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GENESYS

FINAL REPORT

Credit Methodologies for the Women Enterprise Development Programme in Bangladesh

David A. Lucock
Development Alternatives, Inc.
for the GENESYS Project

USAID

United States Agency for
International Development
Office of Women in Development

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FINAL REPORT

CREDIT METHODOLOGIES FOR THE WOMEN ENTERPRISE DEVELOPMENT PROGRAMME BANGLADESH

USAID Project No. 388-0082

by

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GENESYS Project

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REPORT CONTENTS

I. INTRODUCTION

This Final report under the auspices of GENESYS follows a series of three visits by the Credit Methodologies Specialist to Bangladesh during the period May to September 1994 to review and make recommendations on lending procedures under the Women's Enterprise Development Project (WEDP).

WEDP was initiated, with the assistance of USAID, in 1982 to encourage women entrepreneurs through the provision of skills training and investment credits. During the first phase, from 1982 to 1990, the number of WEDP Centers grew from 4 to become 20 and a total of 14,000 women were provided with investment credits. Following the success of this first phase, USAID and the Government of Bangladesh (BDG) agreed in 1990 to a second phase which will terminate August 1997. Under this second phase it is expected that a total of 40 WEDP Centers will become operational and a total of 30,000 loans to women entrepreneurs will have been disbursed.

The Project Paper (PP) for the second phase identified a number of constraints which needed to be resolved to improve the efficiency of the WEDP program. This report, follwoing the scope of work, addresses issues raised in the PP. The Specialist reviewed: the efficiency and volume of lending in the (WEDP) Centers; lending practices; and organizational, managerial and staff-related issues associated with lending. This report sets out recommendations, already discussed with WEDP management, to improve the reach and sustainability of the WEDP Program.

II. LENDING OPERATIONS

A. Current Status

Until now, WEDP staff have been involved in the processing of loan applications and in the collection of loan repayments. Actual loan approvals and disbursements however, have been made by the two banks[1] working with the Project. This system has proven to be cumbersome and inefficient: loan approval and disbursement is a slow process; the amount approved is often not in accordance with investment needs; disbursements are frequently late; and the exact performance and outstanding position of the subsequent loan portfolios is difficult to ascertain. For these reasons the PP recommended that the WEDP directly administers all lending operations without the involvement of BKB and RAKUB.

As at June 30, 1994, there were 30 WEDP centers. Of this total, two had been closed and two had yet to process any lending applications. Since 1982, 28,000 entrepreneurs had received Tk 87.8 million in loans: an average of Tk 3,140 ($78) per borrower (see Table 1 of Attachment 1). The average collection rate is 79 per cent. It is estimated that there is now an average of 350 active borrowers per Center and this is equal to 89 borrowers per lending officer. The amount of loan portfolio per staff member is small:

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[1] Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB).

about Tk 0.17 million ($ 4,250). Recommendations have been made to increase this figure by a factor of seven to nine times.

B. Sustainability of Lending Operations

1. Operating deficits and loan fees

The operational cost structure of the Project coupled with the present interest rate charged on loans means that, without substantial changes, any increase in the volume of activities will lead to an increase in annual losses. Eventually these losses would not be sustainable.

It is estimated that the real annual loss being incurred by the WEDP activities is in the region of Tk 20 million ($ 500,000) per year. This figure includes an estimate for cost of funds (CoF) of 8.9 per cent per annum and a loan loss rate of 4.5 per cent of loans. These figures are summarized in Attachment 1, Tables 1a and 1b.

Until now the Project has neither paid for the cost of its funding nor faced the full extent of its loan losses. It is estimated that the CoF would be close to the range of 6.5 per cent to 9.25 per cent being offered by banks on three year term deposits. The most recent information concerning the classification of the WEDP loan portfolio, as at June 1991, indicated a loan loss of about 44 per cent of the total loan portfolio after eight years of lending. This equates to an annual loss rate in the range of 6 to 10 per cent but there are indications that this rate has improved (decreased) through better loan management over the last two years. Continued improvement is expected through:

- The use of groups and their peer pressure effect,
- WEDP ability to provide better and quicker and therefore more appreciated service through direct lending,
- The requirement for informal collateral for loans of more than Tk 10,000 coupled with provisions for compulsory savings (although small) and a loan insurance fund,
- Better and more accurate measurement of the loan portfolio to enable quicker remedial actions,
- Better supervision and measurement of Center performance.

The classification of the loan portfolio widely used by banks in Bangladesh is not up to prudent international standards. Substandard loans are already 12 months past due, doubtful loans are more than 36 months past due, and bad loans are already over five years past due. The use of these classification standards means that bad loans are under-estimated. The new WEDP MIS will use a classification system that is more consistent with prudent loan management. The classifications will be into loans not past due, followed by past dues at: one to three months; 6 to 12 months; 12 to 24 months; and more than 36 months.

recommendations have also been made for the provision of reserves against loan losses and loan write-offs.

Due to an element of fixed costs, the cost of making small loans is proportionately greater than the cost of making larger loans. The graph in Attachment 1 uses WEDP's cost structure to show the effective interest rate which needs to be charged, at each level of loan size, in order to recover all WEDP administrative and lending expenses. For example at an average loan size of Tk 12,000, it is necessary to charge an effective rate of 29 per cent on loans to individuals in order to cover all costs. At a loan size of Tk 8,000 the corresponding interest rate needed is 35.7 per cent. At present it is estimated that the full cost of making one loan is about Tk 2,100 ($54). Following the incorporation of the recommended changes this cost may decrease to about Tk 1,500 ($38).

At present the effective interest rate charged on loans is 16 per cent per annum. The consequence of this rate is that there is a loss at any loan size of less than Tk 42,000. In fact any increase in Project activities, either in the number of borrowers or in the number of field offices, will lead to an increase in the annual loss incurred by WEDP by, up to, a further Tk two million. There is a built-in disincentive, or constraint, against reaching larger numbers of poor entrepreneurs. To improve the sustainability of the program, the PP recommended an increase in the fee rate on lending.

Typically, programs dependent on subsidies do not significantly benefit large numbers of the poor. The BRAC, ASA and Grameen Bank programs, without substantial subsidies, are reaching and benefitting more than three million families and this number is increasing each year. This considerable impact on society is being achieved in a sustainable manner by charging loan fees, effectively ranging from 23 per cent to 36 per cent, at a level needed to recover the costs of providing the service. The majority of beneficiaries would rather receive this service, whenever it is needed, than wait for a subsidized lower cost service which is usually not available when needed nor in the amount needed.

Consequently it was recommended that WEDP charge not less than 16 per cent flat per year on its lending (an effective annual rate of 28.33 per cent) so as to enable full recovery of costs with an average loan size of about Tk 12,000 to individual borrowers or about Tk 6,000 to borrowers within groups. Additionally, it has been recommended that WEDP charge a one per cent loan insurance fee to cover the risk of non-repayment of loans due to borrower death or severe illness. In taking these steps, WEDP should be able to afford the capital needed to increase the number of borrowers and volume of lending. WEDP management has agreed to the use of these fee structures which will be used as the Project switches across to direct lending activities.

2. Lending Volume

a. Number of borrowers

At present loan repayments are collected by the WEDP staff member going to the borrowers' houses or places of business. This restricts the number of borrowers able to be served by a loan officer to less than 90 borrowers. With a different approach, it should be possible to service more than 200 borrowers as individuals or 400 borrowers within groups.

It has been recommended that the smaller loans and first time borrowers be serviced within groups to be formed by the borrowers themselves. Individual borrowers with larger loans would repay their loans at the location of a group meeting, after it has finished, or by travelling to a WEDP Center.

With this type of loan delivery it is expected that a Center should be able to service more than 750 individual borrowers or more than 1,500 borrowers within groups without any change to staff numbers.

b. Loan size

The average loan size under the Project is Tk 3,140 ($78). Even imputing a high rate of return of 100 per cent on such an investment size would mean only a marginal improvement in income, in this example, of Tk 12 ($0.30) per working day. Loans as small as this neither lead to substantial generation of employment, apart from the direct beneficiary, nor raise the recipient (let alone her family) much above a subsistence level of income.

Staff are reluctant to make loans of a size greater than Tk 10,000 as the loan repayment rate tends to be less satisfactory above this amount. Furthermore, WEDP staff have little knowledge of the types of investments that would be associated with larger loan sizes. The PP requires that 15 per cent of all lending be for loan sizes within the range of Tk 10,000 to Tk 60,000 by the fifth year of the Project. It is unlikely that this figure will be achieved.

The Sub-sector analysts described in the PP need to be employed as soon as possible to review, recommend and train WEDP staff in the identification of and lending for these larger investments. A number of investment and lending profiles which show the sensitive points for each major type of investment should be developed and used as instructional material.

3. Summary

Increasing the interest rate on lending, making larger loans, and increasing the number of borrowers per Center and per WEDP staff, opens up the possibility of self-sustainability.

Tables 2a and 2b of Attachment 1 show the financial effect of reaching 750 borrowers per Center with an average loan size of Tk 12,000 and charging a 16 per cent flat rate on lending. The loan portfolio for all 40 Centers would reach Tk 195 million which is about ten times the figure now. The annual operating loss for the Project would decrease to Tk 0.5 million compared with Tk 20 million now. If there were separate funding available for the skills training provided to entrepreneurs, there would be a small annual operating surplus of about Tk 2.5 million. It is suggested that this level of sustainability could be reached by the better Centers within three years.

The achievement of full sustainability and more efficient financial intermediation, however, will also require organizational and managerial changes. These are discussed in Sectic III below.

C. Direct Lending Conversion and Funding

The WEDP Project Agreement specifies loan funding of $ 1.735 million of which $ 1.385 million is from USAID and $ 0.35 million from the Government of Bangladesh.

1. Conversion to direct lending

It has been recommended that WEDP direct lending activities begin January 1, 1995. This allows sufficient time for the completion and initiation of the revised accounting system which is a condition precedent for the direct lending activities. From January, all new borrowers would be financed directly by WEDP Centers and all existing borrowers, as they complete repayments on current loans, would borrow directly from WEDP Centers for repeat loans. In the case of these repeat borrowers they will either borrow directly from WEDP Centers or continue to borrow directly from a bank.

From the end of December 1994, it is recommended that WEDP does not process any loans on behalf of Bangladesh Krishi Bank (BKB) or Rajshahi Krishi Unnayan Bank (RAKUB).

The BDG Project Proforma states that at least six Centers will begin direct lending prior to end of June 1995. The advisor has recommended that all Centers start direct lending at the same time, although at differing individual levels of activity to reflect their levels of competence. The use of the same conversion-to-direct-lending date for all Centers fits best with the training and instructions being provided to all Centers. It should also be administratively easier than the phasing in of Centers over an extended time period.

2. Loan Funding Needs

Table 1, in Attachment 2, shows a division of WEDP Centers according to expected performance levels. It is estimated that there will be six excellent Centers which will achieve a level of 750 active borrowers with an average loan size of Tk 12,000 by the end of the Project. Their recovery rates for interest and for principal are expected to be 96 per cent and 98 per cent respectively. In contrast there are estimated to be six inferior Centers which will only achieve a level of 240 borrowers and average loan size of Tk 7,200 by the end of the Project. These Centers are expected to have recovery rates for interest and principal of 84 per cent and 95 per cent respectively. Figures are shown in similar fashion for 14 good Centers and 14 average Centers.

Table 2a, attached, shows an example of the funding needs of an excellent Center for its lending program over the remaining 30 months of direct lending. The attached Chart illustrates funding needs for each of the four classes of Centers: an excellent Center needing more funding, because of its greater growth, than an inferior Center.

Table 2b, attached, shows the funding needs for each of the four classes of Centers for each month up to the end of the Project. The Table indicates that a total of $1,742,954 may be needed to finance WEDP's direct lending program. This amount is close to the $ 1.735 million specified in the Project Agreement. A first tranche of $ 295,194 will be needed to finance the first six months of direct lending. The second tranche, for the second six months, will need to be $ 244,052.

3. Sources of Loan Funding

Assuming that USAID provides its full commitment of $ 1.385 million, the review here concentrates on the $ 0.35 million to be provided by the BDG and needed as shown in section 2 above. This amount was calculated as being the balance of USAID lending funds provided to the Bangladesh Krishi Bank (BKB) and the Rajshahi Krishi Unnayan Bank (RAKUB) under the WED-1 Project.

The amount of these funds available and the timing for the transfer of these funds to WEDP is not clear. As at June 30 1991, BKB alone showed total loans outstanding for the Project of Tk 30,370,841. Of this amount, a total of Tk 13,345,200 (44 per cent) was shown as bad loans.

Under WEDP-1 and the Limited Scope Agreement (LSA), USAID provided funding of Tk 13,046,622 for one-third of all lending. A total of Tk 10,731,716 was provided to BKB and Tk 2,314,906 to RAKUB. Converted to United States dollars these amounts are about $ 410,000. Assuming a loss rate of 44 per cent (as indicated for June 30, 1991), the balance of the funds provided by USAID under WEDP-1 and the LSA would amount to about $ 230,000. There would therefore be a shortfall in the BDG contribution towards credit funding in the WED Project. WEDP management has asked the banks to clarify their loan positions and availability of funding status by October, 31 1994.

D. Financial Service Instruments

The specialist has prepared instructional material covering: customer relations; the formation and use of borrower groups; the setting of loan fees; loan appraisal and decision-making; loan disbursement; classification and maintenance of the loan portfolio; and the supervision and performance measurement of the WEDP Centers. Supplementing these are loan repayment schedules which set out repayments due according to loan size and loan term.

With the introduction of a new MIS, direct lending, and a new accounting system, regular supervision of Centers and on-job training by supervisors will be a vital necessity particularly in late 1994 and early to mid 1995. Recommendations for this have been provided.

Limited savings instruments have also been recommended: a system of voluntary weekly savings for group members and a compulsory savings scheme for individual borrowers. The objectives are to improve the financial discipline of borrowers and to show the benefits of saving. At this stage of institutional development, combined with the uncertainty of the quality of the loan portfolio, it would not be prudent to attempt a more substantial savings mobilization program.

III. WEDP PROGRAM ORGANIZATION AND MANAGEMENT

A range of institutional, organizational, managerial and administrative changes are needed to ensure the longevity of the WEDP program. This section outlines key issues.

A. WEDP Structure, Staff Duties and Administration

1. Organizational Structure, supervision and staff duties

The current organization of WEDP is inappropriate for a body expected to have lending as a major function. More focus on lending activities and the supervision of the Centers is needed. Detailed recommendations, concerning the organizational structure and expanded job descriptions for key staff positions, are outlined in Attachment 5 of this report.

2. Administration

The degree of autonomy envisaged in the Project Paper is not consistent with BDG administrative methods and regulations. Eventually, institutional changes which transcend the Government apparatus will be needed if the WEDP program is to reach a much larger number of beneficiaries.

Administration of the WEDP program is severely constrained by the Project Proforma set by the BDG. This not only places limits on staff numbers but also restricts salary and incentive rates payable to staff. The measures discussed above to improve productivity can not be taken until after the Project Proforma ends in June 1997. This inflexibility inhibits the development of the WEDP program into a viable type of enterprise. Other Governmental restrictions such as limiting the spending authority of Center Extension Officers to Tk 700 ($18) also make it difficult to expand the functions and productivity of WEDP staff.

B. System Productivity

1. Staffing numbers and ratios

Both in terms of number of borrowers and volume of lending, staff productivity is low. This is partly because staff productivity has not been a major issue in the past and because funds for lending activities have yet to be fully released for the second phase of the Project.

While staff salaries are quite low, within a range of $645 to $1,400 per year for Center staff, there is no financial scope to increase salaries unless accompanied by substantial increases in Center and staff productivity.

At present the average number of borrowers per staff is less than 90 and the average loan portfolio per staff member is less than Tk 170,000 ($4,250). These ratios should be in the region of 200 or more borrowers per staff and a loan portfolio of more than Tk 1.25 million ($31,250) per staff. These ratios can be achieved through the following measures:

- The use of groups, the cessation of loan repayment collections from individual houses and business locations, and the making of larger loans.

- Each Center has a substantial core of fixed salary expenses in its Extension Officer, Accountant cum Cashier, Typist cum Clerk, and guard(s). The number of Field Assistants is fixed at (up to) two per Center. The number of active borrowers per Center could be increased substantially if it were possible to hire additional Field Assistants. This would reduce the fixed overhead cost of the Center per borrower.

- At present the bonus incentive system is quite small and not sufficiently attractive
  to encourage large increases in staff productivity. Bonuses need to be larger.

2. Center performance

The performance of each Center is measured against the number of borrowers processed each month and the collection rate on loans. The collection rate is flawed because it includes the payments of both principal and interest as well as prepayments. The new accounting system, by recording each Center as a separate entity, will lead to the better measurement of Center performances.

New measures for each Center have been proposed to focus on: Center and staff productivity; the level of earnings; and the financial health of the loan portfolio. These measures will provide a better focus for Center managers as well as supervisors for the taking of remedial actions, the provision of incentive bonuses, and for using the performance of the better Centers as a guide and example for other Centers.

3. Training

Training in enterprise development and credit management is provided to staff by the Small and Cottage Industries Training Institute in Dhaka. This is supplemented by ad hoc training provided to extension officers during the two one week seminars held at WEDP head office in February and August of each year.

With the move into direct lending accompanied by the new MIS and accounting systems, there will need to be regular reinforcement of the training that has been provided. It has been recommended that this reinforcement be given by supervisors during their regular monthly visits to each Center. Such on-job training will be based on the particular needs of staff as determined by their adherence to correct procedures and the overall performance of the Center.

A limited amount of training concerning direct lending procedures has been provided. Most of the training time available in August and September, however, was taken up with the installation of and instructions for the new MIS. Direct lending is to start January 1995 and this needs to be accompanied by training and supervisory supports.

IV. RECOMMENDATIONS

A. Direct Lending Operations

1. Phasing in of Centers

   a. That all Centers start direct lending at the same time, January 1995, with the better Centers servicing much larger numbers of borrowers than the less capable Centers.

   b. From January 1995, WEDP ceases the processing of loans on behalf of banks.

2. Funding of direct lending

In order to clarify whether funds are available from previous WED-1 and LSA grants, and the amount available, it is recommended that:

   a. The BKB and RAKUB provide an update on the classification of all lending made under both phases of the WEDP program. This should follow the format set out in Table 3 attached which is the same as that provided by BKB as at June 30, 1991. This update should be completed by October 31, 1994.

   b. Based on the updated classification, BKB and RAKUB should determine the amount of funds available for transfer to the WEDP. This should be completed by November 30, 1994.

   c. Any shortfall in the $ 350,000 required as the BDG contribution to WEDP's direct lending be made up through funding from other sources.

   d. A first tranche of $ 295,000 be provided for the first six months of direct lending and a second tranche of $ 244,000 for the second six months.

3. Staff training

   a. It is recommended that WEDP head office conduct a two day workshop on credit management in December 1994 and draw up a detailed supervisory visit schedule, by head office supervisors, for all Centers during the initial three months of direct lending.

4. Lending procedures.

A full description of recommended lending terms, conditions and procedures is contained in Attachment 4 entitled "Supplementary Loan Instructions". Salient recommendations are summarized below.

a. First-time borrowers only receive loans by joining a group and the first loan is not to be more than Tk 3,000.

b. The loan interest rate be charged at a flat rate of 16 per cent per year. In addition to this, there is a loan insurance fee of one per cent of the loan amount.

c. Individual borrowers must make a compulsory saving payment equal to three per cent of the loan amount. Group borrowers must have regular savings of Tk 5 per week prior to and during their loan period.

d. There should be restrictions on the granting of loan repayment grace periods.

e. With the new system of loan classification there is also a system of weighting loans according to the length of time they are overdue and this weighted total is used to assess the overall quality of the loan portfolio.

f. The provision for loan losses be at least two thirds of the weighted total described in 4e above.

g. The governmental procedures for the writing-off of bad loans be reviewed so that the loan portfolio is described more accurately.

B. <u>Additional Measures for Sustainability</u>

a. The Subsector analysts should be employed as soon as possible to guide WEDP staff toward making more varied and larger loans. Investment and lending profiles need to be developed to guide and instruct WEDP staff.

b. More flexibility is needed in the employment of the number of Field Assistants to enable Centers to reach operationally sustainable levels.

c. Centers need to increase the sizes of their loan portfolios by at least ten times by servicing more borrowers and making larger sized loans. The immediate goal is to disburse at least 750 loans in a year at an average loan size of Tk 12,000.

d. Staff incentive payments need to be larger but only after basic and necessary increases in Center productivity have been reached.

e. Institutional changes are needed to transcend governmental regulatory and administrative restrictions and provide the flexibility required for WEDP to reach its potential market in significant volume.

f. Regular supervisory visits need to be made to every Center.

g. Center performance measures need to be used to focus attention on changes needed to improve the management and efficiency of Centers.

WOMEN'S ENTERPRISE DEVELOPMENT PROJECT: BANGLADESH

USAID PROJECT No. 388-0082

ATTACHMENTS TO FINAL REPORT:

1. SUSTAINABILITY OF LENDING OPERATIONS
2. WEDP CENTER DIRECT LENDING
3. LOAN REPAYMENT SCHEDULES
4. SUPPLEMENTARY LOAN INSTRUCTIONS
5. WEDP ORGANIZATION AND JOB DESCRIPTIONS

12

Attachment 1.

SUSTAINABILITY OF LENDING OPERATIONS

It is estimated that the real annual loss being incurred by the WEDP activities is in the region of Tk 20 million ($ 500,000) per year. The loss for an individual Center is estimated at Tk 644,000 ($16,100) per year. These figures, summarized in Tables 1a and 1b of this Attachment, include an estimate for cost of funds of 8.9 per cent per annum and a loan loss rate of 5.0 per cent of loans.

At present the interest rate charged on loans is 16 per cent per annum. The effect of this rate is, that at any loan size of less than Tk 42,000, there is a loss. In fact any increase in project activities, either in the number of borrowers or in the number of field offices, will have the effect of increasing the annual loss incurred by the WEDP project by, up to, a further Tk two million. There is a built-in disincentive, or constraint, against reaching larger numbers of poor entrepreneurs.

If the WED Project is to reach and assist a significant number of beneficiaries, it must reduce its dependence on subsidies. It must adjust loan fees, increase loan size, improve the rate of loan recovery, and improve staff productivity. While all of these variables are important, the adjustment of loan fees and the disbursement of larger loans are the most important and most feasible actions able to be taken within the remaining life of the Project.

The graph attached to this annex sets out the effective loan interest rate which needs to be charged, at each level of loan size, in order to recover all WEDP administrative and lending expenses. For example at an average loan size of Tk 12,000, it is necessary to charge an effective rate of 29 per cent on loans in order to cover all costs. At a loan size of Tk 8,000 the corresponding interest rate needed is 35.7 per cent. It is recommended that WEDP charge not less than 16 per cent flat on its lending (an effective rate of 28.33 per cent) and this, coupled with the charging of a loan insurance fee of one per cent, would enable the Project to recover costs with an average loan size of about Tk 12,000. Unless loan fees are raised to this level, WEDP will never be able to afford the capital needed to increase the number of borrowers and volume of lending.

Tables 2a & 2b in the Attachment, show WEDP operating revenues and expenses using an effective interest rate of 28.33 per cent and a one per cent insurance fee based on an average loan size of Tk 12,000 ($300). The annual net operating loss, excluding any external reimbursement for the training of entrepreneurs, would be a sustainable amount of about Tk 535,000 ($13,400) for the total WEDP operation. The operating loss for individual Centers would be about Tk 13,000 ($335). This operating level could be reached by the better Centers within three years.

Attachment 1
Table 1.

WEDP Lending: 1982 to June 30, 1994

WEDP Center locality		Loans Disbursed Tk.	Loans Disbursed No.	Av. Loan Size Tk.	Recovery rate 1/. %
1	Swarupkathi	6,455,000	2,471	2,612	68
2	Laksam	2,590,000	1,065	2,432	n.a.
3	Sherpur	4,965,000	1,487	3,339	55
4	Kawnia	5,690,000	2,000	2,845	44
5	Mukshudpur	7,299,000	2,621	2,785	81
6	Balagonj	4,427,000	1,540	2,875	69
7	Tala	5,547,000	1,953	2,840	63
8	Sarail	6,242,000	1,943	3,213	106
9	Begumgonj	4,354,000	1,374	3,169	n.a.
10	Rajoir	6,270,000	1,363	4,600	112
11	Jhinaidah	3,637,000	1,284	2,833	92
12	Akkelpur	2,718,000	938	2,898	94
13	Parbatipur	1,797,000	895	2,008	92
14	Mirzapur	2,828,000	560	5,050	100
15	Roigonj	3,112,000	885	3,516	84
16	Patuakhali	2,624,000	673	3,899	92
17	Barisal	2,492,000	583	4,274	77
18	Natore	2,456,000	495	4,962	124
19	Savar	3,139,000	747	4,202	122
20	Hathazari	1,680,000	617	2,723	109
21	Dewangonj	1,056,000	379	2,786	112
22	Dinajpur	1,314,000	420	3.129	139
23	Kushtia	1,583,000	499	3,172	101
24	Rupganj	1,470,000	354	4,153	141
25	Kishorgonj	544,000	176	3,091	117
26	Monirampur	755,000	238	3,172	72
27	Singair	614,000	289	2,125	109
28	Gaibanda	184,000	139	1,324	100
29	Poba	0	0	0	0
30	Potia	0	0	0	0
	Totals:	87,842,000	27,988	–	–
	Averages: 2/.	3,137,214	1,000	3,139	79

1/. Includes interest & principal payments and prepayments.
2/. Averages are for 28 Centers which are numbered in their order of establishment

14

Attachment 1.
Table 1a.

Current WEDP Total Costs and Revenues:

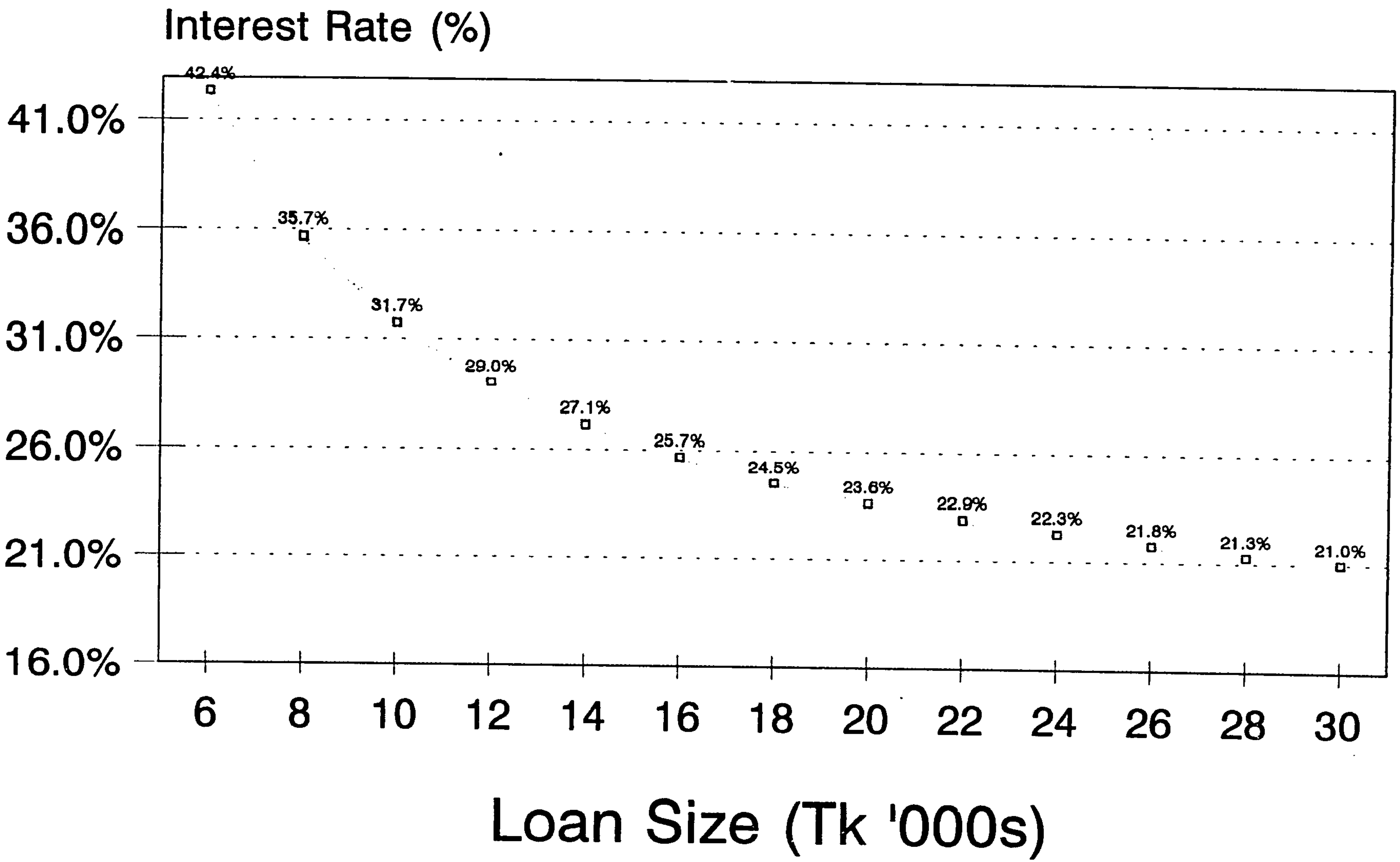
Basic Variables							
Field Offices	32		Interest rate	16.00%			
Borrowers per FO	330		Collection rate	79.0%			
Total borrowers	10,560		Revenue rate	12.64%			
Loan size av.	3,200	($80)					
Loans outstanding @	54.2%		**Loans Outstanding:**			18,304,000	$457,600
Operating Revenues							
Loan interest revenues	12.64%					2,313,626	
			Total Revenues:			2,313,626	$57,841
Expenses:							
Administrative:				Tk cost	No.		
Head Office						3,335,167	
Borrower training	25.0%	@		400	2,640	1,056,000	$26,400
Field Offices	@			500,000	32	16,000,000	
Cost of funds:	8.89%					1,627,022	
Loan Losses	5.00%					915,200	
			Total Expenses:			22,933,389	$573,335
			Net Income/Loss:			−20,619,763	−$515,494

Table 1b.

Current WEDP Center Costs and Revenues:

Basic Variables							
Center	1		Interest rate	16.00%			
Borrowers per Center	330		Collection rate	79.0%			
Total borrowers	330		Revenue rate	12.64%			
Loan size av.	3,200	($80)					
Loans outstanding @	54.2%		**Loans Outstanding:**			572,000	$14,300
Operating Revenues							
Loan interest revenues	12.6%					72,301	
			Total Revenues:			72,301	$1,808
Expenses:							
Administrative:				Tk cost	No.		
Head Office						104,224	
Borrower training	25.0%	@		400	83	33,000	
Center office	@			500,000	1	500,000	
Cost of funds:	8.89%					50,844	
Loan Losses	5.00%					28,600	
			Total Expenses:			716,668	$17,917
			Net Income/Loss:			−644,368	−$16,109

LOAN SIZES & INTEREST RATES
NEEDED TO RECOVER WEDP COSTS



6

ssumes 750 borrowers per Field Office; 90% interest collection rate

Attachment 1.
Table 2a.

Future WEDP Total Costs and Revenues:

Basic Variables							
Field Offices	40		Interest rate	28.33%			
Borrowers per FO	750		Collection rate	90.0%			
Total borrowers	30,000		Revenue rate	25.50%			
Loan size av.	12,000	($300)					
Loans outstanding @	54.2%		**Loans Outstanding:**			195,000,000	$4,875,000
Operating Revenues							
Loan interest revenues	25.50%					49,716,118	
Loan Insurance Fund	1.00%					3,600,000	
			Total Revenues:			53,316,118	$1,332,903
Expenses:							
Administrative:			Tk cost	No.			
Head Office						3,768,436	
Borrower training	25.0%	@	400	7,500		3,000,000	$75,000
Field Offices	@		500,000	40		20,000,000	
Cost of funds:	8.89%					17,333,333	
Loan Losses	5.00%					9,750,000	
			Total Expenses:			53,851,769	$1,346,294
			Net Income/Loss:			−535,651	−$13,391

Table 2b.

Future WEDP Center Costs and Revenues:

Basic Variables							
Center	1		Interest rate	28.3%			
Borrowers per Center	750		Collection rate	90.0%			
Total borrowers	750		Revenue rate	25.5%			
Loan size av.	12,000	($300)					
Loans outstanding @	54.2%		**Loans Outstanding:**			4,875,000	$121,875
Operating Revenues							
Loan interest revenues	25.5%					1,242,903	
Loan Insurance Fund	1.00%					90,000	
			Total Revenues:			1,332,903	$33,323
Expenses:							
Administrative:			Tk cost	No.			
Head Office						94,211	
Borrower training	25.0%	@	400	188		75,000	
Center office	@		500,000	1		500,000	
Cost of funds:	8.89%					433,333	
Loan Losses	5.00%					243,750	
			Total Expenses:			1,346,294	$33,657
			Net Income/Loss:			−13,391	−$335

Attachment 2

WEDP CENTER DIRECT LENDING

1. Conversion to Direct Lending

It is recommended that all Centers begin direct lending activities as at January 1, 1995. From that date, all new borrowers would be financed directly by WEDP Centers and all existing borrowers, as they complete repayments on current loans, would borrow directly from WEDP Centers for repeat loans. In the case of these repeat borrowers they will either borrow directly from WEDP Centers or continue to borrow directly from a bank.

From the end of December 1994, it is recommended that WEDP does not process any loans on behalf of Bangladesh Krishi Bank (BKB) or Rajshahi Krishi Unnayan Bank (RAKUB).

The use of the same conversion-to-direct-lending date for all Centers fits best with the training and instructions provided to all Centers. It should also be administratively easier than the phasing in of Centers over an extended time period.

2. Loan Funding Needs

The WEDP Project Agreement specifies loan funding of $ 1.735 million of which $ 1.385 million comes from USAID and $ 0.35 million from the Bangladesh Government.

Table 1 shows a division of WEDP Centers according to expected performance levels. It is estimated, for example, that there will be six excellent Centers which will achieve a level of 750 borrowers with an average loan size of Tk 12,000 by the end of the Project. Their recovery rates for interest and for principal are expected to be 96 per cent and 98 per cent respectively. In contrast there are estimated to be six inferior Centers which will only achieve a level of 240 borrowers and average loan size of Tk 7,200 by the end of the Project. These Centers are expected to have recovery rates for interest and principal of 84 per cent and 95 per cent respectively. Figures are shown in similar fashion for 14 good Centers and 14 average Centers.

Table 2 shows an example of the funding needs of an excellent Center for its lending program over the 30 months of direct lending. The attached Chart illustrates funding needs for each of the four classes of Centers: an excellent Center needing more funding, because of its greater growth, than an inferior Center.

Table 3 shows the funding needs for each of the four classes of Centers for each month up to, and ten months beyond, the end of the Project. The Table shows that a total of $ 1,742,954 may be needed to finance WEDP's direct lending program. This amount is close to the $ 1.735 million specified in the Project Agreement. A first tranche of $ 295,194 will be needed to finance the first six months of direct lending. The second tranche, for the second six months, will need to be $ 244,052.

Expected Performance of WEDP Centers

Table 1.

Quality of Center	No. of Centers	Borrowers: No.		Loan Size Average: Tk.		Recovery Rates %	
		Start	Finish	Start	Finish	Interest	Principal
Excellent	6	240	750	4,500	12,000	96	98
Good	14	180	580	4,200	10,400	94	97
Average	14	120	410	3,900	8,800	91	96
Inferior	6	60	240	3,600	7,200	84	95
Total:	40	6,000	19,800	–	–	–	–
Average:	–	150	495	4,050	9,600	91.8%	96.5%

Loan Funding Needs Per Center

Table 3

Month No.	Quality of WEDP Center				Total Fund Needs	
	Excellent 6	Good 14	Average 14	Inferior 6	6 Monthly	Cumulative
1	$2,250	$1,575	$975	$450		
2	$4,458	$3,120	$1,931	$893		
3	$6,621	$4,632	$2,868	$1,328		
4	$8,736	$6,110	$3,782	$1,755		
5	$10,798	$7,551	$4,674	$2,172		
6	$12,804	$8,951	$5,541	$2,580	$295,194	$295,194
7	$14,750	$10,308	$6,381	$2,978		
8	$16,631	$11,619	$7,193	$3,365		
9	$18,443	$12,880	$7,974	$3,740		
10	$20,178	$14,088	$8,723	$4,102		
11	$21,834	$15,238	$9,436	$4,450		
12	$23,402	$16,327	$10,111	$4,784	$244,052	$539,246
13	$24,876	$17,349	$10,746	$5,101		
14	$26,462	$18,448	$11,427	$5,443		
15	$28,169	$19,628	$12,158	$5,809		
16	$30,005	$20,895	$12,942	$6,203		
17	$31,980	$22,257	$13,784	$6,626		
18	$34,105	$23,720	$14,687	$7,081	$245,558	$784,805
19	$36,392	$25,291	$15,655	$7,569		
20	$38,852	$26,979	$16,695	$8,094		
21	$41,498	$28,792	$17,810	$8,658		
22	$44,345	$30,740	$19,006	$9,263		
23	$47,408	$32,833	$20,290	$9,914		
24	$50,704	$35,081	$21,668	$10,613	$377,572	$1,162,377
25	$54,249	$37,495	$23,146	$11,364		
26	$58,063	$40,089	$24,732	$12,171		
27	$62,167	$42,876	$26,434	$13,037		
28	$66,582	$45,869	$28,260	$13,969		
29	$71,331	$49,085	$30,219	$14,969		
30	$76,441	$52,540	$32,321	$16,044	$580,577	$1,742,954

CASH FLOW REQUIREMENTS: WEDP CENTER LENDING

Table 2

A. Excellent Center

	Month:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Borrower growth rate	4.01%															
No. Loans per month		20.0	20.8	21.6	22.5	23.4	24.3	25.3	26.3	27.4	28.5	29.6	30.8	32.0	33.3	34.7
Loan growth & size	3.44%	4,500	4,655	4,815	4,981	5,152	5,329	5,512	5,702	5,898	6,101	6,311	6,528	6,753	6,985	7,225
Loan term: months	12															
Interest flat rate:	16.00%															
Interest recovery	96.0%															
Loan recovery:	98.0%															
Total borrowers: avg		271					330						417			
Average loan size: Tk.		4,905					5,809						7,116			
Loan disbursement Tk.		−90000	−96827	−104171	−112073	−120574	−129719	−139559	−150144	−161533	−173736	−186968	−201149	−216407	−232822	−250482
Loan repayments Tk.	1	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184	14,184	15,259	16,417	17,662	19,002	20,443	21,994
" "	2	0	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184	14,184	15,259	16,417	17,662	19,002	20,443
" "	3	0	0	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184	14,184	15,259	16,417	17,662	19,002
" "	4	0	0	0	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184	14,184	15,259	16,417	17,662
" "	5	0	0	0	0	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184	14,184	15,259	16,417
" "	6	0	0	0	0	0	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184	14,184	15,259
" "	7	0	0	0	0	0	0	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184	14,184
" "	8	0	0	0	0	0	0	0	0	8,502	9,147	9,841	10,587	11,390	12,254	13,184
" "	9	0	0	0	0	0	0	0	0	0	8,502	9,147	9,841	10,587	11,390	12,254
" "	10	0	0	0	0	0	0	0	0	0	0	8,502	9,147	9,841	10,587	11,390
" "	11	0	0	0	0	0	0	0	0	0	0	0	8,502	9,147	9,841	10,587
" "	12	0	0	0	0	0	0	0	0	0	0	0	0	8,502	9,147	9,841
Balance	Tk	−90000	−88325	−86522	−84583	−82497	−80,252	−77,838	−75,240	−72,445	−69,438	−66,203	−62,722	−58,978	−63,452	−68,264
	Tk	−90000	−178325	−264847	−349430	−431927	−512179	−590017	−665256	−737701	−807139	−873342	−936064	−995042	−1058494	−1126758
	$US	−$2,250	−$4,458	−$6,621	−$8,736	−$10,798	−$12,804	−$14,750	−$16,631	−$18,443	−$20,178	−$21,834	−$23,402	−$24,876	−$26,462	−$28,169

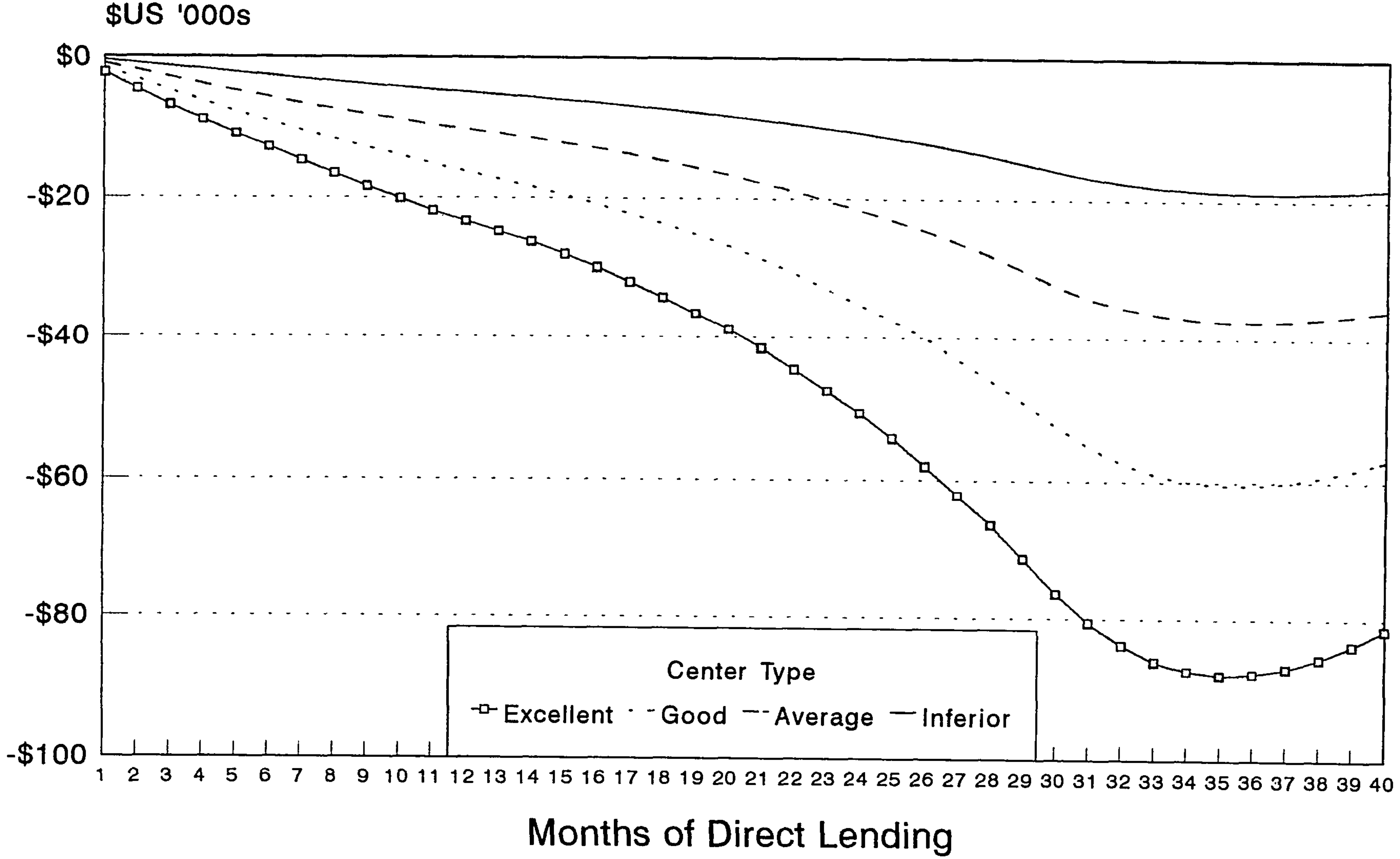
CASH FLOW REQUIREMENTS: WEDP CENTER LENDING

Table 2 (continued)

A. Excellent Center

	Month:	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
Borrower growth rate	4.01%															
No. Loans per month		36.1	37.5	39.0	40.6	42.2	43.9	45.6	47.5	49.4	51.4	53.4	55.6	57.8	60.1	62.5
Loan growth & size	3.44%	7,474	7,731	7,997	8,272	8,556	8,851	9,155	9,470	9,796	10,133	10,482	10,842	11,215	11,601	12,000
Loan term: months	12															
Interest flat rate:	16.00%															
Interest recovery	96.0%															
Loan recovery:	98.0%															
Total borrowers: avg				528						669						750
Average loan size: Tk.				8,717						10,678						12,000
Loan disbursement Tk.		−269481	−289922	−311913	−335572	−361025	−388410	−417871	−449567	−483668	−520355	−559824	−602288	−647972	−697122	−750000
Loan repayments Tk.	1	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475	42,469	45,690	49,156	52,885	56,896	61,212	65,855
" "	2	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475	42,469	45,690	49,156	52,885	56,896	61,212
" "	3	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475	42,469	45,690	49,156	52,885	56,896
" "	4	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475	42,469	45,690	49,156	52,885
" "	5	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475	42,469	45,690	49,156
" "	6	16,417	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475	42,469	45,690
" "	7	15,259	16,417	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475	42,469
" "	8	14,184	15,259	16,417	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692	39,475
" "	9	13,184	14,184	15,259	16,417	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105	36,692
" "	10	12,254	13,184	14,184	15,259	16,417	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700	34,105
" "	11	11,390	12,254	13,184	14,184	15,259	16,417	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465	31,700
" "	12	10,587	11,390	12,254	13,184	14,184	15,259	16,417	17,662	19,002	20,443	21,994	23,662	25,457	27,388	29,465
Balance	Tk	−73,442	−79,013	−85,006	−91,454	−98,391	−105,854	−113,884	−122,522	−131,815	−141,814	−152,571	−164,143	−176,594	−189,989	−204,400
	Tk	−1200200	−1279214	−1364220	−1455674	−1554065	−1659920	−1773803	−1896325	−2028141	−2169954	−2322525	−2486668	−2663262	−2853250	−3057650
	$US	−$30,005	−$31,980	−$34,105	−$36,392	−$38,852	−$41,4[illegible]	−$44,345	−$47,408	−$50,704	−$54,249	−$58,063	−$62,167	−$66,582	−$71,331	−$76,441

WEDP LOAN FUNDING NEEDS
PER CENTER TYPE



anuary 1, 1995 to June 30, 1997

WOMEN'S ENTERPRISE DEVELOPMENT PROJECT

LOAN REPAYMENT SCHEDULES

LOAN SIZES:

Tk 3,000 to Tk 20,000

1.

LOAN REPAYMENT SCHEDULES

Individual Loan: One year: 12 monthly payments

Loan amount	Insurance Fund (LIF) 1.0%	Compulsory savings 3.0%	No. of Payments	Amount due each payment Principal	Interest 16.0%	Total
3,000	30	90	12	250	40	290
3,500	35	105	12	292	47	338
4,000	40	120	12	333	53	387
4,500	45	135	12	375	60	435
5,000	50	150	12	417	67	483
5,500	55	165	12	458	73	532
6,000	60	180	12	500	80	580
6,500	65	195	12	542	87	628
7,000	70	210	12	583	93	677
7,500	75	225	12	625	100	725
8,000	80	240	12	667	107	773
8,500	85	255	12	708	113	822
9,000	90	270	12	750	120	870
9,500	95	285	12	792	127	918
10,000	100	300	12	833	133	967
10,500	105	315	12	875	140	1,015
11,000	110	330	12	917	147	1,063
11,500	115	345	12	958	153	1,112
12,000	120	360	12	1,000	160	1,160
12,500	125	375	12	1,042	167	1,208
13,000	130	390	12	1,083	173	1,257
13,500	135	405	12	1,125	180	1,305
14,000	140	420	12	1,167	187	1,353
14,500	145	435	12	1,208	193	1,402
15,000	150	450	12	1,250	200	1,450
15,500	155	465	12	1,292	207	1,498
16,000	160	480	12	1,333	213	1,547
16,500	165	495	12	1,375	220	1,595
17,000	170	510	12	1,417	227	1,643
17,500	175	525	12	1,458	233	1,692
18,000	180	540	12	1,500	240	1,740
18,500	185	555	12	1,542	247	1,788
19,000	190	570	12	1,583	253	1,837
19,500	195	585	12	1,625	260	1,885
20,000	200	600	12	1,667	267	1,933

24

3.

LOAN REPAYMENT SCHEDULES

Individual Loan: One year: 24 monthly payments

Loan amount	Insurance Fund (LIF) 1.0%	Compulsory savings 3.0%	No. of Payments	Amount due each payment		
				Principal	Interest 16.0%	Total
3,000	30	90	24	125	40	165
3,500	35	105	24	146	47	193
4,000	40	120	24	167	53	220
4,500	45	135	24	188	60	248
5,000	50	150	24	208	67	275
5,500	55	165	24	229	73	303
6,000	60	180	24	250	80	330
6,500	65	195	24	271	87	358
7,000	70	210	24	292	93	385
7,500	75	225	24	313	100	413
8,000	80	240	24	333	107	440
8,500	85	255	24	354	113	468
9,000	90	270	24	375	120	495
9,500	95	285	24	396	127	523
10,000	100	300	24	417	133	550
10,500	105	315	24	438	140	578
11,000	110	330	24	458	147	605
11,500	115	345	24	479	153	633
12,000	120	360	24	500	160	660
12,500	125	375	24	521	167	688
13,000	130	390	24	542	173	715
13,500	135	405	24	563	180	743
14,000	140	420	24	583	187	770
14,500	145	435	24	604	193	798
15,000	150	450	24	625	200	825
15,500	155	465	24	646	207	853
16,000	160	480	24	667	213	880
16,500	165	495	24	688	220	908
17,000	170	510	24	708	227	935
17,500	175	525	24	729	233	963
18,000	180	540	24	750	240	990
18,500	185	555	24	771	247	1,018
19,000	190	570	24	792	253	1,045
19,500	195	585	24	813	260	1,073
20,000	200	600	24	833	267	1,100

4.

LOAN REPAYMENT SCHEDULES

Individual Loan: One year: 36 monthly payments

Loan amount	Insurance Fund (LIF) 1.0%	Compulsory savings 3.0%	No. of Payments	Amount due each payment		
				Principal	Interest 16.0%	Total
3,000	30	90	36	83	40	123
3,500	35	105	36	97	47	144
4,000	40	120	36	111	53	164
4,500	45	135	36	125	60	185
5,000	50	150	36	139	67	206
5,500	55	165	36	153	73	226
6,000	60	180	36	167	80	247
6,500	65	195	36	181	87	267
7,000	70	210	36	194	93	288
7,500	75	225	36	208	100	308
8,000	80	240	36	222	107	329
8,500	85	255	36	236	113	349
9,000	90	270	36	250	120	370
9,500	95	285	36	264	127	391
10,000	100	300	36	278	133	411
10,500	105	315	36	292	140	432
11,000	110	330	36	306	147	452
11,500	115	345	36	319	153	473
12,000	120	360	36	333	160	493
12,500	125	375	36	347	167	514
13,000	130	390	36	361	173	534
13,500	135	405	36	375	180	555
14,000	140	420	36	389	187	576
14,500	145	435	36	403	193	596
15,000	150	450	36	417	200	617
15,500	155	465	36	431	207	637
16,000	160	480	36	444	213	658
16,500	165	495	36	458	220	678
17,000	170	510	36	472	227	699
17,500	175	525	36	486	233	719
18,000	180	540	36	500	240	740
18,500	185	555	36	514	247	761
19,000	190	570	36	528	253	781
19,500	195	585	36	542	260	802
20,000	200	600	36	556	267	822

26

5a.

LOAN REPAYMENT SCHEDULES

Individual Loan: One year: 24 monthly payments: 3 months grace

Loan amount	Insurance Fund (LIF) 1.0%	Compulsory savings 3.0%	Grace fee Tk	No. of Payments	Amount due each payment			
					Grace interest 3 months	Non-Grace period		
						Principal 21 months	Interest 16.0%	Total
3,000	30	90	200	24	40	143	40	183
3,500	35	105	200	24	47	167	47	213
4,000	40	120	200	24	53	190	53	244
4,500	45	135	200	24	60	214	60	274
5,000	50	150	200	24	67	238	67	305
5,500	55	165	200	24	73	262	73	335
6,000	60	180	200	24	80	286	80	366
6,500	65	195	200	24	87	310	87	396
7,000	70	210	200	24	93	333	93	427
7,500	75	225	200	24	100	357	100	457
8,000	80	240	200	24	107	381	107	488
8,500	85	255	200	24	113	405	113	518
9,000	90	270	200	24	120	429	120	549
9,500	95	285	200	24	127	452	127	579
10,000	100	300	200	24	133	476	133	610
10,500	105	315	200	24	140	500	140	640
11,000	110	330	200	24	147	524	147	670
11,500	115	345	200	24	153	548	153	701
12,000	120	360	200	24	160	571	160	731
12,500	125	375	200	24	167	595	167	762
13,000	130	390	200	24	173	619	173	792
13,500	135	405	200	24	180	643	180	823
14,000	140	420	200	24	187	667	187	853
14,500	145	435	200	24	193	690	193	884
15,000	150	450	200	24	200	714	200	914
15,500	155	465	200	24	207	738	207	945
16,000	160	480	200	24	213	762	213	975
16,500	165	495	200	24	220	786	220	1,006
17,000	170	510	200	24	227	810	227	1,036
17,500	175	525	200	24	233	833	233	1,067
18,000	180	540	200	24	240	857	240	1,097
18,500	185	555	200	24	247	881	247	1,128
19,000	190	570	200	24	253	905	253	1,158
19,500	195	585	200	24	260	929	260	1,189
20,000	200	600	200	24	267	952	267	1,219

Note: Only interest is paid for each month of grace period.

5b.

LOAN REPAYMENT SCHEDULES

Individual Loan: One year: 36 monthly payments: 3 months grace

Loan amount	Insurance Fund (LIF) 1.0%	Compulsory savings 3.0%	Grace fee Tk	No. of Payments	Amount due each payment			
					Grace interest 3 months	Non-Grace period: Principal 33 months	Non-Grace period: Interest 16.0%	Total
3,000	30	90	200	36	40	91	40	131
3,500	35	105	200	36	47	106	47	153
4,000	40	120	200	36	53	121	53	175
4,500	45	135	200	36	60	136	60	196
5,000	50	150	200	36	67	152	67	218
5,500	55	165	200	36	73	167	73	240
6,000	60	180	200	36	80	182	80	262
6,500	65	195	200	36	87	197	87	284
7,000	70	210	200	36	93	212	93	305
7,500	75	225	200	36	100	227	100	327
8,000	80	240	200	36	107	242	107	349
8,500	85	255	200	36	113	258	113	371
9,000	90	270	200	36	120	273	120	393
9,500	95	285	200	36	127	288	127	415
10,000	100	300	200	36	133	303	133	436
10,500	105	315	200	36	140	318	140	458
11,000	110	330	200	36	147	333	147	480
11,500	115	345	200	36	153	348	153	502
12,000	120	360	200	36	160	364	160	524
12,500	125	375	200	36	167	379	167	545
13,000	130	390	200	36	173	394	173	567
13,500	135	405	200	36	180	409	180	589
14,000	140	420	200	36	187	424	187	611
14,500	145	435	200	36	193	439	193	633
15,000	150	450	200	36	200	455	200	655
15,500	155	465	200	36	207	470	207	676
16,000	160	480	200	36	213	485	213	698
16,500	165	495	200	36	220	500	220	720
17,000	170	510	200	36	227	515	227	742
17,500	175	525	200	36	233	530	233	764
18,000	180	540	200	36	240	545	240	785
18,500	185	555	200	36	247	561	247	807
19,000	190	570	200	36	253	576	253	829
19,500	195	585	200	36	260	591	260	851
20,000	200	600	200	36	267	606	267	873

Note: Only interest is paid for each month of grace period

6. LOAN REPAYMENT SCHEDULES

Group Loan: One year: 24 bi-monthly payments

Loan amount	Insurance Fund (LIF) 1.0%	Compulsory savings 0.0%	No. of Payments	Amount due each payment Principal	Interest 16.0%	Total
3,000	30	0	24	125	20	145
3,500	35	0	24	146	23	169
4,000	40	0	24	167	27	193
4,500	45	0	24	188	30	218
5,000	50	0	24	208	33	242
5,500	55	0	24	229	37	266
6,000	60	0	24	250	40	290
6,500	65	0	24	271	43	314
7,000	70	0	24	292	47	338
7,500	75	0	24	313	50	363
8,000	80	0	24	333	53	387
8,500	85	0	24	354	57	411
9,000	90	0	24	375	60	435
9,500	95	0	24	396	63	459
10,000	100	0	24	417	67	483
10,500	105	0	24	438	70	508
11,000	110	0	24	458	73	532
11,500	115	0	24	479	77	556
12,000	120	0	24	500	80	580
12,500	125	0	24	521	83	604
13,000	130	0	24	542	87	628
13,500	135	0	24	563	90	653
14,000	140	0	24	583	93	677
14,500	145	0	24	604	97	701
15,000	150	0	24	625	100	725
15,500	155	0	24	646	103	749
16,000	160	0	24	667	107	773
16,500	165	0	24	688	110	798
17,000	170	0	24	708	113	822
17,500	175	0	24	729	117	846
18,000	180	0	24	750	120	870
18,500	185	0	24	771	123	894
19,000	190	0	24	792	127	918
19,500	195	0	24	813	130	943
20,000	200	0	24	833	133	967

Attachment 4.

WOMEN'S ENTERPRISE DEVELOPMENT PROJECT

BANGLADESH

SUPPLEMENTARY LOAN INSTRUCTIONS

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT NO. 388-0082

30

CREDIT MANAGEMENT

31

I. CREDIT OFFICER - CUSTOMER RELATIONS

1.1 Credit Officer and Customer Relationships.

A professional bank officer should be polite, friendly and trustworthy; but always firm. She should not act arrogantly or feel that she is superior to her customers. The relationship between the credit officer and customer is one that is beneficial for both. The main function of the WEDP field office is to provide loans and this function can only continue if there is a good relationship between the WEDP officers and the borrowers.

Being friendly does not mean the officer is being weak or ineffective. A friendly attitude can win the customer's feeling of trust towards the officer. This trust is important in ensuring that all necessary information is supplied by the customer when applying for a loan.

The credit officer must always display a firm, but polite, attitude towards customers who do not comply with the terms of their loan agreement. A loan which is firmly and reasonably controlled by the credit officer will benefit the customer as well as the WEDP program. Many new borrowers may lack the level of financial discipline or the business experience needed to repay a loan and continue to build up assets. In helping them to achieve this discipline, the credit officer helps the borrower as well as the field office: the borrower's risks are also the risks of the field office. Frequently the credit officer is able to see the risks more clearly than the borrower and is able to help the borrower protect herself.

If the borrower commits fraud, or tells lies, it is necessary to take a hard line of action. There is no need for sympathy. People with this type of behavior are unlikely to change. Dealing with such people eventually damages the reputation and financial security of the field office and its staff.

Some borrowers are lazy and slow. It is necessary to confront such borrowers without over-stepping the barrier of gentle politeness. The sending of notices is usually ineffectual: frequent face to face meetings may be needed and comments and questions will need to be direct and pointed.

1.2 The Credit Officer's Duties

The key duties of a credit officer are to protect the safety of the funds provided to the Center and maintain WEDP's reputation for providing good service.

Protection of the funds means the officer must be careful in the appraisal, supervision and collection of loans. Poor quality of work in this area will not only lead to bad loans but will also reduce the flow of funds available for other more deserving customers. Sometimes it will be necessary to take a firm and unpopular position with a customer. It may seem, in the short term, that this damages the reputation of the Center. Longer term, however, the reputation of the Center will improve due to the fair and reasonable work of its officers and the ability of the office to provide good service to more customers.

II. THE USE OF GROUPS IN THE PROVISION OF SERVICES

WEDP will use the system of lending through groups so as to enable it to reach larger numbers of borrowers who require relatively small loans. Additionally, all first time borrowers will be required to join a group to receive lending services and must have participated satisfactorily within a group before being allowed to receive a loan without group participation.

2.1 WEDP Acceptance of the Group

In order for the group to be accepted by WEDP and for its members later to be eligible to receive loans, it must satisfy several criteria as set out below:

a. Group registration

The group must register with the nearest WEDP Center. At this time the group must have:

(i) An identifiable name and address.

(ii) A designated time and location for each group meeting.

(iii) At least 5 but not more than 20 members. All members must have been accepted unanimously by the other members of the group.

(iv) Designated a group leader and group treasurer who will have been selected in a democratic fashion.

b. Group training

The group leader and group treasurer must have received and satisfactorily passed the necessary training, of about one day, to be provided by WEDP. These two officers will be responsible for training the members of their group.

c. Group officers responsibilities

The Tasks and responsibilities of the group leader and treasurer, who will act as the group leader in the latter's absence, will be to:

(i) Ensure all record keeping is maintained satisfactorily.

(ii) Ensure meetings are held regularly as scheduled and that members comply fully with all group rules.

(iii) Assist WEDP staff by ensuring members fully understand and comply with WEDP's lending terms and conditions.

d. **Minimum period for group activity**

After the group leader and group treasurer have passed their training the group must have been continuously active for a period of at least six weeks before any of its members will be eligible to receive a loan. During this time:

(i) All group members must have attended every group meeting.

(ii) All group members must save not less than Tk 5 but not more than Tk 15 each week. All members must save the same amount each week.

(iii) All group records shall have been maintained satisfactorily as required by WEDP. Group records will comprise: An identification of each member and her application for membership; a meeting attendance register; a savings register; and, eventually, a lending register. The records will follow the WEDP design. Examples of the group lending and savings forms are shown on pages 8 and 9.

2.2 Group Lending

a. **General conditions**

(i) The lending term for any borrower within a group will not exceed 12 months.

(ii) No member within a group may receive a loan until the group has accumulated weekly savings, in accordance with the set weekly amount, of not less than Tk 360.

(iii) All group members must agree to the amount of loan to be received by any single member.

(iv) No member shall receive a new loan if any member of the group is more than six months overdue in loan repayments.

(v) If any member has not fully repaid a loan within six months of the due date, the amount overdue must be deducted from the savings balance of the member. All of these adjustments will be made by the treasurer and initialled by the group leader and posted to the savings accounts of each member.

b. **First cycle of group loans**

For the first cycle of loans to members in a new group:

(i) Not more than one third of the group members will receive a loan each month during each of the first three months.

35

(ii) The loan size will not exceed Tk 3,000.

(iii) The borrower must have at least Tk 65 in cash required to pay for the documentation needed for her first loan. This documentation comprises: a photograph, a copy of her National Identity Certificate, the stamp fee for the loan, and associated photocopying expenses.

(iv) The group leader and treasurer will not be eligible for a loan during the first month of lending to group members.

(v) New loan disbursements will be stopped if any borrower is not making full repayment according to her loan schedule.

2.3 Group Savings

a. General conditions

(i) Each member must deposit the required amount per week into the Group Savings Fund (GSF) from the time she becomes a member of the group.

(ii) A record of savings collected from each member will be maintained, in accordance with the WEDP format, by the group treasurer.

(iii) The GSF will be held in a bank account in the names of the group leader and the group treasurer who will be joint signatories to the account.

(iv) The WEDP loan officer will ensure that weekly savings are deposited in this GSF account as received.

b. Borrowing from the GSF

The group may withdraw money from its GSF account so as to lend to its members for emergency purposes under the following conditions:

(i) The remaining balance in the GSF account is never less than Tk 2,000.

(ii) The amount to be withdrawn is not less than Tk 1,000.

(iii) All members agree to the member(s) receiving the loan.

(iv) No member may borrow from the GSF account more than once each two years.

(v) The amount on-lent to each individual group member and the repayment term and the interest rate shall be decided unanimously by

-36

all members of the group.

(vi) Lending to individual members out of the GSF account can not be for a term of more than six months.

(vii) All loan repayments, including interest charges if any, will be repaid into the GSF account as received.

c. Group Saving Fund earnings

Interest earned on the GSF account and the lending of the GSF to members will be calculated each year and credited to each member according to the savings balance of each member. Members with overdue loans will not be entitled to a share of these earnings.

d. Return of savings to leaving members

At the time of leaving the group, the total of the amount deposited by the member, plus accrued interest if any, must be returned immediately to the member. The departing member is not entitled to receive the balance of her savings unless her current loan has been fully repaid.

2.4 Holding Group Meetings

a. General conditions

(i) The group must meet at a regular time, at least twice a month, and place agreed upon by all its members. It is expected that the duration of a group meeting will be less than two hours.

(ii) The WEDP loan officer (LO) must be present at the start of each group meeting which shall be presided over by the group leader or, in her absence, by the group treasurer.

(iii) The LO must be careful to minimize her role in the internal operations of the group. The group must be encouraged to become a socially strong and cohesive unit able to exert its own authority on its members. At all times, the LO should assist the group leader in the development of these strengths and encourage the members to take necessary actions rather than directly institute actions herself.

b. Meeting agenda

The group meeting will follow the prescribed agenda of:

(i) Checking the attendance register

(ii) Taking in and recording loan repayments for each member.

(iii) Taking in and recording each member's savings for the GSF

(iv) Reaching unanimous decision(s) about member's requests for loans. The group's approval or rejection will be concerned with the loan amount and purpose.

(v) Deciding on member's applications, if any, for emergency loans.

(vi) Agreement, by all members, of actions to be taken against any member with loans overdues.

(vii) Other business.

At the completion of the meeting agenda:

(viii) Loan repayments and savings collected will be transferred to the LO who will count all monies and check and initial that all group bookkeeping entries have been made correctly.

(ix) The LO will then disburse new loans to members.

(x) The LO will discuss with the members necessary procedures and information concerning WEDP services.

2.5 Release of Group Membership

a. For the purpose of becoming an individual borrower

A member may relinquish her membership of a group so as to become an individual borrower or to cease using WEDP services.

(i) She will not be able to receive a loan as an individual or recover her share of group savings if, at the time of leaving the group, any member of the group was more than six months overdue in loan repayments.

(ii) In order to leave the group, the departing member must inform the group at its regular meeting and ensure that her resignation is noted in writing in the attendance book.

(iii) Within 30 days of the date of resignation, the ex-member must receive all of her share of group savings plus accumulated earnings subject to the condition of 2.5a (i) above.

38

b. Expulsion of a member

A member may be expelled from a group subject to all of the following actions:

(i) The decision for expulsion is taken unanimously by the remaining members.

(ii) The member has fully repaid her WEDP loan

(iii) WEDP must have been immediately notified in writing of the reasons for the expulsion.

(iv) The expulsion is noted in writing in the attendance book.

(iii) Within 30 days of the decision for expulsion, the ex-member must have received all of her share of group savings plus accumulated earnings subject to the condition of 2.5a (i) above.

GROUP SAVINGS SHEET

WEDP Field Office: ______________ **Group Name:** ______________ **Group ID No.** ☐☐☐☐☐

WEEKLY SAVINGS AMOUNTS:

No.	Name	1/14	1/28
0001–8	Halima Akther	20	20
0002–8	Rabeya Hossain	20	20
0003–8	Tuti Gunawan	20	20
0004–8	Aisa Abed	10	10
0005–8	Raka Rashid	10	10
0006–8	Salma Banu	10	10
0007–8	Meherun Nessa	10	10
0008–8	Dilara Kibria	10	10
	Totals (Tk.):	110	110

CUMULATIVE SAVINGS AMOUNTS:

No.	Name	1/14	1/28
0001–8	Halima Akther	190	210
0002–8	Rabeya Hossain	180	200
0003–8	Tuti Gunawan	170	190
0004–8	Aisa Abed	190	200
0005–8	Raka Rashid	200	210
0006–8	Salma Banu	170	180
0007–8	Meherun Nessa	150	160
0008–8	Dilara Kibria	200	210
	Totals (Tk.):	1,450	1,560
	Group Leader's initials:		
	Treasurer's initials:		
	WEDP Officer's initials:		

GROUP LENDING SHEET

WEDP Field Office: ____________ **Group Name:** ____________ **Group ID No.** ____________

Borrower No.	Borrower Name	Loan Date	Loan Amount	Pay'mt	Dates Installments Made & Amount of Installments: 1/14	1/28
0001-8	Halima Akther	July 23, 94	12,000	1,160	1,160	1,160
0002-8	Rabeya Hossain	July 23, 94	8,000	775	775	775
0003-8	Tuti Gunawan	July 23, 94	5000	485	300	240
	Totals (Tk.)		25,000	2,420	2,235	2,175

List of Borrowers with Repayments Overdue:

No.	Name	1/14	1/28
0003-8	Tuti Gunawan	185	430
	Totals (Tk.):	185	430
	Group Leader's initials:		
	Treasurer's initials:		
	WEDP Officer's initials:		

III. LOAN APPRAISAL AND DECISION-MAKING

3.1 The Importance of Loan Appraisal

a. Avoidance of later problems

The careful screening of prospective borrowers will eliminate many potential problems with past due loans later on. From a personal point of view, this is very important as the work involved in the collection of past due loans is one of the most unpleasant aspects of lending.

b. Time to spend on appraisal

(i) The amount of time spent appraising a loan should be proportional to the size of the loan. Larger loans will require more time and a more detailed appraisal.

(ii) Due to the cost of time involved, it is not possible to evaluate requests for very small loans in as much detail as for large loans. For such small loans, for example those less than Tk 5,000, the appraisal will:

- o Rely more heavily on social factors such as the borrower's links with her community and her desire to perform well so as to continue to receive loans in the future. The use of peer pressure within a system of group lending, should compensate for the lesser amount of time in appraisal.

- o Still need a quick appraisal of expected income to ensure the loan amount is in keeping with expected revenues from the new investment.

- o Follow the principle that new borrowers will begin with small loans and then, if successful and if needed, advance to progressively larger loans.

3.2 Steps in Appraisal

a. The initial interview

The first step in credit evaluation is to interview the prospective borrower. During the interview, the officer must be polite and respectful but always firm so as to get all the information needed. This first meeting is very important as it should establish the correct sort of future relationship between the borrower and the WEDP officer. If the prospective borrower is unable to write, the officer is obliged to fill in the loan application form, and other required documents, for the customer.

42

b. Collection of field information

After the interview, the officer shall continue the appraisal by visiting the business location, and by seeking more information about the customer from other sources such as the village head and people who have had business dealings with the applicant. This is necessary not only to obtain additional information about the prospective borrower, but also to check the truth of information provided by the applicant. By going to the site, the officer will check whether there is actually a business, as claimed, be able to learn exactly about the nature of the business and see whether the premises are clean and orderly.

c. Deliberate provision of incorrect information

If the check reveals that the loan applicant has not been honest in providing information, the loan application should immediately be declined. Dishonesty is no way to start or build up the good business relationship which needs to exist between the loan officer and the borrower.

d. Previous borrowers

The loan appraisal is less complicated for customers who have had a previous loan. If the customer has always made loan payments on time and the purpose of the loan is similar, the processing and approval of the loan should be quick and relatively simple. If the borrower has a good credit history, even a larger loan for a different purpose, can be handled in a preferential fashion. **Good borrowers appreciate and respond positively to good service.** See Table 2 on page 20 for a guide on giving loans to repeat borrowers.

3.3 Critical Aspects in Appraisal

Credit evaluation is carried out by considering five specific aspects as described in this section.

1. Personal aspects.

Evaluation of a prospective customer's personal aspects is done by examining several factors such as: character; skill and experience in managing the type of business; age and health; and the customer's previous history with the field office or with other financial institutions. As a result of this evaluation, the field officer must be satisfied that the prospective borrower:

- Is honest, a hard worker, and willing to provide information about herself and her business venture as requested by the officer.
- Is capable of running a business and will be able to properly control the use of the loan funds if the loan is approved.
- Supports the concept of the WEDP field office and is thus willing to pay the loan installments promptly as scheduled.

Three important personal attributes which need to be evaluated are:

a. The borrower's character

Particularly during a short period of acquaintance, the character of a person is difficult to judge. It is here that the use of groups for lending, at least for the first loan, assists in the analysis of a person's character. If the borrower, as a group member, proves to her peers that her character is satisfactory, then the loan officer can also accept this as being satisfactory evidence.

In banking, character is related closely to the sense of responsibility of the borrower towards the lending institution. An example of bad character, is a person who does not repay credits received from shopkeepers or friends.

Character is of paramount importance: if all other aspects in the loan appraisal are judged to be satisfactory, yet character is not satisfactory, the loan application should be rejected.

b. Skill and experience

Skill in managing a business greatly determines the success or failure of a business and can be judged by examining the customer's educational background, training, and business experience.

(i) The level of education tends to determine the size of the business: lower levels of education are usually associated with smaller enterprises with a correspondingly small loan amount. Formal education, however, is not a requirement for borrowing but rather a further indicator of the applicant's potential.

(ii) Training is understood to be courses or direct practice (such as an apprenticeship) in the type of enterprise proposed. Information on such training is required if the prospective borrower intends to start a business which is based on such special skills.

(iii) Business experience is important at two levels: the administrative ability and skill in handling relationships with people needed to run the business, and the technical and marketing skills needed to produce and sell a particular product.

(iv) For a new borrower, and especially someone who is just starting a new enterprise, there must be evidence of satisfactory technical and marketing skills.

c. Age and health

If the loan applicant is elderly or if she has a history of bad health, the loan application should not be approved. In these circumstances there is a high risk of

4ii

loan loss due to the possible inability to reach anticipated production and sales levels and/or because there is the possibility of health costs interfering with the borrower's ability to make loan repayments in full. Only if the applicant's family were to fully support the loan application and were able to work as needed in the proposed enterprise, could the loan application be considered.

2. Financial aspects.

Of critical importance is whether the expected cash income from the enterprise will be sufficient to cover all costs of the enterprise, as well as all necessary domestic costs, and leave a sufficient margin to repay the loan. In the financing of small enterprises, many of the financial ratios[1] commonly used for the appraisal of larger investments are of no use at all. **Cash flow is the key factor.**

There are four main areas which require analysis:

a. Purpose of the loan.

(i) WEDP loans should be used only for income-generating purposes. This is so that, through the investment, the borrower is able to repay the loan out of income as well as to raise her future standard of living.

(ii) The purpose and use of the loan needs to be clearly stated. It is not enough to state that the loan is for working capital. It is necessary to detail the loan use for each item of working capital such as raw materials, labor expenses, and the holding of finished goods. This is necessary to determine whether the loan will lead to an increase in the borrower's income and also to make it easier to check that the intended investment has been fully made and that the loan funds have been used correctly.

If the borrower is unable, or refuses, to supply adequate information, then the loan application should be declined.

b. Amount of the loan.

Lending requires flexibility. The objective is to assist small businesses and make loans; not turn them down. It is necessary however, to minimize the risk of loan losses.

(i) Lend an amount which matches the borrower's business needs. If the loan amount is greater than the borrower's real needs, there is a risk that the surplus will be consumed in personal expenses rather than in a productive investment. Later, this can lead to difficulties in loan

[1] Such ratios as Internal Rates of Return (IRR), Return on Equity, Expenses to Revenues Ratio etc.

repayment.

(ii) The borrower must be expected to put some of her own cash equity into the business investment. If she has some of her own money at risk, she is more likely to be more careful and diligent in operating the business and less likely to walk away from the business if problems develop. For very small loans, the borrower's equity should be in cash. It may be in the form of savings acquired prior to the loan plus savings made and invested during the loan term. The loan officer must be careful in ensuring that such cash equity is not actually money borrowed from another source as this can lead to a later difficulty in loan repayment.

c. **Source of loan repayments.**

The income generated through the loan should be used in the repayments of the loan. The loan officer should be aware, however, that households often have more than one source of income and all sources should be taken into account in assessing the ability of the borrower to repay the loan and in the setting of the loan term. This will require diligence from the loan officer in investigating whether these sources exist and, if they do, firmness in requiring their use in loan repayment.

(i) Require loan repayments from as many sources as is possible so as to reduce the risk of missing loan repayments. Although the WEDP loan will nominally be to a woman for a particular enterprise activity, in practice she may be part of a household with many sources of finance and more than one income-generating activity.

(ii) Check to ensure that the borrower has access to these other income sources and, if necessary, obtain written agreement of access.

c. **Term of repayments.**

The setting of the loan term is very critical matter as an unsuitable loan term can lead directly to delinquency. The loan term must be matched to the expected timing and flow of income.

(i) If the expected cash flow is seasonal, monthly loan repayments may be impossible unless there are also other sources of income. A grace period for principal may be needed. Giving a grace period, however, not only reduces WEDP's loan revenues, but also increases the risk of late payment. Grace periods should only be provided when absolutely necessary.

(ii) The loan term should be as short as possible. Shorter term loans, enable WEDP to service a larger number of borrowers. Furthermore, the longer the loan term, the greater the risk of loan loss due to business risk and to the mis-use of loan funds. The use of more than

46

one income source, if available, for loan repayment will enable the loan term to be shorter.

(iii) Be reasonable in setting the term so as to make it possible for the borrower to meet repayments fully as they fall due and build up a good reputation and relationship with WEDP staff. Allow a margin for possible downward fluctuations in revenues and set the loan term accordingly.

(iv) If the enterprise is concerned mainly with trading activities, the loan term should be short: possibly as little as three months.

(v) As the proportion of fixed assets, compared with working capital, increases then the loan term may also need to increase.

(vi) Generally, loan terms will not need to be for more than two years. If the loan term is to be longer than this, more detailed appraisal will be needed to justify the longer term.

3. Marketing aspects.

It is necessary to check that the proposed quantities of the product can be sold at the expected price. For a new product and a new market, this can be a very difficult and uncertain calculation. Even large enterprises, with access to marketing surveys and expertise, are never certain about the future of a new product. For a small loan it is not feasible to spend a lot of effort in assessing the marketability of a product. There are, however, some simple checks which are related to each other and can be carried out to determine some of the marketing risk.

a. The borrower's knowledge of the market

Question the borrower so as to discover whether the loan applicant herself has paid sufficient attention to her ability to sell her product. **If insufficient attention has been given, the loan application should be declined.**

b. Information on the market area, size and demand.

Question the borrower on where the product will be sold. Generally, a market with more consumers will offer more opportunity for sales. Check whether there is an identifiable demand for the product in its customary form, or in the improved form proposed, or is this a new product for which demand is expected based on the experience of other locations and markets.

c. Indicators of future growth

Analyze information on the factors which cause the demand for the product: it may be that the product is based on a dying demand and future sales will face increasing competition from others producing the same product. **In this case the loan should be declined.** On the other hand, the product may be linked to sub-sectoral growth areas such as the establishment of new factories which will create a demand for the product.

d. The extent of competition

While the existence of competition demonstrates there is a demand for the product, it can also make it difficult for the borrower, especially if heavily indebted, to make a satisfactory income producing the same product. Check to see whether there are special circumstances, such as access to low cost labor or better quality raw materials, which will enable the borrower to compete successfully.

e. Product Design and Quality

Unfortunately there is often a limited demand for cottage industry products. Although cheap, the product is often of a poor quality, poorly packaged, and faces intense over-supply from other producers. Frequently, the design is not acceptable to consumers exposed to slick advertising campaigns. It is risky to finance another entrepreneur into producing exactly the same product for sale in the same market area. Check the design and quality of the product: if it is satisfactory from the point of view of design, quality and cost it may satisfy a particular market niche.

f. Product price

The selling price of the product depends on a number of factors such as: retail or wholesale selling, whether sales are for cash or for credit, whether in single or bulk lots, and whether to new or longer-term customers. Whenever possible carry out a quick "what if" calculation. If the selling price drops 10 per cent, for example, can the enterprise still operate at a profit.

4. <u>Technical aspects.</u>

For all enterprises, it is necessary to decide whether the entrepreneur has the production resources and skill needed to produce the product. Production skill should have been obtained working for another similar enterprise or through formal or informal training.

a. Availability of raw materials.

Apart from finance and marketing, the greatest problem faced by small enterprises is the availability of raw materials. Check their supply will be satisfactory with respect to quality and quantity and available at the times needed.

b. Production capacity.

Check that the enterprise has the ability to produce at the expected levels: that the machinery, equipment and building in good condition and sufficient for planned production. If labor is needed, ensure it is available when needed. Ensure that the supply

48

of necessary utilities is adequate and that transportation for raw materials and for the sale products is satisfactory in terms of cost and availability. Determine that the business location is suitable, and that will there be no problems with the location in the future due to increased production or a change in the type of product manufactured or changes in Governmental regulations affecting, for example, the disposal of waste.

5. Legal aspects.

Most of the required legal analysis will be satisfied during the completion of the borrower's Identity and Loan Application forms which provide information on the residence and full identity of the applicant and the existence of a business license or permit. While in the field, it may also be necessary to check that the business premises are being used in a manner consistent with the zoning of the area.

3.4 Loan Decision-Making

1. Sensitivity analysis of the loan proposal

All loan amounts should be tested for sensitivity to adverse factors which will affect the business. The extent and form of then tests will vary according to the type of business. A simple example is shown in Table 1. A loan application for Tk 8,000 for a sewing machine and materials with a two year repayment term.

The estimate, by the borrower, of revenues and expenses shows a cash surplus of Tk 7,051 which becomes Tk 1,771 after making loan repayments. This seems to indicate the loan request is satisfactory.

After questioning from the loan officer, however, it seems there is a possibility that one third of the families are not certain customers. The sensitivity analysis reflects such a one third drop in sales and expenses. As a result there is a possible deficit, after loan repayments, of Tk 580. The following courses may then be taken:

a. Re-work the loan application so that there is no deficit.

There are a number of ways to do this, however, it is important to resist the temptation to merely increase production levels or selling prices so that the problem - on paper only ! - will disappear.

(i) Review whether the borrower needs the full Tk 8,000 loan amount. If the loan were Tk 7,100, then loan repayments would be Tk 594 less per year and there would not be a cash deficit after making full loan repayments.

The reduction in loan amount may be possible through the cutting out of "padded expenses" on the part of the borrower or by requiring the borrower to put an extra Tk 900 of her own cash into the business.

Table 1.

Sensitivity Analysis of the Loan Proposal

			Tk.
A. Loan amount Tk.			8,000
(for sewing machine and materials: 2 year loan)			
B. Estimate of Revenues & Expenses: 12 months			
Sales:	No.	Price	
Petticoats	120 pieces	65	7,800
Blouses	240 "	32	7,680
Two piece suits	24 "	250	6,000
		Total revenues:	21,480
Expenses:			
Materials			−12,888
Wages	12 days	30	−360
Electricity			−644
Miscellaneous			−537
		Total expenses:	−14,429
Cash surplus			7,051
Loan repayments:	12 months	440	−5,280
		Net surplus:	1,771
C. Sensitivity analysis:			
Sales drop	33.3%		14,320
Expenses level	66.7%		−9,620
Loan repayments unchanged			−5,280
		Net surplus:	−580

50

(ii) Review the availability of other income sources which may be used for loan repayment. In this example, at least Tk 580 per year of other income is needed.

(iii) Review the possibility of reducing the scale of operations so that the applicant starts with a smaller operation and then expands as her business is successful. It is easier to do this with businesses, such as trading, which require mainly working capital finance. Businesses which rely a large, single fixed capital investment, will be more difficult to downsize so as to fit a certain level of loan repayment capability.

If it is not possible to reduce the loan amount or there are no other sources of income available to support the repayment of the loan, then it is necessary to:

b. Reject the loan application.

The rejection of a risky loan proposal for financial reasons is to the benefit of WEDP funds and the loan applicant. The reasons for declining the application should be explained to the applicant in a firm manner. Since the Project is designed to encourage entrepreneurship, wherever possible suggest to the applicant approaches she may investigate so that, eventually, she may receive a loan and start-up a successful business.

2. <u>The use of decision rules</u>

Especially with smaller loans, where it is not cost-effective to carry out an elaborate loan appraisal, it is helpful to use decision rules, based on experience, which can provide a guide to loan size and approval. Examples of these are set out for:

a. New Borrowers

The first loan to a borrower should be for a small amount and for a short term. Limit the first loan to not more than Tk 3,000. If repayments are on time, then a larger loan may be provided in the future. The borrower must first prove her acceptance of, and ability to conform to, certain standards of financial discipline.

b. Repeat Borrowers

In principle, reward the good borrowers because these are the ones WEDP needs to retain to provide a sound base for future growth. Their repayments made on time reduce the costs of lending and their loan repayments can be on-lent to new borrowers so as to enable many more customers to receive loan services. All borrowers must be made aware of the effect of being either a satisfactory or an unsatisfactory customer. Repayments made on time should entitle a borrower to favorable treatment in the future. Unsatisfactory borrowers should be informed that their poor performance will limit, and possibly prevent, the provision of loan services to them in the future.

Borrowers should be graded (classified) and treated accordingly. Table 2 below sets out a system of classification along with appropriate customer rewards and penalties. At the time of making a loan application, the borrower must be informed of the system so as to encourage a good relationship with the bank. At subsequent meetings with the customer, as individuals or within groups, the benefits and penalties associated with loan repayment performance need to be mentioned repeatedly.

Table 2.

Repayment Incentives and Penalties

Borrower Grade	Description	Future Loan Eligibility
A	All repayments on time	Increase next loan < 100%
B	Final repayment on time: up to 2 installments late	Increase next loan < 50%
C	As for B but up to 3 installments late	Next loan same size
D	Final repayment late but all loan repaid within 2 months due date	Reduce next loan 50%
E	More than 2 months late after due date	No further loans

52

IV. LOAN DISBURSEMENT

Accompanying this section is Table 3 on page 24 which summarizes lending rates and terms for individual lending and lending to members of groups.

4.1 Lending Conditions

a. Conditions concerning loan amount:

(i) The maximum amount of loan will not exceed Tk 60,000 for an individual.

(ii) For a group member, the maximum loan amount will not exceed Tk 10,000 or an amount equal to twice the average loan size for the group in the previous twelve months, whichever is the greater.

(iv) No borrower outside the mechanism of a group will receive a loan of less than Tk 8,000.

b. Loan security

(i) Loans exceeding Tk 20,000 must be supported by registrable collateral.

(ii) Loans of Tk 10,000 or more, but less than Tk 20,000, must be secured by readily saleable goods or items such: as jewelry; television, radio or cassette sets; bicycles; and the asset(s) purchased through the WEDP loan. Such security will be noted in the loan agreement and the value of the security, plus any savings amounts, should be at least equal to the amount of the loan.

c. Loan insurance fund (LIF)

At the time of receiving a loan all borrowers must pay an amount of one per cent of the loan amount into a Loan Insurance Fund. WEDP will deposit such money received into a term deposit account with a reputable bank against which claims may be made as follows:

(i) In the case of the death of the borrower, the LIF will be used to pay off the balance of her loan.

(ii) In the case of incapacitation of the borrower to operate her business due to accident or illness, the LIF will be used to pay interest due on the loan during the period of incapacitation.

(iii) If the incapacitation becomes permanent, then the LIF will be used to pay off the balance of her loan.

(iv) Death or incapacitation, temporary and permanent, must be evidenced by a medical doctor's certification to that effect. If the use of the LIF is authorized, the cost to the borrower of the medical certification shall be reimbursed from the LIF.

(v) All payments made out of the LIF can only be authorized by the WEDP General Manager or her deputy.

d. Compulsory savings

Compulsory savings will be required from all borrowers requesting loans as individuals as follows:

(i) Borrowers receiving loans outside the mechanism of a group must deposit three per cent of the loan amount as a compulsory saving at the time of loan disbursement.

(ii) The total amount of compulsory savings will be refunded to the borrower immediately upon full repayment of the loan. Where the borrower requests a further loan, the balance of her compulsory savings may be paid towards the requirements of the new loan.

(iii) Whenever the borrower is more than six months past the due date for the scheduled completion of loan repayments, the balance in her compulsory savings account may be used by WEDP to reduce the balance of her loan account.

(iv) Compulsory savings received from borrowers shall be held by WEDP in a term deposit account solely for that purpose with a reputable bank. Any interest earned on the account shall be posted regularly to a WEDP provision for losses account to be used against loan losses. The total of compulsory savings shall appear as a liability account, entitled compulsory savings, in WEDP's balance sheet.

e. Group members savings

Savings will be required from group members as a pre condition for borrowing as follows:

(i) Group members receiving loans are required to have savings which are collected weekly within the group and paid into the GSF. The amount of savings to be collected is as determined in 2.1c (ii) above.

(ii) Whenever the borrower is more than six months past the due date for the scheduled completion of loan repayments, the balance in her savings account may be used by WEDP to reduce the balance of her loan account. The decision to do this will notified to the group by the WEDP LO and the group officers must withdraw the funds required

54

from the GSF within seven days of notification.

f. Loan disbursement

Loans for group members will be disbursed at the group meeting. Loans to individuals of less than Tk 20,000 can be disbursed near the location of a group meeting providing a group so exists. Otherwise all loans will be disbursed in cash at the WEDP center or at an alternate convenient location by check.

g. Loan interest rate

The interest rate to be charged on all lending will be at the rate of sixteen per cent per annum flat.

h. Loan grace periods

Conditions for the granting of loan grace periods:

(i) The maximum grace period will be for up to three months

(ii) The grace will be for principal repayment only.

(iii) A grace period will not be available for loans with terms of less than two years.

(iv) There shall be a grace fee of Tk 200 paid by the borrower at the time of loan disbursement.

Attachment A sets out loan repayment schedules for varying loan amounts,between Tk 3,000 to Tk 20,000, and for loan terms of between 12 months and 36 months to individual and grouped borrowers.

59

WEDP Lending Rates: Flat Interest Rates, Refundable Savings & Insurance Fund

Table 3

LENDING TO INDIVIDUALS						
Loan Amount	12,000	1 Year		2 Years	3 Years	2 Years
Savings (refunded)	3.00%	Monthly	2-monthly	Monthly	Monthly	3 Month Grace
Insurance Fund	1.00%					
Effective Rate:	=	32.073%	33.223%	30.863%	29.703%	29.435%
Interest rate: flat	16.00%	1.333%	0.667%	1.333%	1.333%	1.333%
	No.					
Disbursement:	0	-11,520	-11520	-11,520	-11,520	-11,320
Repayment No.	1	1,160	580	660	493	160
" "	2	1,160	580	660	493	160
" "	3	1,160	580	660	493	160
" "	4	1,160	580	660	493	731
" "	5	1,160	580	660	493	731
" "	6	1,160	580	660	493	731
" "	7	1,160	580	660	493	731
" "	8	1,160	580	660	493	731
" "	9	1,160	580	660	493	731
" "	10	1,160	580	660	493	731
" "	11	1,160	580	660	493	731
" "	12	1,160	580	660	493	731
" "	13	-360	580	660	493	731
" "	14		580	660	493	731
" "	15		580	660	493	731
" "	16		580	660	493	731
" "	17		580	660	493	731
" "	18		580	660	493	731
" "	19		580	660	493	731
" "	20		580	660	493	731
" "	21		580	660	493	731
" "	22		580	660	493	731
" "	23		580	660	493	731
" "	24		580	660	493	731
" "	25		-360	-360	493	-360
" "	26				493	
" "	27				493	
" "	28				493	
" "	29				493	
" "	30				493	
" "	31				493	
" "	32				493	
" "	33				493	
" "	34				493	
" "	35				493	
" "	36				493	
" "	37				-360	

GROUP LENDING			
Loan Amount		5,000	1 Year
Savings: Tk/week		5.0	2-monthly
Insurance Fund		1.00%	
Effective Rate:		=	32.873%
Interest rate: flat		16.00%	
No.	Lending	Savings	Total
0	-4,950	0.0	-4,950.0
1	242	11	253
2	242	11	253
3	242	11	253
4	242	11	253
5	242	11	253
6	242	11	253
7	242	11	253
8	242	11	253
9	242	11	253
10	242	11	253
11	242	11	253
12	242	11	253
13	242	11	253
14	242	11	253
15	242	11	253
16	242	11	253
17	242	11	253
18	242	11	253
19	242	11	253
20	242	11	253
21	242	11	253
22	242	11	253
23	242	11	253
24	242	11	253
Savings refund 1/.		-260	-260

1/. Assuming no further loan requested

V. MAINTAINING THE LOAN PORTFOLIO

5.1 Measuring the Quality of the Loan Portfolio

The amount of loans outstanding is the total of loans owed by borrowers to WEDP. This amount is shown as an asset in the balance sheet. Because loans are not always repaid in their entirety they are regarded as assets at risk. The quality of the loan portfolio is of fundamental importance as the loan portfolio will be the largest asset held by WEDP and the success or failure of this asset will determine WEDP's future. While there are many ways to measure the quality of a loan portfolio, this section concentrates on the most commonly used methods in Bangladesh.

a. The definition of current and overdue loans

Generally the loan portfolio can be divided into loans which are current and those which are overdue. Loans which are current are those on which all repayments are fully up to date: completely in accordance with their schedule of loan repayments. Overdue loans are those on which payments are late. The definition of overdue is usually related to the frequency of loan repayment. With weekly loan repayment, an overdue loan will be one where a payment has been missed for more than seven days. Similarly with monthly repayments, overdues will be those not paid within 30 days following the date due for repayment.

b. Measures of loan delinquency

The most common method of measuring loan delinquency, also referred to as arrears or late payments, is to calculate the total of overdue loan payments as a percentage of the total loan portfolio.

$$(1) \qquad \textbf{\% Loan delinquency} = \frac{\textbf{amount past due}}{\textbf{amount outstanding}}$$

While this is probably the easiest way to calculate delinquency, the method does have shortcomings:

(i) **The growth of new loans can hide a problem with the older loans.** If the loan portfolio is growing rapidly in size, the denominator (amount of loans outstanding) will be relatively much larger and the percentage delinquency will appear to be smaller than it really is. Similarly as the loan portfolio shrinks, as it inevitably will with poor loan repayment, the delinquency percentage will increase rapidly. At this time, the problem of delinquency will already have become very apparent and more difficult to correct.

(ii) If loans are mainly long term, the delinquency rate is similarly obscured until quite late. In fact relying solely on the delinquency measure would mean that remedial steps would be delayed past the best time for action.

(iii) This delinquency measure only shows the amount of payment already overdue on a loan. It is quite likely, however, that all or a part of the balance remaining on that loan is also at risk. To allow for this, banks calculate a ratio called the **portfolio at risk percentage** which is the total of the outstanding balance of loans with overdue payments divided by the total loan portfolio.

Another frequently used measure of the performance of the loan portfolio, is the calculation of the collection rate, sometimes called the repayment rate, which is defined as:

(2) % Collection = $\dfrac{\text{Payments received}}{\text{Payments due + Past due}}$

The collection rate provides a useful guide in the estimation of eventual loan loss: a formula described in (5) below.

(i) The calculation of the collection rate should be based on loan repayments only and exclude interest payments as these are included in another formula shown in (3) below.

(ii) The inclusion of loan repayments made in advance of schedule can skew the formula and reduce its usefulness. At present, there are many Centers showing collection rates of more than 100 per cent, due to substantial amounts of loan pre-payments, and this is possibly hiding poor collection rates for the loans on which no pre-payments are being made.

c. Measure of loan revenues

The interest revenue generated by the loan portfolio facilitates the forecasting of loan revenues and also enables a comparison between actual revenues and the cost of funds. The formula for the calculation is:

(3) % Interest revenue = $\dfrac{\text{Interest revenues times 12/n}}{\text{Average loans outstanding}}$

where n is equal to the number of months, in the current financial year, for which data are available. The calculation becomes a more reliable indicator as the year progresses.

An example: loans outstanding for the months of January, February and March were Tk 4,000,000, Tk 4,200,000 and Tk 4,400,000 respectively. The average of loans outstanding is therefore Tk 4,200,000. Total interest revenues received so far for the first three months of the year amount to Tk 147,000. These interest revenues times 12 (one year) divided by 3 (months) equals Tk 588,000 on a prorated total year basis and this is equal to 14.0 per cent of the average of loans outstanding. The figure of 14.0 per cent can then be compared to the charged rate, say 16.0 per cent, to evaluate the performance of the loan portfolio. In this example, the Center is losing two per cent in loan revenues which amounts to Tk 84,000 per year on loans outstanding of Tk 4,200,000. The actual interest revenues are only 87.5 per cent (14.0 per cent divided by 16.0 per cent) of the official rate.

d. Classification of the loan portfolio

Delinquency formulae do not provide a complete picture of the quality of the loan portfolio. It is necessary to look also at the period of time that loan payments have been overdue. The risk of non-payment of a loan increases as the length of time of overdues increases: a payment which is six months overdue is a more serious situation than a payment one month overdue. It is for this reason that loans are classified according to the time they have been overdue. A loan which is classified, is a loan which is less than fully satisfactory.

The WEDP MIS each month shows the loan portfolio in seven classifications:

(i) loans fully current i.e. on which all payments have been received in full and on time;

then payments overdue by:

(ii) between one to three months; (iii) between three to six months; (iv) between six to twelve months; (v) between 12 to 24 months; (vi) between 24 to 36 months, and (vii) those more than 36 months.

This method of classification used in the MIS is not the same as that used by most banks in Bangladesh. These classes, however, are considered to better reflect the particular short term and small loan natures experienced by WEDP.

A weighting is applied to each of these classes so as to indicate their relative risks of non-payment. The highest weighting of 100 per cent means that there is an estimated 100 per cent risk of non-repayment of the loan. The total of loans in each class is then multiplied by its respective weighting and the total of all classified loans is then shown as a percentage of the total loan portfolio to reflect its quality. The formula used is:

$$\textbf{(4)}\ \ \textbf{\% Classified loans} = \frac{\textbf{weighted total of classified loans}}{\textbf{total loans outstanding}}$$

An example of the classification of a loan portfolio and the weightings for each class is shown in Table 4.

Table 4.

Weighted Classification of a Loan Portfolio

Loan Amount	Months Overdue	Weighting %	Classified Amount (Tk)
2,885,047	0	0	0
553,584	1 - 3	5	27,679
276,792	3 - 6	20	55,358
138,096	6 - 12	40	55,238
82,858	12 - 24	75	62,143
71,744	24 - 36	95	68,157
43,047	> 36	100	43,047
4,051,168			311,622

Table 4 shows the weighted total of classified loans as Tk 311,622 and this amount is 7.7 per cent of the total loan portfolio of Tk 4,051,168. Good performing Centers will have their percentage of classified loans at five per cent or less; poorly performing Centers will probably be close to 15 per cent. The smaller the percentage of classified loans, the better is the quality of the loan portfolio. It has been recommended that each Center strive for a percentage of classified loans of less than five per cent.

e. Loan loss

Loan delinquency is just a step away from loan loss. In order to obtain a clear picture of the real cost of lending it is necessary to calculate the loss rate of the loan portfolio. This loss is the amount that is eventually declared to be non-recoverable and is written-off by WEDP management.

While arrears rates try to show the risk of loss within the loan portfolio, loan loss rates show the amount which has actually been lost. The formula for loan loss is:

$$(5) \qquad \textbf{\% Loan loss} = \frac{\textbf{Amount written off}}{\textbf{Total loans outstanding}}$$

Since the loan loss will relate to lending that occurred up to three years (or more) ago, the figure for the total of loans outstanding should be from within the same time period during which the (bad) loans were made.

An example: the total of loans outstanding is now Tk 4,050,000 compared with Tk 850,000 three years ago. The total of loans, made three years ago, to be written-off is Tk 51,000. The loan loss rate is six per cent (Tk 51,000/Tk 850,000). If the current figure for loans outstanding of Tk 4,050,000 had been used in the calculation, the loan loss rate would only be 1.26 per cent (Tk 51,000/Tk 4,050,000) because of the influence of growth in lending during the last three years. In this latter example, such growth would hide the real loss rate and encourage complacency among management.

The calculation of the loan loss rate and the actual interest revenues earned on the loan portfolio are two of the four basic items[2] that need to be calculated when setting loan fees. In the example above the loan loss rate is 6.0 per cent. To this is added the cost of funds, say 8.0 per cent, and administrative costs for the Centers and Head Office of say 11.0 per cent of the loan portfolio. This provides a total lending cost of 25.0 per cent. If actual loan revenues are 87.5 per cent of the set official rate then the loan fee needs to be set at 28.57 per cent per annum (25.0 per cent divided by 87.5 per cent) in order to break-even on lending operations.

5.2 Rescheduling and Refinancing of Loans

While rescheduling and refinancing of loans are sometimes both necessary and the best course of action, the procedures are often misused.

a. Definitions of rescheduling and refinancing

Rescheduling a loan involves changing the payment schedule in a way that, hopefully, enables the borrower to keep up with loan repayments. Refinancing a loan usually means paying off the balance of the existing loan and then lending additional funds, or, adding an additional amount to the previous balance and rescheduling the loan so that payments can be met.

b. The misuse of rescheduling and refinancing

The rescheduling or re-financing of a delinquent loan can bring it back on schedule and make it appear to be a fully current loan. In many cases, however, it is just hiding the poor quality of the loan and deferring the taking of the appropriate actions. Basic problems still remain unsolved. As a result, these problems may not receive the attention needed by management in order to reduce the risk of future failure.

The improper use of rescheduling and refinancing encourages delinquency because:

(i) It rewards borrowers who soon learn that prompt loan repayment is not

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[2] This is rather simplified. A more complete calculation would also consider other items such as: the size of the loan portfolio in relation to all other assets; average loan sizes; and the volume of lending.

necessary and that loan repayments can be deferred at minimal cost.

(ii) It encourages a lax loan management attitude among WEDP staff.

c. Procedures for rescheduling and refinancing

In some circumstances the original loan repayment schedule may have been inappropriate for the type of business of the borrower and this may also have been a reflection of the inability of the loan officer to make a proper loan appraisal. There may also be instances where the borrower has a previously unanticipated opportunity to expand her business and needs additional funds for this purpose. In cases such as these, rescheduling or refinancing is a reasonable course of action. There are, however, certain principles to be followed:

(i) Loans should not be rescheduled or refinanced unless it is clear that the extra time or financing provided, will greatly increase the chances of the borrower paying off the renegotiated loan on time.

(ii) Records of these loans must be kept by the Center for each month during which loans have been rescheduled or re-financed.

(iii) Approval from the Center supervisor must be received before any change is made to borrowers' repayment schedules.

(iv) Under no circumstances should Center staff alone have the authority to reschedule or refinance loans.

5.3 <u>Collection of Delinquent Loans</u>

A good loan officer is always alert to signals that a borrower is in financial difficulty and may not be able to meet loan repayments. These signals can be picked up from others who have social or business linkages with the borrower or can be discerned from the actions of the borrower herself. The officer needs to maintain close communications with people in the field and be a good listener and a good observer.

a. Early warning signals

Impending delinquency can be discerned through:

(i) Reports, from others, that the borrower is having difficulty in meeting trade debts.

(ii) The use by the borrower of loan funds, or money available for loan repayment, for personal rather than business purposes. This may also be related to a particular personal cost such as school fees or a marriage ceremony.

62

(iii) Loan repayments being received late or not being fully paid. There may also have been a similar problem with a previous loan - the basic cause of the problem may be deteriorating.

(iv) The occurrence of natural disasters, such as flooding, which will have a future material effect on the borrower's business.

(v) Observing, through field visits, that the business will not reach its financial targets.

These early warning indicators will not be seen unless the loan officer is frequently in the field and maintains a close relationship with her borrowers.

b. Follow-up procedures for collection

Delinquent loans will not be recovered unless WEDP staff vigorously follow standard procedures.

1. Action must be prompt and in person

It is extremely important that, when a loan payment is missed, follow-up action be prompt and in person. Remember that for every day that a loan payment is missed, the service to other borrowers is diminished and WEDP loses money. Furthermore, the borrower may start to think that her position with WEDP is not unsatisfactory.

At all times, the lines of communication with the borrower must be kept open. Do not alienate the borrower: try to work together to solve your mutual problem.

2. Review the reasons for delinquency and actions needed

At the time of the first visit, the loan officer must assess whether the problem causing delinquency is real or not and whether it is a temporary or long term problem. If there is no valid reason for the delinquency, the loan officer must take the strongest action possible. In cases such as these, the borrower should never receive a repeat loan.

If the problem is temporary, then try to work out a way for the borrower to catch up on repayments. If the delinquency is a first time occurrence under an emergency situation, such as a child suddenly becoming sick and requiring medical care, then the loan officer should be sympathetic but firm. The delinquency may be over-looked providing it does not occur again. At the same time the borrower should be informed that further delinquency will affect her ability to receive lending services in the future. Refer the borrower to the Table[3] which outlines repeat loan services according to loan repayment performance.

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[3] Table 1 entitled Repayment Incentives and Penalties contained in section 3.5 of Chapter III.

3. Look for all sources of income for loan repayment

In some cases the loan will have been used to finance a business in which many members of the family are involved and there may be more than one business activity within the family. In trying to find a solution, look for and review all sources of income; not just those from the business for which the loan was granted. Pay particular attention to the timing of expected income so as to be sure that the loan officer is there at the right time so as to obtain loan repayment.

4. Keep a record of all visits to delinquent borrowers

The WEDP MIS provides a list of borrowers with overdue payments. Use this to schedule visits to these borrowers. All such visits and their outcome must be recorded on the back of each borrower's loan ledger card in the section entitled "Action Diary For Overdue Payments". This diary must show:

(i) The reason the installment was not paid as required.

(ii) Exactly when the borrower will bring the loan up to date.

The entries must be initialled by the loan officer and the borrower. The loan officer must never leave the borrower without reaching some joint decision on future action. If the borrower does not perform accordingly, she must be visited again immediately so as to reinforce her previous commitment.

5.4 Providing for Loan Losses

a. Provision for loan loss

By making a provision for loan loss, the asset of loans outstanding is shown more realistically in the balance sheet. The following of well-defined procedures for the making of provisions for loan loss and for writing-off bad loans, will avoid the need for sudden and large asset re-evaluations and the associated drastic measures which, eventually, will be needed.

The weighted total of classified loans, as outlined in section 5.1b, should form the basis for the calculation of the provision for loan losses: it is recommended that the provision for loan loss should be at least two thirds of the weighted total of classified loans.

As an example: the total of loans outstanding is Tk 4,051,168, the weighted total of classified loans is Tk 311,622. The provision for loan loss should be at least two thirds of Tk 311,622 which is Tk 207,748. This would be shown in the balance sheet as:

Assets:

	Taka
Loans outstanding	4,051,168
less Loan loss reserve	- 207,748

b. Loan Write-offs

Loans which are not recoverable should be written-off. So as to reflect the true position, this should be done as soon as possible. In many cases this will be related to the time the loan has been overdue. Many institutions will write-off loans on which no payments have been received for more than twelve months. There will be cases, however, such as with the death of a borrower, where the loan should be written off more expediently.

(i) The writing-off of a loan does not cancel the debt owed by the borrower. This debt continues until the loan has been repaid. **Under no circumstances should the borrower be informed that her loan has been written-off and any WEDP staff in breach of this confidence should be dismissed immediately.** It is necessary to continue to monitor the circumstances of the borrower and pursue the recovery of the loan accordingly. Payments received will then be accounted for as "Other Income" in the WEDP financial statements.

(ii) The delinquency rate and the interest revenue rate of the loan portfolio are affected by the amount of loans written-off: the delinquency rate will be higher and the revenue rate lower where no loans are written-off.

Programs that do not write-off loans regularly will not know the real value of a major asset which may be decreasing in value and this ignorance can eventually lead to the insolvency of the program.

5.5 Strategies for Good Maintenance of the Loan portfolio

It is of prime importance that there be an effective WEDP credit philosophy and methodology in place and practiced as intended. **Delinquency is most frequently caused not by bad borrowers but by using ineffective credit practices.** It is necessary that the WEDP credit system:

(i) Always stresses to customers and its own WEDP staff that continuing loan services are dependent on the prompt repayment of loans. Consequently, delinquency is not acceptable.

(ii) Uses borrower selection techniques that reject entrepreneurs with bad intentions or bad reputations.

(iii) Sets loan sizes and terms so as to ensure loan repayment is within the borrower's capability.

(iv) Ensures that all new borrowers receive follow-up visits by WEDP staff within one week of loan disbursement. This is to show borrowers that WEDP is not forgetting about them and to check that loan funds have been used as planned.

(v) Establishes both financial and non-financial incentives to encourage prompt loan repayments. From the borrower's perspective these incentives must be greater than any benefits she may gain through late payments. The credit system must also take full advantage and reinforce the effects of peer pressure so as to improve loan repayment.

(vi) Continually emphasize to borrowers the benefits of keeping loans current. These benefits will comprise mainly the ability to obtain repeat loans as and when needed and will only be available to borrowers who maintain a good credit rating.

(vii) Provides information to the loan officers to assist them in the monitoring of their borrowers and enable them to provide quick remedial action, through personal visits, as needed for delinquent loans.

(viii) Uses a MIS which provides the required up to date information at Center and Head Office levels for Center managers, supervisors and policy makers.

(ix) Uses prudent provisions for loan losses and follows loan write-off procedures so that WEDP's financial position is shown accurately. This is necessary to allow the right decisions to be made so as to ensure longer term sustainability of activities.

66

VI. SUPERVISION OF WEDP CENTERS

6.1 The Need for and Benefits of Center Supervision

The move by the Women's Enterprise Development Project (WEDP) towards the full administration of the loan portfolio not only increases the size of assets managed by WEDP but also exposes WEDP to the risk of loan mis-management. Close and regular supervision of the WEDP Centers will be needed to reduce this risk as far as possible.

At present there is no special position entitled "supervisor" within the WEDP system. It is proposed that a number of people in Head Office carry out regular supervisory duties on a rostered basis. Primarily these people will be the: Deputy General Manager, Credit Advisor, Lending Manager and Financial Manager.

The WEDP staff conferences held twice a year are very useful in providing information to all field officers as well as an opportunity to discuss problems and solutions and present innovative ideas for improvements. At these conferences, targets for the Centers are reviewed and set. These targets, in turn, are based on Project goals tempered by the levels of performance experienced in the Centers.

Within most organizations, there are offices, or Centers, which do not perform up to expected standards due to a variety of reasons just as there are also offices which exceed expected performance levels. These differences can be due to external factors such as the state of the local economy or due to managerial weaknesses or strengths of the WEDP staff in each Center.

With good supervision it is possible to learn from and duplicate innovative practices developed in the more advanced Centers. The performance of the better Centers, through an analysis of their activities, enables the setting of reasonable targets and standards of performance to be achieved by other Centers. Through supervision, it is also possible to discern specific weaknesses in individual Centers and oversee the provision of inputs such as training, additional staffing and more intensive guidance until there is an improvement in performance. Furthermore, with the handling of, and access to, a larger volume of cash, more intensive supervision is needed to counter an increased risk of malfeasance.

6.2 Financial and Managerial Performance of Centers

At least once each month, the supervisor should visit and spend a day at each Center. At the end of the visit the supervisor should discuss the results of the visit and leave a copy of the supervision report with the Extension Officer (EO). At all times the supervisor, in her discussions with the EO, should be relating the activities of the Center against its targets and also comparing its performance with the achievements of other centers. Examples of a completed supervision report for a Center and a summary sheet for all Centers are shown in pages 40 to 42. The summary sheet should be used by the supervisor to focus on the strengths and weaknesses of the center and to make recommendations accordingly. It is recommended that a supervision visit reviews activities in a sequential manner as follows:

a. Business Activities

The targets for the Centers need to reflect and be supportive of the goals and purposes of the WED Project. These are to stimulate expanded agricultural and non-agricultural informal sector activities (goal), and to increase women's participation in, and benefits from, viable businesses in the informal sector (purpose). To achieve these objectives, each Center needs to define its geographical radius of operations and consistent within this:

(i) Calculate the total population split into urban and rural areas. This will provide a guide towards assessing the demand for borrowing and savings services.

(ii) Estimate the total number of potential WEDP borrowers.

(iii) Set targets for the number of loans to be disbursed within the next 12 months and over a longer period such as five years.

The Microenterprise Subsector Analysts will assist in the provision of guidelines to be used in making these calculations and setting targets.

During the visit, the supervisor will review the action taken by the center to develop new entrepreneurs and new borrowers as individuals or in groups. Actions should have included:

(iv) The completion of satisfactory surveys to establish market size and locations.

(v) The provision of management and skills training courses for microentrepreneurs; and the carrying out of discussions with BSCIC about providing new types of courses

(vi) Visiting villages which are not receiving WEDP services so as to determine needs for service.

(vii) Developing groups through assisting in the establishment of new groups and providing basic training to group leaders and group treasurers.

(viii) The disbursement of loans. A comment will be needed on the number of loans disbursed and average loan size compared with the targets for the center.

The Project requires that at least 15 per cent of loans shall be in the range of Tk.10,000 to Tk.60,000.

The data is entered in the boxes in the supervision report. The report must also will show: the number of loans disbursed during the month, the calculated average loan size, the total number and value of loans outstanding, and the number of groups and group members.

If there has been little or no activity during the month, the reasons for this need to be outlined in the report. Recommendations, if any, are the written in the appropriate box. These recommendations should be concerned with ways to promote increases in business and lending activities.

b. Center Productivity and Financial Performance

So as to advise and assist Centers on ways to improve their productivity, it is necessary to use measurement indicators to pinpoint and assess their strengths and weaknesses. It is recommended that a minimal number of indicators be used and that these should relate directly to key factors which are under the control of the EO. At this stage it is suggested that the focus be on **loan performance** and **staff productivity** as outlined below.

The summary sheet should be used as the focus for discussing and comparing the performance of the Center with that of other Centers. Following this, action steps needed to improve performance should be agreed upon and included in the report.

If performance, for a particular indicator, is excellent then the manager should be congratulated so as to encourage the continuance of this level of performance.

1. Asset performance

The dominant asset held by WEDP is the loan portfolio. The measurement of the performance of the loan portfolio is, therefore, of major importance.

(i) Firstly, managers must focus on the **amount and aging of classified (overdue) loans and measure these against the total loan portfolio.** Since the longer that loans are overdue increases their risk of non-repayment, a system of weighting loans according to their term overdue is used in calculating a weighted total of classified loans. This weighted total is then compared, as a percentage, to the total of loans outstanding to determine the performance of the center in managing its loan portfolio. The higher this percentage, the worse is the performance of the center. Boxes a, b and c in the form need to be filled in accordingly.

(ii) Secondly, the supervisor should calculate the amount of **interest revenue being received as a percentage of the average amount of total loans outstanding.** This indicator is shown in box d. The information for this will come from the monthly financial statements: the Balance Sheet and the Income Statement. The result can then be compared with the nominal amount set by WEDP and used to calculate revenue losses occurring as a result of poor loan performance.

(iii) The supervisor needs to spend as much time as is necessary in determining reasons for overdue loans and devising practical ways for staff of the center to improve loan performance. Progress needs to be seen each month.

2. Staff productivity

As a target, each field staff, assistant extension officers and field assistants, should aim to provide lending services to at least 240 individual borrowers or at least 480 borrowers from within groups. Loans outstanding per field staff should then exceed Tk 1.5 million (15 lac). Boxes e and f should be completed to show these indicators.

The supervisor needs to review the performance of the Center in this respect. If staff productivity is low, then the reasons for this need to be analyzed and suggestions for improvement need to be discussed and outlined in the report. There may be individual staff who are not performing up to expected standards. It could be due to the center not being able to develop sufficient entrepreneurs within its area and achieve its lending targets.

c. Procedures

Generally, the use of improper procedures is a reflection on the ability of the EO in managing the center. It is the responsibility of the EO to ensure that correct procedures are followed at all times and to provide her staff with the necessary on-job training in their use. Particularly with the introduction of new procedures, there is a need to ensure they are being followed correctly and, where necessary, provide on the spot instruction to staff so as to improve their use of procedures.

The supervisor will usually review all procedures by looking at a sample of each procedure. If many errors are found, then a larger sample may be taken, or even a complete review, to provide a better survey of the extent of problems and the corrective actions needed.

It is important that not only are forms correctly processed, but that all forms and records of any sort be filed and kept correctly and safely in the proper place and manner. Particular attention is needed for:

1. Loan processing

All types of forms concerned with the identification of entrepreneurs, loan processing and loan approvals and disbursements need to be checked to ensure they are being used and completed correctly. As an example this may be done by:

(i) A random check and review of, say 10 per cent, of all loan application forms and borrower ledger cards. Or, similarly,

(ii) for a given day, review the disbursement of all loans on that day and check these have been reconciled correctly with balance sheet entries.

(iii) Paying special attention to repeat loans so as to ensure that previous loans were repaid fully in accordance with WEDP regulations.

(iv) Checking that loan re-scheduling does not occur without full and proper authorization.

(v) At least twice a year, carrying out a survey to verify the identity of borrowers to ensure that they really exist as stated. This will require visits to a sample number of borrowers in the field.

2. Accounting and MIS

Without exception, the supervisor should check that cash balances shown in the books actually correspond to the amount held in the safety box. If there is any discrepancy, the reasons for this need to be explained by the EO and written in the report.

If the BSCIC internal audit has found any weaknesses, the supervisor should assist in their removal during her visits. Likewise, the WEDP Financial Manager may request the supervisor's assistance in checking financial transactions and balances that seem incorrect.

The supervisor also needs to review the center's performance in maintaining the necessary MIS. This review will be concerned with the completeness, accuracy, timeliness and use by staff of the data provided.

3. Review expenses

This entails a quick scan of expenses each month to look for any unusual items or amounts. If an unusual expense is seen, the supervisor needs to question the reasons for the item and check the validity of the expense: whether the item was within the authority of the center or authorized by Head Office.

d. Field Office Assets and Appearance

The supervisor needs to inspect the main assets of the Center and report on their maintenance and condition. In the case of the center's office, the supervisor should not only note whether it is clean and in good condition, but also check that it is secure against the theft of any items within it. Similar observations should be made with respect to office furniture and equipment and vehicles. Comments and recommendations should be made accordingly.

e. Summary

In this section the supervisor should report on the actions taken by the Center in response to her previous comments and recommendations. If actions taken have not been adequate this needs to be stated clearly.

This section can also be used to summarize the overall performance of the center. If the performance of the Center is excellent then write this as it provides an incentive, especially for EOs in remote field positions, towards continued performance.

FIELD OFFICE SUPERVISION VISIT: MONTHLY REPORT

Field Office Name: Chuadanga **Date:** October 1994

1. BUSINESS ACTIVITIES (this month):

Comment on actions taken in last month:

1. Trained 72 new entrepreneurs in management training. Completed 5 day course for 15 entrepreneurs in producing high quality leather goods.
2. Extension Officer discussing with BSCIC District Office the possibility of finding trainers to improve the skills and opportunities for food processing. Estimate 25 potential entrepreneurs for this course.
3. One new group formed. Six groups started borrowing. Provided 1 day training to 8 group leaders.
4. While still behind schedule in number of borrowers, this has been a good month.

a.	Loans disbursed:	No.	51	b.	Average size	Tk.	8,420
c.	Loans outstanding	No.	650	d.	Loans oustanding	Tk.	2,509,000
e.	Groups:	No.	17	f.	Group members	No.	156

Recommendations:

1. Visit Rani Nagar village to survey activities of entrepreneurs who may benefit from WEDP assistance.
2. With group and block leaders, discuss ways to increase numbers of members.

2. FIELD OFFICE PERFORMANCE

a.	Classified Loans:	No.	132	b.	Classified loans amount	Tk.	551,980
c.	Percentage of classified loans	%	15.3%	d.	Interest revenue on Loans Out	%	12.5%
e.	Active borrowers per staff	No.	163	f.	Loans outstanding per staff	Tk.	627,250

Comments & Recommendations:

1. Visit Maidan village to review and report on ways to improve loan repayments. meanwhile no new loans.
2. Restrict Mrs Rabeka's new lending work. She must concentrate more on loan recovery.
3. Visit all borrowers with loan overdue more than three months to discuss their problems. Obtain promises for repayment of next installment. Visit again those who do not keep their promise. Inform them of consequences of continued non–repayment.
4. Draw up an action plan, for discussion next visit, to increase number of borrowers per staff
5. Interest revenue shows loss of 3.5% on loans out – i.e. Tk 87,815 per year.

3. PROCEDURES (i) Loan Applicants

Forms properly completed:	Y/N		Borrower ledger cards:	Y/N
a. Identity	Y	a.	Correct entries	N
b. Baseline Survey	Y	b.	Correct loan repayment calculations	Y
c. Loan Application & Approval	N	c.	Reconcile with other accounts	N

Comments & Recommendations:

1. More detail in loan application is needed concerning intended use of loan funds.
2. Ensure interest payments are shown correctly in borrower ledger cards
3. Make sure all loan repayments can be reconciled with daily cash balances. Balance the books at the end of each day.

12

(ii) Accounting & MIS

Comment on accuracy and timing of reporting:

1. Lateness in sending data to WEDP Head Office was due to illness of Extension Officer. Procedures now devised so alternate officer also responsible to send data.
2. Loans outstanding in MIS does not balance with the master Loan ledger
3. Random check of files show that data for loan overdues 1 – 3 months not accurate.
4. Borrower passbooks not completely registered.

Recommendations:

1. Review all borrower files and correct information concerning all overdues.
2. Register all borrower passbooks to ensure none are misused.
3. Check reasons for discrepancy between MIS total for loans outstanding and the total from the loan ledgers.

(iii) Expenses

Review unusual amounts. Comments:

Vehicle repairs due to Baby taxi accident.

Expense payments authorized. Comments:

All expenses authorized

4. CENTER ASSETS & APPEARANCE

	Y/N		Y/N
a. All assets in satisfactory condition	N	b. Records & Cash safe	N
c. Office clean and tidy	Y		

Comments & Recommendations:

1. Roof and ceiling above records room needs repair to prevent burglary.

5. SUMMARY & ON–GOING ACTIONS

Comments & Recommendations:

1. Performance of the center has improved from last month. Keep up the good work.
2. Need to increase number of borrowers and reduce overdue amounts of loans: this will be difficult and will require closer supervision of staff.
3. Suggest you spend one day in the field with each staff person to encourage better performance.
4. Check the accountant's daily activities to prevent data entry errors.
5. At next visit, I will bring information about the food processing subsector study.

SUMMARY SHEET: WEDP CENTER PERFORMANCE 1/.

Date: ____________

WEDP Center Name	Lending Activities						Loan Performance		Lending per Staff	
	Loans Outstanding			Loans Disbursed			Classified	Revenue	Borrowers	Loans Out
	No.	Tk	Size	No.	Tk	Size	%	%	No.	Tk
1 Swarupkathi	621	894,329	1,440	24	127,200	5,300	9.3%	23.1%	155	223,582
2 Laksam	524	1,065,450	2,033	11	89,145	8,104	15.3%	17.8%	131	266,363
3 Sherpur										
4 Kawnia										
5 Mukshudpur										
6 Balagonj										
7 Tala										
8 Sarail										
9 Begumgonj										
10 Rajoir	1,034	6,591,465	6,375	112	1,317,855	11,767	8.5%	25.3%	259	1,647,866
11 Jhinaidah										
12 Akkelpur										
13 Parbatipur										
14 Mirzapur										
15 Roigonj										
16 Patuakhali										
17 Barisal										
18 Natore										
19 Savar										
20 Hathazari										
21 Dewangonj										
22 Dinajpur										
23 Kushtia										
24 Rupganj										
25 Kishorgonj										
26 Monirampur										
27 Singair										
28 Gaibanda										
Totals:	2,179	8,551,244		147	1,534,200					
Averages:	726	2,850,415	3,924	49	511,400	10,437	9.4%	24.1%	182	712,604

1/ These figures are illustrative only. They are not related to actual performance.

Attachment 5.

WEDP ORGANIZATION AND JOB DESCRIPTIONS

The current organization of WEDP, see Chart 1 attached, is inappropriate for a body expected to have lending as its major activity. If WEDP is to take full responsibility for all lending activities, it is recommended that changes to the organization be made. To ensure sustainable continuity of operations, it is recommended that a Lending Manager be appointed to eventually take over the duties presently carried out by the short term Rural Credit Advisor.

The changes to the management information (MIS) and accounting systems, coupled with the anticipated larger numbers of Centers and borrowers and the direct administration of lending and savings activities involving the handling of larger volumes of money, means that the work of WEDP will become more complex. More detail concerning job descriptions and responsibilities for all personnel and departments within the WEDP organization is needed.

In general, the suggestions contained in this Attachment are designed as a supplement to the job descriptions currently assigned and used. The effect of the suggestions on the organization chart of WEDP are outlined in Chart 2 of this Attachment.

1. Managerial Posts and Responsibilities

a. The Project Director

The current Job description is probably sufficient. Ultimately, the Project Director is responsible for all policies, operations, and staff involved with the WED Project. The Project Director will assign staff as necessary to carry out activities required under the Project.

b. Deputy General Manager (DGM)

In addition to assuming control in the absence of the General Manager, the DGM would exercise control over all of the operating and administrative functions of WEDP through the oversight and coordination of the activities of the Financial Manager and the Lending Manager. Additionally, the DGM under the Project Director would be responsible for the supervision of the Centers, for the WEDP MIS, and for the selection, appointment and reimbursement of staff.

c. Financial Manager (FM)

In addition to assuming control in the absence of the Deputy General Manager, the FM will have control over and responsibility for the four WEDP sections concerned with: Planning and Funds Management; the Accounting system, the Internal Audits (by assisting BSCIC auditors), and WEDP administration.

A5

d. Lending Manager (LM)

The LM will have control over and responsibility for all WEDP lending and savings activities and supports. The LM will assist the DGM in the supervision of Centers and will work closely with the FM in the fields of: finance, to ensure adequate funds are available for lending and repayment of savings; and in the supply and use of the MIS data.

2. Departmental and Sectional Functions and Responsibilities

a. Lending and Savings Activities and Supports

(i) Development of Procedures and Business Activities

- o Establish guidelines and procedures for lending and savings activities and incorporate these in an instructional manual. Assist in training and field supervision to ensure these procedures are followed correctly.
- o Periodically review and make recommendations concerning the appropriateness of loan amounts, charges, terms and conditions within specific market segments.
- o Provide direction in the design and implementation of savings programs and in the use of savings funds.
- o Direct and encourage surveys for the promotion of lending for new business activities
- o Establish criteria for the establishment and operation of Groups, set targets for group lending and savings, monitor group achievements.

(ii) Field Office Supervision

Assist the Project Director and Deputy General Manager in the regular inspection and supervision of Centers, specifically to:

- o Work with the Centers in setting and achieving annual targets concerning number of borrowers, average loan size, mobilization of savings, and staffing.
- o Check and ensure that all Center reports are produced correctly and provided on time.
- o Appraise and approve loans of a size larger than that within the Extension Officer's sanctioning limit.
- o Through regular visits, observe the activities of Center staff and provide instructions and on the job training to correct their mistakes.

- o Monitor and analyze the performance of the Centers and use this information to raise their work standards. Information gained will be used for training purposes, to discover, and encourage the duplication of, worthwhile innovations, and to provide incentives for improved staff productivity.

- o Check the stock of bookkeeping forms and other materials to ensure each Center has an adequate supply.

(iii) Training

- o Prepare an annual program for training activities for WEDP staff and for WEDP loanees. This program will cover the types and locations of courses to be provided, the numbers of trainees expected for each course, and the estimated costs of each course. During the year, actual information concerning these courses will be recorded, with the assistance of the Financial Manager and Field Office Extension officers, so that actual results and expenditures can be compared with annual targets.

- o Ensure that training materials, facilities, trainers, and funds are available for the achievement of the training program.

- o Assist trainers in the preparation of training material

- o Assist in the teaching of trainees.

- o Provide a regular assessment of all training courses to determine their effectiveness in terms of benefit to the trainees and that their training costs are reasonable.

- o Continually review and recommend the need for new courses as the needs and opportunities arise.

b. Financial and Administrative Management

The manager of this department will be responsible for the sections and their activities as outlined below. Additionally the manager will participate in all meetings concerned with the planning and implementation of WEDP activities so as to assist in their coordination and funding. The manager will act as the DGM in the latter's absence.

(i) Planning and Funds Management

- o Coordinate the preparation of the operational plans for the head office and the field offices.

- o Ensure adequate funds, at minimal cost, are available to implement WEDP's planned activities.

- o Ensure that all funds are kept safely.

(ii) Accounting

- o Ensure all accounts and financial statements are kept correctly and presented as needed to WEDP management and Project fund donors.
- o Calculate and pay staff salaries and allowances
- o Make payments in accordance with all expenses vouchers
- o Establish and supervise procedures for the handling of cash at head office and in the field offices and ensure cash is fully accounted for and held safely.

(iii) Management Information System (MIS)

- o Ensure all data are complete, accurate, and provided to the necessary offices on time
- o Ensure full maintenance of MIS programs and arrange for and supervise program modifications as needed.
- o Ensure full maintenance and repairs of MIS equipment

(iv) Administration

- o Ensure all WEDP offices and facilities are adequate and maintained correctly
- o Maintain records of WEDP staff: their basic data, employment contracts, salary rates, and their job titles and descriptions.
- o Assist the Project Director and DGM in the annual setting and calculation of salaries and bonuses associated with staff promotions and performance.
- o Be responsible for the costing and procurement of WEDP offices, materials, equipment and vehicles.
- o Maintain records of office leases.
- o Maintain records of all Project agreements concerning assets, liabilities and funding arrangements.
- o With the accounting section, maintain records of all assets.

c. **Internal Auditing and Overall Supervision**

- o Ensure accounts for all financial and non-financial transactions are correctly maintained and reported.
- o Ensure all procedures and activities are carried out correctly and in accordance with WEDP's objectives and scope of operations.
- o Investigate irregularities and report to management.

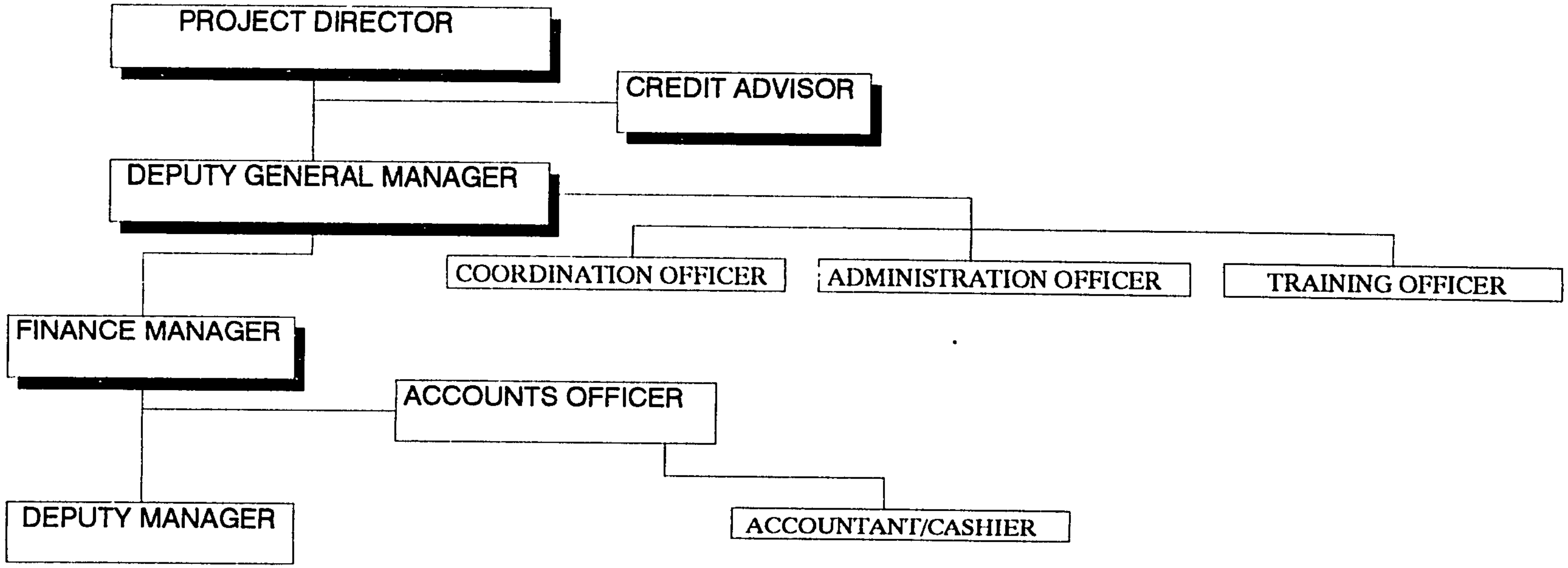
d. **Center Activities**

The following tasks and duties probably need to be added to those contained in the current job description.

- o Manage Center assets and liabilities to ensure a satisfactory financial performance.
- o Assist loanees in the completion of forms needed before receiving a loan (Assistant Extension Officers).
- o Make decisions concerning loan size and loan terms and conditions for each loanee (Extension Officer).
- o Ensure that documents and materials held to support the provision of loan collateral, are correctly recorded and stored safely.
- o Visit loanees as necessary in order to obtain full recovery of loans (all staff).
- o Maintain and store ledgers as needed for all borrowers and savers (Extension Officer and all staff).
- o Organize the development of groups for lending and savings activities and assign these into a system of blocks (Assistant Extension Officers).
- o Supervise the activities of groups and blocks to ensure they function efficiently (all staff).
- o Provide training and guidance to leaders and treasurers of the groups and blocks (Extension Officer and Assistant Extension Officers).
- o Ensure data sheets for the accounting and management information systems are correctly and promptly completed as needed (Extension Officer).

Attachment 5.
Chart 1

PRESENT WEDP HEAD OFFICE ORGANIZATIONAL CHART



Attachment 5.
Chart 2

PROPOSED ORGANIZATION CHART FOR WEDP HEAD OFFICE