphasized the practical training in the field of agriculture (poultry farm management, pisciculture, nursery, dairy farm, multi crop production) and also agro- based industries. The entrepreneurs believe that a

practical training (theoretical and practical fields) is one of the most important pre- conditions behind major success of their ongoing projects.

### **Financial partners**

Finding a financial institution/source to finance in Agriculture sector in Bangladesh:

- Banks required hard collateral to securitize,
- Microfinance institutions,
- Non- financial source (local money lenders),
- Development finance institutions.

### **Scope of Work**

- Explore the potential agribusiness,
- Develop a business Plan for each business,
- Develop a training module on agribusiness,
- Ensure access to market for agribusiness entrepreneurs.

### **Opportunities of Area**

Bangladesh's agribusiness enterprises are presently increasing their business like –

- Poultry, livestock (dairy),
- Fisheries,
- Agricultural crops,
- Fruit processing and flowers.

### **Investment area in Agribusiness**

- Production including agricultural inputs,
- Processing- Farm machinery & others,
- Storage- Cold storage, storing facilities,
- Marketing & trade- operational credit,

Development of agribusiness with value- added processed products from crops, fisheries & livestock can play a vital role as import substitution.

### **ASA AGRIBUSINESS DEVELOPMENT PROJECT**

Among the globally renowned microfinance institutions, ASA a Bangladeshi MFI- occupies an appreciable position. It was established in 1978 with a mission to lift up the living standard of the poor and marginalized people of Bangladesh. The major objectives of ASA- agribusiness development project are as follows:

1. Provide loan facilities among the entrepreneurs engaged in small scale agro trades.
2. To encourage and give preference to at least 30% among the female loan beneficiaries in starting fresh Agribusiness Development Projects.

3. Increase the added value of the unusual crops and agro- related products through processing and packaging, with a view to enhance the daily income of the poor people and also for creation of new employment.
4. Assist the entrepreneurs in producing the agricultural products, product supply, marketing, processing for creating additional values.

## **ASA's Financial Services**

### *Type of Loan*

- Primary loan- Loan amounting up to 50 thousand BDT (USD 525)
- Special loan- Loan amounting above 50 thousand BDT to above (Agribusiness loans is included in both of 2 products)

### *Insurance Program*

- Life insurance
- Loan Insurance

### *Savings Program*

- Mandatory Savings
- Voluntary Savings
- Long-term Savings

### *Welfare Program*

- Primary Education Strengthening Program (PESP),
- Health Grants for the Client and their family,
- Health Awareness Program,
- Physiotherapy program,

### *Associated Organizations*

- Hope for the Poorest (HP) is working for the extremely poor and the affected by climate change
- ASA University

## **Importance of Agribusiness**

- Wealth creation,
- Employment,
- Women empowerment and awareness build up,
- Industrial raw material supply,
- Foreign exchange earnings,
- Capital Formation,

## **Gender Action Plan**

- 70% male,
- 30% Female (Minimum)

## Loan Equity Ratio

The Agro- entrepreneurs have the scope to get maximum 70% loan support from ASA, against their total investment amount of their particular Business.

## Feature of Loan product

- Duration: 6 months, 12 months, 18 months, 24 months.
- Loan Size- US\$ 500-5000.

*Loan repayment:* After grace period sub borrowers will repay loan in monthly instalment basis.

*Grace period:* Minimum 6 weeks.

*Rate of interest:* Declining Balancing Method 27% as per rule of Micro Credit Regulatory Authority.

## Borrowers Selection Process & Loan Disbursement Procedure

Many of the MFIs use the 5C model to identify the potential and viable borrowers and appropriate loan amount for the borrowers. These are the character, capacity, capital, conditions, and documents.

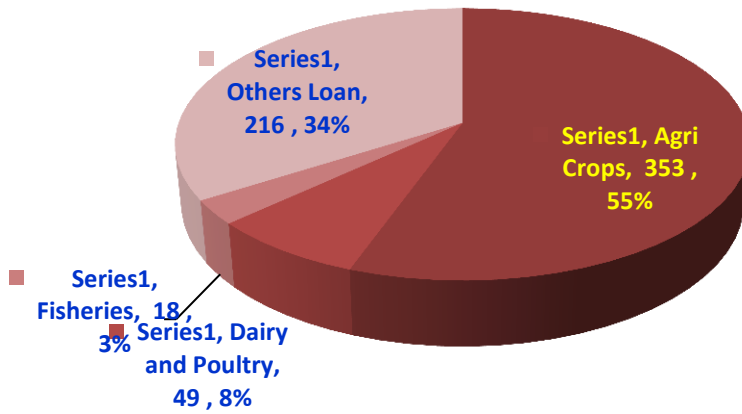
- Support to prepare business plan
- Prepare loan profile
- Analysis the business and its profitability
- Actual need assessment
- Defining Loan Amount
- Loan approval by proper channel
- Contact signed
- Repayment System

## Agribusiness Loan in ASA Portfolio

ASA's total principal outstanding for providing microfinance services was approx \$636 million and Clients 4,735,545 at the end of 2012.

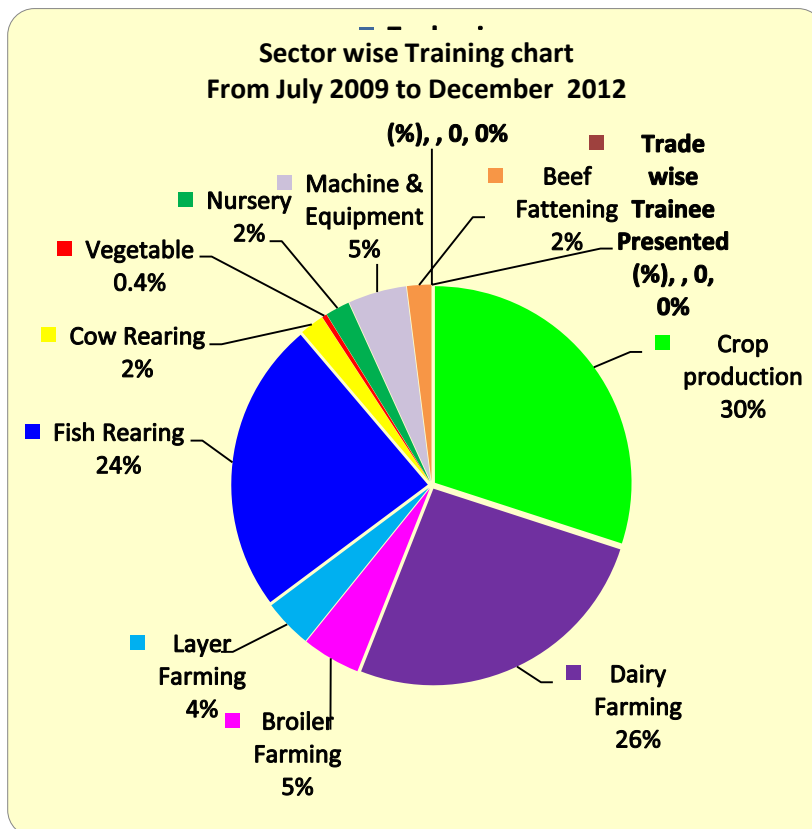
Particulars	Principal Loan Outstanding	Number of Clients
<b>Agribusiness:</b>		
Agro Crops	US\$ 353 Million	2,921,383
Dairy and Poultry	US\$ 49 Million	336,711
Fisheries	US\$ 18 Million	93,353
<b>Others Loan</b>	US\$ 216 Million	1,384,098
<b>Total</b>	<b>US\$ 636 Million</b>	<b>4,735,545</b>

## Activity wise Principal Outstanding Chart



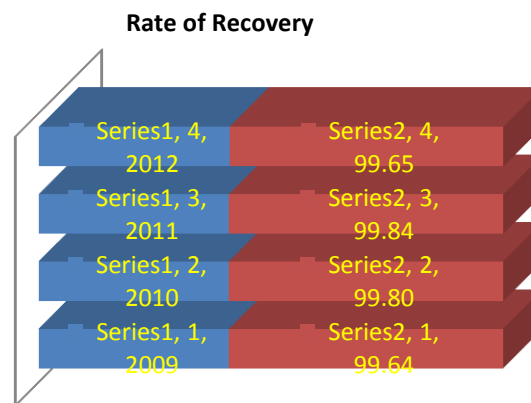
## SECTORS

List of Trainings conducted from July 2009 to December 2012



## Rate of Recovery:

Because of pursuing innovation approach and a highly effective operational methodology ASA's management has been successful in ensuring a high rate of repayment. Since 1995, ASA's rate of recovery has been above 99%. At the end of 2012, the rate of repayment was 99.65%.



### *Risk Factors:* Covering of default/death Risk

- ASA makes provision to cover up the loan loss/default cost following the loan classification policy set by the Bangladesh Bank.
- ASA devised a policy to recover loans from its deceased borrowers [ASA created a loan insurance fund through the contributions of its borrower, where every borrower contributed TK5 per thousand of principal loan borrowed. The principal outstanding loan at the time of the death of a borrower is paid off by the insurance fund.

## Internal Control Mechanism

The ASA management has set some methods of internal control with a view to minimizing risks of the organization and promoting its operational quality.

- Borrowers scrutinized by the Branch Manager before disbursement.
- Midlevel supervisors/managers are based at the field and directly monitor operational activities;
- Senior Managers from the Central Office monitor field activities regularly;
- Auditors at both field and Head Office levels verifies the quality and irregularities;
- External Audit conducted annually;
- Introduction of Self-explanatory Working Manual;
- Participatory Process of Decision Making;

## Monitoring System

- Tie monitoring and supervision system by midlevel to top level staffs.
- Monitor should have a checklist designed in accordance with the program and management need and should have to continue.



## EXAMPLES OF PROJECTS SUPPORTED BY ASA

Name of Entrepreneur: Sarmin Akter

Age: 29 years old

Name of Project: Poultry Farm

Annual Income: US\$5,625

Employment Generated: 4 persons

Address: Word no 07, Union: Bufol poursova, Upojela, Bufol, District, Patuyakhali.

Contact detail: +8801733135603(Mobile phone)



Name of Entrepreneur: Yunus Ali Molla

Age: 65 years old

Name of Project: Poultry Farm and Biogas Plant

Annual Income: US\$24,000

Yearly Expenses: Poultry feeding \$13,500, Medicine \$3,000, Electricity \$372, and Loan installment \$1,428. Family and other Expense \$3,456.

Yearly Net Income: \$ 2,256

Employment Creation: 8 Persons

Address: Raipur Upazila, Narsingdi District



NARSINGDI: Yunus Ali Molla is taking care of his poultry farm.

Name of Entrepreneur: Montu Chandra Ghosh

Age: 55 years old

Name of Project: Dairy Farm and Sweet Shop Keeper

Annual Income: US\$17,500

Yearly Expenses: Poultry feeding \$13,500, Medicine \$3,000, Electricity \$372, and Loan installment \$1,428. Family and other Expense \$3,456.

Yearly Net Income: \$ 8,750

Employment Creation: 18 Persons

Address: Pakulla, Upazila, Mirjapur, District, Tangail

