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FINAL REPORT

Six-Month Extension Through February 1981

To:

Bangladesh Bank
Agency for International Development - USA

RURAL FINANCE EXPERIMENTAL PROJECT
Bangladesh

CLAPP AND MAYNE, INC.
SERVICIOS TECNICOS DEL CARIBE
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March 15, 1981

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

Dear Mr. Molla:

The report submitted herewith covers services performed under the Amendment No. 1 of the contract between the joint venture of Clapp and Mayne, Inc., Servicios Técnicos del Caribe and Proggani Consultants, Ltd. and the Bangladesh Bank dated 24 August 1978.

Contained in the report, as specified in Section 1A3 of the amendment, are a description of progress attained during the period ending 28 February 1981, together with an update of key information in the report of 27 August 1980 and further conclusions and recommendations based on the additional work performed.

We are prepared to discuss this report with you and to answer any questions you may have on its contents.

Sincerely yours,

Martin C. Clapp

Martin C. Clapp
For the Joint Venture Firms

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I. INTRODUCTION

This final report covers activities carried out during the six-month-extension period from September 1, 1980 to February 28, 1981 under the provisions for technical assistance services entered into with Bangladesh Bank and a joint venture consisting of CLAPP AND MAYNE, INC. and SERVICIOS TECNICOS DEL CARIBE (both of San Juan, Puerto Rico) and PROGGANI CONSULTANTS LIMITED (of Dacca, Bangladesh) on August, 1978. A final report covering services rendered and progress achieved during the first two years was duly submitted to Bangladesh Bank on August, 1980.

The specific functions to be carried out by the Consultant during the six-month extension period are summarized below:

1. Continue the continuous survey and assist the lending institutions to complete their baseline surveys to identify target groups in the new and expanded experimental areas.
2. Interpret farmers' survey data.
3. Continue work with the BDB and participating financial institutions in the operation and improvement of the project financial and reporting systems and in verifying reports and applications for reimbursement from the Project Account.
4. Facilitate planning and arrangements by the BDB and the participating institutions to initiate and carry out the extension period program.

The three joint venturers' staff was reduced drastically. Clapp and Mayne, Inc. providing one Financial Specialist full time; Servicios Técnicos del Caribe provided one of its principals who made two trips to Bangladesh spending three months in Dacca performing as the Senior Consultant and Project Manager while in Dacca; and Proggani maintained a reduced staff in the Dacca Project Head Office while keeping the field staff and providing a Field Research Specialist who also served as Acting Project Manager when the Senior Consultant was not present. A total of 38.75 man-months of personnel was provided and brought to bear on the project during the six-month period.

II. WORK PERFORMED AND PROGRESS THROUGH FEBRUARY, 1981

Assistance in the Design of Nine Individual Extension Plans Corresponding to each one of the Participating Financial Insitutions

An intensive series of meetings was carried out during the months of September and October with each one of the nine participating lending institutions to analyze and review the extension plans being submitted by them to Bangladesh Bank.

The extension plans were to be prepared following AID letter of implementation No. 15 and also taking into account the consultants review, analysis and recommendations, model by model, prepared in written reports and submitted in August 1980. In addition, the consultant prepared a set of tables (proforma) to facilitate the preparation and submission of the extension plans.

As result of the review meetings held in September and October, with the participation of the Senior Consultant, Bangladesh Bank Officers, AID representatives and each institution individually, Bangladesh Bank issued a letter of approval of the extension plans including requests for modifying and/ or adding sections as deemed necessary.

In all cases, with the exception of BSBL, the institutions submitted acceptable extension plans. BSBL extension plan was unsatisfactory. Bangladesh Bank decided to keep BSBL in the project but at a much reduced level of participation due to both its rather poor performance during the first phase and their unsatisfactory planning for the extension period. It was also agreed to review BSBL performance as of February, 1981 to make a final decision.

The great majority of the recommendations made by the consultant in the July evaluation were incorporated in the extension plan by the institutions. An effort was also made to address key issues contained in AID letter of implementation like self-evaluation, incentives and strengthening head office monitoring and supervision of project operations, among others. In regard to self-evaluation, Krishi and Agrani indicated that an officer will be posted at head office in charge of self-evaluation and Rupali indicated that a self-evaluation team will be set up at head office. Other institutions assigned this function to head office project officers. Regarding incentives, all institutions made certain suggestions and Bangladesh Bank decided to issue guidelines to be followed by all institutions. Lending institutions were requested to submit concrete proposals to Bangladesh Bank.

Following is a summary of consultants principal recommendations and how each lending institution reacted.

Summary of Recommendations made by the Consultants for Model Modifications during the Extension Period and Insitutions Acceptance

Institution/Model	Recommendations	Acceptance
1. Krishi Bank-Budget Line	1. Elimination of detailed monthly cash-inflows and outflows. Introduction of new form allowing for cash flow estimates identifying and quantifying dates (seasons) when important inflows and outflows will occur for establishing credit needs and repayment schedules. A simplified application form was also recommended to be used in conjunction with the household survey form and the cash flow estimates.	1. Recommendations were accepted and new forms were developed by consultants in conjunction with the Bank.
	2. Intensive training for Investigation Officers to ensure adequate undertanding of the new forms and the very concept of the budget approach.	2. Was accepted and training sessions were scheduled.
	3. Increase crop loans from present 14% of amount disbursed to not less than 25% by expanding outlets having this potential and opening new outlets in predominantly agricultural areas.	3. Was agreed that new outlets will be located in predominantly agricultural areas.

Institution/Model	Recommendations	Acceptance
	4. Elimination of limits on size of loans for specific purposes, except that non-productive purposes be maintained at Tk. 1,000; increase total limit per household from present Tk. 3,000 to Tk. 5,000 to better accommodate needs of budget line approach.	4. Was accepted except that total limit per household was increased only to Tk. 4,000.
	5. Improve control of past due loans by introducing simple devices (up-dated reports on past due accounts; etc.) to facilitate taking timely and effective remedial action. Several forms were recommended.	5. No specific reactions to recommendations were included in extension plan.
	6. Continue giving great importance to maintain and increase productivity, particularly in the higher interest rate outlets.	6. Evidence of acceptance is found in targets established per outlet.
	7. Increase savings promotion to improve the hitherto low level of savings attained.	7. Extension plan proposes to increase savings to 25% of capital needs. Women assistants to be hired to help in this.

Krishi also indicated that a Research Officer will be posted at head office to be in charge of self evaluation activities.

Insitution/Model	Recommendations	Acceptance
2. Uttara Bank-Group lending	1. Make groups promoted as homogeneous as possible and work closer with and through group leaders.	1. Was accepted.
	2. Increase training on the philosophy, concept, sound procedures and practices of group lending.	2. Was accepted.
	3. Relax or eliminate limits on size of loans for different activities.	3. Limits were increased from Tk. 1,000 to Taka 1,500 which still is low. There are important activities for which Uttara has made no provision like rickshaw, milk cows, bullock.
	4. Urgent need for increasing productivity. Concrete recommendations were made to achieve this, including the need to assign officers to work full time in the project, transport, etc.	4. Targets per outlet proposed are higher than in first phase.

Institution/Model	Recommendations	Acceptance
3. IRDP - Cooperative	1. Adoption of a simple application form.	1. Was accepted
	2. Eliminate ceilings on size of loans for individual activities and establish a maximum per household.	2. Ceilings were raised somewhat; maximum per household was drastically increased from Tk. 1,500 to Tk. 5,000.
	3. Setting up specific targets per KSS geared to increase productivity and membership.	3. Restriction on the type of crops that can be financed and ceiling by activity continue to be a limitation.
	4. Provide adequate compensation of KSS managers and better support and supervision to KSS from TCCA headquarters.	4. Managers compensation has not improved. KSS supervision has been strengthened.
	5. Select for experimentation one of the various savings models prepared by the consultant, particularly among those more directly relating savings with lending.	5. IRDP decided to continue with present system of weekly savings by members: One taka per

Institution/Model	Recommendations	Acceptance
3. (cont.)	5. (cont.)	5. week approximately. In addition, the amount that a member can borrow is in proportion to the amount of shares that the member has subscribed. For purposes of RFEP the ratio is 20:1, that is 20 times the amount of share money.
4. Sonali Bank Krishi Shakha	1. Drop loan sanctioning authority given to Village Advisory Council; assign the Council functions more in keeping with its advisory nature.	Was accepted but "profession based groups such as farmers, weavers, rickshaw pullers, potters, etc. would be formed". These groups are to assist Krishi - Shakha in charge of selecting the recipients of loans and

Institution/Model	Recommendations	Acceptance
4. (cont.)	1. (cont.)	1. the "group members would sign in the group guarantee form for the distributable credit to their respective group of people and they would be responsible for the realization of credit." This new addition to procedures could easily become another cumbersome and delaying mechanism that is not needed.
	2. Assign sanctioning authority to Krishi Shakha in charge.	Was accepted to be introduced immediately in those outlets where Village Advisory Councils are being abolished and in new outlets. Level of authority is Tk. 5,000.

Institution/Model	Recommendations	Acceptance
4. (cont.)	3. Intensify training related to local promotion, leadership, agricultural credit and fundamentals of crop and animal production.	3. Several training sessions were scheduled.
	4. Establish a more precise program of activities for the farm technologist in relation to the project.	4. Was accepted.
	5. Improve supervision and control on overdue cases, particularly timely documentation of cases and taking effective remedial action. Forms and procedures were recommended.	5. No specific reaction recorded in plan.
	6. Establish concrete targets on productivity and financial viability based on Consultants preliminary conclusions and recommendations.	6. Was accepted except that there appears to be indications of overstaffing. Salary of the Krishi Shakha in charge was increased from Tk. 450 to Tk. 600 and a bicycle will be provided. The branch managers and farm technologists of parent branches will be provided with motorcycles.

Institution/Model	Recommendations	Acceptance
4. (cont.)	7. Select one or more of the savings models prepared by Consultants to experiment with during the extension period.	7. Two models were selected subject to the approval of BDB.
5. Janata Bank Group Lending	1. Area development approach should be dropped and concentrate on group lending supplemented with one or two community development oriented projects.	1. Model was renamed "area approach". Group lending will continue and community oriented projects will be promoted. However, how groups are promoted and monitored and how community projects are to be identified and achievements reported are not indicated in the extension plan.
	2. Better control of past due loans. Specific forms were recommended.	2. No specific reaction recorded.
	3. Substantially increase productivity.	3. Although positive reaction was recorded in plan there appears to be great need for more effective motivation, training and incentives.

Instiution/Model	Recommendations	Acceptance
6. Agrani Bank Agricultural Service Center	1. Drop Agricultural Service Center concept, but keep approach of making arrangements to ensure the needed production inputs are in place by working with and through local dealers.	1. Was accepted; model was renamed as "small farmer credit service".
	2. Substantially increase productivity.	2. Targets per outlet are higher than in first phase.
	3. Substantially increase savings promotion.	3. Target of Tk. 2 lack per outlet has been fixed for the extension period.

In addition to above, Agrani proposed establishing cash incentives to personnel based on timely recovery of loan. Another cash incentive was proposed for the mobilization of savings. These were left pending Bangladesh Bank final decision on guidelines applicable to all lending institutions. For self evaluation purposes, head office will be provided with another officer to initiate a self evaluation system.

7. Pubali Bank "Ombudsman"	1. Drop Ombudsman concept but keep present interest in ensuring the availability of production inputs.	1. Ombudsman name will be maintained.
	2. Reinstate family budget approach with the modifications introduced by the Consultant.	2. Was accepted.

Insitution/Model	Recommendations	Acceptance
7. (cont.)	3. Explore possibility of abolishing requisite of Union Chairman or of a member endorsing prospective borrowers.	3. Endorsement was abolished.
	4. Eliminate present authorization to regional managers for approval of loans higher than Tk. 2,000 and give it either to branch manager or increase loan officer present authorization.	4. Was accepted by increasing credit officer authority to Tk. 5,000 which is the maximum under the project.
	5. Substantially increase productivity.	5. Targets per outlet have been increased but also staff, hence productivity may not be improved, necessarily.
	6. Select one or two of the savings models proposed by Consultant.	6. Decided to continue present scheme but with more promotion.

The bank also agreed to introduce incentives to personnel but indicated that all lending institutions should follow a uniform policy.

8. Rupali Bank Village Agent	1. Give more training to Village Agent covering areas like fundamentals of agricultural production, credit, non-agricultural activities.	1. Was accepted.

Institution/Model	Recommendations	Acceptance
8. (Cont.)	2. Assign sanctioning authority to loan officer under whom Village Agent operates.	2. Was not accepted.
	3. Consider dropping the 2% rebate to borrowers (that has not been implemented) of recoverable interest on loans paid on due date; or if maintained then pay it at the time loan is repaid on due date paying 50% of the rebate in cash, the other 50% to be deposited in the borrower's savings account.	3. Rebate was kept, payment to be made in the manner recommended by the Consultant.
	4. Pursue a scheme where several Village Agents work under the direct supervision of one loan officer, each Village Agent covering a specific geographical area.	4. Was accepted.
	5. Substantially increase productivity.	5. Targets fixed per outlet are low taking into account the staff to be provided.

The bank will create a self-evaluation team at head office level.

9. B. S. B. L. Cooperative Lending	1. Drop rebate to borrowers for timely repayment of loan.	1. Was accepted.

Institution/Model	Recommendations	Acceptance
9. (Cont.)	2. Eliminate ceilings on size of loans for individual activities and establish a maximum per household of Tk. 5,000.	2. Individual ceiling maintained although at higher levels and maximum per household was established at Tk. 5,000.
	3. Setting up specific targets per KSS geared to increase productivity and membership.	3. Targets fixed show improvement.
	4. Provide adequate compensation to KSS managers.	4. The one percent commission on loans disbursed will be increased to 2%.
	5. Clarify and strengthen functions performed by BSBL and CCB's on behalf of KSS; clear-cut functions and responsibilities are needed. KSS needs to be provided with adequate supervision, accounting systems, timely reporting on project progress and training of local leaders.	5. No specific plan of action has been produced.
	6. Select for experimentation one of the various savings models prepared by the Consultant, particularly among those more directly relating savings with lending.	6. Will continue with their present group savings model.

Assistance in the Implementation of the Institutions Extension Plans

Target Group Identification Survey (household survey)

The Consultants developed standard Target Group Identification Survey form (also known as Baseline Survey of the lending institutions), of which 70,000 forms were printed with funds available from RFEP Training Fund and these were delivered to RFEP outlets through lending institution Head Offices and RFEP regional offices.

As of January, Target Group Identification Survey progress was as follows:

1. Out of 80 (eighty) working outlets Target Group Identification survey has been completed in 42 segments.
2. Progress in 24 outlets is quite satisfactory and may be completed shortly.
3. In the rest 14 outlets, progress is unsatisfactory.

The Consultants' Field Research Staff extended all possible help to all nine participating lending institutions to carry out the target group identification survey. The following procedure was followed in carrying out the Target Group Identification Survey.

1. Complete household list of the RFEP experimental villages was prepared (standard household list forms were provided to lending institutions by the Consultants).
2. Necessary training was provided by the RFEP Field Research Staff to conduct the target group identification survey. The field staff made visits to each RFEP outlet to help conduct the survey smoothly.
3. Target Group Identification Survey techniques were also covered in the RFEP Regional Workshops.

Training

The Consultants organized a 3 day Field Workshop in each divisional level:

Bogra	on 12th & 13th November, 1980
Khulna	on 17th, 18th & 19th November, 1980
Chittagong	on 24th & 25th November, 1980
Dacca	on 1st, 2nd & 3rd December, 1980

The objectives of these workshops were the following:

1. to appraise the activities of RFEP to date and problems encountered and their solution.
2. to train the credit personnel regarding experimental models.
3. to instruct the credit personnel regarding their functions and duties, loan disbursement and repayment.
4. to train the lending institutions personnel regarding monthly reports.
5. to organize plans for farmers' training.
6. detailed training on rabi crops (boro paddy and wheat cultivation; vegetable and fruit cultivation, pulses and oil seeds cultivation).
7. Information on rearing of cattle and poultry.

Approximately 400 lending institution officials (GMs, DGMs, ACMs, RMs, Branch Managers, Loan Officers, Village Agents, Krishi Shakhi-in-charges, KSS Managers, Chairman etc.) took active part in those workshops. All RFEP specialists participated conducting the training sessions. The Chief Officer, Agricultural Credit Department, BDB participated in all the workshops and made valuable contributions.

Field Trip Visits

All specialists took extensive field trips to different outlets and field trip reports made.

The Field Research Specialist took several trips to Chittagong, Comilla, Rajshahi, Pabna, Bogra, Mymensingh, Jessore, Khulna, Dacca district for the following:

1. to organize and train lending institution officials for carrying out target group identification surveys.
2. to organize field level workshops.
3. to review progress of ongoing survey research work in the field.

Conduct Special Studies and Analyses of Selected Subjects Related to Credit and Savings

1. Farmer's Financial Surveys 1 and 2

FFS 1 Report:

Based on the data collected in 15 RFEP segments for the aus crop season of the year 1979, a comprehensive report was prepared and submitted to Bangladesh Bank. Comparison is made of user and non-user respondent with respect to some selected parameters.

FFS 1 Analysis:

From the above study, a farm level cost benefit analysis was made. This report is the first of a number of financial viability reports intended on the cultivation practices of major agricultural crops in Bangladesh. This report makes an attempt to summarize the findings of a sample survey conducted in September - October 1979 to cover aus crop season of that year and to obtain insights into the structure of costs and rates of return from cultivation of four different varieties of aus crop as well as jute and mesta. Report was submitted to Bangladesh Bank.

FFS 2 Analysis:

FFS 2 was conducted in 15 segments under the RFEP, and summarizes the findings of a sample survey conducted in January - February 1980 to cover aman crop season of that year and to obtain insights into the structure of costs and rates of return from cultivation of three varieties of aman crop and transplanted HYV aman. Analysis of financial viability for the cultivation of these three varieties of aman crop has been presented in terms of costs and returns. Report was submitted to Bangladesh Bank.

2. 100 - Crore Comparative Study

This study is the review of Taka 100 Crore Agricultural Credit Program and comparison of the program with RFEP. The study makes an attempt to summarize the findings of a sample survey conducted in June '80, on the credit program under subject. Information on the credit program was collected through interviews of two groups of population such as the bank managers associated with and the borrowers under the program. Bank managers of 18 branches involved in both RFEP and Taka 100 Crore Agricultural Credit Program were interviewed for this purpose. A total of 484 borrowers under the program were also interviewed to supplement the information collected from the bank managers. The sample survey on the borrowers under the program was conducted in 18 segments.

An attempt has also been made in this report to have a comparison of Taka 100 Crore Agricultural Credit Program with RFEP on some selected but important parameters. Report submitted to Bangladesh Bank.

3. Overdues

This study makes an attempt to examine the situation and causes of overdues based on a sample survey. Information was obtained from branch managers and borrowers. A text describing the tables prepared is being submitted to Bangladesh Bank.

4. Continuous Survey and Auditing

As of November 25, 1980, the Consultants had interviewed 11,431 RFEP borrowers. Results of Continuous Survey (proportion of target group and non-target group) for each RFEP segment were provided to Bangladesh Bank, USAID and the lending institutions. The results (by segment) were also provided to RFEP Financial Analyst for reimbursement purposes.

It can be noted that the Continuous Survey is working as a 'management tool' as envisaged. All lending institutions show a positive trend of reaching the target group compared to earlier continuous survey results, as seen in Table II - 1.

At present Continuous Survey is being conducted in the new RFEP segments.

II - 1

Comparison of Results of Continuous Survey by Models
(January, May & November 1980 Surveys)

Model (Bank)	CONTINUOUS SURVEY		
	Results as of January 8, 1980 % (percent) of Target Group	Results as of May 15, 1980 % (percent) of Target Group	Results as of November 25, 1980 % (percent) of Target Group
AGRANI	77.34	84.76	86.27
BSBL	72.50	76.87	80.68
IRDP	76.77	77.48	84.80
JANATA	75.70	80.12	82.92
KRISHI	73.37	80.29	83.64
PUBALI	63.72	71.88	75.22
RUPALI	84.81	88.96	90.31
SONALI	58.87	65.25	70.64
UTTARA	73.14	78.48	80.18
	72.57	79.00	82.29

Audit of RFEP accounts continued during the period. From September 1980 through January 1981, 5 initial audits and 31 second audits were satisfactorily completed at 36 branch offices.

During these 36 audits, it was noted that:

Serious errors, which were corrected during audit, were noted at 10 branches.

Willful defaulters were noted at 3 branches.

Second loans used to repay first loans were noted at 2 branches. These resulted in inflated claims for 1/3 plus 1/3 reimbursement, which were appropriately reduced during audit.

Serious understatement of the amount of overdue loans was noted at 10 branches.

Serious overstatement of lending and/or repayment on time resulting in excess claims for 1/3 plus 1/3 reimbursement was noted at 12 branches. Again, these excess claims for 1/3 plus 1/3 reimbursement were appropriately reduced during audit.

During all of these audits, the auditors explained the correct accounting procedures to the loan officer, who now appears to fully understand how to prepare accurate accounts.

Copies of audit reports were submitted to the Bangladesh Bank, USAID, and to the lending institutions. Detailed recommendations for improvement were included in these audit reports for the guidance of the lending institutions.

As of January 31, 1981, audits could not be completed at six branch offices due to unposted and/or inaccurately posted ledgers and/or improperly prepared monthly reports.

<u>Monitoring Financial Plans and Accounts</u>

Financial analyses regarding project performance relating to the critical RFEP questions in the financial area were completed and incorporated in this evaluation report.

<u>Analyze the Viability of Model Operations</u>

Detailed analyses of the financial viability of the project, by lending institution were completed and are incorporated in this evaluation report.

Budgeting, Accounting and Reporting System

At the joint meeting of representatives of the Bangladesh Bank, USAID, Consultant, and lending institutions held on January 12, 1981, the Bangladesh Bank requested the lending institutions to complete monthly reports to the Bangladesh Bank through December 31, 1980 by January 31, 1981. Krishi, Sonali, Rupali, Uttara and IRDP completed these reports as requested. As of January 31, 1981 other institutions had completed monthly reports as follows:

Janata	-	November 1980
Agrani	-	October 1980
Pubali	-	November 1980
Samabaya	-	August 1980

It is encouraging to note that the majority of the lending institutions have reduced the time required to prepare monthly statements to one month. This is a commendable achievement, considering the problems of communication from distant outlets.

During the past six months, the lending institutions have resolved most of the problems that resulted in submission of late reports, such as: assignment of part-time officer in the Head Office, while a full-time officer is required; giving other assignments to field staff; failure to provide prompt typing service; failure to correct arithmetical errors. However, Agrani and Samabaya still have not assigned full-time employees to the field and they do not send the Head Office officer to the branch office that is slow in sending in reports.

Reimbursement to Lending Institutions

Reimbursement to lending institutions of the 1/3 for lending to target group and 1/3 for collection on time is based upon accounting statements prepared by each lending institution, checked by the consultant, and submitted to the Bangladesh Bank. The consultant then calculates the amount to be deducted for lending to the non-target group; as determined by the Continuous Survey. The monthly statements from lending institutions and statements of deduction for lending to non-target group are then summarized by the Bangladesh Bank, checked by the Bangladesh Bank, checked by the consultant, and submitted to AID for payment to the Project Fund maintained at the Bangladesh Bank.

These reimbursements have been greatly delayed due to Samabaya's preparing monthly statements 3 or 4 months later than any other lending institution. As a temporary measure, in September 1980, AID advanced Taka 30,00,000 to the Project Fund to reimburse lending institutions. That advance was soon expended and the lending institutions were due some Tk. 54,00,000 as of January 31, 1981, against which AID processed claims for Tk. 37,00,000.

This backlog should soon be worked off, since Samabaya has recently engaged an officer to work full-time on the project at their Head Office. During January 1981, Samabaya completed accounts for three months and should be up-to-date by the end of March 1981.

As noted elsewhere, five lending institutions completed accounting statements for December 1980 by January 31, 1981. The consultant sees no reason for the other four lending institutions not to complete accounting to the Bangladesh Bank within one month. Then, lending institutions could expect to be reimbursed within two months of the end of each accounting period.

The 1/3 plus 1/3 reimbursement is kept as a reserve by all lending institutions. All reserves are kept at the Head Office of the lending institution, except for IRDP which sends the full reserve to the TCCAs for credit to the primary societies that generated the reserves.

As of December 31, 1980, Taka 82,40,917 had been paid from the Project Fund to the lending institutions as shown in Table II - 2.

II-2

Reimbursement from the Project Fund to Lending Institutions as of December 31, 1980

Lending Institution	Repayment through Month of* 1980	1/3 for Lending Claimed	1/3 for Lending Deducted**	1/3 for Lending Paid	1/3 for Collection Claimed	1/3 for Collection Deducted**	1/3 for Collection Paid	Total Reimbursement Claimed	Total Reimbursement Deducted	Total Reimbursement Paid	Percent Deducted
Krishi	July	39,25,415	6,89,991	32,35,424	10,58,840	1,48,136	9,10,704	49,84,255	8,38,127	41,46,128	16.8
Sonali	August	9,27,161	3,88,022	5,39,139	2,57,002	1,12,590	1,44,412	11,84,163	5,00,612	6,83,551	42.3
Janata	June	4,74,404	86,852	3,87,552	1,27,290	23,997	1,03,293	6,01,694	1,10,849	4,90,845	18.4
Agrani	June	9,55,286	1,43,891	8,11,395	3,44,839	36,705	3,08,134	13,00,125	1,80,596	11,19,529	13.9
Pubali	June	5,90,471	1,68,599	4,21,872	2,55,560	62,054	1,93,506	8,46,031	2,30,653	6,15,378	27.3
Rupali	July	3,05,480	27,302	2,78,178	1,05,669	8,768	96,901	4,11,149	36,070	3,75,079	8.8
Uttara	May	1,80,188	40,192	1,39,996	59,598	14,664	44,934	2,39,786	54,856	1,84,930	22.9
IRDP	June	3,91,340	49,691	3,01,649	1,66,772	43,680	1,23,092	5,58,112	1,33,371	4,24,741	23.9
BSBL	February	2,18,031	44,849	1,73,182	33,980	6,426	27,554	2,52,011	51,275	2,00,736	20.3
Total		79,67,[illegible]	16,79,389	62,88,387	24,09,550	4,57,020	19,52,530	1,03,77,326	21,36,409	82,40,917	20.6

* Payments are made on a first-submitted first-reimbursed basis.

** Deductions are based on results of the Continuous Survey, in accordance with USAID letter 1633 dated December 27, 1978.

III. SUMMARY OF PROGRESS OF THE PARTICIPATING INSTITUTIONS IN IMPLEMENTING EXTENSION PLANS AND RECOMMENDATIONS

As of February 1981 all the lending institutions were in the implementation process of the extension plans. Although the household survey to identify target households had a very slow start, several of the institutions have almost completed this phase. Staffing of new outlets and posting additional needed staff in old ones is taking too long, generally speaking.

Following is a summary of actions that need to be taken model by model.

Krishi

1. The new form to develop family budget was introduced but training to ensure proper use of this kind of budget analysis is still deficient. Only new Investigation Officers were exposed to training sessions. Field visits showed that old officers are not using the new form properly. Training sessions should be immediately scheduled for these officers with close follow up to all officers until they really understand and apply correctly the key feature of this model.
2. In response to the recommendation to increase percentage of crop loans, new branches are being located in areas that appear to have substantial agricultural potential. Progress, however, is slow.
3. Positive action is being taken to maintain and increase productivity but new Investigation Officers have not been provided with transportation and apparently they have not been given sanctioning authority. Action is needed.
4. Women assistants to promote savings have not been provided to the branches to meet the goal established by Krishi of generating 25% of capital needs. Action is needed.
5. No specific reaction was recorded in the extension plan regarding recommendations to better document and control overdue cases. There are some local initiatives but it is not enough. It is recommended that Consultants' recommendations or similar ones be promptly implemented.
6. The proposed Self Evaluation Officer to be posted at head office has not been appointed. Immediate action is needed.

Sonali

1. The introduction during the extension period of "profession based groups such as farmers, weavers, rickshaw pullers, patterns, etc." as a requisite to get a loan should be watched closely. It could easily become another cumbersome mechanism that is not needed. It is recommended that a thorough evaluation be made, with recommendations, not later than six months after its inception.
2. In regard to the Krishi Shakha in charge two positive steps were taken: (1) an increase in salary from Tk. 450 to Tk. 650 and (2) sanctioning authority was given to the Krishi Shakha in charge in those cases where local advisory councils were abolished. A third step is needed: make specific efforts to rapidly boost Krishi Shakha in charge image in the community. Sonali's policy of staffing Krishi Shakha with staff of the rank of Assistant may not be the most satisfactory approach. The recruitment of the best talent available assigning adequate salary, logistic support and rank commensurate with his credit officer status (at least in those outlets where sanctioning authority is given), systematic and close supervision from parent branch, training sessions on the fundamentals of rural lending, basic knowledge of agricultural production and how to develop and exercise local leadership should be given substantially more attention during the extended period.
3. Consultants' recommendations to better document and control overdues should be promptly implemented in an effort to substantially reduce Sonali's overdues which still average above 20%.

Agrani

1. Levels of productivity per branch should be closely monitored to ensure compliance with goals established in the extension plan. During the first phase, Agrani maintained a very high rate of recovery apparently based on being very strict in the selection of borrowers and giving close supervision. Now Agrani is expected to demonstrate that it can substantially increase productivity levels, and still maintain a high rate of recovery.
2. Savings promotion should be given much greater attention and Agrani has fixed a target of two lacks per outlet during the extension period. There is no evidence so far of these targets being

communicated to the outlets and the nature of the promotional approach or campaign to be implemented. Action is needed.

3. Establish and make operational the RFEP evaluation team proposed in the extension plan. Action is needed.

Janata

1. It is recommended that Janata use Jhikargacha outlet as the training ground for the rest of the outlets. Only in this outlet the Janata model (area approach as now named) is being implemented. Several community development projects are promoted with the bank actively participating. Lending under the project is substantial and recovery is exellent. A very active and highly motivated officer is in charge of the outlet. Probably Uttara could benefit from this experience and it is suggested that visits to Jhikargacha be scheduled for Uttara and other institutions interested.
2. There is great need to increase productivity. It is recommended that monthly targets be fixed for each outlet and close follow-up be given by head office.
3. Consultants' recommendations to better document and control overdues should be promptly implemented.

Uttara

1. Targets per branch have been increased but officers are still without transportation hampering their mobility and efficiency. They claim that this situation is preventing them from staying in the village late in the evening to schedule and conduct group sessions, among other things. Some officers are not working full time in the project. Action is needed.
2. No training has been provided covering needed areas like concept, sound procedures and practices of group lending. This is of critical importance; along with some policy decisions regarding joint and collective guarantee, etc. Uttara's group lending approach is in serious trouble. It is recommended that round table sessions be held with all lending officers and Project Manager to thoroughly review and analyze critical issues and prompt and effective remedial action taken.

3. Consultants' recommendations to better document and control overdues be promptly implemented.

Pubali

1. Proceed to reinstate the family budget approach with the modifications made by the Consultant and accepted by the Bank. Instructions have not been communicated to the outlets. Action is needed.
2. Closer attention needs to be given to increasing productivity. Better relationship should be sought between loans disbursed and staff provided in each branch.

Rupali

1. Provision to give a 2% rebate to borrowers for timely repayment of loans paying 50% of the rebate in cash the other 50% to be deposited in the borrower's savings account, should be implemented immediately or dropped. The provision has been on paper since project inception. The Bank indicated it wanted to maintain it with the modifications suggested by Consultant, but nothing happened. Action is needed.
2. Very special attention be given to Consultants' recommendation and Bank's acceptance of having various village agents working under each Credit Officer instead of the one/relationship. This measure will substantially increase productivity, which is desperately needed in the case of Rupali, and will increase chances of financial viability. Credit Officer and Village Agent functions, responsibilities as well as geographical areas to be covered by each one need to be established to attain the levels of productivity and efficiency desired. The need to assign sanctioning authority to Credit Officer should be examined again in the near future.
3. Proceed with the creation of the Self Evaluation Team proposed.

I.R.D.P.

1. There is need to better relate the increased new limit (Tk. 5,000) that can be loaned to a borrower with the still low ceilings being established for individual activities. The latter should be further increased at least for some important activities like HYV, for example.
2. Compensation to KSS managers is still kept at 1% of loans disbursed. It should be increased at least to 2% as BSBL has done.

3. There are indications that some KSS selected for inclusion in the extension period have little potential for project lending activities. It is recommended that a quick field investigation be made and necessary action taken.

4. The recent additional support being provided by TCCA to KSS is a positive development. It is recommended that TCCA officers responsible for the project dedicate greater attention to setting up monthly productivity targets for each KSS and give close follow up.

B.S.B.L.

1. It is recommended that a special review and analysis be made of BSBL project performance to date. This assessment should take into account the following:

    a. Present modus operandi of BSBL, CCB and KSS complex and whether a satisfactory operational procedure can be devised that gives some assurance of the prospects of substantial improvement in overall performance. Clear-cut functions, responsibilities and procedures should be agreed upon in writing.

    b. Equally important as (a) above is to make sure that competent and motivated officers are assigned to work at the various levels where decisions and actions are taken: BSBL head office, district officers, CCB's.

    c. Delegation of sanctioning authority to CCB level and the designation at each CCB of one officer responsible for and working full time under the project appears to be badly needed.

    d. Designation of adequate staff at CCB to work on a day-to-day basis, with KSS managers. IRDP present organization at TCCA level can serve as a general guiding principle. Special emphasis should be given to make full periodic normal and management audits of KSS accounts.

2. Set up monthly productivity targets for each KSS and hold KSS Manager responsible. Provide adequate logistic support and compensation.

If satisfactory agreement cannot be reached on (1) and (2) above then BSBL should be dropped from the project.

IV. EVALUATION OF MODEL PERFORMANCE TO DATE

This chapter reviews the experience of the models to date in relation to the four key criteria developed to help determine the model (or models) which will most likely achieve the objectives of the project. 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.

Apart from updating relevant data an effort is made to review and analyze the experience of the year 1980 (January - December), the first complete year when all the institutions and branches were in full operation. This is possible as a result of the extraordinary effort made by several institutions in preparing and making available to the Consultant monthly reports up to December 1980. We are grateful to these institutions for bringing their monthly reports to date and to the special effort made by the Financial Analyst and the team of auditors, who, for about three weeks, worked closely with all the institutions securing necessary data and preparing the basic tables.

The Volume of Lending and Purpose:

The distribution of loans disbursed, broken by the three main categories - crop, other agriculture and non-agriculture continues to be basically the same shown in previous evaluations. Thre are some interesting developments; however, 1980 figures are compared with the situation as of December 1979. Crop loans increased for almost all the institutions, with an overall increase of 3%, other agriculture increased by two percent and non-agriculture decreased by 5% from 43% to 38%. By December 1980 all the institutions had reached a reasonable mix of purposes, except Krishi that was still showing only 15% in crop loans.

The situation by institution is shown in Table IV-1.

Table IV-1 Percent of Loans Disbursed by Purpose from Inception to December 1980

Institution	As of December 1979			As of December 1980		
	Crop	Other Agriculture	Non-Agriculture	Crop	Other Agriculture	Non-Agriculture
Krishi	12	42	46	15	50	35
Sonali	36	19	45	33	30	37
Janata	25	44	31	26	41	33
Agrani	37	23	40	32	24	44
Pubali	18	25	57	23	31	46
Rupali	24	45	31	30	31	39
Uttara	38	30	32	37	36	27
I.R.D.P.	47	29	24	52	18	30
B.S.B.L.	72	13	15	47	4	49
Total	23	34	43	26	36	39

Crop seasonality is reflected in 1980 lending experience when amount disbursed is broken down by quarter. The lowest amount disbursed is shown for the April - June quarter and the highest for January - March. It is interesting to note, however, that a rather substantial reduction in crop loans - percentagewise is observed when the October - December quarter of 1979 is compared with the same quarter 1980. The percentages are 42% and 30%, respectively.

The information by quarters is presented in Table IV-2.

Table IV-2 Percent Disbursed for Crop Loans December 1979 to December 1980 Monthly Averages Per Quarter

Institution	December '79	March '80	June '80	September '80	December '80
Krishi	27	18	17	14	19
Sonali	53	54	17	22	35
Janata	51	29	19	20	36
Agrani	43	35	18	35	31
Pubali	32	38	47	22	18
Rupali	47	54	32	26	22
Uttara	55	23	5	6	75
I.R.D.P.	66	52	61	47	66
B.S.B.L.	85	79	21	53	0
Total	42	39	21	26	30

Interest Rates and the Level of Borrowing:

Previous evaluations have indicated that the decline in the volume of borrowing is associated with increases in the interest rate. This situation continues to prevail as shown below:

Amount Disbursed per Interest Rate as of December 1980

Interest Rate	Amount Disbursed Per Branch Taka	Total Taka
12	12,25,150	98,01,201
18	8,16,673	89,83,408
24	7,02,211	70,22,113
30	7,83,388	62,67,104
36	4,22,801	25,36,805
		346,10,631

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 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 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 the three categories) were for non-agricultural purposes".

Similar results were obtained when the same analysis was made with data one year later, that is, as of December 1980.

The results obtained are presented in Table IV-3 for the two dates: December 1979 and December 1980.

The main difference is that the situation in the case of non-agricultural loans is now more dramatic: the value of loans made at 12% fell farther below the expected demand (ratio decreased from 92 to 81). At the 30% and 36% rates the ratio increased substantially from 114 to 163 and from 106 to 130,

Table IV-3 Comparison of Distribution of Loans Disbursed and Target Households by Interest Rates

	Index: Ratio Percentage Loans to Percentage Target Households					
	As of December 1979			As of December 1980		
Interest Rate	Crop	Other Agriculture	Non-Agriculture	Crop	Other Agriculture	Non-Agriculture
12	57	174	92	56	138	81
18	127	85	96	124	103	80
24	96	63	100	82	75	87
30	153	78	114	186	86	163
36	69	72	106	69	65	130

respectively. These results indicate that at 30% and 36% rates non-agricultural loans are over-subscribed by 63% and 30%, respectively. During 1980 both IRDP and BSBL substantially increased their respective volumes of lending and, in both cases, most of the non-agricultural lending is fixed at the higher interest rates. The fact that crop loans continued to be undersubscribed at 12% interest rate (contrary to expectation) appears to be caused by a number of factors: (a) The number of target households in branches charging this rate is much larger than in the higher interest outlets and (b) the staff assigned to each outlet was generally the same per institution regardless of the number of target households, thus setting a limit to the number of target households that could be reached.

There are also indications that in a number of areas where the project operates, the same branch has other sources of funds for crop loans at interest rates equal or lower than 12% charged under the project. At least one institution (Krishi) has indicated this as being one of the reasons for its very low percentage of crop loans: only around 15% of the total disbursed by Krishi.

On the other hand, there appears to be substantial demand for non-agricultural loans and it is not infrequent to hear borrowers stating that the higher interest rates charged by the project (30% and 36%) are low when compared to what they have to pay to local moneylenders. When asked what these local rates were, target households invariably quote figures ranging from 60% to over 100%.

Volume of Lending per Branch

Substantial progress was made by all the nine lending institutions in the number and amount of loans disbursed per branch during the year 1980 compared with the previous period (inception to December 1979) as shown in Table IV-4 Uttara was the only exception.

In their case, the number of loans made per branch decreased from 123 to 84. Krishi on the other hand, made the highest number of loans per branch (540) in 1980 followed by Pubali that made 444. Because of the overall relative small average size of loans, the number of loans made per branch is a good indicator of productivity of the lending officers and assistants and of financial viability of the project.

Table IV-4 Average Number of Loans Disbursed per Branch

Institution	As of December 1979	During 1980	As of December 1980
Krishi	315	540	855
Sonali	171	384	555
Janata	76	132	208
Agrani	156	324	480
Pubali	236	444	680
Rupali	89	336	425
Uttara	123	84	217
I.R.D.P.	87	264	351
B.S.B.L.	69	180	249

Table IV-5 shows the average number of loans disbursed per branch per month, for the nine lending institutions as of December 1979, the four quarters of 1980 and the monthly average for the year.

Table IV-5 Average Number of Loans Disbursed per Branch - December 1979 to December 1980 Monthly Averages per Quarter

Lending Institution	Monthly Averages					Monthly Average for 1980
	As of December 31, 1979	January - March 1980	April - June 1980	July - September 1980	October - December 1980	
Krishi	24	30	46	56	49	45
Sonali	20	20	28	26	52	32
Janata	8	7	12	13	12	11
Agrani	19	24	25	29	30	27
Pubali	23	46	4	66	32	37
Rupali	11	23	30	28	31	28
Uttara	12	9	7	6	8	7
IRDP	8	28	6	37	16	22
BSBL	5	18	21	17	5	15

Again, most of the institutions made substantial progress, except Uttara. Krishi continued at the head with 45 loans made per branch per month during 1980, compared with 24 as of December 1979. However, the largest increments were achieved by IRDP and BSBL that tripled the number of loans, but these were still relatively low (22 and 15 loans per month, respectively). At the bottom of the scale were Uttara and Janata that made very little progress, Uttara, actually declined from 12 to 7 loans per month and Janata increased from 8 to 11 loans per month. As will be seen later on, their low level of productivity had a devastating effect on financial viability.

Recovering Resources Lent on Time with Interest

Timely recovery of loans is vital to any lending project. In the case of RFEP it is probably the most significant single factor because of the existence of very small unsecured loans. If loans are not recovered on due date, the chances are great that they will never be recovered or only after long and painful efforts. In the meantime, cash shortage may become a serious problem to the lending institution.

Although the overall percentage of overdues in RFEP is still not satisfactory, it is very encouraging to observe the steady progress achieved since the inception of the project. From an intolerable 33% of overdues as early as September 1979, it has been reduced to 13.4% as of December 1980.

Table IV-6 shows the percentage of overdues for each lending institution from September 1979 to December 1980, quarterly.

Two salient facts are:

1. Progress is steady up to September 1980, with the exception of Janata Uttara, BSBL and Agrani.
2. The overall percentage of overdues increased somewhat (from 13% to 13.4%) from September to December 1980, due to a reversal of the downward trend in the cases of Krishi and Pubali and the emergence of Agrani having 10.1% of overdues as of December 1980, compared with very little overdues in all previous quarters.

A series of nine graphs, one for each lending institution, is included at the end of this section showing the percentage of overdues for each branch and institution. Basically speaking, a relatively small number of branches continued to show a high percentage of overdues all throughout the period under review. However, by December 1980 this number of outlets had substantially increased, although in many cases the Taka amount overdue was small.

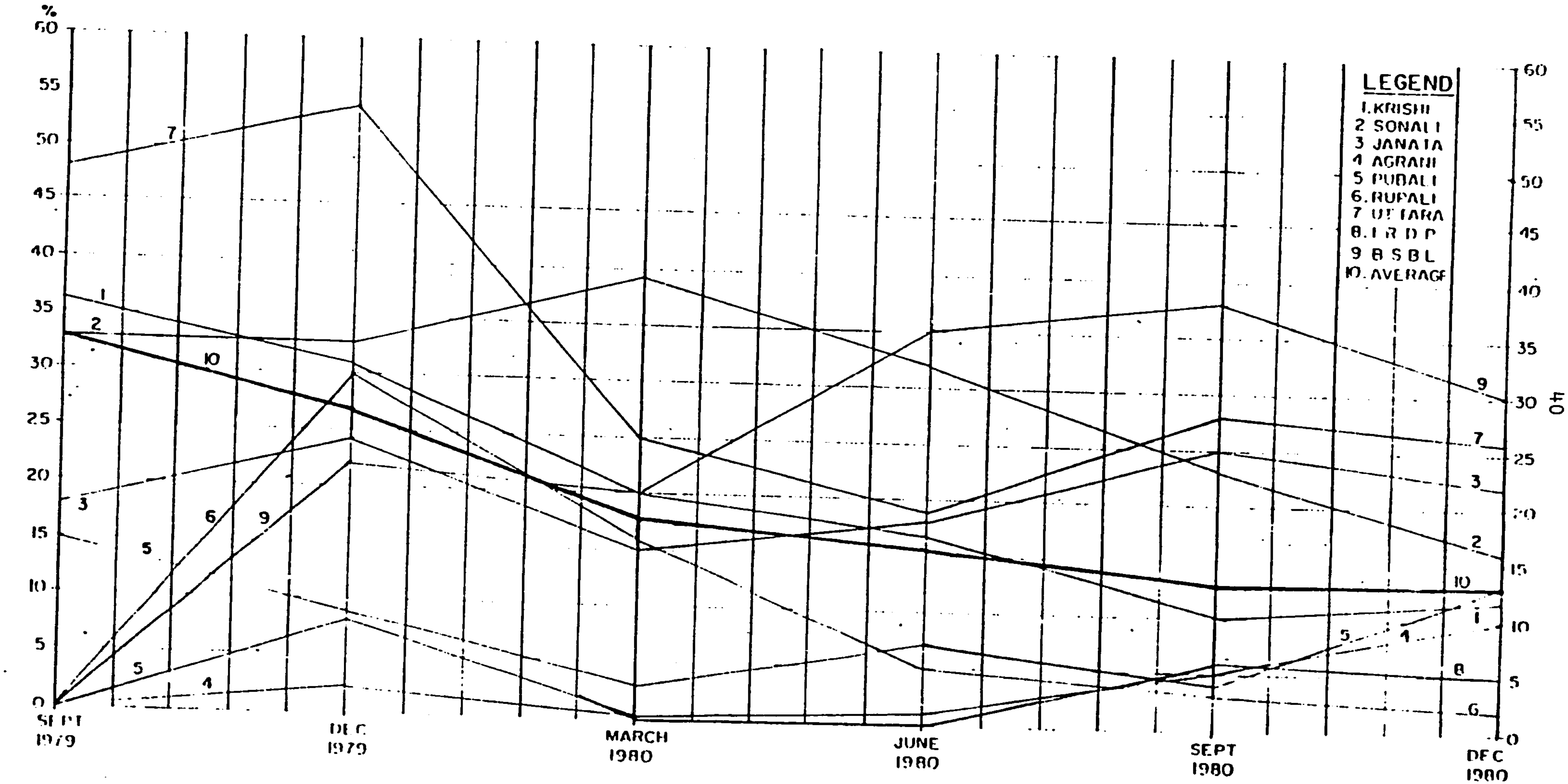
Table IV-6 Percentage of Overdue Loans By Quarters, September 1979 to December 1980

Institution	September 30, 1979	December 31, 1979	March 31, 1980	June 30, 1980	September 30, 1980	December 31, 1980
Krishi	36.3	30.8	20.2	17.3	10.3	12.0
Sonali	32.5	33.3	39.2	31.5	22.7	15.5
Janata	2.1	24.1	14.8	17.9	25.2	21.7
Agrani	-	1.6	0.3	0.9	4.7	10.1
Pubali	14.5	8.6	3.0	6.6	4.4	13.4
Rupali	-	30.0	15.5	4.9	2.9	2.0
Uttara	47.6	54.0	25.3	19.2	27.7	26.3
I.R.D.P.	-	-	-	-	6.1	5.1
B.S.B.L.	-	21.5	19.7	35.1	37.8	29.9
Total	33.1	27.4	18.4	16.2	13.0	13.4

It is necessary to bear in mind that there is a seasonal crop of loans that may momentarily cause an increase in overdues due to delays in planting and harvesting, waiting for better prices after harvesting, crop damage, etc. Drought first and floods later on in 1978 affected areas under the project where crops were grown. Repayment capacity of borrowers must have been affected, at least momentarily. There are also indications that in a number of cases repayment plans were arbitrarily fixed to coincide with the termination of the project, originally set for August 1980. These cases are being corrected after the project was extended.

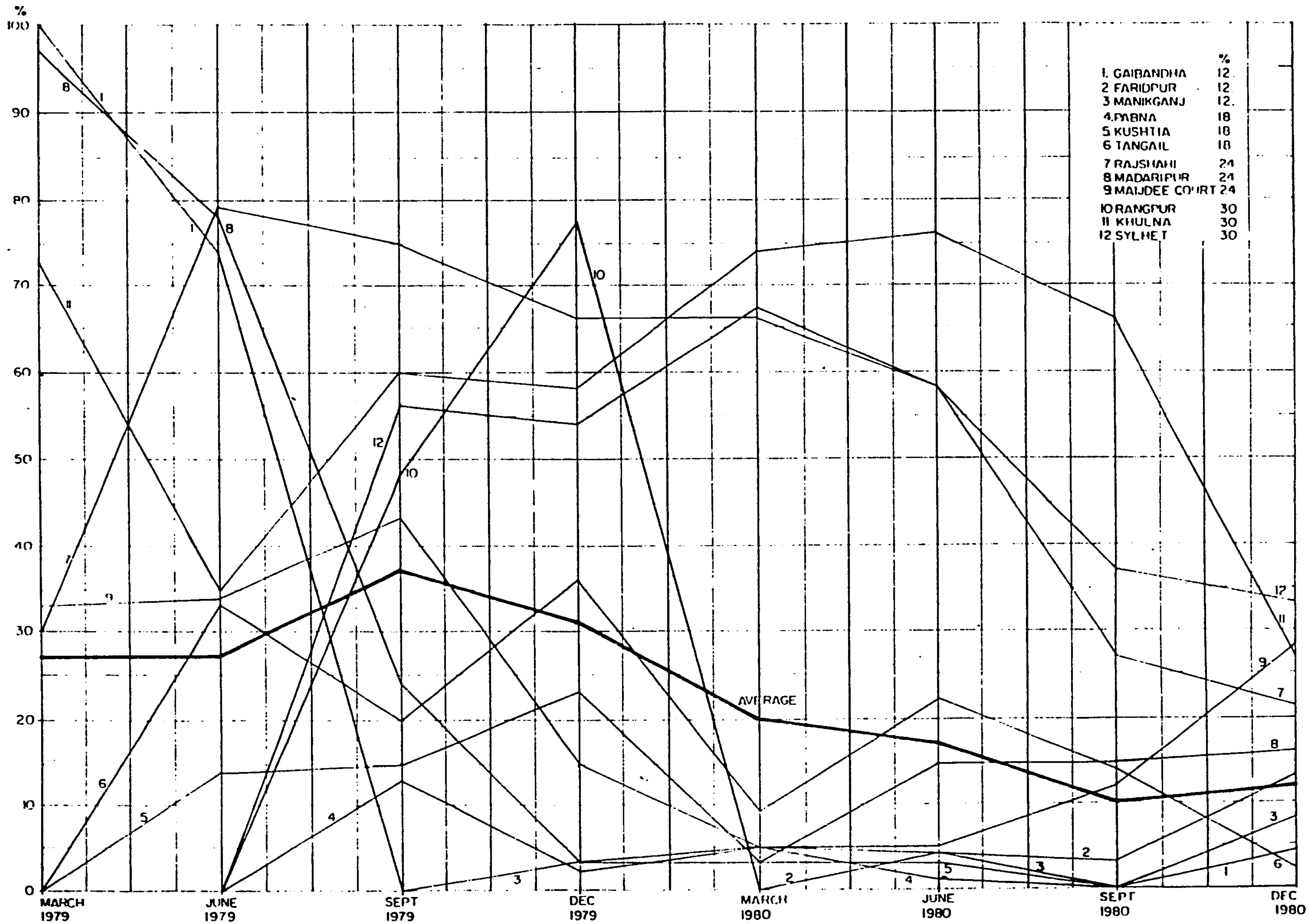
To get an insight into the overdues situation a special inquiry was made in January, 1981 on good areas (having very little overdues) and bad areas (having large overdues). Results are summarized in the next section.

PERCENT OF OVERDUE LOANS BY MODEL



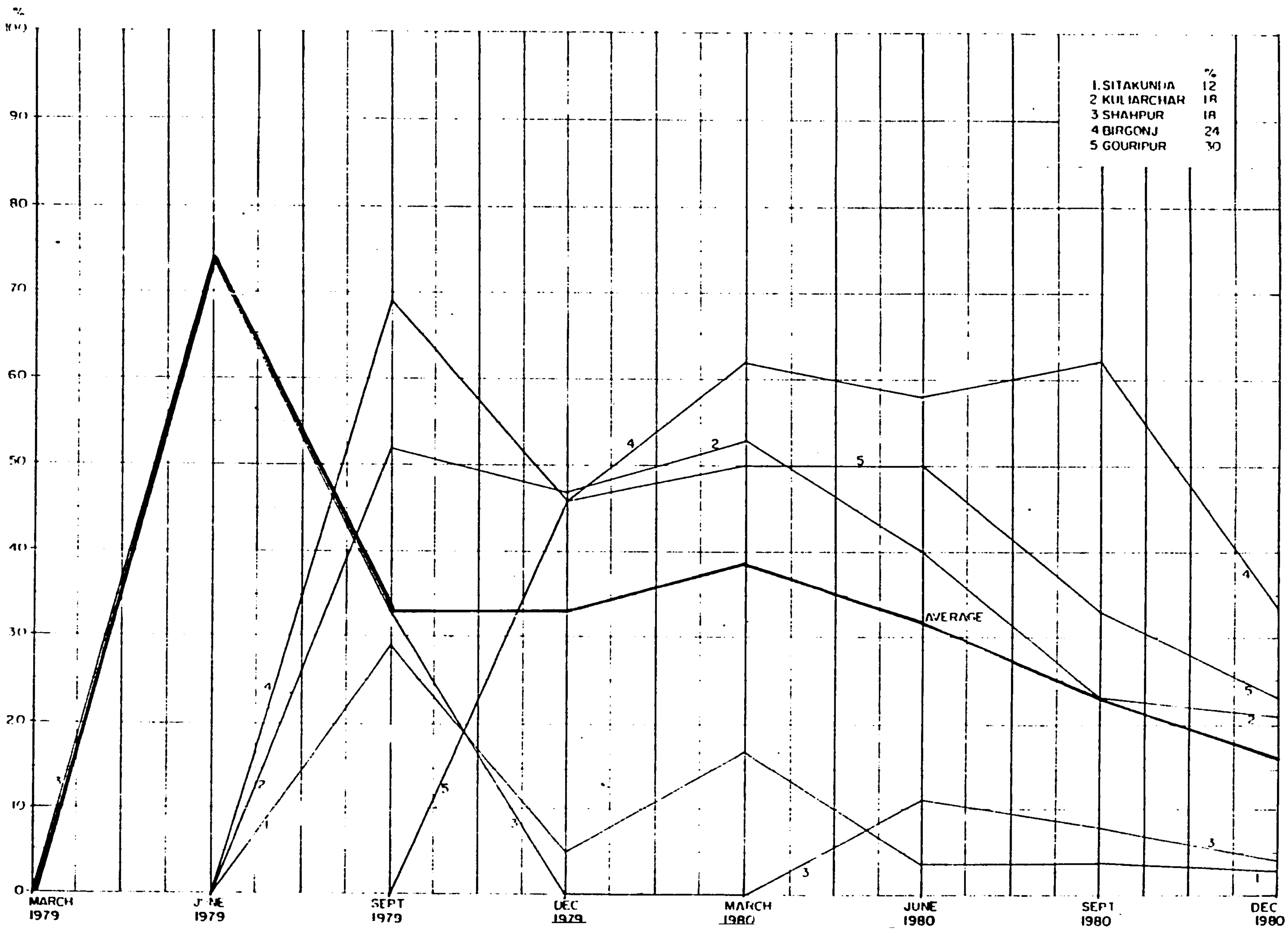
PERCENT OF OVERDUE LOANS

KRISHI BANK



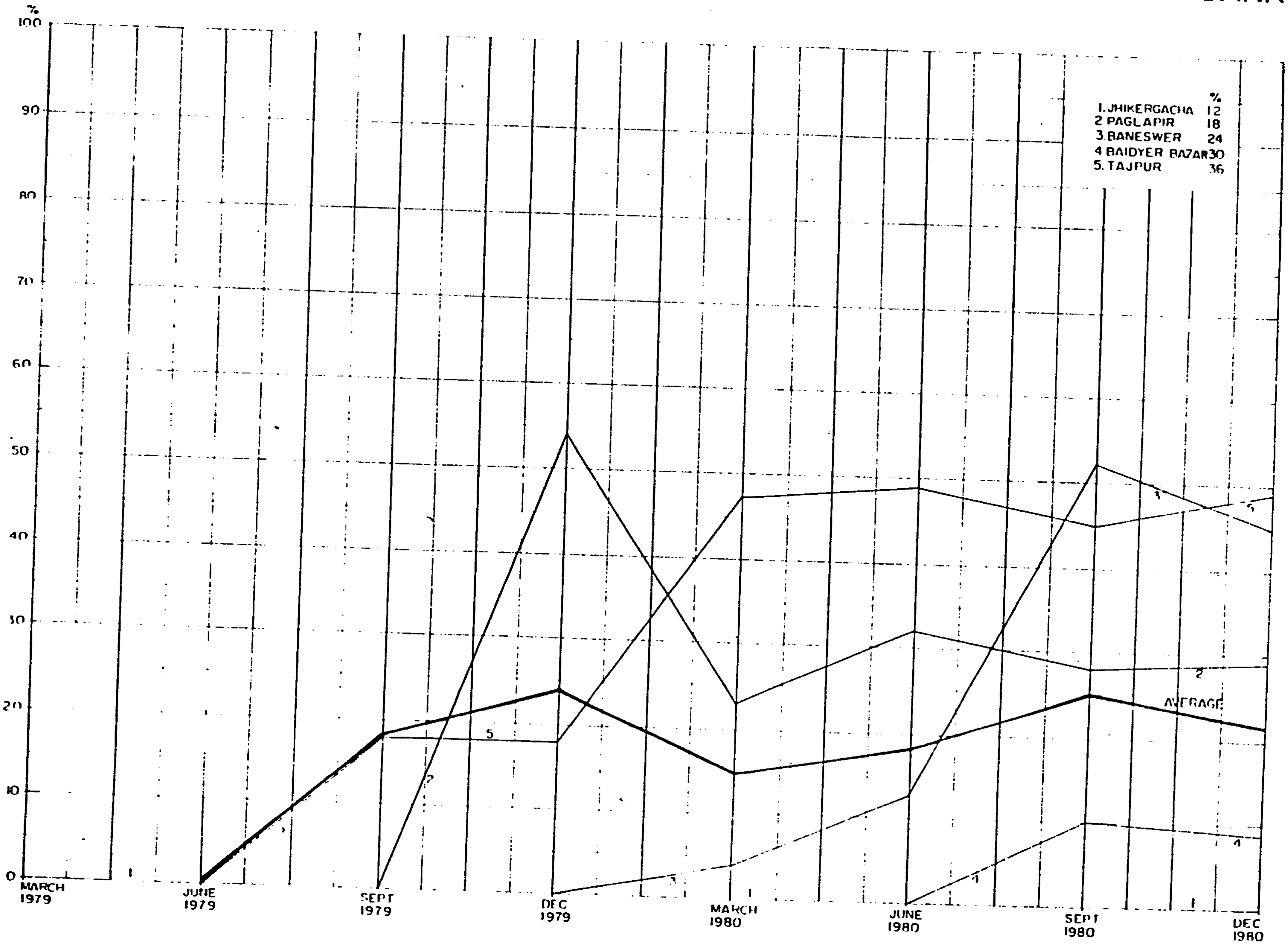
SONALI BANK

PERCENT OF OVERDUE LOANS



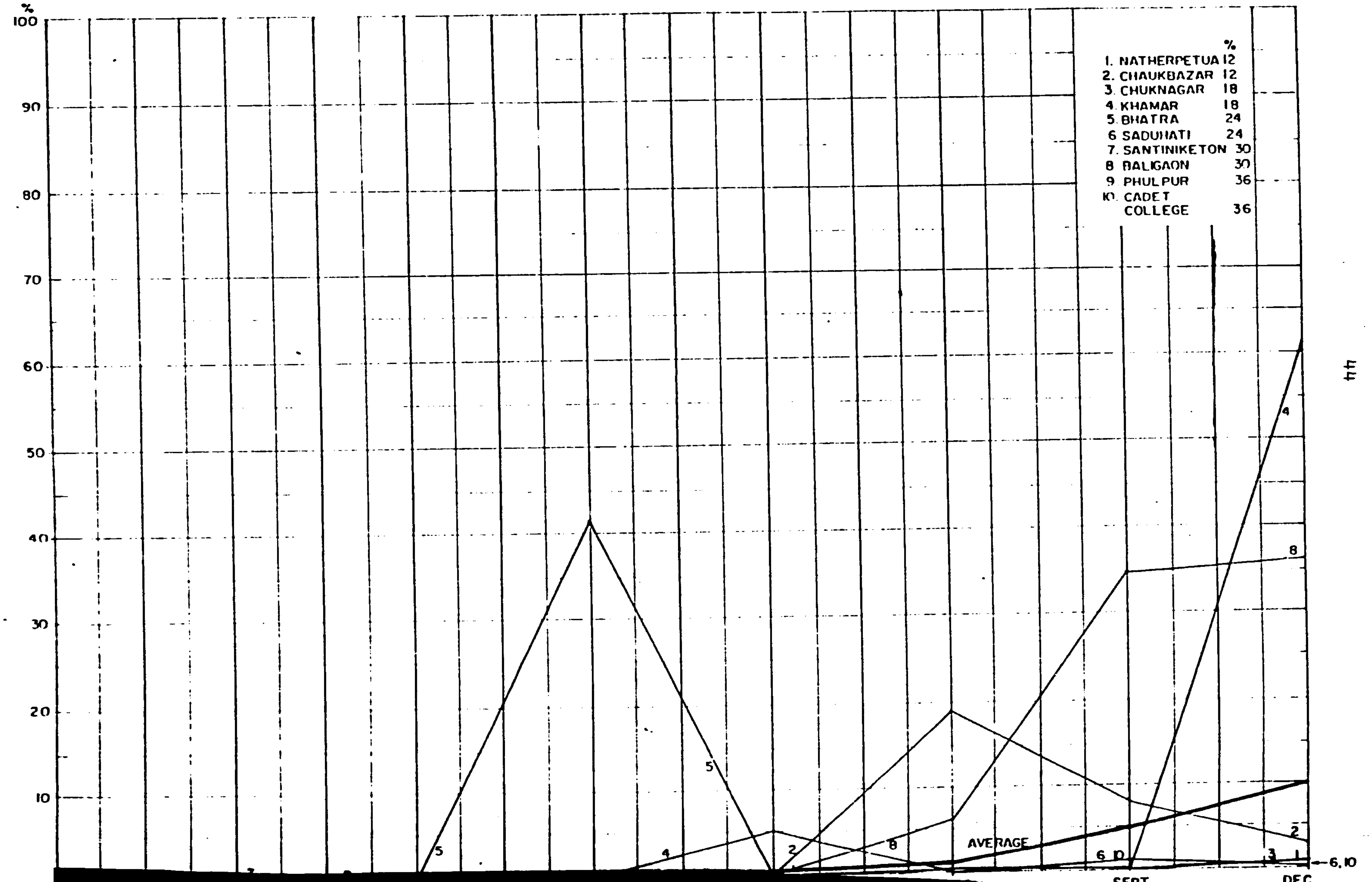
PERCENT OF OVERDUE LOANS

JANATA BANK



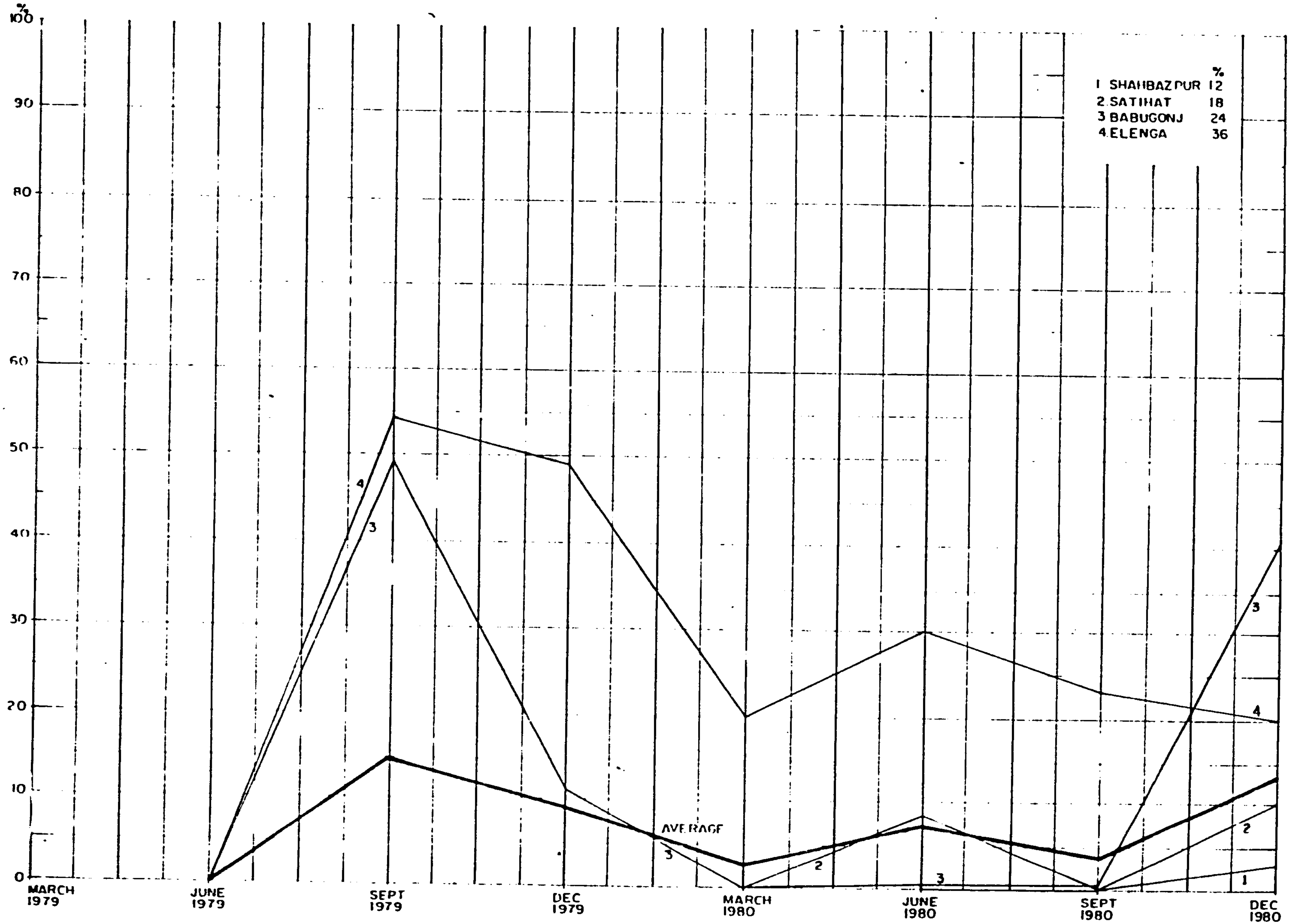
AGRANI BANK

PERCENT OF OVERDUE LOANS



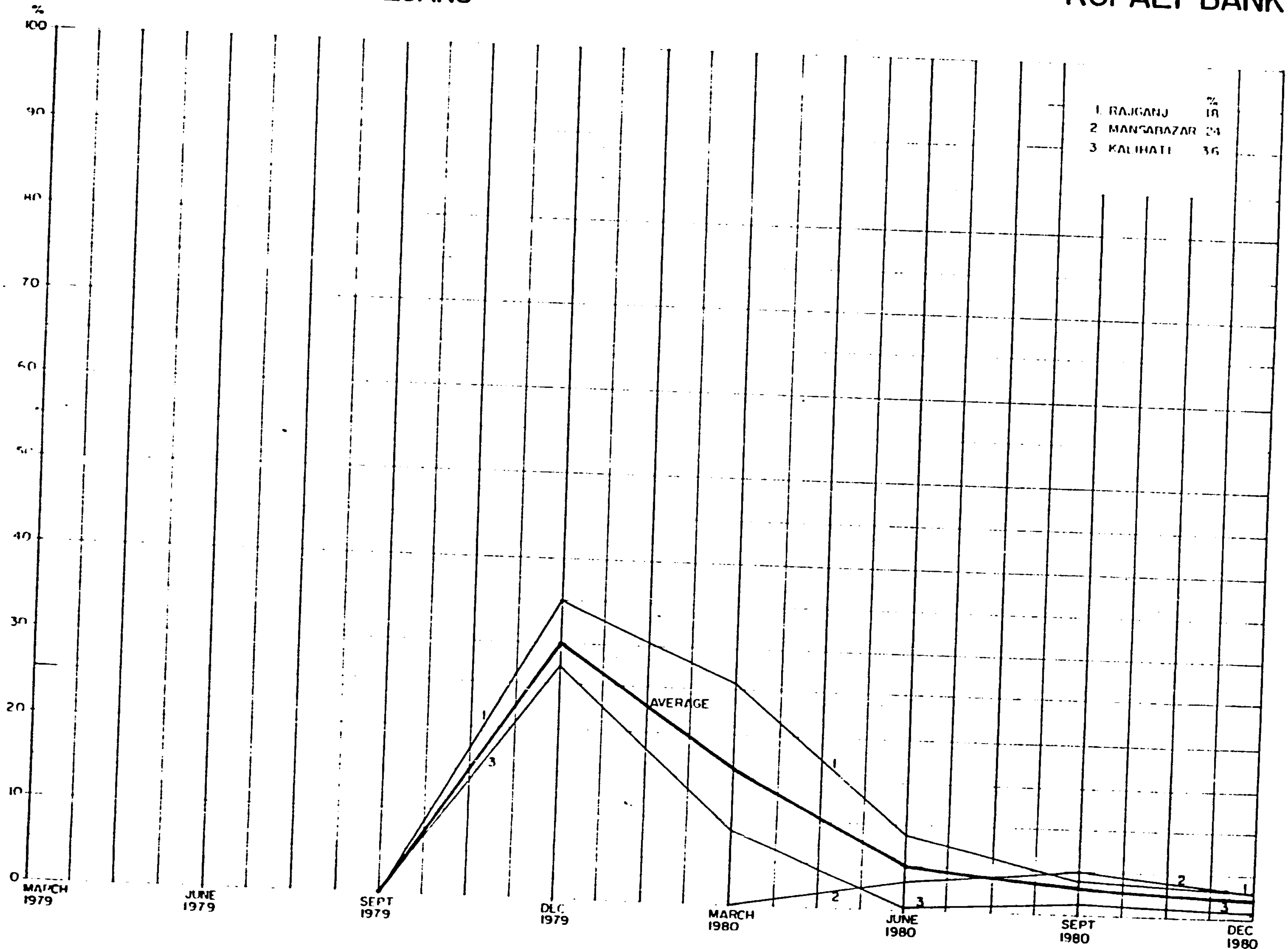
PERCENT OF OVERDUE LOANS

PUBALI BANK



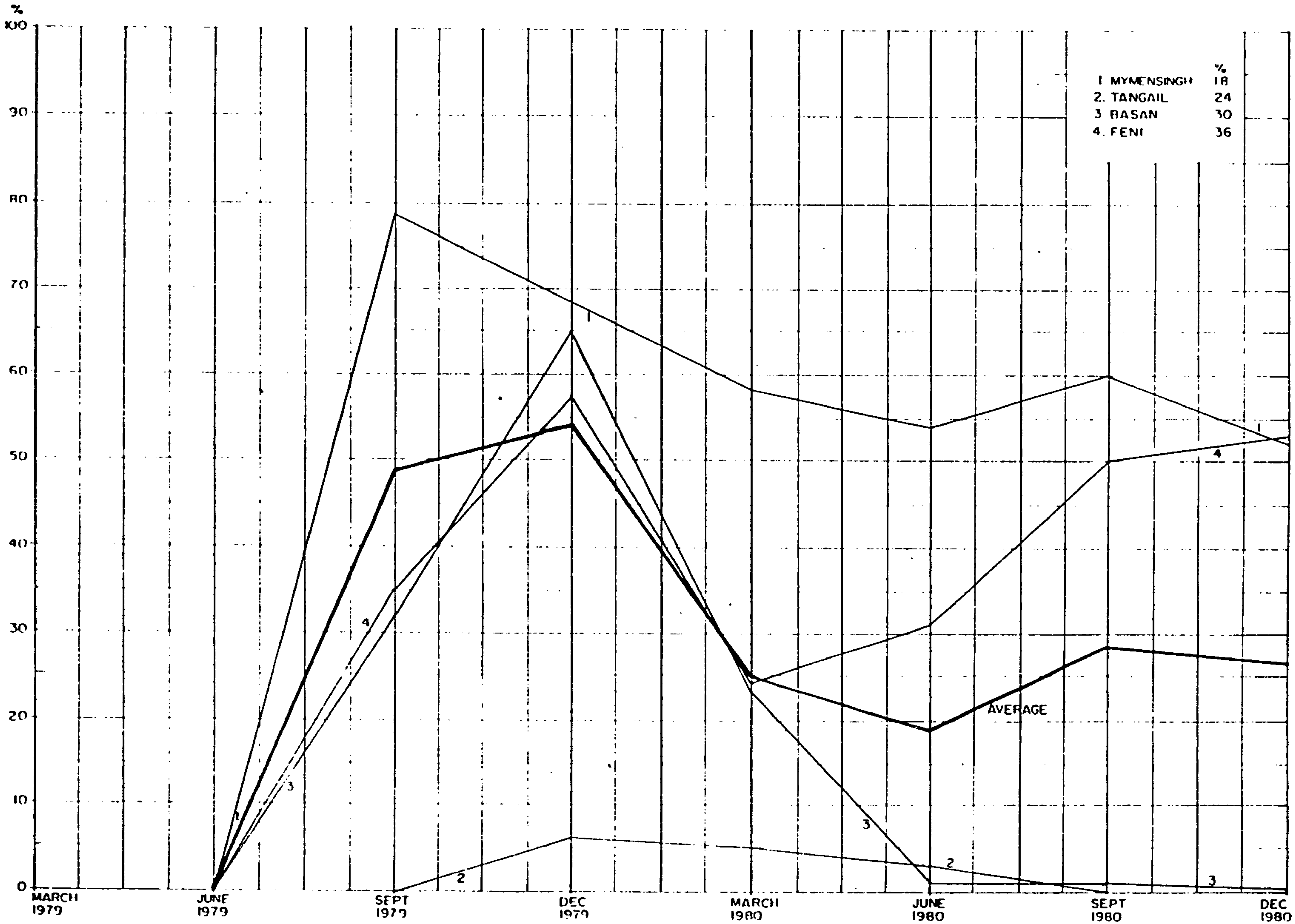
PERCENT OF OVERDUE LOANS

RUPALI BANK



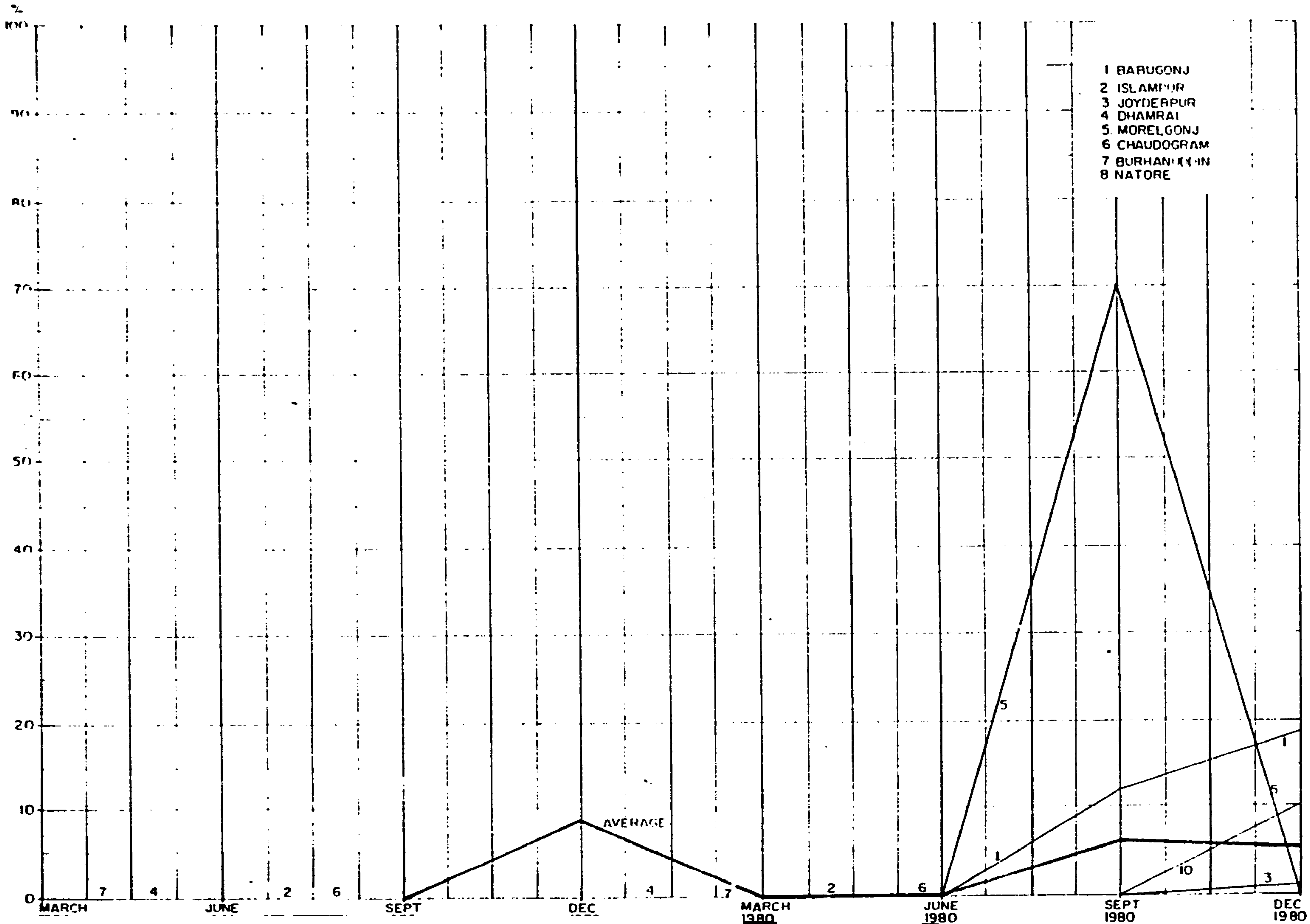
PERCENT OF OVERDUE LOANS

UTTARA BANK



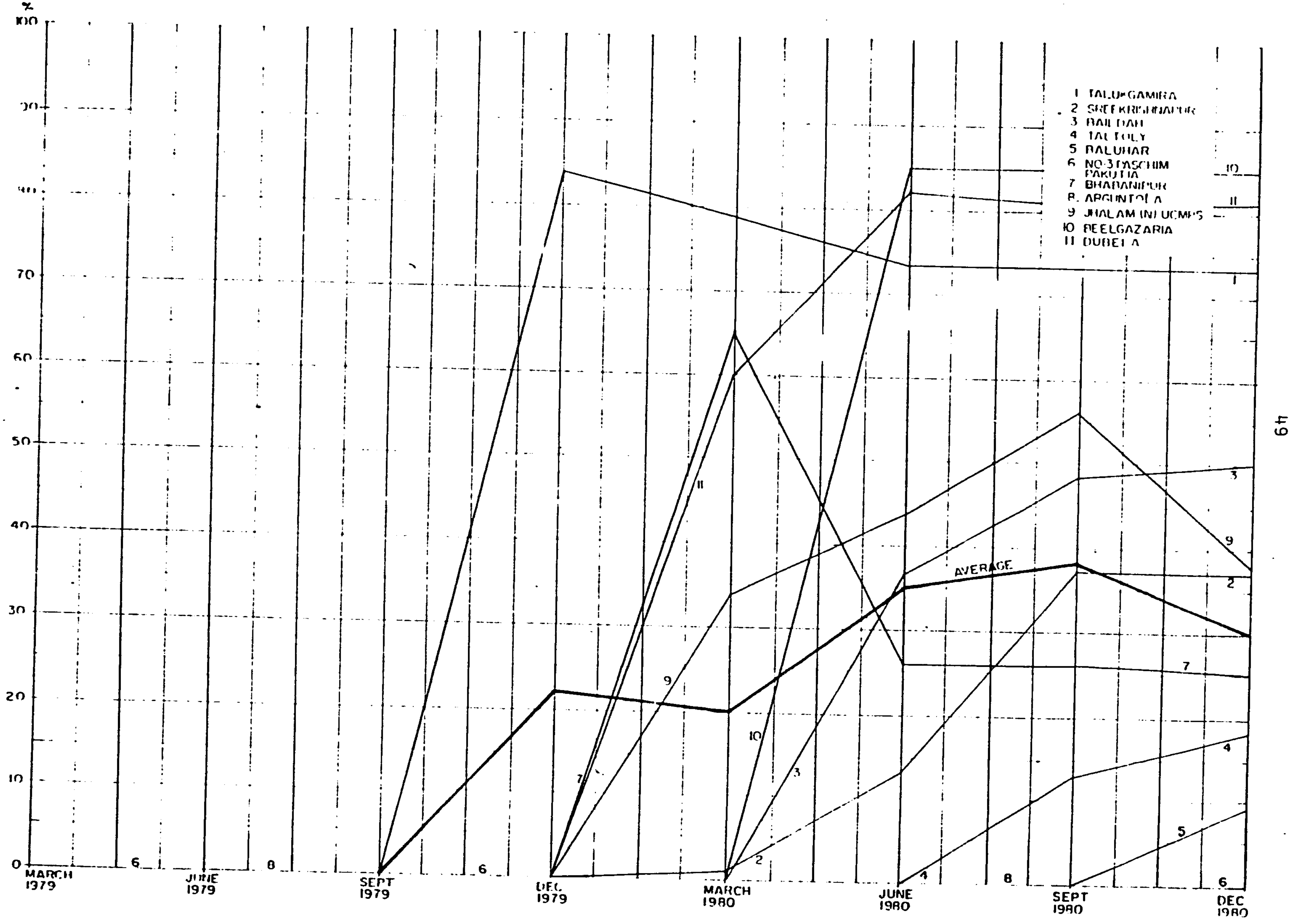
I.R.D.P

PERCENT OF OVERDUE LOANS



PERCENT OF OVERDUE LOANS

B.S.B.L



Special Inquiry on Good and Bad Areas

A special effort was made during the month of January 1981 to visit a number good and bad areas from the point of view of the rate of overdues, the purpose being to obtain an insight into the causes of the difference in performance. Seventeen outlets were visited in all.

Information was obtained at each branch and a small number of borrowers with past due loans were interviewed in outlets with large overdues.

A brief summary is presented below for six outlets having little overdues and four having large overdues that illustrates the general pattern observed in the field.

Outlets With Little Overdues

Rupali Bank - Kalihati

A Credit Officer and assistant (Village Agent) are posted; the latter gets Tk. 300 plus 3% commission on recovery of loans. A motorcycle is provided to the loan officer and a bicycle to village agent. Staff is adequate, has good academic background and a high sense of responsibility.

During 1980 the outlet made 395 loans amounting to Tk. 3,42,665; cumulative balance outstanding at end of year was Tk. 2,55,669; overdues percentage was 0.4%; the rate of interest is 36%. Rupali has in its model a 6% rebate to borrowers who pay loans on due date but this has not been put into effect yet.

BSBL - Pakutia, Tangail

The manager of the KSS is very active and sincerely motivated and has the respect of members. Good supervision is evident.

The area is progressive, has irrigation water and HYV are grown. During 1980, the outlet made 426 loans amounting to Tk. 608,650. The balance outstanding at end of year was Tk. 350,790; no overdues. The rates are 18%, 24% and 30%.

Agrani - Cadet College

At present no loan officer is posted, the Branch Manager and Credit Assistant are handling the project. The Credit Assistant is a local man. Success appears to be due to management being very strict in selecting borrowers and close supervision.

During 1980 the outlet made 659 loans amounting, to Tk. 763,200. The balance outstanding at end of the year was Tk. 337,680; overdue percentage was 0.3%. Rate 36%.

IRDP - Natore

The Thana Project Officer in charge is described as competent, hard worker and motivated. The area is a progressive one. Some irrigation facilities are available and HYV is grown. Success is basically attributable to the Thana Project Officer.

During 1980 the outlet made 209 loans amounting to Tk. 2,23,200. The balance outstanding at the end of the year was Tk. 1,54,253. Overdue percentage was 10%; rates are 18%, 24% and 30%.

Sonali Bank - Khornia

Krishi Shakha in charge and assistant are very active and motivated. The area is a progressive one.

During 1980, the outlet made 408 loans amounting to Tk. 6,12,460. The balance outstanding at end of year was Tk. 5,57,269. The rate of interest is 18%. Overdue percentage was 4.3%.

Janata - Jhikargacha, Jessore

A Credit Officer was assigned full time to the project since inception. No assistant was provided. The Credit Officer and Branch Manager work as a team and have received training. The Credit officer is the key factor. He is competent, enthusiastic, hard worker, highly motivated and fully dedicated to make the project a success.

The area is progressive and easily approachable, situated along a highway. There are irrigation facilities available, permitting double and triple cropping. It is not affected by floods. It has adequate marketing facilities. The population is composed of a good mix of farmers, agricultural and day labors, potterns, small traders and artisans. There are many landless performing as share-croppers, etc.

Apart from lending activities, several community oriented projects, highly regarded by borrowers and community at large, are being promoted with apparent success, including teaching illiterate borrowers to write their names (170 loanees have benefitted), building of lavatories using indigeneous materials (more than 100 built) campaign to plant trees, and an interesting livestock insurance plan financed by the borrowers themselves.

This is the only outlet where Janata's area approach is in operation. The story of its success so far appears to be the combined result of several elements:

1. A highly motivated, competent, hard worker officer is working full time in the project. It is the case of a man behind the project.
2. A progressive area where opportunities are many and varied and basic physical infrastructure is adequate.
3. Good command of the concept, strategy and procedure to motivate, organize and monitor groups of prospective borrowers, working closely with and through group leaders; giving these groups a sense and feeling of participation through the organization of an Association where group leaders exercise initiative and the whole membership is involved. This has had a positive effect in overall success and specifically in achieving excellent recovery of loaned funds.

   Altough probably this is a very special case, the techniques, strategies and procedures applied here can and should be tried in other of Janata's outlets without necessarily expecting the same degree of success, but still making a good try.

Conclusions

Irrespective of the model, good outlets are located in relatively progressive areas having productive investment opportunities and are being provided with hard working, motivated staff.

Outlets With Large Overdues

BSBL - Kushtia

The Assistant Loan Officer from BSBL is in charge of the project on a part time basis as well as the KSS Manager. Relations between BSBL Officer and KSS Secretary are strained. The area is a difficult one subject to annual flooding. Last year floods had devastating effects. The KSS Secretary and one brother have past due loans under the project.

During 1980, the outlet made 85 loans. The balance outstanding at the end of the year was Tk. 2,34,268. Overdue was 50%. Interest rates are 18%, 24% and 30%.

Nine borrowers with past due loans were visited: 5 were considered to be willful defaulters, 2 were affected by last year floods, one was a very poor family and sold the cow financed under the project to generate needed cash, and the other did not give any specific reason for not repaying the loan. In the majority of the nine cases, recovery is possible through strong measures in the cases of willful defaulters and effective persuasion and possibly fresh loans in cases where the crop failed. However, the present administrative problems faced by the outlet are a real obstacle.

Krishi - Khulna

The project is carried out from BKB district office in Khulna. The first Loan Investigation Officer and Assistant lasted three months. The new Investigation Officer was also transferred together with the Branch Manager. In between, the outlet remained without field supervision for several months. Finally, a third Investigation Officer came on board on April 1980. A motorcycle is provided.

The area of operation is closer to Khulna town; land is not very fertile; the majority of the people are laborers.

During 1980 the outlet made 309 loans in the amount of Tk. 7,92,500. As of December 1980 the amount outstanding was Tk. 9,06,562. The percentage of overdues was 26.31%. The interest rate was 30%.

Ten borrowers were visited. Four were considered to be willful defaulters, 2 failed because of having no previous experience in the project financed, 2 used money for other purposes (daughter's marriage and to provide medical attention to an accidented son), the other, who had bought a cow, had to sell it at a low price when it got sick.

Sonali - Jinglatoli

The outlet is under the supervision of the Gouripur Branch. Krishi Shaka is active and interested. There is a local man who does not appear to be effective dealing with defaulters.

The area is a low lying area. Wheat, Jute and IRRI and boro are the main crops. There are affluent absentee landlords, poor share croppers and small farmers who own some land. The area looks progressive.

During 1980, the outlet made 333 loans and disbursed Tk. 5,36,344. As of December 1980 the amount outstanding was Tk. 6,52,662. The percentage of overdues was 23.8%. The interest rate is 30%.

Eight borrowers with past due loans were visited. Five had their Irri crop badly damaged because of an irregular supply of irrigation water, 2 were affected by hail, the other is a weaver and his income is too low. The crop was insured with Sadharan Bima Corporation. However, out of Tk. 25,000 claimed by affected borrowers, only Tk. 5,000 were recognized. The Bank refused to make new loans to those affected. Borrowers indicated that they had turned to local money lenders and they were being charged rates varying from 60 to 120%. There were indications of due dates being fixed too long after harvest time; also, one or two borrowers had the appearance of being willful defaulters.

Uttara Bank - Khagdah, Mymensingh

The first loan officer was transferred; a new one has been associated with the project since its inception. The present officer and his assistant look motivated.

The area seems to be progressive; some irrigation is available and HYV is grown. The area is subject to flooding, crops being badly damaged last year.

During 1980 the outlet made 17 loans and disbursed Tk. 17,412. As of December 1980 the amount outstanding was Tk. 76,703. The overdue percentage was 52.3%. Interest rate was 18%.

Six borrowers were visited having past due loans, but none had been affected by floods. One was waiting for other members to pay under the assumption that no new loan is made unless all members of a group pay, 3 were considered to be willful defaulters, one used the money for consumption needs, one had his crop damaged by insects, and one was waiting for better prices to sell the goats he had purchased with the loans. In most cases borrowers probably can pay if effective measures are taken.

Conclusion

The situation described for bad areas is more or less the same for the four different outlets described which represent four different models.

The pattern that is emerging for bad areas is one characterized by:

1. Staffing and administrative problems, together with slowness of head offices or no response to requests from field staff for taking prompt and effective remedial action.

2. Greater than originally anticipated, occurrence of natural calamities are either very localized (hail) or affecting large areas (floods and drought). No crop and livestock insurance is available, except in few experimental areas.
3. Inadequate knowledge and understanding of basic sound lending principles, norms and procedures are applicable to the target group. In all cases visited, loan officers invariably indicated that they were following what they referred to as "persuasive measures" meaning being in contact with delinquent borrowers and trying to collect. But there are vast differences in how the institutions are proceeding to assess the economic situation faced by poor households when a crop fails, animals die or anticipated income from business is not forthcoming. Regular visits are fine but not enough.

Institutions lending to the target group are expected to come to the rescue of borrowers badly affected by natural calamities and to families misfortunes that may temporarily disrupt normal conduct of the business. Otherwise the loan is a curse instead of a blessing. Naturally, sound judgment needs to be exercised to decide when to stop.

There is a lack of clear-cut instructions coming from head offices regarding these vital matters, and of close and effective monitoring and supervision of field operations. In many cases staff looks adequate but lacking proper direction, on the spot orientation and motivation. Even a basic thing as transportation is still lacking in cases where it is badly needed.

As a concluding remark, it can be said that there is great need to (a) moving swifly to correct serious administrative inadequacies in a number of outlets and streamlining or simply introducing effective written clear-cut instructions to be applied in the processing of loan applications (proper assessment of project and overall borrowers repayment capacity) and what to look for and how to proceed when natural calamities strike or willful defaulters are identified.

Recommendations

Following are some measures that need to be taken immediately relating to lending norms and procedures. Recommendations regarding other areas like staffing, incentive etc. are taken up in a latter section when analysis on financial viability is presented.

1. Strengthen and improve the evaluation made of projects proposed to be financed by borrowers. More attention needs to be given to borrowers' previous experience in handling the activity proposed, risks involved, etc.
2. Make an overall assessment of borrowers economic situation and financial obligations to determine actual capacity to absorb a loan and to repay it on time with interest. Special attention needs to be given to family obligations in view of the predominance of large (extended) families.
3. The family budget type of approach should probably be applied in all cases to properly handle (1) and (2) above. This is of the utmost importance since these are unsecured loans, goodwill, crop or cattle being the only guarantee. The character of the borrower and his reputation in the community should be throughly investigated to minimize or eliminate willful defaulters.
4. Describe, in writing, all the steps to be followed in taking and processing a loan application. This should start, with the household survey proceeding to loan application, sanctioning, supervision and ending with the recovery on due date or steps to be taken in overdue cases. The purpose is twofold: firstly, produce a document useful for training purposes and to minimize delays and confusion when new assistants, officers and managers are transferred and, secondly, identify and eliminate unnecessary steps and forms.
   The framework necessary for writing this kind of document was prepared by the Consultant and submitted to Bangladesh Bank as the chapter on RFEP: General Lending procedures forming part of a document containing training material. Although procedures vary between the lending institutions, they can be substantially simplified thus reducing time taken to process an application and, equally important, reducing transaction costs to borrowers.

The latter is very important, particularly in the higher interest rate outlets.

5. Due consideration should be given to the possibility of modifying the practice followed by all institutions of disbursing the full amount of the loan in one lump sum at the time of sanctioning the loan. Is is suspected that this practice (one lump sum) lends itself for borrowers using the cash for a different purpose than intended, thus increasing the chances of defaults particularly in the case of very poor families.
6. More attention is needed to establish realistic repayment plans. In a number of cases this is done arbitrarily in violation of a fundamental lending principle to the target group. It is suspected that in many cases this is due to lack of adequate knowledge, on the part of the credit officer of crop cycles and the operation of other productive projects. Credit officers are not expected to be experts in all the financial activities but, if properly oriented and supervised, they can learn, even by questioning the borrowers, themselves, how to establish a sound and realistic repayment plan for any purpose. The same needs to be said of establishing the right amount of the loan. In some cases there is need to produce simple guidelines to be followed by credit officers and assistants. This can be handled by the various training institutes with the assistance of the Consultant.
7. Concrete guidelines need to be issued by all the head offices of the lending institutions addressing the problem of dealing with natural calamities particularly droughts, floods, hail. The situation in the field is ambiguous, at best. What to do immediately after the occurrence of any one of these calamities is receiving very little attention.

   More than seldom, field staff indicated that no specific instructions are given by head offices and when credit officers or managers ask for instructions, these are unduly delayed or never received.

   This is a critical issue for the success of the experimental project. Natural calamities are not new in Bangladesh. Rural families are used to them. But when target households are motivated to accept a loan to finance a project that may be damaged or totally destroyed by drought or flood, the lending institution assumes a serious responsibility along with the borrower. When calamities strike, many families find themselves with their productive capacity ruined or temporarily disrupted. Should these families be abandoned to their fate? Should due dates of loans be deferred or repayment plans rescheduled? In many cases, not only should loans be deferred or rescheduled but a new loan should be given to help restoring productive and repayment capacity. This is not uniformly understood and applied resulting in a number of families being unduly affected. On the other hand, institutions may appear showing larger overdues than sound management would advise.

Guidelines should request credit officers to establish whether the area is subject to natural clamities and their magnitude. Once this is made, several options are open to the Credit Officer. He may decide to give a new loan but to finance basic needs like for example, cash expenses followed by close supervision expenses. The officer may refrain from giving credit during seasons when calamities are more likely to occur. He may require the crop to be insured if this service is available. What is really inexcusable is to make loans indiscriminately and not knowing what to do or knowing but not performing when calamities strike.

8. Make it mandatory that each credit officer follows recommendations made by the Consultant in the July 1980 Evaluation Report calling for better documenting and monitoring and past due loans. Several forms were prepared and included in the model by model analysis. Few of the extension plans addressed this vital subject.

9. Start creating a reserve for bad debts. Apparently this is not the practice followed by banks and other lending institutions in Bangladesh.

   It is recommended that each institution evaluates the amount of its past due loans with special reference to aging and the prospects of recovery. Based on the result of this analysis, a reserve for bad debts should be created. The amount reserved is charged as an operating expense and reflected in the profit and loss statement. Bad debts are then written off and amount charged against the reserve. Since the amount written off is not forgiven, the institution continues trying to collect from the borrower whose past due account was written off for accounting purposes.

10. Special attention should be given by the BDB to develop directives for the head office of the lending institutions to formulate policies and action programs to stamp out and even punish identifiable willful defaulters.

Relationship Between Interest Rate and Overdues

The strong relationship reported in previous evaluations showing that overdues increase with an increase in the interest rate charged, up to 30% rate, had weakened significantly by the end of 1980 and may disappear completely during the 1981 period of experimentation. As a matter of fact, the tendency was not evident as of December 1980 as shown in Table IV-8. As previously stated, a small number of outlets experimenting with the higher interest rates were having persistent problems - mainly administrative - producing the relationship mentioned above. The situation in some of these outlets has improved substantially. There is no evidence in the field of the existence of any meaningful relationship between interest rates and overdues that can be attributable, so far, to borrowers being unable to pay the higher interest rates being charged. This topic is further analyzed later on in regard with the farmer's financial survey.

Covering all Operational Costs Through the Charge Levied on Borrowers

Based on financial data made available for the first time for all the nine lending institutions, as result of their now being current in producing information on operating costs and income earned, it is possible to analyze the results obtained so far in this vital phase of the Rural Finance Experimental Project.

Certain remarks are needed before results are shown:

1. Effective October 16, 1980, the Bangladesh Bank increased rates of interest to be charged for loans and to be paid for savings by banks and other lending institutions. Increases varied by different classifications of loans and savings. For example, the rate of

interest charged by the Bangladesh Bank to commercial banks increased from 8% to 10 1/2%, except for agricultural loans. Interest on agricultural loans disbursed by Krishi and the commercial banks increased from 11% to 12%. Commercial banks increased the rate of interest charged by their head offices to their branch offices from 9% to 10 1/4% and increased interest paid on savings accounts without checking facilities from 7% to 10%. Interest on three year fixed deposits increased from 19 1/4% to 15%.

The cost of capital to the project has increased accordingly. Table IV-9 shows the previous interest rates and the new now being charged. However, most lending institutions delayed increasing rates charged to the project until January 1, 1981.

The above increases in interest rates brought the interest structure of lending institutions more in line with the rates being tested by this project.

2. Interest paid on savings deposits is being underestimated in several cases because of the practices being followed by the different institutions. It was found that some institutions require minimum balances to earn interest varying from none up to Tk. 100. Moreover, in some cases these minimum requirements vary between branches within the same institution. In other cases there are delays in paying interest when due. The net result is that the effective rate of interest paid on savings during 1980 came out to be only 6.97% for target households and 9.20% in the case of non-target households. The difference in favor of non-target households being due to average deposits being larger in the latter case thus reducing the effect of the minimum required for households. Table IV-10 shows the effective rate paid by institutions. The effective rate paid varied from a low of only 25% by Agrani for target households to almost 12% in the case of Uttara. For non-target households the lowest was IRDP with 2% and the highest Krishi with 11.6%. Overall, Krishi paid the highest: 9.4% to target and 11.6% non-target.

Table IV-8 Percentage of Overdues by Interest Rate

Rate of Interest Charged to Borrower	September 30, 1979	December 31, 1979	March 31, 1980	June 30, 1980	September 30, 1980	December 31, 1980
12	4.4	1.4	3.2	2.1	0.9	6.1
18	20.9	26.7	12.9	13.8	8.2	10.2
24	51.2	32.3	28.3	22.6	18.4	21.3
30	46.9	56.7	43.0	33.4	25.0	18.8
36	29.9	34.2	14.5	13.8	13.3	13.4

Data excluded for IRDP and BSBL

Table IV-9 Cost of Capital

Lending Institution	Head Office Charge to Branch Offices Before Oct. 16 1980	Head Office Charge to Branch Offices After October 16, 1980: Charge by BDB to Head Office	Mark-up to Cover HO & Regional Office Overhead	Total Charge to Branch Office	REMARKS
Krishi	6 1/2	6	1/2	6 1/2	No change to date
Sonali	9	10 1/2	1/2	11	
Janata	10	10 1/2	2 1/2	13	Branch Offices receive 12% when lending to HO
Agrani	9	10 1/2	1 1/2	12	
Pubali	10	10 1/2	3 1/2	14	Branch Offices receive 13% when lending to HO
Rupali	10 1/4	10 1/2	3 1/2	14	Branch Offices receive 12 1/2% when lending to HO
Uttara	10	10 1/2	2	12 1/2	Branch Offices receive 11 1/2% when lending to HO
IRDP	7	NA	NA	10	Effective 1.1.81 IRDP will increase charges from 7% to 10% representing the new rates paid by commercial branches for savings without checking. Based on full financing of RFEP from TCCA's shares and savings.
BSBL	5 - 11 17 - 23	NA	NA	5 - 11 17 - 23	No change in rates. BSBL borrowers pay 7% on all loans to the primary society and Central Cooperative Bank. The balance is paid by the CCB to the BSBL Head Office. Since interest rates on loans are 12%, 18%, 24% or 30%, deducting 7% from each leaves 5%, 11%, 17% or 23% paid to the BSBL head office.

Table IV-10 Effective Rate of Interest Paid on Savings During 1980

Lending Institution	Target Group				Non-Target Group			
	Average Monthly Savings 1	Interest Paid 2	Effective Rate of Interest Paid 3 = 2 ÷ 1	Percent of Average Rate Offered of 13% 1/	Average Monthly Savings 1	Interest Paid 2	Effective Rate of Interest Paid 3 = 2 ÷ 1	Percent of Average Rate Offered of 13% 1/
Krishi	3,52,790	33,256	9.43	73	1,13,045	13,128	11.61	89
Somali	1,94,479	13,119	6.75	52	2,25,595	15,660	6.94	53
Janata	36,151	2,104	5.82	45	1,21,288	11,919	9.83	76
Agrani	1,12,803	2,823	2.50	19	49,847	5,113	10.26	79
Pubali	79,460	5,828	7.33	56	-	-	-	-
Rupali	28,129	1,447	5.14	40	2,01,659	22,760	11.29	87
Uttara	22,187	2,658	11.98	92	3,272	-	0	0
IRDP	1,13,170	5,931	5.24	40	31,352	91	0.29	2
BSBL	24,078	-	0	0	-	-	-	-
Total	9,63,247	67,166	6.97	54	7,46,058	68,671	9.20	71

1/ Based on an audit performed in a number of outlets

3. No separate provision is made for head office overhead. Generally speaking, this is included in the interest rate that head offices charge the branches on borrowed funds.

4. A reserve for bad debts has been calculated and added to operating expenses by the consultant. This reserve was estimated separately for each institution based on the amount and aging of overdue loans as of December 31, 1980. The formula applied was the following.

Aging of Overdue Loans	Percent Reserved for Bad Debts
Less than 6 months	25
6 to 12 months	50
Over 12 months	100

Regarding overdue interest, a 25% reserve was made. Overall, the total amount of reserve for bad debts came out to be 3.8% of the average monthly balance of outstanding loans for all the lending institutions.

The relative position of each one of the nine lending institutions regarding aging of overdue loans is shown in Table IV-11 as of December 31, 1980. Since the reserve for bad debts is applied in full to the operations of 1980, the impact on operating costs for 1980 is greater than if applied since project inception. However, it is believed that its inclusion as part of operating costs gives a better insight into the potential viability each institution may expect.

5. Actual operating expenses and income for each separate branch interest rate generally was not available for all the institutions for the year 1980. Results for three institutions were calculated and are shown to give a general idea of the prevailing situation.

Results Obtained

Results are presented in two basic tables. Table IV-12 is a summary of profit and loss estimates for each lending institution averaged per branch and Table IV-13 presents a number of selected indicators associated with the financial results obtained. The latter is expected to help each participating institution to better understand its present position, the causes that produce

Table IV-11 Aging of Overdue Loans as of December 1980

Institution	Percent				
	Less than 3 months	3 - 6 months	6 - 12 months	More than 12 months	Total
Krishi	58.4	24.2	11.1	6.3	100
Sonali	51.1	22.6	12.4	13.9	100
Janata	37.7	22.1	7.0	33.2	100
Agrani	39.1	52.4	8.5	-	100
Pubali	63.3	22.5	9.8	4.4	100
Rupali	57.7	15.0	27.3	-	100
Uttara	29.2	29.3	29.1	12.4	100
I.R.D.P.	28.7	71.3	-	-	100
B.S.B.L.	12.5	51.3	33.0	3.2	100
Total	45.3	32.1	14.3	8.3	100

Table IV-12 Summary of Profit and Loss Estimates Averaged per Branch for the 12 - Month Period January 1 - December 31, 1980

ITEM	Krishi	Sonali	Janata	Agrani	Pubali	Rupali	Uttara	I.R.D.P.	B.S.B.L.	TOTAL
Income Earned	15,44,794	3,35,919	2,05,557	4,42,411	2,47,213	1,13,110	95,945	2,23,389	2,67,178	34,75,516
Operating expenses:										
Interest paid	6,95,325*	1,48,015	88,744	1,94,160	1,20,452	58,406	34,191	81,644*	62,331	14,83,268
Salaries and allowances	3,42,889	1,10,821	89,811	1,42,132	1,14,713	1,21,506	1,09,342	56,462	36,695	11,24,371
Other operating expenses	1,16,657	39,144	22,374	40,795	44,246	18,625	13,106	15,217	43,535	3,53,699
Reserve for bad debts	3,05,978	1,21,142	1,17,442	81,054	77,499	4,708	70,812	17,543	1,32,491	9,28,669
Total Operating expenses	14,60,849	4,19,122	3,18,371	4,58,141	3,56,910	2,03,245	2,27,451	1,70,866	2,75,052	38,90,007
Estimated profit (loss)	83,945	(83,203)	(1,12,814)	(15,730)	(1,09,697)	(90,135)	(1,31,506)	52,523	(7,874)	(4,14,491)
Estimated profit (loss) as % of average monthly balance of principal of loans outstanding	1.1	(4.7)	(12.2)	(0.8)	(8.4)	(17.9)	(37.3)	4.9	(0.7)	(2.5)

* For Krishi and IRDP interest paid included an adjustment to increase interest actually paid of 6 1/2% and 7%, respectively, to 9% for comparability with other lending institutions.

** Total estimated loss is 4,14,491 ÷ 1,67,70,471 which is the total average monthly balance of loans outstanding at all lending institutions.

Table IV-13 Selected Indicators of Profitability of Operations, for the 12 Month Period January 1 - December 31, 1980

Item	Krishi	Sonali	Janata	Agrani	Pubali	Rupali	Uttara	IRDP	BSBL	TOTAL
Salaries & allowances as % of operating costs, exclusive of reserve	29.7	37.2	44.7	37.7	41.1	61.2	69.8	36.8	25.7	38.0
Reserve for bad debts as % of total operating expenses	20.9	28.9	36.9	17.7	21.7	2.3	31.1	10.3	48.2	23.9
Actual rate of interest earned	20.1	18.9	22.2	22.6	18.9	22.5	27.2	21.0	22.2	20.7
Interest rate needed to cover total operating expenses	19.0	23.6	34.3	23.3	27.3	40.4	64.6	16.0	22.9	23.2
Interest rate needed to cover operating expenses, except reserve	15.0	16.8	21.7	19.2	21.4	39.5	44.5	14.4	11.9	17.7
Interest rate needed to cover reserve (4-5)	4.0	6.8	12.6	4.1	5.9	0.9	20.1	1.6	11.0	5.5
Average monthly balance of loans outstanding	76,76,289	17,74,558	9,27,680	19,61,860	13,06,779	5,03,023	3,52,331	10,65,418	12,02,533	1,67,70,471
Average monthly balance of loans outstanding per branch	6,39,691	3,54,912	1,85,536	1,96,186	3,26,695	1,67,674	88,083	1,33,177	1,71,790	2,89,146
Average number of loans disbursed per branch	540	380	132	323	443	414	89	263	189	329
Average total operating costs per branch	1,21,737	83,824	63,674	45,814	89,228	67,748	56,863	21,358	39,293	67,069
Reserve for Bad Debts as percentage of loans outstanding	2.9	3.8	10.4	2.9	3.9	0.6	15.0	1.1	7.8	3.8

the results shown, its relative position vis-a-vis the rest of the insitutions and insight into the kind of remedial actions that are needed to improve the present performance.

Principal results obtained for the year 1980 can be summarized as follows:

When Actual Interest Rate is Charged (Krishi and IRDP raised to 9%)

1. Only Krishi and IRDP were able to cover all operating expenses during the 12-month-period January - December 1980; Krishi because of its large volume of lending per branch and IRDP because of its relatively low operating costs arising from not paying salaries to KSS managers (only a 1% commission on loans disbursed) and have almost no paid staff until very recently. On the other hand, BSBL pays a 2% commission on loans disbursed. BSBL and Agrani almost covered the total operating costs being short because of the effect of the reserve needed to cover large overdues in the case of BSBL and low volume of lending per branch in the case of Agrani.

   Krishi showed profit of Tk. 83,945 per branch equivalent to only 1.1% of the average monthly balance of outstanding loans.

2. On the other side of the scale Uttara, Rupali, Janata and Pubali incurred a net loss varying from Tk. 90,000 to Tk. 1,30,000 per branch. Uttara has a combination of high operating costs, large overdues and a very small volume of lending; Rupali has high operating costs, very little overdues but also a very small volume of lending (salary structure is relatively high because staff are regular bank employees). Janata is afflicted by large overdues and low volume of lending. Pubali has high operating expenses (like Rupali, staff is regular bank employees) and volume of lending is still low for their kind of expenses.

3. Sonali showed a net loss of Tk. 83,203 per branch or 4.7% of the average monthly balance of outstanding loans. This is mainly due to the relatively small volume of lending per branch associated with still relatively large overdues.

4. The rate of interest that needs to be charged to cover operating expenses with and without reserve for bad debts was calculated and shown as selected indicators; the effective rate actually earned was also calculated.

As expected, there is an inverse relationship between the rate of interest needed to cover operating expenses, exclusive of reserve for bad debts, and the balance of outstanding loans: the higher the amount of outstanding loans, the lower the rate needed to break even. Krishi showed that it needed a 15.0% rate to cover costs, while Rupali and Uttara needed 39.5% and 44.5%, respectively. When the reserve for bad debts was added, Krishi needed 19%, Rupali needed 40.4% and Uttara 64.6%. The case of Uttara is even worse because the effective rate of interest earned on loans was 27.2%, the highest of all the lending institutions.

The devastating effect that high overdues have on viability, assuming that a proper reserve is made for bad debts, is observed when Janata and Uttara (with large overdues) would require to charge 12.6% and 20.1% interest rate, respectively, only to cover reserve for bad debts. On the other hand, Pubali only needed 1% rate, LRDP 1.6% and Krishi and Agrani 4%.

The weighted average, for all the nine lending institutions, based on 1980 level of performance, of interest earned was 20.7%, which was 2.5% below the 23.2% needed to cover total operating expenses. Overall, 5.5% interest rate was needed to cover reserve for bad debts.

The interrelationship of three key variables (interest rate, reserve for bad debts and volume of lending needed) is illustrated in Table IV-14.

<u>When 1981 Rates are Applied to 1980 Results</u>

Interest rates in operation for 1981 were shown in Table IV-9 above. These rates were applied (Krishi and IRDP rates futher increased to 11% for better comparability with the other institutions) to 1980 results shown in Table IV-12 above to get an idea of profitability for the current year if everything remains the same, except a higher cost of capital. Table IV-15 shows the results obtained. With the enhanced rates, even Krishi will not be able to cover costs.

Table IV-14 Interest Rate and Volume of Loans Outstanding in Relation to Profitability

Institution	Effective Interest Rate Earned %	Interest rate needed to cover		Monthly average balance of loans outstanding per branch	
		All Operating Costs %	All Operating Costs Less Reserve for Bad Debts %	Actual 1980 Lacks	Amount Needed to Cover Total Operating Costs Lacks
Krishi	20.1	19.0	15.0	6.40	6.06
Sonali	18.9	23.6	16.8	3.55	4.44
Janata	22.2	34.3	21.7	1.86	2.87
Agrani	22.6	23.3	19.2	1.96	2.03
Pubali	18.9	27.3	21.4	3.27	4.72
Rupali	22.5	40.4	39.5	1.68	3.01
Uttara	27.2	64.6	44.5	0.88	2.09
IRDP	21.0	16.0	14.4	1.33	1.02
BSBL	22.2	22.9	11.9	1.72	1.77
Total	20.7	23.2	17.7	2.89	3.24

Table IV-15 Estimated Average Profit and Loss Comparing 1980 with 1981 Rates of Interest Charged for Borrowed Capital

Lending Institution	1980 Rates		1981 Rates	
	Interest Rates Charged for Borrowed Capital	Results in Net Profitability of	Interest Rates Charged for Borrowed Capital	Results in Net Profitability of
Krishi	9 *	1.1	11 **	(0.8)
Sonali	9	(4.7)	11	(6.2)
Janata	10	´12.2)	13	(14.6)
Agrani	9	(0.8)	12	(4.0)
Pubali	10	(8.4)	14	(11.9)
Rupali	10 1/4	(17.9)	14	(20.4)
Uttara	10	(37.3)	12 1/2	(39.6)
IRDP	9 *	4.9	10	4.1
BSBL	5 -11 17 -23	(0.7)	5 -11 17 -23	(0.7)
Total	-	- (2.5)	-	- (4.4)

* Interest charged by Krishi and IRDP increased from 6 1/2% and 7%, respectively, to 9% for comparability with Sonali and Agrani.

** Interest charged by Krishi increased from 9% to 11% for better comparability with Sonali.

The general conclusion derived from the 1980 performance is twofold, first, productivity in terms of loans made and balance of outstanding loans per branch are generally too low to warrant sufficient income to cover operating expenses, and secondly, overdues are too high requiring a relatively high interest rate only to cover the cost of creating a reserve for bad debts.

Some institutions are showing both low productivity and high overdues. Janata and Uttara are examples and BSBL may also fall in this category if overdues are not brought under proper control. The outlook is bleak for these institutions unless drastic measures are taken.

When Results for 1980 are Shown per Branch and Interest Rates Charged

An attempt was made to examine actual results obtained for 1980 for individual branches and rates of interest charged. On closer scrutiny it was found, however, that in a number of cases both income earned (based on monthly average balance of outstanding loans) and interest paid on capital (either raised through deposits or borrowed from head office) appeared to be either under or over estimated, hence, an in depth analysis would not be enlightening. However, information per branch and interest rates for three institutions (Sonali, Rupali and Krishi) was recalculated and revised profit and loss estimates made. Income earned and interest paid were made to properly reflect the volume shown for the monthly average of outstanding loans. All other operating expenses are the actual figures given by the institutions.

Results obtained are shown in Tables IV-16 (Krishi), IV-17 (Sonali) and IV-18 (Rupali).

Krishi - Krishi calculations are based on costing capital at 9% and 11% instead of the 6 1/2% presently charged. All other expenses are those actually incurred in 1980.

The combined effect of the interest rate charged, volume of lending and percent of overdues (reflected in the amount of reserve needed for bad debts) are the factors determining degree of viability achieved. The 12% interest rate outlet (Faridpur) was not capable of covering operating costs even with Tk. 8 1/2 lacks of monthly average balance of loans outstanding. The 18% rate outlet (Pabna) with Tk. 4.3 lacks in loans outstanding and no overdues was not able to cover operating costs. To cover costs the branch would need to increase loans outstanding to close to Tk. 5 lacks. Maijdecourt with 6 lacks outstanding loans and with a 24% rate of interest almost covered total operating expenses. The problem here is high overdues. A 10% interest rate is needed in this case only to cover reserve for bad debts pushing up to 25% the total interest rate needed for the outlet just to break even. Results in each one of the two 30% interest rate outlets shown vary considerably due again to volume of lending and overdues but in both cases, however, profit is shown.

Interest Rate and Volume of Loans Outstanding in Relation to Profitability, 1980

Krishi

Institution	Effective Interest Rate Earned %	Interest rate needed to cover: All Operating Costs %	Interest rate needed to cover: All Operating Costs Less Reserve for Bad Debts %	Monthly average balance of loans outstanding per branch: Actual 1980 Lacks	Monthly average balance of loans outstanding per branch: Amount Needed to Cover Total Operating Costs Lacks
Faridpur	12	19.0	15.6	8.58	13.55
Pabna	18	20.6	20.6	4.30	4.93
Maijdecourt	24	25.4	15.6	6.27	6.63
Sylhet	30	28.3	16.2	4.53	4.27
Rangpur	30	15.6	15.6	6.06	3.15

Table IV-16 Krishi - Summary of Profit and Loss Estimates for Five Branches and Selected Indicators, 1980

	FARIDPUR (Loans - 12%, Savings - 11%)		PABNA (Loans - 18%, Savings - 12%)		MAIJDECOURT (Loans - 24%, Savings - 13%)		SYLHET (Loans - 30%, Savings - 14%)		RANGPUR (Loans - 30%, Savings - 14%)	
	9% Interest	11% Interest	9% Interest	11% Interest	9% Interest	11% Interest	9% Interest	11% Interest	9% Interest	11% Interest
Income Earned:	1,10,942	1,10,942	80,714	80,714	1,54,762	1,54,762	1,37,169	1,37,169	1,85,269	1,85,269
Operating Expenses:										
Interest Paid										
On Savings	4,189	4,189	1,300	1,300	6,075	6,075	1,753	1,753	2,071	2,071
On Borrowed Funds	73,752	90,141	37,765	46,158	52,218	63,822	39,654	48,467	53,217	65,044
Salaries	41,638	41,638	37,227	37,227	29,660	29,660	23,898	23,898	29,478	29,478
Other Expenses	13,880	13,880	12,409	12,409	9,887	9,887	7,966	7,966	9,826	9,826
Sub-Total:	1,33,459	1,49,848	88,701	97,094	97,840	1,09,444	73,271	82,084	94,592	1,06,419
Reserve for Bad Debts	29,145	29,145	-	-	61,245	61,245	54,947	54,947	-	-
Total Operating Expenses	1,62,604	1,78,993	88,701	97,094	1,59,085	1,70,689	1,28,218	1,37,031	94,592	1,06,419
Net Profit (Loss)	(51,662)	(68,051)	(7,987)	(16,380)	(4,323)	(15,927)	+8,951	+138	+90,677	+78,850
Percentage Profit (Loss) of average monthly balance of principal of loans outstanding	(6.0)	(7.9)	(1.9)	(3.8)	(0.7)	(2.5)	+ 2.0	0.0	+15.0	+13.0
Selected Indicators										
Salaries and allowances as % of operating costs, exclusive of reserve	31.2	27.8	42.0	38.3	30.3	27.1	32.6	29.1	31.2	27.7
Reserve for Bad Debts as % of total operating expenses	17.9	16.3	0	0	38.5	35.9	42.9	40.1	0	0
Interest rate needed to cover total operating expenses	19.0	20.9	20.6	22.6	25.4	27.2	28.3	30.2	15.6	17.6
Interest rate needed to cover operating expenses, except reserve	15.6	17.5	20.6	22.6	15.6	17.5	16.2	18.1	15.6	17.6
Average monthly balance of loans outstanding	8,57,550		4,30,448		6,26,929		4,53,125		6,06,103	
Average monthly balance of loans outstanding needed to cover total operating costs	13,55,033	14,91,608	4,92,783	5,39,411	6,62,854	7,11,204	4,27,393	4,56,770	3,15,307	3,54,730
Actual Number of loans disbursed during 1980	1,036		514		439		297		606	

Table IV-17 Sonali - Summary of Profit and Loss Estimates for Five Branches and Selected Indicators, 1980

	Loans - 12% Savings - 11%		Loans - 18% Savings - 12%		Loans - 18% Savings - 12%		Loans - 24% Savings - 13%		Loans - 30% Savings - 14%	
	SITAKUNDA		KULIARCHAR		SHAHPUR		BIRGONJ		GOURIPUR BAZAR	
	9% Interest	11% Interest	9% Interest	11% Interest	9% Interest	11% Interest	9% Interest	11% Interest	9% Interest	11% Interest
Income Earned:	35,314	35,314	56,673	56,673	64,352	64,352	1,01,956	1,01,956	1,14,929	1,14,929
Operating Expenses:										
Interest Paid										
On Savings	20,149	20,149	10,624	10,624	9,253	9,253	5,165	5,165	4,519	4,519
On Borrowed Funds	10,000	12,222	20,368	24,894	25,236	30,844	34,658	42,360	31,574	38,590
Salaries	29,245	29,245	16,621	16,621	20,070	20,070	25,295	25,295	19,590	19,590
Other Expenses	11,399	11,399	3,589	3,589	10,849	10,849	7,498	7,498	5,808	5,808
Sub-Total:	70,793	73,015	51,202	55,728	65,408	71,016	72,616	80,318	61,491	68,507
Reserve for Bad Debts	4,077	4,077	52,940	52,940	3,059	3,059	27,760	27,760	33,307	33,307
Total Operating Expenses	74,870	77,092	1,04,142	1,08,668	68,467	74,075	1,00,376	1,08,078	94,798	1,01,814
Net Profit (Loss)	(39,556)	(41,778)	(47,469)	(51,995)	(4,115)	(9,723)	+1,580	(6,122)	+20,131	+13,115
Percentage Profit (Loss) of average monthly balance of loans outstanding	(13.4)	(14.2)	(15.1)	(16.5)	(1.2)	(2.7)	+0.4	(1.4)	+5.3	+3.4
					Selected Indicators					
Salaries and Allowances as % of operating costs, exclusive of reserve	41.3	40.1	32.5	29.8	30.7	28.3	34.8	31.5	31.9	28.6
Reserve for Bad Debts as % of Total operating expenses	5.4	5.3	50.8	48.7	4.5	4.1	27.7	25.7	35.1	32.7
Interest rate needed to cover total operating expenses	25.4	26.2	33.1	34.5	19.2	20.7	23.6	25.4	24.7	26.6
Interest rate needed to cover operating expenses, except reserve	24.1	24.8	16.3	17.7	18.3	19.9	17.1	18.9	16.1	17.9
Average monthly balance of loans outstanding	2,94,285		3,14,850		3,57,513		4,24,815		3,83,095	
Average monthly balance of loans outstanding needed to cover total operating costs	6,23,917	6,42,433	5,78,566	6,03,711	3,80,372	4,11,528	4,18,233	4,50,325	3,15,993	3,39,380
Actual number of loans disbursed during 1980	420		385		261		358		209	

Table IV-18 Rupali - Summary of Profit and Loss Estimates for Three Branches and Selected Indicators - 1980

	Loans 18% Savings - 12%		Loans - 24% Savings - 13%		Loans - 36% Savings - 15%	
	RAJGONJ		MANSA BAZAR		KALIHATI	
	10 1/4% Interest	14% Interest	10 1/4% Interest	14% Interest	14 1/4% Interest	14% Interest
Income Earned:	41,747	41,748	29,612	29,612	53,173	53,173
Operating Expenses:						
Interest Paid						
On Savings	4,875	4,875	12,959	12,595	11,859	11,859
On Borrowed Funds	19,610	26,784	2,429	3,318	7,036	9,610
Salaries	41,292	41,292	34,744	34,744	45,470	45,470
Other Expenses	13,598	13,598	4,102	4,102	925	925
Sub-Total:	79,375	86,549	54,234	55,123	65,290	67,864
Reserve for Bad Debts	2,575	2,575	1,907	1,907	228	228
Total Operating Expenses	81,950	89,124	56,141	57,030	65,518	68,092
Net Profit (Loss)	(40,202)	(47,376)	(26,529)	(27,418)	(12,345)	(14,919)
Percentages Profit (Loss) of average monthly balance loans outstanding	(17.3)	(20.4)	(21.5)	(22.2)	(8.4)	(10.1)
Selected Indicators						
Salaries and allowances as % of operating costs, exclusive of reserve	52.0	47.7	64.1	63.0	69.6	67.0
Reserve for Bad Debts as % of total operating expenses	3.1	2.9	3.4	3.3	0.3	0.3
Interest rate needed to cover total operating expenses	35.3	38.4	45.5	46.2	44.4	46.1
Interest rate needed to cover operating expenses, except reserve	34.2	37.3	44.0	44.7	44.2	45.9
Average monthly balance of loans outstanding	2,31,935		1,23,385		1,47,703	
Average monthly balance of loans outstanding needed to cover total operating costs	4,55,278	4,95,133	2,33,921	2,37,625	1,81,994	1,89,144
Actual number of loans disbursed during 1980	370		248		395	

Sonali - Sonali is charging 9% on borrowed funds so it is comparable with Krishi after the latter was adjusted also to 9%. In the 12% interest rate branch (Sitakunda) a substantial loss is shown as a result of the low volume of lending since overdues are very low. The average monthly balance of loans outstanding was 2.9 lacks but 6 lacks were needed to cover all operating expenses. The situation in one of the 18% interest outlets is also bad because of large overdues. Almost a 17% rate of interest is required only to cover the reserve for bad debts. The other 18% outlet almost covered the reserve for bad debts, as well as its operating costs due to having very little overdues.

The 24% outlet barely covered total operating costs and the 30% outlet showed some profit. Both are afflicted with substantial overdues. With the exception of Birgonj, none of the outlets reached 4 lacks of monthly average loans outstanding. So far, rather small volume of lending and still high overdues are Sonali's basic problems.

The following table illustrates these relationships.

Interest Rate and Volume of Loans Outstanding in Relation to Profitability, 1980

Sonali

Institution	Effective Interest Rate Earned %	Interest rate needed to cover: All Operating Costs %	Interest rate needed to cover: All Operating Costs Less Reserve for Bad Debts %	Monthly average balance of loans outstanding per branch: Actual 1980 Lacks	Monthly average balance of loans outstanding per branch: Amount Needed to Cover Total Operating Costs Lacks
Sitabuna	12	25.4	24.1	2.94	6.24
Kaliarchar	18	33.1	16.3	3.15	5.79
Shahpur	18	19.2	18.3	3.58	3.80
Birgonj	24	23.6	17.1	4.25	4.18
Gouripur Bazar	30	24.7	16.1	3.83	3.16

Rupali - Rupali's outlets are all afflicted with a very small volume of lending being this the real obstacle to reach financial viability since overdues are very small. To cover costs in its 18% interest rate outlet, the volume of outstanding loans would have to be double. An interest rate of 44% would have to be charged even in the 36% outlet just to break even based on 1980 volume of loans outstanding.

The following table again illustrates this situation.

Interest Rate and Volume of Loans Outstanding in Relation to Profitability, 1980

Rupali

Institution	Effective Interest Rate Earned %	Interest rate needed to cover: All Operating Costs %	Interest rate needed to cover: All Operating Costs Less Reserve for Bad Debts %	Monthly average balance of loans outstanding per branch: Actual 1980 Lacks	Monthly average balance of loans outstanding per branch: Amount Needed to Cover Total Operating Costs Lacks
Rajgonj	18	35.3	34.2	2.32	4.55
Manasa Bazar	24	45.5	44.0	1.23	2.34
Kalihati	36	44.4	44.2	1.48	1.82

Recommendations

A. Profitability

1. Each participating institution should assess its present position regarding overall potential of viability. A thorough evaluation should be made of each branch or outlet under the project based on 1980 overall performance and a decision reached regarding viability taking into account the rate of interest applied, and present a prospective volume of lending, overdues, etc. It is recommended that branches with a bleak outlook be either expanded if this is feasible or dropped from the project. A valid exception could be to keep, for controlling purposes, some 12% interest rate outlets where everything is all right; except the interest rate. Set up targets for each branch of number of loans made per month and dates and actions to be taken to bring overdues. Monthly reports should be submitted showing progress regarding these targets.
2. Each participating institution should identify one good area and use it as training ground (not only as a show case) for "method and result demonstration purposes". Staff from other areas will be brought to this training ground to observe procedures, norms and overall management operations. Visiting officers and assistants should be asked to indicate how their own operations can be improved based on what they saw and observed; reasons should also be given why they cannot be improved. Since there are great similarities in the procedures followed by all the lending institutions to reach and service the needs of target households, the nine different "on the spot training grounds" can be converted into a very useful operational training network.
3. Thoroughly review procedures being followed by the lending institutions in calculating income earned and interest paid both on savings and funds borrowed from head office to make sure that profit and loss estimates properly reflect these income and expense items; and really heed Consultants' recommendations regarding these matters.

B. Incentives to Staff

Finally agree on and put immediately in operation an effective scheme to motivate staff to accept working harder and to reach higher performance levels under RFEP. Each institution should submit its own proposal to Bangladesh Bank specifying the exact nature of the incentive plan including, among other things, what specific incentives will be offered, and who are eligible. A combination of some across-the-board-incentives together with prizes and rewards for outstanding performance should be considered. All this was discussed during the extension plans review sessions back in September 1, 1980 but no effective action has been taken although there is a consensus of the need for incentives and several ideas have been advanced.

C. Improving Head Office RFEP Units

Adequate head office direction, guidance, motivation, supervision and close monitoring is basic to the success of RFEP. This is not forthcoming in all cases. Not enough effective involvement in the project transpire in several cases resulting in rather slow and or ineffective response to branch requests and consultations regarding project affairs, together with a certain feeling of remoteness and low interest in project operations. Institutions need to feel that this is their project.

Consideration should be given to setting up an "RFEP Monitoring Committee" formed with representatives of 3-4 lending institutions that can dedicate time to work more closely with Bangladesh Bank and the Consultant on several key elements of the project. This committee would fully participate in project evaluations like the present one offering ideas of areas that should be investigated, etc.; would assist in developing constructive proposals to enhance overall project effectiveness like the incentive plan, how to approach natural calamities; assist in developing simple but effective institutions' self evaluation schemes that can be easily implemented. Probably one of the most important tasks of this committee would be to start considering how to sell to the government and other interested and "sensitive" sectors the basic idea and purpose of the RFEP. A number of influential people may be thinking that RFEP is discriminating against poor rural households because of "high" interest rates charged.

How to proceed to educate interested sectors is of the utmost importance for the success of the project. But this education that should be based on actual positive results, may prove not to be an easy task. Good forward and innovative thinking will be required. Timely and effective start is most important.

The committee proposed should be headed by Bangladesh Bank and it is recommended that one officer be posted to work full time with this committee providing certain minimum facilities, motivation and follow-up. The Consultant should also be fully involved. Formal meetings would be presided by the officer designated by Bangladesh Bank, but apart from this the committee should feel free to meet and deliberate as frequently and periodically as possible.

D. Possible Increase in Lowest Interest Rate under RFEP

In view of the recent increase in interest rates charged to lending institutions by the BDB and in view of the inability of lending institutions to achieve viability at RFEP outlets charging 12% interest to borrowers as demonstrated by 1980 results, it is the Consultants' recommendation to give serious consideration to permit lending institutions to increase charges to borrowers in such RFEP outlets to 18% for the remaining part of this experimental period.

Also consideration should be given to have interest on loans. In the same branch these vary from 18% to 30% or 36% depending upon the use of the loan as in the case of IRDP and BSBL. Both the statistical evidence generated in the relationship of interest level and type of use and IRDP and BSBL experience justify this approach.

Financing Expanded Operations Through the Movilization of Rural Saving

The progress achieved in the savings component of RFEP was fully discussed in the July 1980 evaluation, and recommendations were made for the program extended period.

Various institutions addressed this subject in their extension plans proposing to experiment with one or more of the savings models recommended by the Consultant. The Bangladesh Bank decided that the lending institutions were to experiment with two of the various models recommended. The two models approved were group savings and family savings. Since not all the institutions are experimenting with group lending only the family savings model would have general application. It was proposed and Bangladesh Bank agreed to allow the institutions flexibility to experiment with other models as well. To further contribute to this basic component of the project, the consultants have prepared one additional savings model called "small savings scheme". The rationale is that there is a sizable population both target and non-target group that can save small amounts, and that "savings can be mobilized as bank deposits if collected when the cash income comes into the hand of the villager". Otherwise, the cash will be spent to meet various needs. If a portion of the cash income on hand on the villager is collected immediately, he will manage his affairs with the money left with him. The villagers, will not come to the banks, the bank officials should go to them to collect the money and make them to part with a portion of the cash received.

The money should be collected in small bits weekly, fortnightly or monthly, depending on cash receipts by the villagers. The mechanism to collect deposits would be by having deposit coupons printed with counterfoils that are to be sold to target and non-target groups.

As of December 1980 there were 15,678 target households with savings accounts under RFEP.

In addition, there were 1,055 non-target group depositors with savings accounts under the special saving rates under RFEP.

The average size of the savings balance was Tk. 100 for target households and Tk. 1,317 for non-target.

As of September 1980 IRD and BSBL dropped multiple rates of interest payable on savings and from that date have been paying 12.0%. The change was made due to difficulties in calculation and confusion as to which rate applied to a particular savings account.

Table IV-19 presents the number of depositors and the average size of the savings balance as of December 1980 for both target and non-target groups by interest rate paid on savings. The relatively smaller number of target group depositors in the higher rates in the case of target households is due, as explained in previous evaluations, to the much smaller number of households exposed to these rates. However, this does not explain the average size of deposits in the lower interest rate (11%) being four times the average size in the higher interest rate (15%). Similar results were observed as of December 1979.

Table IV-19 Average Size of Savings By Interest Rate - Target and Non-Target Groups

Interest Rate	Target Group			Non-Target Group		
	Balance of Deposits on Hand December 31, 1980	Number of Depositors	Average Size of Savings Balance	Balance of Deposits on Hand December 31, 1980	Number of Depositors	Average Size of Savings Balance
11	5,96,928	3,090	193	2,60,205	80	3,253
12	4,45,328	5,724	78	4,26,387	499	854
13	3,12,009	3,449	90	3,50,288	130	2,695
14	1,52,763	1,883	81	1,85,579	42	4,419
15	72,317	1,532	47	2,81,372	79	3,562
4.5 1/		-	-	42,048	487	86
Total	15,79,345	15,678	101	15,45,879	1,317	1,174

1/ Interest rate paid by IRDP to non-target group depositors.

This merits more investigation in the extended period. The project design and the institutions' administrative policies can probably provide the explanation. The institutions may have been more eager to promote savings in the lower interest rate outlets because of the lesser effect on cost of capital. Despite the fact that high rates of interest are charged on loans whenever higher rates are paid for savings, the bulk of the funds borrowed from head offices are at lower rates than those paid on savings under RFEP until 1980. This in effect, is a disincentive for making an effort to generate resources from local savings.

During 1980 only 10.2% of the resources for lending was raised through savings under RFEP. This is shown in Table IV-20. The most encouraging sign is Rupali's performance. Rupali raised 46.1% of lending funds through savings as compared with only 6.1% for Krishi and Pubali, 7.2% for Uttara and 8.3% Agrani. Sonali raised 23.7% and Janata 17%.

Target and non-target households are behaving differently regarding savings withdrawals. While cumulative withdrawals amounted to 80.2% for target households, it was substantially less (63.2%) in the case of non-target households. The pattern is more or less the same regardless of interest rate on deposits. This is shown in Table IV-21 and IV-22.

Target households are saving but their average saving balance is small and they cannot keep the cash in the bank too long. In some cases, the savings account is a conduit for loans repayment.

The implications for achieving RFEP overall purpose on saving mobilization are clear to substantially increase savings deposits. A greater concerted effort is needed to contact and motivate non-target households to save. Banks have given the impression so far of not being very much interested in mobilizing savings at the rates paid under RFEP. Since RFEP and recently enhanced commercial rates are now more in line than when RFEP started operations, a fresh effort should be given to this important component of the project.

Several lending institutions incorporated targets for savings mobilization in their extension plans and some even indicated that assistants will be posted to promote savings.

Table IV-20 Relationship of Savings Balance to Loans Outstanding Monthly Average for 1980

Savings Balance as Percent of Balance of Loans Outstanding

Institution	Target Group	Non-Target Group	Total
Krishi	4.6	1.5	6.1
Sonali	11.0	12.7	23.7
Janata	3.9	13.1	17.0
Agrani	5.8	2.5	8.3
Pubali	6.1	-	6.1
Rupali	5.6	40.5	46.1
Uttara	6.3	0.9	7.2
IRDP	10.6	2.9	13.5
BSBL	2.0	-	2.0
Total	5.7	4.5	10.2

Table IV-21 Estimated Percent of Savings Withdrawals by Lending Institution Target Group and Non-Target Group

Lending Institution	Target Group			Non-Target Group		
	Cumulative Deposits Taka	Cumulative Withdrawals Taka	Percent	Cumulative Deposits Taka	Cumulative Withdrawals Taka	Percent
Krishi	14,11,910	9,03,375	63.9	4,91,394	2,48,396	50.5
Sonali	17,96,166	13,62,996	75.8	20,38,532	14,71,515	72.1
Janata	5,29,925	4,58,853	86.5	3,09,163	1,44,663	46.7
Agrani	28,13,972	25,99,177	92.3	4,65,170	3,60,484	77.4
Pubali	5,99,722	5,29,842	88.3	-	-	-
Rupali	5,26,719	4,92,256	93.4	8,42,412	4,19,223	49.7
Uttara	74,224	48,289	65.0	13,869	12,428	89.6
IRDP	1,97,003	17,585	8.9	42,048	-	-
BSBL	44,065	1,988	4.5	-	-	-
Total	79,93,706	64,14,361	80.2	42,02,588	26,56,709	63.2

Table IV-22 Estimated Percent of Savings Withdrawals by Interest Rate

Interest Rate	Target Group			Non-Target Group		
	Cumulative Deposits Taka	Cumulative Withdrawals Taka	Percent	Cumulative Deposits Taka	Cumulative Withdrawals Taka	Percent
11	24,19,940	18,23,094	75.3	7,85,205	5,25,000	66.8
12	22,10,173	17,98,214	81.4	17,34,902	13,08,650	75.4
13	20,59,628	17,13,290	83.1	6,52,545	2,97,257	45.5
14	6,58,024	5,06,811	77.0	4,11,109	2,30,396	56.0
15	6,45,941	5,72,952	88.7	5,76,779	2,95,406	51.2
4.5 1/	-	-	-	42,048	-	-
Total	79,93,706	64,14,361	80.2	42,02,588	26,56,709	63.2

1/ Interest rate paid by IRDP to target group depositors.

Recommendations

Set up a specific plan to mobilize savings among non-target households.

a. Provide incentives to assistants working full time mobilizing deposits.

b. Make the rates offered known widely at each village under the project. Emphasize the importance of savings.

c. Pay interest earned periodically and timely, making sure that the effective rate is as close as possible to the rate offered.

d. Give prizes to depositors who save systematically or that keep deposits longer, etc.

V. PROFITABILITY OF LOANED FUNDS TO BORROWERS

The Farmer's Financial Survey is the basic source of information available to approximate the impact of loans attained under the project. Two reports have been produced, one covering the 1979 aus season and the other covering the aman season. Costs and returns data were obtained on a sample basis for RFEP users and non-users. The results obtained for users and non-users are very similar in both crop seasons. Hence, in the present report, only the most recent crop season - aman - is reviewed and analyzed. The information is obtained from the RFEP report entitled Farmer's Financial Survey - II Analysis October, 1980. The two samples taken - one for users and the other for non-users - were drawn from the same universe, that is, all are target group households. The difference being that the sample of users was drawn from target households that did receive a loan from RFEP, for the aman crop; while the sample of non-users did not receive a RFEP loan.

Financial data on costs and returns was obtained for three different crops during the aman season (1) broadcast aman and mixed aman; (2) transplanted aman - local : and (3) transplanted aman HYV.

Kind and Amount of Production Inputs

On the average, between 70-75 percent of the total amount invested on a per acre basis, went for labor. This 75% was roughly divided as follows: 45 percent for family labor and the 25 percent for hired labor. The relatively high proportion of total cost (excluding interest payment) consumed by labor is indicative of the relatively low level of mechanization as a result of abundant cheap labor and the extremely small size of operations. The other 25% of the cost is seed and seedlings and fertilizers and pesticides (12% and 11%, respectively), with the remaining 2% going to farm equipment and to paying for irrigation water where this facility is available. The above pattern holds for both users and non-users. This is observed in the following table. It also indicates the higher investment per acre required for producing HYV's and again users are shown making this kind of investment indicative that they are aware of and living up to it. For example, the amount invested in fertilizers and pesticides in producing a high yielding variety is twice as much the amount used with a local variety like B. Aman Local, shown in the table V-1.

Cost of Production (Excluding Interest Payment) of Owner Operators (Users and Non-Users), for Acre, Aman Crop 1979.

Table V-1 Figures in Percentages

Item	Broadcast Aman and Mixed		T. Aman Local		T. Aman HYV	
	User	Non-User	User	Non-User	User	Non-User
Labor	75	74	71	71	72	71
Hired	25	19	26	28	29	34
Family	50	55	45	43	43	37
Seed and Seedlings	13	14	10	13	11	10
Fertilizer and Pesticides	8	5	10	13	16	16
Other	4	7	9	3	1	3
Total	100	100	100	100	100	100
Total in Takas	618	721	820	879	1267	1122

Yields and Gross Income

Both users and non-users were able to produce higher yields with high yielding varieties, as shown in the Table V-2. The difference between broadcasting local varieties (B. Aman Local) and transplanting HYV (T. Aman-HYV) is almost 100% in favor of the latter. Since the price obtained is almost the same, the higher gross income shown on a per acre basis for the HYV is due to the higher yields. Transplanted aman-local lies in between the two crops mentioned earlier.

Table V-2 Yield Price and Gross Income of Owner Cultivators (Users and non-Users) For Acre, Aman Crop, 1979.

I t e m	Broadcast Aman and Mixed	T. Aman Local	T. Aman HYV
Yield (maunds/acre) Users	12.43	17.84	22.97
Non-Users	11.23	18.38	22.96
Price (Taka/maund) Users	104.76	104.25	108.26
Non-Users	110.79	96.44	113.57
Gross Income (Taka)			
Users	1302.20	1858.79	2486.85
Non-Users	1244.14	1772.54	2607.68

Again, yields and gross income per acre are very similar for users and non-users as shown in the table. One would expect that results for users were better than those for non-users, both being target households. The explanation for the negative difference could be related to who the users really are. In the first place, to receive a first loan from RFEP target households may not have any institutional loan outstanding, meaning that they were either producing whatever they could with their own resources or were borrowing from local money lenders and paying very high interest rates. It can be said, then, that users are probably in a lower level, vis a vis, the average target household. The RFEP loan enables this group of target households to lift themselves to the average in terms of yields, etc. One should expect also that if follow-up on loans are given to these users they not only will catch up with the average but attain higher than average yields in due time.

Once and again, when borrowers are asked what their situation would be without the RFEP loan, they keep systematically saying that without the loan they would be in a very critical situation. One of these borrowers when asked by a high officer of Bangladesh Bank, in the presence of an AID representative and this writer (at the time of the interview the borrower was weeding a cabbage field) narrated that he now was cultivating cabbage, mustard and potatoes, with a Tk. 2,000 loan from RFEP. Without this loan, he said, he would have grown only some little mustard because of lack of cash to buy the necessary high yielding production inputs such as fertilizers, pesticides, hiring labor, etc.

The use of high yielding production inputs by users merits a remark. Evidence is to the effect that users are using HYV, fertilizers, pesticides, etc. as non-users. Target household (users and non-users) live in the same villages and their small plots of agricultural land lie side by side those of all village farmers - target and non-target.

Dissemination of information is a simple matter. In addition, a great proportion of these small producers and members of their families work as hired laborers in other farms in the community where they become in direct contact with what his neighbor is doing : what inputs and farming practices he is following. When these target group families obtain a production loan they have a pretty good idea of what inputs to buy and how to use them to obtain adequate yields. They are also risk conscious, and have developed through years of experience a production process or function that they believe protects them to a certain extent, naturally, against the odds of natural calamities - drought, floods, etc.

He is an entrepreneur that tries to protect his working capital no matter what small amout it may be. He is amenable to use credit but he is very conscious of the consequences of a crop failure.

Under these circumstances, it seems reasonable to assume that when these target households accept to receive a loan they have a productive project in mind. If loaned funds are accompanied by adequate motivation and supervision - apart from being timely disbursed and in adequate amounts, expected results should be forthcoming. One dimensional approach would appear to be adequate, provided that needed inputs are available at reasonable prices.

Costs and Returns of Users

Since results for users and non-users are so similar, we concentrate now on users - RFEP borrowers to examine costs and returns and what rate of interest are they capable to pay and still receive a reasonable rate of return on investment. This is done for owner operators and for share croppers, separately. The approach followed is to estimate income before paying any interest on capital invested and then applying several interest rates on capital, arriving at a residual amount. Adding the cost of capital at the various rates, to the cost of other inputs, a total cost of production is obtained; if net return (gross income less total cost) is related to total cost, a percentage of net return on investment is approximated.

Table V-3 presents the results obtained in the calculation of income before interest payment for the three aman crops by owner operators and share croppers. Income accruing to share croppers is estimated to be 50 percent of gross income generated; the other 50 percent going to the owner of the land; but 100 percent of the costs of production is borne by the share cropper. It is further assumed that costs of production for owner operators and share croppers are the same. Finally, results are shown on a total and cash cost basis, because of the importance of unpaid family labor.

Two things are evident from the table:

1. In all the three crops under consideration owner operators obtained a rather high income before interest payment.
2. In all the three crops, share cropper's income before interest payment barely covers cost of production on a total cost basis.

Table V-3 Cost and Returns (Before Interest Payment) of Owner Cultivators and Share Croppers (Users) Per Acre: Aman Crop 1979.

Figures in Taka

Item	Broadcast Aman and Mixed	T. Aman Local	T. Aman HYV
Gross Income			
Owner Operator	1302	1859	2487
Share Cropper	651	929	1243
Cost of Production Total			
Owner Operator	618	820	1267
Share Cropper	618	820	1267
Income Before Interest Payment			
Owner Operator			
Cash Cost Basis	997	1432	1769
Total Cost Basis	685	1039	1220
Share Cropper			
Cash Cost Basis	346	502	526
Total Cost Basis	34	109	24

Table V-4 does not show a return on investment at various rates of interest of total capital invested. In the case of owner operators, in all the three aman crops, return on investment varies from 100% when capital is costed at 12% interest rate on a total cost basis to around 75% when capital is costed at 36% interest rate, the highest rate charged under the Rural Finance Experimental Project. On the other hand, share croppers show a negative rate of return on invested capital even at 12% interest rate (total cost basis).

Table V-4 Net Return (After Interest Payment) of Owner Cultivators and Share - Croppers (Users) Per Acre - Total Cost

Aman Crop 1979

Item	Broadcast Aman and Mixer		T. Aman Local		T. Aman HYV	
	Owner	Share-Cropper	Owner	Share-Cropper	Owner	Share-Cropper
Income Before Interest Payment (Taka)	685	34	1039	109	1220	24
Interest Payment Based on Total Cost (Taka)						
12%	37	37	49	49	76	76
24%	74	74	98	98	152	152
30%	93	93	123	123	190	190
36%	111	111	148	148	228	228
Net Return (Taka)						
12%	648	- 3	990	60	1144	- 100
24%	611	- 40	941	11	1068	- 176
30%	592	- 59	916	- 15	1030	- 214
36%	574	- 77	891	- 39	992	- 252
Net Return on Investment (%)						
12%	99	-	114	7	85	- 7
24%	88	- 6	103	1	75	- 12
30%	83	- 8	97	- 2	71	- 15
36%	79	- 11	92	- 4	66	- 17

Share croppers show an attractive rate of return on investment when only cash costs are considered.

Conclusions and Recommendations

1. The available data appear to suggest that RFEP is not only reaching the target group but in the case of crop producers, is reaching those, with less than average yields or having no production at all due to lack of resources to buy high yielding inputs and hiring necessary seasonal labor. When cash resources become available, these target households are producing crop yields equal to target group average. If additional information being gathered sustains the 1979 aman results, it could be claimed that RFEP is reaching the "poorest of the poor" and being of real help.
2. Based on the information on costs and returns given by the borrowers themselves rather high rates of return on investment were obtained by owner operators after paying even the highest interest rate on borrowed funds charged by the project. Informal questioning of borrowers indicate that the higher interest rates charged by RFEP are only half at the most of the going rates charged by local money lenders. Based on available data, it can be said that RFEP borrowed money used to produce crops is benefitting owner operators. Available cash is permitting them to make productive use of three basic resources: (1) abundant labor (both family and hired) (2) some land owned, leased or both and (3) apparently a satisfactory amount of know-how to produce acceptable yields without the need of costly technical assistance. It seems that proper motivation and supervision (indicates that the lending institution is interested and cares) are key ingredients, along with timely disburement of loans of adequate size and realistic repayment plans.
3. Share-croppers are in a relatively difficult situation because of having to turn over to land owners half of the gross income generated, very often in kind. Under these circumstances, lending to these target households requires careful assessment to realistically establish their capacity to repay borrowed funds. A certain amount of the rice produced is retained for family consumption, hence the amount sold will be less than half the amount produced. The proceed may very well be insufficient to repay the loan. In this context, a budget line approach would give a better picture of target

households to estimate real needs and repayment capacity so important for sound lending.

The encouraging results obtained from the farmers' financial surveys under review need to be checked with additional field work. Care should be taken to ensure that the sampling design followed covers adequately the various scenarios that need to be analyzed. Users and non-users, local and high yielding varieties etc., actual prices paid on leased land, better estimation of cash and non cost expenditures, actual cost of borrowed funds for non-users, etc. need to be adequately covered. There is also a need to obtain financial data for non-agricultural as well as for other agricultural activities.