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BANGLADESH BANK
AGENCY FOR INTERNATIONAL DEVELOPMENT - USA

# THE SECOND EVALUATION REPORT

## RURAL FINANCE EXPERIMENTAL PROJECT
## BANGLADESH

VOLUME–I

## EXECUTIVE SUMMARY

CLAPP AND MAYNE INC.
SERVICIOS TECNICOS DEL CARIBE
PROGGANI CONSULTANTS LTD.
PROJECT OFFICE : 62 DHANMANDI R. A. ROAD 7A DACCA 9 BANGLADESH TEL : 31 30 73

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**RURAL FINANCE EXPERIMENTAL PROJECT**

CLAPP AND MAYNE INC.
SERVICIOS TECNICOS DEL-CARIBE
SAN JUAN, PUERTO RICO, USA

PROGGANI CONSULTANTS LTD.
DACCA
BANGLADESH

PROJECT OFFICE: 62 DHANMANDI R. A. ROAD NO. 7A DACCA 9 BANGLADESH TEL: 31 30 73

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April 15, 1980

Mr. M.A. Majid Molla,
Chief Officer,
Agricultural Credit Department,
Bangladesh Bank
Dacca

Dear Mr. Molla :

I take pleasure in transmitting the Second Evaluation Report of the Rural Finance Experimental Project. It contains two volumes :

Volume I : Executive Summary

Volume II: Main Report

As will be noted, considering the late start in lending under the Rurul Finance Experimental Project, on the part of all but one of the lending institutions involved in the experiment, considerable progress has been made in reaching the target group with loans and in mobilizing savings among the target group. For example, over five times more target households had a loan on December 31, 1979 under RFEP than were being reached by lending institutions prior to initiation of RFEP. Seven percent of the capital required for target group lending operations has been generated from the savings of the target group itself.

One of the greatest deficiencies to-date appears to be the implementation of the individual characteristics of the various credit delivery models on the part of the lending institutions. The existing situation is discussed in some detail in Part F of the Report. It is my opinion that the next evaluation report which will be completed before the termination of the present contract, should analyze in depth the current operations and problems involved in the full implementation of the individual credit delivery models called for in the experiment. This should be done so that concrete recommendations can be made with respect to their continuation, dropping or modification.

Sincerely yours,

Alvin Mayne

Alvin Mayne,
President,
Clapp & Mayne Inc.,
For the Joint Venture Firm

## Table of Contents


| | | | Page |
|---|---|---|---|
| | | Letter of Transmittal | i |
| Chapter | S - I | : Magnitude of RFEP Experiment | I |
| Chapter | S - II | : What is the ability of the lending institutions to extend credit to the target group ? | 3 |
| Chapter | S - III | : What is the present and potential mobilization of savings among the target and non-target group households ? | 9 |
| Chapter | S - IV | : What is the financial viability of RFEP. ? | I4 |
| Chapter | S - V | : What are the operational capabilities of the lending institutions ? | I9 |
| Chapter | S - VI | : How well are the credit models being implemented by the lending institutions ? | 22 |
| Chapter | S - VII | : What are the problems and benefits of RFEP as seen by its target clientele ? | 25 |
| Chapter | S - VIII | : Recommendations. | 27 |

## S-1. MAGNITUDE OF THE RFEP EXPERIMENT

### A. Number of Households Covered by the Experiment

Utilizing information from the Baseline Survey and the Census the total number of households and number of target households (Gross Cash Income of 6,000 takas or less and/2.0 acres or less of owned cultivable land) were estimated. As can be seen in Table I-1[1/] the total number of households in the areas covered by the 62 outlets of the nine lending institutions is estimated to be 44,035. The number of target households would be 63.2% or 27,826. (Table I-2).

Krishi operations account for 30% of the total target households. The highest percentage of target group households is found in the areas served by Rupali (76%). Apparently, Sonali is serving fairly well-off areas, the target group households only represent 46% of the total households.

There is a big variation in average number of target households per outlet. The average Krishi outlet approaches 1,400 households, whereas the average number of target households per outlet for Sonali and Agrani is below 400. If IRDP and BSBL efforts are limited to cooperative membership then the outlets of these institutions are serving, on the average, only about 100 target group households.

### B. Relative Importance of Households with Some Farming Activity and Those Without Some Farming Activity.

An important element in the composition of the target group households is the proportion (44%) of the households which do not have any farming activity.

In Table I - 3 a comparison is made between the percentage of target households with some farming activity with the percentage of non-target households with some farming activity, for each of the lending institutions areas. Only 52% of the target households have some farming activity, while 80% of the non-target households have

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1/ Table numbers refer to Chapters and Tables in the Main Report.

some farming activity.[1] This low percentage of target group households with some farming activity begins to point to the problem of designing a rural credit program aimed at the target group as defined in the RFEP.

C. Source of Income of Target Group Households.

Naturally, the source of income of households with no farming activity tended to be non-agricultural in character.[2]

With respect to target households with some farm activity the average gross cash income is about 2,350 takas per year of which only 51% is derived from agriculture, the remaining coming from non-agricultural activities.

This is in contrast to non-target households where the average annual gross cash income is estimated at slightly over 8,000 takas, of which 4,670 takas or 58% is derived from agricultural activity.

In Table I - 9 the estimated percentage of income coming from agricultural activities is given for the target and non-target groups of households. It is seen that only 26% of the gross cash income of the target group households is derived from agriculture in contrast to 52% for non-target group households.

The former percentage — 26% is an extremely significant number in assessing what is the likely mix of loans that can be readily made to the target group clients of the RFEP.

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1/ If target group definition only referred to income of 6000 takas or less, the percentage of target group households with some farming activity would have been 64%.

2/ Some of these individuals might work as farm labourers but they could not use agricultural loans. They probably worked for farmers in the non-target group. Therefore, RFEP loans could not help them, even indirectly.

Couldn't they ~~[illegible]~~ get non-agricultural loans though?

## S - II WHAT IS THE ABILITY OF THE LENDING INSTITUTIONS TO EXTEND CREDIT TO THE TARGET GROUP?

### A. What was the Credit Situation Before RFEP ?

From the Baseline Survey we can obtain a general picture of the proportions of the target and non-target households which received loans before RFEP in the areas covered by each of the lending institutions. This information can be further broken down by the sources of the loans-- institutional, money lenders and friends/families.

The year before the RFEP was inititiated, only 11% of the target group households received loans as compared with 18.6% among the non-target group households. With respect to the target group households the loan incidence varied a great deal from a high of 24% in Sonali's areas to a low of 4.4% in Uttara's areas.

A summary by lending institutions of the source of loans is given in Table II-4 for the target group. It is to be seen that only 4.1% of the target group received institutional loans. Almost the same percentage (4.0%) had to turn to money lenders.

For non-target households the picture is quite different as seen in Table II-5. Nearly 13% received institutional loans and only 2.5% had to turn to money lenders.

Not a great diff in % of target & non-target households that get loans. Is the demand there?

### B. How well Has the RFEP Been Reaching the Target Group with Loans ?

#### 1. The Estimate of Target Group Households and Target Group Borrowers?

It was decided to utilize the estimates of the number of target group households covered by the lending institutions which could be derived from the Baseline Survey. The reasons for reaching this decision are spelled out in detail in Chapter III, Section A, of the complete report.

It was also decided that the classification of borrowers into target and non-target households would be based on the Continuous Survey which was an operational survey called for in the Project and on the basis of which payments from the Project Account would be made by USAID.

2. What Percentage of the Target Group Was Reached Through December, 1979?

Before this question can be answered it is necessary to make several adjustments to the reported number of loans made to "target group". The first adjustment involves the mis-classification of a number of borrowers as target group members as revealed by the Continuous Survey. The Continuous Survey Report dated January 8, 1980 revealed that only 72.6% of the borrowers fell into the target group. The second factor which must be taken into consideration is the number of second, third, etc. loans which were made to the same borrowers. A special survey was made by the Consultants to find this out. The average number of loans per borrower varied by institution. Krishi borrowers had an average of 1.35 loans since Krishi had been operating the longest. The other institutions had rates closer to 1.09 or even 1.0.

50% higher than non-target group

The comparison between the adjusted number target group borrowers and the number of target group households is given in Table III-4. It is seen that through December 31, 1979, 21.3% of the target group households had been reached with one or more loans. The highest percentage reached was by Sonali, which reached 50.6% of the target group households in its areas.

Agrani came second with a reach of 40.2%. The poorest was that BSBL which reached only 7.2%. However, if cooperative membership is considered to be its target group then the percentage reached goes to 30.9%. Similarly IRDP reach goes from 21.8% to 70.4%.

Even within the target group the loan incidence under the RFEP varies significantly. In Table III-6 the loan incidence of those target group families with gross cash income of 3000 takas or less is compared with the loan incidence for families with gross cash income of 3001-6000 takas.

Only 13.5% of the families in the lower income category received loans as compared with an incidence of 30.3% for the families in the higher income category.

## C. How Much Is Being Loaned and What is the Potential Demand ?

### 1. Amount of the Loan

Utilizing the Continuous Survey it is estimated that the average loan to the target group households amounted to 1033 takas as compared with an overall average loan of 1296 takas to all borrowers under the RFEP according to the December 31, 1979 monthly accounting reports of the lending institutions. This means that the loans made to the non-target group averaged about 2000 takas or double.

Nevertheless the average size loan under the RFEP to the target group was 78% larger than it was before RFEP as can be seen in Table IV-4. It will also be noted that there is a variation of 2 to 1 in the average size loan under RFEP-Krishi, Sonali and Janata all loaned an average of around 1300 takas whereas, with exception of Pubali, the average size loan was near 700 takas. Sonali's and Krishi's loans were considerably larger than the pre-RFEP level.

### 2. What is the Potential Demand for Loans ?

Two estimates of the potential demand for loans on the part of the target group households were made. One which we called the "maximum potential" the second is the one which we have called the "pragmatic potential." The first is based upon answers to two questions in the Baseline Survey. The first question asked "If you had an opportunity would you take out a loan ? "The second question was "If you want to take a loan, how much would you like to borrow ?" The answer to the first question was 79% "yes" and to the second, the answer was 1623 takas. Answers were tabulated for target households in the lending institutions' areas with these answers an estimate of the maximum demand potential for each lending institution was constructed. The results are shown in Table IV-5 and total 3, 58, 83,000 takas.

The pragmatic potential on the other hand is based on the best performance of reaching the target group and the highest average loan to the target group. Sonali reached 50.5% of its target

group and Janata gave, on the average, largest loan of 1321 takas. Utilizing these figures we obtain in Table IV-6 a loan potential of 1,86,46,000 takas, or slightly more than half of the pragmatic total.

The value of the loans outstanding to the target group on December 31, 1979 amounted to 16.6% of the maximum potential and 31.9% of the pragmatic potential.

D. <u>What is the Effect of Different Rates of Interest on the Level of Borrowing ?</u>

Because the number of target households in which different interest rates were offered, it is first necessary to determined how many target households actually fell in each interest rate category before any conclusions could be drawn. It was actually necessary to develop several different sets of household population estimates because the interest rates differed in the case of IRDP and BSBL depending upon the use of the loan, crop, other agriculture and non-agriculture.

The analysis was then carried out by comparing the distribution of amount loaned for each type of loan at the various interest rates charged with the distribution of target households among the corresponding interest rates. An Index was constructed in each case which was computed by obtaining the ratio of the percentage of loans in each interest category to the percentage of target households in same interest categories.

1. <u>Crop Loans :</u>

The comparison between loan distribution for crop loans with household distribution by interest rates is shown in Table V-2. It is seen from the Index in the last column that the loans were "oversubscribed" at 30% and 18% especially, the former. At 36% apparently some resistence was encountered. But there definitely was no resistence at 30% if this measure is used.

2. <u>Other Agricultural Loans</u>:

A similar comparison is made for other agricultural loans in Table V-3. It is clear that there seems to be difficulty in making loans above 12% rates of interest.

3. Non-Agricultural Loans:

Table V-4 gives the same comparison for non-agricultural loans. There appears to be a slight upward trend as the interest rates get higher indicating no resistence to the higher interest rates.

4. Conclusion :-

It can be concluded that for crop and Non-agricultural loans the higher interest rates are no impediment to achieving a good level of lending. In the case of other Agricultural loans there appears to be resistence at rates in excess of 12%.[1/]

E. Can Productive Investments Be Made by The Target Group if Loans Are Available ?

It is still too early to determine, based upon data from the RFEP program to draw any definite conclusions, the answer to this question. In the next few weeks we will be getting results of the first farmers' financial survey which should reveal of how the farmers fared with respect to the use of the money they borrowed under RFEP in connection with a given crop season.

It is still too early to come to any conclusions based on the repayment record of the loans which will be analyzed in a later chapter.

Until these data are available which contain sufficient experience, it is necessary to depend upon other information. In the Baseline survey, indications were received that, in opinion of the respondents, the main obstacle to improving their income was lack of capital and loans. When the question was reversed, namely to what "could help you to raise your income" it was not land, but capital and loans which were mentioned. This was true whether the respondents had some farm activity or had none. Lack of land or need for more land was not frequently mentioned.

Further questions revealed that only a minute percentage wished to use the loan for consumption. Most often mentioned was the desire to invest in business etc.

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1/ A multiple Correlation of the size of the loan with a number of variables including interest rate as one of them indicated that interest rate was an unimportant determinate. Income, purpose of loan and amount of land own were the key variables.

We also saw in Table V-2 and V-3 that despite the fact that only 26% of gross cash income comes from agriculture, the target group did take crop loans even if the interest rates were high. In tables VI-3 a comparison is made of the percentage of loans for agricultural purposes with the percentage of gross cash income received from agriculture. The comparison shows that the percentage of loans for agriculture purposes was 2¼ times the percentage of income from agriculture. On the one hand, this represents a successful effort on the part of the lending institutions to direct the RFEP lending program to agriculture. On the other hand, time may indicate that the rate of Non-repayment of agricultural loans might be high because such loans were forced on target borrowers even if very little of their gross cash income was derived from agriculture. There is some evidence of this occuring from the case-studies made by the team's Social Anthropologist.

## S- III. WHAT IS THE PRESENT AND POTENTIAL MOBILIZATION OF SAVINGS AMONG THE TARGET AND NON-TARGET GROUP HOUSEHOLDS

### A. Savings Among the Target Group Households

#### 1. Number of Savers

The Baseline Survey provides information as to the percentage of target group households which were saving before the RFEP. In Table VII-1 of the main part of the report it is estimated that 11.3% of the target households had savings before the RFEP operations were initiated. In the Janata areas a high of 27.8% of the target households were savers.

The number of target group depositors on December 31, 1979 according to the lending institutions is 6,984. However, it is likely that, as in the case of borrowers, a certain number of non-target households were misclassified. In our analysis we have assumed that the same percentage of savers as borrowers were misclassified. This results in an estimate of 5,034 target group savers or 18.6% of the target group households.

Based on a special sample survey of savers carried out in February and March, 1980 we have concluded that 45 of the current target group savers were previous savers. In effect there was a significant shift to the RFEP savings program on the part of previous target group savers. 45%

#### 2. Amount of Savings

Utilizing the lending institutions reports of December 31, 1980 it is estimated that the target group savers have contributed about 7.14% of the resources which they borrowed under RFEP (Table VII-5). The average size deposit was about 8.5% of the average size loan (Table VII-6).

The special survey of savings, referred to above, revealed that previous savers had an average deposit which was twice that of first time depositors, indicating that the savings habit may give them more confidence on the value of the higher interest paid on deposits.

When we try to measure the impact of interest paid on deposits the amount of deposits we find an almost inverse relationship. This is particularly true when the average size of deposit is related to interest rate in Table VII-9. At 11% interest the average size deposit is 121 takas while at 15% interest the average size deposit is 54 takas.

When the average size of deposit is related to income we see which hints at forced savings. The lowest income groups save the highest percentage of income according to the sample survey. The size of the average deposit for households with less than 1000 takas of cash income is about the same as for families with income of 5000 to 6000 takas.

3. Withdrawals

The withdrawals have been quite heavy. Unfortunately, we do not have standards to go by. It almost appears that the savings account acts as a conduit for the loan. Before the credit is actually needed it may go into a savings account. Also at one time the practice on repayments was for at least some of the lending institutions to record them in a savings account rather than to record the payment against the outstanding loan.

In the sample survey of savers we discovered that there were very few savers who made more than one withdrawal. The one withdrawal tended to be quite large (Table VII-11) and the reason for the withdrawal given generally was for investment purposes, primarily for business or the purchase of a rickshaw.

4. Estimated Potential

Two estimated potentials were prepared. The first assumed that every target group household would save a graduated percentage of its income-2% of income for families with gross cash income of 1000 takas or less to 5% for families with income of 3001 - 6000 takas. This results in an estimated maximum savings potential of 37,03,500 takas.

The pragmatic potential which was obtained by using the best performance of any lending institution and applying this performance to the other institutions is estimated to be 19,14,192 takas.

5. Approach to Potential savings as of December 31, 1979.

The savings program for target households is linked to the credit program. Thus, the percentage of target households to be reached by the savings at any given time should be related to the percentage reached in the credit program. The maximum savings potential, then should be reduced the percentage reached in credit program which overall was 21.3% as of December 31, 1979 to obtain the expected potential for that date. In Table VII-7 this was done with rather interesting results. Overall, the savings program to end of 1979 achieved 80% of the potential which should be expected on December 31, 1979 if the concept of linkage between the credit program and savings program is accepted. Two of the lending institutions far exceeded the potential.

B. Savings Among Non-Target Group Households Under RFEP

Number of Savers

The Baseline Survey provides us with an estimate of the number of non-target savers before RFEP. The Survey shows that 31.6% of the non-target households were savers before RFEP. Thus out of 16,209 non-target households, 5,125 households had savings accounts.

The lending institutions have shown little or no inclination to pursue savings program under the RFEP which calls for payment of much higher interest rates than is normal. Thus out of 62 outlets being operated under RFEP only 22 have any kind of savings program for non-target households. If IRDP and BSBL outlets are eliminated since they are paying only 4.5% and 6.5% and thereby they do not provide an opportunity to test the effect of higher interest rates on savings, there are only 17 outlets which have a non-target program.

As a result it is estimated that only 3,400 households are exposed to non-target RFEP savings programs or about 20% of the total number of target households. In fact only305 households are exposed to 15% interest savings account. However, if we assume that the lending institutions are also misclassifying savers as they have borrowers, it is possible to assume that the lending institutions are reaching additional non-target households inadvertently with RFEP saving programs. If this assumption is accepted then a total of approximately 2,600 non-target savers were reached or 16.0% of the total number of non-target household. If IRDP is eliminated then the number reached is about 2,150 or 13.2% of the total of non-target households.

2. Amount of Savings

Without IRDP average? non-target savings reported as such by the lending institutions is considerably higher than that of target group savers, namely over 700 taka on the average compared with 85 for target group savers. If we add the misclassified non-target savers into the picture but at much lower average deposit (22% higher than the average of account of target group based on tabulations of a sample survey of savers) the total amount of non-target savings equals about 534,000 takas (Table VII-4).

3. Impact of Interest Rates on Non-Target Savings

Because of the relatively low exposure to different interest rates -- only 305 households are exposed to 15% interest rate it is difficult to come to any conclusion as to the impact of interest rates on savings.

4. Potential for Savings

The same methodology for estimating non-target group savings potential was used but consideration was given to the higher income classes involved through the assumption of progressively higher percentages of income saved. The maximum potential is estimated to be 80,70,000/takas while the pragmatic potential is slightly more than half the amount or 40,71,000 takas.

C. Combined Potentials of Target and Non-Target Households.

Adding together the target and non-target households maximum potentials we obtain 1,17,73,000 takas. Taking the more realistic pragmatic potential we obtain combine pragmatic potential of 63,85,000 takas.

In Chapter S-II it was noted that the maximum demand for loans was 3,58,83,000 takas and the pragmatic demand was 1,86,46,000 takas. This means maximum savings potential would meet slightly less than one-third of maximum potential credit demand while pragmatic savings potential would meet just about one-third of the pragmatic credit demand. In effect, two thirds of the potential credit demand will have to be met by head office advances.

## S - IV WHAT IS THE FINANCIAL VIABILITY OF RFEP?

### A. Introduction

It is still too early to reach final conclusions regarding the financial viability of the RFEP approach to rural credit delivery to the target group clientele since for all but one of the lending institutions operations cover only 10 months or less. The approach in this Evaluation Report has been to review the record up to December 31,1979 concerning: 1) Revenues, 2) Expenses, 3) Overdue Re-payments, 4) The resultant status of viability. In addition, projections have been made for 1980 taking into consideration rate of growth in activity among the lending institutions during last four months of 1979. Finally, the viabilities of the different institutions have been estimated assuming that the "pragmatic" potentials both for credit to the target group and savings are reached.

### B. Revenues

Total income made up of both cash income and accrued income as estimated by the Consultant where it was not directly available from the lending institution totaled over taka 10,30,000 (Table IX-1). Krishi accounted for over 60% of the total due to a combination of longer operation and loan interest mix.

Assuming that the rate of increase in interest income achieved in the last four months of 1979 could be maintained throughout 1980, the estimated revenue for the 12 months of 1980 would be Taka 30,80,000 (Table XII-8). This is about three times the amount cumulated until December 31, 1979. This does not seem unreasonable since all but one of the institutions did not start lending until March and several were still opening outlets as late as June or July.

C. What are Costs and What are they likely to be ?

Of the total operating expenses of Taka 9,25,000, head office expenses accounted for 22% (Table X-1). Start up costs were very small especially when amortized over 3 years (Table X-2). The highest amount was for Sonali-- Taka 193 a month.

Cost for capital or resources used for lending totaled Taka 4,05,000. The total amount of interest paid to target and non-target group depositors was 41,000 takas or about 10% of the total capital costs.

The subject of overdues and bad debts will be discussed below in detail. The monthly financial reports of the lending institutions do not contain a reserve for bad debts. At this point in time due to uncertain knowledge, a bad debt reserve was set up amounting to 3% of outstanding loans. This is arbitrary. As of December 31, 1979 this reserve would amount to Taka 2,74,000. Total expenses including the reserve for bad debts therefore amounts to Taka 16,04,000.

D. What is the Extent of Overdue Payments, What Should be the Reserve for Bad Debts ?

1. The Extent of Over due Payments

As of December 31, 1979 the percentage of overdue to loans due or paid in advance was 27.46% (Table XI-1). There was considerable variation in percentage of overdues from nil in the case of IRDP and less than 2% for Agrani to over 53% for Uttara. The only lending institution for which a comparison can be made with June 30 is Krishi, which reduced its overdues from 38% to 30% (Table XI -3).

Despite the fact that Krishi has been in operation longer than either Sonali or Uttara the percentage of loans overdue between six to twelve months is only 0.27% compared to 11% and 7.5% for Sonali and Uttara respectively (Table XI -2).

Classification of the overdues by the interest rate being charged at the outlet indicates a very strong relationship between the interest rate and the percentage of overdues (Table XI-4). At 12% interest the overdues were only 6.37%. It rises steadily until at 30% interest the overdues were 56.73%. There is some drop-off at 36% interest. However, it is to be remembered that there are relatively few loans and target households at that rate. If this relationship continues as the Experiment progresses the extra revenues gained at the higher interest rates may be offset by the need to provide higher reserves for bad debts.

4. Prevention and Reduction of Overdue Loans

A number of steps should be taken to reduce the overdue loan level. These may be grouped under such categories as: a) proper lending procedures, b) improved scheduling of loan repayments, c) carrying out vigorous collection procedures, d) rewards to borrowers for prompt payment and e) provision for insurance in case of calamity.

5. Reserve for Bad Debts

It is too early to come up with a definite formula with respect to determine the size of the reserve for bad debts. It may have to relate to the interest charge as noted above, it may have to relate to the aging of the overdues, or it may be just a flat percentage of the size of the loans in the REEP loan portfolio. For the moment, for the purpose of computing profit or loss a 3% reserve is used which is believed to be 50% higher than the institutions use for their normal operations.

E. What Was the Viability As of December 31, 1979 ?

The overall loss for all institutions from start-up time through December 31, 1979 was Taka 2,96,000 before allowance for bad debt. This amounted to 3.24% of the net outstanding principal as of that date (XII-1). Krishi with largest outstanding balance had a small profit- 34,000 takas or 0.79% of outstanding principal. There is a rough relationship between the size of the outstanding principal when allowance is made for certain operating characteristics of the credit models being implemented by several of the institutions. Thus Janata, Pubali, Rupali and Uttara all have outstanding principals amounting to less than Taka 8,00,000. Their losses range from 8.7% to 20.9%. On the other hand, Sonali and Agrani with over Taka 10,00,000 each of outstanding loans had loss less than 4.5%. The relatively low losses of IRDP and BSBL are attributable to use of part-time help and their narrow target group -- cooperative members only.

A number of outlets in various institutions made respectable profits before provision for bad debts (Table XII-2). It is noted that all of them charged 24% or higher interest on loans. When the net income or losses of the outlets are tabulated by interest rates, there is a clear indication that profits, not including provision for bad debts, are highly correlated with interest rates, at least, up to the 36% interest rate. The reduction in net profit at that point might be due to small number of outlets charging that rate.

F. Impact of Reserve for Bad Debts

The inclusion of a 3% reserve for bad debts naturaly reduces the net income. The only interest rate to show a slight profit is for outlets charging 30% interest (Table XII-5). At 12% interest rate the loss goes up to 6.84%.

It was noted in the discussion on overdues that the information to date indicates that the overdues rise with the interest rate charged. For that reason, another set of estimates were made using progressively higher percentages for bad debts as the interest rate charged is increased. The range for bad debts used is 1% at 12% interest to 5% at 36% interest. The effect is to reduce the size of the loss at the lower interest rates. However, with interest rates of 24% and 30% the losses are slight and, of course at 36% a much larger loss occurs (Table XII-6).

G. Estimated Net Income or Loss for 1980.

Utilizing the assumptions made for 1980 revenues and costs referred to above, the RFEP program would show a sizeable net income of Taka 10,37,000 before reserves for bad debts (Table XII-8). Only two lending institutions would show small losses — Rupali and Uttara.

With the allowance of a 3% reserve for bad debts, the net profit is cut almost in half. Only four of the lending institutions remain profitable.

## S - V WHAT ARE THE OPERATIONAL CAPABILITIES OF THE LENDING INSTITUTIONS ? 1/

### A. Staffing:Quality of Training and Improvement of Management

#### 1. Academic Qualifications and Training of Staff :

The academic qualifications of staff remained high with 63% of the Grade 1 employees (Managers) being university graduates, 24% having gone beyond the bachelor's degree level. (Table XIII-1)

Banking training which staff has received seems to be adequate for carrying out the general responsibilities under the RFEP Project .

However, a considerable percentage of the field personnel expressed the desire for more training (Table XIII 2 and 3) on RFEP matters referring to

a. Time devoted to previous training appeared inadequate
b. RFEP standard accounting procedures and data collection require further clarification, explanations and assimilation.
c. Clarification of the relation of the Experiment to day-to-day rural finance realities is desirable.

#### 2. Improved Assistance from Higher Level Management

The field staff reported that they were receiving more visits and assistance from top management in the lending institutions and better support. One problem however, is the number of transfers into and out of the RFEP Offices which had occured in the relatively short life of the project. It is estimated from the various surveys that over one fourth of field employees have transferred into the RFEP offices since the program was initiated in each lending institution. This is one reason that many of the staff members know so little about the RFEP Program.

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1/ Most of the information in this Section is based on the second Output Level Survey : Performance of Lending Institutions which was carried out in February, 1980.

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There also appears to be a gap in the chain of command which requires the strengthening of the regional offices and officers. Summary of actions to be taken is discussed in S-VIII, Recommendations.

Through the initiation of regional workshops the Consultant has already taken action to cover the deficiency in training at the regional and field staff levels.

3. Training and Productivity

Relating satisfaction with the quality of training received and productivity per employee in each lending institution seems to indicate a positive correlation. If the institution ranks high in the rating of training received it tends to rank high in productivity per employee (Table XIII-2(a) and Table XIII-2(b)).

B. What is the Rate of Productivity ?

1. Factors determining Productivity

Current productivity is tied to 7 key factors which appear to be equally important to overall operations at this time. They are:

a. Clear idea of Project Purposes
b. Clear appraisal of individual model's characteristics
c. The nature of institutional Rural finance elements e.g. interest rates, credit, credit needs and credit demand.
d. Advanced planning of lending and savings activities of the institutions.
e. Personnel specifications and criteria
f. Incentives to personnel
g. Quality of implementation tools

2. Level of Productivity - July 1, to December 31, 1979

In Table XIV-1,2,3, and 4 the productivity of each institution has been analysed in four ways -- number of loans divided by

a. the number of outlets and number of employees and
b. the value of the loans made divided by the same two factors.

The average number of loans per outlet made in the six month period was 81. The average number per employee (full time plus part time) was 45. From the standpoint of number of loans per employee Krishi was considerably ahead of anyother institution with IRDP at the bottom.

Krishi, however, ranks much above any other institutions when it comes to the value of the loans per outlet or per employee.

3. Number of Full-time and Part-time Employees :

One of the problems with respect to productivity is the large number of part time employees. Almost 2/3rds of the employees are part time (Table XIV-6). In the case of IRDP and BSDL all the employees are part-time employees. Even if we remove these two institutions, part-time employees accounts for 50% of all employees.

According to the Management Survey (January 1980) total number of employees in RFEP was 111 ( as per respondents' Opinion) which includes 43 fulltime and 68 part time employees(Table XIV-6)

However, as per head office report there is some discrepancy. The respondents stated that the number of full and part time personnel is 68 and 120 respectively.

According to the Project Paper, the number of full-time and part-time employees were supposed to be 43 and 81 respectively. Thus, we note here that only 30% of all employees working in RFEP are full time which is one of the problems with respect to productivity. This has been discussed in detail in the Model Implementation Report.

## S - VI HOW WELL ARE THE CREDIT MODELS BEING IMPLEMENTED BY THE LENDING INSTITUTIONS?

### A. Functional Analysis of the Model Implementation :

#### 1. Group Lending : Janata, Uttara, IRDP and BSBL

Some 134 groups are involved with over 2700 individuals(Table XV-1). Credit disbursements do not seem to be higher as the result of the larger volume of business which could be generated because of group lending.

Strong individualism of the rural dwellers seem to inhibit the forming of groups for the purpose of borrowing.

#### 2. Area Development : Janata and Sonali

Very little has been accomplished with respect to this model.Sonali in Comilla, Chittagong, Mymensingh, Dinajpur and Khulna is engaged in some forms of area development. Lack of trained personnel in area development may represent one of the principal constraints to the carrying out of this model.

#### 3. Assistance to Borrowers with Production Plans : Krishi, Janata, Sonali, Pubali, IRDP and BSBL

The lack of experience of the institutions in agricultural credit except possibly for Krishi is one of the constraints in implementing this model. Also the staffs' limited knowledge as to how to proceed to prepare production plans hampers the fulfil ment of this model. A still further problem arises with respect to lack of accurate data on which to base production plans with result that wrong decisions are frequently made.

#### 4. Technical Support: Sonali, Agrani and Pubali

Staff with the proper training and experience is extremely limited. Whatever technical assistance is being given is provided on a part-time basis by extension personnel. It is necessary to develop local and regional skill banks of personnel accompanied with adequate planning.

5. Marketing I-Obtaining and Delivering of Inputs : Janata, Agrani, Pubali and IRDP

The delivery of inputs given in Table XV-4 indicates that the quantity of supplies handled by the institutions is extremely limited. In the case of Agrani and Pubali the total of amount of inputs purchased is insignificant compared to the amount of loans disbursed indicating that little effort is being made to implement that phase of their model.

6. Marketing II :- The Selling of Farm and Non-Farm Produce : Janata and Pubal.

There is little evidence of assistance in the marketing of produce by the two lending institutions involved.

B. How Do Lending Institutions Rate with Respect to Model Implementation.

1. Outlet Model Implementation Survey

An approach to determining the quality of model implementation on the part of the lending institutions was provided by a survey of 21 (1/3) of the outlets of the institutions utilizing a series of questions which would increasingly reveal the extent and quality of model implementation. The interviews were conducted with bank managers, lending officers and other personnel in the field outlets working on the RFEP.

The questions dealt with the following subject matters :

a. Statement of the name of the credit model being implemented
b. Statement of the characteristics of the model
c. The nature of the security which was required for loan disbursement.
d. Method of selection of borrowers and loan disbursement procedures
e. Loan sanctioning authority
f. Modes of loan disbursement—cash or in kind
g. Modes of loan recovery — cash or in kind
h. Nature and extent of technical supervision given
i. Nature and extent of savings mobilization
j. Other characteristics special to a particular model

The answers were then graded as being acceptable, partially acceptable or unacceptable on a score of 20, 10 or zero, respectively.

2. The Findings

In Chapter XVI of the main part of the second Evaluation Report, each of the answers to the question given by the personnel of the lending institution is discussed in detail. The scores received for each question were then combined weighting each question equally. When the overall scores are obtained and the lending institutions arranged by score, we obtain a picture of the overall quality and the extent of model implementation as seen from the outlet level.

The overall scoring and ranking are as follows :

| Status of Model Implementation | Lending Institutions And Score | |
|---|---|---|
| Low Divergence from Model | Rupali | 88% |
| | Pubali | 74% |
| Moderate Divergence from Model | Sonali | 60% |
| | Uttara | 58% |
| | Janata | 55% |
| | Agrani | 52% |
| Gross Divergence from Model | Krishi | 49% |
| | IRDP | 44% |
| | BSBL | 31% |

## S - VII. WHAT ARE THE PROBLEMS AND BENEFITS OF RFEP AS SEEN BY ITS TARGET CLIENTELE ?

### A. Introduction

The Social Anthropologist of the team has been speaking directly to the target clientele in various villages. Brief extracts of his conversations by topics related to the critical questions are provided in the main part of the Second Evaluation Report. In addition a supplement will be published giving the more expanded version of the interviews, case by case, which will be available on request. In the following summary a pertinent statement on a particular subject will be taken from one or another of the persons whom the Social Anthropologist talked with.

### B. Interest Rates

Radesh Sham Das, a Hindu fisherman in Baligaon Outlet of Agrani said 30% was too high but he was happy to get the loan because he needed it and also because he could not get a bank loan. He knows that local money-lenders charge 10% a month, that is too much. Compared with that, 30% interest of the project loan although is high is quite good.

### C. Purpose of the Loan

In certain outlets the borrowers were given loans for purposes they did not want. For example, Enamul Huq was a landless labourer wanted to use the loan for a business that would bring real benefits. But he was refused the loan and instead was given a loan in kind - a milch cow. He has no money even to buy fodder. He could not make the repayment " The milch cow cannot help me " he said.

D. Size and Duration of Loan

Many persons complained about the size and duration of the loan. They felt it was too small. They also did not like the use of installments to repay the loans. Narayan Das and others at Baligaon said that they need larger loans and they should be extended from six months to one and half years.

E. Benefit from the Loan

Mohammad Siddique Sheikh said that the loan helped him buy a small boat to ferry people and this brings him daily cash income. If he had not received this loan he would have had to work as a day labourer which is an uncertain job.

F. Summary

If one goes through the large number of cases already accumulated by the Social Anthropologist and the Field Credit Specialists the impression one gets is that the project is looked upon as being desirable and helpful even if, at first, the interest rates appear to be high. They then say that the alternative is the money lender to whom they must pay 10% per month. They appreciate the RFEP loan because it is not possible to receive a normal bank loan. They seem to resent the fact that the lending officers sometimes will not lend money for what they want the loan for. Except for those borrowers who get a loan in kind for which they did not ask such as a milch cow or calves which require operating expenditures for the purchase of fodder, they state that they will not have any problem in paying off the loan. However, they seem to prefer lump sum payment instead of installment payments. It is clear that most of the loans which are given for purposes which they desire are probably going to benefit them.

## S-VIII. RECOMMENDATIONS

A. Restructuring Outlets

1. Increase average size to that of Krishi's.
2. Drop IRDP and BSBL unless they expand RFEP lending to full target group in areas.
3. To obtain more efficient testing, it is necessary to increase size of target groups at 30% and 36%.

B. Change in Credit Loans

1. Longer repayment schedules.
2. Larger Loan: permit when required.
3. Reduce pressure on outlets to lend for "OTHER AGRICULTURE".

C. Savings

1. Working with Consultant's Saving Specialist Institution should develop innovative savings programs especially to develop savings habits.
2. Lending institutions should implement non-target group savings more vigorously.
3. IRDP and BSBL savings generation should not be considered as part of experiment.

D. Financial Viability

1. Increase Volume.
2. Insure RFEP personnel do not undertake other assignments.
3. Lending institutions should review existing overdues and determine causes and remedial actions.
4. Each lending institution should establish reserve for bad debts.

E. Model Operation Improvement

1. Training

a. Training Manual should be completed.

b. The training institutes of lending institution should develop A 12 month RFEP training schedule.

c. Course should be given to Evaluation Officers of each institution.

d. Special training course for Regional Officials.

2. Management

a. Outlets should receive copies of Consultant's second management report and branch managers and project should report on corrective actions.

b. The Project Officer and the most experienced loan disbursement officer of the lending institution should review their RFEP outlet operations and recommend action to improve productively.

F. Model Implementation

Each lending institution should review Consultant's Model implementation Survey of 21 outlets and provide the Bangladesh Bank with a statement of corrective actions to be taken.

G. Target Group Definition

The restriction related to the ownership of two acres of cultivated land should be eliminated from the target group definition.