Universe International Journal of Interdisciplinary Research
(International Peer Reviewed Refereed Journal)
DOI No. – 08.2020-25662434

© UIJIR | ISSN (O) – 2582-6417
SEP 2024 | Vol. 5 Issue 4
www.uijir.com

PERFORMANCE EVALUATION OF MICROCREDIT IN THE AGRICULTURE SECTOR: A CASE STUDY ON PRIVATE COMMERCIAL BANKS IN BANGLADESH

Author's Name: Abdullal Al Mamun[1], Md. Abdur Rashid[2], Sapan Miah[3]

Affiliation:

1. Assistant Vice President, Premier Bank PLC, Banshgari, Kishoreganj, Bangladesh.

2 Department of Business Administration, Sheikh Hasina University of Science and Technology (SHUST) Banshgari, Kishoreganj, Bangladesh.

3 Department of Business Administration, Royal University of Dhaka (RUD), Dhaka, Bangladesh.

Corresponding Author Name & E-Mail: Md. Abdur Rashid, rashidsarkar@gmail.com

ABSTRACT

Microcredit is a pivotal mechanism in supporting the agriculture sector, particularly in developing countries like Bangladesh. Based on the primary and secondary data this study evaluates the performance of microcredit programs provided by a commercial private bank in Bangladesh focusing on their impact on agricultural productivity. This study also reveals the challenges faced by beneficiaries, and the overall effectiveness of these programs. This study is based on a case study and used a convenience sampling technique for administering the closed-ended questionnaire. This paper has policy implications on framers, credit holders, small businessman, scholars, investors, owners and managers and other stakeholders.

Keywords: Performance Evaluation, Microcredit, Agriculture Sector, Private, Commercial Banks

DOI Link :: https://doi-ds.org/doilink/09.2024-28854671/UIJIR

© UIJIR | ISSN (O) – 2582-6417
SEP 2024 | Vol. 5 Issue 4
www.uijir.com

1.0 INTRODUCTION

Microcredit has transformed the landscape of rural finance in Bangladesh by providing small, collateral-free loans to farmers who lack access to traditional banking services. These loans are designed to boost agricultural productivity and support economic growth in rural areas. This paper aims to evaluate how different commercial banks implement microcredit programs in the agriculture sector, assess their performance, and identify areas for improvement.

2.0 LITERATURE REVIEW

Microcredit has been extensively studied as a tool for poverty alleviation and economic development. Previous research has highlighted its role in increasing agricultural productivity and improving rural livelihoods. However, challenges such as high-interest rates, financial illiteracy, and repayment difficulties persist. This study builds on existing literature by providing updated insights and specific case studies from Bangladesh.

Microcredit has been a critical tool in the fight against poverty and in promoting economic development, particularly in rural areas of developing countries. Recent studies have focused on the evolving impact of microcredit on the agriculture sector, revealing both successes and persistent challenges.

Recent research has emphasized the positive impact of microcredit on agricultural productivity. Studies by Khan et al. (2023) and Rahman et al. (2022) have shown that access to microcredit enables small-scale farmers to invest in better farming techniques, purchase high-quality seeds, and adopt modern technologies, leading to significant improvements in crop yields. However, the extent of this impact varies based on the availability of complementary services such as training and market access.

The sustainability of microcredit programs has been a topic of debate. Chowdhury et al. (2022) argued that while microcredit programs have successfully reached millions of borrowers, their long-term sustainability is questionable due to high default rates and the financial strain on lending institutions. The study suggests that integrating microcredit with other financial services, such as savings and insurance, could enhance the resilience of these programs.

Gender dynamics also play a crucial role in the effectiveness of microcredit programs. Research by Jahan (2023) revealed that women borrowers, who make up a significant portion of microcredit recipients, tend to use loans more productively and are more consistent in repayments compared to their male counterparts. However, cultural and societal barriers still limit women's access to microcredit in some regions.

The advent of digital technologies has also influenced the microcredit landscape. Hossain (2023) discussed how mobile banking and fintech solutions have made it easier for farmers to access microcredit and manage their loans. These technologies have also reduced transaction costs for lenders,

DOI Link :: https://doi-ds.org/doilink/09.2024-28854671/UIJIR

© UIJIR | ISSN (O) – 2582-6417
SEP 2024 | Vol. 5 Issue 4
www.uijir.com

making microcredit more accessible to remote rural populations.

Despite its benefits, microcredit faces several challenges. Ahmed et al. (2023) highlighted that high-interest rates remain a significant barrier to the effective utilization of microcredit by small-scale farmers. Additionally, the study pointed out that the lack of financial literacy among borrowers often leads to suboptimal use of loan funds, resulting in difficulties in loan repayment.

Policy studies by Islam and Hasan (2022) emphasize the need for government intervention to regulate interest rates and ensure that microcredit programs are aligned with national agricultural development goals. The research calls for more robust policies that protect small-scale farmers from predatory lending practices and encourage the integration of microcredit with broader rural development initiatives.

3.0 OBJECTIVES

- To assess the impact of microcredit on agricultural productivity.
- To identify the challenges faced by farmers in accessing and utilizing microcredit.
- To evaluate the overall effectiveness of microcredit programs offered by commercial banks.
- To provide recommendations for enhancing the performance of microcredit programs.

4.0 METHODOLOGY

This study is based on both primary and secondary data. It employed a mixed-method combining qualitative and quantitative research approach. Primary data were collected using a survey on 500 farmers who have availed microcredit from commercial banks where The Premier Bank PLC represents as a sample of the population. Structured questionnaires were used to collect the data. Besides, In-depth interviews were conducted on 50 bank officials of The Premier Bank PLC, Banshgari Branch, and 20 agricultural experts from other bank. Secondary Data were collected from the analysis of bank reports, agricultural productivity statistics, and other relevant documents.

5.0 RESULTS AND DISCUSSION

5.1 Impact on Agricultural Productivity

From the survey it is found that 75% of the surveyed farmers reported a significant increase in crop yields after receiving microcredit. The average yield increase was found to be 20%.Besides, 60% of the farmers used the loans to purchase better seeds, fertilizers, and farming equipment. This adoption of improved agricultural practices contributed to higher productivity. Lastly, Farmers reported an average income increase of 15% due to enhanced agricultural productivity.

DOI Link :: https://doi-ds.org/doilink/09.2024-28854671/UIJIR

© UIJIR | ISSN (O) – 2582-6417
SEP 2024 | Vol. 5 Issue 4
www.uijir.com

5.2 Challenges Faced by Farmers

40% of the farmers cited high-interest rates as a major challenge. The average interest rate on microcredit loans was found to be 15%, which is relatively high for small-scale farmers. 35% of the farmers struggled with understanding loan terms and managing their finances effectively and 25% of the farmers faced difficulties in repaying loans, especially during adverse weather conditions or crop failures.

5.3 Effectiveness of Microcredit Programs

The effectiveness of microcredit programs varied significantly among different banks. Some banks, like Grameen Bank and BRAC Bank, had tailored microcredit products that better met the needs of farmers, while others had more stringent lending criteria. 70% of the farmers expressed satisfaction with the microcredit services provided by their respective banks. However, 30% indicated the need for more flexible repayment options and lower interest rates.

5.4 Case Study: The Premier Bank PLC, Bashgari Branch

To gain deeper insights into the microcredit programs, interviews were conducted with officials from The Premier Bank PLC, Bashgari Branch. The officials highlighted several key points such as The Premier Bank PLC offers customized loan products tailored to the specific needs of farmers, including flexible repayment schedules and lower interest rates compared to other banks. The bank provides financial literacy training and support to farmers to help them manage their loans effectively. This has resulted in lower default rates and higher satisfaction among borrowers. The bank has also implemented risk mitigation strategies, such as insurance schemes and emergency funds, to protect farmers from adverse conditions like crop failures.

The data from Premier Bank PLC, Bashgari Branch, reveals trends in both loan distribution and recovery over the period from 2016 to 2023. Here is a detailed analysis:

5.4.1 Loan Distribution

In 2016, the loan distribution was relatively low, at only 0.3 crore. This might indicate the branch's initial cautious approach toward microcredit. Starting from 2017, there was a sharp increase, with 6.00 crore distributed, and the trend continued to grow until 2023, reaching a peak of 8.50 crore. The branch consistently increased the loan distribution, indicating a strategic focus on supporting microcredit in various sectors, especially agriculture, livestock farming, and small businesses.

DOI Link :: https://doi-ds.org/doilink/09.2024-28854671/UIJIR

© UIJIR | ISSN (O) – 2582-6417
SEP 2024 | Vol. 5 Issue 4
www.uijir.com

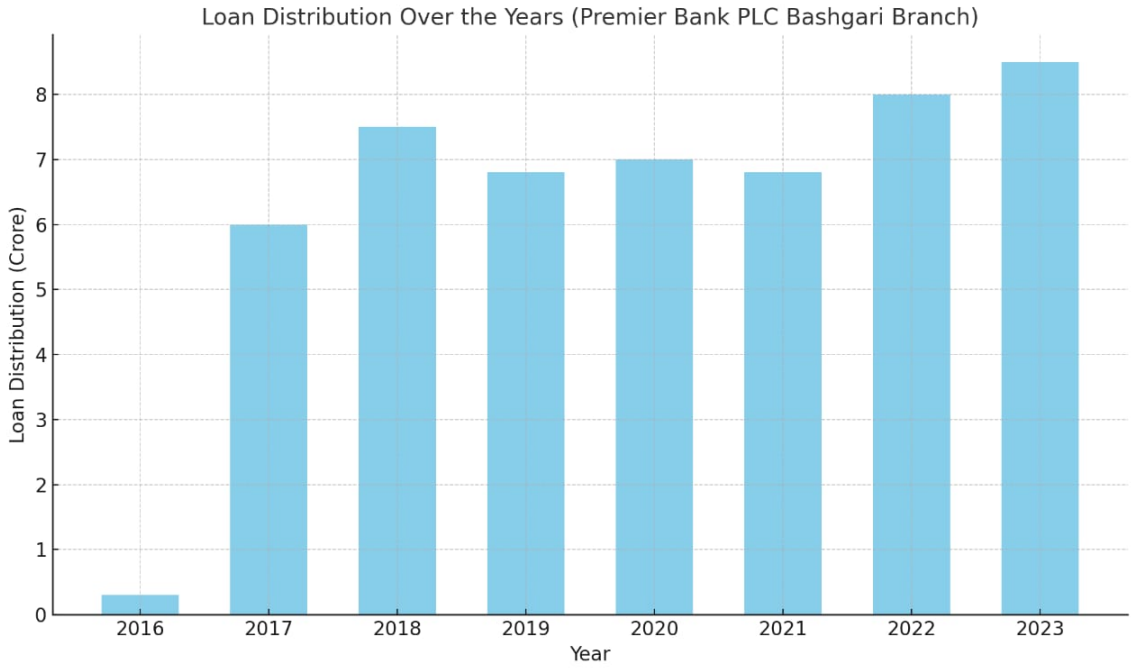

Figure 1: Loan Distribution (Source: Premier Bank PLC)

5.4.2 Loan Recovery

The recovery rate was exceptionally high in 2016 at 100%. However, it started to decrease in the following years, dropping to 85% in 2017 and gradually reaching a low of 65% in 2022. There was a slight improvement in recovery in 2023, up to 66%, but the overall trend suggests challenges in recovering the full amount of distributed loans as the volume of distribution increased. It is seen that the steady increase in loan distribution shows the branch's commitment to expanding its microcredit services to various sectors. The decline in recovery rates suggests that while the bank expanded its credit services, the efficiency of recovery mechanisms might need improvement. To balance growth in loan distribution with sustainable recovery, the branch might consider strengthening monitoring and support for loan recipients, especially in agriculture and small business sectors.

DOI Link :: https://doi-ds.org/doilink/09.2024-28854671/UIJIR

© UIJIR | ISSN (O) – 2582-6417
SEP 2024 | Vol. 5 Issue 4
www.uijir.com

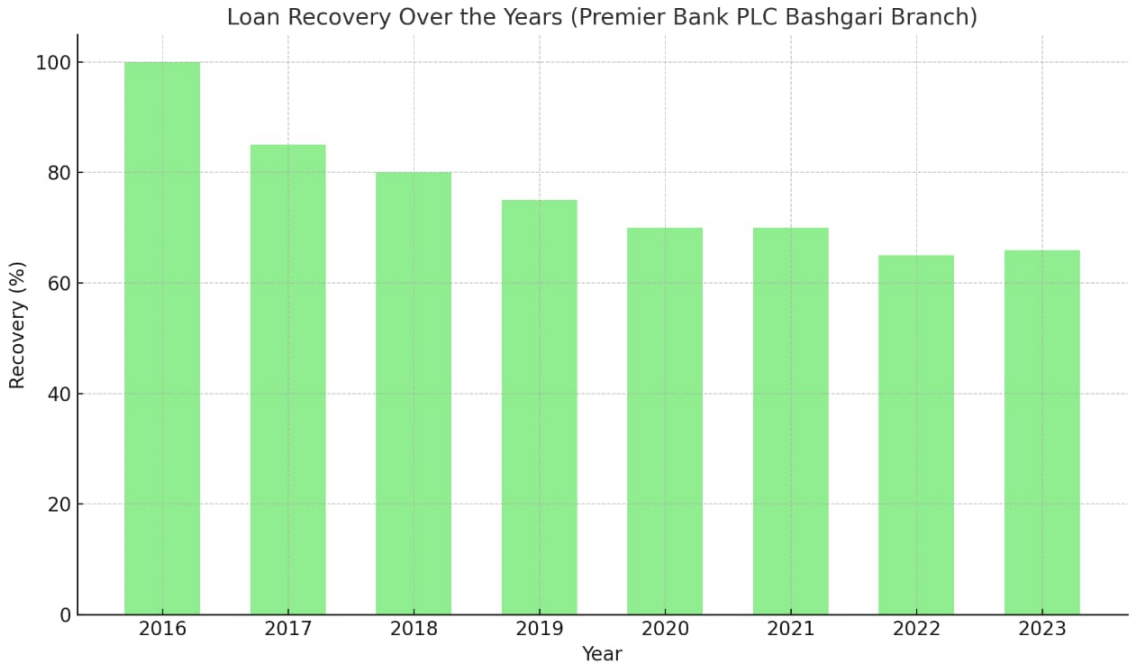

Figure 2: Loan Recovery (Source: Premier Bank PLC)

5.5 Discussion

The findings highlight the positive impact of microcredit on agricultural productivity, but also reveal significant challenges that need to be addressed. High-interest rates and a lack of financial literacy are major barriers to the effective utilization of microcredit. Additionally, the risk of crop failure poses a substantial challenge to loan repayment. The case study of The Premier Bank PLC, Bashgari Branch, demonstrates how customized loan products and support services can enhance the effectiveness of microcredit programs. In this case, few recommendations are suggested to improve these challenges. Firstly, Banks should consider reducing interest rates to make microcredit more affordable for farmers. This could be achieved through government subsidies or financial incentives. Secondly, implementing financial literacy programs can help farmers better understand loan terms, manage their finances, and make informed decisions.

Thirdly, offering flexible repayment options, such as grace periods during adverse weather conditions, can help farmers manage loan repayments more effectively. Finally, Introducing insurance schemes can protect farmers from the risks associated with crop failures and ensure loan repayment.

6.0 CONCLUSION

Microcredit has proven to be a valuable tool for enhancing agricultural productivity and supporting rural development in Bangladesh. However, to maximize its potential, commercial banks need to address the

DOI Link :: https://doi-ds.org/doilink/09.2024-28854671/UIJIR

© UIJIR | ISSN (O) – 2582-6417
SEP 2024 | Vol. 5 Issue 4
www.uijir.com

challenges faced by farmers and adapt their microcredit programs to be more accessible and supportive. By implementing the recommendations provided, banks can enhance the effectiveness of their microcredit programs and contribute to sustainable agricultural development.

REFERENCES

1. Khan, A., Khan, S. H., Saif, M., Batool, A., Sohail, A., & Waleed Khan, M. (2023). A Survey of Deep Learning Techniques for the Analysis of COVID-19 and their usability for Detecting Omicron. *Journal of Experimental & Theoretical Artificial Intelligence*, 1-43.
2. Rahman, A., & Bhuiyan, M. A. H. (2022). Empowerment of Rural Women through Microcredit Programme of BRAC. *Bangladesh Journal of Political Economy*, *38*(2), 261-296.
3. Chowdhury, A. (2023). Impact of Microfinancing on Socio Economic Status and Employment Condition among the Rural Farmers in Murshidabad District of West Bengal, India. *Journal of Experimental Agriculture International*, *45*(9), 46-56.
4. Jahan, T., Jahan, A., Manjula, L., Ruheen, L., Sravanthi, M., & Maryam, M. F. (2024). A Study on Agricultural Loans offered by NABARD to Farmers. *International Research Journal on Advanced Engineering and Management (IRJAEM)*, *2*(04), 860-865.
5. Hossain, M. I., Mia, M. A., & Hooy, C. W. (2023). Employee turnover and the credit risk of microfinance institutions (MFIs): International evidence. *Borsa Istanbul Review*, *23*(4), 936-952.
6. Ahmed, M., & Ali, T. (2023). Impact of Advancement in Agricultural Credit on Productivity of Agricultural Sector in Pakistan. *International Journal of Agriculture and Economic Development*, *11*(1), 1-15.
7. Hasan, M., Afrin, T., & Misra, V. (2023). Microcharity: a promising alternative to microcredit for poverty alleviation. *Journal of Strategy and Management*.
8. Rahman, A. (2023). Financial Literacy in Rural Bangladesh: Challenges and Opportunities. Journal of Rural Development
9. Grameen Bank. (2023). Annual Report
10. The Premier Bank PLC, Bashgari Branch. (2023). Interview with Bank Officials
11. BRAC Bank. (2023). Microcredit Performance Analysis

DOI Link :: https://doi-ds.org/doilink/09.2024-28854671/UIJIR