

PROJECT REVIEW PAPER

SMALL FARMER CREDIT PILOT

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SMALL FARMER CREDIT PILOT PROJECT

I. Priority and Relevance

The purpose of this project will be development of one or more replicable model systems of agricultural credit for small farmers and other small rural producers. ^{1/} The sector goal to which this project will lead will be establishment of an effective nationwide institutional self-financing credit system providing credit to small farmers and other small rural producers.

The project will test a number of models in mobilizing of rural savings, extending credit to the target group, and equally important, in recovering the loans from that group. Assuming one or more of the models proves successful, a follow-on project will finance its replication throughout rural Bangladesh. Hence the goal of this project will become the purpose of the larger follow-on projects.

^{1/} USAID has developed the following definition of the target group to be addressed in this project:

Non-dependent rural dwellers over age 18, cultivating ten bighas (3.3 acres) or less, irrespective of whether cultivated land is owned, rented, sharecropped, etc.; and/or earning less than Tk. 3,000 (\$200) per year from all sources (farming, day laboring, rickshaw driving, fishing, etc.).

The definition includes not only small farmers but also any other relatively poor borrowers in need of credit for productive purposes. Virtually all rural employment is related, directly or indirectly, to the production of food or fiber; hence the project title, although perhaps misleading, will remain "Small Farmer Credit". The definition just cited may be refined during further project development. Although perhaps less than ideal from agricultural, social and economic standpoints, the definition has as its principal advantage administrative simplicity from the perspective of project implementation and evaluation. A more complex and perhaps more realistic definition of the small farmers developed by the banking community of Bangladesh, is included at Attachment C. 1.

Although comprehensive and accurate data is not presently available, it is apparent that the majority of Bangladeshi farmers are poor and cultivate very small holdings of land, averaging less than three acres per rural household. These households function at or near the subsistence level of productivity, substantially below the cropping (and income generation) potential of their small plots of land.

The Government of Bangladesh, AID and other donors have come increasingly to focus on these small farmers, with a two-fold objective: to increase their share of the national income, and to increase the productivity of the land area they cultivate to assist Bangladesh to become more nearly self sufficient in food production. Major assistance has accordingly been provided to import fertilizer, spread the use of high yielding varieties, and make available irrigation equipment. A disproportionate share of these benefits, however, invariably goes to larger farmers, who have the economic and political leverage needed to enable them to take care of themselves. The relatively small farmers have generally been excluded from receiving the inputs required to increase their productivity and their income. A major obstacle for small farmers is the absence of a functioning, effective, fairly priced credit system. Although a dry-season, irrigated HTV crop may generate a substantial return on investment, still the investment is high in the first instance. Larger farmers have the wherewithal to make the investment; smaller ones do not.

Existing credit institutions all contain systematic biases against small farmers and other rural poor. Land mortgaging is invariably required, while very few prospective borrowers have free title to their land or even own any at all; application forms are lengthy and complex while most rural dwellers are illiterate; credit institutions function most efficiently lending large sums while most rural dwellers each need only very small amounts. From the standpoint of the majority of farmers in Bangladesh, the doors of banks and cooperatives have simply not been open to them. Their only sources of credit for crop inputs, capital expenditures and consumption, aside from families and friends,

have been local money lenders, who cater to their capabilities (most loans are based on verbal agreements), are known to them personally, and who are more than willing to conduct business with them. Their willingness stems principally from their virtual monopoly position in rural credit, and their highly usurious and profitable finance charges.

The Government has recently accorded high priority status to the objective of making institutional credit work for small farmers. The Bangladesh Bank (the central bank of Bangladesh) has instructed all members of the banking community, both domestic and foreign, to launch programs targeted to small farmers. In June, 1976 the Bangladesh Bank approved a total agricultural credit level for all banks of Tk 65.85 crores (\$43.9 million) for 1976-77, representing a 33% increase over 1975-76. The Bank instructed all credit institutions to assure that small and marginal farmers get their "due share" of institutional credit. While the course has thus been set, the credit community in Bangladesh, comprising cooperatives and suppliers as well as banks, will require substantial assistance to achieve its objective. This project is meant to address this need.

II. Project Description

Under this project a series of model small farmer credit programs will be tested on a three year pilot basis. The objective will be to find at least one which is successful in mobilizing rural savings, extending credit to a significant proportion of the target group, and equally important, in recovering loan proceeds, plus interest, from the borrowers. All existing credit structures will have an opportunity to participate in this project; in addition, some ideas new to the institutional credit scene in Bangladesh will be tested as well.

Principal responsibility for organizing the pilot will rest with each of the implementing organizations; however, AID financing will be available for expatriate technical assistance (approximately 228 man-months of technical assistance is contemplated for the three years of project life, although this figure may vary as needed) and for training (one month's training in Bangladesh for 246 working level credit personnel each of three years and 20 man-months of foreign training for senior officers).

The pilot will function with three major objectives: the first, to extend credit to the target group, the second, to recover it on time, and the third to mobilize rural savings as a basis for self-financing of the program. These objectives will be reinforced by the procedures for AID Grant financing of the pilot. AID will provide on a grant basis, the dollar equivalent of approximately seventy five percent of the loans extended and recovered from the target group, on a reimbursable basis, as follows:

- for each loan made to a small farmer, as verified through AID monitoring, AID will reimburse the Government the dollar equivalent of 37.5 percent of the amount of the loan.

- for each of the above loans recovered including interest, likewise verified through AID monitoring, AID will reimburse the Government an additional 37.5 percent of the amount of the loan, in dollars.

It is expected that the Government will pass at least some of the incentive inherent in this reimbursement procedure down through financial channels to the credit institutions actually dealing with the target group. This could be through parallel reimbursement

of capital on a grant basis, or through highly concessional interest rates on capital borrowed for the program from the central bank. In at least two of the cases, the mechanism and terms for making funds available are already indicated, at least on a preliminary basis.

The administrative costs of the pilot models will not be directly financed under the AID grant. The principal reason is that AID funds will not be available to cover such costs after the expiry of the project. Participating organizations should begin right away to focus on administrative costs, and particularly on trying to cover such costs through self-financing credit operations derived from mobilizing of rural savings. The bulk of the AID funds will finance the project on a reimbursable, success-oriented basis.

A total of seven basic institutional models is presently planned for operation under this pilot project; in the course of further project development, some of these models may be modified or discarded, or new ones added. All models are expected to have several features in common.

All will specialize in short term production credit, for periods varying from six to eighteen months. Repayment periods will vary with the crop cycle for each borrower's crop; normally the loan (principal plus interest) will be due in full in one payment a short time after harvest of the crop being financed. Loans for fishnets, tools, rickshaw parts, etc. will likewise be scheduled according to the repayment capabilities of borrowers.

Interest charged will probably be eighteen percent, but this will be further analyzed and a rate confirmed in the Project Paper (PP). The ideal interest rate will be that which covers all costs but which is not so high as to preclude the use of credit by the target group. The rate will also have to be acceptable to and defensible by the Government and credit community. Eighteen percent is probably not the ideal rate. It is, however, a significant increase over the present rate (recently raised to thirteen percent) and a step in the right direction. It has also been accepted by the Bangladesh Bank for initial use in this project. During the course

of the pilot all factors bearing on interest rate will be identified and measured, and the rate adjusted accordingly. For the sake of simplicity interest is expected to be compounded annually but charged on a prorated, straight line basis per month. Thus interest charged will be the same each month for the first twelve months. If a borrower repays his loan a month early, he will save a month's interest; if he is late, interest will continue to accrue.

No collateral or security will be required, nor will there be any requirement that a minimum amount of land be owned. The major requirement for continued participation in this program will be good repayment performance. For a borrower's initial loan -- his first interaction with a credit institution -- he will be required to get a cosignature. His first loan will be for a relatively small amount, on the order of Tk 200-300. If he repays in a timely fashion, he will not need a co-signer for his second loan, and the amount borrowed may be slightly increased. Each succeeding year of good repayment performance, the amount he may borrow may be increased, or the repayment terms arranged more flexibly. This emphasis will be placed on an intangible asset as security, one that the small farmer can work to preserve and increase his good credit record. It will be to his advantage to do so, for it will mean larger and more quickly obtained loans each time.

All programs will function with a bare minimum of paperwork, and will strive for "one-stop" borrowing. A loan applicant should be able to walk into the local credit facility, apply for a loan, and get it the same day, perhaps even the same hour. No legal documents regarding land mortgage or crop hypothecation will be required; no reference by the credit facility to higher authority in another location will be necessary.

No loans will be forgiven. In the event of a crop failure or other misfortune besetting the farmer, his loan may be rolled over, and perhaps an additional sum lent, but

no debt will be cancelled. Default will result in the forfeiture of the privilege to borrow again, both for the principal borrower and the co-maker. In the event of difficulty the farmer should be encouraged to consult his lender, arrange an extension, and so preserve his credit record.

All of the commercial bank pilots will include a rural savings program designed to test the mobilizing of rural funds as a basis for self-financing of the basic credit program. Each of the banks will test a range of incentive interest rates and terms, including rates up to and exceeding the current 10 $\frac{1}{4}$ percent maximum authorized by the Bangladesh Bank. (See table of present rates and terms at Attachment XI. C. 5.) The range of these rates and terms in context of the need to provide sufficient incentive for increased savings and margin of coverage for small farmer lending costs will be further analyzed and developed in the PP. The cooperative institutions will address the same requirement through increased share purchase opportunities, higher dividend rates, if necessary some relaxation of cash conversion terms, and increased level of individual borrowing approval against share holdings. The alternatives again will be addressed in the PP.

It is expected that loans averaging approximately Tk 600 (\$40) each will be made to individual borrowers. The amount may vary, and will be based on the borrower's need. An upper limit of Tk 1,000 is envisioned, but it is expected that most loans will be on the order of Tk 600.

A total of approximately 260,000 individual loans is targeted under this project. These loans will be made by some 123 lending units (village cooperative, bank branches and fertilizer dealers) under the seven models.

Each lending unit will try to make increasing numbers of loans each year of the project, roughly as follows:

1977-78	500 loans
1978-79	700 loans
1979-80	1000 loans

Many of the loans made each year may be to the same individuals; farmers and others will be permitted to borrow as many as three times a year (for each of the three major crop seasons), repaying in accordance with the crop cycles, or perhaps delaying loan repayment for a crop to be kept for home consumption until the harvesting of a cash crop.

A brief description of each institutional model follows. Under each such model a number of variations or "sub-models" may be tested. For example one lending unit may specialize in group credit; another in credit to women; another in administrative restrictions to preclude funds from going to borrowers outside the target group, and several with different incentive savings programs or share/dividend features. Each participating institution will be free to test as many variations as can be managed to find at least one that works. Details are presently being worked out with each prospective implementing organization, under the auspices and with the approval of the Bangladesh Bank. Detailed descriptions of each, including locations of lending units, application procedures, record keeping, lines and delegations of authority, cash flow mechanisms and personnel plans will be included in the PP.

1. Jatiya Samabaha Bank (JSB) Cooperatives

This pilot will provide an opportunity to the traditional cooperative system, as distinct from the IRDP cooperative system, to provide credit to small farmers. The pilot will operate at five village level primary cooperatives (KSSs) and five union level multi-purpose cooperatives participating in the JSB system. Funds for lending will be made available by JSB Dacca through the Central Cooperative Banks (subdivision level). It is expected that credit terms through the various levels of the JSB hierarchy will be as follows:

	<u>Interest:</u>	<u>Loan Period</u>
JSB Dacca to Central Coop. Banks	7%	20 months
Central Coop. Banks to Union and Village Coops. and TCCAs	10%	20 months
Coops. and TCCAs to Individual Borrowers	18%	6 to 18 months

Borrowers will be required to own a minimum number of shares in their cooperative; dividends paid on these shares will be as normally determined. An incentive share purchase and dividends feature will be tested, including related increased borrowing rights.

2. IRDP Cooperatives

Three IRDP TCCAs and three KSSs under each (a total of nine KSSs) will participate in the pilot. Funds will be provided as follows:

	<u>Interest</u>	<u>Loan Period</u>
Thana Branch of Sonali Bank to TCCA	7%	20 months
TCCA to KSS	12.5%	20 months
KSS to Individual Borrowers	18%	6 to 18 months

Borrowers will be encouraged to purchase more than the required minimum number of cooperative shares and an incentive savings share purchase /dividends program will be tested as with the JSB above.

3. Independent KSSs

Up to fourteen primary societies receiving capitalization directly from a commercial bank or BKB may participate. Such KSSs will borrow from a nearby commercial bank or BKB branch at normal terms for the purpose of lending to members under this project. The PP will provide an analysis of whether and the extent to which individual KSS branches could effectively establish savings program.

4. Bangladesh Krishi Bank (BKB)

BKB, the agricultural development bank of the Government of Bangladesh, will participate with ten of its 150 branches. BKB has been extending short term credit to small farmers since its establishment in 1958; the principal departure from existing procedures will be waiver of collateral requirements and increase

in interest rates. Under the pilot a simplified loan application procedure will be devised to minimize the administrative workload of bank personnel as well as to reduce the complexities confronting borrowers who likely will be illiterate. The feasibility will also be examined of increasing deposit interest rates to attract additional savings in the pilot branches. Each branch will be encouraged to meet its capital needs from its own savings deposits to the maximum possible extent. Lending both to individual farmers and to groups of farmers may be tested.

5. Commercial Banks Existing Branches

The six commercial banks (Sonali, Janata, Agrani, Pubali, Rupali and Uttara) have, in the aggregate, 1365 branches currently in existence throughout the country, or roughly 3 to 4 for each of the 422 thanas. The commercial model will be tested through ten branches of each of the six banks. As with BKB, each participating branch will try to meet its expanded capital needs through increased savings. Lending both to individual farmers and to groups of farmers may be tested. As noted above, each bank will also test a range of incentive interest rates and terms to mobilize rural savings as a basis for self-financing of the credit program.

6. Village Fertilizer Dealers (BADC) Licensees

Assuming that virtually all short-term credit required by small farmers is for purchase of inputs and primarily fertilizer, a model for providing credit by fertilizer dealers themselves should be tested. Ten BADC dealers will participate, providing "in-kind" credit. The dealers will obtain credit themselves for this purpose from a local branch of a commercial bank. The dealers may provide up to two maunds (164 lbs) of each of the three types of fertilizer to each customer in the target group (total approximately \$25 per customer); a third party guarantee by a person known to both parties would be required if the dealer does not already know the customer.

Repayment would be in cash at 18% per annum, prorated monthly, shortly after harvest of the crop for which the fertilizer was purchased.

7. Fertilizer Dealers (IRDP TCCAs)

Ten TCCAs which have authority to sell fertilizer will also participate, obtaining funds through IRDP channels from Sonali Bank.

Up to two mounds (164 lbs) each of Urea, TSP and MP may be sold on credit to each small farmer (total approximately Tk 375 or \$25 per customer).

Project Inputs

In designing, establishing and modifying these pilot models, technical assistance will be available, financed under the AID grant. A total of 228 man-months is contemplated for the three year project; this would provide four expatriate experts on a full time basis throughout the project, plus four or more experts for shorter periods, as needed. Expertise may be required in accounting, data processing, management systems, collections, record keeping, or other credit-related areas. Technical assistance needs will be clearly defined and articulated during the remainder of the project development process. All such technical assistance will concentrate on making the pilots work.

In view of the large body of data which will have to be received, processed, organized and retrieved when needed, it is proposed that AID grant funds be set aside for a small computer for exclusive use on this project. \$100,000 is earmarked for this purpose. Also, each of the 123 lending units as well as regional and central offices may be provided up to two hand operated calculating machines each. \$10,000 is reserved for this.

In addition, AID grant funds will be programmed to finance in-country training for operational personnel: branch managers, loan officers, accountants, etc. Short-term training, on the order of four weeks, will be provided for approximately 240 (two per lending unit) credit personnel once each year during the project. Seminars, demonstrations and field work will be conducted by individuals experienced in small farmer credit programs in nearby countries.

It is expected that much of the experience gained in similar efforts in other sub-continental and Asian countries will be applicable in Bangladesh as well. Accordingly, up to ten senior credit personnel will visit the United States or third countries in connection with this project.

Finally, AID grant funds will be programmed to reimburse the Government for loans made to members of the target population, and for the same loan funds recovered from their borrowers.

See Table 3 and Attachment XI. C. 4 for cost details.

Project Outputs

These inputs are expected to lead to the operation, over a three year period, of a number of credit models, with achievement of project purpose requiring at least one of the models tested determined to be capable of extending credit to the target group, operating on a self-financing basis, and replicable throughout Bangladesh. The major assumptions underlying the achievement of project success as just defined are that members of the target group are financially viable, i. e., capable of repaying loans and subsisting on their net income and that rural funds can be effectively mobilized through incentive savings programs.

III. AID and Other Relevant Experience

An AID loan was executed on September 29, 1976 for Small Scale Irrigation. Under this project manually operated irrigation pumps will be made available for sale to small farmers, and credit programs will be established for this purpose. The project is at the initial stages of implementation; applicable experience will be gained over the coming six months, and will be considered in preparation of the Project Paper. Other donor experience is discussed in Section VI.

IV. Beneficiaries

Initial beneficiaries of this pilot project will be the individuals who obtain credit through the pilot's lending units. It is expected that most of the approximately 260,000 loans to be made under this project will go to the target group. Ultimate beneficiaries will be the greater number of individuals who will have access to credit as a result of the follow-on project to replicate successful models throughout Bangladesh. Secondary beneficiaries include all who reside in rural areas who will share in expanded economic activity and increased food supplies resulting from increased availability of credit. More immediate but less significant beneficiaries will be credit institution personnel for whom expanded activities may bring increased opportunities for advancement.

The principal benefit will be improved access to means of production and accordingly broadened opportunities for the rural poor to increase production and personal income. A secondary benefit, resulting from increasing annual cropping, will be generally increased food production and a more stable food supply. While a badly-timed flood, storm or drought could wipe out the better part of annual production, with cropping increasingly spread throughout the year, one such misfortune would damage a smaller proportion of annual production.

Members of the target group are participating in project formulation by describing the difficulties they face and thereby providing insights into the types of assistance most needed. A survey is being conducted during the month of October, focusing on small farmer credit needs. Results of this survey will be incorporated into the Project Paper. (See ANNEX XI. C. 2. for sample questionnaire being used).

Changes will be required in the habits both of the targeted beneficiaries and of the participating credit bodies. Until now virtually no members of the target group have set foot inside institutional credit facilities. A number who have been literally evicted, put off, or ignored. Small farmers will have to try again, and institutional lenders will have to recognize and appreciate the immense business potential represented by the target group, which comprises perhaps three-fourths of the productive population of rural Bangladesh.

Resistance can be expected at least initially from lenders, borrowers and savers, although the project will be structured so as to maximize incentives to lenders to reach out to the target group and to rural farmers to increase savings. Also resistance will very likely be felt from those who until now have monopolized the rural credit market unchallenged -- the money lenders. If they are astute businessmen, the money lenders will become competitive by lowering their interest rates while maintaining their informal, verbal and flexible terms. That too would be of great benefit to the target group.

Larger farmers may be attracted to the credit offering in such numbers as to limit the access of the target group. It is expected this will be minimized by the use of interest rates which are higher than those large farmers now have to pay. Some of the pilots will in addition test administrative limitations to exclude borrowers, outside the target group. At the same time, the incentive savings interest rates should attract larger farmers funds. This will be of benefit to them but also to the whole program.

The need of women will be addressed through testing of one or more sub-models designed specifically to meet their needs. Each of the seven participating institutions will be invited to design a women's sub-model.

V. Feasibility Issues

A. Economic Issues

The prices of rice and other staples are presently at their lowest levels since Independence. Although prices are sure to rise, it is not now known how far or when. It is also not known the extent to which the current prices will depress the initiative of farmers to grow income crops (crops beyond their own consumption requirements). A set of analyses of small farmers' returns on various crops at various prices is included at Section XI. C.3. Although a net profit of 74 percent is shown for a one-bigha (one-third acre) farmer with a local variety paddy price of Tk 60 per maund (\$107 per MT), it is not known whether the cash income resulting (Tk 216, or \$14) is sufficient to motivate him to grow the crop in the first instance. We must assume, however, that the motivation still functions and the credit made available through this project will be used as planned. The assumption will be tested during the course of this pilot.

B. Technical Issues

Credit is not the only factor critical to increased production and small farmer income. Other inputs -- seed, fertilizer, water, labor -- must also be available. Markets must exist for production surplus to the farmer's home consumption needs; roads and other transport infrastructure essentials must be available to permit him to move his produce at the right time. Storage facilities should be available to enable him to store foodgrain through periods of market glut into periods when supply is low and prices more favorable. Provision of these other critical factors is beyond the scope of this project, and must accordingly be assumed. This assumption, too, will be tested during the course of the project.

C. Financial Issues

Very little is known at this stage about the rural poor in Bangladesh. By Western standards they seem to live below the level of subsistence. Much of the rural economy appears to function on a non-monetary basis. Thus it is not known whether the introduction of full cost monetary credit will be compatible with the financial system within which small farmers and other rural poor operate. Will enough income result to permit the repayment of the loan and the continued subsistence of his family? Is it possible to

operate a credit program for barely subsistent rural poor on a full-cost, self-financing basis, or must it be subsidized to enable the borrowers to afford it? We will answer such questions by testing the hypothesis that the target group can bear the full cost of credit.

At the same time, there is almost no experience of the concentrated effort being proposed to mobilize rural savings or to gauge the rates and terms necessary for such a program against the costs of small farmer credit. The pilots will have to determine the range of incentives necessary, the potential for such savings, and the limits of the credit program in terms of these requirements.

Also, very little is known about the structures, capabilities and potential of the institutions planning to participate in the project. A study is now being undertaken which is expected to be completed early in calendar 1977. The study, conducted by Resources Development Associates, Los Altos, California, includes an assessment of each financial institution involved. Preliminary reports suggests they range from "fair" to "strong". The full report will be reflected in the Project Paper.

All of the loans financed under this project by AID are expected to be short term (six to eighteen months), and all participating credit institutions will strive to achieve 100 percent recovery of each loan extended. This means that funds may be lent, recovered and available for relending two or three times during the course of the project. Each loan extended and each recovery achieved will be reimbursed by an AID payment. This does not necessarily mean however that there will be multiple AID payments against the same funds. There is no certainty and no practical way to determine the origin of the funds for each such loan, whether derived through the savings program, directly attributable to the financing underwritten by this project, or simply a result of the general spread of credit availability. The loans made and recovered by one branch in one cycle may for example have no relation to the loans made in a succeeding cycle in another branch of the same institution or in a different institution altogether.

There are two reasons for structuring the project this way. First, the project's objective is to test systems on an experimental basis. As a workable small farmer credit system is identified, capital will be obtained through an amplified rural savings program.

The function of the FAR payments is to assist all who are involved in the workings of each model system tested to focus on the same two key objectives: to make sound loans to the target group, and to recover the funds on a timely basis. Second, the project is highly experimental and risky. The target group is not credit worthy by any reasonable set of banking standards anywhere in the world. The credit institutions of Bangladesh have had virtually no experience with this group and, except for directives issued by higher authorities, have no real motivation for expanding operations to include the group, especially on the sort of terms that are required to reach it (e. g., no collateral, minimal application procedures, immediate loan decisions).

VI. Other Donor Coordination

The World Bank has been involved in agricultural credit in Bangladesh for a long time and the Asian Development Bank is also engaged in the area. A World Bank Mission conducted a study in 1973 and formulated a series of recommendations concerning credit policies and procedures. Another team is due in November to update the earlier report. Also, the World Bank is developing a project to provide credit and other inputs to jute farmers. USAID is working closely with both Banks so that all activities in this field are coordinated and mutually supportive.

VII. Financial Plan

Total project cost is approximately \$14,267,000 of which AID will finance \$10,700,000 on a grant basis. The balance will be financed by the Government and other indigenous sources. The AID contribution is proposed to be on a grant basis because of the high risk, experimental nature of the pilot.

\$2,280,000 in AID grant funds will be reserved to finance technical assistance. This will provide a total of approximately 228 man-months throughout the project, for expertise in accounting, data processing, record keeping, or other credit related activities, as needed. Cost per man month, including overhead and fee, is estimated at \$10,000 of which \$2,000 represents local support and \$8,000 foreign exchange costs.

An additional \$393,000 will be for training in rural credit procedures and other areas as needed. This will permit one month's training each year for approximately 246 (two per lending unit) operational level employees. Overseas training will also be provided for 10 officers of credit institutions.

\$110,000 will be earmarked for data processing and accounting equipment.

The balance of the AID grant, \$7,917,000 will be used to reimburse the loans extended by each pilot on a fixed-amount-reimbursable (FAR) basis.

On the average each loan is expected to be for Tk 600 (\$40). The AID grant will cover 75 percent, for each such loan under a two stage reimbursement process, as follows:

1. For each loan extended under the pilot project, AID will reimburse 37.5 percent (\$15 for a \$40 loan).
2. For each loan fully repaid by the borrower, AID will reimburse an additional 37.5 percent.

Thus for each loan extended and successfully recovered, AID will reimburse a total of 75 percent, up to a total of \$7,917,000. Approximately 260,000 individual loans may be financed under this program.

It is expected that the number of loans processed each year will gradually increase, with approximately 60,700 loans made the first year, 85,000 the second and 118,000 the third. On this basis expenditure of project funds is projected as follows:

TABLE 1

PROJECTED EXPENDITURE OF PROJECT FUNDS

	<u>77/78</u>	<u>78/79</u>	<u>79/80</u>	<u>TOTAL</u>
1. AID TOTAL	<u>\$2,930,000</u>	<u>\$3,670,000</u>	<u>\$4,100,000</u>	<u>\$10,700,000</u>
A. Technical Assistance	840,000	960,000	480,000	2,280,000
B. Training	160,000	160,000	73,000	393,000
C. Commodities	110,000	-	-	110,000
D. Overhead	-	-	-	-
E. Capitalization (FAR)	1,820,000	2,550,000	3,547,000	7,917,000
2. MD TOTAL	<u>\$ 891,800</u>	<u>\$1,155,500</u>	<u>\$1,519,700</u>	<u>\$ 3,567,000</u>
A. Technical Assistance	-	-	-	-
B. Training	8,000	-	-	8,000
C. Commodities	-	-	-	-
D. Overhead	275,000	302,500	333,500	911,000
E. Capitalization	608,800	853,000	1,186,200	2,648,000
3. TOTAL PROJECT FUNDS	<u>\$3,821,800</u>	<u>\$4,825,500</u>	<u>\$5,619,700</u>	<u>\$14,267,000</u>
A. Technical Assistance	840,000	960,000	480,000	2,280,000
B. Training	168,000	160,000	73,000	401,000
C. Commodities	110,000	-	-	110,000
D. Overhead	275,000	302,500	333,500	911,000
E. Capitalization	2,428,800	3,403,000	4,733,200	10,565,000
Funds for each Credit Unit (3.E ÷ 123)	\$19,746	\$27,667	\$38,480	\$85,893
No. of loans for each Unit (Ave. \$40 per loan)	500 loans	700 loans	1,000 loans	2,200 loans
Reimbursement Formula, each Loan (\$40)				
Upon making loan	\$15, or 37.5%			
Upon recovery	\$15, or 37.5%			

NOTE: These figures are illustrative. Actuals will be determined by the actual numbers and amounts of loans extended, technical assistance provided, equipment financed, and training undertaken.

TABLE 2

SUMMARY OF FOREIGN EXCHANGE AND LOCAL CURRENCY COMPONENTS
(\$000)

	<u>FY</u>	<u>LC</u>	<u>TOTAL</u>
<u>AID - TOTAL</u>	<u>\$ 2,327</u>	<u>\$ 8,373</u>	<u>\$ 10,700</u>
Technical Assistance	1,824	456	2,280
Training	393	-	393
Commodities	110	-	110
Overhead	-	-	-
Capitalization (PAR)	-	7,917	7,917
<u>BDG - TOTAL</u>	<u>-</u>	<u>\$ 3,567</u>	<u>\$ 3,567</u>
Technical Assistance	-	-	-
Training	-	8	8
Commodities	-	-	-
Overhead	-	911	911
Capitalization	-	2,648	2,648
<u>PROJECT - TOTAL</u>	<u>\$ 2,327</u>	<u>511,040</u>	<u>\$ 14,267</u>
Technical Assistance	1,824	456	2,280
Training	393	8	401
Commodities	110	-	110
Overhead	-	911	911
Capitalization	-	10,565	10,565

TABLE 3

PROJECT SPECIFIC INPUTS

	<u>TOTAL</u>	<u>AID</u>	<u>BDG</u>
A. <u>TECHNICAL ASSISTANCE - TOTAL</u>	\$ <u>2,280,000</u>	\$ <u>2,280,000</u>	-
Credit Specialist 36 m	360,000	360,000	-
Data Processer 36 m	360,000	360,000	-
Evaluation Specialist 36 m	360,000	360,000	-
Training Specialist 24 m	240,000	240,000	-
Anthropologist/Sociologist 24 m	240,000	240,000	-
Accountant 36 m	360,000	360,000	-
Records Specialist 18 m	180,000	180,000	-
Other 18 m	180,000	180,000	-
B. <u>TRAINING - TOTAL</u>	\$ <u>407,000</u>	\$ <u>397,000</u>	\$ <u>8,000</u>
Short Term, in-country	369,000	369,000	-
Third-Country	20,000	15,000	5,000
U.S.	12,000	9,000	3,000
C. <u>COMMITTEES - TOTAL</u>	\$ <u>120,000</u>	\$ <u>120,000</u>	-
Mini-Computer and Accessories	100,000	100,000	-
Hand-operated Adding Machines	20,000	20,000	-
D. <u>OVERHEAD - TOTAL</u>	\$ <u>911,000</u>	-	\$ <u>911,000</u>
Office Space	297,000	-	297,000
STAFF Salaries	590,000	-	590,000
Auditing	24,000	-	24,000
E. <u>CAPITALIZATION</u>	\$ <u>10,564,000</u>	\$ <u>10,564,000</u>	\$ <u>10,564,000</u>
F. <u>TOTAL</u>	\$ <u>14,267,000</u>	\$ <u>10,700,000</u>	\$ <u>3,567,000</u>

VIII. Implementation Plan

The principal entity with responsibility for administering this project will be the Bangladesh Bank. The Bank presently is the chief lending institution in Bangladesh, with policy and operational authority over all other banks. Accordingly, lines of authority required for this project will correspond to lines that already exist and function effectively.

The Bangladesh Bank will convene and chair a project committee, which will establish, at the outset, overall guidelines for undertaking the small farmer credit pilot project and will meet regularly throughout project life to review progress and problems in implementing the pilot. The committee will include as members high-level representatives from each participating bank, the Bangladesh Agricultural Development Corporation (BADC), the Integrated Rural Development Program (IRDP), the Ministries of Agriculture, Finance and Planning, AID, and others as appropriate. Representatives of other donors involved in rural credit may be asked to participate as well.

The Bangladesh Bank will issue policy and procedural directives enabling member banks to participate in the project, and will make available to each such bank, where needed, sufficient capital to initiate its pilot project. Directives will permit the raising of the interest rate for loans made under this project, the waiver of collateral requirements and establishing of incentive savings rates and terms.

Each participating member bank will propose a number of branches to undertake the pilot; in addition, BADC will propose a number of fertilizer dealers for participation, and IRDP will propose Thana Central Cooperative Associations and primary societies. All such proposals will be reviewed and approved by the project committee to assure representative coverage of rural Bangladesh, and to minimize overlapping. While competition is certainly not to be avoided, the objective of the pilot is to test as many models over as wide an area as possible, and to do so, bunching of models should be minimized. Selection of pilot areas and the bases therefore will be addressed in the PP.

The Bangladesh Bank will establish a system, perhaps paralleling the AID reimbursement system contemplated for this

project, which will provide strong incentives to each participating bank or credit entity to extend as many loans under the project as possible, and further to recover these loans in a timely fashion. This system may involve grants or concessional loans to lending units with good performance records, incentive awards to managers and operational staff, or any other methods consistent with good business and banking practices.

Specific needs for technical assistance, accounting equipment and short-term training will be identified by the project committee and plans and timetables developed for provision of these inputs. Contracting for technical assistance may be undertaken by the Bangladesh Bank or by AID; however, in either case, responsibility for and supervision of consultants will be by the Bangladesh Bank. In-country training will be arranged by the Bangladesh Institute of Bank Management with the assistance of the consultants, and foreign training by AID.

The project committee will plan and arrange for promotional activities to be carried out by each participating credit entity to encourage the use by small farmers of credit provided under this project, to emphasize advantages of timely repayment, and to promote the program for increased rural savings. Each participating entity will, within the guidelines established by the project committee, develop and operate its own small farmer credit pilot. Assistance of consultants may be requested and arranged through the project committees, as may special training sessions for operational staff.

Records of loans extended and loans recovered will be kept by each bank branch or other credit unit and forwarded through the parent organization to the project committee. The project committee will forward the data to AID for spot verification and reimbursement. Such reimbursement will be made to the Bangladesh Bank, on behalf of the Government. Similarly, records will be kept of the progress and scope of incentive savings program to determine the effectiveness of the effort in mobilizing rural savings and its relation to the costs of the credit program.

Each of the pilot models will be carefully evaluated on a periodic basis throughout project implementation. The evaluation process will be the key to identifying the models which are in fact successfully reaching the target group, financing its needs, recovering the funds for continual re-use, and providing active incentives to increased

savings on a basis supportive of the credit program. A set of specific standards will be developed against which to evaluate each model. Standards will be included for the following categories of criteria, and others as appropriate.

1. Business and Financial Criteria

- A. Is the interest collected sufficient to cover administrative costs, unavoidable losses, and a reasonable profit?
- B. Are administrative costs, including costs associated with collections, reasonable? Can they be reduced without reducing effectiveness?
- C. What percentage of loans is recovered? Where recoveries amount to less than 100 percent, what changes would improve recovery performance?
- D. From a business standpoint would the model being evaluated to a worthwhile activity for the credit institution to continue even after termination of the AID project?
- E. Are the range of interest rates and terms for the incentive savings programs providing increased savings at a level and return sufficient to self finance a continuing credit program?

2. Target Group Criteria

- A. Are loans granted quickly, the same day?
- B. Are application procedures simple?
- C. Are loan amounts, disbursement arrangements and repayment schedules tailored to individual borrowers' needs?
- D. Does an acceptable proportion of borrowers fall within the target group? Is an acceptable proportion of all target group members in the test area making use of the credit?

- E. Are target group members put off by any aspect of the credit offer, e. g. , interest rate?
- F. Are borrowers appreciative of the need to repay, and of the value of a good credit record? Are borrowers effectively rewarded for good performance (larger amounts, more flexible terms for subsequent loans)?

3. Depositors

Are deposits, savings and share purchases coming from all strata of rural farmers? What groups remain untapped and what incentives would be required to reach them?

Evaluation will be conducted jointly by the Bangladesh Bank and AID in accordance with a set of procedures and schedules which will be described in detail in the Project Paper.

IX. Project Development Schedule

USAID is conducting a survey of farmers to determine their actual sources of credit. The survey will identify farmers by size of holding and other variables, to enable determination of the characteristics of the group currently excluded from institutional credit sources. Results of this study will be incorporated into the final project design.

In preparing the Project Paper, USAID will draw upon the study undertaken for AID by Resources Development Associates the experience and knowledge of the rural credit project officer in the Dacca office of the World Bank, AID/W TDY, and others. The Project Paper will be prepared in consultation with and with the assistance of the Bangladesh Bank, the Ministry of Planning and others.

USAID Project Committee:

Robert Nachtrieb, CDD, Chairman
Edward Rhatigan, PRO
Arnold J. Radi, AGR
Joseph Stepanek, PRO
Lauryn C. Drengler, CONT
Douglas D. Robertson, RLA

X. Pre-Implementation Actions

Major pre-authorization work to be done will be to develop details of each pilot model, select pilot areas, define target populations by area, analyze capabilities of each participating institution and changes required, designate lending units for each, assess personnel requirements, prepare simplified loan application procedures, work out intermediate financing procedures (i. e., flow of capital through each participating organization's central and field structure), determine the range of interest rates and terms necessary for effective trail of an expanded rural savings share and dividend program, establish the range of such interest return in context of the prospective cost of the loans, and identify initial consultant and training requirements.

Firm cost estimates and timing will be developed for initial consultants, project equipment and for the first training sessions. Scopes of work will be prepared and requests for expressions of interest published for consultants. Preliminary arrangements for training site, topics to be covered, course materials, etc. can be made. All of these actions are to be carried out by the prospective participants in the Project, coordinated by the Bangladesh Bank and in consultation with AID.

**PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

XI. A.

Life of Project:
From FY 77 to FY 80
Total U. S. Funding US \$10.7 million
Date Prepared: 16 OCTOBER 76

Project Title & Number: SMALL FARMER CREDIT PILOT 388-0025

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goals: The broader objective to which this project contributes:</p> <p>Establishment of an effective nationwide institutional credit system providing credit to small farmers and other small rural producers.</p>	<p>Measure of Goal Achievement:</p> <p>10% increase in number of loans extended to small farmers and other small rural producers.</p>	<p>USAID field surveys; reports of banks and other implementing organizations; Bangladesh Government Agricultural Census data.</p>	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> 1. Rural savings potential provides a basis for self-financing replication. 2. Bangladesh Government and credit institutions continue their support for project objectives.
<p>Project Purpose:</p> <p>Development of one or more replicable model systems of agricultural credit for small farmers and other small rural producers.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status:</p> <p>At least one of the models tested identified as capable of extending credit to the target group, operating on a self-financing basis, and as being susceptible to replication throughout Bangladesh.</p>	<p>USAID project monitoring; joint Government-USAID project evaluations; implementing organizations' reports.</p>	<p>Assumptions for achieving purposes:</p> <p>Individuals in target group are financially viable, i.e., capable of repaying loans and willing to borrow from institutional sources.</p>
<p>Outputs:</p> <p>Small farmer credit models, fully tested on a pilot operation basis.</p>	<p>Magnitude of Outputs:</p> <p>At least five models, each in operation for three years, with the objectives, by the end of the pilot, of extending short term production credit to small rural producers and of functioning on a self-financing basis.</p>	<p>USAID project monitoring; joint Government-USAID project evaluations implementing organizations' reports.</p>	<p>Assumptions for achieving outputs:</p> <p>Implementing organizations remain willing and able to commit qualified personnel and sufficient resources to their pilots.</p>
<p>Inputs:</p> <p>AID: 1. Technical Assistance; 2. Training; 3. Accounting and Data Processing equipment; 4. FAR financing for credit</p> <p>BDG: 1. Legislative and policy changes; 2. 25% of project resources.</p>	<p>Implementation Target (Type and Quantity)</p> <p>AID: 1. 228 man-months; 2. 758 man-months; 3. 300 hand operated calculators and one mini-computer; 4. 260,000 loans</p> <p>(Total project financing \$10.7 million)</p> <p>BDG: 1. Liberalization of interest and collateral policies; 2. Taka resources, office space and manpower.</p> <p>Total contribution at least \$3.6 mil.)</p>	<p>AID: 1. AID contract monitoring; 2. AID project records and trip reports; 3. Procurement and shipping reports, commodity logistics monitoring Financial reports. 4. BDG gazette and official notices;</p> <p>BDG: 1. BDG Government orders and implementing organization reports.</p>	<p>Assumptions for providing inputs:</p> <p>BDG is willing to make legislative and policy changes required, and will continue to have sufficient funds available.</p>

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SUBJECT: PROJECT 388-0025, SMALL FARMER CREDIT -- PID REVIEW

SUMMARY: Subject PID has been reviewed and Mission is authorized to prepare FRP accelerating project to FY 77 taking into consideration following comments and suggestions. End SUMMARY.

1. We concur generally in content and approach of PID, and specifically concur in importance of Small Farmer Credit to achieve sector goals, in the pilot or test approach presented. In definition of Small Farmer population to be served, in increased interest rates for both rural savings and loans, and in the idea of testing and evaluating various credit systems before engaging in a national small farmer credit program.

2. We have following comments or suggestions for Mission to consider in preparing FRP:

(A) Assumptions (page 10) seem to relate only to goal and to conditions needed if small farmers are to use credit effectively. Assumptions for this project, we suggest, should also relate directly to purpose and outputs and might include such things as willingness of cooperating institutions to participate in the project and accept new small farmer credit systems, availability of qualified Bangladesh personnel, and willingness of farmers to borrow from and repay cooperating institutions using new credit systems.

(B) As objective of this project is design, testing and evaluation of small farmer credit systems, FRP should contain at least preliminary design, test and evaluation specifications and criteria. There should be a preliminary justification of areas selected for test operations and preliminary definitions of small farmer target population in each test area. Final analyses these points may be delayed for FRP if desired.

(C) To provide some basis for judging replicability, if successful, of test systems FRP should contain at least preliminary analyses of management and financial soundness of Krishi Bank, Sonali Bank, and IRDP-TCCA's and BADC, their present farm credit operations, and of changes required to install test systems. Final analyses may be delayed to FRP if desired.

(D) The FRP should contain at least a preliminary analysis of interest rates necessary for return to rural savings and cost of small farmer credit to approach "The Social Cost of Capital." Illustrative interest rates used in PID seem low but we have no basis for judgment. Final interest rate analysis may be delayed for FRP if desired.

(E) Design of test small farmer credit systems should include some provision for computing or estimating full cost to cooperating institutions of providing small farmer credit, including costs of any extension supply, or marketing services provided and costs of small farmer credit delinquencies and write-offs. This will later assist BDG policy officials in determining if costs should be fully met by interest rates charged small farmers or if small farmer credit should have some subsidy.

(F) PID proposes tests of three small farmer credit systems or models -- Krishi Bank, Sonali Bank, and IRDP-TCCA primary cooperative societies. These tests cover the public banking, the commercial banking, and the cooperative approaches to small farmer credit, but do not including supplier credit. We suggest that the Mission consider a fourth approach for testing -- that of providing small farmer credit through dealers and supplier who provide small farmers with production, and possibly consumption, goods on credit. BADC itself might become a major credit supplier in this way and could be considered in testing this approach.

(G) The subject of collections does not seem to be stressed in the PID and we suggest that in the FRP and FP collection of small farmer credit be emphasized and included in the design of the test systems.

(H) Re development of the project (pages 11 and 12) our feeling is that visits of Bangladesh officials to other countries particularly the Philippines with small farmer credit schemes would probably be more productive at this time than visits to Bangladesh by credit officials of other countries.

(I) We suggest purpose of rewritten to say quote to develop a replicable nation-wide model system of agricultural credit for small farmers in Bangladesh. Unquote. FRP and FP should contain indicators which can be used to determine achievement of project purpose.

(J) Under the beneficiaries section of the FRP, the committee would like to see a further expansion of quote participating farmers unquote defining whether owner or tenancy status, women's eligibility to receive short-term lines of credit should be discussed. Also, what percentage of men and women participants might be expected to participate in program. If women will not be direct participants in the program, the social sector section of FRP should address those factors precluding womens' participation.

(K) We concur with Mission views on importance of small farmer credit and recommend accelerating this project to FY 77. We also consider project experimental/research in nature and are exploring possibility of grant funding entire AID contribution this project. Will advise. Kissinger

BANGLADESH BANK WORKING PAPER

To suggest a workable definition of "Small Farmer"

When we say "Small Farmer" we mean a poor farmer whose farm size is small, who lives and operates at subsistence or below subsistence level, financial condition is the main thing that is intended to be expressed. Financial solvency or otherwise of a farmer depends not on size but on income from the farm vis-a-vis the family expenses. Farm income depend on (1) quality of land, (2) intensity of crop, (2) presence or absence of irrigation facilities (4) vulnerability or otherwise to natural calamities. So it is difficult to arrive at an accurate definition. As a matter of fact all economic laws are conditional. However, assuming that average family size in agricultural community is 6-7 and that irrigated land gives higher income than non-irrigated land (irrigation helps increasing intensity) we may say that farmers possessing cultivable land upto $2\frac{1}{2}$ acres in irrigated areas or $3\frac{1}{2}$ acres in non-irrigated areas can be treated as a small farmer. Obviously in this group there will be landless share-cropper, holders of one bigha upto $2\frac{1}{2}$ or $3\frac{1}{2}$ acres. The financial condition of different farmers will be different. In this group there are farmers who have capacity to repay loans. There are some who have potential repaying capacity and who are totally unviable farmers. Farmers who are unviable cannot be provided with credit from institutional sources. So when we consider small farmers for bank finance then the general definition has to be qualified. Here again it needs be mentioned that size of farm is not always indicative of repaying capacity or creditworthiness. The broad definition suggested hereunder is to start with and it may have to be modified based on experience.

A farmer having in cultivating possession not more than two acres and a half of irrigated land or three acres and a half of non-irrigated land or three acres of irrigated and non-irrigated combined may be treated as a small farmer.

A small farmer to be eligible for credit from institutional sources must be in cultivating possession of at least one acre of irrigated land or two acres of non-irrigated land of which at least 0.25 acre must be owned by him. (N.B. Minimum ownership of land has been suggested to eliminate floating or migratory farm laborer).

It may be assumed that about 20 lakh (2,000,000) farm families will be in the small farmer category as per suggested definition.

5. Input Sources during 1975/76

<u>Input</u>	<u>Source</u>	<u>Distance of source</u>	<u>Quantity obtained</u>	<u>On Cash/Credit</u>	<u>If Credit Available when Source Needed (yes/no)</u>
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(MOST IMPORTANT INFORMATION)

- A. Seed
- B. Fertilizer
- C. Pesticide
- D. Water
- E. Others

6. Do you need credit/loan? (Yes/No) :

7. Usual credit source (mention whether friends/relations/money lenders /shopkeepers/dealers/other) :

Location of Source : Distance from home:
(Hat/village/Thana H. Q.)

8. Is any of the loan/credit giving agency (such as the JSB Cooperative/IRDP /Commercial Banks (give name) located nearby? (Yes/No):.....
which ones where
. distance. miles

9. Do these institute/institutes offer credit/loan? (Yes/No).
Have you ever been there? (Yes/No). where.....
. What happened? Treated politely? ...
. Did you get a loan/credit? (Yes/No).....
for what amount obtained (money/input): _____ mds/srs.
Tk. _____

What was collateral : Value : Tk
When did you get the loan ?
When did you repay ?
What did you pay as interest (%) ?

10. What do you think of crop hypothecation instead of usual land hypothecation to obtain loan/credit? (good idea/bad idea/don't know)

11. Would you take advantage of credit/loan/from any of the institutes where if no land hypothecation or complication is involved but you will need to pay 20-25% interest on loan/credit obtained? (Yes/No):

Interviewer

Dated:

Analyses of Small Farmer's Return for Using 18 Percent
Production Credit at Various Prices, for Local and HYV Paddy

Farmers Cultivating One, Two and Three Bighas.

1. Local Paddy: Price Tk. 40 per maund.

Assumptions: - Yield: 25 maunds paddy and 25 maunds straw per
acre (3 bighas)

- Except as noted, all labor is family labor, requiring
no cash outlay.
- Seed is kept from previous crop, so no cash outlay
for seed required.
- Loan is taken for entire amount of production costs
at 18 percent per annum and is repaid in 9 months.

A. Costs	<u>1 Bigha</u>	<u>2 Bighas</u>	<u>3 Bighas</u>
1. Seed	-	-	-
2. Fertilizer	Tk. 44	Tk. 88	Tk. 132
3. Pesticide	-	-	-
4. Transplanting	9	18	27
5. Ploughing	30	60	90
6. Harvesting	9	18	27
7. Threshing	15	30	45
8. Irrigation	<u>150</u>	<u>300</u>	<u>450</u>
9. Total Costs	257	514	771
10. Interest	<u>15</u>	<u>69</u>	<u>104</u>
11. Total to be repaid	272	583	875

NOTE: Labor costs above are additional to family and
require cash payment.

B. Gross Return

1. Paddy @ Tk. 40/md.	333	667	1,000
2. Straw @ Tk. 1/md.	<u>8</u>	<u>17</u>	<u>25</u>
3. Total	341	684	1,025

C. Net Return

1. B. minus A	49	101	150
2. Percent of cost	17	17	17

2. Local Paddy: Price Tk. 60 per maund

Assumptions : Same as above

	<u>1 Bigha</u>	<u>2 Bighas</u>	<u>3 Bighas</u>
A. Costs	292	583	875
B. Gross Return			
1. Paddy @ Tk. 60/md.	500	1,000	1,500
2. Straw @ Tk. 1/md.	<u>8</u>	<u>17</u>	<u>25</u>
3. Total	508	1,017	1,525
C. Net Return			
1. B minus A	216	434	650
2. Percent of Cost	74	74	74

3. HYV Paddy: Price Tk. 30 per maund.

Assumptions: - Yield 41.5 mds. paddy and 41.5 mds. straw per acre (3 bighas)

- Seed must be purchased.

- All other assumptions as above.

A. Costs	<u>1 Bigha</u>	<u>2 Bighas</u>	<u>3 Bighas</u>
1. Seed	22	44	66
2. Fertilizer	88	176	264
3. Pesticide	20	40	60
4. Transplanting	9	18	27
5. Ploughing	30	60	90
6. Harvesting	9	18	27
7. Threshing	15	30	45
8. Irrigation	<u>150</u>	<u>300</u>	<u>450</u>
9. Total	343	686	1,029
10. Interest	<u>46</u>	<u>93</u>	<u>139</u>
11. Total to be repaid	389	779	1,168
B. Gross Return			
1. Paddy @ Tk. 30/md.	415	830	1,245
2. Straw @ Tk. 1/md.	<u>14</u>	<u>28</u>	<u>42</u>
3. Total	429	858	1,287
C. Net Return			
1. B minus A	40	79	119
2. Percent of cost	10	10	10

4. HYV Paddy: Price Tk. 50 per maund.

Assumptions: Same as 3 above.

	<u>1 Bigha</u>	<u>2 Bighas</u>	<u>3 Bighas</u>
A. Costs	389	779	1,168
B. Gross Return			
1. Paddy @ Tk. 50/md.	692	1,383	2,075
2. Straw @ Tk. 1/md.	<u>14</u>	<u>28</u>	<u>42</u>
3. Total	706	1,411	2,117
C. Net Return			
1. B minus A	317	632	949
2. Percent of Cost	81	81	81

PRELIMINARY COST DATA
AND NOTES

XI.C.4
Page 1 of 2

A. TECHNICAL ASSISTANCE

For expatriate consultants an order-of-magnitude figure of \$10,000 per man-month is used, of which \$8,000 represents foreign exchange costs and \$2,000 local costs. A total of 228 man-months is programmed for a total cost of \$2,280,000 of which 1,824,000 represents foreign exchange costs and \$456,000 local costs.

B. TRAINING

For short term in-country training, it is assumed two employees from each of 123 credit units will receive one month's training each of the three years of the project. Training, transport, per diem, etc. is estimated to total \$500 per man-month. A total of 738 man-months of in-country training is anticipated, costing \$369,000. Of this figure, \$50,000 is for expatriate credit experts from Thailand, Philippines, etc., and the balance local costs.

Ten senior Bangladeshi credit personnel will be sent abroad for short term training. Eight will be sent to the Philippines, Korea or Thailand to observe functioning small farmer credit programs for a total of two man-months each. Cost is \$800 per man-month plus \$850 per participant for air fare. Of the latter figure, \$200 represents a BDG contribution (Bangladesh Biman, Dacca to Bangkok and return).

Two senior officials will go to the United States for two months each. Cost is \$1,700 per man-month plus \$2,500 per participant for airfare. Of the latter, \$1,500 will be a BDG contribution (Bangladesh Biman, Dacca-London and return).

C. COMMODITIES

A small computer for keeping records on each of the 123 lending units is planned, for installation at the Bangladesh Bank. \$100,000 is programmed for this purpose. Also, two hand-crank calculators for each of the 123 units, plus several at regional and central levels, will be provided, at an estimated cost of \$30 each. \$10,000 is budgeted for this purpose.

D. OVERHEAD

It is estimated that office facilities, including furniture, will average Tk. 1,000 (\$67) per month for each of 123 units. Over the three year project period this will cost \$297,000 (123 x \$67 x 36). An average staff of two mid-level professionals and one sub-professional is assumed to be attributable to the pilot at each of the lending units. Total salary costs are estimated at Tk. 2,000 per unit per month, or

\$590,000. In addition, ten local auditors, costing Tk. 1,000 per man-month will be fully occupied throughout the project (Tk. 1000 x 10 x 36 ÷ 15 = \$24,000). Costs are estimated to rise at 10 percent per year.

E. CAPITALIZATION

A total of \$10,565,000 will be available to extend as credit to small farmers. At an average of Tk. 600 (\$40) per loan, approximately 264,000 loans will be extended during the pilot. For each such loan AID will finance 75 percent, or an average of \$30 per loan. The Government will assume the balance, totalling \$2,648,000.

CURRENT SAVINGS RATES AND TERMS
COMMERCIAL BANKS, BKB AND SHILPA BANK (SB)

<u>Types of Deposits</u>	<u>Commercial</u>	<u>BKB/SB*</u>
i) a) Special notice accounts or deposits withdrawable at notice of 7 to 29 days.	5%	
b) Special notice accounts or deposits withdrawable at notice of 30 days or over.	5½%	
ii) a) Savings Bank Accounts with chequing facilities.	6%	
b) Savings Bank Accounts without chequing facilities, i. e., accounts from which withdrawal are allowed through withdrawal slips and on production of pass books only.	7%	
iii) <u>Fixed (or term) deposits:</u>		
a) For 3 months and over but less than 6 months.	7%	8%
b) For 6 months and over but less than one year.	7.50%	8.5%
c) For one year and over but less than 2 years.	8.25%	9.25%
d) For 2 years and over but less than 3 years.	9.25%	10.25%
e) For 3 years and over	10.25%	11.25%

* The Bangladesh Krishi Bank and Bangladesh Shilpa Bank are allowed to pay interest on term deposits, except deposits received from other banks and financial institutions, at higher rates to the extent of 1% above the prescribed rates.

CURRENT SAVINGS RATES AND TERMS
COMMERCIAL BANKS, BKB AND SHILPA BANK (SB)

<u>Types of Deposits</u>	<u>Commercial</u>	<u>BKB/SB*</u>
i) a) Special notice accounts or deposits withdrawable at notice of 7 to 29 days.	5%	
b) Special notice accounts or deposits withdrawable at notice of 30 days or over	5½%	
ii) a) Savings Bank Accounts with chequing facilities.	6%	
b) Savings Bank Accounts without chequing facilities, i. e., accounts from which withdrawal are allowed through withdrawal slips and on production of pass books only.	7%	
iii) <u>Fixed (or term) deposits:</u>		
a) For 3 months and over but less than 6 months.	7%	8%
b) For 6 months and over but less than one year.	7.50%	8.5%
c) For one year and over but less than 2 years.	8.25%	9.25%
d) For 2 years and over but less than 3 years.	9.25%	10.25%
e) For 3 years and over	10.25%	11.25%

* The Bangladesh Krishi Bank and Bangladesh Shilpa Bank are allowed to pay interest on term deposits, except deposits received from other banks and financial institutions, at higher rates to the extent of 1% above the prescribed rates.