PD-AAT-167
44659

FINAL REPORT

TO :
BANGLADESH BANK
AGENCY FOR INTERNATIONAL DEVELOPMENT - USA

RURAL FINANCE EXPERIMENTAL PROJECT
BANGLADESH

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

PROGGANI CONSULTANTS LTD.
DACCA
BANGLADESH

62 DHANMANDI R. A. ROAD NO. 7A DACCA 9 BANGLADESH TEL : 314834 313873

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 38 73

Ref. No. RFEP-G.55(7)80-789

27 August 1980

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

Dear Mr. Molla:

Submitted herewith is our final report of services provided to the Rural Finance Experimental Project under the contract between the joint venture of Clapp and Mayne, Inc., Servicios Tecnicos del Caribe and Proggani Consultants, Ltd. and the Bangladesh Bank dated 24 August 1978.

As stipulated in Section 1.5 of the contract this final report covers progress and conclusions and describes services rendered during the period from project start-up through August 1980. It contains an analysis of all data available at this time and suggests additional work necessary to arrive at definitive and actionable judgements as to which method or methods of rural credit delivery will most likely produce the greatest benefits to the target group within present and forseeable future constraints.

It is understood that the joint venture is to be requested to continue work under the present contract, albeit on a reduced scale, until a second wave of consultants can be contracted and are on board. A report would also be prepared on this work covering services performed during that period; this would include any further conclusions developed.

It has been a distinct challenge to assist you in this important work. Should the occasion arise in the future in which we can be of supplemental service to you and the Bangladesh Bank, we would be happy to cooperate.

Sincerely yours,

Martin C. Clapp

Martin C. Clapp
Clapp and Mayne, Inc.
For the Joint Venture Firms

Contents

Page No.

Page No.

PART A: SERVICES RENDERED DURING THE CONTRACT PERIOD

This Part sets the project in general perspective and describes the Contractor's inputs during the contract period.

Chapter I consists of a brief introduction which includes an identification of the joint venture which undertook the work and an indication of the level of effort provided. The following chapter describes the mobilization and start-up process and the preliminary Work Plan prepared by the consultants. Chapter III summarizes the services provided under the specific functions set forth in the contract, outlining what was achieved, problems encountered and steps taken to resolve them, and the status of work at the end of the present contract period.

I. INTRODUCTION

The objectives of the Rural Finance Experimental Project are to identify institutional credit systems and components thereof which will be effective and efficient in extending credit to small farmers and other rural poor producers and in recovering resources lent with interest on a timely basis. Moreover, the successful methodology sought is that which will be replicable in the future. A corollary objective is that the system or systems and components thereof be self financing through the attraction and retention of savings.

A contract for the provision of technical assistance services to achieve these ends was entered into with the Bangladesh Bank by a joint venture consisting of Clapp and Mayne, Inc. and Servicios Tecnicos del Caribe (both of San Juan, P.R.) and Proggani Consultants, Ltd. (of Dacca, Bangladesh) on 24 August 1978. A Joint Venture Agreement was executed by the three firms on 14 November 1978 spelling out their respective responsibilities.

Clapp and Mayne, Inc. was designated at the lead firm and provided the Project Manager, a Financial Analyst and an Evaluation Specialist. Servicios Tecnicos staffed three other technical positions for the project, i.e. a Field Credit Specialist, a Credit Training Specialist and a Rural Savings Specialist. Proggani, in addition to providing several professionals, including a Field Research Specialist, a Social Anthropologist, and Field Credit and Credit Training Specialists, also expanded and made its field survey and office processing and support organization available to the project.

In addition, a number of short term professional specialists were utilized during the course of the work, including a Regional Planner, an Agricultural Model Consultant, a Social Anthropologist, an Econometrician and others. A total of 257.5 man work-months* was provided in the contract of which 234.3 was brought to bear on the project work through August 1980.

* Of key personnel

II. MOBILIZATION AND PROJECT START-UP

This Chapter covers initial steps taken prior to the arrival of the non-local staff in Bangladesh, completion of logistic and administrative arrangements and preparation of the first Work Plan.

Activities Antecedent to Arrival of Non-local staff in Bangladesh

A series of meetings was held in the San Juan offices of Clapp and Mayne, Inc. and Servicios Tecnicos at which materials relevant to the project, its background, objectives and constraints were discussed and staff to be assigned were briefed. The Project Director, who was then residing in Florida, was brought to Puerto Rico to participate in these sessions and to begin working with the technical team. Also participating in these meetings were Messr. Alvin Mayne and Martin C. Clapp as well as Mr. Rivera Santos of Servicios Tecnicos.

During this period Proggani Consultants moved rapidly in logistics matters, making preliminary contacts for office space, identifying equipment and supply needs and sources from which to procure them, and recruiting necessary administrative support personnel. In addition, Proggani developed preliminary survey plans and related field strategy and determined field research and data collection staff and local offices necessary for subsequent survey work. Outlines for two key data collection instruments were developed, meetings were held with USAID and BDB to secure additional data and insights and trips to the field were made to obtain first hand information regarding suitability of areas for experimental and control work.

Project Organization and Administrative Arrangements

As a project of the size and complexity of RFEP required a clearly understood organization structure, this was discussed at the outset and agreements reached as to the respective responsibilities of each of the constitutent units. This was later put in written chart form and is depicted functionally on the chart appearing at the end of this chapter.

Administrative and financial procedures were also developed for project use, including those concerning pre-auditing, budgeting and payments, accounting, invoicing, purchasing, property management and control, use of vehicles, filing and other necessary matters. These were put in a numbered administrative memoranda series and local support staff trained in their use.

Arrangements were made for office space, furnishings, equipment and supplies but, pending availability of the former, the facilities of Proggani were used for project activities. With the help of Proggani suitable housing was secured for all non-local staff and the settling-in process was completed in reasonable time.

Planning the Project Work

Following initial "get acquainted" sessions between the local and non-local consultants, a series of meetings was held with officials of the BDB, USAID and others concerned regarding project objectives, work to be accomplished and constraints previously identified. Field trips to selected areas were made to get further "on-the-ground" understanding of agricultural problems and to observe farm conditions, the uses to which credit could effectively be put, and characteristics of the target population.

Based on the information and insights secured in the steps above the first Work Plan was prepared. As stated in that document the basic work elements were seen to consist of (1) assistance in improving the design of models and in making them operate successfully to the extent inherently possible; (2) evaluation of results, drawing actionable conclusions for use in the modification of models as seen desirable and identifying those approaches and procedures seen successful and developing detailed plans for replication; and (3) administering the incentive system built into the financial grant to the participating lending institutions.

The Work Plan, consisting of some 71 steps, set out the tactical approach to the achievement of these component elements and made preliminary estimates of the time required and the timing of the constituent steps by phases. The Plan was presented to the BDB and USAID on November 6, 1978, discussed in-depth and approved for use with the understanding that as work progressed it would be revised in the light of actual findings and problems encountered in its execution.

III. WORK PERFORMED AND PROGRESS THROUGH AUGUST 1980

This chapter describes services rendered from the Rural Finance Experimental Project inception through August 1980 in carrying out the Work Plan. It summarizes the work performed under the functions specified in Section 1.3 of the Contract and indicates the principal problems encountered and steps taken to resolve them. Reference is also made to the various reports and other documents generated during the work.

The substantive conclusions and recommendations do not appear here as they are set forth in the following chapter.

1. Advise/assist the BDB in performing overall project planning and management. As directed by the BDB, exercise broad responsibility for the conduct of the project, including project administration, organization, finance, logistics and technical services.

Following initial project organization and management steps described above, the first draft of the project Work Plan was prepared, submitted, discussed and cleared with the BDB and AID. The plan covered all basic steps of the project and included a time table indicating the scheduled start and completion of all steps. This plan guided activities during early phases of the project and a revised and updated Work Plan was prepared and submitted in May 1979 based on the experience accumulated as of that time. In addition, individual work schedules and check lists were prepared by the key staff members to guide and schedule their particular activities. These were modified and defined as the work progressed and additional insights were secured .

In addition to providing the long and short term technical staff stipulated in the contract, principals of the San Juan component of the joint venture visited the project on four occasions, spending approximately nine months in Bangladesh. This was supplemented by a two and a half month visit by a senior officer of one of the firms.

The services rendered during these trips included the organization and direction of project start-up; preparation of the initial work plan; review of subsequent progress and problems; preparation of major evaluation reports and their presentation to the BDB, AID, and others concerned; and the final review of work and preparation of the project completion report.

During the course of the project periodic reports on progress, achievements and problems encountered were submitted to the BDB and AID. These were supplemented by frequent meetings with cognizant officials of those organizations at which project work directions and important findings were discussed and further guidance and orientation were received by the project staff.

Another device employed in overall project management was the monthly meeting set up by the Bangladesh Bank at which responsible officers of each of the participating institutions reported monthly and cumulative project results as evidenced by the number and purpose of loans granted, repayments, overdues, etc. The meetings were chaired by an official of the Bangladesh Bank and the Consultants as well as a representative of AID attended and participated in subsequent discussion, pointing up matters for general information and action.

A number of significant problems arose during the two year span of the present project. Some of these related to substantive aspects and others to project administration and management.

Delays in model implementation largely beyond control of the participating institutions and the fact that the volume of lending was considerably less than originally anticipated during this period - and thus less data available - precluded the development of more definitive conclusions regarding model efficacy and insights regarding lending systems and components thereof which might be the most successful in reaching the target group.

The actual dates of model implementation and lending start were as follows:

Institution	Date Model Lending Commenced	
	First Branch	All Branches
Krishi Bank	October, 1978	December, 1978
Sonali Bank	December,1978	May, 1978
Janata Bank	March, 1979	June, 1979
Agrani Bank	March, 1979	September, 1979
Pubali Bank	March, 1979	March, 1979
Rupali Bank	May, 1979	June, 1979
Uttara Bank	February,1979	May, 1979
I.R.D.P.	March, 1979	April, 1979
B.S.B.L.	March, 1979	September, 1979

The late arrival of the Evaluation Specialist also slowed up that process although this specialist's work was hampered by the lack of information needed for the in-depth analysis of project impacts on the participating institutions and on the target group. Also affecting progress was the fact - beyond the control of those in Bangladesh - that several of the specialists were required to be evacuated for an aggregate period of some six months.

More importantly, however, the Project Manager assigned proved to be inadequate and his services were terminated by the Consultants in mid-project. These inadequacies resulted in less than satisfactory coordination and direction to the project and in the failure to utilize the technical staff and survey facilities provided by the Consultants as effectively as contemplated.

Part of this deficiency was covered by an extended visit by a Principal of one of the expatriate firms who reorganized the work, up-dated project evaluations and formulated steps designed to strengthen direction and

and staffing and to restructure the Project. He was followed by a senior officer from the expatriate group who made a further in-depth analysis and review of findings and developed conclusions and recommendations based on experience and subsequently available data and identified additional steps to be taken to achieve final project objectives. The results of this work appear in Chapter IV of this final report.

2. Assistance in the design of seven or more individual experimental credit and savings models corresponding to each of the participating financial institutions.

The Credit Component

The project paper presented a full description of the credit models which were developed, essentially, by the individual lending institutions. Prior to the time of the arrival of the Consultants, most of the models had been amplified and revised. As soon as work began the model characteristics were thoroughly analysed and it was then decided by the RFEP consulting team not to recommend further modifications in design at the time but to implement them as they were. It was agreed at that time that such modifications as desirable would be made during model operation once experience had been accumulated and further analysis and evaluation made. (See discussion of function 3 below for subsequent findings and conclusions).

The Savings Component

All of the models to be tested were basically credit models and there were no specific savings models as such prepared prior to the arrival of the Consultants.

Following the initial orientation period, the Consultant's specialist assigned to this component prepared a descriptive paper on rural savings mobilization considering the experience in low income countries and in rural Bangladesh. This paper was presented to and discussed with all the participating lending institutions during the orientation training program conducted by the consulting team. This training was held during January, February and March 1979 and was attended by approximately 165 participants (project officers, field staff and top officials) from all the lending institutions.

A series of recommendations was made in December 1978 through the BDB to the lending institutions as to strategies for rural savings mobilization. These included ways to conduct promotional savings programs with a set of slogans designed to elicit the desired conduct. The observations made were based on extensive observations made during five field trips as well as information secured through a review of the ASSARD project, a small farmer credit program sponsored by FAO and the Janata Bank.

After consultation with lending institutions and further field trips to experimental outlets, a savings model outline was prepared. This was an attempt to develop a standard for savings policies among the participating agencies and to motivate the institutions to test new ways of mobilizing rural savings. The model outline was discussed with Mr. Gary Adams, USAID Project Officer, and then sent to and discussed with all the lending institutions during the month of April 1979. As a direct result of this action, five institutions prepared savings model drafts: these were Krishi, Janata, Uttara, IRDP and Agrani.

For additional guidance, the specialist prepared a more detailed savings model with two variants. This was based on a group approach with (1) joint accounts and (2) individual accounts.

A special paper entitled "Rural Savings : Organization and Methods" was prepared and discussed with all the lending institutions during the RFEP Seminar in May 1979. The major emphasis of this paper was on systematic voluntary savings and it provided participants with specific ways to approach the Bangladesh rural population for savings deposits.

During the last quarter of the present project five new savings models were prepared and submitted by the project for the consideration of Bangladesh Bank and the participating lending institutions. Discussions were held with project officers, bank field staff and target group borrowers and to date five lending institutions have expressed interest in testing some of these models. It has been recommended, however, that each institution should seek approval from Bangladesh Bank before implemention during the period ahead; this matter is understood to be under consideration of the Bank at present.

3. Advise and assist each participating financial institution to implement its credit and savings model. This includes attention to policy, management and operational aspects of the model.

The Credit Component

As indicated above implementation of the credit models got a late start on the part of all but one of the participating institutions. The only institution which started lending operations as early as October 1978 was Bangladesh Krishi Bank; it was not until several months later that all institutions were on stream.

The RFEP Field Credit Specialists started visiting the experimental outlets of the nine participating institutions in February 1979. For effective monitoring of lending activities, annual work plans were prepared which included activities to be carried out month by month. A check sheet was also prepared in order to assess significant aspects of model operation as well as to address the critical questions set forth in the project paper.

From February 1979 to July 1980, 57 experimental outlets were visited once, 14 outlets twice and 3 outlets three times. During the field trips project activities were studied and discussed with the staff of the lending institutions, loanees and others related to the project. From 8 to 10 borrowers of different type of loans were interviewed in each outlet to obtain basic information on model operation. Problems were identified and methods to increase the efficiency in reaching target group were formulated and discussed with lending officers concerned. These were also discussed with project officers at the head office level. For each trip a field visit report was prepared and submitted to the respective lending institutions as well as to Bangladesh Bank. During the process information was gathered concerning the reaction of the loanees on interest rates, size of loan, and responsiveness of loanees to repayment plans. Also studied was whether a one dimensional credit program was feasible or whether or not the program should be integrated with the delivery of farm inputs.

The specialists assigned to the credit systems component also examined how group credit and savings programs were working in the field, the impact of expanded institutional credit in the rural area, the percentage of credit going to the target group, target group responsiveness to loan procedures, and the impact of loans in the project area. Recommendations stemming from these observations and analysis were made and discussed with officials concerned.

A detailed report on findings, model-by-model, was prepared in August 1979, pointing up the strengths and weaknesses in the implementation of each. This report was discussed with the managing directors and others involved.

Based on continuing field trips and analyses of the functioning of the several models it became further apparent that in many cases the institutions were not following the original specifications. The Field Credit Specialists of the Technical Support and Monitoring Unit prepared a report on these findings with some recommendations for adjustment. (During this period the participating institutions were concentrating largely on reaching the target group with loans and taking steps to improve administration through training, more appropriate logistics, etc.)

\\

A subsequent analysis was made of the operations of the nine models and recommendations were made for their redesign and modification, dropping certain features which did not appear to be fruitful and adding others.

Further observation and in-depth study, however, revealed that, in design as well as in actual operation, the nine models originally conceived did not represent nine discreet methods of delivering credit to the target group. It was found, rather, that there were probably four basic methods among the total range of models. These are described in Chapter IV of this report, together with preliminary conclusions as to the efficacy of each in achieving project objectives.

At the close of the period the institutions themselves were reviewing the models on the basis of experience and discussions with the Consultants and it is expected that their recommendations will be available in the near future.

In cooperation with the Training Specialist of the RFEP the Credit Specialist conducted two Special Training Programs for the project staff in credit systems matters. In addition, during the absence of both training specialists a training program for rabi crop cultivation was prepared and given in October 1979 to field research officers of RFEP who then proceeded to provide guidance and assistance to credit staff of each outlet.

The Saving Component

As noted above, the project paper devoted considerable space to the description of various credit models by the individual lending institutions but, in contrast, did not develop associated savings models other than to present some suggested variables to be included.

Moreover, from the standpoint of the lending institutions it was to their advantage to concentrate on the credit program because of the special incentive made available by AID to that phase. No similar incentive was extended for developing and implementing savings models. An illustration of the relative weight of the credit component of RFEP in the minds of the lending institutions is the fact that they appointed credit/loan officers but in no case was a savings officer provided.

The above situation coupled with the fact that within the RFEP consulting team itself primary support and emphasis was placed on the lending phase, created major obstacles to achieving successful implementation. Though the savings models were not implemented during the project period, it should be noted that a sizeable amount of savings have been mobilized among the target and non-target groups, proving that the small rural producer can and will make savings deposits.

Shortly before the second project evaluation, a savings questionnaire was prepared and used in a survey conducted in several branches of the participating institutions. The findings of this survey were included in the Evaluation Report. The survey questionnaire was later revised for future savings surveys.

In order to provide lending agencies with savings potential estimates in their respective experimental areas, a projection was made of potentials among target and non-target groups. This was accomplished during the first quarter of 1980 since basic survey information was not available until then.

While no formal model has been installed it is felt that the savings component of RFEP has made a positive contribution in that the savings concept and its potentialities have been brought to the attention of the participating lending institutions and extensively discussed, models have been prepared and several institutions have expressed a desire to proceed with this program.

4. __With the participating banks, design and conduct training in project concepts and operations for financial institution staff. Assist financial institutions to design and conduct training/educational programs for the target group.__

An orientation training program for each of the participating lending institutions was prepared for the purpose of providing bank staff responsible for model implementation with an overall concept of the project objectives and its operational details. Approximately 165 participants from all the lending institutions participated in this program which was held during the first quarter of 1979. Project related literature was prepared and distributed among those attending.

In order to assess the most urgent training needs of field staff, eight field trips were made to selected project outlets. The major findings on these field trips were related to management inadequacies such as: lack of proper planning, lack of job descriptions and lack of an appropriate system to supervise and follow-up the job performance of branch staff. These and other observations were communicated in writing to the affected banks and were discussed with project officers at the head office level.

A follow-up field training program was developed based mainly on the above findings and training sessions were arranged and conducted in outlets of six different institutions. They included evening sessions with target group borrowers in which the benefits of the project and their particular problems were discussed. These sessions proved to be fruitful and many of the institutions took immediate corrective measures in the most urgent areas of model operations.

In addition, a two day seminar was organized to discuss the basic issues and problems of model implementation. This consisted of four sessions, i.e., progress and problems, presentation of special papers, a workshop on critical issues of the project, and a concluding session. A paper was prepared regarding the seminar entitled "Proceedings: Seminar on Theory and Practices of the Rural Finance Experimental Project".

As part of the training program a number of meetings were organized and held with top officials of all the lending institutions; these were also attended by officials concerned from USAID and the Bangladesh Bank. The purpose of these meetings was to discuss, among other things:

1. Planning and organization (at all levels)
2. Loan officer productivity
3. Incentives and other means of motivation
4. Local participation
5. Group formation
6. Progress and problems of model operation *

A third country training program was organized for four weeks starting October 1, 1979. The program was held in the Philippines and South Korea with the participation of seven project officers of the lending institutions, one officer from the Bangladesh Bank and the local Training Specialist of the RFEP.**

In order to provide further training four divisional level workshops were designed and carried out as a means to:

1. Appraise fully the activities of RFEP, including problems encountered and possible solutions

2. Involve the participating lending institutions and, in particular, their respective training institutes in the training functions

---

* A full report on actions to be taken was submitted to the Bangladesh Bank and the respective lending institutions in September 1979.

** For detailed information see report "Third Country Training Program" by Noazesh Ahmed.

3. Provide further training on critical problems, such as:

   - Management weakness
   - Loan disbursements
   - Repayment plans
   - Loan officer productivity
   - Accounting and financial reporting

The workshops were attended by approximately 260 bank officials, including project officers, representatives from training institutes of the various banks, regional and branch managers and lending officers. As a direct result of these workshops some of the institutions are now in the process of organizing training programs tailored to their own particular needs.

In order to assist lending institutions in organizing permanent and continuous individual training programs, training guidelines in manual from were prepared for the use of training institutes as well as credit officers. The final draft, incorporating all insights as to needs and knowledge secured to date as to what approaches are most likely to be effective, has been submitted for approval to the Bangladesh Bank.

5. Conduct special studies and analyses of selected subjects related to credit and savings.

The field research component was built into the project to provide statistical data which would help measure the results of experimental activity, including impact on the target group and on the participating institutions, the efficacy of the credit delivery systems (models) to be tested and their financial feasibility. Field research was also used for the collection and analysis of data needed for project management such as the ascertainment of the percentage of credit reaching the target group (for institutional reimbursement purposes) and to secure insights seen needed in the course of work, such as the socio/economic aspects of default and how best to minimize this phenomenon.

Because of the magnitude of the field survey work special attention was paid to its internal organization. In addition to research officers, a statistician and editing and coding clerks at the project's Dacca office a field organization was established. This latter was seen necessary due to transportation and other logistics considerations. Offices were set up in Bogra, Jessore and Comilla and these proved very effective in serving project data needs.

Sixty two segments (branch bank areas) throughout the country were delineated for data collection and analysis purposes these were grouped into five regions based on agro-ecological characteristics, socio-economic traits, administrative and political boundaries, physical features and production capabilities. The regions were as follows:

Region I :	Districts of Dinajpur, Rangpur, Bogra
Region 2 :	Districts of Rajshahi, Kushtia, Pabna, Jessore
Region 3 :	Districts of Dacca, Mymensingh, Tangail, Faridpur and part of Sylhet
Region 4 :	Districts of Khulna, Barisal and Patuakhali
Region 5 :	Districts of Comilla, Noakhali, Chittagong and Chittagong Hill Tracts

At the outset selected publications, reports, books and statistical tracts were secured and a small specialized reference library was organized for project use. As additional needs were seen, this collection was augmented.

A number of standard common steps were taken in the conduct of all surveys. After data needs and desired analytical formats were agreed upon, these included the design, clearance and pretesting of questionnaires in the field; preparation of instructional manuals and the training of enumerators in particular survey requirements and in the use of questionnaires; collection of data, editing and coding, development of tabulation specifications and/or adapting of computer programs; tabulation, analysis; and reporting writing. It should also be pointed out that a standard of 10% field verification was established and applied in all surveys.

Some 15 statistical surveys were carried out during the period being reported on. These are shown in the table appearing at the end of this Chapter. In addition, the Field Research Unit conducted a special survey of outlets involved in the project, covering infrastructure, area, marketing and general socio-economic charactertistics; conducted in-depth case studies of selected management factors in the project credit outlets ; and provided the Financial Analysis and Control Unit with field research staff for the conduct of two special institutional studies. It has also taken preliminary steps to assist the participating banks in their baseline surveys (incident to the expansion of project area) including the design of questionnaires and the preparation and printing of household lists.

6. Assist the Bangladesh Bank and the financial institutions to plan and implement a project budgeting, accounting and reporting system; verify reported performance data to facilitate disbursement from the Project Account; assist participating institutions in monitoring model financial plans and accounts; and analyze the viability of model operations at the participating branches. *

Budgeting, Accounting and Reporting System

After thorough consultation with the Bangladesh Bank, USAID and the nine lending institutions, a complete set of accounting and reporting forms, instructions and procedures for the Project Account was prepared to be used by branch offices, head offices and the Bangladesh Bank. Assistance was provided the head offices and branches in the introduction of the system. All institutions were helped in the preparation of their monthly reports to the Bangladesh Bank and assistance was also rendered to the Bangladesh Bank in preparing consolidated reports to USAID.

---

* This work does not appear as a separate "function" in the contract and the description is culled from several "work tasks" listed in that document.

The monthly reporting system was designed to give the BDB and USAID information on significant developments and trends in RFEP institutional activity as well as to serve as a basis for reimbursement from the Project Account. The report has a series of attachments providing data for the continuing monitoring and evaluation of project results. These are described below:

Attachment "A" - Statement of Purpose, includes number and amount of loans extended, by purpose of loan - crops, other agricultural, or non-agricultural.

Attachment "B" - Statement of Interest Rates Charged, includes number and amount of loans extended, by rate of interest charged.

Attachment "C" - Statement of Loans Due and Collected, includes amount of principal and interest due and collected, including amounts overdue and amounts repaid on time and amounts repaid after due date.

Attachment "D" - Statement of Aging of Overdue Accounts, includes number and amount of overdue loans, by the length of time they have been outstanding.

Attachment "E" - Statement of Savings, includes number and amount of savings, by rate of interest paid and whether received from the target group or from the non-target group.

Attachment "F" - Statement of Income and Expense, includes details of income and expense, separately by initial expense and operating expense.

Attachment "G" - Statement of Capital Position/Statement of Affairs, is a balance sheet showing details of the source and application of Project funds.

Attachment "H" - Statement of the Profitability of the Project, compares net income/expense with the amount of loans disbursed. This statement is not prepared by Branch Offices.

Attachment "I" - Comments/Narrative Report.

Attachment "J" - Statement of Disallowances, is prepared by the Consultant and deducts amounts due to lending institutions for lending to non-target group borrowers.

Attachment "K" - Estimate of Requirements of Project Funds, projects requirements of project funds through August 30, 1980 - the close of the present Project. This Statement is not prepared by Branch Offices.

As of mid-August 1980, monthly reports to the Bangladesh Bank had been completed by lending institutions through the following months:

Institutions	Date of most recent reports
Krishi	June, 1980
Sonali	April, 1980
Janata	March, 1980
Agrani	April, 1980
Pubali	March, 1980
Rupali	May, 1980
Uttara	January, 1980
IRDP	April, 1980
BSBL	November, 1979

One of the chief problems encountered in the financial reporting area has been a result of the facts that data needed in verifying and analyzing lending operations required a relatively sophisticated type of record keeping on the one hand, and the lack of sufficiently trained staff in the participating branch outlets on the other. This has resulted in a flow of information at a slower tempo then had originally been contemplated in the project paper and by the Consultants at the outset of the work. Much of the data required differ, however, and are in addition to the normal reporting practices of branch banks. Examples would include breakdowns of savings by target and non-target groups, reporting of purpose of loans and loans granted by a variety of interest rates, and requirements for special narrative explanations.

Some simplification of the report format has been made and it is planned that further review will be made to facilitate its execution by the participating institutions. In addition, the Bangladesh Bank is supplying all head offices and branches with battery operated pocket calculators to expedite work and improve its accuracy.

It should be noted, however, that much of the delay in preparation of the monthly reports has been due to failure of some of the lending institutions to give priority to this project, as follows:

a. Assignment of a part-time person in the head office to the project, while a full-time employee is required. For example : Here and below see project files.

b. Institution does not assign full-time employees to the branch office.

c. Employees assigned to this project in branch offices are given other assignments.

d. Lending institution does not send the head office employee to the branch office that is slow in sending in reports.

e. Head office staff are not careful in checking to correct simple errors in monthly statements. A situation which results in further lose of time in submitting reports.

f. Head office does not provide prompt typing service to type monthly reports.

Verification of Performance Data

To aid in this process, a "Continuous Survey" has been designed and carried out among the participating lending institutions. This covered the performance of individual institutions, showing occupations of borrowers, target and non-target group borrowers, purposes for which loans were taken, and various ratios among these findings by institution. The survey also included an analysis of the distribution of loans by model, occupation of borrowers, interest rates by target and non-target borrowers, distribution of borrowers by annual gross cash income and by size of landholdings by model as well as a cumulative tabulation of performance by participating branches. Four reports have been completed from the field data collected; these have been submitted to the Bangladesh Bank and AID under the dates of September and November 1979 and January and June 1980.

Field work was done to verify the results of the continuous survey, only a few minor discrepancies were noted. The project accounts at the 62 outlets have been audited. Detailed reports of this work were made and distributed to the lending institutions, the Bangladesh Bank, and USAID.

In addition, special reaudits were made at 20 branch offices where serious accounting problems were noted during the first round of audits. An evaluation of the accuracy of record keeping at the 62 branch offices was made and submitted to the Bangladesh Bank and AID; this indicates that all except two branch offices are now preparing monthly statements satisfactorily. Part of the success of this improvement in record keeping is due to the training of branch office staff in regional workshops and, especially, as part of the audit of the branch office accounts.

22

Monitoring Financial Plans and Accounts

Financial analyses regarding project performance relating to the critical RFEP questions in the financial area were completed and incorporated in the two evaluation reports prepared by the consulting team.

Analyze the Viability of Model Operations

Detailed analyses of the financial viability of the project, by lending institution and by branch office, were completed and incorporated in the evaluation reports prepared by the consulting team.

7. Evaluate project and model progress in achieving objectives. Develop evaluation and information gathering plans and programs. Formulate project findings, conclusions and recommendations.

The delayed start up of lending operations suggested the advisability of shifting the date for the first evaluation report back. Based on information, findings and conclusions developed by the technical support and monitoring unit and the on-going and other surveys conducted by the Field Research Unit, the first overall evaluation report was prepared for delivery in January 1980. An earlier but incomplete version had been submitted to the BDB and AID in November; this was extensively revised before the January submission.

The January report consisted of two basic parts. The first covered institutional performance at the purpose level by objectives - ability of the models to extend credit to the target group, self sufficiency of the models, ability to cover operating costs and the achievement of savings mobilization. The second part concerning the output level covered findings with respect to model operations, including charactersitics of borrowers reached, rapidity of loan granting practices, productivity and other management factors. This section also covered self-evaluation by the lending institutions and included recommendations for future attention and action.

Further in-depth analysis and some retabulations of computerized data and review of information collected in the course of operations monitoring, together with new incoming information, was made for the second evaluation report which was delivered in April 1980. In addition to a quantative description and assessment of the project coverage, this evaluation provided measures of achievement in key areas as compared with baseline findings in the credit delivery and savings mobilization components and included projections and recommendations. To the extent that information available as of that date permitted,the report addressed some of the more important critical questions to be answered by RFEP. It also covered financial viability and operations of the lending institutions in model implementation and the views concerning RFEP by representative segments of its target clientele. Presentations of the report and its findings, conclusions and recommendations were made to the BDB, AID and the lending institutions; an overhead projector was used to assist in the presentation of much of the voluminous statistical data to help make it more readily comprehensible.

The results of subsequent analyses, together with conclusions and recommendations, are reported on in the following chapter.

Major Statistical Surveys
Conducted as a Part of RFEP through Augus 1980

Name of Survey	Brief Description	Period Data Gathered	Number of Interviews	Availability of Tapes	Reports/Status
1. Baseline and Socio-logical # 1	Basic socio-economic conditions	Jan-June 1978	4567 households	Yes	Preliminary (Dec.1979) Final Report Farming Activity (Dec.1979) Final Report Non-Farming Activity (Jan '80)
2. Baseline and Socio-logical # 2	-do-	May-June 1980	4155 households	No	Questionnaires returned, edited and coded but not punched
3. Institutional (Management # 1)	To identify manage-ment problems and issues	June-Aug.1979	68 RFEP Branches	Hand Tabu-lations	Final Report (Output Level Evaluation) September 1979
4. Institutional (Management # 2)	-do-	January 1980	67 RFEP Branches	Hand Tabu-lations	Final Report (April 1980)
5. Continuous # 1	Ascertain percen-tage of credit being extended to and reaching the target group	June-Sept. 1979	2096	Hand tabu-lations	September 1979
6. Continuous # 2	-do-	Up to Nov. 1978	2896	-do-	November 1979
7. Continuous # 3	-do-	Up to Dec. 1978	4830 Cumula-tive	-do-	December 1979
8 Continuous # 4	-do-	Up to May 1979	8793 "	-do-	June 1980

24

Name of Survey	Brief Description	Period Data Gathered	Number of Interviews	Availability of Tapes	Reports/Status
9. Farmer's Financial # 1	Economic and financial survey of representative firms	Aus season 1979	1377	Yes; also hand tabulations	First volume – July 1980 Second volume – analysis in progress
10. Farmer's Financial # 2	-do-	Aman season 1979	1245	Hand tabulations	Pending analysis and report writing
11. Farmer s Financial # 3	-do-	Boro season 1979-80	1055	No	Questionnaires edited and coded, pending further work
12. 100 Crore comparative study	For comparative analysis of RFEP and 100 Crore Credit Program	June 1980	Borrowers 484 Institution (Branches) 14	Hand tabulations	Pending analysis and report writing
13. Overdues	Analysis of overdues	July 1980	407	-do-	Pending analysis and report writing
14. Savings	Sample survey of RFEP Savers	March 1980	212	-do-	Included in Second Evaluation Report

PART B: PRINCIPAL FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This part draws together and synthesizes all major findings, conclusions and recommendations based on investigation and analysis to date. Reference is made to the thrust of previous evaluations and to new materials developed since that date, all of which have been reported to the BDB and AID prior to this writing.

It starts in Chapter IV with a review of the models as originally structured, describing their actual implementation and how this has differed from prior specifications, and goes on to recommend changes on the basis of experience and insights gained to date, model by model. Chapter V then proceeds to evaluate actual performance of the models against four basic criteria developed to measure the extent to which they approach the "ideal", or the system or systems ultimately sought for replication and widespread use in the future; this evaluation is tentative as the experience to date is more limited that originally expected.

The final chapter reports the results of an overall synthesis which suggests that all models actually represent four basic credit delivery systems. It then reevaluates the collective performance under each system by use of the four criteria discussed in the previous section. Recommended directions for further experimentation and analysis to help arrive at definitive conclusions on the system or systems to be selected for replication are also presented.

IV. IMPLEMENTATION OF MODELS AND RECOMMENDED DESIGN MODIFICATIONS

The project design gave emphasis to experimenting with eight different models associated with nine lending institutions. Each was to have distinctive characteristics that were to differentiate it from the others. The models and the institutions are:

Model	Lending Institutions
1. Budget line or permanent number	Bangladesh Krishi Bank
2. Agricultural sub-branch (Krishi Shakha)	Sonali Bank
3. Area development	Janata Bank
4. Small farmer service center	Agrani Bank
5. Banker as ombudsman	Pubali Bank
6. Village agent	Rupali Bank
7. Group lending	Uttara Bank
8. Cooperative lending	Integrated Rural Development Program (IRDP)
	Bangladesh Samabaya Bank Limited (BSBL).

An analysis has been completed on the progress achieved by each model and the results have been given to the Bangladesh Bank and the institutions in separate individual reports geared to assist in planning operations for the project extension period. This analysis indicates that with few exceptions the institutions have not being able to implement the key features of their respective models. The situation can be summarized as follows:

1. Krishi Bank - the budget line approach has had very little application since no prospective cash in-flows and out-flows are made; a previous year's estimation is made but it is basically for establishing target group status and not for planning and servicing needs, both productive and non-productive, as envisioned in model design.

2. Sonali Bank - There are three deviations from model design in this case:

   a) The local advisory council has been given loan sanctioning authority not contemplated in project design causing substantial delays and certain conflicts; (b) no sanctioning authority has been given to Krishi Shakha in charge contrary to model design; and (c) the farm technologist has not been of any visible impact.

3. Janata Bank - The area development approach has not been implemented. Three main reasons given are: (a) too difficult and beyond the normal scope of a bank; (b) it is very expensive; and (c) there is a desire to concentrate on servicing the financial needs of the target group.

4. Agrani Bank - With the exception of one (Cadet College) out of the 10 outlets, the key feature of establishing small farmer service centers has not been implemented. Even in the one outlet established, the service center is a small store that sells some inputs with no capability to provide any technical guidance to borrowers as envisioned. In other cases it is alleged that there are local input dealers in operation and there is no need of establishing a new one.

5. Pubali Bank - The ombudsman role is not being carried out, the general impression being that it is beyond the scope of a lending institution and very difficult and time consuming. The family budget approach included was initially tried and abandoned for the latter two reasons.

6. Rupali Bank - Generally speaking this conforms to model design with the exception that no rebate on interest has been paid to borrowers contrary to the design.

7. Uttara Bank - Deviates from model design in that certain key elements of group formation and administration are wanting, creating conflicts and poor performance which are reflected in inadequate loan recovery, among other things.

8. IRDP - No individual loan application is formally taken and no rebate is offered to borrowers for timely repayment of loans, as intended.

9. BSBL - No rebate is being paid to borrowers for timely repayment of loans, as intended.

It should be noted, however, that with the exception of failing to implement certain key features of models, all the lending institutions are making substantial efforts to reach the target group and to land and recover loans granted, with interest. In so doing all of them are following more or less the same norms and procedures. These can be summarized as follows:

1. All are reaching out for target group households either by opening small offices (Sonali), recruiting village agents (Rupali), giving loan sanctioning authority to field officers (Krishi and Pubali) or assigning field assistants that keep periodic contact with target group households to promote the project and to supervise loans (Agrani and Krishi).

2. Although the great majority require sureties or hypothecation to obtain a loan - one or two requiring mortgaging of homesteads - loans are easy to obtain and with some important exceptions (Sonali, BSBL, IRDP) the time taken to process a loan application is reasonable although there is room for much improvement.

3. Repayment of loans can be made in a number of cases either in the field or in the office which is very convenient to the small producers.

4. All the institutions, with the exception of Agrani, have established a maximum global amount that can be granted per household, or limits for groups of activities. In some cases this is negatively affecting borrowers that may be forced to turn to local money lenders to obtain additional funds needed to carry out the project.

This general pattern can be observed in the table shown below where 15 different characteristics, normally associated with rural lending practices and procedures, were related to each one of the 9 lending institutions.

Lending Practices and Procedures Followed by the Nine Lending Institutions under RFEP as of May 31, 1980

	KRISHI	SONALI	JANATA	AGRANI	PUBALI	RUPALI	UTTARA	IRDP	BSBL
Application is taken	Field	Both	Office	Office	Both	Both	Field	Office	Office
Maximum amount established per household	Yes	Yes	no	no	yes	yes	no	no	no
Maximum established per activity	no	no	no	no	no	yes	yes	yes	yes
Village council endorses	no	yes	no	no	yes	no	no	no	no
Who sanctions loans	Cred.Off.	Mgr	Mgr	Mgr	Cred.Off. Reg.Mgr.	Mgr	Mgr	Thana level	H/O.
Staff assigned	one	one	more	more	more	more	more	more	more
Surety required	no	yes	yes	yes	no	yes	yes	no	no
Hypothecation required	yes	yes	yes	yes	yes	yes	no	yes[2]	yes[2]
Production plan required	yes	yes	yes	yes	yes	no	yes	yes	yes
Inspection report required	no	yes	no	no	yes	no	yes	no	yes
Promissory note required	no	yes	yes	yes	yes	yes	yes	no	no
Group lending: Loan granted to	-	-	Indiv'l	-	-	-	Indiv'l	-	-
Group lending: Joint guarantee	-	-	yes	-	-	-	yes	-	-
Loan disbursed in office/field	both	off.	off.	off.	off.	off.	off.	off.	off.
Repayments received in office/field	field	off.	off.	off.	both	off.	off.	both	both

32

Recommendations for Model Modifications

Based on the findings reported above the following recommendations are made for model modification to assure their practicability and to sharpen their usefulness in the ultimate evaluation process.

1. Krishi - Budget line approach should be maintained with some important modifications to facilitate and expedite cash inflow and outflow estimations on a prospective basis.

2. Sonali - Sub-branch approach should be maintained with certain modifications such as eliminating the local council's sanctioning authority and giving it important advisory functions and giving sanctioning authority to Krishi Shakha in charge and generally enhancing his role and authority.

3. Janata - Area development approach should be dropped and substituted with a more modest, still plausible approach characterized by group lending and one or two community development oriented projects of significance that will convey the message that the bank cares.

4. Agrani - Small farmer center approach should be dropped but special care should be given to seeing to it that each branch makes necessary arrangements to insure that needed production inputs are available, including the giving of financial facilities to establish local input dealers, if necessary.

5. Pubali - The banker as ombudsman approach should be dropped but the interest shown so far by the bank in seeing to it that necessary production inputs are readily accessible to borrowers should continue to be of primary concern to the credit officer in charge of the project. It is also recommended that the budget line approach be reinstated with the modifications recommended in the case of Krishi.

37

6. Rupali - Village agent approach should be maintained with one or two modifications like giving the agent some sanctioning authority, and a final decision should be made as to the proposed rebate of recoverable interest on loans.

7. Uttara - Group lending approach should be maintained with special emphasis given to adequately applying group leanding principles in organization and administration.

8. IRDP - No major modification is necessary, but it is recommended that a simple loan application form such as the one suggested for all institutions be adopted. The intended rebate on interest charged to borrowers for timely repayment, moreover, does not appear to be necessary as no overdues are being reported and the volume of lending is now rapidly increasing.

9. FSBL - No major modification seems necessary, except that a decision should be made regarding the rebate on interest charged to borrowers for timely repayment of loans. This probably should be dropped.

V. EVALUATION OF MODEL PERFORMANCE TO DATE

Four key criteria have been developed to help determine the model (or models) which will most likely achieve the objectives of the rural credit program for the target group. These are that it is able to:

1. Extend credit when and in the quantities needed;
2. Fully recover the resources lent, on time and with interest;
3. Cover all operational costs through charges levied on the target borrowers, and
4. Finance expanded operations through the realization of rural savings.

The sections which follow review the experience of the models to date by each one of these criteria and include recommendations derived from this experience.

Extending Credit when and in the Quantities Needed

The two sources of information which throw light on whether loans are being given when and in the quantities needed are the field credit specialists reports on visits and interviews with borrowers and the more formal studies conducted by the social anthropologist. Both sources, particularly the most recent report of the social anthropologist entitled "Rural Finance Experimental Project Performance as Reported by the Borrowers" of July 1980, now being circulated, indicate that in many cases borrowers feel that the amounts granted are smaller than desired and needed and in some cases there are long delays in getting a loan. In most cases, maximum amounts that can be granted per household are established and/or limits also exist per activity. Maximum amounts vary from Tk. 3000 to Tk. 5000 per family and there are cases where limits - usually low - are also fixed for individual activities like paddy production, buying of a milch cow, bullock cart, rickshaw etc. Target group families that have only one or two activities can be badly affected by the ceilings imposed per activity. The small average size of loans observed per institution so far is not a very good indicator of whether size of loans are adequate. The figure only indicates the average size of each individual loan made and many families take more than one loan during a calendar year. It is interesting to note that in the case of Agrani no maximums are established either per household or activity. But average size of loans so far is only Tk. 956. The zone, the character and composition of the target group are very relevant factors bearing on these results.

Delays in securing a loan appear to be due to lengthy processing procedures or the sanctioning authority's being remote from the village level operation of the lending institutions. The time taken to process a loan application is a negative factor in cases like Sonali,(local council) BSBL, IRDP, Pubali (for loans above Tk. 2000 that have to be sanctioned by regional manager), and Janata (for loans that have to be referred to the Dacca Head Office).

Loan Limitation and Procedure Shortcomings

It has been noted that there are a number of situations where institutions are following certain practices and procdures that negatively affect timely disbursement of loans and in adequate amounts. They are more related,however, to a diversion from sound lending principles, particularly in the case of the rural poor, than to specific model features. This should be corrected during the project extension period.

The following recommendations are made:

1. Establish Tk. 5000 generally if a maximum amount needs to be maintained per household, but recognize there are cases where a higher amount is justified; no ceiling should exist for individual activities. Provide a simplified and uniform loan application form and link it more directly to the household survey, thus avoiding duplicating information. A simplified application form and a household survey form have already been

submitted to the lending institutions to be used during the extension period. Both forms should be made part of each loanee's record kept in the branch.

2. Provide a simplified and uniform loan application form and link it more directly to the household survey, thus avoiding duplicating information. A simplified application form and household survey form have been submitted to the lending institutions to be used during the extension period. Both forms should be made part of each loanee's record kept in the branch.

3. Redefine the local councils' role and functions to make them more in line with their advisory nature, eliminating sanctioning power whenever possible.

4. Fully recognize that the key element for the success of the project is probably a respected, knowledgeable credit officer operating as close as possible to the target group, sharing certain functions with field assistants as necessary, each handling a large number of borrowers. Adequate salary, training, logistic support are essential for good performance of this staff.

Despite these limitations and procedural shortcomings, a substantial volume of lending has occurred since inception of the project. The amount of lending and some of its key characteristics are described below.

<u>The Volume of Lending and Purpose</u>

With the exception of Krishi (which has granted only 13.9% for crops) all the institutions are reaching a substantial volume of lending in each one of the three categories of purposes: crops, other agriculture and non-agriculture. On the average, 26% has gone to crops, 35% to other agriculture and 39% to non-agriculture as shown below:

Percent of Loans by Purpose from inception to May 31, 1980

Lending Institution	Purpose: Crop	Other Agriculture	Non-Agriculture
1. Krishi	13.9	46.5	39.6
2. Sonali	38.0	24.2	37.8
3. Janata	24.0	44.0	32.0
4. Agrani	34.8	22.9	42.3
5. Pubali	26.0	20.1	53.8
6. Rupali	36.0	41.1	22.9
7. Uttara	34.0	32.9	33.1
8. IRDP	51.4	25.6	22.9
9. BSBL	58.1	5.4	36.5
Totals:	25.9	35.4	38.7

In terms of volume, Krishi accounts for close to 50% of total amount disbursed by the nine lending institutions and Uttara , the lowest, 2.5%.

These percentages, however, are not reasonable indicators of volumes lent because different institutions have different number of outlets under the project and some of them had a late start. The amount lent per outlet is a better indicator of how the various institutions are performing. This is shown below:

Amount Disbursed per Institution per Outlet as of May 31, 1980

Lending Institutions	Number of outlets	Total amount disbursed	Average amount disbursed per outlet
1. Krishi	12	10089940	840828
2. Sonali	5	2098889	419778
3. Janata	5	1326760	265352
4. Agrani	10	2516609	251660
5. Pubali	4	1761163	440291
6. Rupali	3	708788	236263
7. Uttara	4	535893	133973
8. IRDP	8	1150023	143753
9. BSBL	11	1056743	196068
Totals:	62	21244808	342658

78

It is worth noting that Krishi leads in total volume and per outlet and that Agrani, although second in total volume, is fifth in amount granted per outlet. On the other hand, Pubali is fourth in total volume but second only to Krishi per branch. These relative positions are directly related to number of loans made per branch which appears to be a good indicator of productivity and financial viability as will be shown later.

Indications of Credit Demand.

The number of loans granted per month is a good measure of relative demand for credit originating in the target group. The fact that some lending institutions are already reaching 25 loans per month per branch (equivalent to 300 loans per annum) is a clear indication that there is a substantial demand for institutional credit.

The following table shows the number of loans disbursed per branch per month for two periods: project inception to December 31, 1979 and during the five month period January to May 1980.

Number of Loans Granted per Branch per Month

Institution	Number of loans per branch per month as of:	
	December Dec.31, 1979	Period January to May 31, 1980
1. Krishi	23.8	35.0
2. Sonali	20.0	19.7
3. Janata	8.0	5.4
4. Agrani	18.7	20.4
5. Pubali	23.1	24.6
6. Rupali	11.1	22.9
7. Uttara	11.9	6.2
8. IRDP	8.3	24.2
9. BSBL	5.3	11.4

Results indicate that Krishi continues to lead - even if only the five month period of January to May 1980 is considered. As of December 31, 1979, Krishi was granting, on the average, 23.8 loans per branch per month and increased it to 35.0 loans during January to May period, the latter figure being equivalent to 420 loans per branch per annum. However, the most remarkable recent achievement is the case of IRDP. As of December 1979 it was granting only 8.3 loans per branch per month which has been increased dramatically to 24.2 during the January to May 1980 period, reaching the third highest position, almost the same figure as Pubali that was second with 24.6 loans per branch per month. IRDP progress is a very clear indication of the demand for institutional credit originating among the rural poor. The average size of loans granted by IRDP is only Tk. 768 indicative of very small operations. This is all the more encouraging if it is considered that IRDP is not having overdues so far as will be seen below. BSBL has also made substantial progress recently.

The social anthropological study mentioned earlier contains reactions from a number of borrowers generally expressing satisfaction with this type of credit.

It seems that the demand is there and that it is mainly a question of finding the adequate vehicle to meet it. Some institutions are already moving in the right direction.

<u>Amount Disbursed, Interest Rate and Purpose</u>

Statistically the amounts disbursed appear to decrease with increases in the interest rate. Again the bulk of Krishi's operations has to be considered in analyzing this situation. In the first place Krishi is not experimenting with the 36% interest rate, secondly two out of the 6 outlets (exclusive of IRDP and BSBL) charging this rate of interest belong to Janata and Uttara that have the lowest amount disbursed per branch. The following table shows the amounts disbursed by interest rate separately for Krishi and the other institutions.

Amount Disbursed per Interest Rate from Project Inception to May 31, 1980

Interest Rate	Krishi	Others	All Institutions
12	3163150	1967303	5130453
18	2875800	2484213	5360013
24	2557600	1639951	4197551
30	1493390	1439770	2933160
36	-	1416865	1416865
Total:	10089,940	8948102	19038,042

Note: Data exclude IRDP and BSBL.

This table demonstrates that the reduction is associated with Krishi's performance which also shows a substantial reduction as interest rates increase.

Because of Krishi substantial volume and not experimenting with 36% interest rate, a better picture is provided when the amounts disbursed are shown per branch per interest rate.

The following table sets out the amount disbursed per branch separately for Krishi and all the other institutions. It shows that, although there is a overall reduction in amount disbursed associated with an increase in interest rate, it is very dramatic in the case of Krishi but not so in the rest of the lending institutions.

Amount Disbursed per Branch per Interest Rate from Project Inception to May 31, 1980

Interest Rate	Krishi	Others	Totals
12	1054383	393460	641307
18	958600	310527	487274
24	852533	204279	419755
30	497797	287954	366645
36	-	236144	236144

Note: Data exclude IRDP and BSBL

The second evaluation report contained an analysis of the relationship between interest rates and purpose with an adjustment made to equalize - for purposes of a valid comparison - the number of households which were exposed to the same interest rate for each loan purpose. Results indicated that in the case of crops "..... the higher rates of interest did not impede the making of crop loans especially at the 30% level. Loans at that level were over - subscribed by 57%. Difficulty, however, was encountered in making loans for other agricultural purposes at interest rates above 12%. A different picture was found in the case of non-agricultural loans. The value of loans made at 30% and 36% exceeded the expected amount, whereas the value of loans made at 12% fell below the expected demand based on the number of target households in that interest category. This is a particularly significant finding in that 41% of the loans (the largest of three categories) were for non-agricultural purposes."

These results need to be further examined in the light of management policies and priorities that the lending institutions are following that may not have a direct bearing on actual demand on the part of borrowers. For example, it seems that Krishi is not promoting much crop lending under RFEP because it has access to cheaper resources for this purpose. If other loan opportunities are not readily available, this management decision could explain the reduction in lending at the higher interest rates. Additional experience and more detailed analysis is required to reach valid conclusions in terms of whether the above mentioned relationship is an indication of a reduction in credit demand at the higher interest rates being experimented with. The anthropological report mentioned earlier provides indications that borrowers' attitudes vary from outlet to outlet and there are indications that local leadership and the credit officer's approach are of great importance. The report indicates that "Target group people are really needy and willing to take loans at interest rates as high as 30% or 36% annually, though the majority of them finally be critical of it, borrowers generally said loans had been helpful even to those who said 36% or 30% interest was too high".

As to the profitability of the investments being made by borrowers, the farmers Financial Survey, now being tabulated, should provide a good insight into what the situation is.

Recovering Resources Lent on Time, with Interest

As of May 31, 1980 the percentage of overdues was 17.2, a substantial improvement from the 27.4% as of December 31, 1979. There are substantial variations in the percentage of overdues among the lending institutions and among the outlets within the same institution. As of May 31, 1980 two lending institutions were reporting no overdues: Agrani and IRDP. Overdues vary substantially among the institutions as seen in the following table.

Percentage of Overdues as of May 31, 1980

Lending Institution	Amount due and/or paid in advance	Amount overdue	Percent 3(2÷1x100)
1-Krishi	3890007	727735	18.71
2-Sonali	1107347	361023	32.20
3-Janata	477884	115628	24.20
4-Agrani	811159	-	-
5-Pubali	735162	25482	3.47
6-Rupali	279311	14631	5.24
7-Uttara	370175	149249	40.32
8-IRDP	367437	-	-
9-BSBL	291710	39436	13.52
Totals:	8330192	1433184	17.20

The table reveals that overdues are concentrated in a small number of outlets that have had special problems. Out of the nine institutions five either have no overdues or have less than 5% (including BSBL that was showing no overdues until recently). In the other four institutions having a somewhat high percentage of overdues, the problem is concentrated in 11 branches having more than 10% of overdues, one as high as 95%.

The average percent of overdues in those 11 branches was 61.9% which is dramatically reduced to only 4.2% for these four institutions when the problem branches are excluded. This is shown in the following table.

Percentage of Overdues in Outlets Having More than 10% of Overdues as of May 31, 1980.

Lending Institution	Percent	Percent excluding problem branches
Krishi		4.6
1 - Rajshahi	95.2	
2 - Khulna	78.5	
3 - Sylhet	78.6	
Sonali		5.2
4 - Kuliarchar	42.3	
5 - Birgaon	59.6	
6 - Gouripur Bazar	50.6	
Janata		0
7 - Paglapir	62.2	
8 - Tajpur	44.4	
Uttara		2.6
9 - Mymensingh	70.6	
10 - Basan	10.6	
11 - Fani	58.0	
Total:	61.9	4.2

The overall percentage of overdues for all the nine lending institutions is reduced from 17.2% to only 3.8% when the 11 branches are excluded for analytical purposes.

The causes of overdues in these 11 branches are related mainly to administrative problems and natural calamities. Turnover of personnel and conflicts between managers and project credit officers are the principal administrative problems while drought is the principal natural calamity. In the case of Uttara and Janata there appear to be evidence that inadequate management of group lending and a rigid application of the joint and severally guarantee regulation are important causes of overdues.

These results are clear evidence that loans can be recovered with interest if sound management practices are followed.

Relationship Between Interest Rate and Overdues

A disturbing relationship was reported in the second evaluation report showing that overdues increase with an increase in the interest rate charged for those loans except for loans made at 36% which showed fewer overdues than 30% interest rate loans. Further indepth examination indicates that this relationship is not necessarily occasioned by interest rates. As a matter of fact, it seems to be more a matter of coincidence as will be shown.

A comparison of overdues reported as of December 31, 1979 and May 3L, 1980 is shown in the following table.

Relationship between Interest Rate and Percentage of Overdues as of December 31,1979 and May 31,1980

Interest Rate	Percentage of Overdues as of:	
	December 31, 1979	May 31,1980
12	1.4	2.5
18	26.7	15.2
24	32.3	25.3
30	56.7	37.7
36	34.0	18.3

Note: Data exclude IRDP and BSBL

45

Although the figures are lower in May 31, 1980 due to the reduction observed in overall percentage of overdues, the relationship between interest rate and overdues is maintained.

This can be explained in the following manner:

1 - Krishi's pattern of lending in terms of volume and the fact that it is not experimenting with the 36% rate of interest and

2 - The bad overdues situation in the 11 Branches having more than 10% of overdues, analyzed in the previous section, and the fact that it just happens that some of these branches are in the higher interest rates.

Because of Krishi's large volume of lending which accounts for more than half of both total amount disbursed and overdue, the overall overdues situation follows Krishi's pattern, except that it is not experimenting with the 36% interest rate. This is shown in the following table. Krishi's lending operations show an increase in overdues associated with an increase in the rates of interest and this dominates the overall picture (column 1 and 3 of the table). When Krishi is excluded the effect is very significant (column 4) and no relationship is observed between interest rates and overdues when the three Krishi's problem brnaches are excluded (column 5). The three problem branches are in the 24% and 30% interest rates and as seen earlier this is not related to interest rates. For example, in the third Krishi 30% interest rate branch no overdues have been reported so far.

Impact of Krishi Operations on the Relationship between Interest Rates and Overdues as of May 31,1980

Interest rate	Krishi alone	Krishi alone, excluding three problem branches	All Institutions	All, excluding Krishi	All,excluding only three Krishi's problem branches
	1	2	3	4	5
12	3.8	3.8	2.47	0.89	2.47
18	5.3	5.3	15.20	25.94	15.20
24	28.8	5.7	25.34	18.75	11.67
30	50.7	0	37.66	24.31	19.43
36	-	-	18.31	18.31	18.31
Total	18.7	4.6	18.17	17.61	11.85

Note : Data exclude IRDP and BSBL

It is encouraging to note that significant progress has been made in Krishi's overdues situation. This is shown below for three dates; June 30, and December 31, 1979 and May 31, 1980.

Date	Percentage
June 30, 1979	38.19
December 31, 1979	24.65
May 31, 1980	18.71
June 30, 1980 (Preliminary)	13.29

If the measures being taken at present to normalize the administrative problems in the three problem branches are successful the present statistical relationship between interest rates and overdues should be eliminated.

Summary

The evidence so far indicates that the lending institutions are being successful in recovering resources lent to the target group and that where overdues occurred, they are mainly a result of inddequate management that can be corrected and some natural calamities for which there is no immediate solution.

Better and more timely documentation of overdues cases that will enable the institutions to take effective remedial action is necessary. Specific recommendations and some simple forms and management reports have been given to the institutions to be implemented in the extension period.

Covering all Operational Costs Through Charges Levied on Borrowers

Two methods have been devised to measure financial viability. These are described below, together with the results of their application.

Financial Viability: First approximation

This method is designed to produce a percentage of viability which is calculated by dividing cumulative net operating income (or loss) by the amount of the principal of outstanding loans as of December 31, 1979 and May 31, 1980.

The following table shows substantial progress from December 31, 1979 to May 31, 1980 using this method.

Statement of the Viability as of
December 31, 1979 and May 31,1980

Lending Institution	Present of Net Viability (loss) as of:	
	December 31, 1979	May 31, 1980
1. Krishi	0.79	5.32
2. Sonali	(1.31)	2.19
3. Janata	(14.42)	(7.67)
4. Agrani	(4.31)	(1.41)
5. Pubali	(18.67)	(6.68)
6. Rupali	([illegible].26)	(4.93)
7. Uttara	(20.90)	(20.91)
8. IRDP	(15.22)	3.65
9. BSBL	(14.52)	3.58
Total:	(3.24)	1.72

Notes:

1. No provision is made for bad debts
2. Capital cost are each institutions internal rate
3. Accrued interest included in income
4. All institutions included estimates of direct Head Office and Branch Office expenses; no provision was made for overhead.

49

Krishi, with a high volume of lending and a low cost of capital is the only institution showing profit at both December 31, 1979 and May 31, 1980. Of the major institutions only Sonali has moved up from having losses as of December 31, 1979 to showing profit as of May 31, 1980. IRDP and BSBL are also showing a profit because of very low costs due to not having salaries assigned to the local cooperative managers to whom only a commission is paid.

A closer look indicates, however, that the situation varies between branches within the same institution reflecting volume of lending and interest rate. An institution may still be having a net loss but having branches making profit and vice versa. The number of branches having profit or loss per lending institution is shown in the following table. Janata, Rupali and Uttara continue to show losses in all their branches.

NUMBER OF OUTLETS MAKING PROFIT (LOSS) AS OF MAY 1980

Lending Institution	INTEREST RATE										TOTAL	
	12%		18%		24%		30%		36%			
	Profit	Loss	Profit	Loss	Profit	Loss	Profit	Loss	Profit	Loss	Profit	(Loss)
Krishi	1	2	2	1	3	-	3	-	-	-	9	(3)
Sonali	-	1	1	1	1	-	1	-	-	-	3	(2)
Janata	-	1	-	1	-	1	-	1	-	1	-	(5)
Agrani	-	2	-	2	-	2	2	-	2	-	4	(6)
Pubali	-	1	-	1	-	1	-	-	1	-	1	(3)
Rupali	-	-	-	1	-	1	-		-	1	-	(3)
Uttara	-	-	-	1	-	1	-	1	-	1	-	(4)
IRDP	-	-	-	-	-	-	-	-	-	-	8	(0)
BSBL	-	-	-	-	-	-	-	-	-	-	11	(0)
Total:	1	7	3	8	4	6	6	2	3	3	36	(26)

Note : IRDP and BSBL are experimenting with more than one interest rate in each one of their outlets.

The estimates presented in the table above, although useful for measuring progress, do not take into account important costs such as : (a) provision for bad debts, (b) cost of capital which varies substantially from 6.5% in the case of Krishi to 10% or more in some others, and (c) overhead, although an estimation is made of head office and branch office expenses directly related to the project, including time given by head office officers and other personnel. There is also need of starting to estimate costs and returns on an annual basis and not only on a cumulative basis as being done so far.

In view of the above and particularly to assist in planning the activities during the project extension period that should permit a more formal treatment of financial viability, a somewhat different approach has been developed; it is presented in the following section.

Financial Viability: Second Approximation

Most model operations are taking place close to the village level, requiring little staff as rather small areas are being covered by each outlet. Operating costs per outlet are relatively fixed. Since in most cases there is a limit to the size of loans under the project, operating costs per loan are very sensitive to the number of loans made in a given period of time. Consequently, the number of loans made per branch per month, for example, is a good indicator of productivity as it has a direct bearing on financial viability; is also easy to monitor.

The minimum number and size of loans required to reach financial viability can serve to assess where each institution stands at present and thus would constitute a useful guideline for planning operations during the project extension period.

An attempt was made to use the latest available figures since by now most institutions have reached a reasonable level of branch organization and staffing and are generally more effective in reaching the target households.

A serious obstacle is that some institutions are several months behind in submitting detailed monthly figures on operating expenses and income. Hence, estimates had to be based on a limited number of institutions that have submitted the necessary information. Fortunately, those included Krishi, Sonali, Janata and Pubali which, when taken together, constitute a reasonable sample of the nine institutions including some with reasonable cost (Krishi), high cost (Janata) and, with the exception of Janata, all have made substantial progress; and, combined, account for 72% of the total amount reported disbursed so far. Results obtained can be useful for all the lending institutions.

Estimates are based on actual data for the institutions mentioned for the January to May 31, 1980 period. Operating costs per branch - annualized - were Tk. 30,600 and operating costs per loan were Tk. 110, both excluding capital costs and provision for bad debts; average size of loan was Tk. 1450 and the number of loans granted per month was 26. Two assumptions were then made: (a) 9 month average duration of loans and (b) 9% interest charged on capital. The 9 months duration is very close to the experience so far. The 9% cost of capital is a compromise that takes into account two factors: (a) savings mobilization, so far, paying high interest rates accounts for less than 10% of outstanding loans and (b) present costing of capital varies among the institutions, being as low as 6.5% in the case of Krishi. No provision is made for head office overhead. The amount is difficult to establish at the present stage but can be incorporated later without difficulty.

Even under these assumptions reaching financial viability, as defined, is still a formidable task when reasonable provision is made for bad debts, particularly at the lower interest rates charged. This is demonstrated in the following two tables. One estimates the number of loans that need to be granted on an annual basis to reach financial viability under different interest rates and percentages of default (including no default) and the other estimates the size of loan needed under the same assumptions. Results obtained can be summarized as follows, under the circumstances described:

TESTING INTEREST RATES AT VARIOUS LOAN NUMBERS AND DEFAULT RATES BASED ON AVERAGE OF KRISHI, SONALI, JANATA AND PUBALI'S COSTS DURING JANUARY - MAY, 1980

Assumptions :

1. Average loan size Tk.1450 (Average for all Banks, during January - May, 1980)
2. Average duration of loans 9 months
3. Capital cost 9%
4. Fixed cost Tk.30,600 per Branch per Annum.
5. (Average of Krishi, Sonali, Janata and Pubali during April - May, 1980).

Number of Loans	PROFIT (LOSS) PER BRANCH PER ANNUM IN TAKA														
	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%
	With no Default					With 3% Default					With 5% Default				
100	(27338)	(20813)	(14288)	(17763)	(1238)	(32080)	(25750)	(19421)	(13092)	(6763)	(3542)	(29042)	(22843)	(16644)	(10446)
200	(24075)	(11025)	2025	15075	28125	(33558)	(20900)	(8241)	4417	17076	(39880)	(27483)	(15085)	(2688)	(9710)
300	(20813)	1238	18337	137912	57487	(35038)	(16050)	2938	21926	40313	(44521)	(25924)	(7228)	11268	29864
400	(17550)	8550	34650	60750	86850	(36516)	(11199)	14118	39435	64752	(52060)	(24365)	430	25225	50020
500	(14288)	18337	50962	83587	116212	(37996)	(6349)	25297	56943	88589	(53886)	(22807)	8187	29181	70174
600	(11025)	28125	67275	106425	145575	(39474)	(1499)	36477	74452	112428	(58440)	(21248)	15945	53137	90330

[redacted]

TESTING INTEREST RATES AT VARIOUS LOAN SIZES AND DEFAULT RATES : BASED ON KRISHI'S ACHIEVEMENT DURING JANUARY -MAY, 1980

Assumptions:

1. Fixed Operating Cost per Loan - Tk.72
2. Capital Cost - 9%
3. Average duration of loans - 9 months
4. Branch Productivity : Around 35 loans per month

Loan Size Tk.	PROFIT (LOSS) PER LOAN IN TAKAS														
	With No Default					With 3% Default					With 5% Default				
	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%
500	(60.75)	(38.25)	15.75	6.75	29.25	(77.10)	(55.27)	(33.45)	(11.63)	10.2	(88. 0)	(66.63)	(45.25)	(23.88)	(2.50)
1000	(49.50)	(4.50)	40.50	85.50	130.50	(82.20)	(38.55)	5.10	48.75	92.40	(104.00)	(52.25)	(18.50)	27.25	67.00
1500	(38.25)	29.25	96.75	164.25	231.75	(87.30)	(21.83)	43.65	109.12	174.58	(120.00)	(55.88)	8.25	72.37	136.50
2000	(27.00)	63.00	152.00	243.00	333.00	(92.40)	(5.10)	82.20	169.50	256.80	(136.00)	(50.50)	35.00	120.50	206.00
2500	(13.75)	96.75	209.25	321.75	434.25	(97.50)	(11.62)	120.75	229.87	339.00	(152.00)	(45.12)	61.75	168.63	275.50
3000	(4.50)	130.50	265.50	400.50	535.50	(102.60)	(28.35)	159.30	290.25	421.20	(168.00)	(39.75)	88.50	216.75	345.00

55

1. With 3% default, financial viability is possible only when no less than 300 loans are made per annum (25 per month) at not less than 24% interest rate. At 30% interest rate 200 loans are required. Twelve and 18% interest rates are not viable.

2. As per size of loan, results indicate again that with 3% default financial viability is possible only at 24% interest rate and maintaining an average size of loans of Tk. 1500. At 30% interest rate the size required is Tk. 1000. There is no possibility of viability at the 12% and 18% interest rates.

It can be said as a general guideline that 24% interest rate and 25 loans per month (300 annually) of Tk. 1500 average size appear to be kind of critical minimums based on the January to May 1980 results obtained.

Due to the large volume of operations already achieved, a separate estimation was made for Krishi alone. In this case the actual figures for the January to May 1980 period were:

a. Number of loans made per branch per month increased from 24 (288 per annum) from project inception to December 31, 1979 to 35(420 per annum)(during the five month period of January to May 1980.

b. Operating costs per branch (exclusive of capital costs and provision for bad debts) increased from Tk. 28,031 to Tk. 30,600.

c. Operating costs per loan (exclusive of capital costs and provision for bad debts) dropped from Tk. 98.15 to Tk. 72.00.

d. The average size of loans increased from Tk. 1639 to Tk. 1800.

Estimates were then made of the number and size of loans needed to reach financial viability, assuming 9% interest on capital and various levels of default (including no default). The results are shown in the following two tables. They show:

1. With 3% default, financial viability is possible at 18% when 600 loans are made per annum, compared to present average of 420. No viability is possible at 12% interest rate.

2. As per size of loan, 18% interest rate is viable but only if size of loan is Tk. 2500 compared to present average of Tk. 1800.

3. At 24% interest rate the number of loans needed is 300 per annum of Tk. 1500 average size.

Whether the number of loans at an 18% interest rate can be increased to 600 per annum (50 per month) and average size of loan to Tk. 2500 without some significant increase in operating costs is doubtful. If the cost of capital were more in line with commercial rates it would be impossible to reach a viable operation at 18% interest rate. The general conclusion is that none of the models being experimented will appear to be able to reach financial viability at the lower interest rates, even with relatively low cost of capital(9% per annum).

Recommendations

General recommendations for the extension period are:

1. Concentrate efforts on the higher interest rate branches: 24% and 30%.

TESTING INTEREST RATES AT VARIOUS LOAN NUMBERS AND DEFAULT RATES BASED ON KRISHI'S ACHIEVEMENT DURING JANUARY - MAY, 1980

Assumptions :

1. Average loan size Tk.1800
2. Average duration of loans 9 months
3. Capital cost 9% per annum
4. Fixed Operating Cost 30,600/- per Branch per Annum

PROFIT (LOSS) PER BRANCH PER ANNUM IN TAKAS

Number of loans	With no Default					With 3% Default					With 5% Default				
	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%
100	(26550)	(18450)	(10350)	(2250)	5850	(32436)	(24579)	(16722)	(8865)	(1008)	(36360)	(28665)	(20970)	(13275)	(5580)
200	(2250)	(6300)	9900	26100	43200	(34272)	(18558)	(2844)	12870	28584	(42120)	(26730)	(11340)	(4050)	19440
300	(18450)	5850	30150	54450	78750	(36108)	(12537)	11034	34605	58176	(47880)	(24795)	(1710)	21375	44460
400	(14400)	18000	50400	82800	115200	(37944)	(6516)	24920	56340	87768	(53640)	(22860)	7920	38700	69480
500	(10050)	30150	70650	111150	15165	(39780)	(495)	38790	78075	117360	(59400)	(20925)	17550	56025	94500
600	(6300)	42300	90900	139500	188100	(41616)	5526	52668	99810	146952	(65160)	(18990)	27180	73350	119520

Testing Interest Rates at various Loan Sizes and Default Rates : Based on Krishi's achievement during January – May, 1980

Assumptions :

1. Fixed Operating Cost per Loan – Tk.72
2. Capital Cost – 9%
3. Average duration of loans – 9 months
4. Branch Productivity : Around 35 loans per month

Loan Size	PROFIT (LOSS) PER LOAN IN TAKAS														
	With No Default					With 3% Default					With 5% Default				
Tk.	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%	12%	18%	24%	30%	36%
500	(60.75)	(38.25)	15.75	6.75	29.25	(77.10)	(55.27)	(33.45)	(11.63)	10.2	(88.0)	(66.63)	(45.25)	(23.88)	(2.50)
1000	(49.50)	(4.50)	40.50	85.50	130.50	(82.20)	(38.55)	5.10	48.75	92.40	(104.00)	(52.25)	(18.50)	27.25	67.00
1500	(38.25)	29.25	96.75	164.25	231.75	(87.30)	(21.83)	43.65	109.12	174.58	(120.00)	(55.88)	8.25	72.37	136.50
2000	(27.00)	63.00	152.00	243.00	333.00	(92.40)	(5.10)	82.20	169.50	256.80	(136.00)	(50.50)	35.00	120.50	206.00
2500	(13.75)	96.75	209.25	321.75	434.25	(97.50)	(11.62)	120.75	229.87	339.00	(152.00)	(45.12)	61.75	168.63	275.50
3000	(4.50)	130.50	265.50	400.50	535.50	(102.60)	(28.35)	159.30	290.25	421.20	(168.00)	(39.75)	88.50	216.75	345.00

2. Pay special attention to increasing productivity of all branches, keeping relatively small staffs. Several recommendations made earlier related to loan processing procedures are relevant here.

3. Keep overdues as low as possible so that provision for bad debts and hence costs can be kept low. Recommendations on this matter have been made earlier in this chapter.

[illegible] Expanded Operations Through Realization of Rural Saving

As indicated earlier the mobilization of rural savings to finance target group lending has not produced the results hoped for. Generally speaking, the lending institutions have been too cautious or have been reluctant to offer the higher interest rates on savings to non-target group people. Several arguments are being advanced to defend the lack of action. One seems to be that this being an experiment of short duration, the lending institutions may find themselves at the end of the experiment with a substantial amount of savings for which they are paying high interest rates and may be not be able by then to lend at a profitable interest rates. Another is the impact on savers as rates may be lowered when RFEP is completed.

Three interesting exceptions are Rupali, Sonali and Janata. This is shown in the following table where savings balances as of May 31, 1980 are expressed as a percentage of outstanding balances of target group loans. In the three cases the encouraging results observed are due mainly to mobilization of savings among the non-target group. On the other hand, non-target savings balances of the two institutions that have disbursed the largest amount of resources to target group-Krishi and Agrani-are barely one percent of target group outstanding loans.

Relationship of Saving Balances to Loans Outstanding as of May 31, 1980

Lending Institutions	Savings Balances as Percent of Loans Outstanding		
	Target group	Non-target group	Total
1. Krishi	4.6	1.2	5.8
2. Sonali	8.2	11.3	19.5
3. Janata	2.8	15.1	17.9
4. Agrani	0.5	1.6	2.1
5. Pubali	7.0	-	7.0
6. Rupali	3.5	24.0	29.3
7. Uttara	7.1	1.7	8.8
8. IRDP	10.1	3.5	13.6
9. BSBL	1.3	-	1.3
Totals:	5.6	4.1	9.7

It is obvious that the above results are due to management policy decisions not related to the models, particularly the non-target group performance. This should merit very careful consideration during the project extension period.

So far in field trip visits and in interviews with bank staffs it has been found that:

1. What savings have been mobilized are mainly forced savings among target groups and little effort has been made to encourage systematic savings, particularly among non-target group households.

2. Some models are not offering the project interest rates to the non-target group, thus hampering one of the RFEP purposes: to test whether high interest rates on savings in the rural sector motivate people to save and to what extent.

3. The savings program has not been advertised and no systematic educational programs have been carried out.

4. In some areas the field credit officer's duties and responsibilities have not been clearly specified in writing so as to provide him with a working guideline for greater efficiency.

5. Field credit officers are emphasing credit, especially on loans collections, and are not devoting enough time to the savings component.

6. Some branch managers do not like the idea of mobilizing savings at high interest rates because they think that the mobilization will have an adverse effect on the RFEP operational costs and also because regular depositors, not under the program, will become unhappy with the institution because they are not getting the same interest. In some cases mobilization among non-target group is not encouraged by the head office or by- the branch manager.

Action Needed to be Taken

Rural savings mobilization efforts have to be strongly supported and promoted by the lending institutions in order to create an impact among rural people. To motivate people to save, the lending institutions need to develop a continuous educational and advertising program in order to attract the attention of prospective depositors in all RFEP sites. This motivational tool is a key factor in any savings mobilization program. Senior bank officers and public relation officers need to be fully involved and an effective monitoring system established.

Key steps towards a successful rural savings mobilization scheme are, among others:

- Development of a special strategy to approach potential depositors
- Encouragement of potential depositors with favourable interest rates and other incentives.
- Involvement of the community in the savings process.
- Motivation of villagers to form systematic voluntary savings habits
- Further advertisement of the program
- Motivation of bank staff with rewards and special recognition
- Persistant efforts

Greater and better structured effort to promote savings should be a very important component during the project extension period. To assist in this a special document was prepared and recently given to the nine lending institutions containing 5 different savings schemes which are fully explained.

The schemes proposed are designed to stimulate and promote a positive experimental attitude on the part of lending institutions in their dealings with the target group under RFEP. Other schemes and combinations are possible and this is precisely where the different bank officers are expected to exercise more initiative and to make full use of the flexibility that the Bangladesh Bank has agreed to in order that the experimental purposes of RFEP can be realized. Other techniques have been discussed among those involved in the project but it appeared that the time was then not opportune to attempt their implementation.

These included the holding of special lotteries among savings account holders, giving awards or prizes to participants who succeed in saving a certain percentage of net or gross returns; and making effective the rebate on loan interest feature as included in two models and depositing rebate amounts in borrowers savings accounts.

The recruitment or contracting of special staff including village women to promote savings exclusively and paying a specified percentage of actual amounts of deposits generated is another possibility.

Each of the nine lending institutions should be required to submit a savings component to experiment with during the extension period with concrete targets and operational procedures. No extension plan should be approved by Bangladesh Bank without this component. It should include one or more of the models proposed, combinations or altogether new ones.

VI. SYNTHESIS AND OVERALL EVALUATION TO DATE

Overall review of the original eight models reveals that they can actually be grouped in a smaller number of better defined credit delivery systems which can be more easily understood, monitored and finally evaluated. In addition, there are some basic characteristics associated with sound lending principles that cut across all models that are being observed and can be further refined and uniformly adopted.

The four delivery systems which have been identified are:

Delivery System	Institution Participating
1. Group lending	1 - Janata 2 - Uttara
2. Cooperative lending	3 - IRDP 4 - BSBL
3. Sub-branch approach	5 - Sonali
4. Village agent concept	6 - Rupali 7 - Pubali 8 - Agrani 9 - Krishi

Out of the four modalities the last one - village agent concept - deserves some explanation. At present only Rupali is supposedly experimenting with this concept. However, there is not much difference between Rupali's village agent and Pubali's or Agrani's assistants. In all cases a credit officer and a credit assistant are being deployed in each outlet, loan applications are taken either in the field or in the office, loans are disbursed and repaid mainly in the office and both the credit officer and the assistant supervise loans. In the case of Krishi and Pubali, however, the credit officer can sanction loans while in the others only the branch manager has this authority.

The budget line approach is essentially a technique applicable to all models and probably can be adopted as a standard procedure once it is properly understood and applied. Even the formal cash flow estimates can be reduced to a simple annual production farm plan that will include credit needs for a whole year thus eliminating the requirement for processing separate loan applications each time the target household is in need of cash. Costs to both the borrower and lending institutions can be substantially reduced if this practice is followed.

On the basis of data and experience secured to date the following very tentative conclusions can be drawn with respect to the relative viability of these more nearly discreet "models".

1. The group approach (Janata and Uttara) is still encountering serious difficulties arising from very low productivity per branch and problems with group formation and management. This is being reflected in high percentages of overdues. No possibility of financial viability is in sight at present performance levels. Specific recommendations have been offered in the recent analyses mentioned earlier which have been sent to the BDB and AID.

2. The cooperative system (IRDP & BSBL) has some promise and particularly noteworthly is the recent substantial progress made by IRDP. Not being a high cost delivery system, it can be financially viable if a reasonable volume of lending is reached and maintained. Its experimenting with more than one interest rate per outlet provides a very significant opportunity that should be further analyzed during the extension period. Specific recommendation have been made on this matter.

3. The sub-branch approach (Sonali) is also promising. There is need to increase productivity rapidly by streamlining (simplifying and expediting) loan processing procedures, modifying the role of advisory council, and enhancing the role and image of the Krishi-

Shakha in charge. Specific recommendations have been made to the bank and action should be taken during the project extension period.

4. The village agent concept as presently identified (Rupali, Pubali, Agrani and Krishi) probably should have the highest rating on the basis of returns to date. With the exception of Krishi, the most important thing that should be taken care of is increasing productivity and specific recommendations as to steps to be taken have been given.

A preliminary evaluation of the four model groups has been attempted by applying the four characteristics or criteria identified in Chapter V as those which the optimal modelbeing sought should satisfy. For this purpose eight indicators have been selected, two for each of the four characteristics. The indicators are as follows:

Main Characteristics	Indicators
A. Extending Loans	1. Number of loans made per branch
	2. Number of loans made per branch during the January to May 31, 1980 period
B. Recovering Loans	1. Percent of overdues
	2. Percent of branches with more than 10% of overdues
C. Covering Operating Costs	1. Percent of viability reached
	2. Percent of branches having reached viability
D. Mobilization of Savings	1. Percent total savings balance is of loans outstanding
	2. Percent non-target group savings balance is of loans outstanding.

Each institution has been ranked in a descending order from nine to one for each one of the eight indicators. The maximum mark obtainable is 72 points: nine (highest mark obtainable for each indicator) multiplied by eight indicators.

Based on data as of May 31, 1980 (except in the case of A-2) the results obtained are shown in the following table.

	Extending Loans	Recovering Loans	Covering Costs	Mobilizing Savings	Total Points Obtained
Group Lending					
Janata	3	10	8	15	36
Uttara	5	8	7	10	30
Cooperative Lending					
IRDP	11	18	14	12	55
BSBL	4	13	14	3	34
Sub-Branch Lending					
Sonali	11	9	15	15	50
Village Agent Lending					
Rupali	11	16	10	18	55
Pubali	16	17	10	6	49
Agrani	11	18	13	6	48
Krishi	18	14	17	6	55

The number of points obtained in each one of the four characteristics and the total obtained indicate the position of each institution relative to the rest of them. It shows, for instance, that Uttara is in the last position and is 25 points behind three institutions that obtained 55 points each; Krishi, Rupali and IRDP.

Results show that the nine lending institutions form three distinct groups, based on the total number of points obtained by each one: three have obtained 55 points each, three have obtained from 48 to 50 points each and the other three have obtained from 30 to 36 points each. This is shown below:

Range	Average number of points obtained	Institutions
Over - 50	55	Krishi, Rupali, IRDP
50 - 37	49	Sonali, Pubali, Agrani
36 and lower	33	Janata, Uttara, BSBL

These results generally confirm what was previously noted as to how each of the four delivery systems identified was performing. Group lending (Uttara and Janata) is lagging substantially behind the other three groups. The four institutions forming the village agent approach (Rupali, Krishi, Agrani and Pubali) are ranked either in first or second position along with the sub-branch approach (Sonali).

The modalities identified can serve as a take-off for several possible scenarios portraying the model or models which have shown significant promise to date and these should be built into the experimental activity. As hypotheses are developed and introduced into the work of the institutions, further steps should be taken to refine judgements regarding successful features for continued exploratory work and those features found of lesser promise culled out.

If the RFEP is successful in identifying a model or models which meet all criteria to a fully acceptable degree and a follow on project is found feasible, particular care should be paid to the development and conduct of an educational/"selling" program to assure full understanding, acceptance and effective support.