

A.I.D. MICROENTERPRISE STOCK-TAKING:

BANGLADESH FIELD ASSESSMENT

A.I.D. EVALUATION OCCASIONAL PAPER NO. 27

by

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TABLE OF CONTENTS

FOREWORD	i
PREFACE	ii
SUMMARY	iii
PROJECT DATA SHEET	vi
1. <u>COUNTRY SETTING</u>	1
3. <u>FINDINGS AND ANALYSIS</u>	6
3.1 <u>Description of Implementing Institutions and Project</u>	6
3.2 <u>Project Organization and Management</u>	6
3.3 <u>WEDP Client Profile and Program Services</u>	7
3.4 <u>The Loan Approval Process</u>	8
3.5 <u>Sustainability of WEDP</u>	9
3.6 <u>Cost Effectiveness</u>	10
3.7 <u>Impact on Beneficiaries</u>	10
4. <u>FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT</u>	12
5. <u>LESSONS LEARNED. IMPLICATIONS FOR FUTURE PROGRAMS AND POLICY DIRECTIONS</u>	13

APPENDIX A

GRAPHS AND TABLES: Is or will be available on Microfiche

FOREWORD

During 1988 and 1989, A.I.D. undertook a major stock-taking of its experience in microenterprise development. The stock-taking examined differing approaches and techniques that have been used in efforts to assist microenterprises, including alternative institutional delivery mechanisms. The study was designed to identify the patterns of A.I.D. project interventions that generate success, with the goal of establishing which were the most successful programs, institutions, and delivery techniques. It required an examination of microenterprises and of the way their problems differ, and an analysis of the different types of A.I.D. project approaches, to see which work best under which conditions.

The stock-taking included a conceptual overview paper of published evaluations that identified many factors that are important to project success. It also developed a conceptual framework for analyzing the types of problems microentrepreneurs face.

The stock-taking included field assessments of A.I.D. microenterprise assistance projects in 10 countries. These assessments provided an excellent opportunity to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stock-taking was a synthesis, which pulled together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

Bangladesh was one of the 10 countries examined in the field assessment, and the assessment focused on the Women's Entrepreneurship Development Project. This assessment provides interesting insights on one approach to promoting microenterprise development. We think that those who are working on microenterprise programs in Washington and in the field will be able to draw on the findings of this report to help in the planning, implementation, and evaluation of other microenterprise programs.

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PREFACE

This report was based on a field study undertaken in November 1988, of the Women's Entrepreneurship Development Project (WEDP) in Bangladesh. WEDP, begun in 1982, is providing training and credit services to women-owned businesses or family businesses in which women have a significant management role. It is administered by the Bangladesh Small and Cottage Industries, which has a grant agreement with A.I.D. to promote the development of rural industries in Bangladesh. Because WEDP targets microenterprises, i.e. enterprises engaging from 1 - 10 employees, it has been included as part of A.I.D.'s worldwide stocktaking exercise of microenterprise activities. This report summarizes WEDP performance to date, and addresses some issues and important lessons for microenterprise development in general.

The authors wish to thank the staff of WEDP for their support and cooperation during our field study. Their dedication and commitment to increasing incomes and employment opportunities for women in Bangladesh were an inspiration to our team.

SUMMARY

Bangladesh is the most densely populated agrarian economy in the world. Eighty-five percent of the population is rural and the majority of the employment in the country is provided by the agricultural sector. Despite the fertile land and abundant water, the country is characterized by extremely high under-employment and low levels of productivity, making it one of the poorest countries in the world.

Economic activity, while primarily rural, has been shifting increasingly toward the non-agricultural sector. The large, young population, coupled with the demand for more employment opportunities for women, will result in increasing number of new entrants into the labor market. The creation of off-farm employment is critical to allow the Bangladesh economy to absorb its growing labor force. To stimulate job creation, Bangladesh has taken steps to remove some of the government imposed constraints on the private sector by abolishing the controls on the size and nature of private investment and shifting toward free market pricing policies. Microenterprise and the private sector continue to be constrained by limited formal financial markets in Bangladesh. Banks are reluctant to lend outside donor funded projects to small borrowers.

A.I.D.'s support for private sector development in Bangladesh has gradually expanded over the 1980s. The mission has integrated private sector development elements into projects across its portfolio. A.I.D.'s private sector strategy has two prongs: (1) support of policy and institutional reforms that improve the economic environment in which private enterprises operate and (2) attempts to work directly to relax the infrastructure, organizational, human resource, technological, and information constraints to private sector development. The largest A.I.D.-funded microenterprise project in Bangladesh is the Women's Entrepreneurship Development Project (WEDP) which is, in fact, a very small project compared to other mission activities. WEDP focuses on raising incomes and developing women-owned and managed businesses in rural areas.

The executing agency selected for WEDP project is the Bangladesh Small and Cottage Industries Corporation (BSCIC), a parastatal dedicated to the promotion of small and cottage industries in Bangladesh. The project had the objective to assist BSCIC "to establish a system for promotion of village industries, possibly supported by credit, training and/or women's industries and entrepreneurship development."

All WEDP beneficiaries are women. WEDP clients are an average 33 years of age; 87 percent are married and 11 percent widowed; only five percent have electricity; client families own an average of .034 acres of land and \$ 1,1 50 in other forms of personal possessions such as radios and cooking utensils. By comparison, the average farm holding in Bangladesh is 2.2 acres, though less than a third of the agricultural labor force is listed as owner-cultivator; average family income is under \$400 a year.

WEDP services include entrepreneur identification, skill development training, project appraisal, management training, loan application assistance, and pre investment and post-investment counseling. In addition, field staff typically operate as loan collectors on behalf of the Agricultural Bank.

Ten percent of clients have taken training courses offered by WEDP. WEDP and the Agricultural Bank have to date disbursed 10,459 loans, 1,541 of these, or 15 percent, are second or third loans. Therefore, the total number of clients served to date by the WEDP loan program is 8,918. WEDP loans are made at an annual interest rate of 16 percent.

The issue of WEDP's financial viability is more of an organizational matter than a financial one. That is, as all loans are made by and repaid to the bank, WEDP is not generating any interest income to offset its operating expenses. WEDP is actually subsidizing the bank by assisting loan applicants, and collecting repayments. Furthermore, because WEDP clients are primarily engaged in small income-generating activities, it is highly unlikely that WEDP could collect any fees (at least from its clients) for services. WEDP, in fact, sustains significant costs in providing per diem and pocket money for its client trainees.

Beneficiary impact, as measured in a 1987 survey, indicate that 57 percent of clients reported increases in income due to WEDP loans or assistance, 75 percent reported improvements in production, and 36 percent reported increases in employment. Twenty-eight percent reported that they had expanded their business activity as a result of increased profits.

Other data suggests that many women borrowers have limited management involvement in the small business or income-generating activity. Because records are not typically kept by WEDP clients, it is not possible to do an analysis of the profitability of their activities to date.

Factors Influencing Project Performance and Impact

Sustainability

- (1) The policy and regulatory environment governing capital markets in Bangladesh are constraints to WEDP achieving financial self-sustainability.
- (2) Administrative practices, especially those that concern loan monitoring, are cumbersome, and do not provide accurate timely information.
- (3) Loan recovery rates have dropped from 80 percent to 47 percent in the first quarter of 1988, partially as a result of the government practice of cancelling interest payments after the floods.
- (4) The WEDP is not making loans in a cost-effective manner.

Beneficiary Impact

- (1) The targeting of small rural enterprises rather than the somewhat larger urban enterprises which have greater potential for creating new employment reduces the actual number of program beneficiaries but directs assistance to the beneficiaries in more remote and poorer areas of the country.
- (2) The extent of beneficiary impact is limited by the lack of data on project services and client activities. These data would permit better needs assessments and mid-course correction for projects.

Lessons Learned and Implications for Future Programs and Policy Direction

- (1) Microenterprise development projects should not confuse the objectives of poverty alleviation and business development, because each requires a different approach.
- (2) Graduation of clients from microenterprise programs to formal sector banks is very difficult.
- (3) Microenterprise development projects need to have staff with the appropriate business skills and orientations to properly assist their clients.
- (4) Microenterprise development projects that target specific groups, as WEDP targets poor, rural women, must monitor their clients to ensure that the target population is actually receiving the benefits of project.
- (5) Microenterprise development projects engaged in training should provide training that is geared toward client needs and should be followed up regularly, especially in the initial stages.

PROJECT DATA SHEET

1. Country: Bangladesh
2. Project Title: Women's Entrepreneurship Development Program, which subcomponent activity under the Development Component of the Rural Industries Project I.
3. Project Number: 388-0042
4. Project Implementation:
 - a. Project authorization, 1982 - 1990
 - b. Final obligation, 1988
 - c. Final input delivery, November 1988, with increase in funding and extension of PACD to December 1990.
5. Project Completion-Final Disbursement. December 1990
6. Project Funding: Total WEDP funding to December 1990: \$846,598

Host Country Exchange Rates:

1982: \$1.00 = Taka 24
1985: \$1.00 = Taka 27
1988: \$1.00 = Taka 33

1. COUNTRY SETTING

Situated in one of the most fertile deltas in the world, Bangladesh is also the most densely populated agrarian economy in the world. Eighty-five percent of the population is rural and the majority of the employment in the country is provided by the agricultural sector. Despite the fertile land and abundant water, the country is characterized by extremely high underemployment and low levels of productivity, making it one of the poorest countries in the world.

Under British colonial rule, what is now Bangladesh was an agricultural hinterland for Calcutta. Later, as East Pakistan, the region remained agricultural while West Pakistan developed industrially. Upon independence in 1971, Bangladesh was faced with economic disruption and destruction of infrastructure resulting from its War of Liberation.

The government of the newly independent Bangladesh instituted centralized management of the economy, with nationalization of the major industries and the banking sector.

During 1973, a revision of industrial policy attempted to ease constraints on private investments. The policy commitment toward promoting private enterprise was not strong enough to be effective. Following the assassination of President Sheikh Mujibur Rahman in 1975, a new industrial policy allowed some divestiture of nationalized industries and raised the ceiling on private investment. In 1982, the military government, which came to power upon the assassination of President Ziaur Rahman, accelerated the process of privatization, began to encourage export led growth, and established a policy environment favoring free enterprise. The 1986 Industrial Policy continues to move toward support of the private sector by abolishing many of the controls on the size and nature of private investment and by shifting toward free market pricing policies.

Bangladesh experienced economic setbacks in 1988. At the beginning of the year, it appeared that the country could achieve a significant increase in its economic growth. Four years of stabilization efforts had been successful in adjusting the economy to a less favorable external environment and resource position. However, from July to September the country suffered from the worst flooding in more than thirty years. The flooding destroyed over \$250 million in economic infrastructure, damaged the main rice crop, and took an estimated 1,800 lives. As the floods receded, the government moved rapidly and effectively to restore agricultural production and repair damaged infrastructure.

The country has subsequently witnessed a period of political unrest. The latest wave of opposition and extra-parliamentary agitation began last November. The opposition charges that the current government has failed to improve living conditions sufficiently. However, the population has little confidence in the ability of the opposition to deliver real economic progress. Thus, while suffering from economic disaster, Bangladesh is also experiencing a political crisis.

Bangladesh's current population is estimated at 110 million with an annual growth rate of 2.4 percent. Over 30 percent of the population is

under 15 years. Rural population density is 1,700 people per square mile.

Bangladesh is primarily an agrarian society, but economic activity has been shifting increasingly toward the non-agricultural sector. In fact, the proportion of the labor force in the non-agricultural sector nearly doubled from 21 percent in 1974 to 41 percent in 1984. Concurrently, the proportion of women in the labor force has more than doubled between 1974 and 1984, from four to nine percent. Women's participation in the labor force rose more rapidly in the urban areas than in the rural areas.

In both urban and rural areas women are more likely to be employed as day laborers or as domestic servants. Men are more evenly divided between selfemployment and day labor. Both men and women earn more in non-agricultural activities than in traditional agricultural work. In non-agricultural jobs, the wage difference between men and women is large, with more than 60 percent of the men earning more than four dollars a week, while only 10 percent of the women earn the equivalent amount.

High levels of illiteracy, malnutrition, and other health problems exacerbate the difficulties of economic development in Bangladesh. The rate of illiteracy is estimated at 69 percent for males and 84 percent for females. The school enrollment rate is 71 percent for primary school and 23 percent for secondary school. Infant mortality is 128 per thousand. Nearly 10 percent of all Bangladesh children under six years of age are acutely malnourished and nearly 60 percent are severely chronically malnourished. Life expectancy in 1986 was estimated at 55.4 for males and 55 for females.

Although not an Islamic Republic, 85 percent of the population is Muslim. Despite the alleged equality of individuals under Islam, in practice Bangladesh women are clearly subordinate to men. Women's access to education, employment, property, and credit are restricted by inheritance laws, the practice of purdah, and a sharp division of labor. Despite the growing participation of women in the labor force, women's participation in the market place is restricted. Working women frequently have to rely on a male family member for marketing, distribution, and negotiations concerning the operation of an enterprise.

The per capita income is \$140 per year. The World Bank put the 1986/87 income growth figure at 4.1 percent (against the official estimate of an income growth rate of 4.4 percent). Although growth has been insufficient to meet the poverty-related needs of a country, there is some evidence that there has been a decrease in the incidence of poverty as measured by the percentage of the population below the poverty line. The World Bank expects income growth to have slowed to about 1.8 percent in 1987/88.

The burgeoning population and the age structure of the population--30 percent under 15 years of age--coupled with the demand for more employment opportunities for women will result in an increasing number of new entrants into the labor market. Estimates place new labor market entrants

at 1.3 million each year for the foreseeable future.

The creation of off-farm employment is critical to allow the Bangladesh economy to absorb its growing labor force. It is important to keep in mind that the agricultural and non-agricultural rural economies are interdependent. Expansion of off-farm employment will depend not only on policies and incentives to stimulate growth, but also on increases in agricultural incomes. These increases in income are necessary to stimulate demand for goods and services.

Microenterprises in Bangladesh have experienced some growth since 1982 despite some serious constraints. These constraints to microenterprise development include:

- Lack of access by microenterprises to formal sector credit;
- Low consumer demand for microenterprise products because of low wages;
- Poorly developed infrastructure limiting transportation and marketing activities;
- Low levels of management skills; and
- Poor quality control in production.

Formal financial markets in Bangladesh are very limited. The government owns most large enterprises, including the four major commercial and two agricultural banks. Foreign exchange is controlled and there are strict quotas and licensing systems for private investment. Interest rates are subsidized and are set at 10 percent for some agricultural loans and 16 percent for others, and between 12 and 18 percent for loans to industry. Inflation is between 10 and 12 percent. Thus, real interest rates range from zero to five percent. One well known microenterprise project, the Grameen Bank, lends at a nominal 16 percent interest rate, while other projects' interest rates range between zero and 16 percent. Actual interest rates for microenterprise lending programs range as high as 35-40 percent for some of these projects. Bank regulations require collateral as a guarantee for any loan thus barring the landless majority from formal credit. According to one report, less than one percent of the total institutional credit is available to women.

Despite their strict demand for collateral, banks almost never foreclose on defaulters, because the required court procedure is too time consuming and costly. In addition, big borrowers often have influence to forestall collection efforts. Bank repayment rates on development bank loans are reported on the order of 10 to 15 percent. The repayment rates for rural credit in general are probably closer to 30-40 percent. Banks refuse to write off bad loans that mature, inflating the amount due and under representing repayment rates.

2. DESCRIPTION OF A.I.D. PROJECT ACTIVITIES IN SUPPORT OF MICROENTERPRISE

A.I.D.'s support for private sector development in Bangladesh has gradually expanded in the decade of the 1980s. The mission has integrated private sector development elements into projects across its portfolio. Private sector development is central to the mission's assistance for policy reform at the macro and sectoral levels.

A.I.D.'s private sector strategy has two prongs: (1) the support of policy and institutional reforms that improve the economic environment in which private enterprises operate and (2) an attempt to work directly to relax the infrastructure, organizational, human resource, technological, and information constraints to private sector development.

The Country Development Strategy Statement designates employment creation as a major goal. The A.I.D. assistance to the Women's Entrepreneurship Development Project surveyed here is one on several efforts to support institutions which directly assist entrepreneurs to create new enterprises and jobs. The Mission has also supported the Micro-industries Development Assistance Society (MIDAS) which despite its name generally works with enterprises larger than those designated as microenterprises for the purpose of this stock-taking. It supported another effort similar to MIDAS within the Bangladesh Small Scale and Cottage Industries Corporation (BSCIC), the host institution for the WEDP project. It has assisted a number of Private Voluntary Organization (PVO's) in the past, which have enterprise support as part of their activities and now has a proposed project to provide more systematic support. There is also a large management training project and a new private enterprise project under preparation.

The recent policy-related work by A.I.D. has considerable potential impact on microenterprise activity. This policy work has included assistance to the Statistical Bureau in conducting the economic census; to an economic advisory unit on employment policy; and broadly-based assistance to the banking system have all aimed at producing a more congenial atmosphere for the private sector in general, and microenterprises in particular.

Currently, the largest A.I.D.-funded microenterprise project in Bangladesh is the Women's Entrepreneurship Development Project (WEDP) which is, in fact, very small compared with other mission activities. WEDP focuses on raising incomes and developing women-owned and managed businesses in rural areas. This project is rather small in comparison to the mission's overall budget, but it has been a sustained effort since 1982. The size of the project is also small compared with other donor activities in microenterprise support.

Other donors are quite active in supporting microenterprise in Bangladesh. Donors who are active in microenterprise projects include: the Norwegians, the United Nations Development Cooperation Fund, the

International Labor Organization, and private institutions such as the Ford Foundation and CARE. For purposes of comparison, the Norwegians are funding a \$20 million Agricultural Development Project for Women (against the less than \$2 million WEDP project of A.I.D.), while Grameen Bank, funded by a variety of donors, has made \$61 million in loans. The World Bank lends almost exclusively to enterprises larger than those defined as microenterprises. The Asian Development Bank also favors larger disbursements rather than funding smaller scale microenterprise projects.

A measure of coordination exists among donors, both in general and in particular project areas. In a number of fields, including financial institution development and export promotion, A.I.D. funds technical assistance to complement large World Bank loans. The general industrial lending of the major donors has been coordinated to strengthen its impact. However, no specific cooperation in the microenterprise area has yet been arranged.

3. FINDINGS AND ANALYSIS

3.1 Description of Implementing Institutions and Project

In September 1981, A.I.D. signed a Project Grant Agreement with the Government of Bangladesh for the "Rural Industries I Project Development Funds Component" (RIP I). The purpose of RIP I was to assist in the development of mechanisms for promoting rural industries in Bangladesh by undertaking feasibility studies and pilot projects that would lead to high impact follow-on activities aimed at rural industries sector promotion. A variety of activities were to be financed under this project. The executing agency selected for this project was the Bangladesh Small and Cottage Industries Corporation (BSCIC), a parastatal dedicated to the promotion of small and cottage industries in Bangladesh. The project was to assist BSCIC in the establishment of a system for promotion of village industries, possibly supported by credit and training; women's industries; and entrepreneurship development.

Among these activities was the Women's Enterprise Development Project (WEDP). The Technical Assistance component of this activity was to be conducted by BSCIC. The loan program was to be run through the Bangladesh Agricultural Bank, a public sector bank with an extensive rural branch bank network.

BSCIC received A.I.D. funding of \$1.5 million. BSCIC counterpart funding and in-kind support totaled \$375,000 at the 1981 rate of exchange. In addition, Agricultural Bank funds are to be lent on a 2:1 matching basis with A.I.D. funds.

WEDP implementation was slower than expected, resulting in a series of modifications. The net effect of these changes has been a life-of-project commitment of about \$850,000: \$550,000 for operating costs and \$300,000 to cover one third of total credit financing requirements for the project.

3.2 Project Organization and Management

In 1982, WEDP began its operations out of four BSCIC field offices, with its headquarters in Dhaka. Total staff at that time numbered 58 of which 40 were field-based. Operations have since expanded to a total of 12 field offices, 114 field staff and 20 Dhaka-based staff.

WEDP's Project Director is based in Dhaka and makes frequent visits to the field offices around Bangladesh. She is assisted by technical and administrative staff who are in charge of WEDP's various activity areas. These include Chief Officers and Officers in charge of extension and entrepreneurship, technology and design, training, quality control, marketing, credit, and management. Each field office is typically staffed by two extension officers, two assistant officers, two field assistants, an accountant, a typist, a driver, and a guard.

Administrative guidelines adopted in 1987 mandate that all field office positions must be held by women, except in cases where qualified women cannot be identified. In addition, at least 80 percent of WEDP leadership positions must be held by women. Most WEDP staff are women who hold master's degrees in fields related to social welfare development. For many staff members, WEDP is their first full-time professional job experience. Some training in business and microenterprise has been made available to staff.

Many WEDP clients are located in remote areas. As BSCIC offices are generally located in small towns, field staff must spend a significant amount of time travelling to their clients. The widespread location of project beneficiaries consumes a large portion of project resources.

3.3 WEDP Client Profile and Program Services

WEDP has five main objectives for assisting women to be self-reliant through various income-generating and small business activities. These are to:

- Create employment opportunities for women in rural and semi-urban areas;
- Develop entrepreneurship among women through participation in different kinds of cottage industries;
- Improve the vocational skill and management capacity by imparting necessary skill development and management training, thus enabling women to participate in income-generating activities;
- Motivate women to save; and
- Improve the socio-economic condition, social and family status of women by making them self-reliant, thereby enabling them to participate in family decision making.

All WEDP beneficiaries are women, though there have been suggestions by visiting consultants that the program should be open to men. According to a sample survey, WEDP clients average 33 years of age; 87 percent are married and 11 percent widowed; with an average family size of five or six. About 28 percent are literate; 22 percent having completed primary school, four percent middle school, and two percent secondary school. Nearly all own their own one- or two-room house made of earth or straw, with tin or straw roofing; but only five percent have electricity. Client families own an average of .034 acres of land and \$1,150 in other forms of personal possessions such as radios and cooking utensils. By comparison, the average farm holding in Bangladesh is 2.2 acres, though less than a third of the agricultural labor force is listed as owner-cultivator; national average family income is under \$400 a year.

WEDP clients are for the most part poor, illiterate women with limited access to resources. However, the average WEDP client is somewhat less poor than the average member of their society. While WEDP is not serving clients in the poorest group of society, WEDP does provide technical assistance in the development of business and management skills and loan supervision to a poor segment of the population.

WEDP services include entrepreneur identification, skill development training, project appraisal, management training, loan application assistance, and preinvestment and post-investment counseling. In addition, field staff typically operate as loan collectors on behalf of the Agricultural Bank.

The team estimates that about 10 percent of clients have taken training courses offered by WEDP, ranging from skill development courses in beekeeping and tailoring, to business management training. Exact percentages are not known, as some clients have attended more than one course. The estimate was based on the assumption that 25 percent of trainees attended two courses.

Courses range from a few days to a few months, depending on the complexity of the training being offered. Trainees receive a per diem to cover expenses while the courses are in session. A group of women were observed receiving training in the production of metal household objects such as dish drying racks and clothes hangers. Their training was to last for a couple of months under the direction of a craftsman. Upon satisfactory completion of the training, they will have the option of receiving a loan to produce these goods. Management training, by contrast, typically lasts for two or three days. Appendix A describes the type and frequency of WEDP client training services.

3.4 The Loan Approval Process

WEDP and the agricultural bank have disbursed 10,459 loans, 1,541 of these, or 15 percent, are second or third loans. The total number of clients served to date by the WEDP loan program is 8,918.

WEDP has a four-phase process for loan disbursement. The first phase is identification of potential entrepreneurs. WEDP field staff utilize a questionnaire to help screen appropriate candidates. This phase includes skill development training for women's groups of homogeneous producers in traditional or non-traditional activities. The second phase for the clients selected is the formal loan application to the agricultural bank. To date, WEDP has identified 15,559 potential clients, and processed 11,696 (75 percent) loan applications.

The third phase is bank review and sanctioning or rejection of the loan. To date, 10,529 loans have been approved by the bank, representing 90 percent of total applications. The fourth phase is loan disbursement and repayment. Less than one percent of approved loans have not been disbursed.

WEDP loans are made at an annual interest rate of 16 percent. According to the original guidelines, the maximum term for a fixed capital loan was five years, and for working capital loans one year, with grace periods of up to twelve months. This was modified to two years for fixed capital loans and again to a maximum of five years for all loans. Maximum loan size was \$625; it is now \$938.

3.5 Sustainability of WEDP

If the expenses incurred by WEDP to process and recover loans are included as operational costs, it is clear that the WEDP loan fund as it presently exists is not a financially self-sustaining loan fund. Because all loans are made by and repaid to the bank, WEDP repayments are not sufficient to offset operating expenses. WEDP is, in fact, subsidizing the bank by assisting loan applicants, and collecting repayments. Furthermore, because WEDP clients are primarily engaged in small income-generating activities, it is highly unlikely that WEDP could collect any fees (at least from its clients) for services. WEDP, in fact, sustains significant costs in providing per diem and pocket money for its client trainees.

Loan recovery rates are difficult to measure accurately because of the record keeping system maintained by the Agricultural Bank. Loan monitoring is done by comparing the total amount due at a branch office with the total amount recovered. There is no provision for tracking overdue loans or writing off bad loans. In addition, loans overdue more than one year automatically increase to a 22 percent rate of interest according to bank lending guidelines. WEDP estimates conservatively that three percent of loans should be written off as non-recoverable, in some cases simply because of the death of clients. Since these amounts accumulate and are not written off this has the net effect of understating the rate of recovery as the program matures.

Even if three percent of the loans were written off, recovery rates have dropped in FY 1988 (July 1987-June 1988) from 80 percent in the previous two years to 65 percent. Part of this can be attributed to the floods of 1987, after which time the government of Bangladesh forgave payment of interest on all agricultural loans. Even though it didn't apply to them, WEDP clients were more reluctant to pay on their loans after this government action. This effect is also apparent this year; during the first quarter of FY 1989 (July-September 1988) recovery rates dropped to 47 percent.

The banking system that handles WEDP loans does not do so on a self-sustaining basis. All interest is paid to the bank, but repayments are not tracked in a manner that replenishes the loan fund; rather, the bank draws down the A.I.D. portion. A.I.D. has taken this issue up with the bank and is withholding additional loan funds until a system of recycling repayments is implemented. Arrearages are in excess of the 16 percent interest per annum charged, so the loan fund cannot be self-sustaining. If we include the expenses being incurred by WEDP to process and recover loans, the loan fund operations are clearly heavily subsidized.

The policy and regulatory environment governing capital markets in Bangladesh is also a constraint to achieving financial self-sustainability. Under recently released government regulations, all small industry loans are to be lent at an annual rate of 10 percent interest. Although WEDP and BSCIC claim that this creates a disincentive for their clients to borrow, a 10 percent rate of interest would make the loan operations even less viable. Furthermore, at 16 percent WEDP clients are being given a much better opportunity than that offered by local moneylenders who typically charge a monthly rate of 20 percent for small loans.

3.6 Cost Effectiveness

The WEDP is not making loans in a cost-effective manner. It is possible to assess cost-effectiveness by measuring costs per dollar lent. One objective set forth under the revised guidelines for WEDP was to expend not more than one dollar on overhead costs (defined as all operating expenses) to lend and recover one dollar. The cost figure for FY 1988 was 1.40, compared with 1.32 for 1987, 1.36 for 1986, 1.34 for 1985, and 2.63 for 1984.

By comparison, other small loan programs in Bangladesh, admittedly often offering less technical assistance than WEDP, have costs that run from 10-30 percent of the money loaned.

This cost per dollar recovered figure can also be calculated on a disaggregated basis by looking at different WEDP field offices. One way of comparing field office performance is to exclude head office expenses, and calculate the same figure using local office expenses and loan recover performance only. This figure varied considerably from local office to local office, suggesting that differences in administration could affect recovery rates, even under the present system.

Although a more in-depth analysis of training, technical assistance, and loan recovery costs per client would be desirable, the data available from WEDP did not lend itself to this type of assessment; only total operating expenses per center per year could be obtained.

3.7 Impact on Beneficiaries

To assess beneficiary impact, both data from the impact analysis conducted by Hashemi in 1987 and impressions gained from visits to clients at two field sites were examined. Since few if any WEDP clients keep written records the team could not explain financial statements, but had to rely on impressions.

Employment income and profit are important measures of impact on beneficiaries in microenterprise development projects. Other indicators are important as well, particularly in the WEDP project which has a key objective of enhancing the participation of women in economic decision-making. Based on Hashemi's sample survey, 57 percent of clients reported increases in income due to WEDP, 75 percent reported changes in

production, and 36 percent reported changes in employment. Twenty-eight percent reported that they had expanded their business activity resulting in increased profits.

Other data suggest that many women have limited management involvement in microenterprise or income-generating activity. Forty-seven percent reported that they either had no involvement in the activity, or that they worked in an enterprise managed by their husband; the remainder were either self-managed or jointly managed enterprises. Although 83 percent knew the amount of their loan, and 67 percent knew the duration, only 27 percent knew what interest rate they were being charged. In terms of the microenterprise itself, 86 percent knew the production processes, but only 24 percent knew about the purchase of inputs, and 29 percent knew about the marketing process. In 73 percent of businesses, investment decisions were made by the clients' husband or father; accounts were also kept in 63 percent of businesses by the husband or father. Thirty-six percent of the clients responded that they personally handled business finances. In 66 percent of the cases, the decision to take a WEDP loan was made either by the husband or father.

Because records are typically not kept by WEDP clients, it is not possible to do an analysis of the profitability of their activities. Since the majority of WEDP loans are made for traditional income-generating activities--activities that WEDP clients are already engaged in--the loans are probably generating additional income for the women and their families. As mentioned earlier, 57 percent of Hashemi's survey respondents reported increases in income after receiving their loan from WEDP. We do not know, however, what impact WEDP is having on the profitability of their clients' ventures.

WEDP loans are made in three primary areas of activity: food processing, cottage industry, and farm-related (goat and cow raising, poultry, fish farming, etc.) An appendix shows the annual loan distribution among these three areas. Most loans are made in traditional activities which WEDP clients are already engaged in. Twenty-seven percent of the cumulative value of WEDP's loan portfolio is in ricehusking; 14 percent is in cane and bamboo products such as baskets; seven percent is in mat-making, tailoring, and net-making respectively.

In addition, some new areas have been explored such as furniture-making, production of rickshaw cushions, and sanitary fixtures. WEDP's strategy in the early phases of the project was to identify those activities which had demonstrated profitability, and were most familiar to its clients.

4. FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT

Sustainability

- (1) The policy and regulatory environment governing capital markets in Bangladesh are constraints to the WEDP achieving financial self-sustainability. Under recently released government of Bangladesh regulations, all small industry loans are to be lent at an annual rate of 10 percent interest. Because of this, A.I.D. had to negotiate very hard to maintain the 16 percent interest rate set for WEDP. Although WEDP and BSCIC claim that this rate creates a disincentive for their clients to borrow, a 10 percent interest rate would make the loan operations even less viable than they now are by further reducing project revenues.
- (2) Administrative practices, especially those concerning loan monitoring, are cumbersome, and do not provide accurate timely information. Loan monitoring, as done by the Agricultural Bank, compares the total amount due in a given WEDP local office with the total amount recovered. No provision is made for tracking overdue loans, or writing off bad loans even in the case of the borrowers death.
- (3) Loan recovery rates have dropped from 80 percent to 47 percent in the first quarter of FY 1989, partially as a result of the government's practice of cancelling interest payments on agricultural loans after the floods. Even though it did not apply to them, many WEDP clients were more reluctant to pay on their loans.
- (4) The WEDP is not making loans in a cost-effective manner. Cost-effectiveness as measured by costs per dollar lent (operating expenses) to lend and recover one dollar. The cost figure for FY 1988 was 1.40, compared with 1.32 for 1987, 1.36 for 1986, 1.34 for 1985, and 2.63 for 1984.

This cost-effectiveness is a reflection of administrative procedures, but also of the environment that WEDP operates in. Reaching scattered rural enterprises is more costly than reaching concentrated urban enterprises. It is clearly more expensive to deliver services to rural clients than urban clients.

Beneficiary Impact

- (1) The targeting of small rural enterprises rather than the somewhat larger urban enterprises which have greater potential for creating new employment reduces the actual number of program beneficiaries, but directs assistance to the beneficiaries that need it the most. Urban clients are easier and cheaper to serve than rural ones because they are easier to reach and contact, and can be more readily organized into groups to receive training or technical assistance. WEDP's rural focus drives up the cost per beneficiary, but provides

services to a harder to reach client group.

- (2) The degree of beneficiary impact is reduced by the lack of impact data on project services and client activities. The project is unable to maximize its impact without knowing what results its clients are achieving. The lack of data also makes it difficult to defend any particular level of subsidization for the project's services.

5. LESSONS LEARNED. IMPLICATIONS FOR FUTURE PROGRAMS AND POLICY DIRECTIONS

There are several lessons learned from the WEDP which can be instructive for future programming. These lessons are outlined below.

- (1) Microenterprise development projects should not confuse the objectives of poverty alleviation and business development orientations, because each orientation requires a different project approach. The Women's Entrepreneurship Development Project has two major objectives: to support rural women to increase their incomes and status, and to promote rural women entrepreneurs. The first one implies the need for income-generating activities, training, and organizational work, while the second one implies a strategy that promotes women-owned businesses through more of a focus on management, finance and markets. Staff skills differ as well. In the first case, the project needs *staff* with social welfare backgrounds, and in the second, it requires *staff* with some business experience, knowledge of book-keeping and marketing.
- (2) Graduation of clients from micro-enterprise programs to formal sector banks is very difficult. In a banking system like Bangladesh's where banks insist on collateral and are reluctant to deal even with qualified women it is extremely optimistic to believe that fledgling women-owned enterprises can attract formal sector financing. A gap exists for the beneficiary between the project services received and the formal sector services available. Even after project assistance the client will probably not be able to qualify for formal sector services.
- (3) Microenterprise development projects need to have staff with the appropriate business skills and orientations to properly assist their clients. WEDP staff come from backgrounds in social welfare development, and for many, WEDP is their first job. Business experience is particularly important if the project intends to promote non-traditional business activities. A project with a business development orientation requires more business oriented skills to ensure the client undertakes appropriate profitable activities. In the case of WEDP, this has not yet been a problem as most clients are engaged in income-generating activities which they already are experienced in. However, WEDP is beginning to test new product lines and production techniques, which increases the need for skilled staff to teach quality control, marketing, accounting, and related activities.

- (4) Microenterprise development projects that target groups, as WEDP targets rural women, must monitor their clients to ensure that the target population is actually receiving the benefits of the project. In this case, a substantial percentage of the loans made to women-owned enterprises have actually been managed by a male relative in the family. Certainly in the case of Bangladesh, women are constrained from full and equal participation in the world of business, but care should be taken that the project actually reaches the target population, and that they are not just being used as a front for other activities.

- (5) Microenterprise development projects engaged in training should provide training that is geared toward client needs, and should be followed up regularly, especially in the initial stages. WEDP offers clients training in skill development and business management but could increase the impact if the application of these skills was monitored and further refined by follow up activities. Business management training offered by WEDP is not geared for the illiterate, which makes up the majority of WEDP clients. Projects like WEDP need to offer training in more appropriate to the skill level of their clients.

APPENDIX A
GRAPHS AND TABLES

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