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BANGLADESH BANK
U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT

RURAL FINANCE EXPERIMENTAL PROJECT

MAJOR EVALUATION REPORT

JANUARY 1982

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PUBLIC ADMINISTRATION SERVICE/ S. F. AHMED & CO.
PROJECT OFFICE : 128 NEW ESKATON ROAD, DACCA. BANGLADESH TEL : 400077/78

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RURAL FINANCE EXPERIMENTAL PROJECT

PUBLIC ADMINISTRATION SERVICE
McLEAN, VIRGINIA, U. S. A.

S. F. AHMED & CO.
DACCA BANGLADESH

PROJECT OFFICES: 128, NEW ESKATON ROAD, DACCA TELEPHONES: 400077/8 CABLES: PASFA

REF: B-85/82

DATE: 18-3-82

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

Major Evaluation Report

Dear Mr. Molla,

We enclose herewith five (5) copies of the first 'Major Evaluation Report' as required under clause 8.4 of the contract.

We would welcome any comments you may have on this report.

Yours sincerely,

(Mr. S.F. Ahmed)
Team Leader and
SFAC Representative

(Mr. Wilmot Averill)
PAS Representative

c.c. Mr. Dennis Zvinakis, USAID, Dacca (3 copies)

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MANAGEMENT SUMMARY

The purpose of the Rural Finance Experimental Project is to develop or identify one or more rural financial systems for meeting the needs of poor rural producers not presently reached by institutional credit. The nine principal rural financial institutions in Bangladesh have been demonstrating and testing eight different models under this project.

A number of policy, organizational and procedural variables are being tested, including credit interest rates, savings interest rates, village outlets, savings promotion measures, multiple loan purposes, simplified forms and procedures, loan supervision, personnel policies and incentives, local planning, group lending, etc.

Special surveys, studies, evaluation and analysis have been and are being conducted to illuminate basic issues and to generate knowledge necessary for the formulation of credit policies and programs in Bangladesh. The experimental results derived from the project hopefully would provide the conceptual and practical basis for a possible expanded follow-on credit program.

This is the first major evaluation report of the project prepared by Public Administration Service and S. F. Ahmed & Co. An attempt has been made to cover as many of the issues as possible in this evaluation. Many of the surveys, special studies and analysis are in progress, the results of which will be covered in the final evaluation due by the end of this Project.

The basic objective of the project and the objective of the Consultant in providing consultant services is to identify an institutional rural credit and savings system which is successful at extending credit to and recovering it from small farmers, including tenants and share croppers/landless, and other small rural producers not presently reached by institutional credit. Corollary objectives are that the successful credit system identified be self-financing and capable of mobilizing capital through rural savings programs and other means.

The project through its various experimentation has provided certain essential information about the situations of rural credit in Bangladesh.

1. There were demands for credit in the rural areas of Bangladesh for production of goods and services by the rural producers in the form of

   a) capital for development of infrastructure and new production opportunities.

   b) working capital for the existing rural activities to bridge over the seasonal pattern of incomes/ receipts and expenditures/payments.

2. As it was not the objective of this project to quantify the demand for credit, no attempt has been made to make such determination but the nature and extent of loan disbursement proved that demand exists for potential rural development and RFEP could provide only a fraction of such demand.

3. The experiment also established the fact that there were demands for credit at varying interest rates ranging from a low of 12 percent to a maximum of 36 percent for various purposes and objectives. It was observed that there are some rural activities specially non-agricultural activities such as transport and pottery where the internal rate of return was high enough to attract borrowing at 36%. The borrowers engaged in such activities could be assumed to have benefitted from credit given to them at such high rate of interest. Even though it has not been possible to prove the above statement statistically in this evaluation, the surveys and special studies which are in progress will hopefully bear this out, result of which will be covered in the final evaluation.

4. Agriculture may not be a good candidate for such high-interest credit specially in those circumstances where the family depends entirely on the crop income for the whole year and apparently does not make full productive use of the available family labour. It appears that activities which are not seasonal and which have continuous round the year operation and thereby use the potential family labour to the maximum may have much higher rates of internal return then most of the agricultural activities.

   It may be advisable to formulate a concerted program whereby the borrower could be given necessary technical assistance and inputs to undertake a continuous round the year operable rural activity as a supplement to his agricultural and farming activities and income.

5. It appears that the demand for credit at various interest rates was higher than what RFEP participating institutions(PI) had lent so far. There was no reported situation where a PI was not in a position to invest or lend money even at 36% rate of interest. It could be assumed that the activities for which such an accommodation was required might have an internal rate of return higher than the rate of interest charged, such that the loan was viable at the borrower level. The above assumption could be wrong, however, as repayment of loan could not be considered to be the only criteria in determining the viability of the borrowers in a country where borrowers have been repaying loans of much higher rates of interest of the traditional village money lenders, very often leading to their pauperization and economic bankrupcy.

6. As far as the impact of credit on borrowers is concerned this could not be measured or determined todate, but a survey specifically directed towards determining the impact

of credit on activities, productivity, employment and the borrowers is in progress; the result of which would be available for the final evaluation report.

7. Varying interest rates should be charged for different activities such that those activities and the borrowers could bear the interest burden and that such infusion of credit would increase productivity, employment, and overall rate of return. Such a selection of interest rate for various types of activities could take into account national interest and objectives towards encouraging or discouraging a particular product or activity. Varying interest rates charged could therefore be used for regulating production of goods and services as well as a process for subsidising those goods and services which may have a viability at the national level after taking into account the cost of such subsidy.

8. The experiment would provide certain indicators for cost of lending, recovering and administrating the rural credit operation for the finance industry including bad debts; such indicators could be used for determining the rate of interest taking into account the cost of fund and normal profit or rate of return for the operators. These indicators are being developed on a national scale and would be further scrutinised and incorporated in the final evaluation report. If a realistic cost framework could be developed for the industry this should act as a differential between the cost of money (such as interest on savings, bank rate, etc) and the interest charged on money lent.

9. Aids or grants obtained from USAID and other foreign Governments and agencies could be used alongwith any surplus from the national budget to finance the subsidization policy described above.

10. An attempt is being made to determine the profitability of major types of loans which however cannot be determined on the basis of survey of the borrowers in the experiment. Profitability of any activity depends on a lot of factors such as the size of the activity, the region in which it is carried out, the topography of the region, soil condition, demand of goods and services produced, availability of raw materials, skilled labour and marketing facilities for such products, size and constitution of the family including the contributory labour from the family and its capital structure. It is almost impractical to identify activities which could be considered viable/profitable on a national perspective without associating such activities with the various factors mentioned above.

The Models and Institutions

11. It appeared that the Budget Line approach of Bangladesh Krishi Bank (Krishi) was a better approach for determining the credit needs and the ability of the borrowers to absorb such cost of credit and amortize. The family savings bank concept has also proved useful for mobilizing savings.

12. The Krishi Shaka concept of Sonali has been found effective both in terms of viability and reaching the target group.

13. The Small Producers Credit System organized and operated by Agrani Bank was found to be a viable and replicable operation.

14. The Village Agent concept of Rupali Bank was effective in speedy lending and recovery. Co-operative lending of IRDP showed some measure of success and merit for replication with additional reinforcement.

15. Detailed analysis of each of the model and institution has been incorporated in section I (pages 6 through 173) of this report.

Cross Model Analysis

16. Krishi and Sonali apparently dominated in terms of the total number of loans and the total disbursement. IRDP, Agrani and Rupali had very good performance in terms of loan recovery by demonstrating lower percentages of overdue ranging from 4.4% to 6.1%.

17. IRDP, Krishi, Sonali and Rupali were able to make profit at the rates of 8.0%, 6.4%, 3.2% and 1.3% based on average monthly outstanding loans.

18. IRDP, Sonali and Krishi have a lower cost of credit delivery system (total operating expenses less cost of fund and including reserve for bad debts) which could be covered by a differential (spread) of 4.5%, 4.6% and 8.1% respectively. The worst case is that of Uttara of 39.3%. The average cost differential (spread) on the basis of Table A (Page 163) is approximately 10.21%.

19. Rupali, Agrani and Janata led the group in terms of savings mobilization and were able to mobilise 34.1%, 32.7% and 27.7% of the total loans outstanding. One of the redeeming features in all these three cases is a higher percentage of savings mobilised from non-target group in as much as 94%, 75.1% and 78.1% of their respective total savings. The above are a positive indication of the possibility of developing a self-financing rural credit system. In case of 3 old outlets of Rupali Bank, savings mobilised were as high as 70.3% of their total loan portfolio.

20. Most of the models have contributed towards the experience and information necessary for the design of a follow-on project. No single model or no single institution could be considered to have satisfied the criteria that would justify its replication nationwide. An ideal approach would be to combine suitable features from experimental models alongwith other new concepts and features proven elsewhere outside of this project.

21. Detailed Cross Model Analysis has been included in Section II (Pages 114 through 188) of this report.

Financial Analysis

22. On the basis of actual performance charging varying interest rates of 12%, 18%, 24%, 30% and 36%, out of the 59 outlets which operated for the full 12 month period from October 1980 through September 1981 only 32 outlets earned a profit. Assuming all other conditions remaining the same, a normalisation of loan interest rate for all outlets at 18%, 24%, and 30%, and a uniform savings interest rate of 12% and a uniform cost of borrowed funds at 10.5%, the number of outlets making profit would stand at 22, 36 and 48 respectively.

23. Various irregularities found during the course of audit of selected outlets have been incorporated in this report for remedial action and future guidance (Pages 203-214).

24. It appears that about 36% of the borrowers have taken a second and subsequent loan.

25. Detailed financial analysis has been appended to this report (Pages 189 through 214)

Savings

26. Wider margin between loan rates and savings rates in cases of 24%, 30% and 36% could not have helped mobilization of savings in the rural area. The difference between loan and the savings rates should not be more than the cost differential (spread) in order to (a) attract more savings from the rural producers, (b) attract urban savers to transfer funds to the rural credit system and (c) to discourage traditional money-lenders from competing with the rural finance program. The larger the difference between the loan and the savings rate, the greater would be the opportunity for the traditional moneylenders and other opportunists to perpetuate their exploitation of the rural poor. A well co-ordinated savings program should be developed as part of the rural finance project to mobilise rural savings specially from the non-target group. For detail observation, please refer to pages 229-243.

Group Lending

27. Performance of group lending in the experiment has not been very satisfactory except in isolated cases and IRDP. Since there is no organised movement for group formation as in the case of co-operatives, formation of groups for the purpose of obtaining credit has been at best a trial process which requires long term education, training and other persuasive efforts to make such an organization effective, efficient and replicable nationwide. Detail analyses have been incorporated in chapter 3 of Special Topics (Pages 252 - 264).

Incentive

28. Incentive experience under RFEP has been limited largely to the participating institutions who in turn were expected to provide adequate incentives to the borrowers and personnel. Except Rupali, Uttara, IRDP and BSBL who introduced commissions to outlet personnel and rebates on interest payments, very little has been done to motivate borrowers participation and personnel productivity. Chapter on special topics (Pages 265 - 273) covers detail observation on incentives.

Training

29. From Project inception to 31st December 1981, a total of 111.5 man-months of in-country training was carried out by the institutions. Consultants are in the process of preparing a training manual as a guide for training the trainers. An important training function was also carried out by the auditors through audit of outlets on a continuous basis whereby the consultants were able to effectively train the outlet personnel in maintaining proper books and records, preparing management reports and in other facets of credit operation. Detail observation has been appended in chapter 5 on Special Topics (Pages 274 - 278).

Loans to Women

30. Inspite of unfavourable social conditions in rural Bangladesh about 4.2% of the total borrowers were women. IRDP and Krishi

are the only institutions who have established special approaches for women borrowers. A more detail analysis has been covered in chapter 6 on Special Topics (Pages 289 - 295).

Sociological observations

31. Results from observational field research and case studies into the borrowers attitude and response, though cannot be statistically defended, have to a large extent collaborated with most of the findings derived from financial and statistical data. Detail observation has been appended to the end of the report (Pages 296 - 330).

Answers to Critical Questions about Credit and Savings

32. An attempt has been made to answer the fifteen critical questions as required under Function No. 6 of the consulting constract based on the information and analysis made so far which are subject to change as more information are gathered during the life time of the project. (Pages 333 - 339).

INTRODUCTION

The Governments of Bangladesh and the United States signed a project agreement for the Rural Finance Experimental Project. The purpose of the project is to develop or identify one or more rural financial systems for meeting the needs of poor rural producers not presently reached by institutional credit. The nine principal rural financial institutions in Bangladesh have been demonstrating and testing eight different models under this project. Overall project management is the responsibility of the Bangladesh Bank which is being financed by the USAID. The target group has been defined essentially as rural dwellers owning 2 acres or less of cropland, with an annual gross cash income of Tk. 6,000/- or less. Indicators selected to verify achievement of the project purpose are:

1) Credit reaches a substantial portion of the target group and is not diverted to larger rural producers;

2) Target group productivity and income are increased;

3) Lending institutions cover their operational costs through interest and finance charges, and are motivated and capable of expanding rural operations;

4) Loans are substantially recovered with interest;

5) Rural savings are mobilized.

A number of policy, organizational and procedural variables are being tested, including credit interest rates, savings interest rates, village outlets, savings promotion measures, multiple loan purposes, simplified forms and procedures, loan supervision, personnel policies and incentives , local planning, group lending, etc. Each variable is being demonstrated to assess the impact on achieving project objectives. For example , credit interest rates are being tested to assess the impact of different rates on reaching the target group, credit demand, borrower benefit/costs and lending institutions' financial position.

A basic hypothesis being tested by the project is that interest rates which reflect the actual cost of credit are crucial for overcoming major constraints to the delivery of credit and savings services to the rural poor. Full cost credit is expected to reduce the distribution bias toward the village elite who normally avail cheap credit; augment the financial viability, incentives and capability of financial institutions to serve the rural poor ; and mobilize local capital and expand the total supply of rural credit available to small rural producers.

Project funds are used to partly reimburse the nine institutions for loans made to and recovered from the target group. This contribution is designed to encourage experimentation by the lending institutions by reducing their risk, augmenting their capital base and offsetting start-up costs. Initially all loans are made by the participating institutions from their own resources. The Bangladesh Bank periodically reimburses the participating institutions for one-third of the value of each loan disbursed to a target group borrower in a project village. Later, for each loan repaid by the borrower on time with interest, the Bangladesh Bank reimburses the participating institution an additional one-third of the loan value which goes into the participating institutions' wholly owned assets. This formula provides strong incentives for disbursement to the target group and for recovery. The formula should also increase the amount of capital held by the institutions for additional circulation of rural lending. A considerable amount of project evaluation and field research has been built into the project to permit assessment of project success or failure and the related reasons.

The basic objective of the Project and the objective of the Consultant in providing consultant services is to identify an institutional rural credit and savings system which is successful at extending credit to and recovering it from small farmers, including tenants and sharecroppers/landless, and other small rural producers not presently reached by institutional credit. Corollary objectives are that the successful credit system identified be self-financing and capable of mobilizing capital through rural savings programs and other means.

The Project has been testing different ways to deliver credit and mobilize savings. The Project has been demonstrating different credit and savings policies, procedures and administrative/organizational systems through the implementation of eight separate models being implemented by six nationalized "commercial" banks and Bangladesh Krishi Bank, Bangladesh Samabaya Bank Ltd (BSBL) and Integrated Rural Development Program (IRDP). As an experimental project, the Project has been essentially a field research effort aimed at structuring an effective rural credit delivery system. Special surveys, studies, evaluation and analysis have been and are being conducted to illuminate basic issues and to generate knowledge necessary for the formulation of credit policies and programs in Bangladesh. The experimental results derived from the Project hopefully would provide the conceptual and practical basis for a possible expanded follow-on credit program.

The study would entail addressing of the following critical questions about credit and savings in Bangladesh:

1. Do small farmers and other rural producers face production opportunities which can be exploited through institutional credit; under what circumstances? What is the target group demand for credit?

2. Is the target group benefiting from credit at high interest rates.

3. Can credit systems be devised to reach the target group on a large scale without being preempted by more privileged persons - how?

4. How can timely repayment be induced and default minimized.

5. What are the principal institutional and management constraints to efficient operation of the financial institutions; what development or improvement is needed.

6. Will higher interest rates on credit and savings mobilize capital in the rural sector and bring about greater availability of rural credit to the target group. Can the administrative costs of credit/savings programs be reduced to an acceptable level. How?

7. What degree of coordination is required with other rural development activities.

8. Is it beneficial to channel credit and savings programs through cooperative style groups. Do groups face more productive opportunities and offer other advantages for reaching the target population.

9. How can rural producers be motivated and organized to save regularly.

10. What is the importance and income and productivity potential of agricultural, agricultural-related, and non-agricultural loans respectively.

11. Are short term (seasonal) lending programs constrained by lack of longer term credit for financing physical or institutional infrastructure development.

12. What is the impact of expanxed institutional credit on the overall operation of rural financial markets in experimental areas. Consider: (a) total credit availability; (b) the increase in total credit to the target group; and (c) the percentage of credit going to the target group.

13. How should rural credit and savings programs be designed and run for maximum effectiveness/efficiency.

14. Can credit be extended to the target group in a financially viable and eventually self-generating profitable manner. Based on interest rates, administrative costs, and recovery experience, what interest rate must be charged to ensure viability.

15. Does credit extension require a special delivery model or can it be integrated in a particular Bank's general agricultural lending.

This is the first major evaluation report of the project prepared by Public Administration Service and S.F. Ahmed & Co. An attempt has been made to cover as many of the issues as possible in this evaluation. Many of the surveys, special studies and analyses are in progress, the results of which will be covered in the final evaluation due by the end of this Project.

This report encompasses an evaluation of each of the models and institutions and an intra and inter model/institution analysis on extending credit, recovery, financial viability and savings. There is a chapter on sensitivity analysis of financial performance and a consolidated report on audit of selected outlets.

Special topics such as interest rates on loans, savings, group lending, incentives, training and loans to women have been covered. The report also covers sociological observations based on observational field research, sample survey, test case studies and interviews.

SECTION I THE MODELS AND INSTITUTIONS

In this section, each of the nine models and institutions is considered separately. The format has been standardized throughout.

The first page is the model data sheet which summarises the principal indices of performance, followed by a map showing the location of the outlets and a detailed summary of the principal model features. Thereafter, the implementation performance of the institution is tabulated, described and analysed. The institution's financial summary, for the twelve months October 1980 thru September 1981, is then presented. Detailed conclusions and comments upon the model and institution comprise the final section.

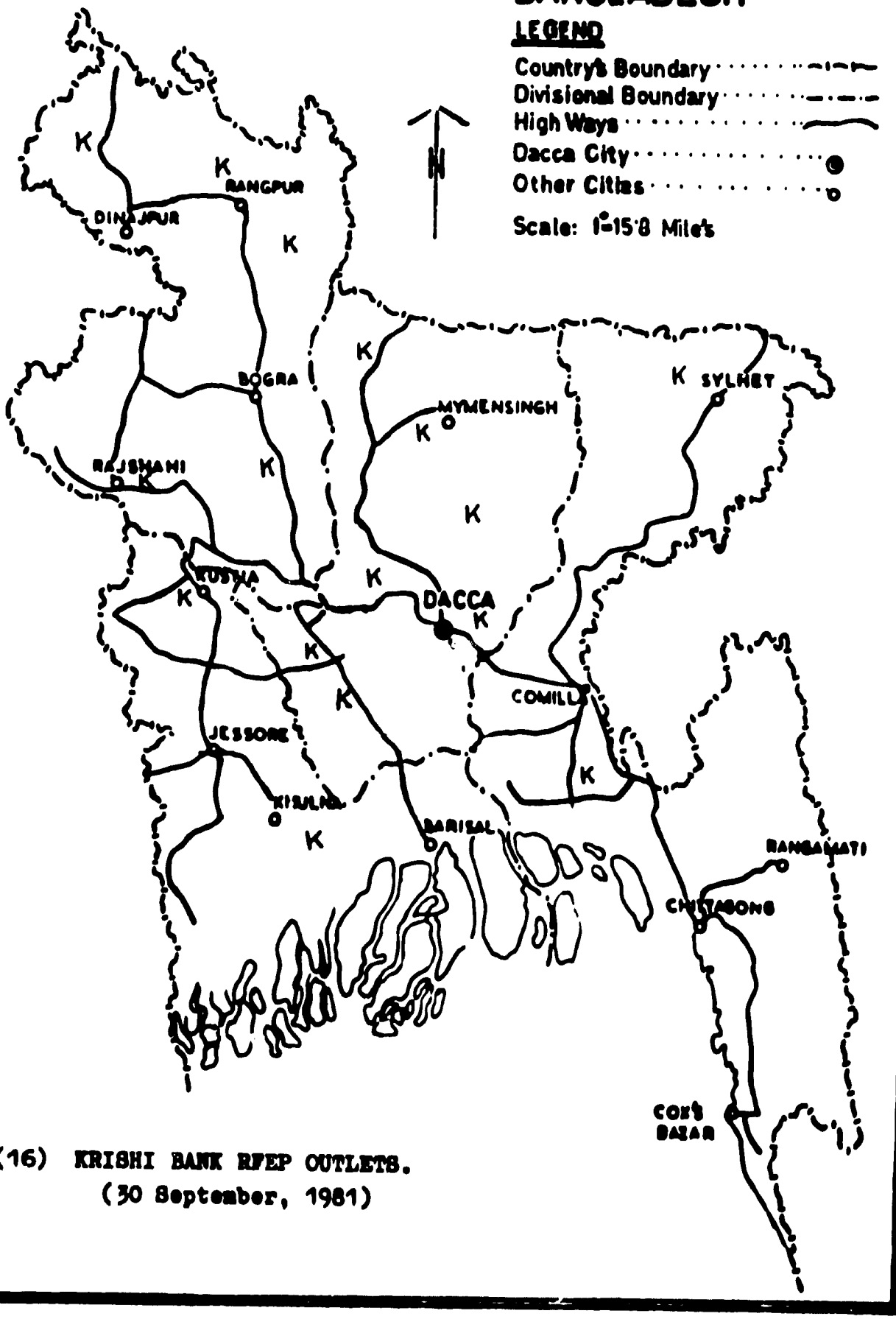
The data presented covers all outlets opened by the institution during the courses of RFEP, irrespective of their current status. Except for the 12 months financial summary, all performance is from inception up to 30 September 1981. Data and other inputs have come principally from the institution's monthly reports, the recent Institutional Survey, Continuous Survey No. 5, May to August 1981, Special Survey on Women Borrowers, together with consultant field reports.

MODEL: BUDGET LINE OF CREDIT

PARTICIPATING INSTITUTION: BANGLADESH KRISHI BANK (BKB)

DATA SUMMARY

1.	Loan Interest Rates	12%, 19%, 24%, 30%
2.	Savings Interest Rates	11%, 12%, 13%, 14%
3.	Number of Outlets	16
4.	Number of Loans	18,720
5.	Number of Borrowers	11,812
6.	Percentage of Women Borrowers to Total Borrowers	5.0%
7.	Percentage of Households Borrowing to Total Target Group Households	64.8%
8.	Total Taka Loaned	Tk 31,933,000
9.	Percentage of Loan Volume for Crops	14.1%
10.	Percentage of Loan Volume for Other Agriculture	53.7%
11.	Percentage of Loan Volume for Non-Agriculture	32.2%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 1,804,000
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	8.8%
14.	Percentage of Administrative Costs to Total Loans Disbursed	4.2%
15.	Administrative Cost per Loan Disbursed	Tk 72.2
16.	Percentage of Principal Overdue to Total Amount which has fallen due	10.4%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	Tk 957,000



(16) KRISHI BANK RFEP OUTLETS.
(30 September, 1981)

FEATURES

Krishi Bank is the national agricultural bank. The budget line of credit model is designed to meet a family's legitimate credit needs, for economic production, consumption and other purposes such as medical expenses. The model concept is for the bank to assist target group borrowers in preparing an annual family budget to determine the cash needs during the year. Through this technique the bank attempts to build a permanent relationship with the borrowers upon which it can base its loan decisions. A local loan officer-in-charge is assigned to each branch to work exclusively with RFEP borrowers. Female assistants have been assigned to all outlets to promote savings particularly among women and to service women borrowers in the outlet areas. An assistant loan officer is assigned to the outlet when the number of borrowers exceeds 500 persons.

Applications are taken in the field or in the office by the officer-in-charge. He also has loan approval authority. Loan approval is based upon the applicant's needs and repayment ability with a maximum limit of Tk 4,000. Disbursements, in cash only, are made at the office and in the field. Payments are also received either in the office or in the field. Savings accounts may be opened at the time a loan is approved, but are not compulsory. The loan officer visits borrowers in the villages regularly and borrowers are encouraged to manage their own loans. Outlets have one of the following combinations of interest rates for loan and savings.

Loans	Savings
12%	11%
18%	12%
24%	13%
30%	14%

IMPLEMENTATION

The Bangladesh Krishi Bank has established 16 outlets which serve an average of 738 borrowers. This is an estimated 65% of the target group households that are eligible to borrow under this project. Of 11,812 borrowers, 5% are women. These outlets disbursed Tk 31,933,000 through 18,720 loans for an average of Tk 1,706 per loan. About 68% of the taka amount was borrowed for agricultural purposes. Only a fifth of this was for crop loans and the remainder was for non-crop agriculture. Non-agricultural loans were 32% of the taka amount loaned.

Detailed goals were established by the Head Office at the start of the project. Table 1 shows these goals and the achievement as of 30 September 1981.

Table 1
LENDING AND SAVINGS GOALS AND ACHIEVEMENT

Item	Goals	Achievement	Percentage of Goals
Number of Borrowers	16,000	11,812	74%
Number of Loans	24,031	18,720	78
Taka Amount of Loans	Tk 31,225,000	Tk 31,933,000	102
Taka Amount of savings	Tk 7,800,000	Tk 1,804,000	23

The goal for the taka amount of loans had already been exceeded by October 1981. If Krishi continues its present rate of lending up to the project completion date, it could exceed its targeted goal by 50% . The goals for the number of borrowers and number of loans will also be met. Savings goals are unlikely to be achieved even with the strong upward trend in savings that developed during the past recent months due to the female savings mobilizers who were employed .

A sample of loan ledgers shows that most Krishi loans are processed from application to disbursement in less than one week. In a survey of 189 borrowers[1/], 75% said it took less than a week for their loan to be processed, 19% indicated it took less than two weeks and 8% recalled it took more than two weeks. Thirty-seven percent of the borrowers interviewed said they visited the bank once to obtain their loan funds and 51% made two visits to get their funds. Twelve percent visited the bank three or more times for their loans.

Table 2
LOAN PROCESSING TIME: APPLICATION-DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	75.0%
8 - 14	17.0
15 or more	8.0
Total	100.0

Table 3
NUMBER OF BANK VISITS TO OBTAIN LOAN

Visits	Percentage of Borrowers
1	36.6%
2	51.3
3 - 4	9.5
5 - 7	2.1
More than 7	0.5
Total	100.0

1/ Continuous Survey, May - August 1981.

Of 18,720 loans, 8% were overdue. Most of these overdue loans were less than six month in arrears: 80% less than 6 months old, 9% were six month to a year old, and 11%were a year or more overdue. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4
OVERDUE LOANS AND RESERVE FOR BAD DEBTS
CUMULATIVE TO 30 SEPTEMBER 30, 1981

Debt Age	Number of Loans	Loan Principal (Taka 000) Total	Bad Debt Reserve 25%	Bad Debt Reserve 50%	Bad Debt Reserve 100%	Loan Interest (Taka 000) Total	Bad Debt Reserve 25%	Total Reserve (000) Taka
Less than 6 months	1,211	976	244	-	-			
6-12 months	132	162	-	81	-			
12 months or more	176	174	-	-	174			
Total	1,519	1,312	-			163	41	540

The average delinquent loan has a balance of Tk 863 overdue. About 75% of the taka amount is less than six months overdue and requires only a 25% reserve for bad debts. The amount that is 6-12 months overdue is 12% of the total. The amount a year or more overdue is 13%. The total reserve for bad debts of Tk 540,000 is 41% of the loan principal overdue.

The following table shows the extent of savings by target and non-target groups.

Table 5
SAVINGS

	Number of Savers	Amount Saved	Avg Amount Saved
Target Group	7,019	Tk 1,265,622	Tk 180
Non-target Group	323	538,837	1,668
Total	7,343	1,804,459	246

The target group made up 95% of the savers and their deposits were 70% of the total saved. Fifty-nine percent of the borrowers have savings accounts. Overall, savings were about 9% of loans outstanding as reflected in the following table.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	6.1%
Non-target Group	2.7
Total	8.8

Krishi training on RFEP began in October 1978 with a seven day orientation program for 12 outlet loan officers. The purpose was to introduce the staff to RFEP and explain the functions of the outlets and the duties of the staff. In November 1980 a similar course was held for staff from four new outlets. In December 1981, a six day course was held to introduce lady assistants to the RFEP and review the RFEP principles for some existing staff members.

FINANCIAL ANALYSIS

The total income earned by the Krishi bank during the 12 month period ending 30 September 1981 was Tk 3,135,000. Earnings averaged 21.0% on an average monthly balance of outstanding loans of Tk 14,938,000. The interest paid out on combined savings and other borrowed funds was Tk 9 39,000. The interest rate paid on savings alone was 6.4% and the interest rate on other borrowed funds was 6.5%. This cost of funds was 50% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 4%, and the cost of other funds was 46% of these operating expenses. Expenditures for salaries was 33% and other expenses 17% of the operating expenses excluding the reserve for bad debts.

The net profit for the Krishi bank for this period was Tk 1,242,000 excluding the reserve for bad debts. When the reserve for bad debts is included the net profit was Tk 9 57,000. The bank's average monthly profit was 6.4% on its loans outstanding. The annual outstanding loan balance could be reduced by nearly one third and income would meet the total operating expenses. At the current lending level interest rates could be reduced to 14.6% and income would still equal total operating expenses.

Table 7

SUMMARY OF KRISHI BANK PROFIT/LOSS ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)
(Taka in 000)

Income Earned (at 20.5%) 1/	3,135
Operating Expenses	
Interest paid	
On savings (at 6.4%) 2/	73
On borrowed funds (at 6.5%) 3/	866
Salaries	624
Other expenses	330
Sub-Total	1,893
Reserve for Bad Debts	285
Total Operating Expenses	2,178
Net Profit (Loss)	957
Average monthly balance of outstanding loans.	14,938
% profit (loss) of average monthly outstanding loans.	6.4%
Average monthly balance of outstanding loans needed to cover total operating expenses.	10,624
Salaries and allowances as % of operating costs, less reserve.	33.0%
Reserve for Bad Debts as % of total operating expenses.	13.1%
Interest rate needed to cover total operating expenses.	14.6%
Interest rate needed to cover operating expenses, less reserve.	12.7%

1/ Average rate of interest earned on loans outstanding

2/ Effective rate of interest actually paid on savings deposits

3/ Average rate of interest paid for the use of institutional funds

COMMENTS AND CONCLUSIONS

The model has been extensively tested at 16 outlets opened by Krishi during the Project period. These have been opened as a new credit window at existing branches of the bank. The location has not been ideal because many of the branch offices are located on the periphery of the RFEP area.[1/] Krishi is now opening outlet offices more centrally located in the RFEP area. This makes visits by borrowers to the outlet much easier and should improve the level of services being offered.

The budget line approach is a good technique for assessment of a family's credit needs and repaying capacity. The present method of implementing this technique however needs modification to derive the full benefits from this technique. The budget calculations should provide for two sections of analysis; (a) the current family budget showing income and expenditure, indicating credit needs and (b) the projected budget showing the expected income and expenditure reflecting the effect of the loan on the family budget. This can be a basis for a repayment schedule. The present forms used deal solely with the post-loan budget. In the absence of a current budget analysis the concept is fraught with the risk of an incorrect assessment of credit needs and repaying capacity and may lead to loan collection problems.

The Krishi bank was able to enlist an estimated 65% of the target group households in its RFEP lending program. This represented nearly twelve thousand borrowers and was the largest number served by the participating institutions. The 16 outlets loaned about 32 million taka through almost 19 thousand loans. Outlets averaged 738 borrowers and made an average of 1170 loans. This remarkable performance had been achieved by September 1981.

1/ Tangail Branch has moved to Karatia, Khulna Branch to Rupsa and Faridpur plans to move shortly.

The substantially larger than average Krishi loan size can be partially attributed to the high proportion of loans for non-crop agriculture purposes. The Krishi RFEP program had made relatively few crop loans. The bank is already participating in the 100 crore crop lending program and the outlet staff reported that many borrowers requested non-crop loans because these were not available from other credit programs.

The principal on overdue loans was about 10% of the total amount which had fallen due. All outlets except Gaibandha and Rangpur have some overdue loans. Six of the outlets account for about three-quarters of the taka amount of overdues. The outlet at Sylhet suspended disbursements in 1980 because of heavy dilenquencies, but it still accounts for 41% of the overdue taka amount. About three quarters of the taka volume is less than six months overdue and the bank expects to collect most of this within the next six month period. In September 1981 about 13% of the overdue amount was a year or more overdue and the bank held a 100% reserve against this.

The Krishi RFEP credit operation has been financially viable. During the one year period ending 30 September 1981, it generated a net profit of Tk 957,000. This was 6.4% profit on an average monthly balance of outstanding loans of Tk 14,938,000. The percentage of administrative costs to total loans disbursed over the life of the project was a reasonable 4.2%. A significant advantage for Krishi is that borrowed funds were obtained at 6.5% interest which is about half of the cost incurred by other RFEP institutions.

The Krishi model has been tested more extensively than any other model. It has not only covered the highest percentage of target group families in the areas of operation but has reached the maximum number of borrowers in absolute terms even though the areas of operations are quite far from the outlet office. The past experience of the loan officers in rural lending seems to have con-

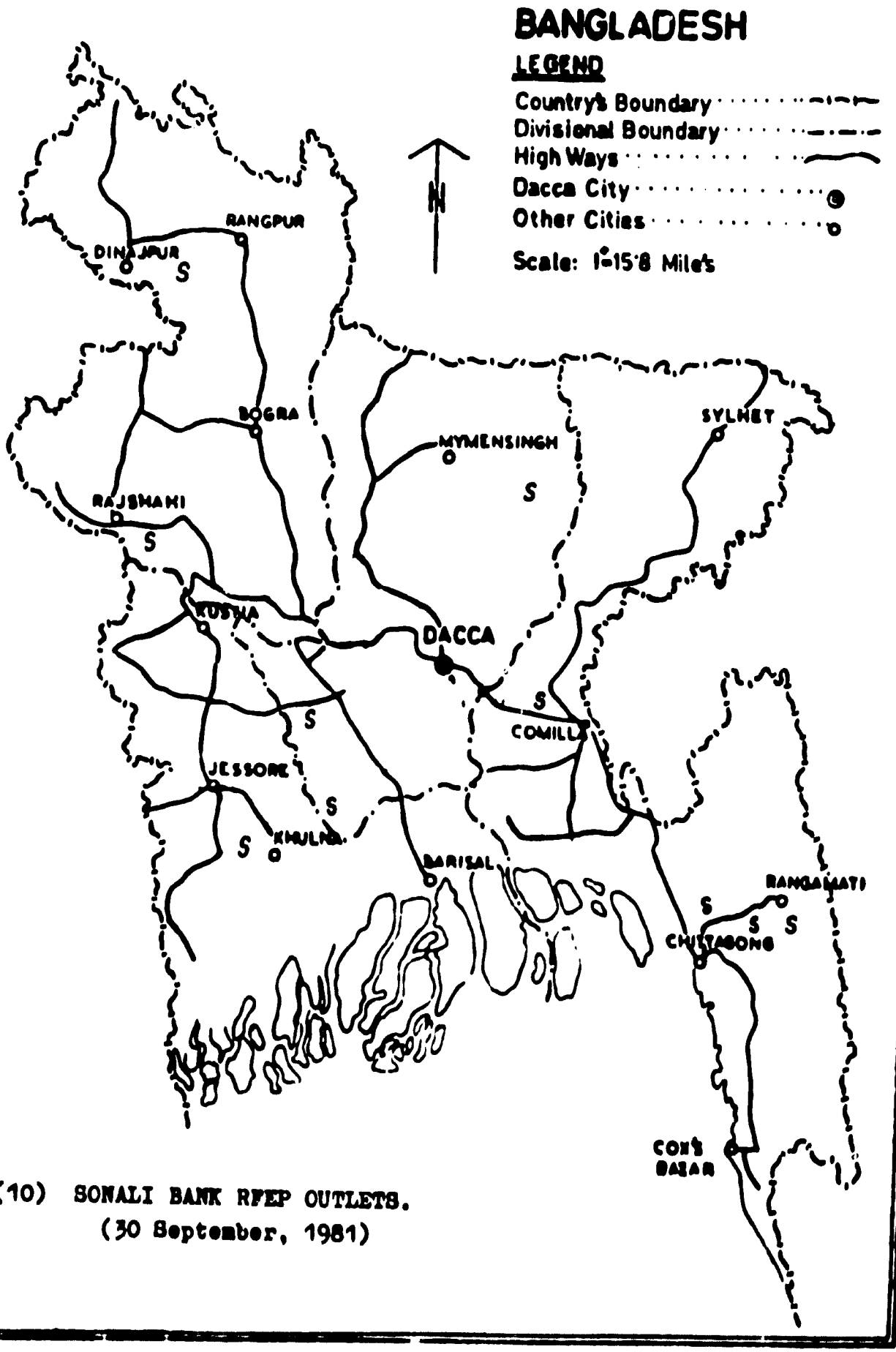
tributed much to this achievement. The percentage of overdues is comparatively higher than that of Agrani and Rupali but considering the volume of lending this is reasonable though improvement is possible. Special attention is being given to savings, particularly to the non-target group. This is encouraging and the results should be closely observed. Provided the family budget format is suitably modified, there is every reason to conclude that Krishi can widely replicate this rural credit system successfully.

MODEL: KRISHI SHAKHA (Agricultural Branch)

PARTICIPATING INSTITUTION: SONALI BANK

DATA SUMMARY

1.	Loan Interest Rates	12%, 18%, 24%, 30%
2.	Savings Interest Rates	11%, 12%, 13%, 14%
3.	Number of Outlets	10
4.	Number of Loans	7,874
5.	Number of Borrowers	5,984
6.	Percentage of Women Borrowers to Total Borrowers	2.5%
7.	Percentage of Households Borrowing to Total Target Group Households	56.2%
8.	Total Taka Loaned	Tk 14,858,000
9.	Percentage of Loan Volume for Crops	27.5%
10.	Percentage of Loan Volume for Other Agriculture	33.9%
11.	Percentage of Loan Volume for Non-Agriculture	38.6%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 1,420,000
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	13.3%
14.	Percentage of Administrative Costs to Total Loans Disbursed	3.0%
15.	Administrative Cost per Loan Disbursed	Tk 57.0
16.	Percentage of Principal Overdue to Total Amount which has fallen due	13.4%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	Tk 264,000



(10) SONALI BANK RFEP OUTLETS.
(30 September, 1981)

FEATURES

Small village based sub-branches are established within a seven mile radius of Sonali Bank's regular rural branch offices. They are staffed with a locally recruited loan officer (Krishi Shakha) who is expected to service about 250 borrowers. A Credit Assistant is also provided for each additional 250 borrowers.

Although the staff works daily, the sub-branches are only open for cash transactions on local market days. During these two or three days per week a loan officer makes regular visits to villages in his assigned area. He is responsible for selecting borrowers and approving loans in the five outlets established at the start of the project. At new outlets, it is the main branch manager who is responsible for loan approval. Advice on loan applicants is sought from a village advisory committee. The loan officer is also responsible for promoting the savings program.

Maximum loan size is Tk 5,000 and the amount approved is based on the borrower's production plan. Loans are made in cash and kind at the outlet office. Repayments may be made in the Sub-branch office. Cash is not held overnight at this office but returned to the main branch office. Target group borrowers are required to open a savings account as a condition for receiving a loan. Each sub-branch outlet loans and pays interest on savings at one of the following interest rate combinations.

Loans	Savings
12%	11%
18%	12%
24%	13%
30%	14%

A farm technologist is located at the main branch office to assist in the supervision of agricultural loans. Loan supervision from the loan officer is primarily confined to eliciting timely repayments.

IMPLEMENTATION

Sonali bank has established 10 Krishi Shakha outlets which serve an average of 598 borrowers. This is an estimated 56% of the target group households that are eligible to borrow under this project. Of these borrowers 2.5% are women. The 10 outlets disbursed Tk 14,858,000; an average of Tk 1,887 per loan. About 61% of the taka loan amount was borrowed for agricultural purposes. The proportion was about equal for crop loans and non-crop agricultural loans. Thirty-nine percent of loan volume was for non-agriculture purposes.

Table 1 indicates the RFEP goals set by the Sonali Head Office at the begining of the project and the extent to which they had been achieved by 30 September 1981.

Table 1
LENDING AND SAVINGS GOALS AND ACHIEVEMENTS

Item	Goals	Achievement	Percentage of Goals
Number of loans	8,000	7,874	98%
Taka amount of loans	Tk 8,000,000	Tk 14,858,000	186
Taka amount savings deposits	25% of outstanding loans	13%	52

In terms of lending, Sonali has easily exceeded its targets and has nearly reached its upward revised figure of 8,000 loans. Savings, while good relative to other RFEP institutions, are only half-way to the target. Savings would be at 18% of loans outstanding if the original target for disbursements had not been increased.

A sample of loan ledgers shows that most loans are processed from application to disbursement in less than one week. In a survey of 122 borrowers 1/, about half said it took less than a week for their loan to be processed, 20% said their loans required up to two weeks for processing and a quarter of the borrowers recalled that it took more than two weeks from the time they applied for the loan to disbursal. Just over half the survey respondents visited the bank one or two times to obtain their loans. About 30% said they made three or four visits. Fifteen percent made five visits or more.

Table 2
LOAN PROCESSING TIME: APPLICATION-DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	56.5%
8 - 14	19.7
15 or more	23.8
Total	100.0

Table 3
NUMBER OF BANK VISITS TO OBTAIN LOAN

Visits	Percentage of Borrowers
1	4.1%
2	50.0
3 - 4	30.4
5 - 7	9.8
More than 7	5.7
Total	100.0

1/ Continuous Survey May - August, 1981.

Of 7,874 loans, 14% are overdue. Most of these overdue loans are less than six month in arrears: 79% are less than 6 months old, 16% are six months to a year overdue and 5% are over 12 months deliquent. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4

OVERDUE LOANS AND RESERVE FOR BAD DEBTS

CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000)				Loan Interest (Taka 000)		Total Reserve (000) Taka
		Total	Bad Debt Reserve 25%	50%	100%	Total	Bad Debt Reserve 25%	
Less than 6 months	852	408	102	-	-			
6 - 12 months	175	101	-	51	-			
12 months or more	52	137	-	-	137			
Total	1,079	646				286	71	361

The average delinquent loan has a balance of Tk 599 overdue. Although only 5% of the overdue loans were a year or more old they averaged Tk 2,634, and represent 21% of the total taka amount overdue. Overdue debts less than six months delinquent were 63% of the delinquent loan principal. The total reserve for bad debts of Tk 361,000 is about 56% of the overdue loan principal.

The table below shows the extent of savings by target and non-target group.

Table 5
SAVINGS

	Number of Savers	Amount Saved	Avg Amount Saved
Target Group	4,528	Tk 834,155	Tk 184
Non-target Group	844	585,801	694
Total	5,372	1,419,956	264

The number of target group savers was 84% of the total but generated only 59% of the taka amount. The average of Tk 184 saved by the target group was only 26% of that of the non-target group.

Table 6 shows that although savings were required of target group borrowers, they generated only a slightly greater percentage of savings to outstanding loans than did the non-target group. Overall, savings were about 13% of loans outstanding.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	7.8%
Non-target Group	5.5
Total	13.3

The Sonali bank RFEP training program began with a six day orientation course in November 1978. Participants included bank managers, Krishi Shakha incharges, and farm technologists. The objectives of the RFEP and the technical procedures for reaching these objectives were discussed. Two years later a similar training meeting was held as an introduction to new staff and a refresher course for old staff. In mid 1981 a one month specialised course was held for branch managers to discuss management of rural credit. Also during mid 1981 a month long specialised course was held for farm technologists to discuss small farmer credit programs.

FINANCIAL ANALYSIS

The total income earned by the Sonali bank during the 12 month period ending 30 September 1981 was Tk 1,554,000. Earnings averaged 18.8% on an average monthly balance of outstanding loans of Tk 8,282,000. The interest paid out on combined savings and other borrowed funds was Tk 728,000. The interest rate paid on savings alone was 5.9% and interest on other borrowed funds was 11.0%. This cost of funds was 73% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 7%. And the cost of other funds was 66% of these operating expenses. Expenditures for salaries was 20% and other expenses 7% of the operating expenses excluding the reserve for bad debts.

The net profit for the Sonali Bank for this period was Tk 563,000 excluding the reserve for bad debts. When the reserve for bad debts is included the net profit was Tk 264,000. The bank's average annual profit was 3.2% on its loans outstanding. The monthly outstanding loan balance could be reduced about 17% and income would still meet the total operating expenses. At the current lending level interest rates could be lowered to 15.6% and income would equal total operating expenses.

Table 7

SUMMARY OF SONALI BANK PROFIT/(LOSS) ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)
(Taka in 000)

Income Earned (at 18.8%)1/	1,554
Operating Expenses	
Interest paid	
On savings (at 5.9%)2/	72
On borrowed funds (at 11.0%)3/	656
Salaries	198
Other expenses	65
Sub-Total	991
Reserve for Bad Debts	299
Total operating Expenses	1,290
Net Profit (Loss)	264
Average monthly balance of outstanding loans.	8,282
% profit (loss) of average monthly outstanding loans.	3.2%
Average monthly balance of outstanding loans needed to cover total operating expenses.	6,862
Salaries and allowances as % of operating costs, less reserve.	20.0%
Reserve for Bad Debts as % of total operating expenses.	23.2%
Interest rate needed to cover total operating expenses.	15.6%
Interest rate needed to cover operating expenses, less reserve.	12.0%

1/ Average rate of interest earned on loans outstanding.

2/ Effective rate of interest actually paid on savings deposits.

3/ Average rate of interest paid for the use of institutional funds.

COMMENTS AND CONCLUSIONS

The model has been comprehensively tested through the 10 outlets opened by Sonali Bank. By and large its key features have been well implemented and an improvement has been instituted by transferring the loan approval authority from the village advisory council to the Krishi Shakha. The village advisory council deliberation not only delayed disbursements, but increased the possibility of political considerations influencing decisions on loan distribution. This procedure has been replaced by informal and strictly advisory groups of farmers, artisans and businessmen whom the Krishi Shakha consults as to the credit worthiness of loan applicants.

Two negative elements remain however. First, loan sanctioning authority has not been given to all Krishi Shakha in-charge. This authority has been transferred to only five outlets. In the other outlets there are delays in approval and disbursement. Second, the farm technologist has made little or no impact. Too often his main job has been either to keep a duplicate set of books at the main branch office or act as a go between for the outlet and branch office. He seems to be principally concerned with loan collections and other banking matters rather than advising on agricultural technology 1/. One might expect his presence to lead to more crop loans than other models but this has not occured.

This model has served an average of nearly 600 borrowers per outlet. This is about twice the rule of thumb minimum for a successful outlet. Nearly 15 million taka has been loaned through 7,874 loans. These loans have reached an estimated 56% of the target group households. Unfortunately, this enviable lending record does not extend to women who were only 2.5% of the borrowers. The average size of loan was one of the largest in RFEP. The exceptional lending efforts by the bank outlet staffs have led to achieving the goal for the number of loans and nearly doubling the goal for the taka amount of loans. It should be noted that even the new outlets opened in late 1980 have quickly achieved

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1/ See consultants field trips reports and previous model surveys and analysis.

a high level lending 1/. This suggests that the Krishi Shakha concept is highly effective in extending loans to target group borrowers.

Loan disbursal time is directly related to whether the Krishi Shakha in-charge has loan approval authority. In half the outlets he enjoys such authority and in these outlets loans are disbursed in less than a week and most borrowers visit the outlet only twice to obtain their loans. In outlets where the branch manager sanctions loans, the time between loan application and disbursal is often more than two weeks and the borrower must make repeated visits to the outlet. Thus at these outlets the indirect costs to the borrower are far higher.

There are more than one thousand overdue loans with a deliquent value of about two-thirds of a million taka. Although these figures are large, this is only 13.4% of the principal overdue to the total amount which has fallen due. This is the median for this project. About 63% of the overdue taka amount is less than six months in arrears and if past repayment patterns prevail, less than half of this will continue overdue for 12 months or more. As of 30 September 1981 overdues 12 months or more in arrears were 20% of the total. This is a relatively high proportion and may reflect a lack of attention to the credit worthiness of borrowers or inadequate efforts to collect payments.

1/ The general trend among all new outlets has been to achieve a good level of lending much more quickly than did old outlets at the outset of RFEP. Sonali's new outlets have been exceptionally active in lending. In one year they have loaned an average outlet volume of Tk 1,170,000.

In spite of the original policy requiring RFEP borrowers to open savings accounts only 76% currently have savings deposits. Only at Sitakunda outlet do all borrowers have a savings account. Sonali is experimenting with two savings concepts. 'Productive lending to Build Savings Capacity' requires a portion of the loan to be deposited at the time of repayment out of income earned. Repeat loans are indexed to the size of these savings. 'The Family Savings Bank' concept involves a locked box into which the family deposits whatever amount it can afford when ever possible. When enough is accumulated the family brings the box to the outlet where it is unlocked and this amount paid into the account. How far this has been implemented at the outlets, is not clear, but the average size of target group deposits is quite large by RFEP experience. This suggests that people have responded positively to these savings methods. On the other hand, non-target savings are relatively low for the number of depositors. Since the outlets are village based it may be that the available savings are less when compared to other models where the outlet is in a market center. Sonali Bank officials feel that the restricted transaction times of the outlet may discourage depositors who prefer daily facilities. While both of these factors may be significant, if savings were more vigorously pursued the situation could be improved 1/.

Sonali's training program has been similar to most other institutions, though the Krishi Shakha assistants were frequently not included. An attempt was made in 1981 through training, to improve the work of the farm technologist, but it is too early to determine how effective this has been.

1/ On recent field visits to Goripur Bazar (Comilla) and Shahpur (Khulna) the consultants felt that savings mobilization was not being emphasized.

The institution is profitable largely because of the large number of borrowers per outlet and the high volume of lending. Administrative costs are 3% of total loans disbursed. The income from the high rate of lending coupled with modest total expenditures resulted in 3.2% net profit on average monthly loans outstanding.

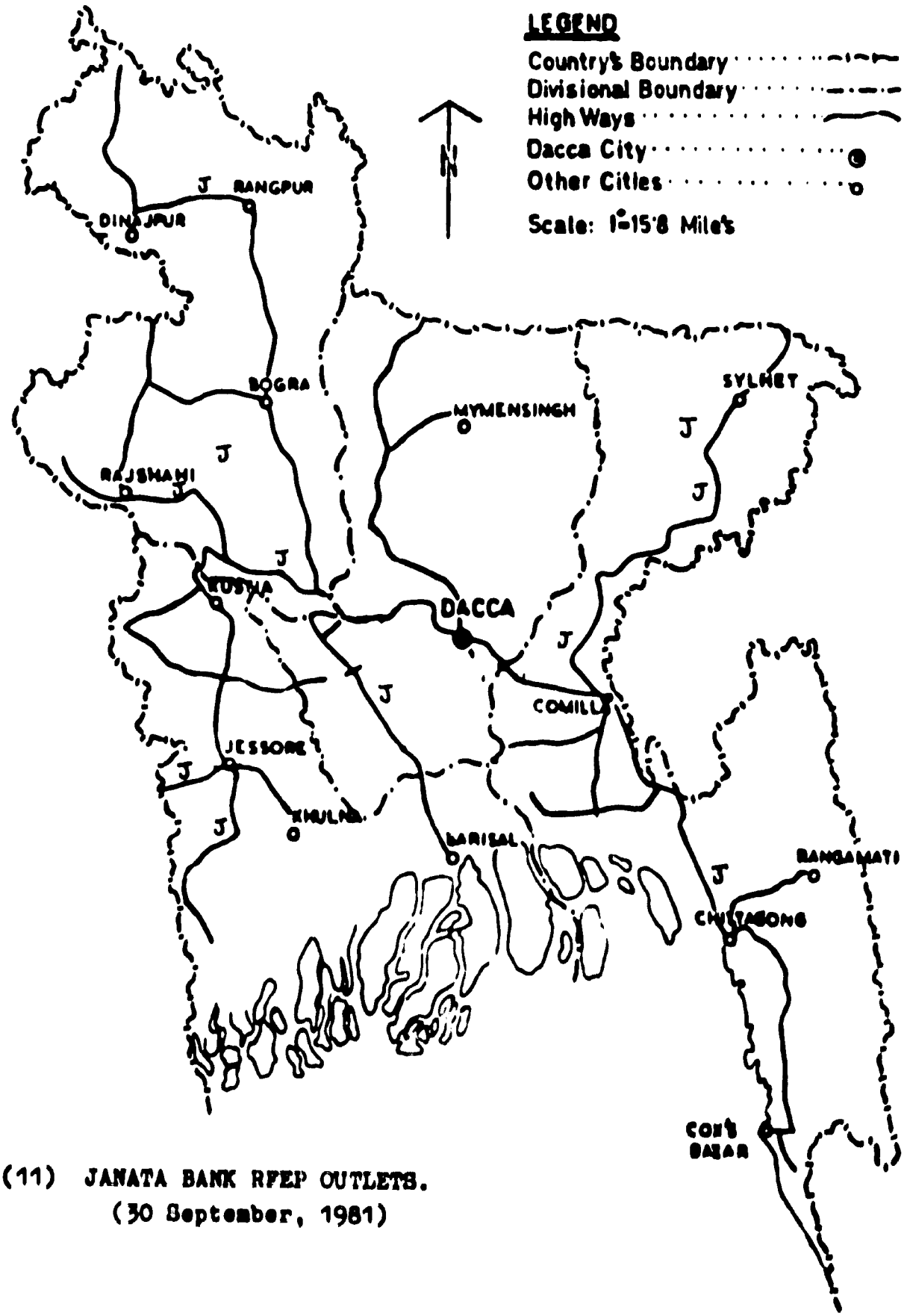
Overall, the Krishi Shakha concept has worked well. It has been especially effective in reaching the target households and at the same time remaining financially solvent. The few areas in which implementation was deficient can easily be corrected. Interviews with borrowers and outlet staff have indicated that good rapport has been established which is an important element in a successful credit system.

MODEL: AREA APPROACH

PARTICIPATING INSTITUTION: JANATA BANK

DATA SUMMARY

1.	Loan Interest Rates	12%, 18%, 24%, 30%, 36%
2.	Savings Interest Rates	11%, 12%, 13%, 14%, 15%
3.	Number of Outlets	11
4.	Number of Loans	2,188
5.	Number of Borrowers	1,386
6.	Percentage of Women Borrowers to Total Borrowers	3.2%
7.	Percentage of Households Borrowing to Total Target Group Households	48.0%
8.	Total Taka Loaned	Tk 3,867,000
9.	Percentage of Loan Volume for Crops	31.0%
10.	Percentage of Loan Volume for Other Agriculture	34.8%
11.	Percentage of Loan Volume for Non-Agriculture	34.2%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 667,000
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	27.7%
14.	Percentage of Administrative Costs to Total Loans Disbursed	9.8%
15.	Administrative Cost per Loan Disbursed	Tk 173.9
16.	Percentage of Principal Overdue to Total Amount which has fallen due	17.1%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	Tk (91,000)



(11) JANATA BANK RFEP OUTLETS.
(30 September, 1981)

FEATURES

The area consists of a village or a cluster of small hamlets surrounding the branch bank within a radius of four miles. The purpose is to accomodate the total credit needs of all people in the project area irrespective of target group eligibility with emphasis on community development. There is one trained officer at each branch.

Loan applications are completed in the branches for either individuals or groups. The branch manager, upon recommendation of the loan officer, can approve loans based upon a production plan up to a maximum of Tk 5,000. Loans above Tk 5,000 must be approved by the Regional Manager. There is no fixed limit on the size of loan. Loans are disbursed in cash or in kind at the branch office. Loan payments are also received in the branch office. The loan officer provides some supervision to borrowers, mainly in terms of eliciting prompt repayment. Savings are solicited from both target and non-target group borrowers. Outlets have one of the following combinations of loan and savings interest rates.

Loan	Savings
12%	11%
18%	12%
24%	13%
30%	14%
36%	15%

IMPLEMENTATION

Janata bank has implemented RFEP in 11 outlets serving an average of 124 borrowers per outlet. This is an estimated 48% of the target group households. Women comprise 3.2% of the borrowers. The outlets have made Tk 2,188 loans, disbursing Tk 3,867,000 for an average of Tk 1,767 per loan. The distribution of loans by purpose was quite uniform with 31% for crops, 35% for other agriculture, and 34% for non-agricultural purposes. Loans are given to groups or individuals, but there have been few loans given to groups for collective activities. At some outlets, notably Jikargacha and Baidyer Bazar, the bank has implemented the feature of community development where borrowers are participating in community development activities like construction of latrines, adult education, family planning, repair of roads etc.

A number of goals have been established by Janata bank for RFEP operations as listed in the table below.

Table 1
LENDING AND SAVING GOALS AND ACHIEVEMENTS

Items	Goals	Achievement	Percentage of Goals
Total Volume of Loans	Tk 6,729,000	Tk 3,867,000	58%
Total Volume of Savings	1,550,000	667,000	43
Volume of Loans per outlet	800,000-1,800,000	319,800	39% - 17%
Volume of Savings per outlet	100,000- 200,000	55,600	56% - 28%

Given the current levels of lending, it is unlikely that the targets for loans or savings will be reached. Only one outlet has reached the target level of lending and none have reached the saving goal.

In a survey of 63 borrowers[1/], 29% of the respondents said it took less than a week for their loan to be processed from application to disbursement. Forty-three percent said it took less than two weeks to process their loans and 28% said it took over two weeks. Twenty-four percent of the respondents said they visited the bank twice to obtain their funds and 56% said they made 3 visits. Sixteen percent said they made more than three visits before obtaining their loans.

Table 2

LOAN PROCESSING TIME: APPLICATION - DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	28.6%
8 - 14	42.8
15 or more	28.5
Total	100.0

Table 3

NUMBER OF BANK VISITS TO OBTAIN LOANS

Visits	Percentage of Borrowers
1	-
2	23.8%
3 - 4	55.5
5 - 7	15.9
7 or more	4.8
Total	100.0

1/ Continuous Survey May - August 1981

Of 2,188 loans 8.6% are overdue. Of these overdue loans 29% are less than 6 months in arrears, 33% are 6-12 months overdue, and 38% are over 12 months old. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4

OVERDUE LOANS AND RESERVE FOR BAD DEBTS

CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000) Total	Bad Debt Reserve 25%	Bad Debt Reserve 50%	Bad Debt Reserve 100%	Loan Interest (Taka 000) (000) Taka	Bad Debt Reserve 25%	Total Reserve (000) Taka
Less than 6 months	54	85	21	-	-			
6-12 months	62	147	-	74	-			
12 months or more	72	69	-	-	69			
Total	188	301				57	14	178

The average delinquent loan has a balance of Tk 1,601 overdue. Thirty-eight percent of the overdue loans were a year or more old and averaged Tk 958. This amount represents 23% of the loan principal overdue. The total reserve for bad debts of Tk 178,000 is 59% of the overdue loan principal.

The following table shows the savings by target and non-target group. Savings from the target group were 22% of the total amount saved which is about 6% of RFEP loans outstanding to target group borrowers. Although non-target group savers were only 18% of total savers they contributed 78% of the total savings. Total savings generated were 28% of loans outstanding as shown in Table 6. Savings from the target group

Table 5

SAVINGS

	Number of Savers	Amount Saved	Avg Amount Saved
Target Group	752	Tk 146,057	Tk 194
Non-target Group	162	520,582	3,213
Total	914	666,639	729

averaged Tk 194 and savings from the non-target group averaged Tk 3,213. Savings generated were about 28% of loans outstanding as shown in the table below.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target	6.1%
Non-target Group	21.6
Total	27.7

The Janata bank RFEP training program was initiated in January 1979 with a four day orientation session for branch managers and rural credit officers. The course topics included the general objectives of the RFEP, the technical procedures for meeting these objectives with special emphasis on group lending. A refresher course on the same topics was given in January 1981.

FINANCIAL ANALYSIS

The total income earned by the Janata bank during the 12 month period ending 30 September 1981 was Tk 396,000. Earnings averaged 19.3% on an average monthly balance of outstanding loans of Tk 2,053,000. The interest paid out on combined savings and other borrowed funds was Tk 225,000. The interest rate paid on savings was 5.3% and the interest rate on other borrowed funds was 13.0%. This cost of funds was 51% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 6%, and the cost of other funds was 45% of these operating expenses. Expenditures for salaries was 41% and other expenses 8% of the operating expenses excluding the reserve for bad debts.

The net loss for the Janata bank was Tk42,000 excluding the reserve for bad debts. When the reserve for bad debts is included the net loss was Tk 91,000. The bank sustained an average annual loss of 4.4% on its loans outstanding. The monthly outstanding loan balance would need to be increased about 23% for income to meet the total operating expenses. At the current lending level interest rates should be 23.7% for income to equal total operating expenses.

Table 7

SUMMARY OF JANATA BANK PROFIT/LOSS ESTIMATES

12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)

(Taka in 000)

Income Earned (at 19.3%)1/	396
Operating Expenses	
Interest paid	
On savings (at 5.3%)2/	28
On borrowed funds (at 13.0%)3/	197
Salaries	177
Other expenses	36
Sub-Total	438
Reserve for Bad Debts	49
Total Operating Expenses	487
Net Profit (Loss)	(91)
Average monthly balance of outstanding loans	2,053
% profit (loss) of average monthly outstanding loans	(4.4)
Average monthly balance of outstanding loans need to cover total operating expenses.	2,523
Salaries and allowances as % of operating costs, less reserve.	40 .4%
Reserve for Bad Debts as % of total operating expenses.	10.1%
Interest rate needed to cover total operating expenses.	23.7%
Interest rate needed to cover operating expenses, less reserve.	21 .3%

1/ Average rate of interest earned on loans outstanding.

2/ Effective rate of interest actually paid on savings deposits.

3/ Average rate of interest paid for the use of institutional funds.

COMMENTS AND CONCLUSIONS

The Janata bank's area approach model which was to integrate community development with its credit program has been substantially altered in light of its field experience. The policy to involve borrowers in community development activities has been given less emphasis. It was found that many borrowers lacked the time and interest to pursue these activities. Also, the outlet staff had neither the training nor motivation to carry out this policy effectively. Only one outlet, Jhikergacha in Jessore, has carried out the model in its fullest sense. It is a fine example of what can be achieved, but there were special factors which made it successful and the achievements there have not been duplicated in other outlets. Excellent outlet management coupled with support from an outstanding local teacher were major factors. Another important element is an unusual amount of social cohesion among borrowers who come from the two large ethnic minorities located there.

There have been two major problems with the Janata bank group lending concept. First, groups are often merely formed for the express purpose of satisfying the requirement for obtaining a loan. There is no strong social or economic factors to make groups cohesive. Consequently when one member is delinquent in loan payments, very little peer pressure can be brought to bear. Second, the bank policy is not to lend to group members if there are any overdue loans within the group. This means that group members who have paid their loans may be ineligible for subsequent loans because of one borrower's failure to repay. This can result in a low volume of lending.

Although Janata bank has reached almost half the estimated potential borrowers in its outlet areas, the actual number of borrowers is very low. There is an average of 126 borrowers per outlet, less than half of what is usually needed for a viable program. The level of lending has reached only 58% of the bank's targeted goal. At this rate it is unlikely that the target will be achieved by project end.

There were delays in borrowers receiving their loans. More than half of the borrowers surveyed said they made three or four visits to the outlet to get their money. More than a quarter of the borrowers waited two weeks or more for their loans. This is partially a result of the loan processing procedure which requires the regional or even Head Office approval for loan amounts exceeding Tk 5,000. Even though loans to individuals may be less than Tk 5,000, a group loan to several persons usually exceeds this amount and requires higher level approval which requires more time.

Overdues are confined to 5 outlets only and generally are not too high. However, about 70% of overdue loans have been delinquent for six months or more and this is a signal for concern. About two thirds of these older debts now fall in 6-12 month age group and require only a 50% reserve. When they become a year or more delinquent they require a 100% reserve. There is a potential for bad debt reserve to increase dramatically before the project end with disastrous results to the already fragile financial status of the institution.

Savings performance has been good overall. As of 30 September 1981 savings were 28% of loans outstanding. This reflects the long standing policy and experience in savings mobilization of Janata bank. The non-target group balances are one of the highest in the RFEP. The average balance per non-target saver is more than Tk 3,000. This is in stark contrast to target group savers which hold only an average of Tk 194 in their savings accounts.However, even this is high compared to target group savings of other institutions. The high rate of non-target savings is heavily influenced by the BaidderBazar outlet. However, Baidder Bazar has large sums spread over only 14 accounts. Experience suggests that it would be more prudent to have a larger number of depositors to avoid the possibility of large,unexpected withdrawals.

Project training has been minimal. Only two relatively brief orientation sessions have been held. Almost no field operational training or work upon the special requirements of group lending have been done. This inattention to training has been a factor in the failure of the community development concept. Also, much of the success of group lending depends on specialized training and careful supervision. The full potential of this model concept cannot be achieved without far more effort being devoted to training both the field staffs and backup staffs at the Regional and Home Office.

The low level of lending shown in table 7 reflects many of the early administrative problems associated with this model. The loss of Tk 91,000 can be attributed to low income rather than high operating expenses. The operating expenses are very much in line with expectations of an operation of this size. However, unless measures are taken to reduce overdues, the reserve for bad debts will surely increase, putting financial viability in even greater jeopardy. The relatively small loss (4.4% of monthly outstanding loans) at the end of September can be turned around if the level of operating expenses is maintained and loan increased. The outlet staffs are becoming more experienced with the concept of groups lending and attitudinal surveys show borrowers gaining greater confidence in the program.

Overall, Janata's model has had limited success. Two outlets Jhikergacha and Baidder Bazar have been successful to varying degrees, but the overall experience cannot be considered positive in the light of these outlets only. The main problem is that borrowers have not been attracted in sufficient numbers. Even Jhikergacha has served only 210 target group borrowers.

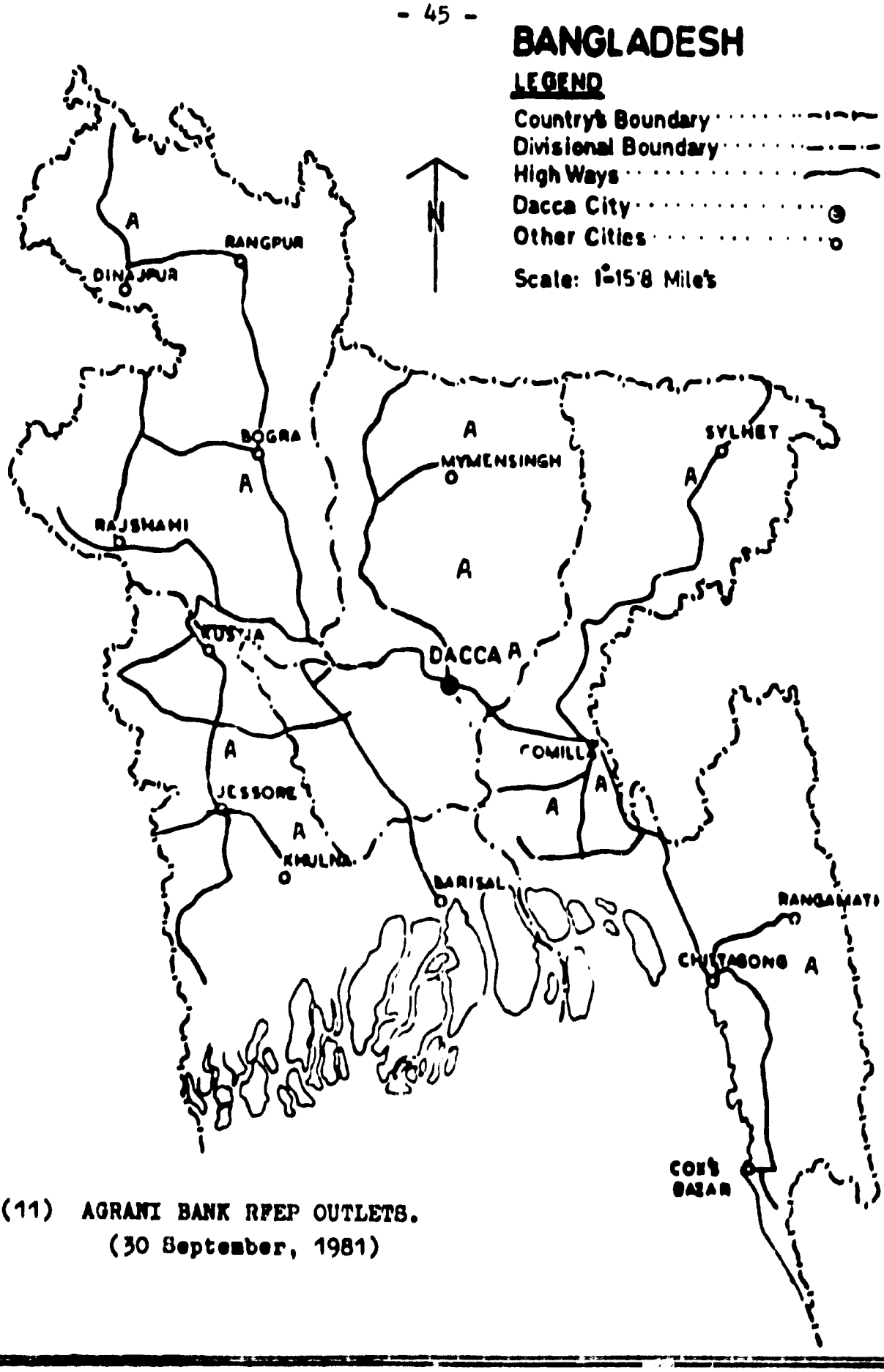
Successful group lending requires great patience, & a highly skilled and well organized staff if high levels of lending, recoveries, and savings mobilization are to be achieved.

MODEL: SMALL FARMER CREDIT SERVICE

PARTICIPATING INSTITUTION: AGRANI BANK

DATA SUMMARY

1.	Loan Interest Rates	12%, 18%, 24%, 30%, 36%
2.	Savings Interest Rates	11%, 12%, 13%, 14%, 15%
3.	Number of Outlets	11
4.	Number of Loans	7,160
5.	Number of Borrowers	4,513
6.	Percentage of Women Borrowers to Total Borrowers	5.9%
7.	Percentage of Households Borrowing to Total Target Group Households	46.0%
8.	Total Taka Loaned	Tk 8,741,000
9.	Percentage of Loan Volume for Crops	29.4%
10.	Percentage of Loan Volume for Other Agriculture	24.4%
11.	Percentage of Loan Volume for Non-Agriculture	46.2%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 1,168,000
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	32.7%
14.	Percentage of Administrative Costs to Total Loans Disbursed	4.9
15.	Administrative Cost per Loan Disbursed	Tk 60.3
16.	Percentage of Principal Overdue to Total Amount which has fallen due	5.8%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	Tk (2,000)



(11) AGRANI BANK RFEP OUTLETS.
(30 September, 1981)

FEATURES

This model provides credit facilities and attempts to arrange the supply of production inputs to borrowers through local dealers. The original plan of establishing input supply centers by training local unemployed persons and providing them capital finance for that purpose was dropped at the close of the first phase due to difficulty in implementation, for lack of local entrepreneures and inadequacy of the distribution system. There is one loan officer and one credit assistant in each office for every 500 borrowers. Offices are located within four miles of the villages being served.

Loan Officers assist in completing applications and production plans. They make recommendation to the branch manager who approves the loan within an approval limit of Tk 5,000. This is the credit ceiling for all types of activity. Disbursements are made in cash or kind at the branch offices. All payments are received in the branch office.

A savings account is not a requirement for receiving a loan. However, borrowers are encouraged to save and savings promotions are undertaken. Outlets have one of the following combinations of interest rates for loans and savings.

Loans	Savings
12%	11%
18%	12%
24%	13%
30%	14%
36%	15%

IMPLEMENTATION

Agrani bank has established 11 Small Farmer Credit Service outlets serving 4,512 borrowers which is an average of 410 borrowers per outlet. This is an estimated 46% of the target group households that are eligible to borrow. Women are 5.9% of the total borrowers. Outlets made 7,160 loans totalling Tk 8,741,000. This was an average of Tk 1,221 per loan. About 54% of the loan volume was borrowed for agricultural purposes. The proportion was about equal for crop loan and other agricultural loans. Forty-six percent of the loan volume was used for non-agricultural purposes.

Quite detailed targets have been established for the program as shown in Table 1 below.

Table 1
LENDING AND SAVINGS GOALS AND ACHIEVEMENT

Item	Goals	Achievement	Percentage of Goals
Number of Loans	9,743	7,160	74%
Total Volume of Loans	Tk 10,960,000	Tk 8,741,000	80%
Number of Loans per Outlet	Tk 417-917	Tk 651	156%- 70%
Volume of Loans per Outlet	Tk 500,000-1,100,000	Tk 795,000	159%- 72%
Volume of Savings per Outlet	Tk 200,000	Tk 106,200	53%

Lending targets have been nearly achieved and should be surpassed by the end of the project. Six outlets have already reached their Taka volume targets, though the number of borrowers is less than planned. Two outlets have already reached their savings targets, but as only 4 outlets solicit non-target deposits, it would be unrealistic to expect the savings targets to be achieved.

In a survey of 58 borrowers[1/] about two-thirds said it took less than a week for their loan to be processed from application to disbursement. Ten percent of the borrowers said their loans were processed within two weeks and 24% said it took them longer than two weeks to obtain their loan funds. About 65% of the respondents said they visited the bank two times or less to obtain their loan funds, and 35% reported 3 visits or more to process their loan.

Table 2
LOAN PROCESSING TIME: APPLICATION-DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	65.5%
8 - 14	10.4
15 or more	24.1
Total	100.0

Table 3
NUMBER OF BANK VISITS TO OBTAIN LOAN

Visits	Percentage of Borrowers
1	3.3%
2	61.7
3 - 4	26.7
5 - 7	6.7
More than 7	1.6
Total	100.0

1/ Continuous Survey May - August 1981.

Of 7,160 loans made during the project life, 3% are overdue. Most of these overdue loans are less than six month in arrears: 69% less than 6 months; 12% six six months to a year; and 19% over 12 months. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4
OVERDUE LOANS AND RESERVE FOR BAD DEBTS
CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000) Total	Bad Debt Reserve 25%	Bad Debt Reserve 50%	Bad Debt Reserve 100%	Loan Interest (Taka 000) Total	Bad Debt Reserve 25%	Total Reserve (000) Taka
Less than 6 months	167	215	54	-	-			
6-12 months	28	33	-	17	-			
12 months or more	47	68	-	-	68			
Total	242	316				83	21	160

The average delinquent loan has a balance of Tk 1,306 overdue. Nineteen percent of the overdue loans were a year or more overdue and averaged Tk 1,447 all of which is covered by the reserve for bad debts. The total reserve for bad debts of Tk 160,000 is 51% of the overdue loan principal.

The table below shows the extent of savings by target and non-target group. This shows that 73% of the borrowers have savings

Table 5
SAVINGS

	Number of Savers	Amount Saved	Avg Amount Saved
Target Group	3,277	Tk 292,180	Tk 89
Non-target Group	348	875,640	2,516
Total	3,625	1,167,820	322

accounts although opening a savings account is not a requirement for obtaining a loan. Ninety percent of the savings accounts belong to the target group, but 75% of the savings funds were deposited by the non-target group. All outlets solicited target group savings, but only four attempted to attract non-target savings deposits. Overall, savings were about one-third of the outstanding loan volume.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	8.2%
Not-target Group	24.5
Total	32.7

The Agrani bank's RFEP training program began in November 1979 with a five day orientation session to introduce branch managers, loan officers, regional managers and agricultural credit officers to the Agrani model and to train the staff in carrying out their duties. In July 1980 a two day refresher course was convened for regional managers, branch managers and loan officers to review the progress and problems of the project. Branch managers were called together in January 1981 for a two week training program to improve the performance of the field staff in loan disbursement and collection. A similar training session was held for credit officers in February the same year.

FINANCIAL ANALYSIS

The total income earned by the Agrani bank during the 12 month period ending 30 September 1981 was Tk 760,000. Earnings averaged 23.6% on an average monthly balance of outstanding loans of Tk 3,216,000. The interest paid out on combined savings and other borrowed funds was Tk 337,000. The interest rate paid on savings was 3.6% and the interest rate on borrowed funds was 12.0%. This cost of funds was 54% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 3%, and the cost of other funds was 51% of these operating expenses. Expenditure for salaries was 33% and other expenses 13% of the operating expenses excluding the reserve for bad debts.

The net profit for the Agrani bank during this period was Tk 135,000 excluding the reserve for bad debts. When the reserve for bad debts for this period is included the net loss was Tk 2,000. The bank's average annual loss was 0.1% on its loans outstanding. The monthly outstanding loan balance if increased slightly to Tk 3,228,000, would generate enough income to meet the total operating expenses. At the current lending level interest rates would have to be increased to 23.7% in order for income to equal total operating expenses.

Table 7

SUMMARY OF AGRANI BANK PROFIT/(LOSS) ESTIMATES

12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)

(Taka in 000)

Income Earned (at 23.6%)[1/]	760
Operating Expenses	
Interest paid	
On savings (at 3.6%)[2/]	21
On borrowed funds (at 12.0%)[3/]	316
Salaries	204
Other expenses	84
Sub-Total	625
Reserve for Bad Debts	137
Total Operating Expenses	762
Net Profit (Loss)	(2)
Average monthly balance of outstanding loans	3,216
% profit (loss) of average monthly outstanding loans	(0.1%)
Average monthly balance of outstanding loans need to cover total operating expenses.	3,228
Salaries and allowances as % of operating costs, less reserve	32.6
Reserve for Bad Debts as % of total operating expenses.	18.0%
Interest rate needed to cover total operating expenses.	23.7%
Interest rate needed to cover operating expenses, less reserve	19.4%

1/ Average rate of interest earned on loans outstanding

2/ Effective rate of interest actually paid on savings deposits

3/ Average rate of interest paid for the use of institutional funds

COMMENTS AND CONCLUSIONS

This revised model has been quite extensively tested and has performed fairly well except in the critical area of input supply. This feature proved most difficult to implement and where it has been implemented, the supply of inputs has been irregular. It should be stressed this is not due to any lack of effort by staff at the outlets, but has been caused by a lack of suitable persons to operate the center and by the inability of the local distribution system to meet center's needs. As a result, the service center approach was dropped at the beginning of the extension phase of RFEP. At old outlets, where feasible, it was replaced by alternative arrangements through existing input dealers. At new outlets this latter approach was adopted from the outset.

Agrani bank has a good record of RFEP lending. Forty-six percent of the target group households have borrowed nearly 9 million Taka. Outlets averaged 410 borrowers who were carrying about 650 loans. As of 30 September 1981 Agrani had achieved about 80% of its project lending goal of 11 million Taka. This good record of lending is further enhanced by the efforts to enlist women in the program. The result was nearly 6% women borrowers which is relatively high for this project.

Agrani has an exceptionally good record of expediting loans. A survey of borrowers shows two thirds receiving their loans within a week of application. This was also backed up by an examination of loan records. About two-thirds of the borrowers said they made only one or two visits to the bank to obtain their loans. This policy of prompt attention to loan processing reduces the indirect costs to the borrower and makes institutional borrowing even more attractive.

The taka amount of overdue loans and the resulting reserve for bad debts is relatively low. Two outlets reported no overdue loans. Three others reported less than 5% overdues. Baligaon outlet had major problems with loan collections which pushed overdues to about 30%. If overdues from this outlet are excluded the reserve for bad debts (cummulative to 30 September 1981) falls from 160 thousand

taka to about 69 thousand taka. The attention to loan repayment by outlet staffs has been very rewarding in reducing the reserve for bad debts and indicates the potential for good loan repayment in rural areas.

The savings performance of Agrani was relatively good. Seventy-three percent of the target group borrowers had savings accounts with an average of Tk 89 in the account. This is a typical pattern in this project where RFEP policy requires borrowers to open savings accounts, but does not encourage large deposits because the savings rates paid to RFEP depositors are higher than for normal banking savings accounts depositors. Further, non-target group savings are accepted at only four of the 11 outlets. This lack of committment to savings is an apparent paradox in that Agrani Head Office set savings goals at the beginning of the project which would require the participation of all outlets mobilizing savings from both target and non-target groups. The failure of the outlets to carry through on this has resulted in only half of the targeted taka volume being achieved by 30 September 1981, and there is little likelihood that the goal will be met by project end unless there is a change in outlet savings policy. However, even with this very moderate committment to savings, Agrani has covered nearly a third of its outstanding loans and consequently has a high ranking among the RFEP institutions.

Agrani has put much effort into RFEP training. Management back-up and support from regional offices and the head office has been very good and the regional office staff always has been included in training programs.

Currently the institution is suffering a small loss which could be avoided through a small rise in volume of lending and a reduction of the overdue burden from the Baligaon outlet. Salaries and other expenses are not excessive and an increase in volume of lending could easily be accommodated without a sharp rise in costs.

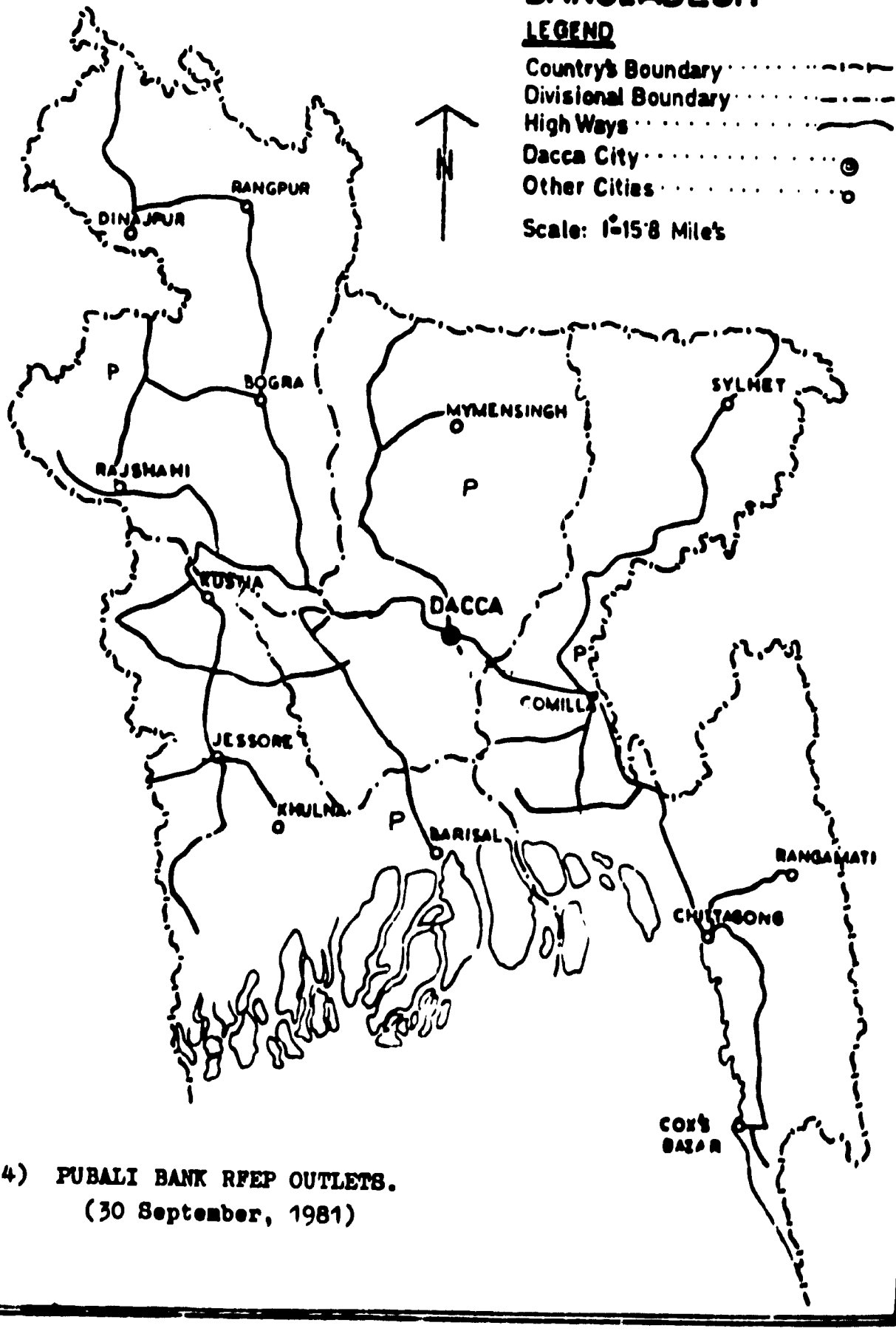
It is unfortunate that the one distinctive feature of this model has proved unworkable. Nevertheless in its absence, Agrani bank has organized and operated a good small producer credit system profitably. The experience has been useful and the present outlet structure provides a good basis for further expansion.

MODEL: TECHNICAL ASSISTANCE PROGRAM (OMBUDSMAN)

PARTICIPATING INSTITUTION: PUBALI BANK

DATA SUMMARY

1.	Loan Interest Rates	12%, 18%, 24%, 36%
2.	Savings Interest Rates	11%, 12%, 13%, 15%
3.	Number of Outlets	4
4.	Number of Loans	3,861
5.	Number of Borrowers	2,282
6.	Percentage of Women Borrowers to Total Borrowers	2.3%
7.	Percentage of Households Borrowing to Total Target Group Households	31.7%
8.	Total Taka Loaned	Tk 5,470,000
9.	Percentage of Loan Volume for Crops	21.7%
10.	Percentage of Loan Volume for Other Agriculture	31.9%
11.	Percentage of Loan Volume for Non-Agriculture	46.4%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 112,000
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	3.8%
14.	Percentage of Administrative Costs to Total Loans Disbursed	8.0%
15.	Administrative Cost per Loan Disbursed	Tk 113.5
16.	Percentage of Principal Overdue to Total Amount which has fallen due	20.8%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	(Tk 261,000)



(4) PUBALI BANK RFEP OUTLETS.
(30 September, 1981)

FEATURES

The bank appoints a loan officer in-charge who also serves as a technical assistant and referral agent. He is to arrange for assistance from the local agricultural extension agent, rural health center, and other public service institutions serving rural areas to establish better customer bank relationships. Staffing includes the loan officer in-charge and one or more loan assistants each serving 300 - 500 borrowers. Each branch is located within 4 miles of villages served.

Loans are based on a family budget. The loan officer is authorized to approve loans up to Tk 5,000. Disbursements are made in the branch office in cash or in kind. Payments may be received in the field or in the bank office.

Each borrower is required to open a savings account when a loan is approved. Outlets have one of the following combinations of interest rates for loans and savings.

Loan	Savings
12%	11%
18%	12%
24%	13%
36%	15

IMPLEMENTATION

The model has been implemented through four outlets serving an average of 571 borrowers per outlet. An estimated 32% of the target group within the area of the outlets have borrowed through RFEP. Of the total 2,282 borrowers, 2.3% are women. The outlets have made 3,861 loans and disbursed Tk 5,470,000, an average of Tk 1,417 per loan. About 54% was borrowed for agricultural purposes with 22% of that amount for crops. Non-agricultural loans accounted for 46% of the funds. Outlets averaged 965 loans.

Pubali Bank established very detailed overall and outlet targets to be achieved during the project as follows;

Table 1
LENDING AND SAVINGS ACHIEVEMENT AND GOALS

Item	Goal	Achievement	Percentage of Goals
Total number of loans	7,333	3,861	53%
Total volume of loans	Tk 8,766,000	Tk 5,470,000	62%
Total volume of savings	900,000	112,000	12%
Outlet volume of loans:			
Shabajpur	2,600,000	1,977,000	76%
Satihat	1,800,000	1,798,000	100%
Babunganj	1,300,000	736,000	57%
Ellenga	1,100,000	959,000	87%
Outlet volume of Savings:			
Shabajpur	300,000	36,700	12%
Satihat	250,000	50,300	20%
Babunganj	200,000	15,700	8%
Ellenga	150,000	9,000	6%

Generally these targets are not being reached. Only Satihat outlet has achieved its lending target and Ellenga is the only other likely to reach it during the project period. The savings targets are far from being achieved and cannot be reached during the project period.

A sample of loan ledgers did not provide the dates of loan application consequently it was not possible to determine the loan processing time. However, it indicated that most funds were disbursed within two days of approval. In a survey of 36 borrowers[1/] 42% said it took less than a week for their loans to be processed. Nineteen percent reported that it took up to two weeks and 39% stated it required more than two weeks to process their loans from application to disbursal. Fourteen percent of the borrowers interviewed said they received their funds with a single visit to the outlet. Fo rty-seven percent made two visits and 39% reported that three or more visits to the outlet were required.

Table 2
LOAN PROCESSING TIME: APPLICATION - DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	41.7%
8 - 14	19.4
15 or more	38.9
Total	100.0

1/ Continuous Survey May - August, 1981

Table 3

NUMBER OF BANK VISITS TO OBTAIN LOAN

Visits	Percentage of Borrowers
1	14.0%
2	47.2
3 - 4	22.2
5 - 7	8.3
7 or more	8.3
Total	100.0

Of 3,861 loans, 19% are overdue. Most of these overdue loans are less than six month in arrears: 79% less than 6 months; 12% six months to a year; and 9% more than 12 months. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4

OVERDUE LOANS AND RESERVE FOR BAD DEBTS

CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000)				Loan Interest (Taka 000)		Total Reserve (000) Taka
		Total	Bad Debt Reserve 25%	50%	100%	Total	Bad Debt Reserve 25%	
Less than 6 months	587	514	128	-	-			
6-12 months	92	93	-	47	-			
12 months or more	68	54	-	-	54			
Total	747	661				73	18	247

The average delinquent loan has a balance of Tk 885 overdue. About 78% of the Taka amount is less than six months overdue and requires only a 25% bad debt reserve. The amount6-12 months overdue is 14% of the total and that a year or more overdue is only 8% of the total Taka amount overdue. The total reserve for bad debts is 37% of the overdue loan principal.

The table below shows the extent of savings. Each borrower is required to open a savings account as a condition for receiving a loan. The 2,282 savings accounts opened by target groups borrowers contained only an average of Tk 49. The policy of Pubali bank is not to accept savings from non-target group savers.

Table 5
SAVINGS

	Number of Savers	Amount Saved	Avg Amount Saved
Target Group	2,282	Tk 111,940	Tk 49
Non-target Group	-	-	-
Total	2,282	111,940	49

The effect of this policy is shown in table 6 in which only 3.8% of loans outstanding are covered by savings.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	3.8%
Non-target Group	-
Total	3.8%

Pubali banks RFEP training program has consisted of a small three day orientation course for loan officers. The course covered the objectives of the RFEP and the procedures for meeting the objectives. No other training or refresher courses have been organized to date.

FINANCIAL ANALYSIS

The total income earned by the Pubali bank during the 12 month period ending 30 September 1981 was Tk 490,000. Earnings averaged 20.4% on an average monthly balance of outstanding loans of Tk 2,403,000. The interest paid out on combined savings and other borrowed funds was Tk 309,000. The interest rate paid on savings alone was 8.9% and the interest rate on other borrowed funds was 13%. This cost of funds was 60% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 2%, and the cost of other funds was 58% of these operating expenses. Expenditures for salaries was 38% and other expenses 2% of the operating expenses excluding the reserve for bad debts.

The net loss for Pubali Bank for this period was Tk 27,000 excluding the reserve for bad debts. When the reserve for bad debts is included the net loss was Tk 261,000. The bank sustained an average annual loss of 10.9% of its loans outstanding. The monthly outstanding loan balance would need to be increased by 50% for income to meet the total operating expenses. At the current lending level interest rates would have to be 31.5% for income to equal total operating expenses.

Table 7

SUMMARY OF PUBALI BANK PROFIT/(LOSS) ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)
(Taka in 000)

Income Earned (at 20.4%)1/	490
Operating Expenses	
Interest paid	
On savings (at 8.9%)2/	8
On borrowed funds (at 13%)3/	301
Salaries	196
Other expenses	12
Sub-Total	517
Reserve for Bad Debts	234
Total Operating Expenses	751
Net Profit (Loss)	(261)
Average monthly balance of outstanding loans.	2,403
% profit (loss) of average monthly outstanding loans.	(10.9)%
Average monthly balance of outstanding loans needed to cover total operating expenses.	3,681
Salaries and allowances as % of operating costs, less reserve.	37.9%
Reserve for Bad Debts as % of total operating expenses.	31.2%
Interest rate needed to cover total operating expenses.	31.3%
Interest rate needed to cover operating expenses, less reserve.	21.5%

1/ Average rate of interest earned on loans outstanding.
2/ Effective rate of interest actually paid on savings deposits.
3/ Average rate of interest paid for the use of institutional funds.

COMMENTS AND CONCLUSIONS

This model has been tested in the fewest number of outlets among all models in RFEP. However, as all outlets have been open for 21 months or more, the model has been adequately tested. During its implementation period the model concept has been radically changed. The Ombudsman approach has been dropped as impractical and has been replaced by a technical assistance approach which tries to make loan inputs available. Another feature not properly tested has been the Family Budget Approach. This has never been applied properly. However, Pubali has established various credit ceilings for activities, which makes it more compatible with a production plan approach 1/. Pubali has also increased the effectiveness of the model by eliminating the requirement that the Union Council Member endorse a loan application. In most outlets this authority is now being shared by the loan officer.

Although unlikely to reach its disbursement targets, Pubali has achieved a good level of lending in its outlet areas. The proportion of those who have borrowed is low, but the per outlet target group population is the largest in RFEP and efficiency may be affected by this scale of operations. On the other hand, in spite of the simplified lending procedures, loan disbursal time is still quite high. Forty percent of borrowers sampled required more than over 15 days to get their loans and needed to make three or more visits to the outlets.

Pubali overdue loans are among the highest in RFEP and have been rising steadily in recent months. Two of the outlets have very bad records, Shabajpur accounts for 35% and Babunganj 56% of overdue loans. While 78% of the Taka amount is less than 6 months overdue, the increasing proportion of loans falling overdue indicate that this problem may become increasingly serious. It is unclear why overdues are so high and rising but it does seem that ineffective management at the two poorest outlets is a major factor.

1/ Ceilings are Tk 900 - Tk 2,000 for crops, Tk 2,000 - Tk 5,000 for all other agricultural and non-agricultural activities.

Savings as a percentage of loans outstanding is 3.8% which reflects Pubali's policy of not encouraging large savings deposits among RFEP target group households. Interest rate payments on RFEP savings range from 11% to 15%, where-as the savings interest rate on normal banking savings is only 8.5%. This may also explain why savings are not accepted from non-target households by Pubali for RFEP.

The training program is the poorest among all models. A single three day orientation course is not sufficient time to introduce and implement a technical assistance program such as this. Although loan assistants are to serve 300-500 borrowers there is no indication that they received formal training in the concepts of this model.

Inspite of a very high per-outlet level of lending Pubali Bank is nevertheless sustaining a 10.9% loss on the average monthly loans outstanding. Salaries and other expenditures are some what high and administrative costs were 8.0% of total loans disbursed. The major component of the financial loss was the reserve for bad debts. A 50% increase in Taka lending volume would be required to break even. Pubali has only reached an estimated one third of its eligible borrowers and there is potential for increased lending. However, the major emphasis should be given to recovering overdue loans to reduce the reserve for bad debts.

The Technical Assistance Program (Ombudsman) concept has not been successful. The concept may be more appropriate for a rural development organization than for a bank. In this experiment the financial institution has turned more toward traditional banking concepts. Nevertheless, the experience has been useful in delineating some of the practical elements of rural credit.

MODEL: VILLAGE AGENT

PARTICIPATING INSTITUTION: RUPALI BANK

DATA SUMMARY

1.	Loan Interest Rates	18%, 24%, 30%, 36%
2.	Savings Interest Rates	12%, 13%, 14%, 15%
3.	Number of Outlets	7
4.	Number of Loans	3,378
5.	Number of Borrowers	2,301
6.	Percentage of Women Borrowers to Total Borrowers	4.1%
7.	Percentage of Households Borrowing to Total Target Group Households	44.6%
8.	Total Taka Loaned	Tk 4,815,000
9.	Percentage of Loan Volume for Crops	21.8%
10.	Percentage of Loan Volume for Other Agriculture	33.2%
11.	Percentage of Loan Volume for Non-Agriculture	45.0%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 1,049,000
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	34.1%
14.	Percentage of Administrative Costs to Total Loans Disbursed	7.9%
15.	Administrative Cost per Loan Disbursed	Tk 112.8
16.	Percentage of Principal Overdue to Total Amount which has fallen due	6.1%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	Tk 28,000

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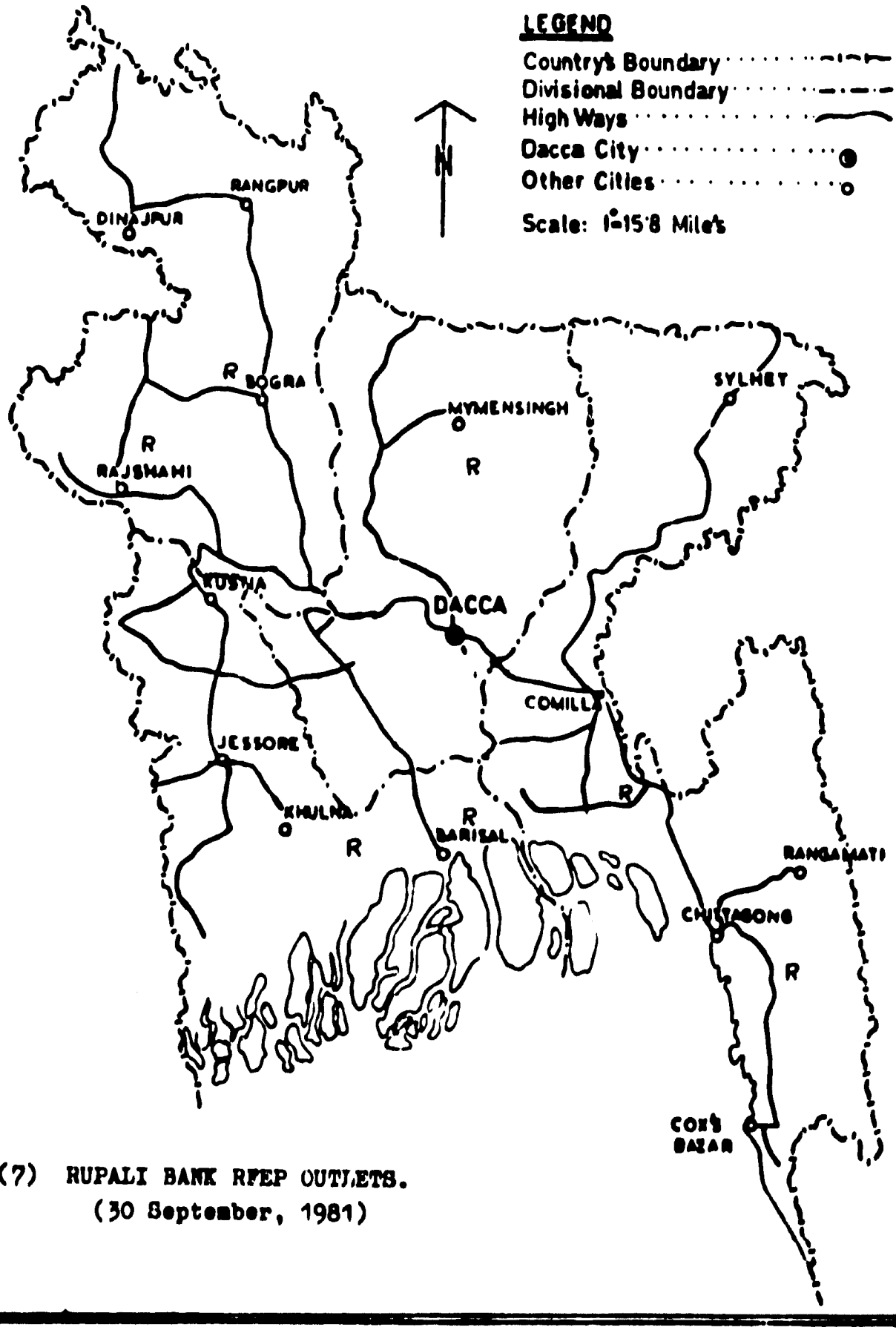


(7) RUPALI BANK RFEP OUTLETS.
(30 September, 1981)

FEATURES

The Rupali bank attempts to bridge the gap between it's branches and target group borrowers by appointing village men to serve as bank agents. The rationale for this is that knowing and being known to the villagers, the agent will be able to identify small farm and non-farm operators capable of utilizing and repaying loans. The agents assist the applicants in completing the loan application forms and preparing production plans. A loan officer is also appointed for the project operation in each outlet.

Applications are completed at the branch office or in the field. Loans are recommended by the loan officer and approved by the branch manager. Loan ceilings are established for different crops ranging from Tk 600 to Tk 2,000 per acre with a total loan limit of Tk 5,000. Loans are disbursed in cash or kind at the branch offices and repayments are also made at the branch offices. Savings accounts are opened when the loan is approved. Outlets have one of the following combinations of interest rates for loans and savings.

Loan	Savings
18%	12%
24%	13%
30%	14%
36%	15%

Borrowers are allowed interest rebates related to the lending rate for timely repayment. These rebates range from 6% for 36% loans to 1% for 18% loans. The village agent is paid a 3% commission on loan collections made when due and a monthly salary of Tk 300. The village agent supervises the borrowers to some degree.

IMPLEMENTATION

Rupali bank has implemented the village agent concept in seven outlets. Each outlet serves an average of four villages loaning to a total of 2,301 borrowers; an average of 329 borrowers per outlet. This is an estimated 45% of the target group. Of these borrowers 4.1% are women. The seven outlets made 3,378 loans and disbursed Tk 4,815,000 for an average of Tk 1,425 per loan. About 22% was borrowed for crop purposes, 33% for agricultural non-crop purposes, and 45% for non-agricultural use.

Certain targets have been laid down for the project period as the table below shows.

Table 1
LENDING GOALS AND ACHIEVEMENT

Item	Goal	Achievement	Percentage of Goal
Number of Loans	4,967	3,378	68.0%
Total Volume of Loans	Tk 5,894,000	Tk 4,815,000	81.7
Volume of Loans per Outlet	Tk 700,000 - Tk 800,000	688,000	98% - 86%

By and large the targets are being achieved, except for numbers of loans, because loan size by RFEP standards is quite high. Three outlets have already achieved their lending targets comfortably and two more are likely to meet their goals in the near future.

A sample of loan ledgers shows that most of the Rupali loans are processed from application to disbursement in less than one week. In a survey of 62 borrowers[1/], 87% reported that it took less than a week for their loans to be processed. Eight percent said it took up to two weeks and 5% said it took more than two weeks to have their loan processed. Twenty-seven percent of the respondents made one visit to the bank to obtain their loans, 60% report two visits and 13% said it took three or more visits to process their loans.

Table 2
LOAN PROCESSING TIME: APPLICATION - DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	87.1%
8 - 14	8.1
15 or more	4.8
Total	100.0

Table 3
NUMBER OF BANK VISITS TO OBTAIN LOAN

Visits	Percentage of Borrowers
1	27.4%
2	59.7
3 - 4	11.3
5 - 7	1.6
more than 7	-
Total	100.0

1/ Continuous Survey May - August, 1981.

Ninety percent of the savers are from the target group, but 94% of the savings were generated from the non-target group. No special program has been implemented for savings mobilization but the bank has been able to generate a significant amount of savings as indicated by table 5. Savings were 34% of loans outstanding.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	2.0%
Non-target Group	32.0
Total	34.0

Rupali bank training for the RFEP program began in March 1979 with a five day session to introduce the aims and objectives of the RFEP to branch managers, village agents, Head Office staff and agricultural credit officers. In November of the same year a three day refresher course was given on the same subjects. Field training sessions were held for four days in each outlet during January and February 1981. All field staff at each outlet attended.

Of 3,378 loans made since the inception of this project 5% are overdue. Most of these overdue loans are less than six month in arrears: Less than 6 months, 94%; 6-12 months, 4%; and over 12 months, 2%. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4
OVERDUE LOANS AND RESERVE FOR BAD DEBTS
CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000) Total	Bad Debt Reserve 25%	Bad Debt Reserve 50%	Bad Debt Reserve 100%	Loan Interest (Taka 000) Total	Bad Debt Reserve 25%	Total Reserve (000) Taka
Less than 6 months	168	103	26	-	-			
6-12 months	18	6	-	3	-			
12 months or more	3	3	-	-	3			
Total	179	112				8	2	34

The average delinquent loan has a balance of Tk 626 overdue. Although only 2% of the overdue loans were a year or more overdue they averaged Tk 1,000, all of which is covered by the reserve for bad debts. The total reserve for bad debts of Tk 34,000 is 30% of the overdue loan principal.

The table below indicates the extent of savings by target and non-target group.

Table 5
SAVINGS

	Number of Savers	Amount Saved	Age Amount Saved
Target Group	2,353	Tk 62,503	Tk 27
Non-target Group	262	986,758	3,766
Total	2,615	1,049,261	401

FINANCIAL ANALYSIS

The total income earned by the Rupali bank during the 12 month period ending 30 September 1981 was Tk 535,000. Earnings averaged 25.7% on an average monthly balance of outstanding loans of Tk 2,081,000. The interest paid out on combined savings and other borrowed funds was Tk 228,000. The interest rate paid on savings alone was 8.3% and the interest rate on borrowed funds was 12.4%. This cost of funds was 48% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 13%, and the cost of other funds was 35% of these operating expenses. Expenditures for salaries was 50% and other expenses 2% of the operating expenses excluding the reserve for bad debts.

The net profit for the Rupali bank for this period was Tk 59,000 excluding the reserve for bad debts. When the reserve for bad debts for this period is included the net profit was Tk 28,000. Income from the average monthly outstanding loans at the current effective interest rate of 24.4% was just equal to total operating expenses.

Table 7

SUMMARY OF RUPALI BANK PROFIT/(LOSS)ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)
(Taka in 000)

Income Earned (at 25.7%)1/	535
Operating Expenses	
Interest paid	
On savings (8.3%)2/	62
On borrowed funds (at 12.4%)3/	166
Salaries	239
Other expenses	9
Sub-Total	476
Reserve for Bad Debts	31
Total Operating Expenses	507
Net Profit (Loss)	28
Average monthly balance of outstanding loans	2,081
% profit (loss) of average monthly outstanding loans	1.3%
Average monthly balance of outstanding loans needed to cover total operating expenses	1,973
Salaries and allowances as % of operating costs, less reserve.	50.2%
Reserve for Bad Debts as % of total operating expenses.	6.1%
Interest rate needed to cover total operating expenses.	24.4%
Interest rate needed to cover operating expenses, less reserve	22.9%

1/ Average rate of interest earned on loans outstanding.
2/ Effective rate of interest actually paid on savings deposits.
3/ Average rate of interest paid for the use of institutional funds.

COMMENTS AND CONCLUSIONS

The village agent concept which was the principal feature of this model has been adhered to and improved upon. Village agents are no longer merely assigned to a general area, but are assigned to specific villages in which they are to conduct business for the duration of their tenure in the outlet area. Also, Rupali has the distinction of being the only institution to establish and carry out a comprehensive incentive program for the village agent and borrower to encourage prompt repayment of loans. This has resulted in an exceptionally small Taka amount of overdues. However a recommendation by the consultants that loan approval authority be given to the loan officer has not been carried out and the lending level has not been as high as it should have been.

The Taka amount loaned by Rupali outlets throughout the project period has been barely adequate to meet expenses though it met the rule of thumb minimum of 300 borrowers per outlet. Although the total number of loans has only reached 68% of the target set by Rupali, nearly 82% of the Taka goal has been reached. This is a result of loans averaging Tk 1,425. By the end of the project period the targeted Taka amount loaned will probably be exceeded.

The village agent concept minimizes the indirect costs of numerous visits to the branch office and inefficiences caused by delays in meeting crop schedules. Nearly 90% of the loans are processed within one week and about the same percentage of borrowers interviewed said they made only one or two trip to the bank office.

Although there were 179 overdue loans as of 30 September 1981, the average balance overdue was only Tk 631. This was 6.1% of the total Taka amount which had fallen due. All of the outlets have some overdue loans. Rajgong Bazar accounted for about 31% of the Taka balance of overdue debts. Overall, the overdue situation for Rupali is not as serious as for many of the other institutions because more than 90% of the Taka amount is less than six months overdue. Its reserve for bad debts is one of the lowest in RFEP.

Savings performance has been good. More than one-third of outstanding loans were covered by savings as of 30 September 1981. Non-target borrowers have contributed all but two percentage points of this amount. This is probably a result of previous experience in savings mobilization more than a particular emphasis on savings in the RFEP. If the loan officers and village agents were to pursue a RFEP savings program more agressively then undoubtedly the 2,353 target group savers would generate more than the current Tk 27 in the average account.

Rupali held three brief training sessions. Two of these were for RFEP staff orientation in which regional and head office staff as well as outlet staff attended. Of particular importance was the four day field training held at each of the outlets.

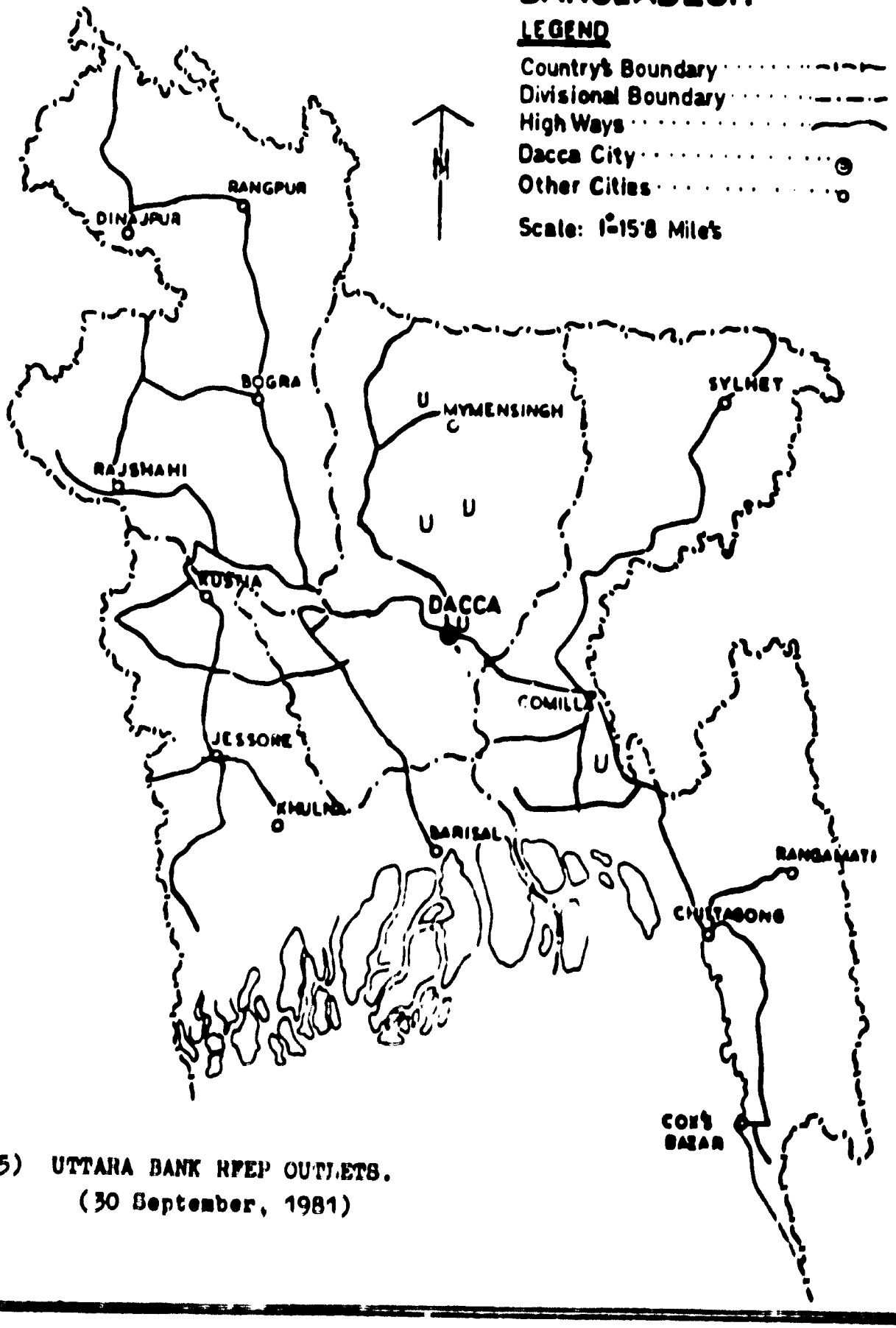
In spite of the unimpressive level of lending, the good performance in loan repayment has resulted in a modest profit. The 25.7% average effective interest rate on all loans was one of the highest in the project. Had this interest rate been closer to the project norm of 22%, Rupali would have shown a loss. The expenditure for salaries as a proportion of the total expenses was relatively high, but the 8% administrative costs to total loans disbursed was not excessive. Overall, the management of the credit system was effective.

MODEL: VILLAGE LEVEL GROUP LENDING

PARTICIPATING INSTITUTION: UTTARA BANK

DATA SUMMARY

1.	Loan Interest Rates	18%, 24%, 30%, 36%
2.	Savings Interest Rates	12%, 13%, 14%, 15%
3.	Number of Outlets	5
4.	Number of Loans	1,174
5.	Number of Borrowers	840
6.	Percentage of Women Borrowers to Total Borrowers	4.4%
7.	Percentage of Households Borrowing to Total Target Group Households	32.6%
8.	Total Taka Loaned	Tk 1,336,000
9.	Percentage of Loan Volume for Crops	27.1%
10.	Percentage of Loan Volume for Other Agriculture	38.1%
11.	Percentage of Loan Volume for Non-Agriculture	34.8%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 62,000
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	8.9%
14.	Percentage of Administrative Costs to Total Loans Disbursed	25.8%
15.	Administrative Cost per Loan Disbursed	Tk 293.6
16.	Percentage of Principal Overdue to Total Amount which has fallen due	16.3%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	Tk(134,000)



(5) UTTARA BANK RFEP OUTLETS.
(30 September, 1981)

FEATURES

Uttara bank loans are made to individuals who are members of a group of three to seven persons which has been formed to provide surety for loan repayments. The individual may form his own group or join an existing group. The members are to be as homogenous as possible in their interests and activities.

A loan application for each member may be completed either in the field or in the branch office after the group is formed and a leader is selected. The leader is considered a de facto liaison for the group and the bank. Loans are approved by the branch manager on the basis of a production plan and the recommendation of a loan officer. The maximum loan size for an individual is Tk 5,000. Individual activity ceilings were established originally but these were subsequently discontinued.

Disbursements are in cash or kind and can be made either in the office or field. Repayments are received in the field. Repeat loans are granted on the basis of the satisfactory performance of the group as a whole.

A savings account must be opened for each individual member of the group. Outlets have one of the following combinations of interest rates for loans and savings.

Loans	Savings
18%	12%
24%	13%
30%	14%
36%	15%

One loan officer and one assistant are assigned full time to each outlet and are provided necessary transport for their field work.

IMPLEMENTATION

Uttara bank has implemented the village level group model in five outlets. The RFEP areas were chosen so that most villages are located within seven miles of the outlet. The outlets have made an average of 235 loans to 168 borrowers. About 4.4% of the borrowers are women. In total the five cutlets have loaned to 840 borrowers which is an estimated 33% of the target group households.Target group borrowers have received Tk 1,336,000 in loans. About 35% of this amount was used for non-agricultural purposes. Crop loans accounted for 27% of the total and 38% was borrowed for non crop agriculture.

The bank established goals for implementation of its model during the life of the project up to August 1982. The following table outlines these goals and shows the extent to which they have been achieved as of 30 September 1981.

Table 1
LENDING GOALS AND ACHIEVEMENT

Item	Goal	Achievement	Percentage of Goals
Number of loans	3,377	1,174	35%
Taka amount of loans	Tk 3,800,000	Tk 1,336,000	35
Number of loans per outlet	Tk 233-689	Tk 126-359	54% - 52%
Taka amount loans per outlet	Tk 300,000-800,000	Tk 267,200	89% - 33%

Uttara has been unable to achieve the growth in lending required to meet its target. Only two outlets have achieved even the minimum level of lending sought.

A sample of loan ledgers shows that about half of the loans are processed from application to disbursement in less than two weeks. The remainder in the sample required more than two weeks with some taking several months to process. A survey[1/] of 25 first time borrowers, indicated that it took 20% of the respondents less than a week for their loan to be processed. Four percent said that two weeks elapsed from application to disbursal and about three quarters said processing time exceeded two weeks. Because a group leader may be delegated to file the loan application at the bank branch, 20% of the borrowers said they did not visit the outlet. About the same proportion said they visited the outlet only once to obtain their funds. Another 40% said two visits were required. Twenty percent said it took three or more visits to the outlet to finalise their loan.

Table 2
LOAN PROCESSING TIME: APPLICATION-DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	20.0%
8 - 14	4.0
15 or more	76.0
Total	100.0

Table 3
NUMBER OF BANK VISITS TO OBTAIN LOAN

Visits	Percentage of Borrowers
0	20.0%
1	20.0
2	40.0
3 - 4	8.0
5 - 7	4.0
More than 7	8.0
Total	100.0

1/ Continuous Survey May - August 1981.

Of 1,174 loans, 202 or 17% are overdue. Of these overdue loans, 15% are less than six month in arrears, 7% are 6-12 months overdue and 78% are over 12 months old. The following table shows an analysis of overdue loans and reserve for bad debts as of 30 September 1981

Table 4
OVERDUE LOANS AND RESERVE FOR BAD DEBTS
CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000) Total	Bad Debt Reserve 25%	Bad Debt Reserve 50%	Bad Debt Reserve 100%	Loan Interest (Taka 000) Total	Bad Debt Reserve 25%	Total Reserve (000) Taka
Less than 6 months	30	20	5	-	-			
6-12 months	15	8		4	-			
12 months or more	157	96		-	96			
Total	202	124				81	20	125

The average delinquent loan has a balance of Tk 614 overdue. Over three quarters of the total taka amount overdue has been delinquent for more than a year. This must be fully covered by the reserve for bad debts and increasenthe required reserve substantially. The total reserve for bad debt of Tk 125,000 is slightly greater than the total overdue loan principal.

The following table shows the extent of savings by target and non-target group depositors. Ninety-five percent of the target group borrowers have savings accounts. Their deposits only average Tk 62,

Table 5
SAVINGS

	Number of Savers	Amount Saved	Avg Amount Saved
Target Group	790	Tk 49,162	Tk 62
Non-target Group	33	12,621	382
Total	823	61,785	75

but are the major source of RFEP savings for Uttara. Uttara outlets report only 33 non-target group savers with a total of Tk 389. The combined taka amount in savings deposits was Tk 61,785 and covered about 9% of loans outstanding.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	7.1%
Non-target Group	1.8
Total	8.9

The Uttara bank RFEP training program was initiated early in 1979. This was a three day meeting of branch managers, loan officers, and regional managers to provide information on the aims and objectives of RFEP, and to give instructions to the staff on procedures for meeting the objectives. In March 1980 the same participants plus head office staff met for two days for field training at Mymensingh. In November of the same year a similar meeting was held . A three day meeting was covered in March 1981 as a refresher course for old staff and orientation for new outlet staff. The outlet staffs attended field training sessions at Mymensingh and Tangail in April and May 1981.

FINANCIAL ANALYSIS

The total income earned by the Uttara bank during the 12 month period ending 30 September 1981 was Tk 161,000. Earnings averaged 28.1% on an average monthly balance of outstanding loans of Tk 570,000. The interest paid out on combined savings and other borrowed funds was Tk 70,000. The interest rate paid on savings alone was 9% and the interest rate on other borrowed funds was 12.5%. This cost of funds was 31% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 2%, and the cost of other funds was 29% of these operating expenses. Expenditures for salaries was 60% and other expenses 9% of the operating expenses excluding the reserve for bad debts.

The net loss for the Uttara bank for the 12 months was Tk 68,000 excluding the reserve for bad debts. When the reserve for bad debts is included the net loss was Tk 134,000. The bank sustained an average annual loss of 23.5% on its loans outstanding. The monthly outstanding loan balance would need to be nearly doubled for income to meet the total operating expenses. At the current lending level interest rates would have to be 51.8% for income to equal total operating expenses.

Table 7

SUMMARY OF UTTARA BANK PROFIT/(LOSS) ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)
(Taka in 000)

Income Earned (at 28.1%) 1/	161
Operating Expenses	
Interest paid	
On savings (at 9.0%) 2/	4
On borrowed funds (at 12.5%) 3/	66
Salaries	138
Other expenses	21
Sub-Total	229
Reserve for Bad Debts	66
Total Operating Expenses	295
Net Profit (Loss)	(134)
Average monthly balance of outstanding loans	570
% profit (loss) of average monthly outstanding loans.	(23.5%)
Average monthly balance of outstanding loans needed to cover total operating expenses	1050
Salaries and allowances as % of operating costs, less reserve	60.3%
Reserve for Bad Debts as % of total operating expenses.	22.4%
Interest rate needed to cover total operating expenses.	51.8%
Interest rate needed to cover operating expenses, less reserve.	40.2%

1/ Average rate of interest earned on loans outstanding

2/ Effective rate of interest actually paid on savings deposits

3/ Average rate of interest paid for the use of institutional funds

COMMENTS AND CONCLUSIONS:

Although Uttara has opened only 5 outlets during the project life, the model has received an adequate test. While the basic features appear to have been carried out, a key element, that of group guarantees, has not been properly applied. Currently, if one or more members of a group is delinquent in repaying his loan, the guarantees of the other members are not called, but the group can dissolve and reform around the remaining members. Thus one of the main features of the model has not been implemented and one of the principal benefits of group lending has not been achieved. Uttara's adoption of the current practice, while pragmatic, negates the concept of group lending.

Implementation of the model in the field has been poor. Less than one third of potential households have come forward to borrow, and the volume of loans per outlet is very low. As a result, the modest targets set for the model by the Head Office at the start of the project are unlikely to be achieved before project end. The principal reason for the low level of lending is that applicants have been obliged to form groups on their own initiative before the outlet staff will consider their applications. This has resulted in the long time period between applying for the loan and receipt of the funds. Although few borrowers have had to visit the outlet more than twice in order to secure their loans, the elapsed time between application and disbursement ranges up to four months. Thus, many potential borrowers are effectively discouraged from taking advantage of the credit available to them.

Although the overall situation on overdue payments is not good, the relatively low loan repayment rate is heavily influenced by especially poor performance at Mymensingh and Feni outlets. These outlets account for 98% of overdue loans. Even more serious is that 78% of the overdue loans are more than 12 months in arrears. Experience shows such loans to be most difficult and costly to recover and should probably be written off as uncollectable.

The target group borrowers are required to open a savings account, but the low average savings balance indicates that borrowers have little enthusiasm for saving and there is little attempt by officials to promote savings. The almost total disregard for RFEP savings mobilization is seen in the very low number of non-target savers. This inattention to savings is a major deficiency in outlet operations.

Uttara has provided more training than most institutions under RFEP. It is one of only three institutions to have carried out operational field training at the outlets. Despite this, performance has been poor even though the background and experience of the staff employed has been good. There are two reasons for this. First, successful organization of group lending programs requires specialized training on the philosophies, concepts and procedures in this approach. It is difficult to impart such knowledge and ensure its successful application. Training specialists are required and these are in short supply in Bangladesh. Especially careful supervision of outlets is initially required under a group lending program 1/. Although Uttara has provided some supervision, much more is needed.

The dual effects of low taka loan volume and high overdues can be clearly seen in the overall financial status of the institution. Income from loans does not cover expenses, even excluding the reserve for bad debts. Salaries and other expenses are being carried by a small volume of business. The taka loan amount would need to nearly double to generate sufficient income to reach the break even point. At the present time, Uttara bank is losing money steadily on its RFEP operations, and only the 1/3 plus 1/3 payments are preventing the bank from using its own funds to cover these losses.

1/ Experience from Comilla in the early 70's showed how reduced supervision on the part of the project organizers contributed to the increasing difficulties faced by the groups.

The institution has been unable to overcome the difficulties and special demands such a model requires; demands which may lie more in the field of community development rather than in banking. Uttara has found it difficult to implement the group lending concept and therefore has had to adopt a compromise system. This approach may be successful only at a high cost over a long period of time. It requires engaging a staff with special non-financial skills and experience which a banking institution may be reluctant to do. The failure to recognize and vigorously address these special requirements is clearly reflected in the institution's current net loss of 23.5% of average monthly outstanding loans.

MODEL: COOPERATIVE LENDING

PARTICIPATING INSTITUTION: INTEGRATED RURAL DEVELOPMENT PROGRAM (IRDP)

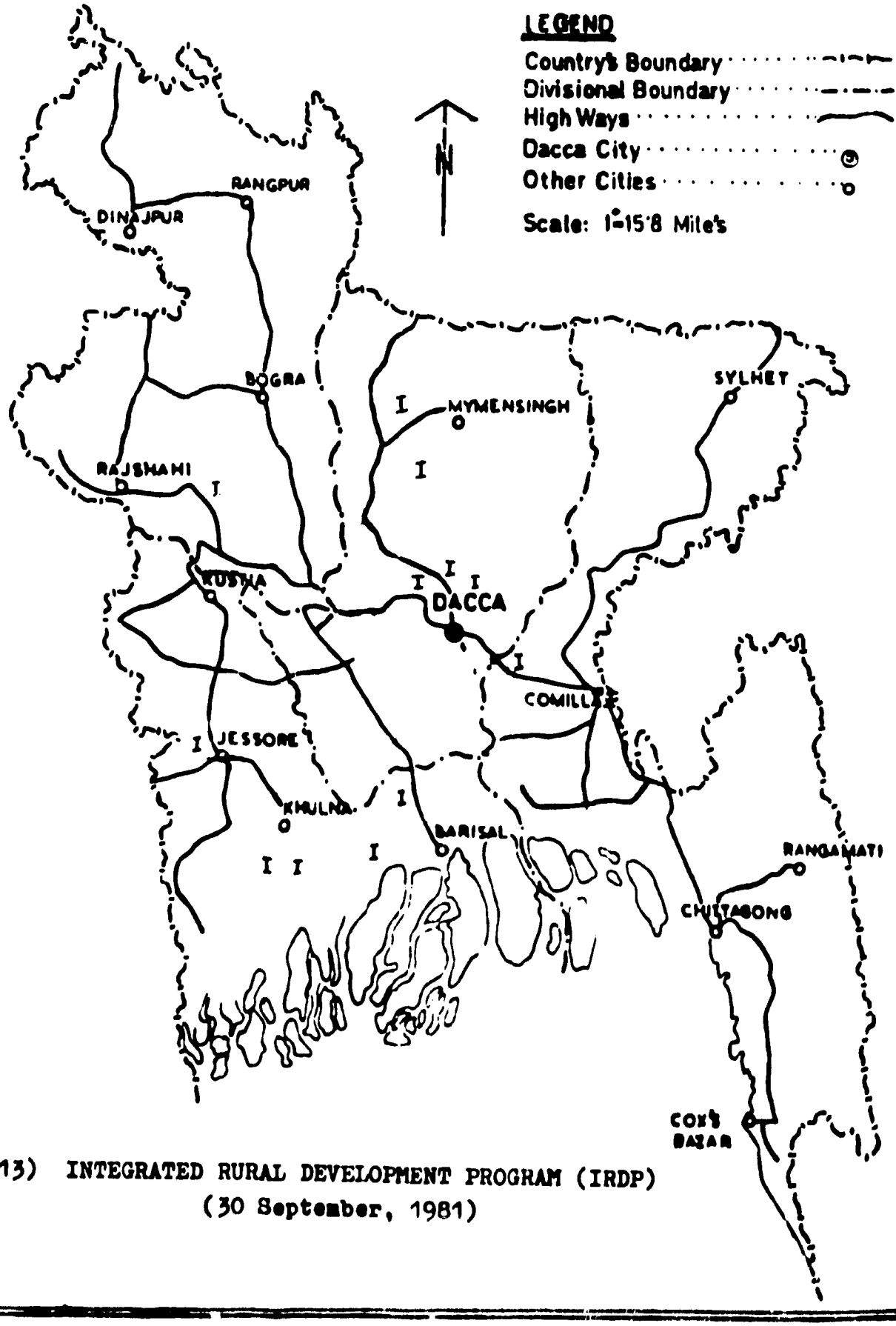
DATA SUMMARY

1.	Loan Interest Rates	18%, 24%, 30% *
2.	Savings Interest Rate	12%
3.	Number of Outlets	13
4.	Number of Loans	6,442
5.	Number of Borrowers	3,144
6.	Percentage of Women Borrowers to Total Borrowers	10.5%
7.	Percentage of Households Borrowing to Total Target Group Households	59.6%
8.	Total Taka Loaned	Tk 6,508,000
9.	Percentage of Loan Volume for Crops	52.9%
10.	Percentage of Loan Volume for Other Agriculture	21.4%
11.	Percentage of Loan Volume for Non-Agriculture	25.7%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 419,666 1/
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	12.4%
14.	Percentage of Administrative Costs to Total Loans Disbursed	3.2%
15.	Administrative Cost per Loan Disbursed	Tk 32.5
16.	Percentage of Principal Overdue to Total Amount which has fallen due	4.4%
17.	Estimated Profit/(Loss) 12 Months (October 1980 through September 1981)	Tk 237,000

1/ Share capital of Tk 218,000 is not included.

* Based on purpose of loan not on fixed outlet rate.

BANGLADESH



(13) INTEGRATED RURAL DEVELOPMENT PROGRAM (IRDP)
(30 September, 1981)

FEATURES

The cooperative lending under IRDP sponsorship is a two level approach. The Thana Central Cooperative Associations (TCCAs) are the administrative organizations which coordinate and monitor the local Krishi Samabaya Samity's (KSSs-Agricultural Cooperative Societies). Members of the KSS who are also in the target group are eligible for RFEP loans. Staffing consists of KSS managers, TCCA inspectors and the village accountant all of whom are employed on a part-time basis and assisted part-time by other TCCA staff. The TCCA inspector and village accountant are paid employees of the TCCA. The KSS managers receive a commission of 1% and the KSS receives 2% of the amount of loan principal that is repaid by borrowers.

Loan applications are completed in the KSS offices. A production plan is prepared for the group by the KSS manager who is assisted by the TCCA inspector. Loans are approved by the IRDP project manager at the district level. Funds are disbursed at the KSS offices after the loan is approved. Loan size depends on the specific enterprise. Crop loan ceilings are Tk 1,350 per loan. For other activities the amount varies from Tk 250 to Tk 5,000. Loan supervision is provided as required by IRDP regulations.

Each KSS has three interest rates. The type of loan or purppse determines the interest rate to be charged and members are required to open savings accounts when they obtain a loan. Interest rates for loans and savings are:

	Loans	Savings
Crops	18%	
Other agriculture	24%	12%
Non-agriculture	30%	

Non-Target depositors receive only 7% interest on their deposits.

IMPLEMENTATION

IRDP has offered its cooperative lending under the RFEP to 58 KSS served through 13 of its TCCA's. These 13 each have an average of 242 client borrowers. The KSS's average about 54 borrowers each. The total of IRDP client borrowers is 3,144 of which 10.5% are women. IRDP serves 60% of its eligible target borrowers. There have been 6,442 loans totalling Taka 6,508,000. This is an average of Tk 1,010 per loan. About 74% of the loan volume was borrowed for agricultural purposes. This was nearly evenly divided between crop and non-crop purposes. Non-agricultural loans accounted for 26% of the loan volume.

Certain targets have been laid down for lending during the project as detailed in the table below.

Table 1
LENDING GOALS AND ACHIEVEMENT

Item	Goal	Achievement	Percentage of Goals
Number of loans	7,071	6,442	91%
Taka amount of loans	Tk 7,940,000	Tk 6,508,000	82%
Taka amount of loans per outlet	Tk 600,000	Tk 500,600	83%

With a continuation of this level of performance the IRDP will probably achieve its goals by the end of the project. Some of the outlets have already reached or exceeded their lending targets.

A sample of IRDP's loan ledgers shows that loans require about two months processing time from application to disbursement. In a survey of 71 borrowers,[1/] about half said it took more than two weeks for their loan to be processed. Thirty-seven percent said it took up to two weeks to process, and 18% recalled that it required only one week. About 13% of the respondents said that because of the group lending procedure they made no visit to the outlet. Twelve percent of the respondents said they made one visit to the outlet to obtain their loan. Fifty five percent reported that they traveled to the outlet twice and 20% said they made 3 or more visits before receiving their loan.

Table 2
LOAN PROCESSING TIME: APPLICATION - DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	18.3%
8 - 14	36.6
15 or more	45.1
Total	100.0

Table 3
NUMBER OF BANK VISITS TO OBTAIN LOAN

Visits	Percentage of Borrowers
0	13.3%
1	11.7
2	55.0
3-4	13.3
5-7	5.0
More than 7	1.7
Total	100.0

1/ Continuous survey - May to August, 1981.

Of 6,442 loans 2.4% are overdue. Most of these overdue loans are less than six months in arrears: Nearly 96% are less than 6 months old, 4% are six months to a year overdue and less than 1% are more than a year overdue. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4

OVERDUE LOANS AND RESERVE FOR BAD DEBTS
CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000)				Loan Interest (Taka 000)		Total Reserve (000) Taka
		Total	Bad Debt Reserve 25%	50%	100%	Total	Bad Debt Reserve 25%	
Less than 6 months	150	141	35	-	-			
6-12 months	6	1		0.5	-			
12 months or more	1	1	-	-	1			
Total	157	143				43	11	47.5

The average deliquent loan has a balance of Tk 911 overdue. About 98% of the taka amount is less than six months overdue and requires only a 25% reserve for bad debts. Out of the total of Tk 143,000 overdue only Tk 47,500 is being held by the bank as reserve for bad debts. This is only 33% of the loan principal overdue.

The table below shows the extent of savings by target and non-target group.

Table 5
SAVINGS

	Number of Savers	Amount Saved	Avg Amount Saved
Target Group	3,565	Tk 306,583	Tk 86
Non-target group	1,156	113,083	98
Total	4,721	419,666	89

The number of savers in the target group was about three times as great as non-target savers, but the average saved is about the same. In each case the average savings is less than Tk 100. The following tables shows the percentage of savings to loans outstanding by target group and non-target group.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	9.1%
Non-target group	3.3
Total	12.4

The IRDP training program was launched in November 1978 with a one day orientation training session for Thana Project Officers, deputy project officers and TCCA inspectors. The subjects covered included background and objectives of the RFEP, determination of the target group within the KSS and implementation of procedures for meeting the objectives. A training session in May 1979 for Thana Project Officers and deputy officers developed the technical procedures in more detail. A review and reorientation session was convened in October 1980 which included Thana Officers, TCCA accountants and inspectors. The same functionaries were called together in May 1981 for a one day meeting to discuss problems in implementing procedures.

FINANCIAL ANALYSIS

The total income earned by the IRDP during the 12 month period ending 30 September 1981 was Tk 666,000. Earnings averaged 19.1% on an average monthly balance of outstanding loans of Tk 2,953,000. The interest paid out on combined savings and other borrowed funds was Tk 282,000, which is 8.3% of outstanding loans. The interest rate paid on savings alone was 6.4% and the interest rate on other borrowed funds was 10.0%. This cost of funds was 68% of total expenses excluding the reserve for bad debts. The expenditures for the savings portion of the funds was 6%, and the cost of other funds was 60% of these operating expenses. Expenditures for salaries was 21% and other expenses 8% of the operating expenses excluding the reserve for bad debts.

The net profit for the IRDP was Tk 272,000 excluding the reserve for bad debts. When the reserve for bad debts is included the net profit was Tk 237,000. The bank's average annual profit was 6.1% on its loans outstanding. The monthly outstanding loan balance could be reduced nearly one third and would continue to meet the total operating expenses. At the current lending level interest rates could be reduced to 13% and income would still equal total operating expenses.

Table 7

SUMMARY OF IRDP PROFIT/(LOSS) ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)
(Taka in 000)

Income Earned (at 22.7%) 1/	666
Operating Expenses	
Interest paid	
On savings (at 6.4%) 2/	23
On borrowed funds (at 10.0%) 3/	259
Salaries	83
Other expenses	29
Sub-Total	394
Reserve for Bad Debts	35
Total Operating Expenses	429
Net Profit (Loss)	237
Average monthly balance of outstanding loans.	2,953
% profit (loss) of average monthly outstanding loans.	8.0%
Average monthly balance of outstanding loans needed to cover total operating expenses.	1,890
Salaries and allowances as % of operating costs, less reserve.	21.1%
Reserve for Bad Debts as % of total operating expenses.	8.2%
Interest rate needed to cover total operating expenses.	14.5%
Interest rate needed to cover operating expenses, less reserve.	13.3%

1/ Average rate of interest earned on loans outstanding.
2/ Effective rate of interest actually paid on savings deposits.
3/ Average rate of interest paid for the use of institutional funds.

COMMENTS AND CONCLUSIONS

The objective of this model was to test a credit system primarily for landless persons, sharecroppers and women within the context of a cooperative system. The newly formed KSS's have included considerable numbers of these particularly disadvantaged persons as member. The key features have been closely adhered to except that in many cases the commissions earned by KSS managers were not promptly paid. IRDP, with 10.5% women borrowers, is the only institution to achieve or exceed the target figure of 10% indicated in PIL 15 of July 1980.

Although an estimated 60% of the target group has borrowed through this program this is only a total of 3,144 borrowers, an average of only 242 borrowers per outlet. This relatively small number of borrowers is partially the result of a small target group population and the relatively few persons who have joined the cooperative. On the other hand, there was an average of two loans per borrower, the highest rate of repeat borrowing in the project. The modest lending goals set by the Head Office had nearly been met by the end of the third quarter 1981. With a continuation of the current level of lending these goals will undoubtedly be exceeded by project end.

A sample of loan ledgers and a survey of borrowers indicates that IRDP has one of the longest loan processing periods in the project. Borrowers must submit their requests to the KSS manager. It is then submitted to the TCCA inspector and the IRDP Project Officer at the TCCA office. From there the loan applications must be sent to the Project Director at the regional level. Theoretically the procedure can be completed in less than two weeks, but field experience shows a much longer time required. This is essentially a three tier approval procedure and delays can occur at any point.

IRDP had exceptionally few overdue loans with only 143 thousand taka overdue. About 98% of this amount was less than six months overdue and the reserve carried for principal and

interest was about Tk 48,000. IRDP's record of recovery of old overdues is very good. In June 1981 over 75% of the taka amount of overdues was six months or more delinquent. By the end of September 1981 less than two percent was six months or more overdue. Overdues were found at only seven of the 13 outlets. Burhanuddin and Natore accounted for about 68% of the number of overdue loans.

IRDP has a greater number of savers than borrowers as a result of the cooperative system. Although the number of savers is large, the average deposit was only Tk 86. This was about 9% of the loans outstanding. The non-target groups deposits averaged only Tk 98 which was one of the lowest in the project. This low level of saving by non-target borrowers may result from the fact that the TCCA pays only 7% interest to non-target savers and 12% interest to target group savers.

Specific training of the RFEP concept has been minimal at IRDP outlets. Training has been primarily brief orientation sessions at the TCCA level. The RFEP model that IRDP is testing is essentially the same system that it has used formerly and there are few new concepts to be introduced to the staff. Many outlets have weekly training sessions for all KSS managers and this continuous contact is very valuable and contributes to the generally high level of performance.

Although the level of lending at IRDP has not been particularly high, it has generated a profit of 8% on an average monthly balance of Tk 2,953,000 of outstanding loans during the 12 month period ending 30 September 1981. This is a result of lending at an effective rate of 22.7%, paying less than 10% on borrowed funds and savings, and minimizing salary costs by maintaining part-time staffs. For the full project period up to the end of the third quarter 1981 administrative costs were only 3.2% of total loans disbursed. The very low taka amount of overdue loans and the relatively short period of deliquency requires only a small reserve for bad debts. This avoids one of the major operating expenses burdens faced by other institutions.

The IRDP model has been successful in lending to the target group at low cost, recovering the loans and earning a good income from the operations. It is deficient in mobilizing savings from the non-target group, which may be due to the low rate of interest offered. Although IRDP has collected loans and generated a profit, the proportion of the target group served and level of lending are very low. This demonstrates an inability to motivate target group members in the outlet area to join the primary cooperatives in large numbers. The problems in attracting membership has been strongly influenced by the lengthly loan processing periods. Delegation of authority to the TCCA staff would speed up the process and probably attract more target group households to join the KSS's. A substantial increase in the number of borrowers and taka amount of loans would make this a successful group lending model.

MODEL: COOPERATIVE LENDING

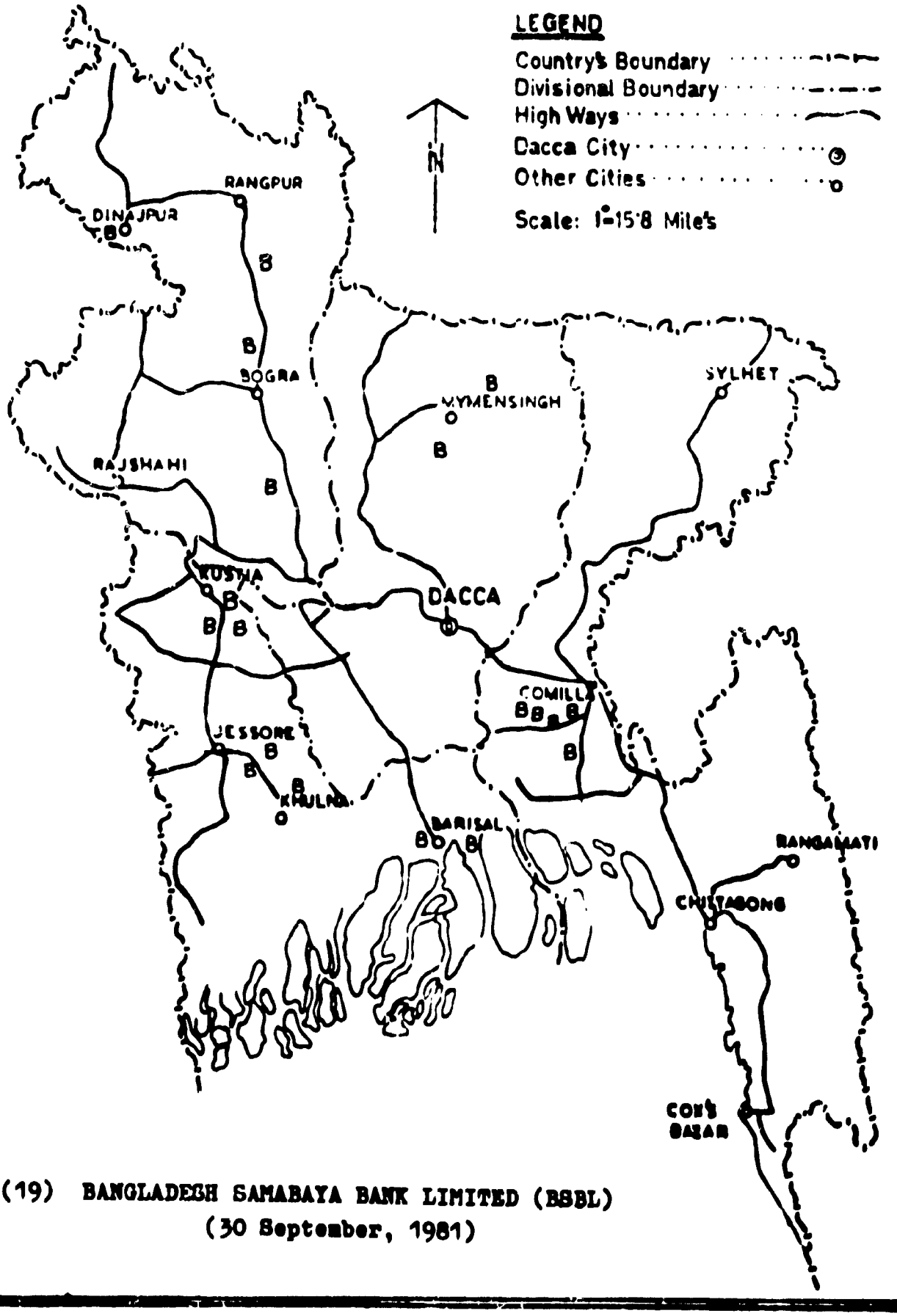
PARTICIPATING INSTITUTION: BANGLADESH SAMABAYA BANK LIMITED (BSBL)

DATA SUMMARY

1.	Loan Interest Rates	12%, 18%, 24%, 30%
2.	Savings Interest Rate	12%
3.	Number of Outlets	19
4.	Number of Loans	3,821
5.	Number of Borrowers	2,917
6.	Percentage of Women Borrowers to Total Borrowers	3.4%
7.	Percentage of Households Borrowing to Total Target Group Households	45.0%
8.	Total Taka Loaned	Tk 8,025,000
9.	Percentage of Loan Volume for Crops	27.9%
10.	Percentage of Loan Volume for Other Agriculture	3.3%
11.	Percentage of Loan Volume for Non Agriculture	68.8%
12.	Total Taka Deposited in Savings Accounts as of 30 September 1981	Tk 154.059 1/
13.	Percentage of Savings to Loans Outstanding as of 30 September 1981	2.6%
14.	Percentage of Administrative Costs to Total Loans Disbursed	3.0%
15.	Administrative Cost per Loan Disbursed	Tk 62.7
16.	Percentage of Principal Overdue to Total Amount which has fallen due	36.4%
17.	Estimated Profit/ (Loss) 12 Months (October 1980 through September 1981)	Tk(248,000)

1/ Share capital of Tk 61,000 is not included.

BANGLADESH



(19) BANGLADESH SAMABAYA BANK LIMITED (BSBL)
(30 September, 1981)

FEATURES

BSBL, through some of its 80 Central Cooperative Banks (CCBs), lends money to members of the Primary Cooperative Societies (KSS) and Union Cooperative Multi-purpose Societies (UCMPS)1/. Only members of the societies who are also in the target group are eligible for loans. Thus a person who is in the target group, but who is not a society member, must first join the society at a cost of Tk 16 before he can be granted a loan. The staff is comprised of the society managers, the CCB officers and the BSBL assistant loan officers. The staff works on a part time basis and provides loan supervision. The CCB gets 3% of the interest collected from project loans, the KSS gets 2% and an additional 2% goes to the society managers as a commission. This totals 7%. The balance of the interest earned goes to BSBL headquarters. The society offices are located within 5 miles of the villages being served.

Cooperative Society managers are responsible for completing loan applications along with the applications and production plans. These are submitted through the CCB to BSBL headquarters office in Dacca for approval by the general manager. Funds are disbursed at the Cooperative Society offices. Loan limits depend on the specific enterprise. The limit for crops is Tk 2,000. For other activities, the loan size is determined by the production plan up to a maximum of Tk 8,000.

Interest rates charged depend on the loan purpose rather than the outlet location. Crop loans are generally disbursed at 12% and 18%, other agricultural loans at 24% and non-agricultural loans at 30%. All livestock loans are charged at 30%. Savings are required from all society members obtaining loans. Loan and Savings interest rates are:

Loans	Savings
12%	
18%	12%
24%	
30%	

1/ A KSS or UCMPS is considered an outlet by BSBL for this project.

IMPLEMENTATION

BSBL has established 19 outlets which serve 2917 borrowers, an average of 154 borrowers per outlet[1/]. This is an estimated 45% of the households that are eligible to borrow under this project. Women comprise 3.4% of the borrowers. These outlets disbursed Tk 8,025,000 in 3821 loans, averaging Tk 2,100 per loan. About 32% of the funds disbursed were for agricultural purposes with all but 4% of that amount loaned for crops. Non-agricultural loans made up 68% of the loan volume but as stated above, this includes livestock loans.

In relation to its targets for disbursements, BSBL has already exceeded the loan volume target as shown in the table below:

Table 1
LENDING GOALS AND ACHIEVEMENTS

Item	Goal	Achievement	Percentage of Goals
No. of loans	4,376	3,821	87%
Volume of loans	Tk 5,050,000	Tk 8,025,043	159

Although the number of loans is only 87% of the target, the Taka disbursement has been exceeded because the average loan size has been the largest among all institutions. The current practice by BSBL has been to give large sized loans to applicants regardless of the purpose.

A sample of loan ledgers shows that the processing of most BSBL loans from application to disbursement exceeds 40 days. In a survey of 157 borrowers, 2% said that they received their loan

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1/ Six old outlets have been closed to lending because of poor performance and have been replaced by six new outlets.

funds within two weeks from date of application. Ninety-eight percent said it took more than two weeks from the time they applied for the loan until disbursal. About 9% of the borrowers were not required to visit the outlet office to obtain a loan. About a quarter of the respondents said they visited the office one or two times before receiving their funds. A quarter said they made three/four trips and 30% stated that they visited the outlet office seven or more times before they received their loans.[1/]

Table 2

LOAN PROCESSING TIME: APPLICATION - DISBURSEMENT

Days	Percentage of Borrowers
1 - 7	0.6%
8 - 14	1.3
15 - or more	98.1
Total	100.0

Table 3

NUMBER OF BANK VISITS TO OBTAIN LOAN

Days	Percentage of Borrowers
0	9.1%
1	0.6
2	25.3
3 - 4	26.0
5 - 7	9.1
7 or more	29.9
Total	100.0

1/ Office here means the office from which the assistant loans officer works, not the KSS Manager's or UCMPS Secretary's office.

Of 3,821 loans 50% are overdue. Most of these overdue loans are less than six months in arrears: less than 6 months, 79%; 6-12 months, 9%; and over 12 months, 12%. The following table shows an analysis of overdue loans and reserve for bad debts.

Table 4

OVERDUE LOANS AND RESERVE FOR BAD DEBTS
CUMULATIVE TO 30 SEPTEMBER 1981

Debt Age	Number of Loans	Loan Principal (Taka 000) Total	Bad Debt Reserve 25%	Bad Debt Reserve 50%	Bad Debt Reserve 100%	Loan Interest (Taka 000) Total	Loan Interest (Taka 000) Bad Debt Reserve 25%	Total Reserve (000) Taka
Less than 6 months	1528	970	243	-	-			
6-12 months	177	127	-	63	-			
12 months or more	223	155	-	-	155			
Total	1928	1,252				176	44	505

The average delinquent loan has a balance of Tk 649 overdue. Twelve percent of the overdue loans were a year or more overdue and averaged Tk 695, all of which is covered by the reserve for bad debts. The total cumulative reserve for bad debts of Tk 505,000 is 40% of the overdue loan principal.

The table below shows the extent of savings by target and non-target groups. Savings are compulsory from target group members. Non-target group persons are not eligible to open a savings account.

Table 5
SAVINGS

	Number of Savers	Amount Saved	Avg.Amount Saved
Target Group	3,869	Tk 154,059	Tk 40
Non-target group	-	-	-
Total	3,869	154,059	40

The table below shows that savings deposits were about 2.6% of loans outstanding.

Table 6
SAVINGS TO LOANS OUTSTANDING

Target Group	2.6%
Non-target Group	-
Total	2.6

The BSBL training program was initiated in August 1978 with a six day course for KSS managers, assistant loan officers and loan supervisors. The subjects discussed included aims and objectives of the RFEP, and the procedures for meeting these objectives. Refresher courses on the same topics were given in January 1979, and November 1979. In September and December 1981 short specialised courses were given for loan officers and supervisors.

FINANCIAL ANALYSIS

The total income earned by BSBL during the 12 month period ending 30 September 1981 was Tk 939,000. Earnings averaged 25.4% on an average monthly balance of outstanding loans of Tk 3,690,000. The interest rate on borrowed funds was 18.4% and the total cost of these funds was Tk 663,000. This was 85% of total expenses excluding the reserve for bad debts. Expenditures for salaries was 11% and other expenses 4% of the operating expenses excluding the reserve for bad debts.

The net profit for BSBL during this period was Tk 159,000 excluding the reserve for bad debts. When the reserve for bad debts is included the net loss was Tk 248,000. The bank's average annual loss was 6.7% on its loans outstanding. The monthly outstanding loan balance was about 20% less than needed for income to meet the total operating expenses. At the current lending level interest rates need to be increased to 34.3% for income to equal total operating expenses.

Table 7

SUMMARY OF BSBL PROFIT/LOSS ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPTEMBER 1981)
(Taka in 000)

Income Earned (at 25.4%)1/	939
Operating Expenses	
Interest paid	
On savings (at 0.0%)2/	-0-
On borrowed funds (at 18.4%)3/	663
Salaries	85
Other expenses	32
Sub-Total	780
Reserve for Bad Debts	407
Total Operating Expenses	1,187
Net Profit (Loss)	(248)
Average monthly balance of outstanding loans	3,690
% profit (loss) of average monthly outstanding loans	(6.7%)
Average monthly balance of outstanding loans needed to cover total operating expenses	4,673
Salaries and allowances as % of operating costs, less reserve	10.9%
Reserve for Bad Debts as % of total operating expenses	34.3%
Interest rate needed to cover total operating expenses	32.2 %
Interest rate needed to cover operating expenses, less reserve	21.1 %

1/ Average rate of interest earned on loans outstanding.
2/ Effective rate of interest actually paid on savings deposits.
3/ Average rate of interest paid for the use of institutional funds.

COMMENTS AND CONCLUSIONS

The original concept of this model was to provide a lending cooperative primarily for landless share croppers and women. However, it has deviated widely from this rather narrow concept. There is only one KSS for women and about 63% of the women borrowers in the program belong to this KSS. Overall, only 3.4% of all borrowers are women. This strikingly low proportion of women borrowers points to a lack of commitment in involving women in the program. Many of the other members are neither landless nor share croppers.

BSBL has experienced severe performance problems at six of its outlets. These outlets were closed in 1980 because of either low loan disbursements or because of loan repayment problems. New outlets were opened in 1981 to replace the ones that had failed. The problem of overdue loans is exacerbated by the failure of BSBL to pay the KSS managers their commissions for collecting loan payments. Problems with loan disbursements were due in part to the very cumbersome and time consuming approval and disbursal procedures.

While the amount of Taka loaned has been high, the number of borrowers per outlet has been small. The high amount of lending achieved has been reached through larger than the average RFEP loans of the other institutions. On the other hand, the inconvenience and indirect costs for the borrowers are high. This is due to the approval procedures which are lengthy and centralised. Many borrowers would turn to other sources of credit if it were not for the pressure from society members. This view is strongly supported by field interviews with borrowers who claim that disbursements take too long and where crop loans are concerned, the delay is very damaging 1/.

1/ At Charkaliburi outlet in Mymensingh, the society applied for Aman crop loans in May 1981. Approval was not given until August 1981 and funds not disbursed until late September 1981, well after the planting season for the crop concerned.

Given the delays in disbursements, the high rates of overdues is quite understandable both from the standpoint of the borrowers attitudes and the economic condition of their enterprises. Overdues occur at all outlets, but most overdues are less than six months old and thus many are probably late payments rather than bad debts. Another factor here is that sometimes society managers are slow in transferring payments from the borrowers to the outlet office[1/].

The number of savers exceeds the number of borrowers because society members who do not borrow can still save under the project program. It appears from the average size of deposits however, that little effort is made to encourage additional savings. A feature of BSBL's savings policy which hampers savings mobilization is that interest on savings is only paid when the balance reaches Tk 100[2/]. Thus by not encouraging savings on the one hand and maintaining the Tk 100 minimum before interest is paid, savings by BSBL clients is discouraged. Further non-target depositors have not been solicited under BSBL's model. The overall conclusion is that the BSBL has taken little interest in the savings component of the RFEP.

Although BSBL has held as many training sessions under RFEP as any other institution, and has included society managers in the program, performance has not reflected this. Despite extensive assistance and auditing of accounts many BSBL outlets have failed to maintain their books in an acceptable manner[3/]. At another level, assistant loan officers tend to see themselves as merely conduits for applications from the societies to the CCB's and then simply loan collection agents. Many of the problems faced by BSBL can be attributed to management factors. First, the field staff has no authority to act independently. All decisions are centralised and often delayed. This affects the morale of the staff and the society

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1/ See audit reports.

2/ It has been recommended on many occasions that the balance be lowered to Tk 10. See audit reports.

3/ The consultant has recently recommended all disbursements under the project grant to BSBL be suspended until accounting procedures improve.

members alike. Management problems are compounded by part-time outlet staffs and irregular supervisory support from the CCB's or BSBL's Head Office. The failure to adequately supervise or pay commissions to society managers is yet another problem which adversly affects performance.

Despite the high level of lending, BSBL's operation is currently non-viable and losses are very considerable. Although the part-time staff reduces the salary and other administrative expenses, the heavy reserve for bad debts means that costs cannot be met from income earned. It should be noted that no other institution, where the lending levels are comparable, is obliged to have such a high reserve. Furthermore if BSBL's expenses were in line with the other institutions, it would be even less profitable. Either the average monthly balance of outstanding loans would need to increase by over 25% or overdues would need to be more than halved before income would be sufficient to cover expenses.

SECTION II CROSS MODEL ANALYSIS

Introduction:

The principal purpose of this project is to identify one or more replicable model rural financial systems best able to meet the financial needs of the productive and potentially productive rural poor. The conditions indicating that the project purpose has been achieved is the identification of at least one rural finance system or a combination of more than one which demonstrates its ability to meet these needs. There are four criteria by which the models can be measured. They are the ability to :-

- Extend credit as needed to the target group
- Recover the resources lent on time and with interest
- Cover all its costs from interest earned and other charges equitably levied.
- Finance expanded operations through the effective mobilization of rural savings.

The preceeding section examined each of the models and institutions separately in some detail. Each model was examined to see how far its key features had been carried out. The performance of the institution was also examined in financial terms. This section looks at the performance of each model and institution as it compares with the other eight project participants.

The main analytical tool used is the ranking of institutions by various indices of performance. Certain indices are of interest in their own right. Others are more interesting for their explanatory value. Each of the four criteria will be separately examined and the section will conclude with an overall evaluation of the models and institutions.

Extending Credit to the Target Group

The table below gives the total picture of the extent of operations at each of the participating institutions.

Table 1
SCOPE OF BORROWING

Institution	Number of Outlets	%	Total Number of Borrowers	%	Total Number of Loans	%	Tk (000) Volume of loans	%
Krishi	16	16.7%	11,812	33.6%	18,720	34.3%	31,933	37.3%
Sonali	10	10.4	5,984	17.0	7,874	14.4	14,858	17.4
Janata	11	11.5	1,386	3.9	2,188	4.0	3,867	4.5
Agrani	11	11.5	4,513	12.8	7,160	13.1	8,741	10.2
Pubali	4	4.1	2,282	6.5	3,861	7.1	5,470	6.4
Rupali	7	7.3	2,301	6.6	3,378	6.2	4,815	5.6
Uttara	5	5.2	840	2.4	1,174	2.1	1,336	1.6
IRDP	13	13.5	3,144	8.9	6,442	11.8	6,508	7.6
BSBL	19	19.8	2,917	8.3	3,821	7.0	8,025	9.4
Total	96	100.0	35,179	100.0	54,618	100.0	85,553	100.0

Krishi has carried out by far the largest operation, disbursing over one third of loans and serving one third of all borrowers even though it has only one sixth of the outlets. Sonali is the next largest serving about 17% of borrowers through 10% of the outlets. Agrani, Pubali and Rupali have disbursed funds in line with the number of outlets opened, but Janata, Uttara, BSBL and IRDP have disbursed proportionally fewer loans to fewer borrowers. Janata and BSBL particularly lag in this respect. Together they have opened 30% of all outlets but have only disbursed exactly 11% of loans to 12% of all borrowers.

The three tables below rank the institutions on a per outlet basis.

Table 2
LOANS PER OUTLET

Institution	Loans per outlet
Krishi	1170
Pubali	965
Sonali	787
Agrani	651
IRDP	495
Rupali	483
Uttara	235
BSBL	201
Janata	199
Average	569

Table 3
BORROWERS PER OUTLET

Institution	Borrowers per outlet
Krishi	738
Sonali	598
Pubali	571
Agrani	410
Rupali	329
IRDP	242
Uttara	168
BSBL	154
Janata	126
Average	366

Table 4
VOLUME OF LOANS PER OUTLET (TAKA 000'S)

Institution	Volume
Krishi	1996
Sonali	1486
Pubali	1368
Agrani	795
Rupali	688
IRDP	501
BSBL	422
Janata	352
Uttara	267
Average	891

Krishi and Sonali remain the dominant institutions. Pubali too has achieved a very high volume of lending at each outlet though its overall performance is low as only four outlets have been opened. Pubali has been somewhat hesitant to commit itself to such rural lending wholeheartedly at least during this experimental program. Agrani, Rupali and IRDP have achieved a reasonable volume of lending per outlet, although only at half the level achieved by the first three institutions. In the case of Agrani and Rupali, the policy has been to proceed at a slower but steady pace. Uttara, BSBL and Janata have achieved only low levels of lending - all lend to groups[1/] and also their commitment towards RFEP has been much less than other institutions.

The next table ranks the average size of loans for each of the institutions.

Table 5

AVERAGE SIZE OF RFEP LOAN PER INSTITUTION

Institution	Average size of loan(Taka)	% of average size
BSBL	Tk 2100	134%
Sonali	1887	121
Janata	1767	113
Krishi	1706	109
Rupali	1425	91
Pubali	1417	90
Agrani	1221	78
Uttara	1138	73
IRDP	1010	64
Average	1566	100

1/ See chapter on Group Lending and Sociological Observations.

BSBL, Sonali, Janata and Krishi loans all exceed the average, not that the average is very high ($ 105.00 only)1/. There are variations according to purpose as the next table shows :

Table 6
AVERAGE SIZE OF LOANS FOR EACH PURPOSE
(TAKA)

Institution	Crop Loans	Other-Agr. loans	Non-Agr. loans
Krishi	1123	1837	1915
Sonali	1551	1830	2308
Janata	1301	1731	2702
Agrani	1053	1303	1310
Pubali	897	2022	1516
Rupali	1075	1765	1449
Uttara	1173	1150	1098
IRDP	961	835	1406
BSBL	1192	2641	2994
Average	1092	1713	1892

On average, other agricultural loans are 57% larger than crop loans and non-agricultural loans are 73% larger. The pattern is the same for most institutions except Pubali where other agricultural loans are very large and IRDP where other agricultural loans are smaller than crop loans.

Of course activities cost different amounts to finance and livestock as well as various transport and cottage industries require larger sums of money than for crops. Institutions may well have erred on the side of caution in disbursing RFEP loans and certainly many borrowers feel their loans are inadequate2/.

1/ Currently Tk 20 = $ 1.00

2/ See Sociological Observations

Average loan size is, to a considerable degree, related to the make up of the institutions' overall portfolio. The three tables below rank the institutions according to the number and amount of loans for each purpose.

Table 7

NUMBER AND VOLUME OF CROP LOANS AS PERCENTAGE OF TOTAL PORTFOLIO

Institution	% Number	% Volume
IRDP	55.9%	52.9%
BSBL	49.0	27.9
Janata	42.0	31.0
Pubali	34.3	21.7
Agrani	34.2	29.4
Sonali	33.5	27.5
Rupali	28.9	21.8
Uttara	26.2	27.1
Krishi	21.5	14.1
Average	33.1	23.1

Table 8

NUMBER AND VOLUME OF AGRICULTURE RELATED LOANS AS PERCENTAGE OF TOTAL PORTFOLIO

Institution	% Number	% Volume
Krishi	49.8	53.7
Uttara	37.6	38.1
Janata	35.5	34.8
Sonali	34.9	33.9
Rupali	26.8	33.2
IRDP	25.9	21.4
Agrani	22.9	24.4
Pubali	22.3	31.9
BSBL	2.6	3.3
Average	33.8	37.0

Table 9
NUMBER AND VOLUME OF NON-AGRICULTURAL LOANS
AS PERCENTAGE OF TOTAL PORTFOLIO

Institution	% Number	% Volume
BSBL	48.3	68.8
Rupali	44.3	45.0
Pubali	43.2	46.4
Agrani	43.0	46.2
Uttara	36.1	34.8
Sonali	31.5	38.6
Krishi	28.6	32.2
Janata	22.4	34.2
IRDP	18.4	25.7
Average	33.0	39.9

Although one third of loans have been for each of these categories overall,the variations among institutions are considerable. Krishi, Rupali, and Uttara have made fewer than average crop loans, while Janata, IRDP and BSBL have made proportionally more. Krishi has made a very large number of other-agricultural loans, while Agrani, Pubali, Rupali, IRDP and especially BSBL[1/] have made proportionally fewer than average. Given the overall size of Krishi's operations, their preponderance of ' other-agricultural' loans skews the overall average upwards. Agrani, Pubali and Rupali have all disbursed proportionally more non-agricultural loans while Krishi, Janata and IRDP have disbursed less. The institutional variations in numbers of loans reflects the individual institutional variations in amounts disbursed. However the significant point is that proportionally more funds have gone to non-agricultural activities and other agricultural activities than crops.

1/ This low figure is in part due to the unique way many BSBL outlets classify agricultural-related and non-agricultural loans.

These tables thus show the causes of variations in average loan size. Those institutions where the majority of loans are for agricultural related and non-agricultural purposes tend to have the largest whereas those, notably IRDP, where crop loans predominate, have smaller average loan size. Additionally the observed trend of BSBL to give quite large loans regardless of purpose has resulted in the high average size of loan for the institution (11% higher than Sonali and 34% higher than average).[1/]

The table below looks at how many borrowers have taken more than one loan from the respective institutions.

Table 10
INTENSITY OF BORROWING BY INSTITUTION[1/]
(INCEPTION TO JUNE'81)

Institution	Proportions of borrowers taking one or more loans		
	1 loan	2 loans	3 or more loans
Agráni	47.7	40.3	12.0
Pubali	57.8	26.8	15.4
BSBL [2/]	56.8	24.9	18.3
IRDP	58.5	24.6	16.9
Sonali	68.7	24.8	6.5
Rupali	66.6	18.1	15.3
Krishi	73.0	20.0	7.0
Uttara	74.8	14.6	10.3
Janata [2/]	82.8	8.9	8.3
Average	63.5	25.2	11.3

Source : Repeat and Multiple Borrowers Survey

1/ Old outlets only.

2/ Due to limited data from few outlets, the proportions for these two institutions may not be entirely accurate.

1/ Average loan by September 1981 at the two Deora outlets of BSBL was Tk 3688 and Tk 2338 and at Charkalibari outlet, Tk 2959 - as per consultants' field reports.

Overall more than a third of borrowers at old outlets, opened prior to July 1980, have taken more than one loan. A quarter have taken two loans and just over 11% have taken 3 or more loans. This pattern is followed by most institutions except Janata where less than 20% have taken 2nd and subsequent loans. Agrani, Pubali, IRDP and BSBL perform better than average especially Agrani where over half the loanees have taken 2nd and subsequent loans. The cause of these variations is largely because the borrowers at those institutions which disburse the larger numbers of crop loans, which are short term (6-9 months), can take second and subsequent loans more quickly than borrowers whose loans are for 1-2 years. Thus the variations do not signify that certain institutions and models are more or less acceptable to the borrowers. In any event a longer time period than the 2-3 years of data available for this table, would be required to observe trends.

Certainly as shown in the tables below there is no correlation between intensity of borrowing and the time and effort needed by borrowers to receive their loans.

Table 11
TIME TAKEN TO GET LOAN(IN DAYS)

Institution	% borrowers taking up to 14 days	% borrowers taking 15 days and more
Rupali	95.2	4.8
Krishi	92.0	8.0
Sonali	76.2	23.8
Agrani	75.9	24.1
Janata	71.4	28.6
Pubali	61.1	38.9
IRDP	54.9	45.1
Uttara	24.0	76.0
BSBL	1.9	98.1
Average	45.3	54.7

Table 12

NUMBER OF VISITS TO OUTLET TO SECURE LOAN

Institution	Number of visits (% of borrowers) 0 - 2 visits	3 and above
Krishi	87.9	12.1
Rupali	87.1	12.9
IRDP	80.0	20.0
Uttara	80.0	20.0
Agrani	66.0	34.0
Pubali	61.2	38.8
Sonali	54.1	45.9
BSBL	45.0	55.0
Janata	23.8	76.2
Average	60.7	39.3

Again the figures cannot be wholly related to model variations. Though the sub-branch and village agent appear effective in getting loans sanctioned quickly, Krishi outlet offices which are more remote from the outlet villages, achieve equally good results. The other factor which does show up is how the group/co-operative lending models have led to higher than average borrower costs.

Another factor may be the availability of staff to service borrowers' requirements and the institutions are ranked below by the number of borrowers served by each full-time staff person whether loan officer, assistant or village agent.

Table 13

NUMBER OF BORROWERS PER FULL TIME LOAN OFFICER

Institution	No. of borrowers	No.of full-time loan officers per outlet(average)
Krishi	369	2 1/
IRDP	241	1
Sonali	199	3 2/
Pubali	190	3
Agrani	137 - 205	2-3 3/
Rupali	165	2 4/
BSBL	154	1
Janata	126	1 5/
Uttara	84	2
Average	202 - 216	-

Notes : 1/ Female Assistants not included

2/ Krishi Shaka-in-charge does much the same work as his assistants; farm technologist not counted.

3/ Agrani has branch manager plus 1 or 2 assistants.

4/ Rupali loan officer not included as he does not have a separate client portfolio in addition to those of the village agents.

5/ Assistants only recently posted, therefore excluded for the calculation.

Source : Computed from Monthly Financial Reports and Institutions' staff records.

Again there is no obvious correlation. Krishi disburses loans quickly to the largest number of borrowers, nearly twice the RFEP average and 50% higher than the second ranked institution, IRDP. It is the low volume, small portfolio models which take the longest time to disburse loans. This is due to either problems in model implementation and/or management deficiencies.

Table 14

PROPORTION OF TARGET GROUP HOUSEHOLDS BORROWING

Institution	No. of borrowers per outlet	% of T.G. % households
Krishi	738	64.8
Sonali	598	56.2
Pubali	571	31.7
Agrani	410	46.0
Rupali	329	44.6
IRDP	241	59.6
Uttara	168	32.6
BSBL	154	45.0
Janata	126	48.0
Average	366	51.5

Krishi has by far the best performance both in terms of borrowers and proportion of the target group reached, followed by Sonali. IRDP reached a high proportion but the number of borrowers is amongst the lowest. Pubali has reached a large number of borrowers and the small proportion shows that the outlet areas have been too large. Agrani has reached a reasonable number of borrowers. However, Janata, Uttara and BSBL have not reached a reasonable number of borrowers.

Several factors determine the volume in lending. First and most important is the extent of information on the demand for credit in the outlet's (market) area. If the demand for credit is proven and the volume is unsatisfactory then one or more of the probable causes are: lack of an aggressive promotional effort by outlet staff to attract borrowers; sanction of inadequate loans; poor loan servicing; cumbersome application procedures; an extended time period to get loans sanctioned; competition from other loan sources; too high an interest rate; and often though not recognized, the hidden or indirect cost factors to the borrowers, e.g. the time, inconvenience and travel necessary to obtain a loan. One factor attributable to group or cooperative lending is the policy that a person must join a group or be a member of a group before borrowing which can contribute to low volume of borrowing in areas where this is imposed.

If one accepts that Krishi, Sonali, Agrani and Rupali have achieved good lending performance, what if any of these factors have caused the lower numbers of borrowers among the other institutions. Since such factors as interest rates, loan sizes and application procedures are largely similar across all models, two other major factors remain; the time and effort to get the loan and the group concept. In the case of Janata, Uttara, IRDP and BSBL all have group lending models of one sort or another and all borrowers have taken a longer time taken to get loans than other institutions. In the case of Rupali lending is to individuals and the time taken is very comparable with other individual lending institutions. Here the answer probably lies in the fact that some loan officers are not full time and therefore unable to fully supervise the village agents.

Loan Recovery

A loan becomes overdue when the date of repayment passes without recovery. This may be the total loan or it could be an instalment. The overdue loan total is the amount of loan principal which has fallen due but which has not been repaid. The overdue loans are measured as a percentage of the total principal loaned which has fallen due.

The table below ranks all the institutions by this measure, those with the lowest overdues being ranked first.

Table 15
PERCENTAGE OF LOAN AMOUNTS OVERDUE

Institution	% overdue	Amount overdue Taka
IRDP	4.4%	(Tk 143,270)
Agrani	5.8	(315,745)
Rupali	6.1	(112,217)
Krishi	10.4	(1,312,112)
Sonali	13.4	(645,834)
Uttara	16.3	(124,257)
Janata	17.1	(301,271)
Pubali	20.8	(661,026)
BSBL	36.4	(1,252,305)
All institutions	13.1	(4,868,037)

The tables below show how delinquent are the overdue loans. As an overdue loan becomes older, it is increasingly difficult to collect, the cost of such collection rises and the institution's reserve for bad debt has to be increased. The institutions are ranked by a combination of the highest level of overdue less than 3 months old together with the lowest level greater than 12 months old.

Table 16

AGEING OF OVERDUE LOAN AMOUNTS BY INSTITUTIONS

Instituion	% less than 3 months	% 3-6 months	% 6-12 months	% More than 12 months
IRDP	81.8	16.8	0.7%	0.7
Pubali	74.8	3.0	14.1	8.1
Rupali	59.0	33.0	5.3	2.7
Krishi	50.5	23.9	12.3	13.3
BSBL	33.5	44.0	10.1	12.4
Sonali	49.7	13.5	15.6	21.2
Agrani	43.6	24.4	10.5	21.5
Janata	23.4	4.8	48.9	22.9
Uttara	14.5	1.6	6.5	77.4
All institutions	47.4	23.1	13.9	15.6

Table 17

AGEING OF NUMBER OF OVERDUE LOANS

Institution	% 3 month	% 3-6 months	% 6-12 months	% 12 month and above
IRDP	82.8%	12.8%	3.8%	0.6%
Rupali	64.4	29.4	4.5	1.7
Pubali	74.4	4.2	12.3	9.1
Sonali	64.6	14.4	16.2	4.8
Krishi	63.6	16.1	8.7	11.6
BSBL	41.4	37.4	9.1	12.1
Agrani	47.1	21.9	11.6	19.4
Janata	27.1	1.6	33.0	38.3
Uttara	12.4	2.5	7.4	77.7
All institutions	55.3	20.8	11.0	12.9

In terms of ageing, the institutions rank almost the same by volume and number of loans, but when considered alongside the rankings in table No. 15, there are significant changes. IRDP continues to be the best performer followed by Rupali. However, Pubali, one of the poorer overall performers, shows marked improvement in that a high proportion of its overdues are not old and stand a good chance of recovery. BSBL shows a similar trend, whereas Agrani, although its overall position is good, has over half its overdues greater than three months old and nearly a quarter over 12 months old.

The table below ranks the institutions during the life of the project. Examination of trends in this fashion, rather than simply the static picture presented in the table above, allows for more complete observations.

Table 18

PERCENTAGE OF OVERDUE LOAN AMOUNT TO AMOUNT FALLEN DUE

Institution	% at Sept 30, 1979	% at Sept 30, 1980	% at Sept 30, 1981
IRDP	0.0	6.1	4.4
Agrani	0.0	4.7	5.8
Rupali	0.0	2.9	6.1
Krishi	36.3	10.3	10.4
Sonali	32.5	22.7	13.4
Uttara	47.6	27.7	16.3
Janata	2.1	25.2	17.1
Pubali	14.5	4.4	20.8
BSBL	0.0	37.8	36.4
All institutions	33.1	13.0	13.1

In 1979, the overdues position was perhaps unrealistic as the program was only just getting under way - hence the absence of overdues altogether at some institutions. By September 1980, the position appeared more stable at 13% and is the same in September 1981. Although there have been fluctuations in certain months,[1] the level seems to have settled around this figure . The overall ranking of institutions is virtually identical to their current position. However as can be seen there is room for improvement. Two institutions,Uttara and BSBL have traditionally suffered from high overdues, whereas others notably Krishi, Sonali have been able to substantially reduce overdues.

Uttara too has made considerable efforts to reduce its high overdue burden. Janata too,having allowed overdues to rise to unacceptable levels in 1980,has begun to reduce them, whereas Pubali having reduced them in 1980, has allowed them to rise markedly in the past 12 months. Three institutions have always had very low overdues; Agrani, Rupali, and IRDP. In the case of Agrani one outlet, Baligoan deviates from this trend and in its absence,overdues would be less than 2% which is as low as one could expect.

In a general sense, what are the underlying reasons for overdues? Observational information from both borrowers and outlet staff has been collected recently.[2] Not surprisingly observations from the two groups vary. Borrowers tend to default either because they lose confidence in the outlet and feel that they are unlikely to get repeat loans. Some default because of the failure of the enterprise but if they feel confident about a repeat loan, they will go to some lengths to repay from other sources. Outlet staff think overdues are caused by two factors: enterprise failure being one and the second being laziness on the part of the borrowers.

1/ e.g. June'80 - 16%, December '80 - 13%, June'81 - 11%

2/ Sociological Institutional Survey and Multiple Borrowers Survey October, January, 1981.

The group and cooperative lending models present a special situation, in that often a momentum of overdues builds up particularly among non-homogeneous groups, and in those where borrowers lose confidence in the outlet. This often spreads throughout the samiti. Such reaction is hard to check, especially if the borrowers know that subsequent loans will only be forthcoming when all have repaid. This was the case with Janata. It is interesting that Uttara's overdues were reduced markedly after the decision was taken to allow groups to reform and exclude defaulters. Uttara's latest figures up to November 1981 show overdues below 14%. If the Feni outlet is excluded (relations between management and borrowers have always been strained at this outlet) the overdue level drops to around 4%. The IRDP has, throughout the RFEP test period, had the best record for low overdues. Good management at the TCCAs has been a factor as has been the education efforts on borrowers to relate prompt repayment to assure repeat loans. It is also likely that KSS membership has been careful to exclude potentially higher risk borrowers. Very significant is that three outlets, Chouddagram, Burhanuddin and Babuganj account for 56% of IRDP lending and have less than 1% overdues. These outlets are largely rural, the KSS's are homogeneous and management is good. The remaining 10 outlets, which have a mix of rural and peri-urban populations, show an overdue level of around 15%. Thus although IRDP shows good performance overall the overdue position at many outlets is perhaps more comparable to that found in the other group lending models.

The institutions lending to individuals generally have a much lower level of overdue. The advantage is that the overdues have less chance of building up in individual lending. Much of the overdue is short term and this is may be that repayment periods are too restrictive. If one excludes overdues less than 3 months old, the overall position is around 6%. Most Bangladeshi borrowers intend to pay and do so from other sources even when their enterprise fails.

Lending institutions do not recognize loan defaults and do not write off bad debts. While loan repayment may be delayed for considerable periods of time, loans are for the most part always repaid. The most important factor in loan recovery is an agressive effort to collect loans when they fall due and not to let any significant portion of the overdues age past three months. Outlets where management has been good overdues are negligible or nil. These are Cadet College and Bhatra (Agrani), Gaibandha and Rangpur (Krishi), Basan (Uttara), Ellenga (Pubali) and Kalihati (Rupali). These clearly show that overdues can be reduced to very low levels regardless of the model. This results from good management and banking practice.

Financial Viability

The bases for this part of the analysis are the tables contained at the end of the section. However to illustrate aspects of the text, certain summaries of these tables will be presented.

Table 19
PROFITABILITY OF INSTITUTIONS 1/
(12 months ending September 30, 1981)

Institution	Actual 2/	Adjusted 3/	Profitability, eliminating best/worst and new outlets 4/
IRDP	8.0%	8.3%	6.1%
Krishi	6.4	5.9	3.5
Sonali	3.2	4.6	1.3
Rupali	1.3	(0.4)	3.3
Agrani	(0.1)	0.03	1.1
Janata	(4.4)	(1.5)	4.7
BSBL	(6.7)	(0.7)	6.3
Pubali	(10.9)	(5.0)	(6.6)
Uttara	(23.5)	(26.0)	(30.5)
Average	1.9%	2.9%	2.4%

Note: 1/ % profit (loss) of average monthly outstanding loans.
2/ See Table A.
3/ See Table B.
4/ See Table C.

On an actual basis four of the RFEP lending institutions are viable. These are IRDP, Krishi, Sonali and Rupali. Agrani is very close to being financially viable. Janata and BSBL are losing money and Pubali and Uttara have sustained heavy losses.

The situation does not greatly alter when interest rates are adjusted. Rupali takes a slight loss because currently five of its

seven outlets charge 24% or above for loans (See Table E-vi). Agrani makes a very small profit and Janata and BSBL become marginally viable. Pubali and Uttara continue to sustain unacceptable losses.

The final column in Table 19 records what is happening at average outlets more than 1 year old (and therefore well established). Under these circumstances, all institutions except Pubali and Uttara are profitable. This indicates that, if performance is consistent at all outlets, most institutions could be viable notwithstanding the model.

Several factors affect institutional viability. These include the spread between interest earned on loans and that paid for borrowed funds, the reserve for bad debts, the administrative costs and the volume of lending.

Table 20 below looks at the spread of interest rates and the institutions are ranked below by the size of their spread.

Table 20
INSTITUTIONAL INTEREST SPREAD 1/

Institution	Interest earned on loans made	Interest paid for borrowed funds	Spread
Uttara	28.1%	12.5%	15.6%
Krishi	20.5	6.5	14.0
Rupali	25.7	12.4	13.3
IRDP	22.7	10.0	12.7
Agrani	23.6	12.0	11.6
Sonali	18.8	11.0	7.8
Pubali	20.4	13.0	7.4
BSBL	25.4	18.4	7.0
Janata	19.3	13.0	6.3

Note: 1/ See Table A. Interest paid on savings is ignored in this table.

Although two of the most profitable institutions, Krishi and IRDP have a comparatively high spread, Sonali which is also profitable, has quite a low spread. Uttara the least profitable, has the highest spread, although the other less viable institutions BSBL, Pubali and Janata do have quite small spreads. As the next table shows these latter institutions would require interest rate spreads somewhat higher than current ones to become profitable at current levels of lending.

Table 21

INTEREST RATE NEEDED TO COVER TOTAL EXPENSES 1/

Institution	% rate To cover all expenses	Spread required to cover all expenses 2/	Spread required to cover all costs less reserve 2/
Uttara	51.8%	39.3%	24.6%
Pubali	31.3	18.3	8.5
BSBL	32.2	13.8	2.7
Rupali	24.4	12.0	10.5
Agrani	23.7	11.7	7.4
Janata	23.7	10.7	8.3
Krishi	14.6	8.1	6.2
Sonali	15.6	4.6	1.0
IRDP	14.5	4.5	3.3
Average	19.6		

Note: 1/ See Table A.

2/ Assumes fund costs remain the same as in Table A.

It is interesting to note from the table above and Table F that, when the reserve for bad debt is removed, the interest rate spread that is needed, falls quite sharply particularly for the less profitable institutions. The reserve for these same institutions is high, as the next table shows.

Table 22

RESERVE FOR BAD DEBTS AS PERCENTAGE OF TOTAL EXPENSES 1/

Institution	%
BSBL	34.3%
Pubali	31.2
Sonali	23.2
Uttara	22.4
Agrani	18.0
Krishi	13.1
Janata	10.1
IRDP	8.2
Rupali	6.1
Average	19.5

Note: 1/ See Table A.

Except for Sonali which has a high reserve and Janata which has a low reserve, there is a strong inverse relationship between profitability and bad debt reserve, where the least profitable institutions, BSBL, Pubali and Uttara all have the highest reserves.

The third factor to consider is the cost of disbursing loans, which the following table presents in three ways; first the cost per loan disbursed; second the current proportion of costs and third the proportion of income consumed by these costs.

Table 23

ADMINISTRATIVE COST OF DISBURSING LOANS 1/

Institution	Cost per loan disbursed (Taka)	Salaries and allowances as % of total costs less reserve	Salaries etc. as % of income earned
Uttara	Tk 293.6	60.3%	85.7%
Janata	173.9	40.2	44.7
Pubali	113.5	37.9	40.0
Rupali	112.8	50.2	44.7
Krishi	72.2	33.0	19.9
BSBL	62.7	10.9	9.1
Agrani	60.3	32.6	26.8
Sonali	57.0	20.0	12.7
IRDP	32.5	21.1	12.5
Average	77.1	30.6	22.5

Note: 1/ See Table A.

Here again the relationship is positively inverse, particularly for Uttara, Janata and Pubali. Rupali's figures too are high. Equally Krishi, Agrani, Sonali and IRDP all have low costs in this regard as does BSBL.

The final factor is the volume of lending. Interest on outstanding loans is the sole source of income from which to meet expenses and create a reserve for bad debt. The table below shows the current actual position of those institutions which are sustaining appreciable losses.

Table 24

MONTHLY OUTSTANDING LOAN BALANCE REQUIRED TO MEET TOTAL COSTS (ACTUAL BASIS) OF THOSE INSTITUTIONS SUSTAINING LOSSES 1/

Institution	Current monthly balance of outstanding loans (Taka 000's)	Average monthly balance required to cover costs (Taka 000's)	% change in monthly balances required to cover costs
Uttara	129	226	+ 75.2%
Pubali	601	1,053	+ 75.2
BSBL	388	452	+ 16.5
Janata	306	322	+ 5.0

Note: 1/ Based on Table E-i - E-ix covering outlets at least 12 months in operation.

Although in percentage terms the increases required may seem high for some institutions, the actual taka levels are not excessive except perhaps in the case of Pubali where all outlets would have to achieve a level of lending equal to that of some of Krishi's larger outlets (See Tables E-i and E-v). Uttara could be profitable at low levels of lending while Janata and Agrani would only need modest increases to be profitable. BSBL would need to boost lending quite a lot but only to levels well below those already achieved by Krishi, Sonali and even Pubali.

Even at adjusted rates (See Table B) the analysis holds true, though Uttara would need to further increase volume while BSBL and Pubali would need smaller increases. Janata would need only a very small increase in volume.

Summary:

Krishi and Sonali are profitable because their volume of lending is high and other costs are low, and because Krishi has a 14% spread on

interest rates. This performance has been due to aggressive lending and management policies rather than any special model features. Both could become more profitable if overdues (and the resultant bad debt reserve) were to be reduced to below 10%.

IRDP is profitable despite its much lower level of lending because salary and administrative costs are low, as are overdues. However, 56% of lending has taken place at three outlets whose overdues are less than 1% so far. Elsewhere the overdues are on average 15%. IRDP is considered vulnerable to rising overdues given its volume of lending which should be higher. While model features in terms of low costs have assisted good performance, equally problems of group formation are reducing lending.

Rupali and Agrani are currently marginally profitable and need increases in lending to be safely profitable. Rupali, despite a good spread on interest rates and very low overdues, is marginal because salaries etc. amount to 50% of all costs (less reserve) and absorb nearly 45% of all income earned and the volume of lending is not high enough. Rupali has one of the highest per capita cost structures among the institutions.Actually Rupali would be less viable if it had mobilized less deposits as it is paying only 8.4% for these funds as opposed to 12.4% for borrowed funds. Agrani too has a reasonable interest rate spread and administrative costs are low. The age of overdues increases its bad debt reserve, which together with the lower than expected volume of lending, accounts for Agrani's marginal viability.

Janata is incurring losses. It has the lowest interest rate spread of any institution and although overdues are high, its bad debt reserve at 10% is only half the average. But its low volume of lending results in high per capita costs and like Rupali 45% of income is consumed by salaries etc. While increased interest rates on loans would help, the most effective way to reach profitability would be to increase the volume of lending, without substantial rises in overdues or costs, thus spreading costs over a greater volume of lending.

BSBL is incurring quite marked losses and would need a large increase in interest rates to break even. While the interest spread is low, BSBL's costs are the lowest of any institution. BSBL is unprofitable because the reserve for bad debt accounts for over one-third of total expenses. Only when this is substantially lowered, through better outlet management, will BSBL achieve viability.

Both Pubali and Uttara are incurring heavy losses, especially Uttara. Pubali has a low interest rate spread, high overdues generated by the high volume of lending. A larger interest spread would reduce losses. Overdues need reducing, as do per capita administrative costs, as much as a rise in lending, if profitability is to be attained. The prospects are not bright given performance to date. Uttara, despite having the most generous interest rate spread of any institution, allows 86% of income to be absorbed by salaries. To this has to be added the reserve for bad debts. The solution is to increase the volume of lending thus spreading costs and reduce overdues but Uttara's performance so far shows this to be unlikely.

Savings

The table below ranks performance of each institution in mobilizing savings.

Table 25
SAVINGS AS A PERCENTAGE OF OUTSTANDING LOANS

Institution	% of outstanding
Rupali	34.1%
Agrani	32.7
Janata	27.7
Sonali	13.3
IRDP	12.4
Uttara	8.9
Krishi	8.8
Pubali	3.8
BSBL	2.6
All institutions	12.9

Rupali has been most successful largely because its volume of lending has been low as has Janata's. Agrani should have been higher if non-target savings had been accepted at all outlets. Krishi's and Sonali's performance must be seen in relation to the very high volumes of lending, while Pubali and BSBL demonstrate the negative effect of not taking non-target deposits. The relation between non-target savings and total savings performance is strongly direct.

All of the top three institutions mobilized more than three-quarters of all savings form the non-target group, whereas Krishi, IRDP and Uttara have collected less than one third of savings from this source as the table below shows.

Table 26

NON-TARGET SAVINGS AS PERCENTAGE OF TOTAL SAVINGS

Institution	%
Rupali	94.0%
Janata	78.1
Agrani	75.1
Sonali	41.3
Krishi	30.2
IRDP	26.9
Uttara	20.4
Pubali	0.0
BSBL	0.0
All institutions	53.3

This correlation largely persists in the ranking of institutions by:-the taka amount generated at each outlet, the average account size of all deposits and the average size of non-target deposits as shown in the next three tables. Krishi and Sonali however rank higher in outletwise deposits than they do overall due to the larger scale of their operations, just as Janata ranks lower due to the smaller size of its program.

Table 27

AVERAGE AMOUNT OF SAVINGS PER OUTLET

Institution	Amount (Taka)
Rupali	149,894
Sonali	141,956
Krishi	111,563
Agrani	106,165
Janata	60,604
IRDP	32,282
Pubali	27,985
Uttara	12,357
BSBL	8,108
All institutions	71,406

Table 28
SIZE OF AVERAGE DEPOSITS (TARGET GROUP AND NON-TARGET GROUP)

Institution	Amount (Taka)
Janata	729
Rupali	401
Agrani	322
Sonali	264
Krishi	254
IRDP	89
Uttara	75
Pubali	49
BSBL	40
All institutions	220

Table 29
AVERAGE SIZE OF NON-TARGET GROUP DEPOSIT

Institution	Amount (Taka)
Rupali	3,766
Janata	3,213
Agrani	2,516
Krishi	1,668
Sonali	694
Uttara	382
IRDP	98
Pubali	0
BSBL	0
All institutions	1,161

The picture changes somewhat when the institutions are ranked by the average numbers of depositors per outlet for both target and non-target depositors.

Table 30
NUMBER OF DEPOSITORS PER OUTLET TARGET GROUP

Institution	Number
Pubali	562
Sonali	453
Krishi	439
Rupali	336
Agrani	297
IRDP	274
BSBL	203
Uttara	158
Janata	68
All institutions	289

Table 31
NUMBER OF DEPOSITORS PER OUTLET NON-TARGET GROUP

Institution	Number
IRDP	89
Sonali	84
Rupali	37
Agrani	31
Krishi	20
Janata	15
Uttara	7
Pubali	0
BSBL	0
All institutions	33

Perhaps surprisingly Pubali has the largest number of depositors per outlet. This is because its volume of lending is large and savings are compulsory which even though, as shown in the sociologists' report, tends to lead to much smaller levels of deposits. Krishi and Sonali again rank high as a result of the volume of their operations.

However when one turns to non-target deposits, IRDP and Sonali have the greatest number of such depositors, while Rupali, Agrani and especially Janata have very few depositors, which leads to the high size of account observed earlier. These two factors, when taken together support an observation seen at certain outlets. There appear to be two distinct types of outlets in terms of the number of such depositors and the size of their deposits. In 1981 at Baidder Bazar, Janata, the size of deposits has varied between Tk 12,747 and Tk 23,290 with a maximum of 14 depositors. Similarly at Cadet College, Agrani, the size has varied from Tk 4,709 to Tk 12,028 with a maximum of 65 depositors. On the other hand the figure for Tangail, Krishi has declined from Tk 9,344 to Tk 1,850 with the depositors reaching 410 and at Kalihati, Rupali has varied from a minimum of Tk 3,317 up to Tk 4,670 with a maximum of 120 depositors. There may well be two types of depositors using the facilities. The first of these may be a businessman or other enterepeneur who uses the account to keep surplus funds until required for investment. He keeps sufficient cash that the interest earned is significant even over quite short periods. For such a person, the institutional deposit account is a normal part of business operations. The second person may be a farmer or a petty trader who although not in the target group, looks upon the deposit account as a way of accumulating resources either for some future major investment or as security. Such people would make regular deposits into their account which would not normally be heavily drawn upon. Such people would include the non-target women and others expressly identified by Krishi in their savings program using female outlet assistants.

On the evidence so far it appears that it is the latter person who is better suited to this program as the former's behaviour can be volatile. A Cadet College and Baidder Bazar deposits have fluctuated sharply from month to month which suggests that reliance on a few large accounts may not be entirely prudent from a financial standpoint. This is offered more as a comment than a series of definitive conclusions. The behaviour of non-target deposits needs to be observed over a longer period before any conclusions can be drawn. Factors such as seasonality also need to be considered. However the observations appear to be significant enough, even at this stage, to be worthy of some preliminary statement.

Finally, if one recalls that prior to RFEP only 11.3% of target group households saved, it is instructive to examine the proportions now doing so in the outlet areas.

Table 32
PERCENTAGES OF T.G. DEPOSITORS

Institution	% prior to RFEP 1/	% currently in RFEP
IRDP	21.5	59.0
Rupali	1.4	49.9
BSBL	13.0	48.2
Sonali	16.1	32.8
Krishi	9.9	33.1
Agrani	7.0	29.4
Pubali	8.3	25.3
Uttara	4.8	24.5
Janata	27.8	21.4
All institutions	11.3	40.6

Source : Baseline Survey - Old outlet areas.

Overall, about four times as many target group households have been brought into the network of institutional savings than prior to RFEP. All institutions have performed well except Janata which seems to have declined. The reasons for this are unclear but the figure of 27.8% prior to RFEP is high compared to the average then. The biggest gain has been of Rupali followed by BSBL and Krishi. The average size of target group deposits is small, although they account for a high proportion of savings generated under RFEP, largely because of the inconsistent performance by many institutions in mobilization of non-target deposits.

The absence of any savings models under RFEP, except for Krishi's innovation which is just getting into full stride, means that one can only evaluate institutions. Although considerable numbers of depositors have joined the program, it is only those institutions which have mobilized non-target deposits that have made any serious attempt to finance RFEP operations from locally generated sources. Rupali, Agrani and Janata stand out, not as a result of any special schemes but simply a conscious effort by outlet staff to attract non-target deposits. Krishi's new innovation using special deposit assistants is beginning to look promising. It was estimated by the previous consultants that a total of Tk 6,385,000 could be generated in savings under this project.[1] To date Tk 6,263,000 has been mobilized amounting to less than 13% of the capital currently employed (i.e. loans outstanding). Three institutions have done better than average and certain outlets have far exceeded this figure. Obviously savings by the borrowers cannot finance their credit demand but the generation of their capital demands from newly tapped locally available sources (the non-target group) could generate, first much more than has been the case in the past and second a large if not major portion of the sums required to finance target group credit demand.

1/ Second Evaluation Report of 15 April 1980, Chapters 7-8.

Overall Model Evaluation

The original project envisioned that by testing specially designed rural credit systems (models) which were proposed by nine Bangladesh credit institutions that one, more than one or a combination of these would provide the answer to the best method of furnishing rural credit and mobilizing savings among a target group of rural poor.

The Models

The models approved for implementation were :

1. Bangladesh Krishi Bank - Budget line of credit or permanent number.

The original key model features were that all legitimate cash needs, both productive and non-productive, will be met. An annual family budget will be used to establish cash needs and cash surplus and a permanent number will be assigned to each loanee which will facilitate follow-up loans without lengthy investigation.

During a mid-project review[1/], it was determined that Krishi Bank's "budgeted line of credit" feature had not been meaningfully tested and the feature should be effectively demonstrated or dropped.

This situation has not changed and the budget line of credit is not being fully implemented. The permanent number concept was not implemented. In effect the Krishi Bank has made loans on an individual basis, has made more loans than any other bank and is, from an institutional basis, almost fully viable. A recent innovation has seen the introduction of female savings assistants, which seems a promising approach. However there can be no meaningful evaluation of the model per se.

1/ The review referred to here and for all models is PIL 15 of 30 July 1980.

2. Sonali Bank - Agricultural Credit Sub-Branch (Krishi Shakha).

The original key model features were to establish Agricultural Sub-Branches (Krishi Shakhas), located in village centers normally some 5-7 miles from the bank's regular branch. The Sub- Branch opens on market days. The rest of the week, the sub-bank officer spends promoting the program and supervising borrowers. A farm technologist visits Sub-Branches once a month. A village advisory council is formed by the sub-branch officer.

During a mid-project review, it was determined that although the village credit advisory committees had been successful in many respects, they over-represented non-target group interests and target group representation on the committees should be strengthened.

The advisory council has been replaced by profession based advisory groups of borrowers. Except that the farm technologist has not made any measurable impact and some Sub-Branches do not have loan sanctioning authority, the model has been successfully implemented and can be evaluated. The financial performance of Sonali bank as an institution has been good.

3. Janata Bank - Area Development.

The original key model feature was to adopt an area development approach consisting of a village or cluster of villages. This was to accommodate the comprehensive credit needs of various strata and occupations of people in the project area, irrespective of target group status, with emphasis on community development.

During a mid-project review, it was determined that little "area development" activity had occurred outside the normal RFEP credit/savings activities. The whole concept should be reviewed to determine what kind of activities are realistically within the bank's capability. These should be specified and appropriate resources allocated.

Prior to RFEP, Janata Bank experimented with group lending and in the course of project implementation, this concept was adopted to become the primary feature of lending. The area approach has not been tested to permit any meaningful evaluation. Implementation of group lending also has not been successful.As an institution Janata's performance has been only fair in terms of financial viability.

4. Agrani Bank - Small Farmer Service Center

The original key model feature was to establish an agricultural service center sponsored by the bank's branch where borrowers can purchase production inputs and receive some technical guidance. The branch makes loans to target group households both in cash and in kind, the latter through the service center and if necessary can receive repayments in kind through the center.

During a mid-project review, it was determined that the Service Center concept had not proven workable in practice and should be substantially redesigned or eliminated.

With the exception of one outlet (Cadet College), the service center has been dropped. Even at this outlet, the center is a small store that sells some inputs with no capability to provide any technical guidance to borrowers as envisioned. At other outlets, local input dealers supply inputs as needed. The discrete model has not been tested and cannot be evaluated, though as an institution, Agrani's performance has been quite creditable.

5. Pubali Bank - Banker as Ombudsman

The original key model features were that the loan officer serves not only as a credit officer but also as referral agent capable of arranging services from the local agricultural extension agent, rural health office, etc., as needed by borrowers. Loans will be given based on a family budget.

During the mid-project review, no specific comment on the model was made. However the original consultants determined that the ombudsman role was not being carried out as it seemed beyond the scope of the institution. The family budget approach was initially tried and abandoned as difficult and time consuming. It was replaced by loan sanctioning based on a production plan for the enterprise. This approach has persisted and the discrete model cannot therefore be evaluated. Pubali is offering a service almost identical to that of Agrani Bank. As an institution it has achieved a high level of lending but it has not been viable.

6. Rupali Bank - Village Agent

The original key features were that, at each site, the bank will attempt to bridge the gap between its branch and small farmers by commissioning a knowledgable and respected villager as its agent. Knowing and being known to the villagers, the agent will identify small farmers capable of utilizing and repaying loans, assist them in completing simplified applications, refer them to the branch for loan approval and disbursement and see that repayments are made as scheduled. For timely recovery of loans, the village agent will receive 3% commission of the recovered amount, in addition to his monthly pay of Tk 300.

Periodic reviews have shown that implementation has closely conformed to model design. Commissions have been paid to village agents as have interest rebates to borrowers for timely repayment of loans. As an institution, Rupali has been viable and both model and institution can be evaluated.

7. Uttara Bank - Group Lending

The original key feature of group lending was to be characterized by giving loans to individual members of voluntarily formed groups consisting of around 5 members. Each loan would be jointly

and severally guaranteed by the other members of the group. Groups need not to be homogeneous. Interest rebates of up to 4% were to be offered to borrowers for timely repayment of loans.

During a mid-project review, it was determined that group lending under this model had been slow and recovery unsatisfactory. Uttara should identify and attempt to correct the problems in their extension plan and consider emulating the features of the Grameen Bank Project.

Until recently, implementation has conformed to model design except that certain key elements of group formation and administration are wanting, which is reflected/in inadequate loan recovery. However, now groups have been allowed to reform to exclude defaulters in order to get subsequent loans which negates the key feature of the model and the institution continues to be non-viable. Interest rebates have been offered at only one outlet.

8. <u>IRDP/BSHL</u> - Cooperative lending

Both institutions established the same model. Its original key features were that only primary society (KSS) members are eligible to receive loans. Commissions to KSS and KSS managers for recovery of loans will be paid and a specified rebate on interest charged will be offered to borrowers for timely repayment of loans. Primary consideration would be given to establishing societies of sharecroppers, landless laborers and women.

During a mid-project review, it was determined that the cooperatives had been severely restricted in reaching beyond their membership to the target group, although both institutions had recently taken major steps to expand membership.

Expanded membership has been partially successful in the case of IRDP only. Both cooperatives have failed to recruit substantial numbers of the special target group persons envisaged, expect for

some IRDP outlets. The model has only been partially carried out by IRDP and hardly atall by BSBL. This negates an attempt at evaluation of the model. Financially, IRDP has been the most profitable of all institutions under RFEP, while BSBL has sustained quite large losses.

Implementation

The previous consultants recognized in mid - 1980 that while eight models had been identified, there were only four discrete models.[1/] In reviewing this, the present consultants are of the opinion that, for practical purposes, there are and have been only three models in operation during RFEP. They are:-

1. Group lending - Janata, Uttara
2. Co-operative lending - IRDP, BSBL
3. Individual lending - Krishi, Sonali, Agrani, Pubali, Rupali.

Group lending and cooperative lending remain discrete, though they share a principal feature that borrowers belong to a group. Uttara, by allowing groups to reform and lending to individuals, has diverged from group lending.

Of the five remaining institutions making individual loans, only Rupali continues to use its original complete model concept of the village agent. The credit extension and loan recovery procedures followed by all these five banks is more or less the same. Krishi, Sonali, Agrani and Pubali Banks take loan applications in the villages or at outlet offices and they also pursue loan recovery in the villages. Agrani, Pubali and Rupali operate from their existing branches which are close to the client villages. Consequently, they serve the same purpose as the Krishi Shakha of Sonali. The similarities are enhanced because Sonali sub-branches are not fully independent from existing regular branches and some Krishi Shakhas-in-charge have not been given loan sanctioning authority. Krishi Bank outlets, although further removed from the villages served, do compensate through regular field trips to the borrowers villages.

1/ See August 1980 Final Report, Chapter VI

Further, Pubali's and Agrani's key features have not been implemented. Krishi's budget line of credit is less of a delivery system than a technique for determining credit needs of a borrower. Thus these five models can be considered as one.

Group Lending

The group approach, which is analysed in detail in the chapter on group lending, has not been successful. Uttara's model is a failure. Only 3 or 4 of Janata's 11 outlets are viable or near viable. At both institutions' outlets, the volume of lending has been generally low and overdues high. Borrower transaction costs have been much higher under the group approach than the other approaches. Both Janata and Uttara have sustained losses and it does not appear they can reach financial viability at present performance levels. Only Janata has mobilized a significant amount of savings.

Cooperative Lending

The cooperative system has not been too effective. Considering its low cost structure and subsidized administrative cost, it is more viable than group lending, particularly in the case of IRDP. IRDP's performance is greatly enhanced by excellent results in 3 outlets which account for 56% of lending. BSBL's very poor performance is due to inadequate supervision and management at all levels, inefficiency in implementation and delays in loan disbursals. The incidence of malpractices at the primary society level has discouraged many actual and potential borrowers.[1/] Except for some IRDP outlets, the cooperatives have failed to enroll the landless, wage labourers and women. Neither institution has successfully mobilized a large volume of savings deposits.

1/ See Sociological Observations

It has also been reported by the Social Anthropologist[1/] that many group lending and cooperative borrowers do not like their respective approaches. Even where borrowers have expressed satisfaction with the services offered, they have also said they would prefer to obtain loans as individuals.

Individual Lending

All five of the individual lending models have reached a substantial number of borrowers, more than either of the group or cooperative models. Overdues are quite low except at Pubali Bank. Although Krishi Bank has reached by far the largest number of borrowers per outlet, its staff are believed to be over extended. Transaction costs for the institutions and borrowers have been low except for Rupali and Pubali. Four of the five institutions:- Krishi, Sonali, Agrani and Rupali are either viable or very nearly so. A small increase in the volume of lending would quickly make the two marginal institutions viable. Pubali's high overdues and high administrative costs indicate it is unlikely to achieve viability at the present level of performance. Only Rupali and Agrani have mobilized a significant amount of savings.

Loan Sanctioning

There have been two bases for loan sanctioning:- 1) Family budget and 2) Production plan. Because the former has not been fully implemented by Krishi Bank and dropped by Pubali Bank, it is difficult to quantitatively assess the comparative merits of the two approaches. However, as a technique, the family budget is a good basis for appraising credit needs of the small target group borrower and his credit worthiness, because it takes into account the family's whole economic circumstances and annual repaying capacity. The production plan per se, only considers the enterprise to be financed and the loan officer may fail to consider the full effects of the loan upon the borrower's circumstances.

1/ See Sociological Observations

Conclusions

No single model and no single institution can be considered to have met all the criteria which would justify its replication.

Group lending has not been effective and there seems to be little point in persisting with it any further. Group formation and maintenance of group solidarity is a specialised, time consuming and costly job which lies outside the usual scope of banking and credit. Janata's successful outlets should move to individual lending with new borrowers. Existing group borrowers should be converted to individual borrowing in phases so as not to undermine any community spirit already generated. If group lenders wish to continue with group lending, they should be permitted to do so,but without further project incentive.

The cooperatives should have a continuing role, because they have already a comprehensive nation-wide network of branches. Care should be exercised in establishing mixed groups of traders, rickshaw pullers and others given their potential lack of cohesion and tendency towards default. Rural based agricultural groups appear more stable and should be fully supported. The most important service that the cooperatives could perform is to organize conservative and disadvantaged groups such as women, landless and wage laborers who, as individuals, are less likely to borrow and who would benefit most from the cohesion of a group. To achieve success the cooperatives need to (1) step up efforts to motivate people to join the KSS's so that an adequate volume of lending can be achieved and (2) delegate loan sanctioning to a lower level so that loans can be disbursed quickly. In the case of BSBL, a complete and thorough overhaul of management structures is needed without which further investment in any follow-on project would be difficult to justify.

Analysis to date indicates that the combination of rural bank outlets, village agents and a budget line of credit for borrowers is the best system for replication. These appear to be the better aspects of the five RFEP models using individual lending as the principal.

The essential features of such a system should include:-

a) Outlets located near the villages served, with fully independent status. As much work as possible should be conducted in the field and not in the outlet office.

b) The operational area of each outlet should be such as will assure an adequate number of target clients but not too large so that either staff cannot maintain contact with borrower clients or borrowers face lengthy journeys to the outlet office.

c) Each outlet should be properly staffed by a well trained staff with adequate pay and performance incentives.

d) The family budget, establishing a line of credit for each target group household , should be uniformly adopted. Once the line of credit is established, the loan disbursement procedure should be simple - just a request for a loan, stating the purpose and the loan can be sanctioned instantly on the basis of the credit limit previously fixed.

e) All staff should mobilize voluntary savings from target and non-target depositors. As Rupali staff have shown this can be done without special programs.

Outlets of all lending institutions, which are either viable or nearly so provide an excellent base to begin implementation on the above lines. However, a system is only as good as its management and to achieve success, adequate training, good supervision and head office support are essential.

Evaluation of Institutional Performance:

Methodology & Indices

Evaluating institutions objectively on the basis of their performance in any one area is a relatively straight forward exercise. Difficulties arise, however, when an effort is made to rate the overall performance of the institutions. How do you compare two institutions, for example, the first of which excells in one area, the second in another ? It is a problem that cannot be solved without some measure of methodological autocracy. The problem, however, is formally indistinguishable from one that is solved routinely throughout the world by educators who are asked to compare the overall performance of students who excell in different areas.

Our system for evaluating the overall performance of the nine institutions in the RFEP will be strictly analogous to the system used to rate the overall performance of students at many colleges and universities throughout the world. We will assign each institution grades for its performance in each of three areas. The grades correspond to numbers, permitting the calculation of the grade point average for each institution, which becomes a measure of its overall performance. The institutions may then be ranked by their grade point averages.

We begin the evaluation process by determining the areas in which we will grade the performance of each institution. Secondly we define guidelines for assigning grades in each area, and, finally, we compute the grade point average. We note, again, that there is an irreducible quantum of subjectivity in any grading system. We will try to minimize the distortions introduced through subjective judgments by highlighting the points at which they enter our calculations.

In the first place, there is the actual assignment of the grade. Although in each area we will refer to objective, quantifiable indices of performance, the indices themselves do not assign grades. To insure maximum objectivity here we will make use

of whatever natural tendency toward grouping the indices may exhibit. Secondly, a large measure of subjectivity enters in the assignment of weights. In the universities' case the weighting problem is solved by assigning "credit hours" to the various courses and activities to be graded, a system which reflects less the amount of time and resources devoted to the various persuits than some consensus as to their value.

For our purposes we will solve the weighting problem by assuming that the activities and results we are grading, being interrelated and interdependent, are of equal weight and value. Anyone who feels that certain areas or activities are more important and hence should receive more weight is referred directly to the individual indices on which the composit index is based.

The three areas in which we will grade the institutions correspond to the three characteristics of the successful model described in the project paper. Such a model should,(1) extend credit to be target group, (2) it should be financially viable, and (3) it should be capable of generating additional capital for further lending by mobilizing local savings.

To measure the performance of each institution in extending credit to the target group we must make use of two indices, the first being the average number of loans extended per branch, and the second, the percentage of the target group in each area serviced by the institution. The use of two indices is mandated by the fact that the size of the population served by individual outlets varies considerably; the use of either index alone would bias results in one of two opposed directions, either in the direction of outlets operating on a large population base, or toward those operating on smaller ones.

A grade will be assigned on the basis of each index, and the average of these two grades will be the grade for the institution in the area of extending credit to the target group. For example, Rubali Bank is assigned an "A" on the basis of "average number of loans per outlet" and a "D" on the basis of the percentage of the target group serviced in its area. An "A" is worth

points, and each succeeding letter is worth one point less. Pubali's grade point for this area is thus calculated as follows: 4 + 1 = 5, 5/2 = 2.5.

In the area of financial viability a single index will be used as a basis for assigning a grade, the most natural index being the rate of profit or loss for each institution expressed as a percentage of its average monthly balance of outstanding loans. The calculation of the rate of profit or loss includes a reserve for bad debts, and thus also reflects the institution's performance on collection of loans.

For savings mobilization a single index is also employed, it being the ratio of savings mobilized to total loans outstanding. Since both numbers used to construct this ratio should correlate, other things being equal, with the size of the population served by the outlets, no bias is introduced in favour of either large or small outlets.

Extending Credit to the Target Group

The two indices used to measure performance in extending credit to the target group are presented in the accompanying table.

Table 35
TWO INDICES OF PERFORMANCE IN THE AREA OF EXTENDING CREDIT TO THE TARGET GROUP

	Average No. of Loans per Outlet			% Target Group Receiving Loans			Grade Point Average for Extending Credit to Target Group
Institution	Index	Grade	(Points)	Index	Grade	(Points)	
Krishi	1,170	A	4	64.8	A	4	4
Sonali	787	B	3	56.2	B	3	3
Janata	199	E	0	48.0	C	2	1
Agrani	651	C	2	46.0	C	2	2
Pubali	965	A	4	31.7	D	1	2.5
Rupali	483	D	1	44.6	C	2	1.5
Uttara	235	E	0	32.6	D	1	0.5
IRDP	496	D	1	59.6	B	3	2
BSBL	201	E	0	45.0	C	2	1

It will be noted that both indices show a tendency toward clustering or grouping of the scores, which objectifies somewhat the assignment of grades. There is a fair degree of correlation between the two indices, that is, performance as measured by one index tends to be a good predictor of performance as measured by the other, but there is enough variation in the two indices to justify using them both as a basis for assigning each institution a grade in this area.

Financial Viability

Turning our attention to the question of assigning grades in the area of financial viability, a certain tendency toward clustering of scores is visible here as well.

Table 34
FINANCIAL VIABILITY

Institution	Index	Grade	Points
IRDP	+ 8.0	A	4
Krishi	+ 6.4	A	4
Sonali	+ 3.2	A	4
Rupali	+ 1.3	A	4
Agrani	+ 0.1	B	3
Janata	- 4.4	C	2
BSBL	- 6.7	C	2
Pubali	-10.9	D	1
Uttara	-23.5	E	0

The four institutions that showed income greater than expenses were automatically assigned "A"s, and one marginally viable institution was assigned a "B". Two institutions which reported moderate losses were assigned "C"s, and Pubali, with a loss equal to almost 11% of its monthly average of outstanding loans, received its second "D".

Savings

Turning to the index of performance in the area of savings mobilization, the scores are relatively well spread out over one order of magnitude, but we perceive a grouping of couples in the "A", "C" and "D" ranges.

Table 35
SAVINGS MOBILIZED AS
PERCENT OF LOANS OUTSTANDING

Institution	Index	Grade	Points
Rupali	34.1	A	4
Agrani	32.7	A	4
Janata	27.7	B	3
Sonali	13.3	C	2
IRDP	12.4	C	2
Uttara	8.9	D	1
Krishi	8.8	D	1
Pubali	3.8	E	0
BSBL	2.6	E	0

Synthesis

In table 36 we combine the three indices to get a composite score and a grade point average. Rupali emerges as the best performer according to this grading scheme. Krishi and two other nationalized commercial banks are tied for second place, and the IRDP is in third. On the basis of its commanding performance in the two areas of extending credit to the target group and financial viability the Krishi bank should have emerged at the head of the list, but its poor performance in savings mobilization pulled down its grade point average considerably. However, the strong upward trend observed in the savings to outstanding loan ratio at Krishi suggests that this large agricultural bank may overtake Rupali as the best overall RFEP performer in the months ahead, as measured by this system.

Table 36

COMPOSITE SCORES AND RANKING OF INSTITUTIONS BY GRADE POINT AVERAGE

Institution	Credit to Target Group	Savings Mobilization	Financial Viability	Composite Score	Grade Point Average
Rupali	1.5	4	4	9.5	3.17
Krishi	4	1	4	9	3.00
Sonali	2	2	4	9	3.00
Agrani	2	4	3	9	3.00
IRDP	2	2	4	8	2.67
Janata	1	3	2	6	2.00
Pubali	2.5	0	1	3.5	1.17
BSBL	1	0	2	3	1.00
Uttara	2	1	0	3	1.00

Commentary

It should perhaps be emphasized at this point that this system of grading was devised to allow us to compare the overall performance of one institution against the performance of others. The RFEP is an experimental project, designed to investigate differences in the performance of different models. An average of these scores, therefore, has little meaning as an indicator of the overall performance of the project, and should not be so used.

TABLE A

SUMMARY OF PARTICIPATING INSTITUTIONS PROFIT/LOSS ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPT' 1981)
(TAKA IN '000) ACTUAL BASIS

	Krishi	Sonali	Janata	Agrani	Pubali	Rupali	Uttara	IRDP	BSBL	Average
Income Earned	3,135	1,554	396	760	490	535	161	666	939	960
Operating Expenses										
Interest paid										
On savings	73	72	28	21	8	62	4	23	-0-	32
On borrowed funds	866	656	197	316	301	166	66	259	663	388
Salaries	624	198	177	204	196	239	138	83	85	216
Other expenses	330	65	36	84	12	9	21	29	32	69
Sub-Total	1,893	991	438	625	517	476	229	394	780	705
Reserve for Bad Debts	285	299	49	137	234	31	66	35	407	171
Total Operating Expenses	2,178	1,290	487	762	751	507	295	429	1,187	876
Net Profit (Loss)	957	264	(91)	(2)	(261)	28	(134)	237	(248)	84
Average monthly balance of outstanding loans	14,938	8,282	2,053	3,216	2,403	2,081	570	2,953	3,690	4,465
% profit (loss) of average monthly outstanding loans	6.4%	3.2%	(4.4%)	(0.1%)	(10.9%)	1.3%	(23.5%)	8.0%	(6.7%)	1.9%
Average monthly balance of outstanding loans needed to cover total operating expenses	10,624	6,862	2,523	3,228	3,681	1,973	1,050	1,890	4,673	4,056
Salaries and allowances as % of operating costs, less reserve	33.0%	20.0%	40.4%	32.6%	37.9%	50.2%	60.3%	21.1%	10.9%	30.6%
Reserve for Bad Debts as % of total operating expenses	13.1%	23.2%	10.1%	18.0%	31.2%	6.1%	22.4%	8.2%	34.3%	19.5%
Interest rate needed to cover total operating expenses	14.6%	15.6%	23.7%	23.7%	31.3%	24.4%	51.8%	14.5%	32.2%	19.6%
Interest rate needed to cover operating expenses, less reserve	12.7%	12.0%	21.3%	19.4%	21.5%	22.9%	40.2%	13.3%	21.1%	15.8%

TABLE B
SUMMARY OF PARTICIPATING INSTITUTIONS PROFIT/LOSS ESTIMATES
12 MONTHS (OCTOBER 1980 THROUGH SEPT.'1981) ADJUSTED BASIS*
(TAKA IN 000)

	Krishi	Sonali	Janata	Agrani	Pubali	Rupali	Uttara	IRTP	BSBL	Average
Income Earned (at 24%)	3,657	1,704	424	772	577	500	137	708	888	1,041
Operating Expenses										
Interest paid										
On savings (at 12%)	138	138	47	70	11	89	5	43	11	61
On borrowed funds (at $10\frac{1}{2}$%)	1,399	627	145	277	243	140	56	272	378	393
Salaries	624	197	177	203	196	239	138	83	85	216
Other expenses	330	65	36	84	12	9	20	29	32	69
Sub-Total	2,491	1,027	405	634	462	477	219	427	506	739
Reserve for Bad Debts	285	299	49	137	234	31	66	35	407	171
Total operating expenses	2,776	1,326	454	771	696	508	285	462	913	910
Net Profit (Loss)	881	378	(30)	1	(119)	(8)	(148)	246	(25)	131
Average monthly balance of outstanding loans	14,938	8,282	2,053	3,216	2,403	2,081	570	2,953	3,690	4,465
% profit (loss) of average monthly outstanding loans	5.9%	4.6%	(1.5)	0.0	(5.0%)	(0.4%)	(26.0%)	8.3%	(0.7%)	2.9%
Average monthly balance of outstanding loans needed to cover total operating expenses	11,567	6,314	2,162	3,212	2,900	2,117	1,187	1,925	3,804	3,792
Salaries and allowances as % of operating costs, less reserve	25.1%	19.2%	43.7%	32.0%	42.4%	50.1%	63.0%	19.4%	16.8%	29.2%
Reserve for Bad Debts as % of total operating expenses	10.3%	22.5%	10.8%	17.8%	33.6%	6.1%	23.2%	7.6%	44.6%	18.8%
Interest rate needed to cover total operating expenses	18.6%	16.0%	22.1%	24.0%	29.0%	24.4%	50.0%	15.6%	24.7%	20.4%
Interest rate needed to cover operating expenses, less reserve	16.7%	12.4%	19.7%	19.7%	19.2%	22.9%	38.4%	14.5%	13.7%	16.5%

* Interest rates adjusted to: 24% charged on loan; 12% paid on savings; $10\frac{1}{2}$% paid on borrowed funds.

TABLE C

SUMMARY OF PROFIT AND LOSS ESTIMATES FOR PARTICIPATING INSTITUTIONS FOR 12 MONTHS (10/80 THROUGH 9/81) ELIMINATING DATA FROM BEST AND WORST OUTLETS (i.e. THOSE OPERATING LESS THAN ONE YEAR AND THOSE HAVING THE LARGEST PROFITS OR THE LARGEST LOSSES) 1/

(TAKA IN 000's)

PARTICIPATING INSTITUTIONS	Krishi 8 Outlets	Sonali 3 Outlets	Janata 2 Outlets	Agrani 7 Outlets	Pubali 2 Outlets	Rupali 5 Outlets	Uttara 2 Outlets	IRDP 6 Outlets	BSBL 4 Outlets	Total 39 Outlets
Loan interest-effective rate	21.2	20.4	17.8	21.6	20.3	26.2	31.4	22.4	25.9	21.9
Savings interest-effective rate	5.6	5.6	5.4	4.1	8.0	8.4	7.7	7.5	0.0	6.4
Cost of borrowed funds - $10\frac{1}{2}$%	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Income earned	1693	538	145	592	242	388	66	355	442	4461
Operating expenses interest paid										
On savings	48	24	5	12	4	62	2	17	-	174
On borrowed funds	750	231	75	258	120	78	19	144	175	1850
Salaries	301	82	45	127	87	177	44	45	35	943
Other expenses	148	16	2	34	11	3	5	18	14	251
Sub-Total	1247	353	127	431	222	320	70	224	224	3218
Reserve for Bad Debts	164	152	(20)	130	99	19	60	34	111	749
Total operating expenses	1411	505	107	561	321	339	130	258	335	3967
Net Profit (Loss)	+ 282	+33	+ 38	+ 31	(79)	+49	(64)	+97	+107	+494
Average monthly balance of outstanding loans	7997	2632	815	2747	1195	1479	210	1588	1707	20370
% profit (loss) of average monthly outstanding loans	+ 3.5	+ 1.3	+ 4.7	+ 1.1	(6.6)	+3.3	(30.5)	+ 6.1	+ 6.3	+ 2.4
Average monthly balance of outstanding loans needed to cover total operating expenses	6656	2475	601	2597	1581	1294	414	1152	1293	18114
Salaries and allowances as % of operating expenses, less reserve	24.1	23.2	35.4	29.5	39.2	55.3	62.9	20.1	15.6	29.3
Reserve for Bad Debts as % of total operating expenses	11.6	30.1	(18.7)	23.2	30.8	5.6	46.2	13.2	33.1	18.9
Interest rate needed to cover total operating expenses	17.6	19.2	13.1	20.4	26.9	22.9	61.9	16.2	19.6	19.5
Interest rate needed to cover total operating expenses less reserve	15.6	13.4	15.6	15.7	18.6	21.6	33.3	14.1	13.1	15.8

1/ Excludes Head office expenses; cost of borrowed funds adjusted @ 10.5%. Eliminated 1 best and 1 worst outlet from each PLI's except Krishi (2 best and 2 worst outlets eliminated from Krishi).

TABLE D

LIST OF MOST TO LEAST SUCCESSFUL OUTLETS IN ORDER OF PROFITABILITY

FOR TWELVE MONTH PERIOD - OCTOBER 1980 - SEPTEMBER 1981 1/

Institution	Outlet	% Net Profit FULLY Adjusted I	% Net Profit PARTLY Adjusted II	Actual Loan Rate III	No. of Borrowers (Cumulative)	Total Taka Savings Deposited 9/30/81 (000's)	Average Taka Balance of Loans Outstanding 9/30/81 (000's)	Taka Reserve for Bad Debts 9/30/81 (000's)
IRDP	Babugonj	12.2	11.0	22.9%*	317	27	337	Nil
Krishi	Kushtia	11.7	5.7	18%	943	75	1362	48
IRDP	Norrelganj	11.7	10.5	23.1%*	268	28	171	Nil
Krishi	Tangail	11.7	4.2	18%	1066	403	1237	73
IRDP	Chouddagram	10.8	10.6	23.9%*	309	35	518	1
Janata	Baneswar	10.8	10.8	24%	178	93	397	85
Sonali	Gouripur	9.7	14.5	30%	736	64	917	39
Janata	Jhikergacha	9.3	(2.6)	12%	262	49	418	Nil
Krishi	Rangpur	9.2	15.2	30%	1001	24	1077	Nil
Rupali	Khan's Hat	9.2	15.2	30%	383	7	541	28
IRDP	Burhanuddin	8.6	7.1	22.6%*	584	97	407	22
Krishi	Madaripur	8.6	8.6	24%	929	202	882	71
Krishi	Rajshahi	8.4	8.4	24%	1008	162	1424	47
Sonali	Shahpur	8.3	2.3	18%	748	219	927	23
IRDP	Islampur	8.2	6.8	22.5%*	281	13	281	Nil
Krishi	Khulna	8.0	14.0	30%	573	92	1037	59

Foot Notes: I % of profit based on adjusted rates of interest : Loans-24%; Savings-12%; Borrowed funds-10.5%

II % of profit based on actual loan rate of interest charged see column III; Savings-12%; Borrowed funds-10.5%

III* For all IRDP/BSBL an average rate for lending has been used due to cooperative's 3-tier rates.

1/ Excludes outlets not open for the full period.

LIST OF MOST TO LEAST SUCCESSFUL OUTLETS IN ORDER OF PROFITABILITY

FOR TWELVE MONTH PERIOD - OCTOBER 1980 - SEPTEMBER 1981

Institution	Outlet	% Net Profit FULLY Adjusted I	% Net Profit PARTLY Adjusted II	Actual Loan Rate III	No. of Borrowers (Cumulative)	Total Taka Savings Deposited 9/30/81 (000's)	Average Taka Balance of Loans Outstanding 9/30/81 (000's)	Taka Reserve for Bad Debts 9/30/81 (000's)
Agrani	Chuknagar	7.8	1.2	18%	833	189	396	2
Agrani	Natherpetua	7.7	4.3	12%	678	80	648	7
BSBL	Taltoly	7.7	7.1	23.4%*	144	24	169	21
Rupali	Narhatta	7.3	7.3	24%	239	124	357	16
Krishi	Gaibandha	7.0	(5.0)	12%	813	215	957	Nil
BSBL	Paschim Pakutia	6.3	6.3	24.1%*	421	17	510	72
Krishi	Faridpur	5.8	(6.1)	12%	1262	131	1850	51
Pubali	Satihat	5.8	(0.3)	18%	562	50	759	19
Krishi	Manikgonj	5.7	(6.2)	12%	1133	198	1474	157
BSBL	Jhalam (North)	5.7	7.7	26%*	384	26	703	163
Sonali	Kaliarchar	4.6	(1.3)	18%	758	165	632	65
IRDP	Dhamrai	4.5	0.4	19.9%*	307	24	265	45
Sonali	Sitakunda	4.5	(7.5)	12%	675	479	600	41
Agrani	Saduhati	4.4	4.4	24%	568	22	413	1
Krishi	Pabna	4.0	(2.1)	18%	848	117	724	7
IRDP	Joydebpur	3.9	3.9	24.1%*	138	12	103	10
Agrani	Cadet College	3.6	15.7	36%	636	701	389	Nil
Agrani	Bhatra	2.8	2.8	24%	273	17	250	Nil
Janata	Saider Bazar	2.1	8.2	30%	182	284	293	19
Agrani	Santiniketon	0.7	7.6	30%	603	52	410	2
BSBL	Boildah	0.0	3.3	27.4%*	337	4	332	133

LIST OF MOST TO LEAST SUCCESSFUL OUTLETS IN ORDER OF PROFITABILITY

FOR TWELVE MONTH PERIOD - OCTOBER 1980 - SEPTEMBER 1981

Institution	Outlet	% Net Profit FULLY Adjusted I	% Net Profit PARTLY Adjusted II	Actual Loan Rate III	No. of Borrowers (Cumulative)	Total Taka Savings Deposited 9/30/81 (000's)	Average Taka Balance of Loans Outstanding 9/30/81 (000's)	Taka Reserve for Bad Debts 9/30/81 (000's)
IRDP	Natore	(0.5)	(1.5)	23.2% *	229	77	195	54
BSBL	Charkalibari	(0.6)	3.1	27.9%*	86	Nil	162	65
Sonali	Birgonj	(0.6)	(0.6)	24%	587	149	1073	183
Uttara	Basan	(0.9)	5.4	30%	193	6	223	2
Rupali	Kalihati	(1.0)	11.2	36%	774	489	402	16
Rupali	Rajgonj Bazar	(1.4)	(7.4)	18%	366	131	367	34
Krishi	Majdee Court	(2.2)	(2.2)	24%	734	94	818	180
Pubali	Elenga	(3.7)	8.3	36%	529	9	433	49
Rupali	Rahmatpur	(4.7)	0.9	30%	168	32	107	3
Agrani	Baligaon	(5.1)	0.8	30%	444	15	395	241
Agrani	Khamar	(5.5)	(11.4)	18%	298	30	236	34
Pubali	Shahbazpur	(7.4)	(19.4)	12%	803	37	775	306
BSBL	Baluhar	(7.5)	(8.6)	22.8%*	337	8	454	279
Rupali	Mansa Bazar	(8.5)	(8.5)	24%	296	252	246	6
Krishi	Sylhet	(8.6)	(2.7)	30%	454	19	592	544
Uttara	Tangail	(14.5)	(14.5)	24%	149	23	83	1
Pubali	Babugonj	(18.1)	(18.1)	24%	388	16	436	287
Janata	Paglapir	(19.3)	(25.4)	18%	202	2	114	83
Rupali	Kakonhat	(24.2)	(24.2)	24%	75	14	62	10
Uttara	Mymensingh	(36.9)	(42.9)	18%	155	7	84	26
Uttara	Feni	(52.8)	(40.9)	36%	217	12	127	95
Agrani	Joyag	(61.1)	(50.0)	36%	61	61	36	19

TABLE E-1

KRISHI BANK - PROFIT/LOSS ESTIMATES FOR 12 OUTLETS FOR 12 MONTHS (10/80 THROUGH 9/81)(TAKA IN 000'S)

OUTLET NAME	GAIBANDHA		MANIKGANJ		FARIDPUR	
Loan Interest	12 %	24 %	12 %	24 %	12 %	24 %
Savings Interest	7.3%(11%)	12 %	7.9%(11%)	12 %	6.4%(11%)	12 %
Cost of Borrowed Funds	6.5%	10.5%	6.5%	10.5%	6.5%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	1058		968		1007	
Income Earned	119	234	181	358	229	449
Operating Expenses						
Interest paid						
On Savings	9	15	12	17	4	8
On Borrowed Funds	54	87	86	139	116	187
Salaries	42	42	40	40	59	59
Other expenses	23	23	23	23	40	40
Sub-total	128	167	161	219	219	294
Reserve for Bad Debts	-	-	55	55	48	48
Total operating expenses	128	167	216	273	267	341
Net Profit(Loss)	(9)	67	(35)	85	(38)	108
Average monthly balance of outstanding loans	957		1474		1850	
% profit(loss) of average monthly outstanding loans	(0.9%)	7%	(2.4%)	5.8%	(2.1%)	5.8%
Average monthly balance of outstanding loans needed to cover total operating expenses.	1067	696	1800	1138	2225	1421
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	32.8	25.1	24.8	18.3	26.9	20.1
Reserve for Bad Debts as % of total operating expenses.	0	0	25.5	20.1	18.0	14.1
Interest rate needed to cover total operating expenses.	13.4	17.5	14.7	18.5	14.4	18.4
Interest rate needed to cover total operating expenses less reserve.	13.4	17.5	10.9	14.9	11.8	15.9

KRISHI (continued)

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OUTLET NAME	KUSHTIA		TANGAIL		PABNA	
Loan Interest	18 %	24 %	18 %	24 %	18 %	24 %
Savings Interest	5.7%(12%)	12 %	3.3%(12%)	12 %	3.5%(12%)	12 %
Cost of Borrowed Funds	6.5%	10.5%	6.5%	10.5%	6.5%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	683		866		781	
Income Earned	274	355	228	302	134	177
Operating Expenses						
Interest paid						
On Savings	2	5	7	26	2	6
On Borrowed Funds	86	139	66	107	44	71
Salaries	40	40	31	31	46	46
Other expenses	18	18	8	8	27	27
Sub-total	146	202	112	172	119	150
Reserve for Bad Debts	(5)	(5)	4	4	(1)	(1)
Total operating expenses	141	196	116	176	112	149
Net Profit(Loss)	133	159	112	126	17	28
Average monthly balance of outstanding loans	1362		1237		724	
% profit(loss) of average monthly outstanding loans.	9.8%	11.7%	9.1%	10.2%	2.3%	3.9%
Average monthly balance of outstanding loans needed to cover total operating expenses.	783	817	644	733	650	621
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	27.4	19.8	27.7	18.0	38.7	30.7
Reserve for Bad Debts as % of total operating expenses.	(3.5)	(2.6)	3.4	2.3	(0.9)	(0.7)
Interest rate needed to cover total operating expenses.	10.4	14.4	9.4	14.2	16.2	20.6
Interest rate needed to cover total operating expenses less reserve.	10.7	14.8	9.1	13.9	16.4	20.7

KRISHI (continued)

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OUTLET NAME	RAJSHAHI		MADARIPUR		MAIJDEE COURT	
Loan Interest	24 %	24 %	24 %	24 %	24 %	24 %
Savings Interest	3.8%(13%)	12 %	8.7%(13%)	12 %	10.0%(13%)	12 %
Cost of Borrowed Funds	6.5%	10.5%	6.5%	10.5%	6.5%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	631		676		414	
Income Earned	345	345	216	216	199	199
Operating Expenses						
Interest paid						
On Savings	8	26	10	14	8	9
On Borrowed Funds	79	127	50	81	48	78
Salaries	57	57	27	27	36	36
Other expenses	39	39	13	13	14	14
Sub-total	183	249	100	135	106	137
Reserve for Bad Debts	(23)	(23)	5	5	80	80
Total operating expenses	160	226	105	140	186	217
Net Profit(Loss)	185	119	111	76	13	(18)
Average monthly balance of outstanding loans	1424		882		818	
% profit(loss) of average monthly outstanding loans.	13.00	8.4%	12.6%	8.6%	1.6%	(2.2%)
Average monthly balance of outstanding loans needed to cover total operating expenses.	667	942	438	583	775	904
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	31.1	22.9	27	20	34	26.3
Reserve for Bad Debts as % of total operating expenses.	(14.4)	(10.2)	4.8	3.6	43.0	36.9
Interest rate needed to cover total operating expenses	11.2	15.9	11.9	15.9	22.7	26.5
Interest rate needed to cover total operating expenses less reserve.	12.9	17.5	11.3	15.3	13.0	16.7

KRISHI (continued)

- 4 -

OUTLET NAME	KHULNA		RANGPUR		SYLHET	
Loan Interest	30 %	24 %	30 %	24 %	30 %	24 %
Savings Interest	6.7%(14%)	12 %	8.5%(14%)	12 %	10.4%(14%)	12 %
Cost of Borrowed Funds	6.5%	10.5%	6.5%	10.5%	6.5%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	467		647		111	
Income Earned	314	252	326	262	178	143
Operating Expenses						
Interest paid						
On Savings	4	7	2	3	2	2
On Borrowed Funds	64	103	68	110	37	60
Salaries	38	38	37	37	22	22
Other expenses	23	23	12	12	6	6
Sub-total	129	171	119	162	67	90
Reserve for Bad Debts	(2)	(2)	-	-	104	104
Total operating expenses	127	169	119	162	171	194
Net Profit(Loss)	187	83	207	100	7	(51)
Average monthly balance of outstanding loans	1037		1077		592	
% profit(loss) of average monthly outstanding loans	18.0%	8.0%	19.2%	9.3%	1.2%	(8.6%)
Average monthly balance of outstanding loans needed to cover total operating expenses.	423	704	397	675	570	808
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	29.5	22.2	31.1	22.8	32.8	24.4
Reserve for Bad Debts as % of total operating expenses	(1.6)	(1.2)	0.0	0.0	60.8	53.6
Interest rate needed to cover total operating expenses	12.2	16.3	11.0	15.0	28.9	32.8
Interest rate needed to cover total operating expenses less reserve.	12.4	16.5	11.0	15.0	11.3	15.2

TABLE E-ii

SONALI BANK - PROFIT/LOSS ESTIMATES FOR 5 OUTLETS FOR 12 MONTHS (10/80 THROUGH 9/81)(TAKA IN 000'S)

OUTLET NAME	SITAKUNDA		KULIARCHAR		SHAHAPUR	
Loan Interest	12 %	24 %	18 %	24 %	18%	24 %
Savings Interest	7.2%(11%)	12 %	6.6%(12%)	12 %	6%(12%)	12 %
Cost of Borrowed Funds	11 %	10.5%	11 %	10.5%	11%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	468		772		785	
Income Earned	72	144	114	151	167	222
Operating Expenses						
Interest paid						
On Savings	33	54	8	14	11	23
On Borrowed Funds	16	16	57	54	81	77
Salaries	24	24	21	21	22	22
Other expenses	13	13	4	4	10	10
Sub-total	86	107	90	93	124	132
Reserve for Bad Debts	10	10	29	29	14	14
Total operating expenses	96	117	119	122	138	146
Net Profit(Loss)	(24)	27	(5)	29	29	76
Average monthly balance of outstanding loans	600		632		927	
% profit(loss) of average monthly outstanding loans	(4)	4.5	(0.8)	4.6	3.1	8.2
Average monthly balance of outstanding loans needed to cover total operating expenses.	800	488	661	508	767	608
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating costs, less reserve.	27.9	22.4	23.3	22.6	17.7	16.7
Reserve for Bad Debts as % of total operating expenses	10.4	8.5	24.4	23.8	10.1	9.6
Interest rate needed to cover total operating expenses	16	19.5	18.8	19.3	14.9	15.7
Interest rate needed to cover operating expenses, less reserve.	14.3	17.8	14.2	14.7	13.4	14.2

SONALI (continued)

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OUTLET NAME	BIRGANJ		GOURIPUR BAZAR	
Loan Interest	24 %	24 %	30 %	24 %
Savings Interest	3.7%(13%)	12 %	8.5%(14%)	12 %
Cost of Borrowed Funds	11 %	10.5%	11 %	10.5%
	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	532		809	
Income Earned	257	257	275	220
Operating Expenses				
Interest paid				
On Savings	5	14	4	6
On Borrowed Funds	104	100	95	91
Salaries	39	39	23	23
Other expenses	2	2	4	4
Sub-total	150	155	126	124
Reserve for Bad Debts	108	108	18	18
Total operating expenses	258	263	144	142
Net Profit(Loss)	(1)	(6)	131	78
Average monthly balance of outstanding loans	1073		917	
% profit(loss) of average monthly outstanding loans	(0.1)	(0.6)	14.3	8.5
Average monthly balance of outstanding loans needed to cover total operating expenses.	1075	1096	480	592
SELECTED INDICATORS FOR COMPARISON				
Salaries and allowances as % of operating costs, less reserve.	26	25.2	18.3	18.5
Reserve for Bad Debts as % of total operating expenses	41.9	41.1	12.5	12.7
Interest rate needed to cover total operating expenses	24	24.5	15.7	15.5
Interest rate needed to cover operating expenses, less reserve.	14	14.4	13.7	13.5

TABLE E-111

JANATA BANK - PROFIT/LOSS ESTIMATES FOR 4 OUTLETS FOR 12 MONTHS (10/80 THROUGH 9/81)(TAKA IN 000'S)

OUTLET NAME	JHIKERGACHA		PAGLAPIR		BANESWER	
Loan Interest	12.0%	24.0%	18.0%	24.0%	24.0%	24.0%
Savings Interest	7.0%(13)	12.0%	6.7%(13)	12.0%	3.5%(13)	12.0%
Cost of Borrowed Funds	13.0%	10.5%	13.0%	10.5%	13.0%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	531		19		93	
Income Earned	50	100	20	27	95	95
Operating Expenses						
Interest paid						
On Savings	3	5	-	1	2	6
On Borrowed Funds	48	39	14	11	45	36
Salaries	17	17	16	16	28	28
Other expenses	-	-	7	7	2	2
Sub-total	68	61	37	35	77	72
Reserve for Bad Debts	-	-	14	14	(20)	(20)
Total operating expenses	68	61	51	49	57	52
Net Profit(Loss)	(18)	39	(31)	(22)	38	43
Average monthly balance of outstanding loans.	418		114		397	
% profit(loss) of average monthly outstanding loans.	(4.3%)	9.3%	(27.2%)	(19.3%)	9.6%	10.8%
Average monthly balance of outstanding loans needed to cover total operating expenses.	567	254	283	204	238	217
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	25	27.9	43.2	45.7	36.4	39.9
Reserve for Bad Debts as % of total operating expenses.	0	0	27.5	28.6	(35.1)	(38.5)
Interest rate needed to cover total operating expenses.	16.3	14.6	44.7	43.0	14.4	13.1
Interest rate needed to cover total operating expenses less reserve.	16.3	14.6	32.5	30.7	19.4	18.1

JANATA (continued)

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CUTLET NAME	BAIDER BAZAR	
Loan Interest	30.0%	24.0%
Savings Interest	9.0%(13)	12.0%
Cost of Borrowed Funds	13.0%	10.5%
	Actual	Adjusted
Actual number of loans disbursed	124	
Income Earned	88	70
Operating Expenses		
Interest paid		
On Savings	19	26
On Borrowed Funds	11	8
Salaries	18	18
Other expenses	9	9
Sub-total	57	61
Reserve for Bad Debts	3	3
Total operating expenses	60	64
Net Profit(Loss)	28	6
Average monthly balance of outstanding loans.	293	
% profit(loss) of average monthly outstanding loans.	9.6%	2.0%
Average monthly balance of outstanding loans needed to cover total operating expenses.	200	267

SELECTED INDICATORS FOR COMPARISON

Salaries and allowances as % of operating expenses less reserve.	31.6	29.5
Reserve for Bad Debts as % of total operating expenses.	5.0	4.7
Interest rate needed to cover total operating expenses.	20.5	21.8
Interest rate needed to cover total operating expenses less reserve.	19.5	20.8

TABLE E-iv

AGRANI BANK - PROFIT/LOSS ESTIMATES FOR 9 OUTLETS FOR 12 MONTHS (10/80 THROUGH 9/81)(TAKA IN 000'S)

OUTLET NAME	NATHERPATUA		CHUK NAGAR		KHAMAR	
Loan Interest	12.0%	24.0%	18.0%	24.0%	18.0%	24.0%
Savings Interest	1.1%(11)	12.0%	5.9%(12)	12.0%	3.9%(12)	12.0%
Cost of Borrowed Funds	12.0%	10.5%	12.0%	10.5%	11.8%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	380		469		226	
Income Earned	78	156	71	95	43	57
Operating Expenses						
Interest paid						
On Savings	-	6	8	16	1	2
On Borrowed Funds	72	63	31	27	26	23
Salaries	25	25	20	20	5	5
Other expenses	9	9	-	-	3	3
Sub-total	106	103	59	63	35	33
Reserve for Bad Debt	3	3	1	1	37	37
Total operating expenses	109	106	60	64	72	70
Net Profit(Loss)	(31)	50	11	31	(29)	(13)
Average monthly balance of outstanding loans	648		396		236	
% profit(loss) of average monthly outstanding loans	(4.8%)	7.7%	2.8%	7.8%	(12.3%)	(5.5%)
Average monthly balance of outstanding loans needed to cover total operating expenses.	908	442	333	267	400	292
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	23.6	24.3	33.9	31.7	14.3	15.2
Reserve for Bad Debts as % of total operating expenses.	2.8	2.8	1.7	1.6	51.4	52.9
Interest rate needed to cover total operating expenses.	16.8	16.4	15.2	16.2	30.5	29.7
Interest rate needed to cover total operating expenses less reserve.	16.4	15.9	14.9	15.9	14.8	14

AGRANI (continued)

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OUTLET NAME	BATRA		SHADUHATI		SHANTINIKETON	
Loan Interest	24.0%	24.0%	24.0%	24.0%	30.0%	24.0%
Savings Interest	0.4%(13)	12.0%	1.9%(13)	12.0%	0.9%(14)	12.0%
Cost of Borrowed Funds	12.0%	10.5%	12.0%	10.5%	12.0%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	407		235		367	
Income Earned	60	60	99	99	123	98
Operating Expenses						
Interest paid						
On Savings	-	2	1	3	1	5
On Borrowed Funds	28	24	46	41	44	39
Salaries	20	20	28	28	14	14
Other expenses	7	7	9	9	3	3
Sub-total	55	53	84	81	62	61
Reserve for Bad Debts	-	-	-	-	34	34
Total operating expenses	55	53	84	81	96	95
Net Profit(Loss)	5	7	15	18	27	3
Average monthly balance of outstanding loans.	250		413		410	
% profit(loss) of average monthly outstanding loans.	2.0%	2.8%	3.6%	4.4%	6.6%	0.7%
Average monthly balance of outstanding loans needed to cover total operating expenses.	229	221	350	338	320	396
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	36.4	37.7	33.3	34.6	22.6	23.0
Reserve for Bad Debts as % of total operating expenses.	-	-	-	-	35.4	35.8
Interest rate needed to cover total operating expenses.	22.0	21.2	20.3	19.6	23.4	23.2
Interest rate needed to cover total operating expenses less reserve.	22.0	21.2	20.3	19.6	15.1	14.9

OUTLET NAME	BALIGANJ		CADET COLLEGE		JOYAG	
Loan Interest	30.0%	24.0%	36.0%	24.0%	36.0%	24.0%
Savings Interest	6.1%(14)	12.0%	4.0%(15)	12.0%	- (15)	12.0%
Cost of Borrowed Funds	12.0%	10.5%	12.0%	10.5%	12.0%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	304		801		58	
Income Earned	118	95	140	93	13	9
Operating Expenses						
Interest paid						
On Savings	1	1	10	31	-	4
On Borrowed Funds	46	41	16	14	1	1
Salaries	15	15	26	26	18	18
Other expenses	3	3	9	9	3	3
Sub-total	65	60	61	80	22	26
Reserve for Bad Debts	55	55	(1)	(1)	5	5
Total operating expenses	120	115	60	79	27	31
Net Profit(Loss)	(2)	(20)	80	14	(14)	(22)
Average monthly balance of outstanding loans.	394		389		36	
% profit(loss) of average monthly outstanding loans.	(0.5%)	(5.1%)	20.6%	3.6%	(38.9%)	(61.1%)
Average monthly balance of outstanding loans needed to cover total operating expenses.	400	479	167	329	75	129
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses less reserve.	23.1	25.0	42.6	32.5	81.8	69.2
Reserve for Bad Debts as % of total operating expenses.	45.8	47.8	(1.7)	(1.3)	18.5	16.1
Interest rate needed to cover total operating expenses.	30.5	29.2	15.4	20.3	75.0	86.1
Interest rate needed to cover total operating expenses less reserve.	16.5	15.2	15.7	20.6	61.1	72.2

TABLE E-v

PUBALI BANK - PROFIT/LOSS ESTIMATES FOR 4 OUTLETS FOR 12 MONTHS
10/80 THROUGH 9/81 (TAKA IN 000'S)

OUTLET	SHAHBAZPUR		SATIHAT		BABUGANJ		ELENGA	
Loan Interest	12 %	24 %	18 %	24 %	24%	24 %	36 %	24 %
Savings Interest	8.5%(11%)	12 %	8.8%(12%)	12 %	.4%(13%)	12 %	12.6%(15%)	12 %
Cost of Borrowed Funds	13 %	10.5%	13 %	10.5%	13%	10.5%	13 %	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	414		540		204		372	
Income Earned	93	186	137	183	105	105	156	104
Operating Expenses								
Interest Paid								
On savings	2	3	3	5	1	1	1	1
On borrowed funds	97	78	94	76	55	44	55	44
Salaries	47	47	46	46	41	41	42	42
Other expenses	6	6	6	6	5	5	7	7
Sub-total	152	134	149	133	102	91	105	94
Reserve for Bad Debt	109	109	6	6	93	93	26	26
Total Operating Expenses	261	243	155	139	195	184	131	120
Net Profit(Loss)	(168)	(57)	(18)	44	(90)	(79)	25	(16
Average monthly balance of outstanding loans.	775		759		436		433	
Net profit(loss) of average monthly outstanding loans.	(21.7%)	(7.4%)	(2.4%)	5.8%	(20.6%)	(18.1%)	5.8%	(3.7%)
Average monthly balance of loan outstanding needed to cover total operating expenses	2175	1013	861	579	813	767	364	500
SELECTED INDICATORS FOR COMPARISON								
Salaries and allowances as % of operating expenses less reserve	30.9	35.1	30.9	34.6	40.2	45.1	40.0	44.7
Reserve for Bad Debt as % of total operating expenses	41.8	44.9	3.9	4.3	47.7	50.5	19.8	21.7
Interest Rate needed to cover total operating expenses	33.7	31.4	20.4	18.3	44.7	42.2	30.3	27.7
Interest Rate needed to cover total operating expenses less reserve	19.6	17.3	19.6	17.5	23.4	20.9	24.2	21.7

TABLE E-vi

RUPALI BANK - PROFIT/LOSS ESTIMATES FOR 7 OUTLETS FOR 12 MONTHS (10/80 THROUGH 9/81)(TAKA IN 000'S)

CUTLET NAME	RAJGANJ BAZAR		MANASHA BAZAR		KAKON HAT	
Loan Interest	18 %	24 %	24 %	24 %	24 %	24 %
Savings Interest	7.1%(12%)	12 %	9.6%(13%)	12 %	3.6%(13%)	12 %
Cost of Borrowed Funds	12 %	10.5%	12.9%	10.5%	12%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	298		260		77	
Income Earned	66	88	59	59	15	15
Operating Expenses						
Interest paid						
On Savings	7	11	21	27	-	1
On Borrowed Funds	33	29	3	2	7	6
Salaries	46	46	48	48	19	19
Other expenses	1	1	-	-	1	1
Sub-total	87	87	72	77	27	27
Reserve for Bad Debts	6	6	3	3	3	3
Total operating expenses	93	93	75	80	30	30
Net Profit(Loss)	(27)	(5)	(16)	(21)	(15)	(15)
Average monthly balance of outstanding loans	367		246		62	
% profit(loss) of average monthly outstanding loans	(7.4)	(1.4)	(6.5)	(8.5)	(24.2)	(24.2)
Average monthly balance of outstanding loans needed to cover total operating expenses	517	388	313	333	125	125
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating costs, less reserve.	52.9	52.9	66.7	62.3	70.4	70.4
Reserve for Bad Debts as % of total operating expenses	6.5	6.5	4	3.8	10	10
Interest rate needed to cover total operating expenses	25.3	25.3	30.5	32.5	48.4	48.4
Interest rate needed to cover operating expenses, less reserve	23.7	23.7	29.3	31.3	43.5	43.5

RUPALI (continued)

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OUTLET NAME	NARHATTA		RAHMATPUR		KHAN'S HAT		KALIHATI	
Loan Interest	24 %	24 %	30 %	24 %	30 %	24 %	36 %	24 %
Savings Interest	6 %(13%)	12 %	2.7%(14%)	12 %	4.1%(14%)	12 %	9.2%(15%)	12 %
Cost of Borrowed Funds	12.7%	10.5%	12 %	10.5%	12.6%	10.5%	12.8%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	186		187		408		759	
Income Earned	86	86	32	26	162	130	145	96
Operating Expenses								
Interest paid								
On Savings	6	11	-	1	-	1	29	37
On Borrowed Funds	34	28	11	10	67	56	11	9
Salaries	17	17	18	18	13	13	48	48
Other expenses	-	-	1	1	1	1	1	1
Sub-total	57	56	30	30	81	71	89	95
Reserve for Bad Debts	4	4	1	1	9	9	5	5
Total operating expenses	61	60	31	31	90	80	94	100
Net Profit(Loss)	25	26	1	(5)	72	50	51	(4)
Average monthly balance of outstanding loans	357		107		541		402	
% profit(loss) of average monthly outstanding loans	7.0	7.3	0.9	(4.7)	13.3	9.2	12.7	(1)
Average monthly balance of outstanding loans needed to cover total operating expenses	254	250	103	129	300	333	261	417
SELECTED INDICATORS FOR COMPARISON								
Salaries and allowances as % of operating costs, less reserve.	29.8	30.4	60	60	16.0	18.3	53.9	50.5
Reserve for Bad Debts as % of total operating expenses	6.6	6.7	3.2	3.2	10.0	11.25	5.3	5
Interest rate needed to cover total operating expenses	17.0	16.8	29	29	16.6	14.8	23.4	24.9
Interest rate needed to cover operating expenses, less reserve.	16.0	15.7	28	28	15.0	13.1	22.1	23.6

TABLE E-vii

UTTARA BANK - PROFIT/LOSS ESTIMATES FOR 4 OUTLETS FOR 12 MONTHS (10/80 THROUGH 9/81)(TAKA IN 000'S)

OUTLET NAME	MYMENSINGH		TANGAIL		BASAN		FENI	
Loan Interest	18 %	24 %	24 %	24 %	30%	24 %	36 %	24 %
Savings Interest	6.1%(12%)	12 %	7.5%(13%)	12 %	13%(14%)	12 %	11.1%(15%)	12 %
Cost of Borrowed Funds	12.5%	10.5%	12.5%	10.5%	12.5%	10.5%	12.5%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	45		103		133		16	
Income Earned	15	20	20	20	67	53	46	31
Operating Expenses								
Interest paid								
On Savings	0	1	1	1	1	1	1	1
On Borrowed Funds	10	8	8	7	27	23	14	12
Salaries	30	30	20	20	26	26	24	24
Other expenses	7	7	4	4	4	4	1	1
Sub-total	47	46	33	32	58	54	40	38
Reserve for Bad Debts	5	5	-	-	1	1	60	60
Total operating expenses.	52	51	33	32	59	55	100	98
Net Profit(Loss)	(37)	(31)	(13)	(12)	+ 8	(2)	(54)	(67)
Average monthly balance of outstanding loans.	84		83		223		127	
% profit(loss)of average monthly outstanding loans.	(44.0%)	(36.9%)	(15.7%)	(14.5%)	+3.6%	(0.9%)	(42.5%)	(52.8%)
Average monthly balance of outstanding loans needed to cover total operating expenses.	289	213	138	133	197	229	278	408
SELECTED INDICATORS FOR COMPARISON								
Salaries and allowances as % of operating expenses less reserve.	63.8	65.2	60.6	62.5	44.8	48.1	60.0	63.2
Reserve for Bad Debts as % of total operating expenses.	9.6	9.8	0	0	1.7	1.8	60.0	61.2
Interest rate needed to cover total operating expenses.	61.9	60.7	39.8	38.6	26.5	24.7	78.7	77.2
Interest rate needed to cover total operating expenses, less reserve.	56.0	54.8	39.8	38.6	26.0	24.2	31.5	29.9

TABLE E-viii

IRDP - PROFIT/LOSS ESTIMATES FOR 8 OUTLETS FOR 12 MONTHS
(10/80 THROUGH 9/81 (TAKA IN 000'S)

OUTLET	BABUGANJ		ISLAMPUR		JOYDEBPUR		DHAMRAI	
Loan Interest	22.9%	24.0%	22.5%	24.0%	24.1%	24.0%	19.9%	24.0%
Savings Interest	21.7%(12%)	12.0%	8.5%(12%)	12.0%	-	12.0%	1.2%(12%)	12.0%
Cost of Borrowed Funds	10.0%	10.5%	10.0%	10.5%	10.0%	10.5%	10.0%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	708		309		83		162	
Income Earned	77	81	63	67	25	25	53	64
Operating Expenses								
Interest paid								
On savings	5	3	1	1	-	1	1	3
On borrowed funds	31	33	27	28	9	10	24	26
Salaries	6	6	8	8	6	6	10	10
Other expenses	3	3	7	7	1	1	1	1
Sub-total	45	45	43	44	16	18	36	40
Reserve for Bad debts	(5)	(5)	-	-	3	3	12	12
Total operating expenses	40	40	43	44	19	21	48	52
Net Profit(Loss)	37	41	20	23	6	4	5	12
Average monthly balance of outstanding loans	337		281		103		265	
% profit(loss) of average monthly outstanding loans.	11.0%	12.2%	7.1%	8.2%	5.8%	3.9%	1.9%	4.5%
Average monthly balance of loan outstanding needed to cover total operating expenses.	175	167	191	183	80	88	241	217
SELECTED INDICATORS FOR COMPARISON								
Salaries and allowances as % of operating expenses less reserve.	13.3	13.3	18.6	18.2	38	33.3	27.8	25
Reserve for Bad Debts as % of total operating expenses.	(12.5)	(12.5)	-	-	15.7	14.7	25.0	23.1
Interest rate needed to cover total operating expenses.	11.9	11.9	15.3	15.7	18.4	20.4	18.1	19.6
Interest rate needed to cover total operating expenses less reserve.	13.4	13.4	15.3	15.7	15.5	17.5	13.6	15.1

IRDP - Continued

-2-

OUTLET	MORRELGANJ		CHOUDDAGRAM		BURHANUDDIN		NATORE	
Loan Interest	23.1%	24.0%	23.9%	24.0%	22.6%	24.0%	23.2%	24.0%
Savings Interest	12.0%(12%)	12.0%	14.3%(12%)	12.0%	10.5%(12%)	12.0%	2.0%(12%)	12.0%
Cost of Borrowed Funds	10.0%	10.5%	10.0%	10.5%	10.0%	10.5%	10.0%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	268		687		884		82	
Income Earned	40	41	124	125	92	97	45	47
Operating Expenses								
Interest paid								
On savings	2	2	4	3	9	10	1	8
On borrowed funds	16	17	49	52	32	34	13	14
Salaries	7	7	8	8	7	7	8	8
Other expenses	3	3	2	2	2	2	4	4
Sub-total	28	29	63	65	50	53	26	34
Reserve for Bad Debts	(7)	(7)	4	4	10	10	14	14
Total operating expenses	21	22	67	69	60	63	40	48
Net Profit(Loss)	19	19	57	56	32	34	5	(1)
Average monthly balance of outstanding loans	171		518		407		195	
% profit(loss) of average monthly outstanding loans.	11.1%	11.1%	11.0%	10.8%	7.9%	8.4%	2.6%	(0.5%)
Average monthly balance of loan outstanding needed to cover total operating expenses.	91	92	279	288	265	263	172	200
SELECTED INDICATORS FOR COMPARISON								
Salaries and allowances as % of operating expenses less reserve.	25.0	24.1	12.7	12.3	14.0	13.2	30.8	23.5
Reserve for Bad Debts as % of total operating expenses.	(33.3)	(31.8)	5.9	5.8	16.7	15.9	35.0	29.2
Interest rate needed to cover total operating expenses.	12.3	12.9	12.9	13.3	14.7	15.5	20.5	24.6
Interest rate needed to cover total operating expenses less reserve.	16.4	17.0	12.2	12.5	12.3	13.0	13.3	17.4

TABLE E-ix

SAMABAYA BANK - PROFIT/LOSS ESTIMATES FOR 6 OUTLETS FOR 12 MONTHS (10/80 THROUGH 9/81)(TAKA IN 000'S)

OUTLET NAME	TALTOLY		BOILDAH		BALUHAR	
Loan Interest	23.4%	24 %	27.4%	24 %	22.8%	24 %
Savings Interest	0%(12%)	12 %	0%(12%)	12 %	0%(12%)	12 %
Cost of Borrowed Funds	16.4%	10.5%	20.4%	10.5%	15.8%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	136		92		79	
Income Earned	40	41	91	80	104	109
Operating Expenses						
Interest paid						
On Savings	-	2	-	1	-	1
On Borrowed Funds	25	16	67	34	71	47
Salaries	2	2	3	3	6	6
Other expenses	2	2	2	2	3	3
Sub-total	29	22	72	40	80	57
Reserve for Bad Debts	6	6	40	40	86	86
Total operating expenses	35	28	112	80	166	143
Net Profit(Loss)	+ 5	+13	(21)	-	(62)	(34)
Average monthly balance of outstanding loans.	169		332		454	
% profit(loss) of average monthly outstanding loans.	+3.0%	+7.7%	(6.3%)	-	(13.7%)	(7.5%)
Average monthly balance of outstanding loans needed to cover total operating expenses.	150	117	409	333	728	596
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses.less reserve.	6.9	9.1	4.2	7.5	7.5	10.5
Reserve for Bad Debts as % of total operating expenses.	17.1	21.4	35.7	50.0	51.8	60.1
Interest rate needed to cover total operating expenses.	20.7	16.6	33.7	24.1	36.6	31.5
Interest rate needed to cover total operating expenses, less reserve.	17.2	13.0	21.7	12.0	17.6	12.6

OUTLET NAME	PASCHIM PAKUTIA		JHALAM(NORTH)		CHARKALI BARI	
Loan Interest	24.1%	24 %	26.0%	24 %	27.9%	24 %
Savings Interest	0%(12%)	12 %	0%(12%)	12 %	0%(12%)	12 %
Cost of Borrowed Funds	17.1%	10.5%	19 %	10.5%	20.9%	10.5%
	Actual	Adjusted	Actual	Adjusted	Actual	Adjusted
Actual number of loans disbursed	361		255		77	
Income Earned	123	123	183	169	45	39
Operating Expenses						
Interest paid						
On Savings	-	2	-	2	-	-
On Borrowed Funds	85	52	130	72	34	17
Salaries	9	9	19	19	4	4
Other expenses	5	5	4	4	3	3
Sub-total	99	68	153	97	41	24
Reserve for Bad Debts	23	23	32	32	16	16
Total operating expenses	122	91	185	129	57	40
Net Profit(Loss)	+ 1	+32	(2)	+40	(12)	(1)
Average monthly balance of outstanding loans.	510		703		162	
% profit(loss) of average monthly outstanding loans.	+0.2%	+6.3%	(0.3%)	+5.7%	(7.4%)	(0.6%)
Average monthly balance of outstanding loans needed to cover total operating expenses.	506	379	712	538	204	167
SELECTED INDICATORS FOR COMPARISON						
Salaries and allowances as % of operating expenses, less reserve.	9.1	13.2	12.4	19.6	9.8	16.7
Reserve for Bad Debts as % of total operating expenses.	18.9	25.3	17.3	24.8	28.1	40.0
Interest rate needed to cover total operating expenses.	23.9	17.8	26.3	18.3	35.2	24.7
Interest rate needed to cover total operating expenses, less reserve.	19.4	13.3	21.8	13.8	25.3	14.8

TABLE F

INTEREST RATES CHARGED FOR BORROWED CAPITAL AND VOLUME of LOANS OUTSTANDING IN RELATION TO PROFITIBILITY FOR OCTOBER 1980 TO SEPTEMBER 1981

Institution	Effective interest rate earned	Interest rate needed to cover				Monthly average balance of loan outstanding Taka in 000's	
		All operating cost		All operating cost exclusive reserve for bad debts		Actual	Amount needed to cover total operating costs
		Actual	Adjusted	Actual	Adjusted		
Krishi	20.5	14.6	18.6	12.7	16.7	14,938	10,371
Sonali	18.8	15.6	16.0	12.0	12.4	8,282	6,862
Janata	19.3	23.7	22.1	21.3	19.7	2,053	2,523
Agrani	23.6	23.7	24.0	19.4	19.7	3,216	3,228
Pubali	20.4	31.3	29.0	21.5	19.2	2,403	3,681
Rupali	25.7	24.4	24.4	22.9	22.9	2,081	1,973
Uttara	28.1	51.8	50.0	40.2	38.4	570	1,050
IRDP	22.7	14.5	15.6	13.3	14.5	2,953	1,890
BSBL	25.4	32.2	24.7	21.1	13.7	3,690	4,673
Total	21.5	19.6	20.4	15.8	16.5	40,186	36,679

SECTION III FINANCIAL ANALYSIS

This section comprises two chapters:-

Chapter 1 Sensitivity Analysis
Chapter 2 Consolidated Audit Report

Chapter I is largely tabular and reflects how changes in interest rate levels on loans, interest paid on savings and costs of borrowed funds alter the profitability of outlets. Changes in the reserve for bad debts and administrative costs are also considered.

Chapter II is a summary of all audit reports from July 1980 to date. It reflects upon particular aspects of accounting and reporting at the outlets and collates the findings for each institution in relation to these key aspects.

CHAPTER 1 SENSITIVITY ANALYSIS OF PROFITABILITY

Introduction

All 59 outlets of all participating institutions that disbursed loans for the full 12 month period, October 1980 through September 1981, have been included in this analysis. Table I summarises the performance of outlets by institution and will facilitate inter-institutional comparability of profitability under different hypothetical conditions. Table 2 thru 10 show the performance of each outlet for each institution under the various conditions.

Methodology

The hypothetical profitability of each of the 59 outlets has been shown under the following alternatives:

1. Adjusting the interest paid on savings to 12% and the cost of borrowed funds to 10.5% at loan interest rate levels of 18%, 24% and 30%.
2. Excluding the reserve for bad debt, the hypothetical profit calculated on a loan interest rate level of 24%, interest on savings of 12% and cost of borrowed funds of 10.5%.
3. Adjusting the annual administrative costs (salaries, travel and office expenses) to Taka 32000 per outlet, which is the average for the 59 outlets. Profitability is then calculated on a loan interest rate level of 24%, interest on savings of 12% and cost of funds of 10.5%.

Summary of Results:

On the basis of actual performance pertaining to each of the 59 outlets, 32 outlets have earned a profit and 27 incurred losses during the 12 month period.

Other factors remaining constant, if the rate of interest on loans were adjusted to 18%, 22 outlets would have made a profit and 37 outlets would have sustained losses. If the rate of interest on loans were 24% and 30% respectively, profit and loss ratios would have been 36 : 23 and 48 : 11.

At the adjusted rates for loans, savings and borrowed funds, if bad debts reserve requirements were excluded 50 outlets would have been profitable and only 9 outlets unprofitable.

At the adjusted rates for loans, savings and borrowed funds, if annual administratives costs were adjusted to Taka 32000 for each outlet, 35 outlets would have made profits and 24 outlets would have incurred losses.

Table 1

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 59 OUTLETS OF ALL INSTITUTIONS
(October 1980 through September 1981)(Taka in 000's)

Institutions	Unadjusted Profit/(Loss)	Adjusted Profit/(Loss) 18%	24%	30%	Adjusted Profit/(Loss) on loan rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin. Expense at Taka 32
KRISHI						
Total outlets 12						
Profit outlets	9	7	10	11	12	10
Loss outlets	3	5	2	1	-	2
SONALI						
Total 5						
Profit outlets	2	2	4	5	5	5
Loss outlets	3	3	1	-	-	-
JANATA						
Total 4						
Profit outlets	2	2	3	3	3	3
Loss outlets	2	2	1	1	1	1
AGRANI						
Total 9						
Profit outlets	5	2	6	8	8	5
Loss outlets	4	7	3	1	1	4
PUBALI						
Total 4						
Profit outlets	1	-	1	2	4	2
Loss outlets	3	4	3	2	-	2

Institutions		Unadjusted Profit/(Loss)	Adjusted Profit/(Loss) 18%	24%	30%	Adjusted Profit/(Loss) on loan rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin. Expense at Taka 32
RUPALI							
Total	7						
Profit outlets		4	2	2	5	4	4
Loss outlets		3	5	5	2	3	3
UTTARA							
Total	4						
Profit outlets		1	-	-	1	-	-
Loss outlets		3	4	4	3	4	4
IRDP							
Total	8						
Profit outlets		6	5	7	8	8	4
Loss outlets		2	3	1	-	-	4
BSBL							
Total	6						
Profit outlets		2	2	3	5	6	2
Loss outlets		4	4	3	1	-	4
GRAND TOTAL							
Total	59						
Profit outlets		32	22	36	48	50	35
Loss outlets		27	37	23	11	9	24

Table 2

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 12 OUTLETS OF KRISHI BANK[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/ (Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loans rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Gaibandha	12%	(9)	9	67	125	67	100
Manikganj	12%	(35)	(5)	85	174	140	116
Faridpur	12%	(38)	(4)	108	220	156	175
Kushtia	18%	133	70	159	248	154	185
Tangail	18%	112	50	126	201	130	133
Pabna	18%	17	(16)	28	72	27	69
Rajshahi	24%	185	33	119	205	96	183
Madaripur	24%	111	22	76	130	81	84
Maijdee Court	24%	13	(68)	(18)	32	62	0
Khulna	30%	187	20	83	146	81	112
Rangpur	30%	207	34	100	165	100	117
Sylhet	30%	7	(87)	(51)	(15)	53	(55)

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 3

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 5 OUTLETS OF SONALI BANK[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/ (Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loans rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Sitakunda	12%	(24)	(9)	27	63	37	31
Kuliarchar	18%	(5)	(9)	29	67	59	22
Shahapur	18%	29	21	76	132	90	76
Birganj	24%	(1)	(70)	(6)	58	102	3
Gouripur	30%	131	23	78	133	96	73

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 4

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 4 OUTLETS OF JANATA BANK[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/(Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loans rate of 24% savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Jhikergacha	12%	(18)	14	39	64	39	24
Paglapir	18%	(31)	(29)	(22)	(15)	(8)	(31)
Baneswar	24%	38	19	43	67	23	41
Baidderbazar	30%	28	(12)	6	23	9	1

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 5

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 9 OUTLETS OF AGRANI BANK[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/(Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loan rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Natherpetua	12%	(31)	11	50	89	53	52
Chuknagar	18%	11	7	31	56	32	19
Khamar	18%	(29)	(27)	(13)	1	24	(37)
Bahtra	24%	5	(8)	7	22	7	2
Shaduhati	24%	15	(7)	18	43	18	23
Shantiniketan	30%	27	(22)	3	27	37	(12)
Baligaon	30%	(2)	(44)	(20)	4	35	(34)
Cadet College	36%	80	(9)	14	37	13	17
Joyag	36%	(14)	(25)	(22)	(20)	(17)	(33)

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 6

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 4 OUTLETS OF PUBALI BANK[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/(Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loan rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Shahbajpur	12%	(168)	(104)	(57)	(11)	51	(35)
Satihat	18%	(18)	(2)	44	90	49	64
Babuganj	24%	(90)	(105)	(79)	(53)	13	(65)
Ellenga	36%	25	(42)	(16)	10	61	1

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 7

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 7 OUTLETS OF RUPALI BANK[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/ (Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loans rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Rajganjbazar	18%	(27)	(27)	(5)	17	1	10
Manshabazar	24%	(16)	(36)	(21)	(6)	(18)	(5)
Kakonhat	24%	(15)	(19)	(15)	(11)	(12)	(27)
Narhatta	24%	25	4	26	47	30	11
Rahamatpur	30%	1	(12)	(5)	1	(4)	(18)
Khan's Hat	30%	72	17	50	82	59	33
Kalihati	36%	51	(28)	(4)	20	1	13

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 8

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 4 OUTLETS OF UTTARA BANK[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/ (Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loans rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Mymensingh	18%	(37)	(36)	(31)	(26)	(26)	(26)
Tangail	24%	(13)	(17)	(12)	(7)	(12)	(20)
Basan	30%	8	(15)	(2)	11	(1)	(4)
Feni	36%	(54)	(75)	(67)	(59)	(7)	(74)

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 9

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 6 OUTLETS OF BSBL[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/ (Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loan rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Taltoly	23.4%	5	3	13	23	19	(15)
Boildah	27.4%	(21)	(20)	0	20	40	(27)
Baluhar	22.8%	(62)	(61)	(34)	(7)	52	(57)
Paschim Pakutia	24.1%	1	1	32	63	55	14
Jhalam(North)	26%	(2)	(2)	40	82	72	31
Charkalibari	27.9%	(12)	(11)	(1)	9	15	(26)

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

Table 10

SENSITIVITY ANALYSIS OF PROFITABILITY
OF 8 OUTLETS OF IRDP[1]
(October 1980 through September 1981)(Taka in 000's)

Outlet	Actual Loan Rate	Unadjusted Profit/(Loss)	Adjusted Profit/(Loss)[2] 18%	24%	30%	Adjusted Profit/(Loss) on loan rate of 24%, savings of 12%, funds of 10.5% Excluding Reserve for Bad Debts	Admin.[3] Expense at Taka 32
Babuganj	22.6%	36	21	41	61	36	18
Islampur	29.6%	40	6	23	40	23	6
Joydebpur	13.6%	(5)	(2)	4	10	7	(21)
Dhamrai	19.8%	5	(4)	12	28	24	(9)
Morrelganj	17.1%	8	9	19	29	12	(3)
Chouddagram	16.6%	19	25	56	87	60	34
Burhanuddin	19.7%	20	10	34	58	44	11
Natore	19.1%	(4)	(14)	(2)	10	12	(21)

1/ Outlets included disbursed loans during the full 12-month period October 1980 through September 1981. Outlets are excluded which did not disburse loans during this period or which commenced operations after October 1980.

2/ Savings rate has been adjusted to 12%, cost of borrowed funds to 10.5% and the loan rate is allowed to vary as indicated.

3/ Taka 32,000 is the average annual expense for salaries, travel and office expense for the 59 outlets included in this analysis.

CHAPTER 2 CONSOLIDATED REPORT ON AUDITS OF RFEP ACCOUNTS

Introduction

This report incorporates the findings of audit report transmittals No. 6 to 11 to the Bangladesh Bank and copied to USAID and to the participating institutions. The reports covered audits of RFEP accounts at 80 outlets from June 1980 to January 1982. Earlier reports have not been included as these were reports of initial audits conducted at all the 62 outlets in operation at that time.

The critical audit findings at outlets may be broadly categorized as follows:

1. Problems relating to maintenance of loan ledgers.
2. Problems of distributing and posting borrowers' passbooks.
3. Problems in the preparation of monthly reports.
4. Excess claims for ⅓ plus ⅓ reimbursement from the project grant.
5. Understatement of overdues.
6. Willful defaulters.
7. First loans covered by second loans.
8. Failure to prenumber receipts given for payments.
9. Underpayment of interest on savings.
10. Audits attempted that could not be completed.
11. Irregularities in collection and deposit of loan repayments.

Each of these areas are looked at in more detail as are the principal findings for each institution.

Critical Findings

1. Maintenance of loan ledgers

Problems relating to maintenance of loan ledgers include:-

Failure to post accounts up-to-date.

Improper segregation of repayments between due date and after due date.

Inaccurate calculation of interest.

Calculation of interest on the basis of month end balance instead of daily balance.

Failure to credit loan repayments to interest due before crediting principal.

Failure to quote receipt or payment reference numbers.

Failure to give cross reference between first loans and second loans and between loans and savings accounts.

2. Borrowers Passbooks

Problems of distributing and posting borrowers' passbooks include:-

Some outlets where not all borrowers had received passbooks.

Outlets where passbooks were not posted in full.

In some outlets passbooks were not posted up-to-date.

3. Monthly Reports

Problems of preparation of monthly reports include:-

In a few outlets, there were discrepancies between loan ledger figures and report figures.

In some outlets monthly reports were not prepared promptly.

4. Reimbursements from the Project Grant

Excess claims for ½ plus ½ reimbursement usually resulted from:

Posting loans repaid after due date as repaid within the due date.

In a few outlets, loans were fully or partially refunded within a few days of distribution and should not have been counted as true loans.

In a few outlets, first loans were covered by second loans.

In all of these cases, such excess claims for ½ plus ½ reimbursement were deducted by the auditors from the next monthly report.

5. Overdues

Understatement of overdues usually resulted from the failure to classify a loan as overdue as soon as its due date had passed without payment.

6. Wilful Defaulters

Wilful defaulters were found at only 12 of the 80 outlets. However, prompt and forceful action is required to prevent these wilful defaulters from infecting other borrowers, particularly where group lending is practised.

7. First loans covered by second loans

First loans covered by second loans were found at only 5 of the 80 outlets.

8. Prenumbered receipts

Failure to prenumber receipts given for loan re-payments were noted at all outlets of Sonali and Pubali and some outlets of Rupali. We think that these banks are in error in not prenumbering receipts. While prenumbering receipts will not eliminate defalcation of repayments, they will discourage defalcation by providing an audit trail.

9. Interest on Savings

Underpayment of interest on savings is found to some extent at most outlets, particularly those that impose a Tk.100 minimum on savings accounts before interest is calculated. Through this device BSBL has successfully avoided paying any interest whatsover on its savings deposits.

10. Uncompleted Audits

Audits were attempted but could not be completed at a few outlets. Generally the reasons were as follows :-

Serious arrears in posting of loan ledgers.

Gross inaccuracies in the posting of loan ledgers.

Significant mistakes in the calculation of interest and overdues.

Improperly prepared monthly reports.

11. Collection and Deposit of loan repayments

In several of the audits at BSBL outlets, it was noted that the cooperative manager had large amounts of undeposited cash on hand. In one BSBL outlet the cooperative manager had given unofficial receipts for loan repayments, which then were neither recorded to RFEP accounts nor deposited to RFEP credit. This had the indirect effect of overstating the amount of overdues.

Institutional Findings

Institutionwise findings are summarised below. The figures represent the amounts calculated at the time of completion of audits at different dates. For details, the individual audit reports should be consulted. Each audit report listed detailed recommendations for improvement in accounting and reporting.

KRISHI

14 outlets have been audited and covered under this report.

Audits have revealed occurrences of excess claims for ½ plus ½ reimbursement at Tangail and Manikganj branches involving Tk 36,037 and Tk 7,726 respectively.

Understatement of overdues was detected at Faridpur, Kushtia, Maijdee Court and Narsingdi outlets involving Tk 1,01,927; Tk 14,432; Tk 43,951 and Tk 6,636 respectively.

Serious problems relating to maintenance of accounts were observed at Madaripur, Gaibandha, Kushtia, Tangail and Manikganj outlets.

Wilful defaulters were reported at Faridpur (17 borrowers), Rangpur (2 borrowers), Pabna(2 borrowers), Manikganj (2 borrowers), Maijdee Court (30 borrowers).

Second loans were given to cover first loans at Tangail branch in 26 cases involving Tk 64,200.

Audits were scheduled and attempted but could not be completed at Kushtia and Pabna outlets. The Kushtia outlet was successfully audited at the third attempt, the first two attempts being failures. Pabna was fully audited at the second attempt,

SONALI

8 outlets have been audited during this period.

Audits have revealed occurrences of excess claims for ½ plus ½ reimbursement at Gouripur Bazar, Court Building, Rajshahi and Zilla Board outlets involving Tk 15,574; Tk 12,792, and Tk 10,812 respectively.

Understatement of overdues was detected at Gouripur Bazar, Court Building, Rajshahi, Zilla Board and Shahpur outlets involving Tk 33,804, Tk 89,776, Tk 7,957 and Tk 21,543 respectively.

Serious problems relating to maintenance of accounts were observed at Birganj, Gouripur Bazar, Court Building, Rajshahi Zilla Board and Shahpur outlets.

There was no report of wilful defaulters at any outlet.

There was no evidence of extending second loans to cover the first loans.

Audits were scheduled and attempted but could not be completed at Birganj, Zilla Board, Gouripur Bazar and Shahpur outlets. However the outlets were successfully audited at the second attempt.

Receipt for repayments were not prenumbered at any outlet.

JANATA

7 outlets have been audited during this period.

Audits have revealed occurrences of excess claims for ½ plus ½ reimbursement at Baidder Bazar, Baneswar, Tajpur and Tebunia outlets involving Tk 16,425, Tk 6,800, Tk 13,570 and Tk 1,476 respectively.

Understatement of overdues was detected at Baidder Bazar and Tebunia outlets involving Tk 11,765 and Tk 35,632 respectively.

Serious problems relating to maintenance of accounts were observed at Baneswar, Baidder Bazar and Tajpur outlets.

Wilful defaulters were reported at Paglapir outlet (5 borrowers).

There was no evidence of extending second loans to cover first loans.

All audits scheduled and attempted were completed at the first attempt.

AGRANI

10 outlets have been audited during this period.

Audits have revealed occurrences of excess claims for ½ plus ½ reimbursement at Chuknagar, Baligoan, Natherpatua and Khamar outlets involving Tk 37,600, Tk 4,530 and Tk 6,957 respectively.

Understatement of overdues was detected at Baligoan and Khamar outlets involving Tk 13,980 and Tk 1,600 respectively.

Serious problems relating to maintenance of accounts were observed at Khamar outlet.

Wilful defaulters were reported at Khamar outlet (3 borrowers).

Second loans were given to cover first loans at Chuknagar branch in 40 cases involving Tk 41,965.

One audit was scheduled and attempted but could not be completed at Bhatra outlet until the second attempt.

PUABLI

4 outlets have been audited during this period.

Audits have revealed occurrences of excess claims for ⅓ plus ⅓ reimbursement at Babuganj, Ellenga and Satihat outlets involving Tk 26,900, Tk 28,498 and Tk 21,570 respectively.

Understatement of overdues was detected at Babuganj, Ellenga, Satihat and Shahbajpur involving Tk 41,750, Tk 32,000, Tk 21,570 and Tk 2,015 respectively.

Serious problems relating to maintenance of accounts were observed at Babuganj, Ellenga and Shahbajpur outlets.

Wilful defaulters were reported at Babuganj (10 borrowers), Ellenga (2 borrowers), and Shahbajpur (11 borrowers).

Second loans were given to cover first loans at Babuganj outlet in 16 cases involving Tk 13,450.

Audits were scheduled and attempted but could not be completed at Shahbajpur and Babuganj outlets. The Babuganj outlet was successfully audited at the third attempt. Shahbajpur has still not been successfully audited.

Receipts given for payments were not prenumbered at any outlet.

RUPALI

6 outlets have been audited during this period.

Receipts given for payments were not prenumbered at some outlets but otherwise no other signfficant deviations from acceptable standards were observed at any of the outlets audited.

UTTARA

All 5 outlets have been audited during this period.

Audits have revealed occurrences of excess claims for ½ plus ½ reimbursement at Atia outlet involving Tk 10,661.

No understatement of overdues was observed in any of the outlets audited.

Serious problems relating to maintenance of accounts were observed at Tangail outlet.

There was no report of wilful defaulters at any outlet.

There was no audit that was scheduled and attempted but could not be completed.

IRDP

10 outlets have been audited during this period.

Audits have revealed excess claim for ½ plus ½ reimbursement at Islampur outlet involving Tk 8,000.

Understatement of overdues was detected at Morrelganj,Gopalpur and Natore outlets involving Tk 25,000, Tk 47,710 and Tk 16,168 respectively.

Serious problems relating to maintenance of accounts were observed at Burhanuddin, Natore and Babuganj outlets.

There was no report of wilful defaulters at any outlet.

There was no evidence of extending second loans to cover first loans.

Audits were scheduled and attempted but could not be completed at Babuganj and Burhanuddin outlets until the second attempt.

SAMABAYA(BSBL)

16 outlets have been audited during this period.

Audits have revealed occurrences of excess claims for ½ plus ½ reimbursement at Charkalibari and Taltoli involving Tk 985 and Tk 10,025 respectively.

Understatement of overdues was detected at Charkalibari outlet involving Tk 2,670.

Serious problems relating to maintenance of accounts were observed at Taltoli, Charkalibari, Jhalam (South), Deora(North), Deora (Mohila) and Jagannathpur outlets.

Wilful defaulters were reported at Deora (North), (15 borrowers) and Jagannathpur,(3 borrowers). At the latter, one of the wilful defaulters is the Samiti Secretary.

Second loans were given to cover first loans at Gatail outlet in 9 cases involving Tk 5,800 and Jhalam (North) in 4 cases involving Tk 2,371.

Audit was scheduled and attempted but could not be completed at Jhalam (North). The loan ledger was so hopelessly inaccurate that it could not be corrected. The outlet is to post a new set of loan ledgers, after which an audit will again be attempted.

Irregularities in collection and deposit of loan repayments were noted at Baluhar, Deora (North), and Deora (Mohila) involving undeposited receipts of Tk 50,000, Tk 43,500 and Tk 20,360 respectively. Also, at Deora (Mohila) payments by borrowers of principal and interest were recorded in passbooks but not in the loan ledger and were not deposited; approximately Tk 7,000 was thus embezzled.

Deductions were made from loan proceeds for " relief" and " entertainment " at Jhalam (South).

A substantial purchase of 36 rickshaws was carried out without normal bid procedures at Deora (North).

Summary

All nine lending institutions used the standard RFEP accounting system and reporting forms. In general, audits reveal that most outlets did a commendable job of following rather complicated accounting and reporting procedures, especially since RFEP requirements and practices differ significantly from standard banking procedures in use in Bangladesh.

It should be noted that the incidence of some of the expected problems and irregularities found in most other rural credit programs have not been found as frequently as expected. For example, in the 80 outlets covered during this period:-

First loans covered by second loans were found in only 5 outlets.

Wilful defaulters were found in 12 outlets.

From the detailed lists of problems revealed by the audits, the participating institutions might be rated as good in all cases,except for Rupali which was very good, and Pubali and BSBL which were fair.

SECTION IV SPECIAL TOPICS

This section comprises six seperate chapters upon the following topics :

Chapter	1	Interest Rates on loans.
"	2	Savings
"	3	Group lending
"	4	Incentives under RFEP
"	5	Training under RFEP
"	6	Loans to women

The first three chapters consider critical issues that RFEP was intended to address during the life of the program. The remaining three chapters are on topics of particular interest.

Each chapter is separate and complete within itself. They are put together in this section for convenience. Each chapter indicates its own data sources,and unless otherwise stated all financial data is up to 30 September 1981.

CHAPTER I INTEREST RATE LEVELS ON LOANS

Introduction

This chapter analyses the extent of target group borrowing, loan overdues and repeat borrowing by five loan interest rate levels. The statistical data for this chapter was taken from Monthly Financial Reports and the Survey on Repeat Borrowing. Generally the data is for period up to 30 September 1981 except for the data on overdues and repeat borrowing which is up to June 1981 as noted in the tables. The interpretation of these data is influenced by the presence of other credit programs operating in the same geographical areas. In cases where there is competition from these other programs, the RFEP lending patterns at the different interest rate levels may have been affected.

Outlets and Households

Thirty-one outlets comprising 29,433 target group households were chosen for this analysis. These outlets represent all of the participating institutions except IRDP and BSBL which were excluded because each of their outlets offers loans at different interest rate levels based on loan purpose. The outlets of the other institutions were grouped by the single interest rate level at which they offer loans. All outlets have been in operation for a year or more.

Table 1
NUMBER OF OUTLETS AND TARGET GROUP HOUSEHOLDS

Loan Interest rate	Outlets	Households
12	5	5,612
18	7	6,618
24	8	7,089
30	7	4,975
36	4	5,139
Total	31	29,433

Incidence of Borrowing

There is no clear evidence that the incidence of borrowing can be correlated with the interest rate level among target group borrowers. The heaviest rate of borrowing occurs at the 18%, 24% 30% interest rate levels. It is only at the 36% level that borrowing falls below the average for all outlets.

Table 2

INCIDENCE OF BORROWING AMONG TARGET GROUP HOUSEHOLDS 1/

Loan Interest rate	Percentage of Households Borrowing
12	49.3%
18	60.5
24	74.2
30	55.1
36	38.4
Average	48.9

1/ The percentage represent the proportion of total target group households which borrowed from outlets offering loans at each interest rate level.

Table 3 shows the taka amount loaned per outlet of the five interest rate levels. There appears to be a rough inverse correlation between the interest rate level and the volume of loans. However, the average number of households for outlets at the different interest rates varies. If the household size of the outlet is considered the correlation becomes spurious.

Table 3

AVERAGE TAKA AMOUNT LOANED PER OUTLET

Loan Interest Rate	Taka Loaned
12	1,414,008
18	1,338,797
24	946,894
30	1,080,230
36	592,434

The absence of clear inverse relationship between the interest rate level and the percentage of borrowers indicates that within this range of interest rates the increasing cost of credit has relatively little effect on the overall incidence of borrowing.

Loan Purpose

Using the purpose stated on the loan application, loans have been classified as crop, other agriculture, and non-agriculture. At the four lowest interest rate levels crop loans accounted for slightly more than 30% of total loans. This proportion of loans is fairly constant until the 36% interest rate level is reached where it dips to 20%. The incidence of loans for other agricultural purposes decreases across interest rate levels from a high of 43% at the lowest interest rate level to 21% at the highest interest rate level. This pattern remains when loans for all agricultural purposes are combined.

Table 4

INCIDENCE OF BORROWING BY LOAN PURPOSE

Loan Interest Rate	Percentage of Loans				
	Crop	Other Agr.	Total Agr.	Non-Agr.	Total Loans
12	30.2%	43.3%	73.5%	26.5%	100.0%
18	34.5	36.3	70.8	29.2	100.0
24	31.1	38.2	69.3	30.7	100.0
30	31.4	24.8	56.2	43.8	100.0
36	20.2	21.4	41.6	58.4	100.0
Average	30.3	33.5	63.8	36.2	100.0

Table 4 shows the proportion of agricultural loans to non-agricultural loans to be more than twice as great at interest rates of 12, 18 and 24. At 30% interest the dominance of agricultural loans declines to about a quarter greater than non-agriculture. At 36% interest the ratio of agriculture to non-agriculture

is reversed and non-agricultural loans are 40% greater. This same general pattern occurs in Table 5 where the volume of borrowing is analyzed by loan purpose.

Table 5

VOLUME OF BORROWING BY LOAN PURPOSE

Loan Interest Rate	Percentage of Loan Volume				
	Crop	Other Agr.	Total Agr.	Non-Agr.	Total Loans
12	19.3%	50.1%	69.4%	30.6%	100%
18	24.5	42.6	67.1	32.9	100
24	24.1	41.7	65.8	34.2	100
30	28.3	28.4	56.7	43.3	100
36	15.7	21.2	36.9	63.1	100
Average	23.4	37.8	61.2	38.8	100

Tables 4 and 5 indicate that the ratio of demand for agricultural credit to non-agricultural credit declines steadily as interest rates increase. At the 36% interest level there is a dramatic decline. Although the higher cost of credit may somewhat reduce the incidence of agricultural borrowing, it is more likely that agricultural borrowers in RFEP outlets with the highest rates of interest switch to other sources of credit which become more attractive than the higher RFEP interest rate levels 1/. On the other hand, those wishing to borrow for non-agricultural purposes are unable to borrow from agriculture credit schemes in the rural areas and prefer to borrow from the RFEP outlets at 30% and 36% interest rather than pay the even higher rates charged on the informal credit market.

Average Loan Size

Table 6 shows almost no correlation between loan size and interest level. It is only in moving from 30% to 36% interest rate levels, that there is a decrease in loan size for all three

1/ A case in point is Rupali's branch at Kalihati in Tangail where crop loans at 17½% are available to borrowers from the nearby IRDP outlet (non-RFEP) as opposed to 36% @ Kalihati branch.

loan purposes. This is particularily pronounced for crop loans. It suggests that the cost of credit at this level does become significant in the minds of borrowers and is a deterent to the average size of loans in general and especially of crop loans.

Table 6

AVERAGE LOAN SIZE
(In Taka 000)

Loan Interest Rate	Crop	Other Agr.	Total Agr.	Non-Agr.	Total Loans
12	894	1,684	1,356	1,670	1,427
18	1,045	1,748	1,406	1,651	1,480
24	1,343	1,847	1,404	1,795	1,672
30	1,439	1,784	1,599	1,575	1,589
36	823	1,091	961	1,208	1,106
Average	1,119	1,689	1,345	1,546	1,465

Overdues

The incidence of overdue loans in the table below shows no significant correlation with the interest rate level.

Table 7

INCIDENCE OF OVERDUE LOANS BY PURPOSE

Loan Interest Rate	Percentage of Loans Overdue				
	Total Loans	Crop	Other Agr.	Total Agr.	Non-Agr.
12	5.5%	5.5%	5.4%	5.5%	5.7%
18	3.5	0.5	3.7	1.9	7.1
24	8.3	8.5	5.9	7.2	10.1
30	4.2	3.0	3.9	3.2	5.4
36	7.3	8.1	9.4	8.7	6.1
Average	5.7	4.5	5.5	5.0	6.8

For all interest rate levels except 36%, agricultural overdues are slightly lower than those for non-agriculture. This pattern is reversed at the highest interest rate level. Within the two agricultural lending categories there is no consistent pattern of overdues for one category being greater than the other across the five interest rate levels.

An examination of the age of overdue crop loans in table 8 indicates that at the three lowest interest rate levels more than half of the loan overdues are less than six months old. At the higher interest rate levels this pattern is reversed and the most dramatic change occurs at the 36% interest level where half of the loans are one year or more overdue. However, the importance

Table 8

AGE OF OVERDUE CROP LOANS

Loan Interest Rate	Percentage of loans Overdue				
	Less than 3 months	3-6 months	6-12 Months	12 months or more	Total
12	44.7%	16.0%	19.1%	20.2%	100%
18	70.0	10.0	10.0	10.0	100
24	32.6	19.6	19.6	28.2	100
30	30.0	-	66.7	3.3	100
36	6.7	3.3	40.0	50.0	100
Average	32.2	12.6	28.3	26.9	100

of this finding is partially reduced when it is recalled from table 4 that only 21% of all loans at 36% interest were for crops. The significance of this may be further reduced by the fact that under RFEP crop loan terms can be extended by up to 6 months, depending on the crop, for marketing. It is not known how far the institutions are applying this. Thus a loan classified as overdue under one institution may not be considered as such by another.

Table 9

AGE OF OVERDUE OTHER AGRICULTURE LOANS

Loan Interest Rate	Percentage of Loans Overdue				
	Less than 3 months	3-6 months	6-12 Months	12 months or more	Total
12	17.7%	14.9	36.2	31.2	100
18	80.7	7.7	5.8	5.8	100
24	45.5	12.1	21.2	21.2	100
30	63.6	-	27.3	9.1	100
36	9.4	10.9	9.4	70.3	100
Average	32.9	12.0	23.1	32.0	100

The overdue ageing pattern for agriculture other than crops is less clear. At the 12% interest rate level two-thirds of overdue loans are more than six months delinquent and nearly a third are a year or more old. However, at interest rates 18%, 24%, and 30%, the majority of loans are less than three months overdue. Here, as in the case of crop loans the pattern of overdues at 36% interest changes markedly. A full 70% of loans at this interest level have been overdue for a year or more.

The age of overdue non-agricultural loans follows the general pattern for other loan purposes as Table 10 shows.

Table 10

AGE OF OVERDUE NON-AGRICULTURE LOANS

Loan Interest Rate	Percentage of Loans Overdue				
	Less than 3 months	3 - 6 months	6-12 months	12 months or more	Total
12	68.6%	14.6%	2.2%	14.6%	100%
18	62.1	18.5	19.4	-	100
24	57.8	11.9	17.8	12.5	100
30	98.3	-	-	1.7	100
36	32.4	3.6	36.0	27.9	100
Average	59.8	10.4	17.4	12.4	100

A relatively larger proportion of loans are overdue for this purpose for less than six months at all interest rate levels except 36%. At this level there is a much lower proportion of short term overdues than for the other loan categories.

Repeating Borrowing:

About a third of all borrowers took two or more loans. Data in table 11 shows no correlation between interest rate and repeat borrowing. Multiple borrowing for a single type of enterprise such as crop production tended to be slightly higher at interest rates 12% and 18%. But the differences are not large enough to be significant. Multiple enterprise borrowing shows even less pattern across interest rates.

Table 11
INCIDENCE OF REPEAT BORROWING

Loan Interest Rate	Percentage of Borrowers with more than One Loan		
	Single 1/ Enterprise	Multiple 2/ Enterprise	Total
12	22.1%	15.8%	37.9%
18	22.6	16.4	39.0
24	15.3	13.5	28.8
30	14.2	22.9	37.1
36	18.8	14.8	33.6
Average	19.3	16.5	35.8

1/ Loans received for only type of enterprise Crop, other Agriculture, Non-agriculture.

2/ Loans received for more than one type of enterprise - Crop, other Agriculture, Non-agriculture.

An analysis of single enterprise repeat borrowing shows very little meaningful variation across interest rates for the various loan categories. This analysis is designed to show whether or not borrowers are reluctant to take repeat loans at the higher interest rates for the same enterprise having already borrowed for that purpose previously and thus being fully conversant with the cost and returns. There is no statistical pattern in table 12 which would support this. Borrowers who take loans for other agricultural purposes show some tendency for more repeat borrowing at the lower interest rate levels, but this does not hold for the other loan purpose categories 1/. Thus it cannot be said that interest costs play a dominant role in determining profitability of the loan to the borrower.

Table 12
SINGLE ENTERPRISE INCIDENCE OF REPEAT BORROWING
BY TYPE OF ENTERPRISE

Loan Interest Rate	Percentage of Borrowers with more than One Loan for only One Type of Enterprise			
	Crop	Other Agriculture	Non-Agriculture	Total
12	3.9%	11.5%	6.7%	22.1%
18	6.0	8.2	8.4	22.6
24	4.1	5.4	5.8	15.3
30	3.8	3.4	7.0	14.2
36	3.3	4.2	12.3	18.8
Average	4.4	6.8	8.1	19.3

1/ Table 12 in the section above shows the dominance of other agriculture at the lower interest rate levels. This being the case the incidence of repeat borrowers for this purpose may be expected to the higher than the norm.

The table below analyzes the incidence of repeat borrowing among those persons whose second loan was for a different purpose than the first. Here, as in table 13 the data indicate no propensity for such borrowing at the lower interest rates for any purpose, nor a reluctance to borrow more than once at higher interest rates. Such switching therefore is probably governed by factors other than the cost of funds.

Table 13
MULTIPLE ENTERPRISE INCIDENCE OF REPEAT BORROWING
BY TYPE OF ENTERPRISE

Percentage of borrowers with more than one loan for more than one type of enterprise 1/

Loan Interest Rate	Crop	Other Agriculture	Non-Agriculture	Total
12	5.0%	4.1%	6.7%	15.8%
18	4.8	5.4	6.2	16.4
24	5.7	2.8	5.0	13.5
30	8.5	2.8	11.6	22.9
36	5.4	4.1	5.3	14.8
Average	6.2	4.2	6.1	16.5

1/ Repeat borrowing is analysed by enterprise purpose of the first loan. Subsequent loans were for other types of enterprises.

Conclusions:

By and large, little evidence emerges from this analysis to indicate that loan interest rates have had a critical affect upon borrowers behaviour. It is only at 36% that the almost uniform pattern seen throughout changes to any significant extent.

Borrowers seem equally willing to borrow and take the same size of loans for varying purposes up to 30%. At 36% however both the numbers of borrowers and size of loans suggest that the cost of borrowing is beginning to count as a major factor in borrowers' decision making.

Both the incidence and volume of loans show a similar pattern, though with some variation. Up to and including 24%, the proportions for each purpose are constant, with agricultural loans of both types predominating. However at 30% and more especially at 36%, a steadily increasing proportion of borrowers appear to have prefered non-agricultural loans. But given the presence of other credit programs for agriculture this trend is not altogether surprising. All that can be said is that demand for non-agricultural loans remains more bouyant at the higher interest rates, given the non-institutional alternatives. The availability of competing credit programs in many areas allows no firm conclusions to be drawn from RFEP as to the effective demand for various activities at various interest rate levels.

Overdues show a similarly uniform pattern. The reasons for the variations in ageing between the various purposes are not entirely obvious, but a major factor may be due to the repayment terms. Generally agricultural loans are repaid in one installment after harvest, sale of livestock etc. Non-agricultural loans on the other hand tend to be paid in installments, usually weekly or monthly. Thus once a crop or livestock loan becomes anythingmore than 60 days overdue, it is much less likely to be recovered as the borrower can only repay from other income sources. On the other hand, where installments are paid, failure to repay in one month may be only a temporary setback which can be remedied quickly.

This begs the question as to whether different repayment terms may improve performance. This covers two facts; one being the term of the loan and the other being the rates of repayment. There are limits for the various activities. Crop

and livestock loans generally do not lend thereselves to installment payments. On the other hand where payments are being made out of income, care should be exercised that the repayment schedule does not in itself jeopardize the profitability of the venture for which the loan was made 1/. There are no hard and fast norms in this respect. Activities can be classified into those where installments can be paid and those where a single payment is called for, but within these extremes repayment terms can be established only through careful assessment of the activity on the one hand and the borrowers economic situation on the other.

If a borrower takes a loan, repays it and takes another loans, then he/she obviously finds it profitable to borrow. Within RFEP there are borrowers who have taken up to eight loans. Moreover, the incidence of roll-over loans is neglegible 2/. Checks made during outlet audits reveal only 95 loans could be placed in this category. As the data shows, some 36% of borrowers have taken second and subsequent loans, during the 2-2½ years period that outlets had been opened up to June 1981. This is quite a high rate when one considers that many borrowers have joined the programe in 1980, and many of these may have taken loans with terms longer than 12 months.

The evidence suggests that the program is attractive to many borrowers. More importantly the variations in interest rates do not affect the intensity of borrowing, even of crop borrowing among those willing to borrow for crops at the higher interest rate levels.

1/ During the field work on women borrowers, a number who were processing paddy complained that the duration of the loan and installment plan beginning one month from receipt of the loan, gave them little scope to build up the activity to its full potential. Funds were being continually siphoned off to meet installment demands.

2/ See audit reports covering 80 outlets since inception of RFEP. 2nd loans to cover first loans were found at 5 outlets only and involved a total of Tk 127,786.

One of the principal issues RFEP has attempted to address is whether target group borrowers are able to utilize and profit from a full cost institutional credit system. It was felt at the outset that high interest rate charges would deter borrowers. The analysis contained in this chapter tends to refute this suggestion, certainly up to 30%. At 36% the indicators suggest resistance on the part of borrowers to some degree. In the absence of any definitive relationships between interest rates and the variables of borrowing, loan size, overdues etc., one can only conclude that, as stated in the original project paper, prospective borrowers do not consider 3% monthly changes excessive given the alternatives and provided the credit is supplied in a timely fashion.

CHAPTER 2 **SAVINGS**

Introduction

Although the principal objective of the RFEP was to identify an efficient and financially viable credit delivery system capable of serving the target group, important corollary objectives were that the successful credit system identified be self-financing and capable of attracting capital for expanded lending through rural savings programs[1]. An evaluation of the savings component of the RFEP should proceed from an understanding of the peculiar constraints under which this aspect of the project was developed.

Because of the experimental nature of the project, bankers were hesitant to amass deposits they could not profitably lend at non-project loan rates. With the advantage of hindsight it is clear that the failure to provide some positive incentive to overcome this hesitancy represents a basic flaw in the design of project. In addition to the lack of specific positive incentives for the mobilization of savings, the project design inadvertantly included a powerful disincentive in the form of the ⅔ plus ⅓ refinancing scheme for lending and loan recovery. The ⅔ plus ⅓ provision in effect rewarded banks for concentrating on the first two activities, lending and loan recovery and neglecting savings mobilization. The experimental project thus does not constitute a valid test of any savings model, nor should the aggregate data on savings be regarded as an accurate measure of the potential for savings mobilization among the rural population of Bangladesh.

Extent of Savings

Table 1 shows that for the project as a whole, total savings on deposit in RFEP outlets was equal to 12.9% of the taka amount of loans outstanding at that point. While this figure represents Tk 6,855,000 of locally mobilized resources, it is far from the ultimate goal of

1/ Project Paper No. 338-0025 dated 11 July 1977, P.2
2/ See Table 3-I in Appendix I

100% self financing. Looking at the performance of individual institutions, we find that three of the nine participating institutions, Agrani, Rupali and Janata, have achieved much better results, financing as much as a quarter to a third of their loans with locally mobilized funds.

By separating those outlets that were operated during both phases of the RFEP, the "old outlets", from those that were operated only in the second phase, we observe even more variation. Unfortunately, the significance of the statistic for the single new outlet operated by the Agrani Bank, for which savings on deposit exceeded the balance of outstanding loans by 46%, must be heavily discounted, due to the very small base upon which this ratio was calculated. However, the 70.3% of savings to loans outstanding for the three old outlets operated by Rupali Bank is of considerable significance. Although the amount of credit disbursed per outlet by the Rupali Bank falls below the average for the project as a whole, its performance in making loans is comparable with that of the other five nationalized commercial banks in the RFEP.

The ability of the Rupali Bank to cover 70% of the outstanding balance of loans at its three old outlets with locally mobilized savings suggests that the ideal of a self-financing rural credit institution is not unattainable. It is particularly noteworthy that Rupali attained this high ratio of savings to loans without any special gimmicks or campaigns. In the absence of any special promotion of savings it would appear that the Rupali Bank was more willing to accept deposits at higher rates of interest than other lending institutions.

Comparing the performance of each institution's old outlets with its new outlets we note that the old outlets show higher ratios of savings deposits to outstanding loan balances by a margin of 2 to 1. The relatively better performance of the old outlets shows up particularly well when the 15.1% average savings to loan ratio for all old outlets is compared with the 8.0% ratio for the new outlets.

Table 1

SAVINGS AS PERCENTAGE OF LOANS OUTSTANDING, SEPTEMBER 30, 1981

(Data through 30 September, 1981)

Institution	Old Outlets	New Outlets	All Outlets
Krishi	9.6%	4.8%	8.8
Sonali	9.4	5.0	13.3
Janata	28.3	26.6	27.7
Agrani	31.5	146.3	32.7
Pubali	3.8	-	3.8
Rupali	70.3	9.6	34.1
Uttara	8.9	15.0	8.8
IRDP	11.8	14.7	12.4
BSBL	2.9	2.3	2.6
All Institutions	15.1	8.0	12.9

Source: Tables S-I, S-II, S-III, Appendix

The most obvious interpretation of this statistic is that as individual outlets mature, savings mobilization becomes an increasingly important part of their total operation. This interpretation is strengthened when the performance of the old outlets in September, 1981 is compared with their own performance earlier rather than with new outlets. From Table 2 we see that in May, 1980, these same outlets had mobilized savings balances equal to only 9.7% of the value of their loans outstanding, a figure comparable with the performance of the new outlets in September, 1981.

Another interesting statistic that emerges from the disaggregation of the savings data into old and new outlets is the changing proportion of total savings mobilized from target and non-target group savers.

Table 2

PROPORTION OF TARGET AND NON-TARGET GROUP SAVINGS TO TOTAL SAVINGS AND TOTAL SAVINGS AS PERCENTAGE OF LOANS OUTSTANDING *

	Target Group	Non-target Group	Savings as % of loans outstanding
All outlets	46.7%	53.3%	12.9%
Old outlets only	45.5	54.5	15.1
New outlets only	52.8	47.2	8.0
Old outlets, May '80	57.7	42.3	9.7
Outlets with highest savings to loan ratios	18.4	81.6	61.9

Source: Tables S I, S II, S III, SV, Appendix
* September 30, 1981, except where indicated.

In the new outlets more than half of total savings is generated in target groups accounts, whereas in the old outlets the situation is reversed. A similar shift is observed when we compare the performance of the old outlets in May, 1980, with the figures from September, 1981. It is thus apparent that as the outlets mature, not only does savings become an increasingly important part of the total operation, the contribution of the non-target group to total savings also becomes increasingly important.

The long run importance of the non-target group savers is underlined when we look at the performance of individual outlets. The bottom figures in table 2 also present data from all old outlets with savings balances in excess of 40% of their outstanding loan balances.

In these six outlets the savings mobilized in non-target accounts is four times greater than the amount of the target group. These figures suggest that if the self-financing goal is to be achieved, special attention will have to be given to reaching the non-target saver.

Savings Interest Rate Levels

On the basis of a multiple regression analysis of 200 accounts opened during the first phase of the project, the previous consultant concluded that there was no statistically significant relationship between the amount of savings and the rate of interest paid on accounts.[1] This finding was somewhat surprising in as much as economic theory indicates that a postive relationship between these variables is to be expected. By way of a partial explanation of their findings the consultants correctly pointed out that the small variation permitted in the independent variable did not permit a vigorious test of the null hypothesis, (i.e. that there is no relationship between the two variables). Their conclusion was that over the 11% to 15% range the rate of interest paid on deposits was not a significant determinant of savings balances. Aggregate data from phase II of the RFEP agrees with this finding.[2]

In Table 4 the savings data is presented for outlets grouped according to the rate of interest paid on deposits. No BSBL or IRDP outlets are included because these institutions did not experiment with different interest rates on deposits. There is no clear tendency for the average account size to either rise or fall as the rate of interest varies. However, when we separate target group savings accounts from non-target group accounts, two interesting patterns emerge.

1/ Second Evaluation Report, April 1980, Pages 242-243.

2/ For non-target group depositors this is not true. See page 151.

Table 4
OLD OUTLET TARGET AND NON-TARGET GROUP SAVINGS
(Data through 30 September, 1981)

Savings Rate Of Interest	Number of Outlets	Number of Accounts	Amount on Deposit	Average Size of Account	Average Savings per Outlet
11	7	4,095	Tk 1,187,635	Tk 290	Tk 169,662
12	11	4,896	1,387,959	283	126,178
13	10	4,371	960,983	220	96,098
14	8	1,900	536,576	282	67,072
15	6	3,053	783,813	257	130,636
Total	42	18,315	4,856,921	265	115,641

Table 5 shows that for the target group average savings per outlet and average size of account vary inversely with the rate of interest. The relationship is strict in the case of average savings per outlet, but it is also quite strong in the case of average account size. The slight rise in average size at the 14% level marks the only exception to the strong downward trend. The account size falls from Tk 228 to Tk 42 as the interest rate is increased from 11% to 15%.

Table 5
OLD OUTLET TARGET GROUP SAVINGS
(Data through 30 September, 1981)

Savings Rate Of Interest	Number of Outlets	Number of Accounts	Amount on Deposit	Average Size of Account	Average Savings per Outlet
11	7	3,987	Tk 908,169	Tk 228	Tk 129,738
12	11	3,917	531,641	135	48,331
13	10	4,172	470,611	113	47,061
14	8	1,841	228,605	124	28,501
15	6	2,913	122,305	42	20,384
Total	42	16,830	2,260,731	134	53,827

The exception to the trend at 14% is not particularily significant because of the small number of accounts opened at this level.

The non-target group data in Table 6 shows an opposite trend to that observed for the target group. Although the positive correlation between the rate of interest and savings balances for non-target group savers is not as striking as the negative relationship we observed between these variables for the target group, the relationship is nevertheless quite strong, as the statistical analyses below reveals.

The small range over which the rate of interest on deposits is allowed to vary does not permit a conclusive test of the effect of this variable on savings balances. The one point difference in interest paid on savings deposits between two different outlets is hardly significant compared with the 6 point difference in the loan rate between the same outlets. We can overcome the problem of the narrow range of deposit interest rate variation somewhat, however, by ignoring the middle range; the outlets paying 13% and considering only the extremes, that is, grouping the outlets paying 11% and 12% together, on the one hand, and the outlets paying 14% and 15% together on the other. Using this simple device we get a more pointed test of the effect of the rate of interest on savings balances.

Table 6
OLD OUTLET NON-TARGET GROUP SAVINGS
(Data through 30 September, 1981)
(In Taka)

Savings Rate of Interest	Number of Outlets	Number of Accounts	Amount on Deposit	Average size of Account	Average Savings per Outlet
11	7	108	279,466	2,588	39,923
12	11	979	856,318	874	77,847
13	10	199	490,327	2,464	49,033
14	8	59	308,571	5,230	38,571
15	6	140	661,508	4,725	110,251
Total	42	1,485	2,596,190	1,748	61,814

In Table 7 we compare the savings data for the outlets paying the lower rates of interest on deposits with the corresponding data for outlets paying the higher rates. We note that for the target group the earlier observed inverse relationship between the rate of interest and savings balances still holds, the average savings account size at those outlets paying the lower rates of interest being more than twice as large as the average at the outlets paying the higher rates. Similarly, the average amount of savings mobilized per outlet is more than three times greater for those outlets paying low rates of interest on savings than the average for those paying higher rates. For the non-target group savers, on the other hand, the expected positive relationship between savings and rate of interest on deposits is observed, particularly for the important variable, "size of average deposit". The figure for the outlets paying higher rates on savings is almost five times the figure for the outlets paying the lower rates.

Table 7
OUTLETS PAYING 11% AND 12% ON SAVINGS DEPOSITS COMPARED WITH THOSE PAYING 14 AND 15%
(Data through 30 September, 1981)
(In Taka)

Savings Rate of Interest	Number of Outlets	Number of Accounts	Amount on Deposit	Average Size of Account	Average Savings per Outlet
Target Group					
11 & 12	18	7,904	1,439,810	182	79,989
14 & 15	14	4,754	350,310	74	25,022
Non-Target Group					
11 & 12	18	1,087	1,135,784	1,045	63,099
14 & 15	14	199	970,079	4,875	69,291

It is reasonable to argue that the target group saver is relatively insensitive to the small variations in the rate of interest paid on his tiny deposits. But he is not insensitive to

the large variations between loan interest rates and savings interest rates permitted in the project. Target group savers are also target group borrowers. At the two highest interest rates on loans were the variation is 16% and 21% respectively, they percieve a strong incentive to repay their loan as quickly as possible and not accumulate significant savings balances.

Bankers, on the other hand, are quite sensitive to variations in savings interest rates. The observed inverse relationship between the savings balances of the target group and the rate of interest paid on deposits may also reflect the quite rational behavior of the bankers, who prefer to mobilize resources, other things being equal, from lower cost sources.

The important conclusion that we draw from this analysis is not that banks are sensitive to the rates they pay on deposits, nor that the target group saver is relatively insensitive to small changes in these rates, though both of these statements are undoubtedly true. The important conclusion we draw is that the non-target group saver in the RFEP appears to be quite sensitive to the rate of interest paid on deposits. The importance of this conclusion is underlined when we recall from the discussion in the previous section the crucial role the non-target group saver must play if the self-financing goal is to be approached.

Innovation at Krishi Bank

It will be noted from a re-examination of Table 1 that the overall performance of the Krishi Bank in savings mobilization, as measured by the ratio of total savings to loans outstanding, lags far behind the leading performers in this area, most notably Rupali. It may be pointed out that the large volume of loans disburned by the Krishi Bank naturally depresses this ratio, but even in absolute terms its performance in savings mobilization shows much room for improvement. Old outlets of Rupali Bank, for example, mobilized an average of Tk 290,927 per outlet as of September 1981, more than twice the per outlet average of Tk 137,079 for Krishi's old outlets.

In view of the importance of the large agricultural bank in RFEP, their relatively poor performance in savings mobilization has been particularly disappointing. However, an innovation in savings mobilization recently introduced by the Krishi Bank in its 16 RFEP outlets, and the projection of a clear rising trend in the ratio of total savings to total loans outstanding, provide a firm basis for optimism.

In February, 1981 the Krishi Bank began experimenting with the use of specially commissioned women savings mobilizers in a few of their RFEP outlets. The women visit the homes of the members of the non-target group in their project areas and solicit deposits from the ladies of these households. The strategy represents a deliberate and considered effort to mobilize what has been refered to as the "shy capital" believed to be sequestered in these rural households. Based on promising initial results at the pilot outlets, the innovation was extended to all 16 RFEP outlets operated by the Krishi Bank.

The commissioning of women savings mobilizers to visit non-target group households was not part of the Krishi Bank's original savings mobilization plan, and the period of time during which they have been in the field is too brief for a conclusive review of their effectiveness. However, the results through the end of 1981 are most encouraging.

During the first nine months of 1981, savings as a percentage of loans outstanding at the Krishi bank increased at a slow but steady rate, reflecting the observed tendency for this ratio to rise as outlets mature. During the last quarter of 1981, however, the rate

Table 8

KRISHI BANK TOTAL SAVINGS AS PERCENTAGE OF LOANS OUTSTANDING

December, 1980	June, 1981	September 30, 1981	December 31, 1981
6.1%	8.6%	8.9%	13.1%

of growth of this ratio increased markedly, as may be seen in Table 8. Officials at the Krishi Bank attributed this increase in the rate of growth of savings to the impact of the women savings mobilizers.

The impact of these women is clearly visible in Table 9 which compares the growth rates of target group and non-target group savings at the Krishi Bank between September 30, 1981 and December 31. In this brief period total savings at Krishi's 16 RFEP outlets increased a remarkable 77.0%. More than two thirds of this increase came from the non-target group, which increased its share of total deposits from 29.9% to 46.8%. In this three month period non-target group savings increased an astonishing 177.5%.

Table 9
KRISHI BANK TOTAL SAVINGS, 1981
(In Taka)

	Target Group	%	Non-Target Group	%	Total	%
Sept. 30	1,265,622	70.1	538,837	29.9	1,804,459	100
Dec. 31	1,698,702	53.2	1,495,184	46.8	3,193,886	100
Change	433,080	31.2	956,347	68.8	1,389,427	100
% change	34.2%		177.5%		77.0%	

Another measure of the increased importance of savings mobilization in the total operation of the Krishi RFEP outlets emerges when we compare the net change in the balance of loans outstanding from September 30, 1981 with the change in total savings during this same period. As may be seen from Table 10 Krishi Bank was able to finance 37.8% of the net amount of credit extended during this period from locally mobilized funds. During the final month of 1981 they were able to increase deposits at their 16 RFEP outlets by Tk 665,766. To put this figure in perspective. net savings mobilized in December represent 25% of cumulative savings through November 1981. for Krishi, and this amount was sufficient to finance 75% of the net disbursal of credit at its 16 project outlets during the month.

Table 10

KRISHI BANK TOTAL SAVINGS
COMPARED WITH LOANS OUTSTANDING
(In Taka)

	Loans Outstanding	Savings	Savings as % of loans Outstanding
Cumulative to September 30	20,616,684	1,804,459	8.8%
Cumulative to December 31	24,295,240	3,193,886	13.1
Net change, Fourth Quarter 1981	3,687,556	1,389,427	37.8
Net change, Month of December, 1981	885,741	665,766	75.2

While it is risky to project such a sharply rising trend very far into the future, there is good reason to believe that the very promising innovation underlying these changes at the Krishi Bank will be continued.

Table 11 shows that since 1978, Krishi Bank's performance in savings mobilization has been extraordinary. In each of the past four years Krishi Bank has increased its deposits substantially, the rate of increase in deposits itself is increasing despite the growing deposit base on which the percentage change is calculated. Credit extended by the Krishi bank also expanded vigorously during this four year period, but in each year the percentage change in savings deposits exceeded the percentage increase in loans outstanding, so that savings as a percentage of loans outstanding increased each year, from 27.8% in 1978 to 33.7% in June of 1981. This remarkable performance by the Krishi Bank occurred in a period when banks in Bangladesh were increasing their dependence on the central bank as a source of funds. The relatively poor performance of the Krishi Bank at savings

mobilization within the RFEP thus clearly reflects the strong disincentives commented on at the beginning of this chapter. As the project draws to a close these disincentives begin to lose their impact, and the emphasis Krishi has placed on savings mobilization outside the RFEP begins to make itself felt.

Table 11
SAVINGS AND LOANS OUTSTANDING AT KRISHI AS A WHOLE(NOT JUST RFEP)(TAKA 000)

	1978	1979	1980	1981
Deposits	332,000	467,000	751,600	1,225,900
Change from previous year	7.41	13.50	28.46	47.43
% change	28.73	46.66	60.94	63.11
Loans Outstanding	1,194,000	1,561,100	2,470,200	3,636,100
Change	30.74	36.71	90.91	116.59
% change	34.67	30.75	58.23	47.20
Savings as % loans outstanding	27.8	29.9	30.4	33.7

Summary and Conclusions

Although for the project as a whole, RFEP savings amounted to only 12.9% of the balance of loans outstanding, some individual participating institutions and isolated outlets did much better. Six outlets representing four of the nine participating institutions were able to finance more than 40% of the outstanding balance of their loans with locally mobilized funds. One participating institution, Rupali Bank, mobilized savings equal to 70.3% of the balance of loans outstanding at its three old outlets. Krishi Bank, whose 16 outlets account for almost 40% of the total balances of loans outstanding under the RFEP, financed more than one third of its net credit disbursals in the last quarter of 1981 with locally mobilized savings.

The conclusions that may be drawn from the RFEP experience with savings mobilization are as follows:

1) Incentives must be provided from some source if banks are to be persuaded to tap higher cost sources of funds. This is particularly true if the banks face a wide range of choices, as they did in the RFEP, where in addition to their usual sources of funds they had access to "free money" under the ⅓, ⅓ refinancing scheme. In the absence of any special incentive it was unrealistic to expect the banks to expend much energy on the mobilization of resources at the project's higher rates. It is, in this respect, somewhat astonishing that some banks mobilized as much as they did. Although the use of various restrictive clauses regulating savings permitted the banks to reduce effective rates of interest paid on deposits considerably below the projects nominal rates[1/], it is clear that the banks still regarded savings mobilization among the rural poor as a high cost source of funds.

2) To reach more optimistic self-financing goals, special attention must be given to mobilizing savings from the non-target group. In none of the participating institutions did the total savings of the target group exceed 10% of the balance of loans outstanding.

3) There is clear evidence in the RFEP data that the non-target group rural saver is sensitive to the rate of interest paid on deposits.

4) Significant savings can be mobilized from the non-target group rural saver by the simple expedient of accepting his deposits at the higher RFEP rates of interest (14% and 15%). This assertion is supported by the fact that the three banks turning in the best performance in savings mobilization, Rupali, Agrani, and Janata, generated the bulk of their deposits in the outlets paying the highest rate, as may be seen from Table B-VI in the Appendix.

1/ See audit reports.

None of these banks, it will be recalled, engaged in any special savings promotion.

5) Dramatic results in savings mobilization may be obtained by the use of specially commissioned savings mobilizers operating at the grass roots level. The only example in the RFEP of such an approach is the recent experiment at the Krishi Bank. This innovation is richly deserving of further observation and study.

Table S-I

TOTAL SAVINGS COMPARED WITH
LOANS OUTSTANDING, SEPTEMBER 30,1981

(Tk. in 000's)

Institution	Target Group	Non-Target Group	Total Savings	Loans Outstanding	Savings as Percent of Loans Outstanding
Krishi	1266	539	1805	20617	8.8%
Sonali	834	586	1420	10697	13.3
Janata	146	520	666	2407	27.7
Agrani	292	876	1168	3573	32.7
Pubali	112	-0-	112	2960	3.8
Rupali	62	987	1049	3078	34.1
Uttara	49	12	61	696	8.8
IRDP	307	113	420	3387	12.4 *
BSBL	154	-0-	154	5839	2.6 **
Total	3222	3633	6855	53254	12.9
(%)	47.0	53.0	(100.00)		

* Share deposits of Tk.218,285 at IRDP are not included ; otherwise percentage would be 18.8% .

** Share deposits of Tk. 61,319 at BSBL are not included; otherwise percentage would be 3.7%.

Table S-II

SAVINGS, OLD OUTLETS AND
LOANS OUTSTANDING, SEPTEMBER 30, 1981 1/

Institution	Target Group	Non-Target Group	Total Savings	Loans Outstanding	Savings as Percent of Loans Outstanding
Krishi	1,108,142	536,727	1,644,869	17,164,053	9.58
Sonali	570,165	504,747	1,074,912	5,539,472	19.40
Janata	102,770	328,675	431,554	1,522.400	28.34
Agrani	288,229	817,300	1,105,529	3,505,142	31.54
Pubali	111,940	-0-	111,940	2,909,962	3.85
Rupali	39,081	833,701	872,782	1,240,840	70.34
Uttara	35,093	12,621	47,714	538,813	8.86
IRDP	252,108	60,468	312,576	2,647,608	11.81
BSBL	72,552	-0-	72,552	2,478,556	2.93
Total	2,580,080	3,094,239	5,674,319	37,546,846	15.11
(%)	(45.47)	(54.53)	(100)		

Note: 1/ Excludes dropped outlets.

Table S-III

SAVINGS, NEW OUTLETS AND
LOANS OUTSTANDING, SEPTEMBER 30, 1981

Institution	Target Group	Non-Target Group	Total Savings	Loans Outstanding	Savings as Percent of Loans Outstanding
Krishi	138,029	2,110	140,139	2,909,066	4.82
Sonali	263,990	81,055	345,045	5,157,811	14.95
Janata	43,287	191,907	235,194	885,065	26.57
Agrani	2,690	58,340	61,030	41,713	146.31
Pubali	-0-	-0-	-0-	-0-	-0-
Rupali	23,422	153,057	176,479	1,836,881	9.61
Uttara	14,073	-0-	14,073	93,936	14.98
IRDP	54,468	52,615	107,083	728,885	14.69
BSBL	62,687	-0-	62,687	2,694,760	2.33
Total	602,646	539,084	1,141,730	14,348,117	7.96
(%)	(52.78)	(47.22)	(100)		

Table S-IV

SAVINGS BALANCES AS PERCENT OF
LOANS OUTSTANDING, MAY 31, 1980

Institution	Target Group	Non-Target Group	Total
Krishi	4.6	1.2	5.8
Sonali	8.2	11.3	19.5
Janata	2.8	15.1	17.9
Agrani	0.5	1.6	2.1
Pubali	7.0	-	7.0
Rupali	3.5	24.0	29.3
Uttara	7.1	1.7	8.8
IRDP	10.1	3.5	13.6
BSBL	1.3	-	1.3
Total	5.6	4.1	9.7
(%)	(57.7)	(42.3)	(100.00)

Source: Clapp and Mayne, P. 33

Table S-V

OUTLETS WITH RATIO SAVINGS/LOANS OUTSTANDING
GREATER THAN 40%, NOVEMBER 30, 1981

Institution	Branch	Target Group	Non-Target Group	Total	Loans Outstanding	%
Agrani	Cadet College	84,001	372,389	456,390	438,984	103.97
Rupali	Kalihati	38,912	560,386	599,298	693,672	86.40
Pubali	Mansha Bazar	13,047	236,673	249,720	311,121	80.26
Sonali	Sitakundu	270,288	207,471	477,759	725,546	65.85
Janata	Baidyerbazar	30,459	178,470	208,929	430,355	48.55
Krishi	Tangail	86,357	758,642	844,999	1,985,739	42.55
Totals		523,064	2,314,031	2,837,095	4,585,417	61.87
(%)		(18.44)	(81.56)	(100.00)		

Table S-VI

DISTRIBUTION OF SAVINGS BY RATE OF INTEREST ON DEPOSITS

(Data to 30 September 1981)

Savings Rate of Interest	Old Outlets				New Outlets			Total New	Total Old & New
	Rupali	Agrani	Janata	Total	Rupali	Agrani	Janata		
11	-	-	7,797	7,797	-	79,774	40,999	120,773	128,570
12	125,476	176,936	52,446	354,858	5,957	41,758	10,425	58,140	412,998
13	268,957	6,777	89,826	365,560	20,724	32,236	64,119	117,079	482,639
14	27,445	-	370,481	397,926	11,255	66,692	26,337	104,284	474,765
15	347,848	369,453	-	717,301	30,150	41,376	4,357	75,883	793,184

Appendix II

Effective Rate of Interest Paid on Savings

As noted in the previous consultants report dated February 1981, all institutions actually pay less interest to depositors than the stated rate. For example, many outlets require a minimum deposit of Taka 100.00 before interest is earned. At others, no interest is credited when less than Taka 1.00 would be earned. At many outlets the minimum balance during the month is used as the basis for calculating interest earned. At BSBL, which requires a minimum of Taka 100 before paying interest on savings, those few savings deposits of more than Taka 100 are not credited with interest earned; as of December 31, 1981, BSBL had paid nothing on Taka 1,71,245 of deposits on hand from the target group.

The net result of these practices is shown in Table T-I, which notes that the effective rate of interest paid to target group savers varied from 0.0% at BSBL to 10.1% at Krishi, with an average of 7.8%. Interest paid to non-target group savers varied from 1.8% at IRDP to 11.6% at Rupali, with an average of 9.1%. The difference in favor of non-target group savers is presumably due to larger average deposits, thus reducing the effect of minimum requirements for calculation of interest. The consultants have repeatedly recommended that BSBL and other institutions reduce the minimum required for calculation of interest to Taka 10 or less to encourage small savers to begin saving.

It is interesting to note that all institutions pay less for the use of savings deposits than for the use of borrowed (institutional) funds, as shown in table T-II. BSBL, Agrani and IRDP pay particularly little for savings versus borrowed funds, paying only 0.0%, 47.5% and 54.0%, respectively. Krishi heads the institutions in paying 91.8% for savings versus borrowed funds, followed by Rupali at 84.6%, and Sonali at 77.3%.

TABLE- T. I

EFFECTIVE RATE OF INTEREST PAID/ CREDITED ON SAVINGS DURING THE 12 MONTHS ENDING DECEMBER 31,1981

Lending Institution	Target Group				Non-target Group				Combined Target & Non-target Group			
	Average monthly saving (Tk 000's)	Interest paid (Tk 000's)	Effective rate of interest paid	Percentage of average rate offered of 12%	Average monthly saving (Tk 000's)	Interest paid (Tk 000's)	Effective rate of interest paid	Percentage of average rate offered of 12%	Average monthly saving (Tk 000's)	Interest paid (Tk 000's)	Effective rate of interest paid	Percentage of average rate offered of 12%
Krishi	1,052	106	10.1%	84.2%	660	67	10.2%	85.0%	1,712	173	10.1%	84.2%
Somali	772	65	8.4	70.0	598	52	8.7	72.5	1,370	117	8.5	70.8
Janata	150	10	6.7	55.8	523	44	8.4	70.0	673	54	8.0	66.7
Agrani	268	9	3.4	28.3	576	39	6.8	56.7	844	48	5.7	47.5
Purbali	98	9	9.2	76.7	-	-	-	-	98	9	9.2	76.7
Rupali	79	4	5.1	42.5	848	98	11.6	96.7	927	102	11.0	91.7
Uttara	43	4	9.3	77.5	12	1	8.3	69.2	55	5	9.1	75.8
IRDP	279	19	6.8	56.7	111	2	1.8	15.0	390	21	5.4	45.0
BSBL	138	0	0.0	0.0	-	-	-	-	138	0	0.0	0.0
Total	2,879	226	7.8%	65.0%	3,328	303	9.1%	75.8%	6,207	529	8.5%	70.8%

Note : December data is used to include semi-annual interest payments.

Table T-II

COST OF BORROWED CAPITAL VERSUS COST OF SAVINGS
AS OF DECEMBER 31, 1981

Institution	Head Office Charges to Outlets for Borrowed Funds: Charge by BDB to Head Office	Mark-up to Cover HO & Regional Office Overhead	Total Charge To Outlets for Borrowed Funds	Effective Rate of Interest Paid on Savings 1/	Effective Savings interest rate paid as a percentage of cost of borrowed funds
Krishi	10.5% 2/	0.5%	11.0%	10.1%	91.8%
Sonali	10.5	0.5	11.0	8.5	77.3
Janata	10.5	2.5	13.0	8.0	61.5
Agrani	10.5	1.5	12.0	5.7	47.5
Pubali	10.5	2.5	13.0	9.2	70.8
Rupali	10.5	2.5	13.0 3/	11.0	84.6
Uttara	10.5	2.0	12.5	9.1	72.8
IRDP	N/A	N/A	10.0	5.4	54.0
BSBL	N/A	N/A	18.4 4/	0.0	0.0
Average			12.7%	8.5%	66.9%

1/ From Table T-I.

2/ The BDB actually charges Krishi 6.0% for borrowed funds. However, for purposes of comparison in this table, this rate is adjusted to 10.5% as charged to the Nationalized Commercial Banks.

3/ At Rupali, outlets receive 12% when lending to the Head Office.

4/ BSBL borrowers pay 7% on all loans to the primary society and Central Cooperative Bank, except for 12% loans for which they pay 5%. The balance is paid by the CCB to the BSBL Head Office. On loans for which 12%, 18%, 24% and 30% are charged, 7%, 11%, 17% and 23%, respectively, are paid to the BSBL head office. 18.4% is the average rate of interest charged to outlets.

As noted earlier in this report, target group depositors who are also borrowers have a strong disincentive to accumulate deposits because of the increasing spread between loan interest rates and savings interest rates as the former rises. Banks naturally prefer to mobilize larger deposits at the lower interest rate levels and five of the participating institutions operate compulsory savings schemes for borrowers. Given these factors, any relationship, between target group deposits and the effective rate of interest paid, is not observed,as seen in Table T-I above.

However given the voluntary nature of their deposits and observed sensitivity to interest rates, the relationship should be more obvious among non-target depositors.Table T-III below ranks the institutions by the effective rate of interest paid and the average monthly balance of deposits as of September'81 and December'81

As of September the relationship was absolutely strict and it varied only in the case of Agrani in December which further demonstrates the sensitivity of non-target depositors to interest rates. Uttara's small deposit base is not large enough to be considered significant.

Table T-III

INSTITUTIONS RANKED BY INTEREST PAID ON DEPOSITS
AND BY AVERAGE MONTHLY BALANCE OF DEPOSITS
NON-TARGET GROUP AS OF SEPTEMBER 30,1981
AND DECEMBER 31, 1981

Institution	Effective Rate of Interest Paid to Depositors	Average Monthly Balance of Savings Deposits (Taka 000's)
	30th September 1981	
Rupali	8.7%	678
Sonali	6.2%	551
Janata	5.6%	412
Agrani	4.1%	389
Krishi	3.8%	338
IRDP	1.9%	107
Uttara	0.0%	9
	31st December 1981	
Rupali	11.6%	848
Krishi	10.2%	660
Sonali	8.7%	598
Janata	8.4%	523
Uttara	8.3%	12
Agrani	6.8%	576
IRDP	1.8%	111

CHAPTER 3 GROUP LENDING

Introduction

Many rural and agricultural development experts advocate that the organisation of the rural poor into some type of group structure is important so that development benefits flow to the poorer segments of society. Through groups, poor people can develop social, economic and even political strength to counteract the common tendency which sees the economically stronger controlling society. This is the basis for the cooperative and credit union movement.

The group lending approach was recommended for RFEP testing based on the view that people should be organised and trained to actively assist the loan program through the formation of informal borrower groups of perhaps 5-10 persons. The specific advantages of the group approach were listed as:1/

- it reduces costs for the banks and increases loan officer productivity because a single loan officer can reach a larger number of borrowers.
- it reduces borrowers transaction costs in obtaining loans because applications and processing are the responsibility of the group leader on behalf of the members.
- peer pressure within the group would ensure prompt repayment and reduce the incidence of overdues and defaults.
- savings could be better mobilised.
- loan utilization would be improved.

This chapter examines the experience of RFEP group lending. The data presented is the same as used in the model analyses but is rearranged according to whether the model operates either a group system or an individual system of lending.

1/ PID for RFP project No. 388-0037 dated November 15, 1979. Pps. 5-14

The Models

Four institutions have practised group lending systems.

Janata Bank: Applicants form an adhoc group in order to apply for loans. Groups need not be homogeneous and loans are used separately by the individuals. No guarantees are needed but no new loans are given until everyone in a group has repaid.

Uttara Bank: Applicants form groups of around 5 members, not necessarily homogeneous and elect a leader. Loans are given to individuals but are guaranteed by other members and until all repay, no fresh loans can be given.

IRDP & BSBL: Extension of existing programs whereby borrowers belong to a KSS, under a manager, and as a group decide on what loans to apply for. Loans are disbursed to individuals but procedures are group-wise and carried out by the manager in liaison with the TCCA or CCB.

Number of Borrowers Served

The table below shows the extent to which the institutions following this approach have reached the target group as compared to those who deal with loanees on an indivudual basis.

Table 1

NUMBERS AND PROPORTIONS OF BORROWERS SERVED BY OUTLETS

Institution	No. of borrowers per outlet	% of target served per outlet
Individual		
Krishi	738	64.8
Sonali	598	56.2
Agrani	410	46.0
Pubali	571	31.7
Rupali	329	44.6
Average	560	52.7
Group		
Janata	124	48.0
Uttara	168	32.6
IRDP	242	59.6
BSBL	154	45.0
Average	169	48.1
All institutions	366	51.5

Both proportionally and absolutely the individual systems have reached more people. Only IRDP has achieved a proportion greater than the average for individual models. But as outlet sizes vary this is less significant than absolute numbers of borrowers. Here not one of the group models has attracted anything like the number of borrowers as the individual models. The best, IRDP, has served only 73% of the number reached by the least effective of the individual models, Rupali. On average, the individual models have lent to more than three times the numbers of borrowers served by the group models per outlet.

Loan Officer Productivity

Table 2 shows loan officer productivity which is measured as the number of borrowers and number of loans per full time RFEP

officer at the outlet. With the exception of IRDP, the group models productivity is lower than any of the individual models except Rupali and even IRDP productivity is less than two thirds of that achieved by BKB outlet staff. At IRDP & BSBL, staff work through the KSS managers and rarely deal with individual borrowers, thus more borrowers are reached, but the other two group models deal with each individuals separately.

Table 2
LOAN OFFICER PRODUCTIVITY

Institution	No. of borrowers per loan officer
Individual	
Krishi	369
Sonali	199
Agrani	137-205
Pubali	190
Rupali	165
Average	222-244
Group	
Janata	126
Uttara	84
IRDP	241
BSBL	154
Average	151
All institutions	202-216

Institutional Transaction Costs

The table below shows the administrative costs of the various lending models.

Table 3
COSTS OF DISBURSING LOANS

Institution	Administrative cost per loan disbursed (Taka)
Individual	
Krishi	72.2
Sonali	57.0
Agrani	60.3
Pubali	113.3
Rupali	112.8
Average	74.4
Group 1/	
Janata	173.9
Uttara	293.6
IRDP	32.5
BSBL	62.7
Average	86.6
All institutions	77.1

Note: 1/ The cost per loan is the cost per borrower, not the cost per group or KSS loan.

By working through KSS managers, IRDP keeps costs low, half that of BSBL which follows the same system. However due to the way they cost their RFEP operations, the cooperatives appear to keep costs low. The figures achieved by Krishi, Sonali and Agrani are comparable to those of BSBL and much better than the other two group models. These latter are more expensive than the most costly of the individual models. Costs

decline as volume increases but taken together with the figures in Table 2, there appears to be no advantage being gained by the group lending models.

Borrowers Transaction Costs

The two tables below show the relative costs to borrowers in terms of days taken to secure a loan and numbers of visits to the outlet that are required in order to secure the loan.

Table 4
TIME TAKEN TO SECURE LOANS

Institution	% borrowers taking week or less	% borrowers taking 1-2 weeks	% borrowers taking 2 weeks and more
Individual			
Krishi	75.0	17.0	8.0
Sonali	56.5	19.7	23.8
Agrani	65.5	10.4	24.1
Pubali	41.7	19.4	38.9
Rupali	87.1	8.1	4.8
Average	63.0	15.9	16.1
Group			
Janata	28.6	42.8	28.6
Uttara	20.0	4.0	76.0
IRDP	18.3	36.6	45.1
BBBL	0.6	1.3	98.1
Average	11.7	17.7	70.6
All institutions	45.3	16.6	38.1

While over two thirds of all borrowers taking individual loans secured their loans in a week or less, only 12% of those borrowing

in groups were so fortunate. Nearly three quarters of them had to wait for more than two weeks and instances have been noted of loans taking up to four months to be approved under the group lending models. The individual models vary little from the average figures for their system, except BSBL where almost all borrowers have to wait more than two weeks for their loans to be sanctioned.

Table 5
NUMBER OF VISITS TO OUTLET IN ORDER TO SECURE LOANS

Institution	Number of visits (% of borrowers) 1/				
	0	1	2	3-4	5 & above
Individual					
Krishi	0.0	36.6	51.3	9.5	2.6
Sonali	0.0	4.1	50.0	30.4	15.5
Agrani	0.0	3.3	61.7	26.7	8.3
Pubali	0.0	14.0	47.2	22.2	16.6
Rupali	0.0	27.4	59.7	11.3	1.6
Average	0.0	20.9	53.1	18.3	7.7
Group					
Janata	0.0	0.0	23.8	55.5	20.7
Uttara	20.0	20.0	40.0	8.0	12.0
IRDP	13.3	11.7	55.0	13.3	6.7
BSBL	9.1	0.6	25.3	26.0	39.0
Average	9.0	4.3	32.1	28.1	26.5
All institutions	3.4	13.9	43.4	21.4	17.9

Note: 1/ Percentages represent the numbers of borrowers in each interval.

Among the individual models, nearly three quarters of borrowers had to make a maximum of two visits to the outlet office, whereas less than half of the group lending borrowers were able to thus

secure their loans. Over a quarter of all borrowers under the group models had to make five or more visits whereas less than 10% of those under the individual models had to make so many visits. Among particular models, only IRDP and Uttara compare favourably with any of the individual lending models. Uttara's figures must be treated with some caution due to the small number of borrowers surveyed. Of course for some borrowers, group lending has meant they have not had to visit the outlet at all.

These figures show that far from reducing costs, the group approach under RFEP has led to increased transaction costs for many borrowers.

Reducing Overdues

The table below sets out the respective overdue levels of the two approaches over the past 15 months. This presentation over a period of time allows for short term distortions to be minimised.

Table 6
PERCENTAGE OF LOAN VOLUME OVERDUE

Institution	As of June'80	As of Sept'80	As of June'81	As of Sept'81
Individual				
Krishi	17	10	9	10
Sonali	31	28	12	13
Agrani	1	5	4	6
Pubali	7	4	19	21
Pupali	5	3	3	6
Group				
Janata	18	25	16	17
Uttara	19	28	18	16
IRDP	0	6	3	4
BGBL	35	38	32	36
Overall	16	13	11	13

Source: Monthly Financial Reports.

Overall and individual institutional trends have been positive except for Pubali which has sharply deteriorated over the past year. BSBL too has continued to have very high overdues. Agrani, Rupali and IRDP have performed better than average but since Sept'80 none of the other three group models has performed as well as the individual models.

Perhaps more significant is the nature of the overdues, as shown in the following table.

Table 7

AGEING OF OVERDUE LOAN VOLUME BY PERCENTAGES AS AT SEPTEMBER'81

Institution	of less than 6 months	% 6-12 months	% 12 months and above
Individual			
Krishi	74.4	12.3	13.3
Sonali	63.2	15.6	21.2
Agrani	68.0	10.5	21.5
Pubali	77.8	14.1	8.1
Rupali	92.0	5.3	2.7
Average	72.7	13.0	14.3
Group			
Janata	28.2	48.9	22.9
Uttara	16.1	6.5	77.4
IRDP	98.6	0.7	0.7
BSBL	77.5	10.1	12.4
Average	66.8	15.5	17.6
All institutions	70.5	13.9	15.6

Proportionally there are slightly more older overdue loans under the group models than the individual model especially in the case of Uttara.

The social anthropologist reports that an attitude to overdues often develops among groups which is hard to dispell. IRDP is the only group model to have avoided this, whereas it is most prevalent at Uttara.

Savings Mobilization

The table below shows the relative savings performance of the two approaches. Data relating only to the target group is presented as the expectation is that savings can be better mobilized through group structures.

Table 8

SAVINGS MOBILIZATION
(T. G. ONLY)

Institution	Savings from target group only as % of loan outstanding	Average size of target group savings a/c(Taka)	Percentage of borrowers who have deposit a/c's
Individual			
Krishi	6.1%	180	59%
Sonali	7.8	184	76
Agrani	8.2	89	73
Pubali	3.8	49	99
Rupali	2.0	27	102
Average	6.3	132	72
Group			
Janata	6.1	194	54
Uttara	7.8	62	94
IRDP	9.1	86	113
BSBL	2.6	40	133
Average	5.1	71	108
All institutions	6.0	113	79

Although the averages suggest the individual approach to be slightly more successful, both approaches have institutions which have performed well and badly. This is not altogether surprising due to the nature of target group savings in RFEP where some institutions make savings compulsory, the amount to be saved being sometimes directly related to the loan size. Analysis of the proportions of borrowers who have savings accounts is similarly inconclusive. Janata and BKB are lowest at 54% and 59% respectively rising to IRDP and BSBL with 113% and 133% respectively; in other words, more savers than borrowers which is either due to non-borrower KSS members savings or inaccurate figures. All that can be said with any certainty is that the group approach shows no real advantage in mobilizing savings.

Loan Utilization

No conclusive comments can be made yet as to whether loan utilization among group borrowers is better than for individual borrowers until analysis of the borrowers viability survey is completed. Also there is no evidence of a demand for better services by group lending borrowers. The somewhat unique case of Janata's outlets at Jhikergacha, Jessore and Baidder Bazar, Dacca where socio-economic activities have been promoted and supported in the outlet areas, is worthy of mention if only as an example of what can happen. It is not a common feature elsewhere. The social anthropologist reports that borrowers are on the whole less happy when under group lending schemes.1/

Perhaps more pertinent is what has happened to an important aspect of the group approach at Uttara outlets. Current policy and practice allows groups to reform in order to exclude a defaulter so that the group can take further loans. On some occasions loans are being given even to individuals. Not only is this a negation of the group approach concept but also a tacit admission by the institution that the approach is less acceptable to borrowers. It bears out the sociologist's views that borrowers would prefer services to them as individuals.

1/ See sociological observations for full details.

Conclusions

RFEP experience to date with group lending has not been very encouraging except some aspects of IRDP and perhaps some outlets of Janata. Institutional performance indicates that the expected benefits of group lending have not materialised. It was envisaged that such organisation of people into groups is difficult and specialized work. Perhaps the full implications were not considered at the time by the group lending institutions.

The factors that have affected performance include the following observations from project experience.

- Groups were formed primarily to obtain loans. There was little identity outside this function. Except for production plan meetings (IRDP, BSBL) and weekly meetings with the loan officer (Janata and Uttara), the groups do not have any binding common interests, other than a few group activity loans at Baneswar branch of Janata bank and other group socio-economic activities at other Janata branches.
- Outlet staff may not have had enough of the specialised training required for group lending. From the records of training supplied by the institutions, group promotion as a training topic has been covered in Janata's courses but not Uttara's, through both institutions have organised operational field training at the outlets.1/
- The social anthropologists and field credit specialists report that, except at successful outlets, staff consider that group lending is hindering the development of the outlets. Uttara bank has attempted to overcome this by allowing groups to reform and exclude defaulters in order to secure subsequent loans.
- Borrowers too are not generally in favour of group lending. They find the long delays in loan sanctioning either because of group formation (Janata and Uttara) or beaurocratic delays

1/ See Appendix to Chapter on training

in approval (Janata, IRDP and BSBL), very discouraging. Even borrowers who are happy with group lending would still prefer to get loans as individuals.

The picture that emerges is not favourable for insisting on group lending in a follow-on project, as experience elsewhere suggests that to secure the advantages of group lending the following is needed:1/

- Financial responsibility and group solidarity, whereby the group decides who will receive loans and where the group generally monitors its own performance. Solidarity can grow through group loans, but where groups are formed mainly for loans, this may have a negative effect on their healthy development.
- Attitudes of the group are vital to its development. Group sanctions per se are not a panacea for curing loan defaults. Often the reverse is true. Far more effective in this regards is to have members funds in the bank at risk if defaults occur.
- Good local leadership is vital both at the primary cooperative or group level and at the federation level. These leaders must be both well trained and motivated.
- Combining credit with other services, marketing/supply etc., in a multi-purpose group is much more cohesive as it a represents a broader base to satisfy members needs.

This is a guide list. Experience in Bangladesh in Comilla and the Grameen Bank Project and in IRDP under RFEP indicates that where these pre-requisites are met, group lending can be successful. But they are difficult and time consuming and need specialised and trained people to achieve success. This raises the question whether they can be consistent and in concert with a rural bank's functions. Perhaps the most relevant experience from RFEP is that there is no short cut or easy method towards achieving the advantages of group lending. If policy considerations mandate group lending then the costs either in initial development or in terms of a less viable system must clearly accepted.

1/ See Donald G., Credit for Small Farmers in Developing Countries, Westview Press 1976, Pages 189-207.

CHAPTER 4 INCENTIVES UNDER RFEP

Introduction

Incentives can be grouped into one of two basic types; subsidies to encourage or assist adoption of some new activity and rewards for performance.

Incentives within a credit program may benefit any or all of the following ; participating clients, implementing staff (personnel) and implementing institutions.

Examples of the first basic type would include subsidized low interest loans to borrowers to induce them to grow new crops,additional salaries and other perquisites to staff to induce them to serve clientele in rural areas or special financial assistance (low cost capital funds or bad debt insurance) for the institutions so they can commence or extend lending to new groups of borrowers at minimum risk to themselves.

Examples of the second basic type include interest rebates to borrowers for timely repayments, performance bonuses to staff who achieve targeted levels of lending, savings mobilization and loan recovery. Institutions might have loan refinancing priviliges if they maintain successful loan portfolios, operate profitably and reduce overdue loans to an acceptable level.

As these examples illustrate, the two basic types of incentives are fundamentally different in approach. The first can be seen as a stimulus to encourage activity and would be paid regardless of performance. The latter type is essentially achievement related, based upon performance, can vary according to performance and could reasonably include penalties where performance falls below expectations.

This fundamental difference is of critical importance in any attempt to evaluate the effects of incentives schemes in credit programs. The stimulus type incentive does not lend itself to critical analysis, because it is often evenly distributed and tends to make no allowance for performance. Its effect can only be measured in terms of the situation prior to inception.

For example if subsidised credit has been taken up by a certain proportion of borrowers, it is difficult to determine how many have been directly and reasonably influenced by the subsidy. It is most often not possible to know how many other variables may have influenced their decision making. On the other hand, where incentives are performance related, then the invariable differences in performance over time may allow incentive effects to be more easily isolated and analysed.

Incentives under RFEP

Incentives experience under RFEP has been limited largely to the general stimulus type incentive of the project grant fund. However, four of the participating institutions: Rupali, Uttara, IRDP and BSBL, have introduced some performance related incentives by way of commissions to outlet staff and rebates on interest payments to borrowers for timely repayment of loans. It was expected at the outset of RFEP that the participating institutions would evolve ways to extend to their field personnel parallel incentives to make and recover target group loans which may include performance based bonuses.[1] Attempts have been made to introduce such a system.[2] PIL 15 of July 1980 specifically enjoined the project to develop an incentive system to boost loan officer productivity.[3] However, it has not been possible to generate any uniformity of approach.

1/ RFEP project paper No. 388-0025 dated 11 July 1977 page 56.

2/ In January 1981, BDB requested all institutions to consider an incentives package for outlet staff and the present consultants were asked to assist but the inability of the parties to reach a consensus led to the whole question being dropped for good in September 1981.

3/ PIL 15 of 31 July 1980 Section 8 Page 6 of Annex.

Project Grant

For each loan made to a member of the target group and verified through selective monitoring, the Bangladesh Bank will release to the participating institution on a grant basis a sum equivalent to one-third (1/3) of the value of the loan. Then for each loan fully recovered on time the Bangladesh Bank will release on additional one-third (1/3) of the value of the loan.[1/] This has been operating since the inception of RFEP and amounts to a resource transfer of 66.67% of each loan made to and recovered from the target group.

The reimbursement goes to the participating institution concerned. Loans to non-target group borrowers are excluded through a verification process (continuous surveys). The table below shows the extent of these grant payments up to December 31,1981.

Table 1

RFEP PAYMENTS FROM THE PROJECT GRANT

Participating institution	Request through month of		Cumulative amounts in Taka: Gross request	Disallowance for loans to non-target group	Net paid
Krishi	August	1981	1,30,49,921	15,55,786	1,14,94,135
Rupali	July	1981	19,31,422	1,32,065	17,99,357
Janata	June	1981	14,76,460	2,20,307	12,56,153
IRDP	June	1981	25,59,420	3,97,147	21,62,273
Agrani	June	1981	40,03,788	3,82,773	36,21,015
Uttara	May	1981	5,07,372	1,09,388	3,97,984
BSBL	May	1981	25,28,090	3,33,082	21,95,008
Sonali	April	1981	42,83,023	10,14,649	32,68,374
Pubali	April	1981	19,57,151	4,30,582	15,26,569
Total Taka :-			3,22,96,647	45,75,779	2,77,20,868

Source : Financial Report/RFEP.

1/ RFEP Project Paper No. 388-0025 dated 11 July 1977, pages 55-58

The project grant, ½ and ½ payment, has provided a strong incentive to the lending participating institutions to participate in the project experiment. All of the risk inherent in experimentation is covered by the grant thereby enabling the institutions to experiment more freely.[1/] The extent of cover against risks is total up to a 50% rate of loan default. The sums so gained through this grant have become wholly owned assets of the participating institutions. The grant, in addition to financing the experiment, was intended to :-

- Increase the total quantum of funds available for lending.
- Reimburse the institutions for their outlet start-up costs.

2) Staff and borrowers incentives:

Four of the nine participating institutions developed incentive packages under RFEP. They are as follows:-

a) Rupali Bank

Rupali has an incentive system comprising the following:

i) Rebates of interest paid to borrowers on timely repayment of loans.[2/]

6%	on	loans	at	36%
5%	on	loans	at	30%
4%	on	loans	at	24%
1%	on	loans	at	18%

ii) A commission of 3% of loans collected on time is paid to the village agents in addition to their salaries.

Although it was intended to be an automatic and on-going process, Rupali Bank has adopted the practice of paying these rebates at intervals. All those eligible for rebates come to the outlet on a certain day and are given their rewards in cash at a public ceremony, designed to stimulate others. Exact data on the amounts of money involved and exactly how and when they have been disbursed, is not available. It is not clear how these sums are reported in the institution's financial statements.

1/ RFEP project paper No. 388-0025 dated 11 July 1977, pages 55-58.
2/ Rupali does not have any outlet disbursing loans at 12%.

b) Uttara Bank

Uttara Bank has offered a 4% rebate of interest charged to borrowers for timely repayment of loans at their Basam, Joydebpur (Dacca) outlet. Loans at these outlets are disbursed at 30%. The amount is credited to the borrowers savings accounts. This has been done but data relating to the amount involved is not available.

c) IRDP/BSBL

As the model is almost the same for the two cooperative institutions, their incentives systems are grouped under one heading.

IRDP has a limited incentive system whereby a KSS receives a 2% commission on principal when its loans are repaid on time and the KSS Manager similarly receives a commission of 1%.

At BSBL, of the interest earned and collected on time:-

3% is to be credited to the CCB
2% is to be credited to the KSS

Additional 2% of the interest paid is to be paid to the KSS Manager for timely collection of loans as his commission.

However in the cases of both cooperatives, the plan has not been carried out in any sort of systematic way. BSBL has not distributed anything to the KSS's or managers. The funds are available but nothing has been implemented, though the KSS's and managers are aware of the bonus system.[1] The same pattern prevails at IRDP though there may be some outlets where the scheme has been intermitently working.[2] Again the outlet staff are aware of the bonus system.As outlet staff of both institutions have less authority than those of other institutions, they are not able to implement the plan themselves independently. Needless to say, this makes any evaluation of IRDP/BSBL performance only an approximation.

1/ & 2/ See audit reports for BSBL and IRDP respectively.

3. Analysis

a. Project Grant

As shown in other sections of this report, RFEP has reached about 50% of the target group households in its outlet areas. Institutionally the proportions vary, but since the project grant incentive has been available uniformly, the incentives have had no effect upon the variations. From a national standpoint, the grant has represented a useful infusion of new capital which the nationalised banking sector was naturally expected to utilize. On the other hand the institutions have had to lend and recover their funds in order to receive reimbursements from the grant. Thus although primarily a subsidy incentive, the grant does contain elements of a performance related reward. The effects are therefore almost impossible to measure objectively. All that can be said is that probably the project grant has encouraged a greater level of activity than would have been the case otherwise. This view is confirmed by the qualitative statements of various institutions' and BDB officers who consider it to have been an important factor in stimulating activity. Thus in the sense that it may have been catalytic, the project grant has probably contributed by allowing the participating institutions to observe at minimal risk, the potential and problems of serving small rural borrowers. At the same time, however, the effect of the grant, by providing rewards for lending only has acted as a disincentive for savings mobilization. 1/

b. Institutional Incentives

Of the four packages devised, those of IRDP and BSBL have not been implemented, that of Uttara applies to one outlet only (of 5) and that of Rupali could only be measured at old outlets which have been in operation for at least a year. Since Rupali has only three such outlets (out of 7), Rajganj Bazar (18%), Mansha Bazar (24%) and Kalihati (36%), the data base is so small that any analysis would not be very meaningful.

1/ The chapter on savings analyzes this point further.

An attempt has been made by the consultants to measure the effects of these incentives in terms of :-

- Target group participation - whether borrowers respond to the incentives at the outlets concerned compared to borrowers exposed to similar rates of interest for loans elsewhere.
- Loan recovery - whether loan repayments were better than elsewhere as a result of the rewards to borrowers and loan staff.
- Loan officer productivity - whether the incentives to staff stimulated them to attract more borrowers than elsewhere in the expectation of increased bonuses.
- Institutional viability - whether the cumulative effect of the incentives has improved financial viability at the outlets concerned, compared to others operating under similar conditions.

However given the inadequate data base, and the fact that such analysis as was attempted appeared inconsistent and contradictory, the exercise has been considered invalid. To some degree, this is confirmed through field observations together with responses of outlet staff to relevant questions during the recent institutional survey and multiple borrowers survey. Not one officer considered incentives to have been a critical factor in affecting the performance of any aspect of the program. Equally, borrowers as far as can be as ascertained from interviews and observation, do not see the incentives as being important even when they stand to directly benefit.

4. Conclusions[1/]

The very limited operation of any incentives program as part of RFEP effectively ensures that its impact cannot be determined

1/ The views expressed by others including the authors of the AID's Spring Review of 1973 and the field credit specialists within the present consultant team, have contributed much to the writing of these conclusions.

in any meaningful way. There is no body of experience from this project upon which future incentive plans could be based. This is unfortunate as both evidence and expert opinion from other programs strongly suggest that incentives need to be carefully tailored to local conditions. What works well in one country is not necessarily applicable in another but that incentives per se do work, is generally agreed.

The almost universal view is that incentives, to be effective in helping to achieve project objectives, must be performance oriented. Incentives of the subsidy type may and do have a place, but so often lead to a dependence which cannot survive the subsidy's withdrawal. Subsidies too have a distorting effect in economic terms as RFEP experience relating to savings mobilization has shown.

Evidence from other programs, of which the accelerated Rice Production Program (Masagana 99) in the Philippines is a good example, suggests that staff incentives, which need not only be of a monetary nature, can be very effective in both reaching larger numbers of borrowers and ensuring timely collections of loans and reduced overdues.

Client incentives too have their place, particularly perhaps in terms of rewards for good individual savings and repayment performance. These could be in terms of support and assistance for community development type schemes, as well as monetary rewards. Perhaps the experience of Janata's outlet at Jhikergacha may warrant further investigation on this point.

Institutional incentives are vital. The most likely performance related incentives would be loan refinancing privileges. Insurance or other guarantees to project lenders against outright losses such as the Agricultural Guarantee and Loan Fund in the Philippines appear to be worth considering. Another possibility may be a joint enterprise insurance scheme which protects both borrower client, hazard insurance and the institutions bad debts insurance.

In essence, incentives are part and parcel of any credit program. RFEP experience makes it impossible to say how critical incentives would be in the context of rural Bangladesh. But if one follows the principle that rewards for good performance usually have a positive effect, then a credit program without incentives is not giving itself all the available tools by which it can be successful in meeting its objectives.

CHAPTER 5 PROJECT TRAINING

Introduction

In the original project design, it was recommended that a continuous program of in-country training would be required for all implementing personnel of the participating institutions. Initial orientation would be to explain the objectives of the experiment and relate these to the credit needs of the target group. In addition it was recommended that project staff be trained in interview techniques and specific project procedural requirements.

Each participating institution was to be responsible for its own orientation training which would be of 4-6 weeks duration. Follow on training was to focus on specific problem areas identified during evaluation of project performance. Funds available ($ 400,000) under the project for training have allowed for up to 1200 man-months of in-country training. In addition, supplemental funds ($20,000) were allocated to allow for observation training of functioning rural credit programs in third countries by senior personnel associated with the project.

Implementation

Approximately 110 man months of in-country training has been carried out by the institutions. The table below summarises the training given by each participating institution. A more detailed description of the individual courses carried out by each institution and the consultants is given in the data sheets at the end of this section.

Table 1

RFEP TRAINING COURSES

(Project inception to 31 December 1981)

Institution	BASIC TYPES OF TRAINING Orientation	Refresher courses	Field courses	Total courses	Average duration of courses	Total participants	Man-months training carried out
Krishi	3	-	-	3	5 - 7 days	44	12
Sonali	2	2	-	4	6 -30 days	57	26
Janata	2	-	-	2	4 -11 days	32	13
Agrani	1	3	-	4	2 -15 days	83	21
Pubali	1	-	-	1	3 days	4	0.5
Rupali	1	1	1	3	3 - 5 days	60	11
Uttara	2	-	3	5	2 - 4 days	72	10
IRDP	2	2	-	4	1 - 2 days	76	6
BSBL	3	2	-	5	2 - 6 days	33	12
Total	17	10	4	31	-	461	111.5

Source : Participating Institutions

The institutional variations are considerable. BSBL and Uttara have run the most number of courses, 5 each, while Pubali has run only 1 course. Sonali and Agrani personnel have spent the maximum time in training. No institution has sponsored the 4-6 week initial course recommended at the start of the project even though funds were available. Sonali's month long courses were specialist courses for branch managers and the farm technologists. Only Janata, Rupali and Uttara convened field operational training at functioning outlets which was recommended by the original consultants. In general the training has been short term introductory courses at the commencement of RFEP followed by 1-2 refresher courses which also doubled as introductory courses for new (Phase II) outlet staff.

Follow-on training organised by the consultants has taken place on three separate occasions in 1979 and 1980 and has involved not just outlet and head office staff but also staff from the institutions' regional offices. This has totalled 85 man months of training.

Although unpublished, an important training function carried out by the consultants has been the continuous training carried out by the auditors during the audits of RFEP accounts at the outlets. This training function, considered an integral part of the auditing function, has been very important in improving record keeping and reporting on the project's implementation.

The extent of training appears to be in concert with the institutions plans. However in February 1980, a very significant number of outlet staff reported that they had not received adequate training on RFEP matters[1]. Of 67 outlet staff that were interviewed, 51% felt their training was inadequate to carry out their tasks. Although the workshops organized late in 1980, have probably helped to improve operations;

1/ Output level survey - February, 1980 as reported in 2nd Evaluation Report of April 1980, Chapter XIII.

new outlet staff do not appear to have received any more training than their colleagues in old outlets. Also there does not appear to have been a subsequent increase in the extent of training following these findings, despite the directives of PIL 15 and the fact that funds have been available from the project grant.

The recent institutional survey of 26 old outlets attempted to assess the level of understanding, awareness, knowledge and attitudes of outlet staff towards their outlet, model and clients. At the end of each outlet visit during the survey, the interviewer assessed the outlet-in-charge on a scale of (1) very knowledgeable (2) moderately knowledgeable (3) hesitant (4) unsure. All the persons interviewed had been at the outlet for some time, some since the project's inception.

Of the 26 staff interviewed, 12 were perceived to be either only moderately knowledgeable, hesitant or unsure. 14 or 54% of the sample were considered adequate in their knowledge of the project and their job. Institutional variations are not significant due to small sample of outlets. However, the outlets were chosen to represent one good, one moderate and one poor performer per institution. It is interesting to note that the staff at all the good outlets except one were rated as very knowledgeable whereas at average and poor outlets, the staff were more usually rated as moderately knowledgeable or worse.

As mentioned above the audits at outlets have been very effective in reaching training objectives. The table below shows the situation at those outlets where more than one audit has taken place during RFEP.

Table 2

REAUDIT RESULTS OF OUTLETS (ALL INSTITUTIONS)

First Audit	Number of outlets	Re-audit result	
		Satisfactory	Not satisfactory
Satisfactory	26	21 1/	5
Not satisfactory	21	18 2/	3
Total	47	39	8

Source : Audit reports

Notes :1/ of 21, eight branches while continuing to be satisfactory at re-audit had either slipped in certain areas of accounting or needed extra time to carry out the audit satisfactorily.

2/ 3 branches needed additional assistance during re-audit to achieve a satisfactory result.

As can be seen the improvement has been quite marked at those outlets which were found to be unsatisfactory at the first audit. Training was both required and given. Only 3 outlets failed to improve. While some of the satisfactory outlets slipped back, it should be noted that out of 47 outlets, 21 or (45%) were initially unsatisfactory but after re-audit only 8 or (17%) were found to be in need of further assistance and training.

BKB TRAINING PROGRAM

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effects of course
Oct. 78	7 days	12 outlet Investigation Officers(I.O.'s)	Objectives of RFEP Socio-economic structure of target group. Base line survey Selection of target group. Budget preparation Preparation of production plan. Methods of cultivation and better land use. Book-keeping and accounting. Methods of deposit mobilization. Techniques of supervision. Evaluation Comparative study of RFEP models.	Introduce staff to RFEP
Nov., 80	5 days	7 I.O.'s from new outlets	Ditto above	Ditto above for new outlet staff.
Dec., 81	6 days	25 I.O.'s from old/new outlets including lady savings assistants.	Ditto above	Ditto above for lady assistants. Refresher course for other staff.

Source :- BKB

SONALI BANK TRAINING PROGRAM[1/]

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effects of course
Nov. 78	6 days	5 Branch Managers 5 Krishi Shakha in-charge 5 Farm Technologists. 5 Agricultural graduates.	Objectives of RFEP. Baseline survey. Preparation of production plan. Methods of deposit mobilization. Comparative study of models. Maintenance of records, accounting & preparation of monthly reports. Special features of Krishi Shakha model job description.	Introduction of staff to RFEP.
Nov. '80	6 days	9 Branch Managers 10 Krishi Shakha in-charge. 9 Farm Technologists. 9 Rural Credit Officers	Ditto above	Introduction of new staff to RFEP. Refresher course for old staff.
Mid '81	1 month	10 Branch Managers	Management of rural credit.	Specialist course
Mid '81	1 month	10 Farm Technologists	Small farmer credit program.	Specialist course

Source :- Sonali Bank

JANATA BANK TRAINING PROGRAM

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effects of course
Jan. '79	4 days	5 Branch Managers 5 Rural Credit Officers	Conditions for successful credit program Loan disbursement and repayment. Group formation Savings mobilization. Special characteristics of the different models. Function of Branch Manager, Rural Credit Officer and Field Officers. Maintenance of accounts and records, preparation of monthly report.	Orientation course to ensure efficient development of the program
Jan. '81	11 days	11 Branch Managers. 11 Rural Credit Officers.	In addition to above subjects the following were covered. Philosophy of the project. Different enterprises for which loans can be given. Field training at Jhikargacha outlet.	Ditto above plus refresher course for old outlet staff.

Source :- Janata Bank

AGRANI BANK TRAINING PROGRAM[1/]

Date of Training	Duration of course	Participants	Subjects covered	Purpose/Effects of course
Nov. '79	5 days	33 Branch Managers Loan Officers Regional Managers. Ag. Credit Officers	Introduction to the Agrani model and related issues on rural credit.	To ensure staff able to implement the project properly.
July '80	2 days	30 Regional Managers Branch Managers Loan Officers	Review of progress and problems of the project.	Refresher course.
Jan. '81	2 weeks	10 Branch Managers	Advice on rural development Project model in detail Savings mobilization	Improving the performance of field staff in respect of loan disbursements and collections
Feb. '81	2 weeks	10 Credit Officers	Ditto above	Ditto above

1/ Refresher Course planned for February 1982.

Source:- Agrani Bank.

PUBALI BANK TRAINING PROGRAM

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effect of course
Nov. '80	3 days	4 Loan Officers	Baseline survey and selection of target group. Procedures of loan appraisal and loan sanctioning. Field credit and identification of potential economic activities. Maintenance of records and accounts and preparation of monthly report Management and supervision. Savings mobilization. Basic features of the model and implementation.	Loan Officers gained clear ideas on how to implement the project: their productivity and efficiency improved considerably as a result.

Source: Pubali Bank

RUPALI BANK TRAINING PROGRAM 1/

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effect of course
March '79	5 days	3 Branch Managers 3 Village Agents 3 Head Office Staff 3 Agricultural Credit Officers	Aims and objectives of RFEP Comparative study of different models Baseline survey Concept of village agent Target group identification Special features of Rupali model Credit norms and repayment schedules Maintenance of accounts and records Evaluation of performance	Introduction of staff to RFEP.
Nov. '79	3 days	4 Branch Managers 4 Loan Officers 7 Village Agents 1 Head Office	" " " "	
Jan. Feb. '81	4 days in each outlet, field training	All staff at each outlet - 32 in all	Field training on actual operations	

1/ Refresher course planned for February 1982

Source: Rupali Bank

UTTARA BANK TRAINING PROGRAM

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effect of course
Early '79	3 days	13 - Branch Managers - Loan Officers - Regional Managers	Aims and objectives of RFEP. Job description of staff. Fixation of credit norms. Baseline surveys Savings model	
March '80	2 days	20 As above plus H.O. Staff	Discussions with borrowers in the field and field training at Mymensingh.	
Nov. '80	4 days	13 As above	Ditto above	
March '81	3 days	16 including new outlet staff	RFEP models, job description, savings mobilization, cultivation of crops rearing of livestock.	
April & May'81	2 days	10 Outlet staff at each session	Field training at Mymensingh & Tangail	

Source: Uttara Bank

IRDP TRAINING PROGRAM

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effect of course
Nov. '78	1 day	1 Thana Project Officer	Background & objectives of RFEP.	Trainees conceived the ideas of the project model.
		8 Deputy Project Officers	Determination of target group & formation/selection of KSS's.	
		11 TCCA Inspectors	Preliminary survey and implementation schedule.	
			Records & accounts, shares, savings, staff requirements and input supply.	
May '79	2 days	3 Thana Project Officers	As above with the addition of	
		5 Deputy Project Officers	Insurance, loans repayment and marketing procedures.	
			Loan documents and disbursement procedures.	
Oct. 80	2 days	8 Thana Project Officers	Objectives of RFEP and its future.	
		8 TCCA Accountants	Role & functions of Accountant and Inspector in maintenance of RFEP accounts.	
		8 TCCA Inspectors		
March '81	1 day	8 Thana Project Officers	Project components and procedures	
		8 TCCA Accountants	Field problems and solutions	
		8 TCCA Inspectors	Problems of preparation of monthly reports of individual TCCA's	
			Maintenance of accounts	
			Field problem of individual TCCA's.	

Source: IRDP

BSBL TRAINING PROGRAM

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effects of course
Aug. '78	6 days	9 KSS Managers 5 Assistant Loan Officers 2 Loan Supervisors	Aims and objectives of RFEP. Model characteristics Baseline surveys to identify target group. Audit & supervision Accounts & records Reports Staff assignments	
Jan. '79	5 days	As above	Ditto above	Refresher course
Nov. '79	3 days	As above	Ditto above	
Sept. '81	2 days	5 Assistant Loan Officers 2 Loan Supervisors	Records & accounts Monthly reports	
Dec. '81	3 days	2 Loan Officer 2 Assistant Loan Officers 2 Loan Supervisors	Accounting	

Source: BSBL

CONSULTANTS TRAINING PROGRAM

Date of Training	Duration of course	Participants	Subjects covered	Purpose/effects of course
April '79 April '80	4 days per workshop	Staff of all institutions	Analysis of operational problems associated with RFEP implementation together with suggested improvements.	Refresher courses to assist all institutions in implementation.
Nov. '80x3 Dec. '80x1	3 days per workshop	Staff of all institutions	As above	As above
1979	3 weeks	Head office staff of all institutions	Examination of other countries' rural and agricultural credit systems.	Policy level course to expose senior staff to the possibilities and alternatives of various credit system.
Oct. '81	3 days	RFEP Project Officers, best outlet staff and member of each institution's training college	Re-examination of RFEP models and experience in implementation.	Refresher course designed to improve institutions over training facilities ability to carry out training themselves.

In addition a limited number of individuals, from various organizations associated with the project, went overseas to USA for related training in rural credit.

CHAPTER 6

LOANS TO WOMEN

1. Introduction

Existing social conditions in rural Bangladesh do not permit women to act completely independently. Male family members or friends always carry out such activities as input purchasing or marketing. Also, loans may be made in the name of a male family member even though the activity financed may be carried out largely by female members of the family.[1/] This section reports upon the extent to which RFEP credit has been extended under the name of a woman. The data presented comes from financial records and a special survey at 77 outlets (of which 5 were in-depth studies) carried out in November and December 1981.

2. Institutional Performance

The total of women RFEP borrowers upto Sept 1981 was 1,494 of the total of 35,178 borrowers or 4.2% of this total. The institution with the highest percentage of women borrowers to its total was IRDP with 8.7%. The lowest was Pubali with 2.3%. An encouraging trend is that from the commencement of project lending in 1978/1979 upto July 1980 less than 2% of the loans went to women, but during the period from May to August 1981 the rate was 5.3%[2/]. The table below gives more specific information on loans to women.

Table 1

R.F.E.P. LOANS TO WOMEN

Institution	Total Borrowers	Women Borrowers	% Women to total	Average number of Women Borrowers per Outlet 2/
KRISHI	11,812	512	4.3%	32
SONALI	5,984	151	2.5	15
JANATA	1,386	42	3.0	4
AGRANI	4,512	259	5.7	24
PUBALI	2,282	53	2.3	13
RUPALI	2,301	94	4.1	13
IRDP	3,144	273	8.7	21
BSBL	2,917	73	2.5	4
TOTAL	35,178	1,494	4.2	16

1/ Livestock husbandry, food processing, horticulture and handicrafts are activities in rural Bangladesh largely carried out by women. Considerable numbers of RFEP loans have been for these purposes.

2/ Continuous Survey of 5051 first time borrowers, May - August 1981.

3. Loan Purposes

The purposes for which the RFEP women borrowed are listed below, given in percentage of total loans. Over 50% were value-added enterprizes to crop production, e.g., puffed rice preparation and paddy husking. The next largest volume was 25% for handicraft enterprises and 9.4% was for animal husbandry. No loans were granted for crop production.

Table 2
LOAN USES OF WOMEN BORROWERS

Activity	Percentage
Preparation of puffed rice	31.3%
Handicrafts	25.0
Paddy Husking	21.9
Livestock husbandry	9.4
Betel leaf selling	3.1
Marriage of daughter	3.1
Rickshaw repair	3.1
Other	3.1
Total	100.0

4. Attitudes on Interest Rates and Repayment

Every woman borrower interviewed felt that loan interest rate levels were too high. Since these borrowers had taken loans at every interest rate under RFEP except for 18%, and since none saw the interest rate as a critical issue, their comments cannot be considered too significant. Also, more than 50% were repeat borrowers, usually for the same purpose.

Repayment provisions were satsifactory to 41% of the borrowers. About 30% preferred to repay in one lump sum at the end of the loan period and the remaining 30% had other reasons indicating preference for a longer term loan as seen in the table below.

Table 3
ATTITUDES TOWARD LOAN REPAYMENT

Attitude	Percentage
No criticism	40.5%
Prefer single payment	29.7
Size of installment payment too large	13.5
Loan period too short	10.9
Installment pay periods too short	5.4
Total	100.0

5. Use and benefits of loan proceeds

Of the respondents surveyed 19% said they had not yet earned additional income from their loan; this must be qualified as about 40% of those women interviewed had not fully utilized their first loan. Of those who had earned profits, 8% had spent all on consumption and all the others spent some portion on consumption. Forty-one percent had invested in livestock or capital goods and 11% had used some portion to repair their house. Many reported that the most important use of the income generated from the loans was for food and clothing.

As there were multiple responses to the survey questionnaire, the percentages in the table below total more than 100%. These are given however to report the weighting in terms of loan proceed uses.

Table 4

USE OF ADDITIONAL INCOME FROM LOANS

How Income was used	Percentage
Consumption	81.1%
Purchase livestock or capital goods	40.5
Repair house	10.0
Increase working capital	5.4
Purchased land	5.4
Invested in crop production	2.7
Loan did not generate income	18.9

6. Marital Status of Women Borrowers

All of the respondents from the in-depth survey were married or had been married. None were the head of household[1/] and none had ever utilized institutional credit previously.

Table 5

MARITAL STATUS OF WOMEN BORROWERS

Marital Status	Percentage
Married	73.0%
Widowed	18.9
Divorced	8.1
Total	100.0

Divorced women were residing with their parents and widows were dependents of their sons. The special survey of 77 outlets indicated that many women borrowers were widows or ordinary household members.

1/ At Krishi's Faridpur Branch, some borrowers are married with husbands who reside with them. But because the husbands are frequently away from home while working, the wives have been granted the loans in their own name

7. Attitudes of Family Members and Others on Earning Activities of Women

Family members of the borrowers did not oppose the women taking loans. Male household members of most of the women borrowers encouraged them to become involved in earning activities. Reasons for the support of the family for women borrowers are grouped below:

a) Women borrowers were able to contribute to the economic well-being of the family directly.

b) Male members of the family could utilize a portion of the loan.

c) Other male or female members of the family were also employed in the earning activity of the borrowers.

8. Attitudes of the Outlet Staff

The special survey of staff opinions at 77 outlets revealed that women are sincere and honest in handling loan money. In terms of repayment, they are better compared to male borrowers. They are satisfied with smaller amounts of credit. Women are capable of making profit at the same rate as male borrowers and a significant number said women are proportionately better savers.

Outlet staff also said they did not have to spend more time in explaining the use of loans to women borrowers. Sometimes the amount of effort spent in this regard was less than they spent with male borrowers. Women also do not need more supervision than male borrowers.

Further, outlet staff believe that social and religious conservatism coupled with negative attitudes towards banks has held many women back from seeking RFEP loans. Those who have taken loans to date are the more progressive. The outlets concluded that if loans to women are to be extended, then extensive motivation by female bank staff able and willing to meet the women in their homes and assist them, is needed.

Significantly only one institution, Krishi, has employed women as loan officers, despite the recommendation that such staff might be an effective way of reaching the estimated 10% of target household headed by women.[1/] Krishi has posted a female credit assistant to each of its outlets and assigned them a dual role of mobilizing savings among the non-target group and providing a special service to women borrowers. As far as the Consultant is aware, none of the other institutions has utilized any women staff for any aspect of RFEP.

9. Conclusions

A significant number of women have taken loans under RFEP, which is encouraging. Two institutions particularly, Krishi and IRDP, have established special approaches towards assisting such borrowers.

In the case of Krishi, it appears that the presence of the women assistants has been a factor in the consistent number of women that have borrowed from most Krishi outlets.

IRDP's high proportion of women borrowers is due to the nature of their operations where there are KSS's largely for women. It should be noted that BSBL, operating the same model, has not succeeded in attracting women borrowers. It is also interesting to note that a large number of outlet staff interviewed felt that some sort of special arrangements either by way of group formation, special training or even special funds for women would be a good way of increasing loans to women.

1/ See PIL 15 of 30 July 1980, P.10.

Other institutions have not established special approaches and their incidence of women borrowers is usually due to a high number of borrowers at particular outlets. Existing social norms in rural areas of Bangladesh make it difficult for women to come forward and borrow. Special arrangements are required to assist them, and as the performance of Krishi & IRDP to date shows,this can be effective.

SECTION V SOCIOLOGICAL OBSERVATIONS

Introduction:

This chapter is based upon observational field research conducted at 29 outlet locations in different parts of Bangladesh, from mid-October 1981 through January 1982 1/ and data collected during the Continuous Survey of first time borrowers at all outlets, May to August 1981. All the participating lending institutions are represented and reactions to different models and loan conditions are noted. There were case studies or interviews with over 300 borrowers and 150 non-borrowers. The overall aims are: (1) how the borrowers view RFEP, and (2) the value of RFEP as a credit experiment in terms of socio-political and cultural considerations.

Name of the Project:

Staff of the participating institutions understand the name RFEP, but very few borrowers or target households understand the name or initials. The project is locally known by a variety of names: Palli (rural) loan, new loan, American loan, Garibi (poor) loan, Samiti (cooperative) loan when given through cooperatives, or "project" loan. It is observed that referring to this as 'The American loan' affects repayment at Uttara Bank, Feni. There should have been a Bengali name consistently applied from the beginning by all participating institutions.

Target Group:

At each outlet, an identification survey to identify the target group was to have been conducted, so that the eligibility of each person in the outlet command area is known and the eligible persons could be recorded. In most outlets visited, the survey has been undertaken. There was no such survey conducted by Uttara Bank, Kotwali, Mymensingh. The procedure there has been for the loan officer to advise the applicant to form a group of at least

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1/ See attached list of locations at the end of this chapter.

3 persons after which the officer investigated the merit of each applicant. There was also no survey undertaken by Pubali Bank in Rakhudia village, Babuganj, Barisal and because of influence by politicians, most borrowers there, by appearance, have incomes over that specified for the target group. At both outlets, repayment is not good.

On the basis of this research and the Continuous Surveys, it is estimated that approximately 10% of loans have been disbursed to non-target persons. Borrowers might make wrong statements of their income or land holding. Outlet staff, cooperative officials and leaders of borrowing groups may encourage borrowing by people whose income is over the limit in expectation of good repayment. The table below shows the very high extent to which discrepancies in income, landholding, loan size and loan purpose occur between the outlet records and borrowers responses when interviewed , though in 90% of cases, eligibility does not change.

Table 1

EXTENT OF DISCREPANCIES BETWEEN BANK RECORDS AND BORROWERS ACTUAL CIRCUMSTANCES

	Total No. of Borrowers	No. where one or more discrepancies occured	Remarks
Agrani	60	58	The above discrepancy might have arisen due to the time lag between the survey undertaken by the outlet and the continuous survey.
BSBL	157	151	
IRDP	64	59	
Janata	63	56	
B K B	189	163	
Pubali	36	29	
Rupali	62	48	
Sonali	121	117	
Uttara	26	24	
Total	790	705	

Source: Continuous Survey.

Obviously complete accuracy and independent verification of the criteria for eligibility is difficult and time consuming for field staff to undertake, but these figures illustrate both the potential for giving wrong information in order to secure a loan and the need for outlet staff to check the accuracy of such information as far as possible.

A contributory factor is factionalism which exists in virtually every village. In outlets where recommendation signatures are required, local leaders either may recommend loans on behalf of non-target people to build up their political following, or may deny loans to people of opposing factions. Families are often linked in kinship units (gusthi), whose leaders may give preference in recommending or guaranteeing loans. In some cases local brokers or touts, in concert with outlet staff, collect fees for disbursal of application forms or for expediting loan approval.

To illustrate this point further, the table below indicates how borrowers first learnt of the loan program.

Table 2

INITIAL SOURCE OF INFORMATION ABOUT RFEP

Source	Percentage
Bank employees	51.8
U.P/G.S. members 1/	21.6
Friends / Neighbor	10.8
Relatives	9.7
Others	6.1
All sources	100.0

Note: 1/ Persons who are elected to village level administrative bodies such as the Union Parishad (Council) or Gram Sarkar.

Source: Continuous Survey.

This shows that nearly half the borrowers were not initially contacted by outlet staff directly but through other people. Thus the possibilities for abuse of one sort or another exists to quite a high degree, particularly if the outlet works through existing local structures rather than building up direct relations with borrowers.

Case Studies:

A resident of Panti, Kushtia, is a member of the local Samabay cooperative. The cooperative secretary arranged for 57 members to get an RFEP loan in one batch. The member's loan was Tk.1700 for planting sugar cane. He made a good profit and repaid the loan, as have all the borrowers. But he did not know then that an applicant's income should be less than Tk. 6000 to be eligible. He said the secretary told him to say that his income was Tk.5000. He thinks that those with income upto Tk. 15,000 should be eligible under this project.

An old man in a target village of Krishi Bank, Kushtia, borrowed Tk.3000 to buy an ox. He had to get the application form from a local broker who demanded Tk.200 and said he could speed up approval of the loan. Although the borrower actually paid him only Tk. 50, he got the loan quickly. He knows some borrowers who did not pay the tout and it took them 2 or 3 months to get their loans. He believes the broker is in league with outlet staff and the local Union Parishad Chairman, because the broker could not operate there without the knowledge and approval of the Chairman. The old man thinks such payments could be stopped if the application forms are given directly to the applicants.

Although such situations occur, they should not cloud the fact that the majority of borrowers are small landholdres owning less than one acre, as shown in the following table.

Table 3

DISTRIBUTION OF BORROWERS BY
INCOME AND CULTIVABLE LAND HOLDING

% by income		% by landholding	
Income Bracket	% of Borrowers	Landholding	% of Borrower
0 - Tk. 2000 p.a	22.6	No land	25.6
Tk. 2001 - Tk. 4000 p.a.	33.6	.01 - 0.5 acres	33.7
Tk. 4001 - Tk. 6000 p.a	32.1	.51 - 1.0 acres	20.9
Tk. 6001 - and above	11.6	1.01 - 1.5 acres	12.1
		1.51 - 2.0 acres	5.1
		2.01 acres and above	2.5
Total	100.0	Total	100.0

Source: Continuous Survey.

However, it appears from field observations that the absolutely landless in rural areas are not getting many RFEP loans. Only 8.4% of borrowers interviewed in the recent Continuous Survey had daily wage labor as their primary occupation. RFEP is over-represented in urban and semi-urban areas (crop loans are only 33% of all loans). Many borrowers shown as landless in the above table are primarily engaged in petty trade or business and live near bazars or in suburban areas. But examination of the records from several outlets shows that in rural areas borrowers who have no agricultural land are a smaller percentage than would be expected. Moreover, many instances have been noted of banks requiring either pledge of land as security, or deposit of land parcha (official record showing boundaries for tax purposes), or an official mortgage paper, or mortgage by a guarantor of the borrower. Even some of the "landless cooperatives" allow members with up to 2 acres. The case studies below lead to the conclusion that it can be difficult for

the truly landless who are agricultural laborers to gain access to institutional credit, even that of RFEP.

Case Studies:

At BKB, Faridpur, out of 256 cases, studied in the ledger book, all had some agricultural land. They had to pledge it as security in their application forms and some of the early borrowers had to sign mortgage papers.

At Rupali Bank, Babuganj, Barisal, out of 210 cases, 10% had no land, but half of these were established traders. Borrowers usually had to deposit their land parcha.

In BSBL, Batazor, Barisal, out of 124 cases, 104 had given land mortgages for their RFEP loans and all the rest had a guarantor who gave a land mortgage.

In Pubali Bank, Babuganj, Barisal, out of 250 cases, only 4 were landless, and 2 of them were established traders; 22% of borrowers were shown as having 2 acres of land. Almost all borrowers had to deposit their land parcha.

In IRDP, Burhanuddin Barisal, the 3 samities in Chotomanika accepted only members who had at least 40 or 50 decimals of agricultural land. The outlet had no samiti for the landless, though it is estimated that 25% of the rural population are entirely landless and live by daily labour.

Landless agricultural labourers in a number of outlets have reported that they are afraid to borrow. They fear reprisals in case they fail to repay and they are afraid to enter a bank having armed guards, where they will be embarrassed by not knowing the procedures and not having any security. They cannot psychologically shift easily from living by daily labour to taking up an enterprise. They are not accustomed to thinking in terms of investment because they rarely get even non-institutional loans. There is a popular saying in the villages that for the poor there are no friends

and relatives who can provide capital; their friends and relatives are generally other poor people. Nevertheless, the landless poor have received loans in some outlets. Near towns or bazars they usually engage in some trade, and in rural areas it is easiest for them to invest in livestock enterprises.

Loan Purposes:

A comparison of outlet ledger books and interviews with borrowers indicates that more than 90% of borrowers have used at least part of the loan for the purposes stated, at least within the three broad categories of crop, agriculture-related and non-agricultural activities. Detailed information on loan use is now being processed and will be reported later, but it is clear that the pattern of loan use differs markedly from outlet to outlet, depending on the local economy, natural resources and social structures. In some areas almost all loans are for agriculture and livestock, but in outlets near towns and bazars a high proportion are for small trade 1/. Few loans have been given anywhere for cottage industries.

Some borrowers urgently need money for a daughter's marriage, medical expenses, or other emergencies, and some borrow to release mortgaged land or pay off other debts. Many borrowers use the loan for two or more purposes. Almost all incorporate the loans into their family budgets so that it is not possible to entirely separate "productive" from "non-productive" uses.

Case Studies:

Janata Bank in Baider Bazar, Dacca, gives more than two thirds of its RFEP loans for agriculture. The socio-economic situation at this outlet determines largely how the loans are used. In the outlet command area there exist two distinct

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1/. Examples are: IRDP at Burhanuddin, Bhola Island, where 98% of loans have been for agriculture and the rest for livestock; Agrani Bank at Bhatra, Bogra, where 26% has been for agriculture, 62% for livestock, and 11% for trade; and Janata Bank at Khankhanapur, Faridpur, where only 23% has been for agriculture and livestock, and 77% has been for small business and trade.

classes: relatively big landowners and the poor who are mostly landless. Most of the farmers are engaged in trade and have little interest in cultivation, and many of them own more land than they could manage. More importantly status considerations prevent them from directly engaging in agricultural production. At the same time they want to benefit from their land so they lease out the land for one agricultural season, a transaction called sanmeyadi. The poor take up such leases at Tk. 600 to Tk. 1000 per bigha (33 decimals). The outlet provides loans for the lease and costs of cultivation, to a maximum of Tk. 2000 per bigha, depending on the crop. The borrowers devote themselves to the land so they can repay their loans in order to get such loans in the future. Many borrowers have taken more than one loan under RFEP.

Loan Size:

The participating institutions have different policies regarding the size of loans for different purposes, Tk.4000-5000 being the usual ceiling for a household. Many outlets initially lend only Tk.1000-2000 to encourage good use and repayment. But a considerable number of borrowers feel the size of their loan is inadequate for the purpose. The table below shows how 383 of 778 new borrowers expressed their views.

Table 4

DISTRIBUTION OF BORROWERS BY LOAN SIZE AND EXTRA AMOUNT REQUIRED

Loan Size	No. of Borrower	Extra Loan Needed		
		Up to Tk.2000	Tk.2001 to Tk.4000	Tk.4001 and above
Upto Tk.1000	121	77.7	19.9	2.4
Tk.1001 - Tk.2000	151	43.7	34.5	21.8
Tk.2001 - Tk.3000	51	21.5	27.5	51.0
Tk.3001 - Tk.4000	41	22.0	4.8	73.2
Tk.4001 - Tk.5000	13	7.7	15.3	77.0
Tk.5001 - and above	6	-	-	100.0
TOTAL	383	47.2	24.6	28.2

Source: Continuous Survey.

Terms and Conditions of Loans:

Generally, borrowers have viewed RFEP loans favourably. The table below records the responses of 778 new borrowers.

Table 5

BORROWERS' VIEWS ON ADVANTAGES OF LOANS

Advantages	% of Number
Low interest rate	42.5
Facilitates livelihood	16.8
Easy repayment conditions	10.4
Timely disbursement conditions	9.4
Capital formation	6.2
Others	7.6
No advantage	1.5
No response	5.6
Total	100.0

Source: Continuous Survey.

Almost all borrowers see some advantage in the loans. Nearly 62% see the advantages in terms of the loan conditions while another 23% see the advantages in terms of their own economic wellbeing.

Borrowers who cite low or reasonable interest rates as the principal advantage of the loan are grouped in the table below by the rate of interest at which they took loans.

Table 6

BORROWERS WHO STATE THAT LOW INTEREST RATE IS THE MAIN ADVANTAGE OF THE LOAN, BY THE INTEREST RATE ON THEIR LOAN

Interest	Total No.of borrowers	% of total borrowers.	Borrowers who stated interest rate lower	% of col. 4	% of col. 4 against Col.2
1	2	3	4	5	6
12%	51	6.6	23	7.0	45.1
18%	213	27.4	102	30.8	47.9
24%	223	28.7	89	26.8	39.9
30%	254	32.6	109	32.0	42.9
36%	37	4.7	8	2.4	21.6
TOTAL	778	100	331	100	42.5

There is little significant difference as to the attractiveness of loans at 18%, 24% and 30% interest rate levels. The sample size for 12% and 36% is too small to be definitive. From field observations, when borrowers with loans at 18% are asked about their interest rate, they express satisfaction, except when they are aware that the 100 Crore Program or other loans are available at cheaper interest rate levels. Most borrowers with loans at 24% express satisfaction at the interest rate. Those who borrow at 30% often complain that their interest is high, but nevertheless many take repeat loans. Rural people frequently calculate interest by the month. They appreciate borrowing at 1½%, 2% or even 2½% a month, which seems more reasonable to them for short-term loans

than the 10% a month often required for non-institutional loans. But they find that 30% and 36% is high for medium-term loans such as a two year loan for a milch cow and the investment may not be sufficiently profitable. Borrowers opinions and the table above show that 36% rate of interest may be too high.

Repayment of Loans:

When the respondents in Table 5 were asked whether their repayment conditions were reasonable, 31.5% of them felt they were unreasonable.

Patterns of loan repayment differ according to loan purposes and bank policies. Rupali Bank tailors repayments to the loan purpose. IRDP often requires repayment in a lump sum to minimize bookkeeping by the cooperative secretary. Generally a loan for a crop or for raising an animal is repayable in a lump sum, though in some cases interest is payable in monthly installments. Loans for petty trade, rickshaws, boats and cottage industries are usually repayable in weekly or monthly installments.

The great majority of borrowers take RFEP loans with the intention of repaying. Where default accumulates, it is usually because borrowers lose confidence in the bank or cooperative providing the loan and feel that they will not get repeat loans in any case. A great incentive for repayment is the possibility of quick repeat loans.

Case Studies:

At IRDP in Babuganj, Barisal, there are no overdues recorded. The TCCA officials have emphasized that without full repayment new loans will not be available, so borrowers even borrow from other sources to repay.

At Agrani Bank, Bhatra, Bogra, most borrowers have taken several loans, often taking a new one on the day following repayment. The outlet in-charge fears that when the experimental program ends and borrowers know there will be no more

loans, repayment will fall off. This fear is expressed by outlet staff elsewhere.

At IRDP in Burhanuddin, some borrowers have taken 7 and even 8 loans and repayment is good in consideration of quick new loans.

But in some locations a psychology of default builds up and the momentum is difficult to stop, often because there is a history of faulty or improper management.

Case Studies:

At Uttara Bank in Feni, Noakhali, overdues are larger than repayments. Lending is to groups, and interest is 36%. When the program started, the outlet staff misled the borrowers, saying interest was 1% a month, and when people found out it was 3% a month they were unhappy. Moreover, during the 1981 Presidential election the agent of a major party and his touts convinced some borrowers that if they would vote that party into power, it would arrange to pardon their debts. Some borrowers therefore gave money to the party instead of repaying their loans. But the party in question did not come to power and nobody's debts were pardoned. But so many people failed to repay. At 36%, interest charges have become increasingly burdensome. Thus a psychology of default has built up, and the remaining debts might as well be written off.

In Boildah outlet of BSBL, Kushtia, a Bhumihin (landless) cooperative was formed by a local leader to get some land which had been declared as "enemy property". Having failed to secure the land, the group sought RFEP loans. The group has no other functions. Borrowers report that part of each loan was deducted as a bribe at the time of disbursement, and there was a quarrel between the secretary and the outlet officer as to how the illegal gain should be divided up. The local people think some of the money passes

through the ranks of BSBL. Moreover, this outlet is in a suburban area and there is little sense of community cohesion. Cases have been filed against six defaulters, but people say that everyone cannot be taken to court. Overdues built up and the trend was not corrected. Now the momentum of default is such that people assume there will be no repeat loans, so they no longer intend repaying their original loans.

Such mismanagement was observed in other locations,e.g:- BSBL in Taltoli and Batazore, Barisal; Uttara in Mymensingh; Pubali in Babuganj, Barisal; IRDP in Joshaidighi village, Natore, Rajshahi, In other cases poor repayment is due to the selection of an inappropriate target area such as a semi-urban community without roots,e.g:- IRDP rickshaw KSS at Patuapara, Natore, Rajshahi or an area having too many non-target households e.g:- Pubali, Babuganj, Barisal. In all such cases, when the momentum of overdues increases to the point where people cease to expect new loans. and especially if they lose confidence in the outlet, it is no longer realistic to expect full recovery. Borrowers in a target area generally know the repayment position of others. The lesson is that a momentum of overdues should not be allowed to develop.

In most places where repayment and re-borrowing are good, client services are also good, though in some locations people complain that the outlet staff are too severe in their treatment of the borrowers.

Attitudes Toward Client Services:

Nearly 90% of the borrowers interviewed expressed satisfaction with the services rendered by RFEP outlet staff. A useful measure of this can be seen in the table below which records borrower's statements on whether the outlet staff visit them while they are utilizing their loans.

Table 7

EXTENT OF VISITS TO BORROWERS BY OUTLET STAFF

Institution	% of borrowers visited	% borrowers not visited
Agrani	81.7	18.3
BSBL	76.4	23.6
IRDP	98.6	1.4
Janata	100.0	0.0
B K B	88.2	11.8
Pubali	97.1	2.9
Rupali	95.2	4.8
Sonali	83.5	16.5
Uttara	80.0	20.0
TOTAL	87.2	12.8

Source: Continuous Survey.

In the case of Agrani it has been noted previously that field visits are not as comprehensive as they could be.BSBL's figure is due to the part-time nature of its outlet staff. That for Sonali is surprising in view of the nature of the outlets and staff and merits further investigation. As for Uttara, the small size of its sample affects the validity of the figures, but does suggest that the weekly meetings of groups under this model are not as effective as they could be. On the other hand data from the Continuous Survey and field observations show that neither non-target nor better off target group borrowers obtain their loans more quickly than the poorer borrowers.

The reasons given by borrowers who are dissatisfied with the services offered are:-

a) Disbursement of loans is sometimes delayed (especially BSBL). This causes difficulty when the inestment is seasonal such as for crops.

b) In some places there is favouritism and nepotism:- BSBL, Mymensingh and Kushtia; Pubali, Babuganj, Barisal, and Uttara, Mymensingh.

c) In some places staff do not maintain close contact with borrowers after disbursement.

d) Some outlets rely on middlemen and local elites too much, so that poor people without connections have a harder time securing their loans :- IRDP operates through cooperative leaders, BKB requires the signature of an official such as Union Chairman.

e) In a few outlets, unofficial fees are required:- BSBL, Boildah, Kushtia; BKB Kushtia and IRDP Chouddagram, Comilla.

f) Instances have been noted of outlets requiring land documents as security:- BKB requires the applicant to sign that his land is security, and sometimes has required mortgage 1/; BSBL, Barisal requires land mortgage and Rupali requires the land parcha.

g) Many borrowers dislike having to deposit part of their loan as savings, as they do not trust the banks, and they may not understand the savings provisions.

Lending Systems:

1. Group Lending

At Janata's outlets at Jhikargacha, Jessore and Khankhanapur, Faridpur, all borrowers interviewed expressed satisfaction with the group method of getting loans, and in such places the model is successful. Hard work by the outlet staff and borrower confidence in them is essential.

1/ In the case of BKB, the borrower pledges his land if he has such security, but if it is not available he is still given the loan. If he has land, there should be a check to see if the borrower has an outstanding loan elsewhere, which requires additional work by the outlet staff.

Group lending works better when there is community or kinship cohesion. Of the borrowers under group lending, 30% have other kin in their groups. Men of the same gusthi or bangsa help each other, and may give technical advice to each other to make the loan more profitable. Some borrowers say that a borrower defaulting brings a bad name to the whole group and the matter will be dealt with by the gusthi leader.

Case Studies:

A borrower of Janata Bank, Baider Bazar, Dacca is the group leader. He is a farmer and has only one acre of land. He borrowed Tk.2000 as a crop loan, and leases in more land. He is a repeat borrower. He was dissatisfied with the lending procedure, since it took him a month to initially form the group but it was quicker to get subsequent loans. He now likes Janata's development approach and asserts that borrowers are taking an interest in the socio-cultural activities which are being stimulated by the outlet.

A borrower of Janata Bank, Jhikargacha, Jessore, migrated from India and owns no land. He has now taken six RFEP loans; first for a cow, then to set up a loudspeaker shop. He feels that group borrowing promotes quicker repayment because of group pressure. The groups are important too in general development.

Borrowers in groups have already repaired two mud roads in the locality, and groups have been active in teaching literacy, building latrines, and getting electricity into the village. He strongly favours Janata's group lending system.

Homogeneity within the community and similarities of loan purpose are also important.

Case Studies

In the Janata Bank area of Jhikargacha, Jessore, there are three categories of residents: local, in-migrants from Noakhali and migrants from India. The local population own much of the land, the Noakhali in-migrants have some, and the migrants from India have none. Of the borrowers, 20% are locals, 30% are from Noakhali, and 50% from India. Jhikargacha is in a rural area, and the settlement pattern of clustered homesteads is also favorable for group lending. Community sentiment within paras (hamlets) and within kin groups is strong.

Prior to RFEP, the Indian migrants were subsisting at a low level and were keenly interested in getting loans. They live in clusters of homesteads and are also patrilineally related, so group formation among them is easy. One of their leaders said group pressure plays a positive role in performance and in repayment and also helps generate the momentum to carry out community activities.

Group lending has the following potential advantages of particular interest to RFEP objectives:

a) It can provide an opportunity at least under Janata's system, for the right outlet staff to play a role in the area's general development, as seen at Baider Bazar, Jhikargacha, Khankhannapur and Burghatta outlets.

b) It facilitates borrowing by the truly landless and helps them take up new types of enterprises as seen at Janata's Khankhannapur and Jhikargacha outlets.

c) It has the potential to facilitate borrowing by conservative women, who as individuals might not take entrepreneurial initiative or come to the bank as seen at Janata, Khankhannapur and several IRDP outlets.

However, in urban or semi-urban areas having unstable populations, groups are difficult to form and do not provide continuity. In such places people hustle for any means of subsistence and are not responsive to peer pressure. This was observed at Uttara Bank outlets in Feni and Mymensingh, where 70% of borrowers expressed dissatisfaction with the system and repayment is poor. Where group lending does not work well the following are contributing factors :-

a) Forming a group causes delay, and some who wish to borrow cannot form a group at all.

b) Groups tend to be formed based on the purpose for which the loan is to be used and not on the major occupation of the borrower: i.e. putting a shopkeeper and a shoe maker together for crop loans.

c) Group members may not be sincere and people may fear that some group members will put the burden of repayment on others.

d) Those who repay fear they cannot get repeat loans if one member of the group defaults.

e) Fictitious groups may be formed or political activists may manipulate group formation.

Case Studies

A borrower from Uttara Bank, Mymensingh, is a farmer and also engages in trade. His neighbors say he is very rich and owns more than 10 acres of land. At the time of interview he was smoking an expensive brand of cigarette such as are usually consumed by wealthy men. He admitted that he does not belong to the target group, but the bank people advanced a loan when he formed a group in expectation of good repayment.

Officially his group had five members, but other borrowers say he formed a fictitious group. The outlet

staff did not ask for verification of these other borrowers. The reason is that he maintains good relations with the staff. and hosts them every time they visit the village. He has used the total loan for his own purposes.

While group lending can promote good repayment, in some cases it can contribute to default. If some members of a group default, others may be reluctant to continue with their payments. and a momentum of default builds up. This happened at the Uttara outlet in Feni, Noakhali.

Despite group lending success in some areas, many borrowers, under intensive questioning, would prefer individual borrowing. Some outlet staff who favour group lending see it as a temporary step to get people into the habit of repaying, so that they can later borrow as individuals. However, the above-mentioned advantages of group lending are sufficiently powerful in really assisting target group people that the system should continue in those institutions and places where it is successfully working.

2. Borrowing Through Cooperatives:

Eighty cooperatives borrowers were interviewed at five BSBL and four IRDP outlets. Results are mixed. Success depends on the honesty and leadership of the samiti (cooperative) leaders, social feeling within the samiti, and the behavior of outlet staff.

Case Studies:

At BSBL, Mymensingh almost all borrowers interviewed expressed dissatisfaction toward this model. In interviews with 20 borrowers, it was discovered that 30% of the loans were given to fictitious persons. Others who attempted to borrow and should have been eligible, did not get loans. 15 borrowers said that the loans were utilised by influential persons of the locality who are close associates of the samiti chairman.

Loans were recorded in the ledger book as given to borrowers whose addresses were false. For these reasons this outlet has lost the confidence of the borrowers.

At Panti outlet of BSBL, in Kushtia, RFEP is working very well. The members all have confidence in the samiti leadership. They are farmers who took crop loans, and have repaid in full. They expect new loans, mostly for sugarcane cultivation. The samiti secretary stated that he had to pay a bribe of Tk.200 to the BSBL officials to get them to forward the loan applications to Dacca for timely sanction. In spite of this the program is working well and the borrowers state that they have profited from the loans.

All IRDP and BSBL borrowers first have to become members of the cooperative, for which they have to pay fees. They are not always aware of the purposes of these fees. BSBL and IRDP charge 30% interest for trade or business loans, which many borrowers feel is too high. BSBL applications have to be processed and recommended at the Central Cooperative Bank, which then submits them to Dacca for final sanction, lengthening the process to 2 or 3 months. IRDP applications have to be recommended by the Thana Project Officer and then set to the District Office for sanctioning, which takes 2 to 6 weeks. Such situations may be exploited for gratuities. However, the experience of borrowers served by IRDP is generally more favorable than those served by BSBL. Interviews with borrowers at BSBL, Mymensingh, Taltoli and Batazore, Barisal, and Boildah and Panti, Kushtia, revealed that BSBL staff demanded improper payments and as a result many borrowers lost confidence in them.

Case Studies:

A borrower at IRDP, Chauddagram, Comilla borrowed Tk.1000 for one year to buy a milch cow. He had to pay Tk.12.50 to become a member of the samiti. Then he had to pay Tk. 10 to buy a share in the cooperative. Then he

had to deposit Tk.100 of his loan in his savings account. Another Tk.77.50 was paid to the TCCA inspector, the purpose of which was unclear. Thus, he had to spend Tk. 200 and actually received only Tk.800. The nominal rate of interest on his loan was 18% , which he considers too high for a poor man, but after these expenses his actual rate was 22.5%. It took him one month to get this loan. He thinks 2 years is required to make good profit on the cow and he would prefer to pay in installments rather than in a lump sum. He had borrowed from non-institutional sources before and feels, in spite of these problems, that RFEP has become a threat to the local moneylenders.

Loans through IRDP can be quite effective if cooperative leadership is honest and effective, and if the borrowers have commonality of purpose. But the samitis with unstable populations, having mixed employment, do not have as good a record of repayment. A suggestion has been made to rate IRDP thanas as A, B, C, or D for other projects according to effectiveness and this might be applied to rural credit.

But while RFEP can serve small farmers very well through some IRDP outlets, the inherent problems of giving loans through this channel should be recognized. There are bureaucratic complexities and delays, the truly landless are not eligible to become KSS members unless a landless (bhumihin) cooperative is formed especially for them, and women can rarely get loans unless channeled through women's cooperatives.

Case Studies:

IRDP, Babuganj, Barisal, operates through 5 samitis. Many borrowers have taken repeat loans and almost all loans are taken by small farmers for agriculture. Overdues are shown as nil and investigation revealed that IRDP officials exerted pressure to repay on threat that further loans would be cut off, so borrowers repay even if they have to borrow elsewhere to do so.

At IRDP, Natore, Rajshahi, members of 6 samitis have received loans. In Bhushangacha village the samiti leadership is good, there is a cohesive spirit, and all loans have been profitably utilized and repaid except where the borrower died. But in 5 others samitis, RFEP is operating less successfully. These are all adjacent to Natore town or nearby bazars and have less stable populations. At Dattapara bazar most loans were taken for small trade, but new loans have been stopped until repayment improves. A samiti of landless people and one of rickshaw pullers also have not utilized their loans well and many have not repaid. These differences are not due to the IRDP administration but the differing nature of the target samitis.

3. Individual Borrowing:

In interviews with over 160 borrowers at BKB, Agrani, Rupali, Pubali and Sonali outlets, all respondents expressed a liking for individual borrowing. The main reasons for this preference are :-

a) There is no fear of liability for the default of someone else.

b) One can immediately apply for a loan without spending any time in forming a group.

c) The borrower can repay back his loan at his own speed and take another loan when he is ready.

Different lending institutions are using different methods to get close to borrowers and to meet their needs.

a) BKB intends to have a budget line of credit for each borrower, but borrowers are not aware that they have any "line of credit" tailored for them and loan size is often very uniform. Borrowers have to sign forfeiture of their land if they default and very few landless persons get loans. Women have been employed in the outlets where they help to keep books and mobilise savings. They are not authorized to sanction loans,

but they do refer potential women borrowers to the loan officers. All BKB outlets for RFEP are in towns and the target villages are some miles away, causing inconvenience to the borrowers.

b) Sonali has sub-branches, which are important in meeting borrowers' expressions of the need for the outlet to be nearby. This system also should enable the loan officer to adequately evaluate the borrowers' production plans.

c) Agrani has dropped its agricultural service center concept and makes loans to borrowers on their individual merits.

d) Pubali planned to tailor loans to the needs of the borrowers and to refer borrowers to technical agents when required. Loans are made to individuals with modifications of repayment according to purpose. There is little referral.

e) Rupali has one or more village agents attached to each outlet. The village agent is not authorized to sanction loans, but contacts borrowers and is supposed to know their situation so that the loans are tailored to individual requirements.

Case Studies:

Rupali Bank Babuganj, Barisal, gives loans at 30%. The bank requires borrowers to mortgage their land and also requires the signature of the UP Chairman or Matabbar. Repayment is good (only 7% principal overdue), but only 10% of borrowers are landless. Most of these are traders and have some assets. The village agent is a local man whom all borrowers interviewed, respect and appreciate. He spends more than half his time in the village and the rest in the outlet office. He is interested in his clients and helps them both socially and economically. He teaches them

to write their names. He has arranged loans for 30 women. He feels he can handle 300 to 400 borrowers. The loan officer feels that the village agent model is very useful, provided factionalism on the part of the agent can be avoided.

A borrower under this bank took Tk.700 for aman, repaid it, then took Tk.2500 for 2 oxen and a plough. He has one acre of land and had to mortgage it to get the RFEP loan. He also has one acre of leased (barga) land. His wife took another RFEP loan of Tk.600 for rice husking (Rupali allows multiple loans in one family up to a maximum of Tk.5000 per family) and then took another for chicken and duck raising. The chickens were sick at the time of interview, though the village agent had procured some drugs on her behalf. The borrowers stated that the village agent was a "very good man" who helped them. They said that often there was bribery at other banks but not here, that they were using their loans well and could repay them on time.

A major rationale of group and cooperative lending is to ensure repayment because of group pressure, but RFEP experience shows that repayment is no worse among the institutions administering individual loans. As noted above, group pressure, apart from the enticement of new loans, has not in itself caused good repayment. The institutions lending to individuals tend to rely on other devices for security, either pledge of land or parcha if available (BKB, Rupali), or the signature or guarantee of a prominent local person, which may discourage borrowers.

Savings:

Few of the borrowers interviewed were in favour of compulsory savings. Some say they are too poor to have any savings. Many borrowers do not get the size of loan they require and resent having part of it forcibly deducted. The table below shows the balances of target group depositors. Institutions are classified as to whether or not they require all borrowers to open a

savings account at the time of taking a loan. The last column in the table shows what the average size of account would need to be if the institutions not enforcing compulsory savings were to generate the same amount of deposits as they have achieved though voluntary methods.

Table 8

AVERAGE SIZE OF TG SAVINGS ACCOUNTS
(As at 30 September 1981)

Institution	Savings method	Avg. Size of account (Tk)	Size of account needed if savings were compulsory (Taka) 1/
Janata	Voluntary	194	105
Sonali	,,	184	139
Krishi	,,	180	107
Agrani	,,	89	65
IRDP	Compulsory	86	-
Uttara	,,	62	-
Pubali	,,	49	-
BSBL	,,	40	-
Rupali	,,	27	-
Average		113	94

Source: Financial Reports.

Without exception those institutions where savings are not compulsory have greater levels of deposits per depositor. The best of the voluntary systems is more than double the best of the compulsory systems and the least of the voluntary systems is over three times the size of the corresponding compulsory

Note: 1/ This figure was derived by dividing total target group deposits by the total number of depositors.

savings institution. Also, it should be noted that with only one exception, Agrani, the size of deposits that would be needed if savings were compulsory is at least 22% higher than the best achieved by compulsory methods. Only a few borrowers are favourable towards compulsory savings on the grounds that this generates thrift.

Depositors are aware they receive much less interest on savings deposits than they pay for borrowed funds. They would usually prefer to invest any savings in trade or agriculture. People save to provide security for their children and they consider that they might prefer to sacrifice consumption to reinvest in a plot of land which their children might inherit.

Case Studies:

A borrower under Janata Bank, Baider Bazar, Dacca pays 30% interest on his loan of Tk.2,000. The bank official advised him to open a savings account at the time he took his RFEP loan, but he is reluctant to put much money there because interest is only 14%. He thinks he could invest it for more profit in trade or agriculture.

A borrower under BKB, Kushtia, borrowed Tk.3,000 for an ox. He got his loan minus Tk.100. He assumed that this was an improper deduction as he knew neighbors who had to similarly forego a part of their loan. He is illiterate and cannot read his pass book. When he was shown that his loan and the obligatory savings of Tk.100 were both recorded in the pass book, he was satisfied. But he prefers to get the full amount of the loan and not have a part deposited as savings.

Target Group Non-Borrowers' Attitudes:

Out of 60 target non-borrowers in target areas interviewed, 80% were aware that this program is aimed at helping the poor and 20% were unaware of the program.

Some were interested in getting loans, but did not, because either they were denied by village politics and factionalism or they failed to form a group under group-lending practices.

Others were not interested in getting loans for such reasons as :-

- a loan was not needed.
- interest charged was higher than for other institutional loans.
- the rural landless either fear reprisals in case of failure to repay or are afraid to go into banks with armed guards in front or they have not thought that as landless laborers they could take up some enterprise on their own.
- in some cases there is fear of loss of status when it is known a loan has been taken. This happens only in cases of traditionally prominent or landowning families, for whom borrowing would symbolize their loss of land or local leadership. Some Hindus who have never been well off also feel that it would be embarrassing for them to borrow, but they wouldn't mind lending to others if they had the resources.

Non-Target Group Attitudes:

A total of 135 landowners and local and religious leaders were interviewed to gain some insights into how these people, who traditionally have considerable power in the rural areas, have reacted towards RFEP. They are categorized into six groups.

Landowners: Of 15 landowners owning more than 2 acres who were interviewed, twelve expressed some dislike for the program and 3 did not comment. Their reasons for dissatisfaction were:- RFEP has added a new dimension to the socio-economic life of the poor who were previously their field workers and who now try to lease land or arrange

sharecropping and second it is now more difficult to get agricultural laborers whose wage rate has tended to go up.

Religious Leaders: Out of 15 such people interviewed, ten thought the program was aimed at the poor. and the rest were unaware of its existence. As regards religious objections to taking interest, five had objections. Most of the rest saw no problem because they saw interest as "profit", which is allowable and goes, not to individuals,but to the institutions which promote development. Some also raised no objection on the point of interest because the program aims at helping the poorer sections of society.

Village Pradhans: Of 30 such people interviewed, eighteen thought RFEP was a threat to their position. The poor could become less dependent on the pradhans. But 12 were satisfied that this program helped their fellow villagers achieve greater economic security.

Local Political Leaders: Out of 30 local political leaders of different parties, twenty thought the program was helping the poor attain self-reliance and borrowers were becoming more socially, economically and politically conscious. But 10 of these leaders expressed fear that the program may loosen their control over their followers.

Union Parishad: Out of 15 U.P. Chairman interviewed, eight thought the program was helping the poor. Of the balance, some were unaware of the program and others thought it made the poor politically conscious and hindered use of them in electioneering. Among U.P. Members interviewed, there was similar divergence of opinion.

Gram Sarkar Pradhans: Out of 15 such persons interviewed, twelve expressed satisfaction that this program helped the poor and the remainder, while aware of the program, made no comment as to its worth.

These comments indicate that when some measure of support from local prominent people is required by the outlets in the absence of security, many will try to help the poor, though this may be in return for support of some type. But in other cases, the poor may be denied loans either because of factionalism or by the fear of an insecure local leader that his position might be undermined. One can not quantify the extent to which this is occuring. It will always occur where local institutions are brought into the credit process. The only effective way to avoid it, is for outlet staff to work directly with the borrowers.

Economic Effects:

Data on actual uses of RFEP loans is not yet available but a survey is in process. Preliminary data at several outlets reveals a wide variety of loan uses. and shows that the program actually does stimulate economic activities and can help to reduce the level of under-employment.

Many borrowers take loans for activities supplementary to their main occupation. Farmers take loans not only to have oxen and milch cows, but also to raise them and sell for a profit. In some places landless people start by taking loans for goats, then take repeat loans for cattle and other agricultural purposes. In outlets adjacent to towns or bazars, many farmers take loans for petty trade. In some outlets these comprise the majority of loans. Even in rural areas, many farmers take loans for trade or for use in the periodic markets (hats). Our observations suggest there have been only a few loans taken for cottage industries, the most common of which is rice husking. Sporadic loans have been given for other small industries such as mat making, tinsmithing and shell carving.

Case Studies

A borrower at BKB's outlet in Manikganj, Dacca has taken four loans; Tk.1500, Tk.2000, Tk.2500 and Tk.3000, all for crops and livestock, all at 12% rate of interest.

He has deposited only Tk.450 in the bank as savings, but he has earned other surplus money from his activities which he has invested in a small trading business run by his son. He asserted that many borrowers of his acquaintance have started new activities because of the RFEP loans.

In the target area of Agrani Bank, Bhatra, Bogra, nearly 800 loans have been disbursed at 24% interest. Most have been repaid. The area is completely rural, with only a local hat. Almost all the borrowers are farmers. The first loans were mostly for agriculture. Most of them have taken out 2nd, 3rd and 4th loans and some have taken 5th loans. Increasingly, these latter loans have been for raising livestock. Though this is a completely rural area, some of the very early borrowers under RFEP have taken loans for non-agricultural activities. Four leather workers have taken loans for leather trade. A school peon took loans for leasing land and now has good income. Farmers have taken loans for:- selling snacks, making sweets, starting a cycle repair business, dal trade, vegetable business, paddy business, rice husking business, spice (masala) business, oil business, buiscuit making, tinsmith work and fish farming. Some also took loans for land leasing. In agriculture also, borrowers turned to planting more IRRI and wheat. There is no doubt, that at this outlet, RFEP has increased the level of economic activity and local innovation and diversification has been stimulated.

One can conclude that where there is heavy repeat borrowing, the loans are certainly effective. Most people wish to use their loans productively and when numbers of them do not, there is often a situation which causes borrowers to lose confidence in the program. Observations on repeat borrowing indicate diversification of economic activities and a more healthy microeconomic base.

Effect on Non-institutional Credit:

Between 40% and 65% of rural people currently take a non-institutional loan. About 40% to 45% of such loans are for "rice" or subsistence, and about 30% are used as short or medium term capital for agriculture, petty trade and buying livestock. Other important uses of such loans are a daughter's marriage, health care, house building, buying or releasing land and education of children.

There are several systems of pledging land and crops in vogue in Bangladesh and there are different sources of non-institutional credit. A separate report is being prepared on this subject to show the position of RFEP in the context of existing rural credit and the comments below should be considered as preliminary in this regard.

In a number of outlet areas, borrowers noted that RFEP has caused a depression in non-institutionalloans. Many borrowers said they formerly took loans from land owners, mohajans, shops, relatives and friends but they have not done so since taking RFEP loans. In several target areas, moneylenders previously charging 120% annual interest have had to reduce their rates to 60% or 40%. Out of 15 moneylenders interviewed, for two of whom this is a full-time profession, all expressed the view that RFEP had become a threat to their profession, both because of lower demand for their credit and lower interest rates. However, in some semi-urban outlet areas where there is a greater variety of people with surplus wealth, there is a less measurable effect of RFEP on the informal credit system, though more quantifiable effects may appear in time.

Another area of non-institutional credit not greatly affected by RFEP is that of itinerant buyers (foriwala) and wholesale buyers (bepari). They purchase much of the production of artisans and other non-agricultural producers in rural areas and often give production loans to the producers. Subsequently, they buy the total production at a low price thus recovering

their loans though sales at normal prices. As the incidence of RFEP loans to artisans is low, the program has not had any real impact on these agents or their clients. The system is well-enterenched and to break into it would require specific attention on the part of outlet staff and knowledge of the economic structure of the various cottage industries.

Case Studies

A resident of the BKB target area in Manikganj, Dacca, is the only household head in the para who did not take an RFEP loan. When asked the reason, he at first said the loan processes were complicated. However, the main reason appears to be that he is a basketmaker who regularly sells his baskets to a local itinerant dealer. He regularly takes loans from the dealer for raw materials and repays the loans in the form of his products, but he sells them to the dealer at much less than the market price. He is unaware of the real rate of interest he is paying but it is much higher than that charged through RFEP. He prefers to continue borrowing from the dealer because he feels more comfortable not having to repay debts in the form of cash. In fact, he is compelled to maintain this relationship with the dealer as otherwise he may be unable to sell his baskets at all.

Social Relations:

RFEP has had a definite effect in increasing the economic viability and political power of those who are poor but have at least some resources but as shown above, proportionately fewer of the landless people in absolute poverty have been able to pull themselves up through loans. The fact that RFEP has had a democratizing effect is shown in some of the statements of local leaders as summarized above. Some have said that they consider RFEP a threat to their status. Others say that with these loans the poor can now lease land or begin

sharecropping and there is no need now for them to be so completely dependent on their employers. In some cases, surplus farmers have complained that, because of RFEP, their agricultural laborers are less available and have taken up other sources of income, causing a rise in the cost of field labor. But RFEP usually operates within the context of local social relations and the local elite naturally attempt to use it to reinforce their power base.

Case Studies

The Gram Sarkar Pradan of a village under BKB in Manikganj, Dacca, considers that RFEP helps the poor sections of the local population. He personally knows all the borrowers and asserted that "loans are disbursed in this village only on my recommendation". He added that local moneylenders are afraid that they will lose their business. The poor now need not go to the houses of landowners for work, but have started demanding higher wages. He felt that the program had made the poor more socially and politically conscious. But he was not opposed to it because he was able to politicaly benefit from it.

Bhushangacha KSS, Natore TCCA, Rajshahi is efficiently managed by its secretary. He has the confidence and respect of his people, all of whom have repaid their loans and reborrowed. He has used RFEP to reinforce his own position, which is now unassailable and IRDP considers him to be one of the best cooperative secretaries in this program. When investigators visited the village he used the occasion to further display his influence and called a special meeting at short notice, though several KSS members were heard to complain. He told the visiting investigator that he was paying Tk.8 plus food for his field laborers; in fact they were getting Tk.6 plus food and they came from a village outside the target area. Nevertheless, through efficient

management of RFEP, his own samiti members have confidence in him, and all have benefited from the loans.

At Pubali Bank, Babuganj, Barisal, there was political influence in one of the target areas by the local Gram Pradhan, who is related to the local Member of Parliament. Outlet staff wished to select a target area close to their office but a decision was made at a higher level to select Rakhudia village, which is 10 miles from the bank by road; and 6 miles by river. It is troublesome for borrowers to frequently come and make loan payments and savings deposits. Most of the borrowers are above the income level specified for RFEP and the default rate is high. The people think that if they default they will somehow get cleared by their contact with the MP, who managed to have the thana declared as a disaster area after a flood. The result of this relationship between local elites and politics has caused the effectiveness of RFEP to be destroyed.

One may observe than an innovative program such as RFEP will not succeed if it disrupts the local social context too much. Realistically, it can hardly succeed unless supported by the local leaders, for many outlets require the signature or recommendation of local leaders on application forms and the branches need their support. In two of the above mentioned case studies the local leaders enhanced their position by good management of RFEP and used it to also enhance the prosperity of their followers. But the danger is that where factionalism exists, loans might be denied to some. Political influence, as in the third case study above, is to be avoided from the start. In general however, one may be sanguine about the project even if the social distance between the poor and the local leaders remains of the same magnitude as before, if there is all-round benefit and if there is some relief to the below-subsistence farmers and the poor.

Three years is a short period in which to judge the social effects of a loan program. Nevertheless, present evidence from many locations visited suggests that where loans are repaid and there are many repeat loans, both the economic and political situation improve. Without expecting too much from this project in the way of sudden entrepreneurship development among absolutely landless field laborers, or quick reform of village political relations, one may be optimistic that the signs of economic and social effects of RFEP are indeed positive.

APPENDIX OUTLETS VISITED FOR ANTHROPOLOGICAL REPORT

	Outlet	District	Bank	Model
1.	Jikargacha	Jessore	Janata	Group lending; area development
2.	Khankhanapur	Faridpur	Janata	"
3.	Gauranadi	Barisal	Janata	"
4.	Baidder Bazar	Dacca	Janata	"
5.	Feni	Noakhali	Uttara	Group lending
6.	Mymensingh	Mymensingh	Uttara	"
7.	Manikganj	Dacca	BKB	Budget line of credit
8.	Karatia	Tangail	BKB	"
9.	Mymensingh	Mymensingh	BKB	"
10.	Kushtia	Kushtia	BKB	"
11.	Faridpur	Faridpur	BKB	"
12.	Madaripur	Faridpur	BKB	"
13.	Cadet College	Tangail	Agrani	Small farmer service centre
14.	Bhatra	Bogra	Agrani	"
15.	Kalihati	Tangail	Rupali	Village agent
16.	Babuganj	Barisal	Rupali	"
17.	Shahbazpur	Comilla	Pubali	Technical assistance
18.	Babuganj	Barisal	Pubali	"
19.	Khornia	Khulna	Sonali	Krishi shaka
20.	Jinglatali	Comilla	Sonali	"
21.	Chaudhyagram	Comilla	IRDP	Cooperative
22.	Natore	Rajshahi	IRDP	"
23.	Babuganj	Barisal	IRDP	"
24.	Burhannudin	Barisal	IRDP	"

	Outlet	District	Bank	Model
25.	Mymensingh	Mymensingh	BSBL	Cooperative
26.	Panti	Kushtia	BSBL	"
27.	Buildah	Kushtia	BSBL	"
28.	Taltali	Barisal	BSBL	"
29.	Batazore	Barisal	BSBL	"

ANSWERS TO CRITICAL QUESTIONS ABOUT CREDIT AND SAVINGS

An attempt has been made below to answer the fifteen critical questions as required under Function No. 6 of the consulting contract based on the information and analysis made so far and are subject to change as more information are gathered during the life time of the project.

QUESTION NO. 1: Do small farmers and other rural producers face production opportunities which can be exploited through institutional credit; under what circumstances? What is the target group demand for credit?

ANSWER: Yes. The experiment has brought out positive evidences about borrowers engaging in new and/or extended productive ventures. The desired circumstances could warrant inputs of various types such as technical know-how, marketing information, and other physical inputs like equipments, fertilizer and raw-materials. The target group demand for credit would vary from borrower to borrower based on his economic infrastructure and the type of activities he is engaged in.

QUESTION NO. 2: Is the target group benefiting from credit at high interest rates?

ANSWER: If repeat borrowing after full repayment of earlier credits could be considered as an indication of a judgement on the part of the borrower, the answer is yes. There are as many as 36% of the borrowers who have taken a second and subsequent loans. However, this assumption could be contested on the basis of the fact that in Bangladesh for thousands of years the rural small borrowers have repeatedly been borrowing at higher rates of interest from traditional village money-lenders and thereby diminishing their economic worth to the point of total bankruptcy.

QUESTION NO. 3: Can credit systems be devised to reach the target group on a large scale without being preempted by more privileged persons - how?

ANSWER: Yes. However, no system can be made absolutely perfect or fool-proof. A combined credit and saving system with interest differential large enough to cover the normal cost of delivery of credit in an institutional environment including reasonable cost of bad debts and normal cost of money should be the answer. Since the full cost of small credit is going to be much higher than that of larger volume credits, the privileged persons will not find it profitable to borrow relatively smaller amount of credit at higher interest rates than that from other institutional cheaper credits to which they have better access.

QUESTION NO. 4: How can timely repayment be induced and default minimized?

ANSWER: There should be both positive and negative reinforcements for motivating people to make timely repayment of loans. Positive rewards may include things like rebates, better credit rating for future loans etc. Negative reinforcements may include penal interests and poor rating for future credit. There should also be a concerted program of aggressive recovery follow-up.

QUESTION NO. 5: What are the principal institutional and management constraints to efficient operation of the financial institutions; what development or improvement is needed.

ANSWER: One of the fundamental drawbacks of most of the institutions is lack of profit orientation. Unlike in private business houses where profit becomes the yardstick of measuring success or failure and becomes the principal motivating force behind its its goals and objectives, most of the government owned institutions apparently lack this direction towards a measure of their

achievement or success. As such there is a lack of incentive or purposeful motivation for the personnel to perform. There is also lack of training and understanding about organizational behavior and inter-personal relationship based on the concept of motivation and stimulus-response. This deficiency is reflected amongst the personnel in their self-motivation, and in motivating others including the institution's clients.

QUESTION NO. 6: Will higher interest rates on credit and savings mobilize capital in the rural sector and bring about greater availability of rural credit to the target group. Can the administrative costs of credit/savings programs be reduced to an acceptable level?

ANSWER: Yes. Higher interest rates on saving commensurate with the interest rate on credit should mobilize savings by (a) attracting more savings from the rural producers (b) attracting urban savers to transfer funds to rural credit system and (c) by discouraging the traditional money-lenders from competing with the Rural Credit System.

The relative administrative cost of credit saving programs could be reduced gradually along with a parallel development in the institutional framework, credit delivery system, personal productivity, economy of scale, mass literacy and training, regional infrastructure, and other exogeneous and endogenous variables. It is difficult to determine precisely as to what could be considered to be the acceptable level of such costs. Like any other goods and services, such cost at some point in time would be subject to the law of supply and demand. And the extent of acceptability (demand) would vary on the basis of the cost itself. But one thing is quite clear from the experiment, that the existing cost has been or was acceptable. The cost incurred during the experiment was acceptable to the borrowers, even though its demand could not be ascertained because of the limited scope of the experiment.

QUESTION NO. 7: What degree of coordination is required with other rural development activities?

ANSWER: There has been little or no coordination during the experiment with other rural development activities. It may not be possible to devise a credit system encompassing such a coordinated approach with other rural development programs. However, the system should take stock of the development taking place in various regions in determining the type and extent of credit needed for that region.

QUESTION NO. 8: Is it beneficial to channel credit and savings programs through cooperative style groups? Do groups face more productive opportunities and offer other advantages for reaching the target population?

ANSWER: Yes. Cooperative or group should normally be a stronger economic base to carry out rural activities of larger economic size and scale and as such hypothetically it should be more beneficial to channel credit and savings through such group formations. The group could also benefit from the collective knowledge, experience and expertise of its members. Besides, because of the possibility of larger economic activity, the group can enjoy more productive, marketing and procurement opportunities. However, the performance of group lending has not been very satisfactory in the experiment except in isolated cases & IRDP.

QUESTION NO. 9: How can rural producers be motivated and organized to save regularly?

ANSWER: The following institutional factors, inter alia, could be considered for developing regular savings habits among the rural people:

1) Higher interest rates on savings.
2) Reassurance as to the security of their fund.
3) Literacy.
4) Positive incentives.
5) Better service and public relations.

QUESTION NO. 10: What is the importance and income and productivity potential of agricultural, agricultural-related, and non-agricultural loans respectively?

ANSWER: All enterprises which have a round the year operation and employ the available contributory family labour would normally have more productivity, employment, profitability and viability in terms of absorbing credit and amortizing it. It appears however, that most of the agricultural activities do not fall under the above category. The experiment would be able to identify a number of agricultural related and non-agricultural activities which meet the criterion stated above in various degrees. It would not be possible, nor was it the intent of the experiment, to prepare an exhaustive check list of activities of various categories.

QUESTION NO. 11: Are short term (seasonal) lending programs constrained by lack of longer term credit for financing physical or institutional infrastructure development?

ANSWER: Short term seasonal lending programs are purely for the purpose of providing working capital as an accommodation loan to bridge the seasonal variation in income/expenditure and receipts/payments, while longer term credit, which is normally provided for the development of physical or institutional infrastructure, may not have any direct bearing on the short term loans, the reverse, however, may be true. There has however, been no experimentation with the longer-term financing in this project.

QUESTION NO. 12: What is the impact of expanded institutional credit on the overall operation of rural financial markets in experimental areas? Consider: (a) total credit availability; (b) the increase in total credit to the target group; and (c) the percentage of credit going to the target group.

ANSWER: Needless to say, any expanded institutional credit which would mean infusion of additional funds into the rural financial market would increase in various degrees and proportions - (a) total credit availability, (b) total credit to the target group, and (c) the percentage of credit going to the target group, depending on the nature and extent of such expansion.

QUESTION NO. 13: How should rural credit and savings programs be designed and run for maximum effectiveness/efficiency?

ANSWER: In order to bring maximum effectiveness and efficiency, besides organization, motivation, training and other related aspects mentioned above, one of the approaches could be towards directing a program which would be manned, administrated, run and ultimately owned by people with roots and a deep sense of belonging to rural Bangladesh, familiarity with the potential of the region, and having the patriotism, commitment, dedication and enthusiasm to develop the region. One other graduated approach could be towards the development of regional rural banks, provided there have been enough infrastructural, educational and other developments including adequate credit needs in a particular region.

QUESTION NO. 14: Can credit be extended to the target group in a financially viable and eventually self-generating profitable manner? Based on interest rates, administrative costs, and recovery experience, what interest rate must be charged to ensure viability?

ANSWER: Like any other system, there appears to be a need for a period of development before such a credit system becomes self-financing. There has been indication that if credit is extended on a rational basis, it would at some point of time reach a steady state condition such that from that point on the system will have a continuous operation and growth. It is however, very difficult at this time to determine as to what

should be the length of the period of transition before the system reaches the required state of equilibrium.

The interest rate should take into account the following cost factors:

(a) cost of money.
(b) cost of credit delivery system.
(c) cost of administrative overhead.
(d) cost of irrecoverable debts.
(e) cost of incentives for flow of fund or profit margin.

Even though we have received some information on the magnitude and proportion of the above costs, those will need to be further scrutinized and normalized before applying them in determining the interest rate. Cost of money, which chiefly depends on the bank rate, and interest rates of saving and lending of other money markets should be subject to revision from time to time as these underlying factors change, so that the rate of interest for credit could be changed suitably. Similarly, other costs also may have to be adjusted up or down based on the experience gained in the system, and should be subject to revision based on any change in their components or any new experience.

QUESTION NO. 15: Does credit extension require a special delivery model or can it be integrated in a particular Bank's general agricultural lending?

ANSWER: A bank's general agricultural lending program may not be fully equipped to handle non-agricultural and agriculture related loans of this Project. As such necessary modifications and inputs may need to be provided to such institutions for handling the credit system, assuming that the agricultural credit delivery system of such institutions is closely similar to the credit delivery system of the Project.