Women's Enterprise Development Project in Bangladesh: Excerpts From The Project Identification Document and Background Papers

GEMINI Technical Report No. 2

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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Women's Enterprise Development Project in Bangladesh:

Excerpts From the Project Identification Document and Background Papers

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PREFACE

USAID/Bangladesh called upon the GEMINI Project to prepare a Project Identification Document for the Women's Enterprise Development Project, and to conduct preliminary investigations in support of Project Paper preparation. GEMINI fielded a three-person team, led by Shari Berenbach (DAI), and including Katherine Stearns (ATI) and Syed M. Hashemi (Jahangirnagar University) to perform the services requested by the Mission.

The team spent a little more than five weeks in Bangladesh, from July 30 through September 4, 1990. To design the project and conduct the initial project analysis, the team met with officials from USAID and all participating agencies; observed field operations and developed client case studies; assessed donor strategies and the services provided by other governmental and nongovernmental organizations, including the Grameen Bank; and reviewed internal documents, reports, and other relevant studies. All documents were prepared in the field, and the conclusions were presented to the Mission on August 30, 1990. On September 4, 1990, prior to departure, the GEMINI team presented to the Mission the Project Identification Document, in substance and form acceptable to USAID/Bangladesh, and the three background papers that comprised the project design effort.

ACKNOWLEDGMENTS

The team wishes to express its gratitude to Olivier Carduner and Raka Rasheed for their strong guidance and ample support throughout this assignment. Frank Young, Acting Deputy Director, made valuable comments that heightened the rigor of the design exercise. We are also particularly grateful to Rasheda Akhtar Khanam, Director of the Women's Entrepreneurship Development Project; the WEDP field personnel, who freely contributed to our work; and the many officials of the Bangladesh Small and Cottage Industries Corporation and the Bangladesh Krishi Bank who shared valuable time and insights. Finally, we very much appreciated the exchange of ideas and experience provided by other agencies that assist rural women in Bangladesh including Mohamad Yunus and Muzamel Haq of the Grameen Bank, Susan Davis of the Ford Foundation, Joan Hubbard, the staff of the Bangladesh Rural Advancement Committee, and many others.

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EXECUTIVE SUMMARY

GEMINI was called upon by the U.S. Agency for International Development in Bangladesh (USAID/Dhaka) to prepare a Project Identification Document (PID) and conduct initial project analysis for the Women's Enterprise Development Project (the Project). The Project builds upon the earlier Women's Entrepreneurship Development Project, a subcomponent of USAID's Rural Industries Promotion Project, which was implemented by the WEDP Unit of the Bangladesh Small and Cottage Industries (BSCIC) in cooperation with the Bangladesh Krishi Bank (BKB). This executive summary presents the principal findings of the design and analysis exercise. The summary also highlights several key issues under review in the GEMINI Action Research Programs.

PROJECT DESCRIPTION

The goal of the Women's Enterprise Development Project is to promote sustainable economic growth and reduce poverty by increasing income, assets, and employment for poor women and their families. Its purpose is to expand the participation of poor women and their families in cottage enterprises and microenterprises.

To realize this goal and purpose, the Women's Enterprise Development Project has been developed as a final phase in an institution-building process. Expanding upon the achievements and institutional capacity attained to date, the Project will enable the WEDP Unit to overcome significant operational and institutional constraints and build the foundation for a sustainable system with the capacity to serve national requirements. The Project will:

Extend service delivery with operational efficiency. The WEDP Unit will modify its field methodology to increase operational efficiencies, and in so doing permit a geographic expansion while cutting costs per taka lent in half.

Develop microenterprise services. The WEDP Unit will develop methods to service a greater span of household enterprises including slightly larger microenterprises with employment generation potential.

Enhance sustainability. Finally, steps will be taken to develop a sound institutional framework by devolving credit administration and portfolio management from BKB to the WEDP Unit, thus ensuring the WEDP Unit's operational autonomy from BSCIC and developing a management system capable of growth.

Once completed, the Women's Enterprise Development Unit will be poised to provide national coverage and USAID will have fulfilled its institution building program. At that juncture, the WEDP Unit will be in a position to consider a number of alternatives, including the privatization of the unit, expansion with support from a consortium of international donors, some of which have already expressed interest, and full integration within BSCIC.

KEY DESIGN ISSUES

While developing the project design, a number of issues were carefully examined, and, in particular, the question: **Why should USAID fund the Women's Enterprise Development Project when the Grameen Bank is efficiently providing credit to poor rural women on a scale that far surpasses that planned for the Project?**

The team spent several days studying the Grameen Bank's operations, including a field visit. The team concluded that while there was some similarity among the target populations and there were operational lessons from which WEDP could learn, substantial complementarity exists between the WEDP and the Grameen Bank. By supporting the WEDP Project, USAID/Bangladesh would complement the work of the Grameen Bank and provide essential resources to a program that requires financial support.

Flexible operations. While the Grameen Bank has developed an exceptionally efficient system for the delivery of small credits to rural households, its methodology is particularly rigid and time-consuming for borrowers (formation of five-member groups and 30-member centers; required weekly meetings; set, weekly repayment schedules and annual loan terms; memorization of 16 decisions, and so forth). The WEDP Unit can reach women whose operations require more flexible and less time-consuming operating procedures.

Extended coverage. Although the Grameen Bank has undergone substantial geographic expansion, there are still 26 districts or approximately one-third of the country which is not serviced by the Bank. The WEDP Unit, in its expansion, can service districts not already served by the Grameen Bank.

Growing businesses. Grameen's strict loan sizes (first loans rarely exceed $US 45 and there is a ceiling of $200) and asset ceilings (.4 acres of land or assets worth 1 acre of productive land) mean that growing profitable enterprises can outgrow Grameen. Furthermore, Grameen actually discourages its borrowers from expanding their enterprises and hiring workers, arguing that such employment is exploitative.

Program support requirements. Presently, the Grameen Bank enjoys substantial donor support through a donor coalition that has pledged a multiyear package of assistance. USAID/Bangladesh may chose to finance some aspects of the Grameen Program (such as tubewell operations) at this time, or may chose to finance the Grameen Bank's core credit operations at a later date. At this time, however, USAID's support for the WEDP is critical, ensuring that a successful women and credit program introduces methods to increase efficiency and impact.

Support for the Women's Enterprise Development Project holds several attractive features. Women who fall outside of the Grameen Bank's targeted regions can be serviced. Methods can be tested to provide more flexible services with less rigid requirements. Borrowers can have access to progressively larger loans to encourage business expansion and employment generation. By supporting the Women's Enterprise Development Project, USAID/Bangladesh will be in a position to make an important contribution to increasing the basic income levels of poor rural women.

Insights for Microenterprise Methodological Debate

The experience of the Grameen Bank and the WEDP in Bangladesh provides valuable insights for microenterprise programs elsewhere. In the A.I.D. Microenterprise Stocktaking Report, a framework is provided that classifies the Project's target population as those within the survival economy, including persons who are "denied access to more profitable enterprises by social and cultural barriers." In the past, it has been assumed that those in this survival economy were serviced by enterprise formation programs. The experience of the Grameen Bank demonstrates that expansion programs can operate successfully with those in the survival economy. However, microenterprise programs that adopt the financial systems perspective and offer only working capital credit and savings facilities may not necessarily assist members to move beyond the survival economy or to move up to the next level — those engaged in stable microenterprises.

The experience of the Grameen Bank and the WEDP also demonstrates that, given particular characteristics in the economy of Bangladesh, significant adaptations to standard and accepted practices may be called for. In an extremely poor country such as Bangladesh, because of grossly distorted factor markets, resource constraints, and low productivity, rural household economic activities generate very slim profit margins. For example, both the Grameen Bank and WEDP extend working capital loans for one year, whereas programs in other parts of the world would typically have much shorter terms for working capital loans. However, in Bangladesh, longer maturities are needed to enable the businesses to meet amortization schedules from earnings, with the working capital turning several cycles before the loan can be fully repaid.

Second, interest rates are pegged at commercial rates and are not allowed to float upward to cover the real cost of lending, or "full cost pricing." Once again, due to the slim profit margins, higher interest rates cannot be sustained by borrowing enterprises. Critics may point to the prevalence of money lenders in the rural areas to imply that the businesses can meet higher borrowing costs. However, a more careful analysis points out that households forced to rely on money lender credit may seriously decapitalize their businesses and lose land originally pledged as collateral. A significant share of the rural landless families in Bangladesh became landless due to the consequences of failed transactions with moneylenders. This has held dire consequences for the borrowers and their families.

COLLABORATION WITH COMMERCIAL BANKS

One of the fundamental purposes of the original WEDP was to enable women to have access to standard banking channels. It was assumed that because of their low social status and literacy levels, a helping hand was needed if women were to capture bank financing. Further, it was assumed that WEDP was not in the position to act as a lender itself — WEDP as part of BSCIC was by nature a governmental agency that provided services to entrepreneurs and not a financial institution. However, an examination into the program and its operations demonstrated that the problem could be approached from a different viewpoint and more effective results could be attained. While a helping hand can assist women to obtain credits from standard channels, there are more efficient methods for extending very small loans. Second, once sufficient experience had been developed, the lending function became demystified. WEDP learned that even as part of BSCIC it could disburse and receive very small credits without changing its basic institutional identify.

The decision to lend directly to clients arose through a number of field observations. The WEDP was already conducting the vast majority of loan functions, including identification, project preparation, supervision, and collection, and maintained a parallel set of credit records. BKB's function, as the collaborating bank, was solely to review and sanction the loans. In practice, the application process proved too cumbersome and two-to-six-week delays were commonly encountered. WEDP personnel devoted considerable time to the liaison function with the bank — more time than would be required to conduct the services provided by BKB itself.

Further, the collaborative arrangement was not a sound one from BKB's perspective. Typically, WEDP clients were 5 percent of the number of borrowers and represented only 2 percent of the branch portfolio, yet consumed staff time and attention incommensurate with their portion of the portfolio. An alternative "wholesale" arrangement could assist BKB to arrive at an effective model that allows it to on-lend to marginal borrowers.

The arrangement now under review would have WEDP as a wholesale borrower of BKB, with WEDP lending directly to women client borrowers. The new arrangement will hold significant potential risks and benefits. Most immediately, there will be the financial risk implied through the borrower relationship. However, once adequate administrative systems are established and staff confidence in the new methods are reached, WEDP could double the volume of its operations if it is not constrained by the slow operations of the bank. Further, reliable and timely information about the portfolio will allow WEDP to manage its operations much more effectively.

BACKGROUND PAPER SUMMARIES

The Project design, as described above, was developed on the basis of an analysis of the WEDP Project operations and the experience of other donors and program implementors in Bangladesh. The background papers incorporate the investigation and analysis that formed the framework for the project design. Principal findings presented in the background papers are highlighted below:

Rural Credit, Donor Strategies, and Field Experience

- An analysis of institutional interventions in the rural credit market demonstrates that despite considerable growth in the last decade, rural landless women continue to have limited access to credit. Two factors contribute to this pattern. First, women have not been able to satisfy standard collateral requirements as patriarchal dictates exclude women from de facto ownership of assets. Second, activities identified for purposes of loan giving are male dominated. For example, loans are earmarked for financing agricultural input purchases and noncrop sectors such as rural transport, fisheries, and small industry, while women are engaged in home-based activities that revolve around postharvest processing of agricultural produce and expenditure-saving activities (such as quilt making, house repairs, and gathering firewood). Studies demonstrate that even when incorporating governmental and nongovernmental credit channels, at best 1.12 million women have received credit, meeting the needs of 9.2 percent of women belonging to the functionally landless. This represents only 5.2 percent of all rural formal credit provided between 1980-1988.

- Donors and governmental bodies appear to adhere to one of three discernable trends in rural credit strategies. The first strategy, which emphasizes **economic growth**, is premised on the assumption that the critical constraint is one of credit scarcity. Although increasing credit through normal banking channels does make funds available, beneficiaries are determined through their initial asset endowments — credit distribution is specifically biased in favor of the rich. In the second strategy, **poverty reduction**, small credit is channeled into household-based production and petty trade, which makes use of underemployed family labor and increases family income. The poverty reduction strategy is therefore geared towards extensive coverage by providing micro credit for household-based production and services.

  Finally, **economic growth through poverty reduction** can be pursued when there are adaptations to the poverty reduction approach. Credit is extended over a number of years to enable sustained asset building, enterprises are encouraged to grow and generate wage employment, and enterprise growth is supported through skills and management training. The WEDP strategy would fall into the third category. Credit is initially extended to poor rural women, which sets the stage for asset building, productivity increases, and economic growth.

- Given the successes and failures of other programs that deliver credit in Bangladesh, a number of important lessons can be identified. First, all programs have had experience with group mechanisms. In order to decrease operating expenses, WEDP could experiment with forming loose groups to allow for servicing several client recoveries at the same time. Second, WEDP needs to assess better both the amount and timing of loan disbursements. Third, WEDP should learn from others experience with savings and emergency funds. Fourth, successful programs have had direct control over their credit funds and lending activities as opposed to working with intermediaries, and, finally, WEDP should consider that the success of other programs are based on their constant attention to innovations.

Field Methodologies

Through an analysis of field operations, recommendations have been provided to assist WEDP to increase its operational efficiency and impact on poor rural families in Bangladesh.

- **Borrower selection and application procedures.** WEDP should develop a more aggressive borrower identification and selection process that will increase the number of new borrowers reached and increase the concentration of borrowers in each village and area in which WEDP is working. Efforts should be made to streamline the applications procedure and, if possible, limit BKB's participation in that procedure. The loan application form should be revised to eliminate unnecessary and repetitive information and to include other data vital to assess enterprise past performance and household financial obligations. Repeat loans should be particularly quick as a reward for borrowers who maintain good payback records. Information gathered for repeat loans should be limited to updating the economic data of the enterprise and household and the investment plan.

- **Loan size, loan terms, and loan uses.** Year-long working capital loans should not exceed what can immediately be invested in working capital. Repeat loans, based on good payback records, should be encouraged even beyond the current three-loan policy. The use of long-term, fixed-capital loans for working capital purposes should be reexamined to ensure that they

are justified by the financed activity. WEDP field staff need additional training to better understand the use of credit and the importance of appropriate loan sizes and terms.

- **Field management and information systems.** The transfer of portfolio management responsibilities from BKB to the WEDP field offices will require a restructuring of the accounts and registers kept by the field offices and an efficient and accurate accounting system for portfolio management, which meet the reporting needs of headquarters and field staff management. As the WEDP field offices assume increasing responsibility for the management of the loan portfolios, they should carry out monthly analyses of their portfolios to detect trends, improvements, and emerging problems, and to plan their future lending and recovery strategies.

- **Loan recovery.** The importance of repeat loans as an incentive for on-time repayment should not be underestimated and should be used by WEDP to its advantage. While close borrower supervision is also an effective mechanism for encouraging repayment, given its costs, WEDP should experiment with group and peer pressure mechanisms that can facilitate the supervision and repayment of loans. Field-level information systems should be designed to help the field staff plan and carry out loan supervision and recovery functions in the most efficient way possible.

- **Additional services.** A basic orientation or management course should be provided to all new borrowers while further analysis is required to assess the impact of skills training. WEDP should implement a formal, compulsory savings program for its borrowers. They should also investigate the possibility of establishing some type of group emergency or insurance fund for reliable borrowers that suffer a crisis.

Institutional and Organizational Issues

An analysis of institutional and organizational issues demonstrated that each project component will be influenced by the underlying institutional and organizational issues facing the WEDP Unit.

- **WEDP/BSCIC interinstitutional relationship.** While the WEDP Unit enjoys considerable autonomy within the Bangladesh Small and Cottage Industry Corporation, the project is constrained by a number of bureaucratic procedures such as recruitment and procurement. Methods to resolve these constraints must be addressed and should be detailed in project implementation letters.

- **WEDP/BKB interinstitutional relationship.** The collaboration with BKB would be substantially modified to enable the WEDP Unit to disburse credit directly. The proposed collaborative arrangement with BKB would change to the following: BKB would extend a line of credit to WEDP for on-lending to women entrepreneurs; WEDP would assume full operational responsibility for identifying, approving, disbursing, supervising, and collecting loans to women borrowers; WEDP would lend to borrowers at 16 percent and assume the full credit risk. The cost of funds to WEDP would reflect the reduced risk and responsibility of BKB and would be made available at a wholesale rate, such as 9.5 percent. WEDP would continue to hold loan funds and related savings funds on deposit in a WEDP account in BKB. USAID would extend its share of credit funds directly to WEDP. WEDP would earn 16 percent on the USAID funds.

- **Staff and management development.** To facilitate decentralized management, regional offices should be established. Field support should be coordinated through these regional offices. The headquarter's staff in Dhaka should be increased to include a Deputy Director for Operations and a credit administration unit. With the new credit delivery services, the Officer in Charge at Upazila-level offices should assume increased credit administration responsibilities and receive sufficient training to prepare her for her new functions. Training programs will also be required for the Accountant and Assistant Extension Officers.

- **Organizational development.** The WEDP should adopt an organizational development strategy that emphasizes a multitiered approach, is field centered, and draws upon generalists. An intensive intraorganizational communications program is needed to ensure that field lessons are disseminated and that the program continues to innovate and refine its field methodologies.

CONCLUSION

The Women's Enterprise Development Project is at an important juncture. It has received considerable attention in Bangladesh as one of the government's more effective means for assisting poor rural women to increase household income, assets, and employment. In a country such as Bangladesh, the need is greater than that which can be met by any single institution — the WEDP can be looked upon as a complement to the Grameen Bank. The WEDP Unit is at a critical juncture in its institution-building phase. While having adopted a reasonably effective methodology, it must adopt measures that can increase operational efficiencies and reduce costs, while establishing the institutional basis that permits the program to meet a much broader national mandate for the long term.

The WEDP has significant human capital and an institutional investment upon which to build. By the end of the life of project, the WEDP will be poised to provide national coverage and USAID will have fulfilled its institution-building program. At that juncture, the WEDP will be in a position to consider a number of long-term alternatives, including privatization of the unit, expansion with support from a consortium of international donors, or full integration with BSCIC.

Women's Enterprise Development Project in Bangladesh:

Excerpts from the Project Identification Document

SECTION ONE

INTRODUCTION

In Bangladesh, pervasive poverty coupled with low productivity and limited resources, form a binding constraint on development initiatives. With little disposable income and scarce assets, the majority of Bangladeshis are proscribed from participating as producers or consumers in the modern sectors of the economy. Among the rural poor, women are the most disadvantaged. The majority earn under thirty cents per day with women's wage rates averaging less than half that of men. The need for women to earn cash income has greatly increased in the last decade as women-headed households have reached 25 percent among the rural poor, reflecting the rising incidence of divorce and abandonment. Even when husbands are present, women's income has become vital for household survival. For rural landless households, informal enterprises have become the 'employer of last resort.'

The majority of women earn income through home-based economic activities which span a continuum from simple cottage enterprises to more sustainable microenterprises. For most women, cottage enterprises generate employment for household members which permit accumulation of basic productive assets and increased consumption. A few women are engaged in microenterprises which demonstrate the potential for significant expansion and wage employment generation.

The Women's Enterprise Development Project (the Project) will utilize a poverty reduction strategy to promote economic growth. By providing credit, training and business support, the Project will first assist women engaged in cottage enterprises to increase household incomes, assets and employment. A portion of these cottage enterprises will engage in sustained asset building, which while still below the threshold of the commercial banking sector, will enable their activities to grow to asset levels and modes of operation commensurate with microenterprises.

Following upon a successful Women's Entrepreneurship Development Project, the Project has been developed as a critical phase in an institution building process. The Project will enable the WEDP Unit to build the foundation for a sustainable cottage enterprise and microenterprise support system with the capacity to serve national requirements. Through this Project, the WEDP Unit will: modify its field methodologies to increase operational efficiencies; extend services to slightly larger microenterprises with employment generation capacity; and, develop a sound institutional framework including devolving credit administration and portfolio management from BKB to the WEDP Unit and establishing a management system with the capacity for growth. Once completed, the WEDP Unit will be poised to provide national coverage and USAID will have fulfilled its institution building program.

The Women's Enterprise Development Project will complement the services of the Grameen Bank, a world renowned institution which provides credit to rural landless households by servicing regions not presently reached by the Grameen Bank and by providing individual enterprise credits not available through the Grameen Bank system which are intended to facilitate enterprise expansion and employment generation.

SECTION TWO

WOMEN'S PARTICIPATION IN COTTAGE AND MICROENTERPRISES AND RURAL CREDIT IN BANGLADESH

In Bangladesh, pervasive poverty coupled with low productivity and limited resources, form a binding constraint on development initiatives. With over 44 million people among the rural landless, annual per capita income is only $108 for the bottom half of the population. Nearly two thirds of all rural households suffer from chronic malnutrition. With little disposable income and scarce assets, the majority of Bangladeshis are proscribed from participating as producers or consumers in the modern sectors in the economy. As a result, productive assets are being syphoned off to meet basic survival requirements, depleting the natural resource base and undermining a broader sustained development process.

Among the rural poor, women are the most disadvantaged. On average, women's wage rates are less than half that of men, with the majority of women earning less than US thirty cents per day. Studies show that between 1975 and 1982, women's caloric intake actually declined while that of men's increased. The need of women to earn cash income has grown in the last decade as women headed households have reached 25 percent among the rural poor, reflecting the rising incidence of divorce and abandonment. Furthermore, even when husbands are present, women's income contribution has become vital for household survival. Inadequate household income directly effects the caloric intake for the entire household with 22 percent of the rural population consuming less than 1800 calories. Studies show that such caloric levels risks permanently impairing children's development, constraining the next generation's opportunity for education or advancement.

For most women, informal home-based enterprises serve as the employer of last resort.'(Hossain, 1989). Women's household economic activities span a continuum from 'cottage enterprises' to 'microenterprises'. Cottage enterprises entail household-based activities which generate revenue for women and family members. Given the very low opportunity cost for women's labor, cottage level production continues even when shadow wage rates are not fully attained and business profit margins are modest. By generating self-employment for household members, these activities produce important increases in assets, consumption and levels of living among very poor landless households. The vast majority of women in rural landless households are engaged, at some level, in these cottage economic activities. Microenterprises, on the other hand, represent sustained commercial endeavors. Typically involving greater asset, these microenterprises remain below the threshold of firms financed by the commercial banking sector. Nevertheless, microenterprises demonstrate positive rates of return, as well as potential for expansion and the creation of wage employment opportunities. Today, women-operated microenterprises are the rare exception. However, it is anticipated that a portion of the cottage enterprises assisted through this and other projects will grow to attain asset levels and modes of operation commensurate with microenterprises.

Cottage enterprises and microenterprises are engaged in hundreds of different activities including agro-processing (bamboo and cane processing, mat making, fishnet making), food processing (rice processing, dairy processing, oil pressing, snackfoods, bakery products, and gur making), livestock rearing (goats, cows, chickens), small industry (tailoring, pottery, jewelry, weaving, quilt/blankets, leather products, lime production, broom making, paper bag production), services (tea shops, resthouses, rickshaw repair) or trade.

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Donors have responded to both the need and opportunity presented by these household enterprises by channeling credit through governmental and non-governmental organizations to poor rural women. Among donors diverse objectives have been pursued.

- **Economic Growth Objective.** Credit has been used to promote economic growth by alleviating a key production constraint: access to capital. Channeled through the banking sector and some governmental agencies, credit may be monopolized by those who control productive assets. Where credit is invested in its intended purpose, it may stimulate economic growth. However, poor rural women typically no not qualify for such credit and economic growth frequently exacerbates income inequalities.

- **Poverty Reduction Objective.** Given the dire circumstances of rural landless households, some donors utilize credit as a means of poverty reduction. By making available very small amounts of credits to rural women, landless households are able to generate income, increase their consumption and begin an initial asset building process. Typically, projects with poverty reduction objectives, limit loan size and member assets with the goal of reaching the greatest number of the very poor.

- **Economic Growth Through Poverty Reduction Objective.** Targeting poor rural women, adaptations to the poverty reduction approach are introduced to stimulate economic growth. In the immediate term, initial loans have an effect similar to that in poverty reduction: increased income, consumption and asset building. However, loans are extended over a long enough period to foster sustained asset building. When possible, some cottage enterprises are encouraged to grow to microenterprises. Loan size is not limited, enterprise growth is supported through skills and management training, and, generation of wage employment is promoted.

The track record of these credit delivery strategies has varied widely. Considerable success has been attained by local non-governmental and governmental organizations which work toward poverty reduction or alleviation. The Grameen Bank, a government supported initiative benefitting from substantial international donor support, has received international recognition for its dramatic success providing very small credits to nearly 800,000 rural households. With less than a 1 percent default rate, the Grameen Bank distinguishes itself through its: operational efficiency, dynamic leadership and social message. (See Annex A). Non-Governmental Organizations such as BRAC, Swarnivar, Proshika and numerous others also provide credit in rural areas, although their efficiency and on-time repayment rates have typically not been as impressive as that of the Grameen Bank. The six commercial banks, two of which were denationalized in the 1980s have extended credit to stimulate economic growth. By most standards, however, their performance has been weak. The Financial Sector Reform Project is a recently approved Mission project intended to address many of the systemic inadequacies of the banking sector. The Mission's previously supported Women's Entrepreneurship Development Project, operated in conjunction with the Bangladesh Krishi Bank (BKB), has been exceptionally successful in that it has attained a repayment rate comparable to the Grameen Bank's while developing a methodology which is intended to stimulate growth through poverty reduction.

The resources channeled by donors for credit programs are impressive: Among them are, CIDA (Rural Development XII- $50 million, about a third of clients are women) and ADB (Non-Farm Employment Creation for Rural Women-$ 11 Million). The Grameen Bank will draw upon $105 million pledged by a donor consortium for 1990-1992. USAID involvement in this sector, despite its modest level, is still necessary for two reasons. First, studies have shown that even with the impressive levels

of foreign assistance, only 9.3 percent of women in rural landless households have access to credit through formal and quasi-formal (NGO) channels. The growth potential and credit absorption capacity of the cottage and microenterprise sector is vast and substantial need remains unmet. Second, and perhaps more importantly, USAID has a comparative advantage in implementing such projects given its commitment to private sector strategies for poverty reduction and economic growth, including but not limited to self-employment. Previously supported USAID projects in this sector have established the Agency's reputation among other donor initiatives, enabling further refinement and dissemination of a strategy which combines economic growth with poverty reduction.

SECTION THREE

PROJECT BACKGROUND

The Women's Entrepreneurship Development Program (WEDP) under the Rural Industries Program (RIP), began in 1982 as a microenterprise pilot activity. During its first pilot phase, WEDP tested methods to assist women's cottage enterprises and developed a field methodology which entailed intensive staff supervision. Through a collaborative arrangement with the Bangladesh Krishi Bank (BKB), WEDP identified clients and assisted them to complete their loan applications for bank financing. WEDP shepherded the loan applications through the bank and provided women with training, counseling and follow-up monitoring. Through this program WEDP assisted women, who would never have qualified for credit under standard arrangements, to receive financing. Successful pilot efforts led in 1986 to a second phase expansion which covered 20 Upazilas. The project directly assisted about 12,000 rural women disbursing over US$ 1 million as small credits averaging $83. Through the Bangladesh Krishi Bank, the BDG matched USAID credit funds two to one. Total USAID expenditures under phases one and two reached $1 million.

USAID evaluations in 1986 and 1989 concluded that WEDP had attained a significant measure of success in the context of similar programs in Bangladesh. WEDP's strengths to date lie in (i) having reached over 12,000 women/family operated enterprises from among the lowest 20 percent income group; (ii) achieving an excellent loan recovery rate of 86 percent; (iii) establishing a field delivery system operating in twenty Upazilas, staffed largely by women extension officers; (iv) institutionalizing a successful women-managed enterprise support unit within a BDG agency; (v) fostering policy shifts among host country officials which has reduced interest rate subsidies and linked assistance to women with productive rather than welfare approaches. Given its strong repayment rate and extensive field presence, the Women's Entrepreneurship Development Program stands out as one of the government's strongest efforts to reach the cottage-level and microenterprise sector.

This Project has been developed as a final phase in an institution building process. While significant achievements and institutional capacity have already been attained, in order for the WEDP Unit to realize its full potential, it must overcome a number of significant constraints. The Project will enable the WEDP Unit to build the foundation for a sustainable system with the capacity to serve national requirements. Towards that objective, the Project entails the following components: a) **Extend Service Delivery with Operational Efficiency**: The WEDP Unit will modify its field methodology to increase operational efficiencies and in so doing permit a geographic expansion while cutting costs per taka lent in half; b) **Develop Microenterprise Services**: The WEDP Unit will develop methods to service a greater span of household enterprises including slightly larger microenterprises with employment generation potential; c) **Enhance Sustainability**: Finally, steps will be taken to develop a sound institutional framework by devolving credit administration and portfolio management from BKB to the WEDP Unit; ensuring the WEDP Unit's operational autonomy from BSCIC; and, developing a management system capable of growth.

Once completed, the Women's Enterprise Development Unit will be poised to provide national coverage and USAID will have fulfilled its institution building program. At that juncture, the WEDP Unit will be in a position to consider a number of alternatives, including the privatization of the unit, expansion with support from a consortium of international donor some of which have already expressed interest, and/or full integration within BSCIC.

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SECTION FOUR

PROJECT DESCRIPTION

Problem

The problem this project faces is widespread rural poverty, extremely low incomes, scarce household assets and limited employment opportunities for the rural landless which dampens demand for goods and services and hampers economic growth. This problem is compounded by cultural norms which constrain women's economic participation and inhibit their contribution to household incomes and the economy at large. The Project will improve upon the prior Women's Entrepreneurship Development Project by streamlining cumbersome credit delivery methods, surpassing geographical constraints, broadening the spectrum of client microenterprises assisted and by overcoming constraints to institutional sustainability.

Project Goals and Purpose

The goal of this project is to promote sustainable economic growth and reduce poverty by increasing income, assets and employment for poor women and their families. Its purpose is to expand the participation of poor women and their families in cottage enterprises and microenterprises.

Expected Achievements and Accomplishments

Through this project credit, training and other enterprise development services will be provided to women and their families, thereby generating household income, assets and employment opportunities. More efficient methodologies for the delivery of credit and training will be field tested and implemented in order to significantly increase the number of households assisted while dropping the cost per taka lent by one half. Means for assisting microenterprises in peri-urban areas and for the growth of cottage enterprises to microenterprises will also be tested and implemented. Institutional strengthening including staff development, effective inter-institutional relations and financial viability will establish the institutional means for a sustained cottage enterprise and microenterprise support system.

Project Description

The Women's Enterprise Development Project has been developed as a critical phase in an institution building process. The three project components described below, once completed, will enable the WEDP unit to overcome present constraints and establish the institutional means for a sustainable cottage enterprise and microenterprise support system.

Extend Service Delivery with Operational Efficiency

As a result of the successful Women's Entrepreneurship Development Project between 1982-1990, the WEDP Unit has developed a reasonably effective methodology for assisting cottage enterprises and

microenterprises involving women's participation. The Project will extend this assistance to new areas and increase the operational efficiency of service delivery.

Expand Geographic Coverage. Presently, the WEDP Unit operates 20 centers, each servicing an Upazila, the county-level administrative unit in Bangladesh. Each center is staffed with an Extension Officer In-Charge, Assistant Extension Officers, Field Workers and a small Administrative Unit. Training is conducted directly at center offices which also serve as the hub for the field extension delivery of credit and advisory services.

Over the five year life of project, the WEDP Unit will double its size, expanding to reach 40 Upazilas. Upazilas will be selected in a phased program. Five of the Upazilas will include rural market towns and/or peri-urban areas. Upazilas will be chosen on the basis of established criteria including the presence of market opportunities, responsiveness by community leaders, the lack of alternative credit sources and the availability of basic infrastructure such as roads. With 460 Upazilas in Bangladesh, the WEDP Unit will expand to cover approximately 10 percent of the total.

Field Test and Implement Efficient Methods. While the present methodology has been determined effective, there remains considerable scope for improving the operational efficiency of service delivery. This must be achieved while maintaining high levels of on-time repayment. The following methodological adjustments have been identified as strategies to increase operational efficiency: more flexible client selection criteria which would lead to greater concentration of participants and field workers per center; streamlined loan application forms dropping cumbersome formalities; introduction of group disbursement and supervision mechanisms; group emergency funds and individual savings arrangements, among others. The WEDP Unit will field test adjustments to its current methodology and disseminate these changes once they adequately meet the requirements of the field personnel and clients.

Direct Credit Administration. Presently, credit administration functions are shared among the WEDP Unit personnel and branch offices of the Bangladesh Krishi Bank (BKB). Through this collaboration, women without collateral were able to access formal bank financing for the first time. While the WEDP Project engaged in the bulk of project preparation and supervision, the BKB sanctioned and administered credit, functions which initially appeared beyond the capacity of WEDP personnel. This process has become excessively cumbersome with WEDP staff time consumed with shepherding loan applications through the banking process and maintaining parallel credit records. A more efficient arrangement would entail the WEDP Unit's direct administration of a revolving loan fund. Interest earnings from this fund would then be shared with BKB which would continue to make available two thirds the total loan fund. The revolving loan fund and savings would be deposited in the local BKB branch, but responsibility for sanctioning, disbursal and portfolio management would shift to the WEDP Unit. Given the staff experience with project development, supervision and loan collections, the increased flexibility and autonomy would more than off-set additional costs in this new arrangement. It is anticipated at this time that capitalization of the revolving loan fund would be in annual tranches based upon success in reaching selected performance indicators.

Develop Microenterprise Services

While the majority of enterprises assisted are among the cottage enterprise level, the WEDP Unit will also experiment with methods to assist some to grow to microenterprises with greater potential for employment generation.

Test Services to Microenterprises. Among the 12,000 women and households assisted through the prior project, a small portion involve women with higher educational levels and slightly greater assets. These women operate microenterprises with the potential to generate wage employment. This target population falls within the bottom third of the general population as opposed to the bottom fifth which make up the vast majority of all clients. Further, some cottage enterprises, once involved with sustained asset building, demonstrate the potential to expand to the microenterprise level. Tailoring, bakery, snack-food production are examples of microenterprises with the potential for job creation. Project financing requirements of these operations range from $150 to $1,500 and are substantially above the average loan size to date of $83.

As the WEDP Unit extends its services into peri-urban areas and market towns, the ratio among the target client population of existing microenterprises and the number of cottage enterprises with the capacity to expand to the micro-enterprise level is anticipated to increase to 10 percent (2,000 enterprises.) The WEDP Unit will experiment with methods to assist these businesses with larger loan sizes and business counseling in areas such as cash flow management, marketing, and simple record-keeping. Because of their limited presence, larger capital and technical assistance requirements, and relatively higher levels of risk, these microenterprises will remain the minority of the total population supported through this project. However, given their possible employment generation capacity and potential for business growth, this population merits assistance.

Test Market Links for Cottage Enterprises. The growth of rural cottage enterprises is often constrained by limited demand in local markets. For communities which are close to market towns, adequate access to local markets is available. However, for other more remote communities without regular market channels, the Project can test methods to link traders and producers in buyer-seller networks. Possible examples include the production and sale of hand-embroidered saris, marketing of cottage-level jewelry production, the sale of cane products in regions where this is not already produced locally and others. Given the limited purchasing power in remote rural communities, experimental efforts to link cottage producers with viable markets are needed to foster enterprise growth.

Enhance Sustainability

As the final phase in an institution building process, the Project will establish the institutional framework and management capacity within the WEDP Unit to expand to a nation-wide cottage enterprise and microenterprise support system.

Management and Staff Development. Within the Bangladesh context, the WEDP project has been very successful given its dedicated and experienced field staff and good repayment rates. WEDP was an innovator in hiring women for field officer and middle management positions. Important factors contributing to the success of project management to date include the operational autonomy afforded the project by the parent agency BSCIC and the strong involvement of project leadership in field activities.

The projected geographic expansion, diversification of client business size, and more complete involvement in credit delivery and portfolio management, will all require further staff development and management training. This will be accomplished through three means. First, adjustments in the organizational structure and staffing pattern will be made to insure adequate supervision and more flexible decentralized management. Second, greater intra-organizational communications will be needed to facilitate the dissemination of newly tested methodologies. A series of regular national and regional programming workshops will be instituted. Third, staff training provided to newly appointed officers will

be strengthened and refresher training made available to field personnel to strengthen their project development and analysis experience. Through this management and staff development, the Project will develop a viable and dynamic organizational system necessary to meet its long term objectives.

Inter-institutional Arrangements

Two vital inter-institutional relationships influence the sustainability of the WEDP Unit: its relationship with BSCIC and its relationship with BKB. The resolution of bottlenecks which hampered operations during the previous project and the future sustainability of the WEDP Unit depends upon adjustments in these two institutional arrangements. BSCIC will be called upon to ensure continued operational autonomy while expanding the WEDP Unit's authority for recruitment and procurement. The relationship with BKB would be adjusted to permit greater operational responsibility by the WEDP Unit in credit sanctioning, disbursement and administration. In so doing, the institutional framework for a sustainable support system will be established.

SECTION FIVE

FACTORS AFFECTING PROJECT SELECTION AND PROPOSED DEVELOPMENT

Social Considerations

Although the Bangladeshi Constitution guarantees women equal rights with men (Article 28 [2]), in practice women face widespread discrimination. Gender differentials in health and nutrition are the clearest indicators of this discrimination with women demonstrating greater levels of malnutrition. Studies show that while men have increased their caloric intake between 1975 and 1982, women have suffered a decline. Malnutrition, frequent pregnancies, anemia and poor health care have resulted in high maternal mortality rates (six per 1,000) with maternal mortality accounting for 27 percent of all female deaths. Unfortunately, despite these difficult circumstances, the need of women to earn cash incomes has greatly increased in the last decade. Nearly 25 percent of all rural landless households are female-headed. Divorce or simply abandonment of women are particularly common in poor households. Furthermore, even when husbands are present, women's income contribution is important for the survival of these households. (Jahan, 1989) Inadequate household income directly effects the caloric intake for the entire household with 22 percent of the rural population consuming less than 1800 calories. Studies show that such caloric levels risks permanently impairing children's development, constraining the next generation's opportunity for education or advancement.

Women clients of the prior WEDP project demonstrate features characteristic of landless women throughout Bangladesh. A 1989 evaluation found that nearly 80 percent of all women participants were illiterate and 22 percent were in women-headed households. Households assisted owned on average less than a quarter of an acre of land which was inadequate to meet basic consumption requirements. Most women shared their one and a quarter room with six or more family members. Of the total, 76 percent relied on makeshift sanitary facilities. While agricultural activity provide supplementary earnings for these households, WEDP assisted activity is generally the households' primary source of income.

The WEDP screened clients to ensure women's participation in the enterprises to be financed. However, it is important to recognize that the cultural patterns in which women operate, in many instances, has constrained women's full management of their enterprises. Women are principally engaged in home-based production and will rely on male family members for their assistance with procurement of inputs and the marketing of products. Women's participation in key management decisions varies substantially across regions depending, in part, on the cultural make-up of communities; some regions registered a 12 percent participation by women in management decisions and others demonstrated 80 percent. While the Project will aim to increase women's involvement in management decisions, cultural constraints must be recognized. In such a context, increased earnings and employment for women and their family members can be considered a significant Project contribution to bolstering the livelihood and living conditions of the whole family.

Even though it is broadly recognized that women are generally not the sole decision maker of the household enterprises, women in Bangladesh (like elsewhere) are known as more reliable borrowers. The WEDP repayment rate of 86 percent outperforms the BKB average rate of 60 percent. The Grameen Bank (see Annex A) initially distributed its loans equally among men and women. However, experience demonstrated that women proved to be more reliable borrowers and as of April, 1990, 86 percent of its

loans were disbursed to women. In the Upazilas serviced by the Project there are limited sources of non-agricultural credit extended without collateral requirements. The WEDP credits have become a vital financing source for household enterprises.

Social elements to be assessed during the project preparation phase include: a) Status of women in Bangladesh; b) Women's participation in management decision at the workplace and in the home; and, c) Women's participation in NGOs and other development programs in Bangladesh.

Economic Considerations

The potential economic benefit of a program such as WEDP is largely bounded by macro-economic characteristics of the project environment. It is widely known that microenterprises in Bangladesh operate largely in the informal sector. They account for the majority of industrial employment and are a primary source of goods and services for the poor. Yet, this sector is plagued by low productivity levels which effect all sectors of the economy. With agricultural activities accounting for 79 percent of the currently active work force, 49 percent of value added and 76 percent of total exports, consumer demand for non-agricultural goods and services, particularly in the rural areas, is closely linked to the performance of agriculture. The market potential for the Project clients is substantially influenced by the limited disposable income of rural Bangladeshi households.

Although macro-economic reforms over the past five years have set the stage for an export-orientation, and there has been significant progress is non-traditional exports (garments, shrimp), these shifts have been of little consequence to the rural Upazilas and market towns serviced by the Project. For the most part, rural Bangladesh remains focused on internal markets which are highly constrained. Within these constraints, however, the economic pace of informal microenterprises in market towns appears to be on the rise. Studies have commented that, 'small scale producers in industry and agriculture, driven by ingenuity and the need to survive, have made a significant contribution to growth' (Hossain, 1989). While this is a relatively nascent trend which has yet to be fully documented or understood, the increased incidence of landlessness appears to be accompanied by the expansion of the informal sector which may contribute to the economic vitality of rural market towns.

Economic and financial factors to be assessed during the project preparation phase include: a) Assessment of microenterprise population and macro-economic trends which influence the economic environment in which microenterprises operate; b) Cost-benefit analysis of project services; c) Financial projections for the credit fund operations.

Relevant Experience with Similar Projects

The A.I.D. Microenterprise Stocktaking: Synthesis Report, provides a number of valuable insights gleaned from A.I.D.'s world-wide experience which are highly pertinent for the analysis of the Project. A framework is provided through this report which classifies the Project's target population as those within the 'survival economy', including persons who are 'denied access to more profitable enterprises by social and cultural barriers' (Boomgard, 1989). Within this context, the Project assists some households engaged in cottage enterprises to increase their assets and level of living though their 'survival' activity. A share of the households presently engaged in cottage enterprises will be assisted to emerge to the microenterprise sector where business growth and wage employment generation are possible.

In Bangladesh, the Project is not the only endeavor to reach this target population. The Private Rural Initiatives Project (PRIP) supports NGOs which provide multi-faceted assistance to rural households including credit, health services, literacy training and other social programs. The Grameen Bank, is programmed to receive $ 7 million in USAID financing (PL 480 Title III) for their diversification into tubewell operation to support their members agricultural production.

The project has examined closely the methods employed by the Grameen Bank in the delivery of their core credit services. Some of the methods which will be tested to increase program efficiencies are drawn from the Grameen Bank experience. In particular, elements from the Grameen Bank methodology which will be tested for applicability to the Project include:

a) Ease restrictions on client selection criteria. By financing all forms of economic activities WEDP can attain greater geographic concentration of clients thereby reducing field extension costs.

b) Group clients to enable more efficient disbursement, collection and supervision. By pegging repeat loans to group loan repayment performance, peer pressure is generated which bolsters incentive for on-time repayment.

c) Require savings which can create a financial buffer for clients during difficult periods.

d) Increase field officers per branch in order to expand direct service delivery and reduce the relative overhead burden.

e) Intensify staff development efforts and inter-branch communications to improve staff performance and heightened staff morale.

f) Adapt program methods on an on-going basis to continue to reach greater levels of efficiencies.

While drawing upon lessons learned from microenterprise projects elsewhere, a number of features of the Bangladesh context call for adaptation to methods widely used by A.I.D. projects in other regions. In Latin America, A.I.D. financed microenterprise projects typically extend very short term loans for working capital. In Bangladesh, the experience of both the Grameen Bank and WEDP demonstrates the need for longer loan maturities. Working capital loans have been extended for one year terms. Given the very slim profit margins of cottage enterprises, longer maturities are needed to enable the businesses to meet amortization schedules from earnings, with the working capital turning several cycles before the loan could be fully repaid. Second, interest rates have been pegged at commercial rates. In other settings interest rates have been allowed to drift upward to cover the real cost of lending generated by the higher transaction costs of very small loans. Once again, the experience of the Grameen Bank and WEDP demonstrates that due to slim profit margins higher interest rates could not be sustained by borrowing cottage enterprises. A strict economic analysis would conclude that if profit margins cannot fully cover the real cost of lending, enterprises should not receive financing. However, in an extremely poor country such as Bangladesh, because of grossly distorted factor markets, resource constraints and low productivity, rural landless households face virtually no other means to generate income outside of cottage enterprises, however marginal their return. (Less desirable alternatives would include food-for-work projects or increased malnutrition). A longer term strategy of sustained asset building is therefore essential to enable households to increase their asset base, enhance their potential return and enable business growth.

Proposed Implementing Agency

The Women's Enterprise Development Unit within the Bangladesh Small and Cottage Industries Corporation (BSCIC), a para-statal agency of the BDG is the proposed implementing agency in conjunction with the Bangladesh Krishi Bank (BKB), the agricultural development bank. The Mission considered various alternative private or public implementing organizations for this project and concluded that there were significant advantages to continuing the involvement of the Women's Enterprise Development Unit. The WEDP Unit implemented the previously successful Women's Entrepreneurship Development Project and has a tested and proven administrative and field delivery capacity. This project will entail a critical phase in an institutional building process, establishing the capacity of an on-going system for servicing cottage and microenterprises in Bangladesh. Other NGOs which could be considered for project implementation either have welfare objectives inconsistent with the Project goal and purpose and/or are not seeking additional donor support at this time. Further, NGOs, which lack the track record attained by the earlier projects would not be able to reach the advanced levels of institutional formation which can be reached by the WEDP Unit. BSCIC as the host agency, has expressed its strong support for the Project and has sought counterpart BDG financial support through its submission to the government for the Fourth Five Year Plan. BSCIC and BKB will make available over 50 percent of total project expenses, a level of counterpart support which is unusually high in Bangladesh. Further, BSCIC has assured its commitment to the continued operational autonomy and supply of institutional resources requisite for the successful operation of the Project. The continued, albeit reduced, involvement of BKB over other non-commercial or private banks has been selected as BKB offers an unparalleled extensive branch network throughout the rural Upazilas to be serviced through this project. (See A.I.D. Policy Issues, Page 15 for further discussion.)

SECTION SIX

PROJECT ISSUES

The major Project Issues to be addressed and resolved during project paper preparation include:

Scope of Project and Other Donor Support

The project as presently designed envisions a critical institution building phase during which key operational constraints can be resolved while management and organizational features are strengthened in order to establish an institutional base for a nation-wide initiative. Given the Project's track record and high visibility within the country, other donors have already approached A.I.D. expressing their interest to support this and later phases. The costs and benefits of involving other donors at this juncture should be fully weighed while considering implications for the project design, if a larger project is called for at this time. Discussions with the government and donors should wholeheartedly anticipate no further Mission support after the PACD.

Potential for Policy Dialogue

Where the Mission has involved public sector entities, an explicit policy agenda has been pursued. However, the potential policy leverage which can be attained by such a small project is questioned. The Project should be examined for how it can complement other Mission policy initiatives related to the financial sector reform underway, with particular attention to interest rate policy and liberalizing credit markets. The Project must be considered in light of Mission efforts to discourage targeted credit operations.

Banking Arrangements

The Project anticipates the need for a significant shift in the banking arrangement between the WEDP Unit and BKB. This shift is essential for the Project to arrive at satisfactory levels of operational efficiency and to adequately manage their credit operations in the future. An arrangement similar to one developed by BKB in conjunction the ADB financed, Rural Women's Enterprise Creation Project will be explored whereby the WEDP Unit would borrow at wholesale rates from BKB and on-lend to client sub-borrowers. The exact terms and arrangement for such collaboration with BKB would need to be carefully reviewed. Alternative credit sources should also be fully evaluated including the use of other donor credit funds and/or a private bank.

Operational Features

A number of operational features could significantly impede's the Project's capacity to meet its objectives and should be fully investigated and documented during project paper preparation. a) A commitment from BSCIC will be required to ensure the continued and full operational autonomy of the WEDP Unit, resolving present recruitment and procurement bottlenecks; b) Credit administration policy and procedures will be called for, including management information requirements of this expanded

function; c) Analysis of methodological adjustments to be tested and introduced to improve operational efficiency; d) Development of a plan for intra-organizational communication and staff development, including a revised organizational chart and job description for all positions.

SECTION SEVEN

POLICY SETTING

The Project is consistent with and furthers the objectives of the Mission's Country Development Strategy Statement (CDSS) and the main tenets of A.I.D. policy guidelines.

Congruence with CDSS

The goal of A.I.D. assistance to Bangladesh during the 1991-1995 CDSS period is to increase sustainable growth and reduce poverty through an open markets and open societies development path. The Project supports this goal by contributing to three of the four sub-goals outlined in the CDSS. The Project will **increase economic participation** by expanding women's access to productive inputs (credit and technology) and will **increase non-agricultural outputs** through the growth of non-farm cottage and microenterprises. Further, **increased agricultural outputs** will be stimulated indirectly by increasing household income and demand for basic grains and through the through agro-processing performed by household enterprises supported through this project.

Two Program Objectives are most directly fostered through the Project: 'Increased Non-Agricultural Private Sector Investment' and 'Increased Private Investment in Agricultural Production, Processing and Marketing.' By extending credit and training to women entrepreneurs, the Project bolsters capital formation among small informal private sector units. Investment is increased by financing fixed assets and working capital and through reinvested earnings enabling the growth of non-agricultural enterprises. In addition, by financing cottage and microenterprise agro-processing units, and by increasing rural household income, the Project stimulates demand for agricultural products. The Project will also contribute to the third Program Objective of 'Increased Access to Efficient Family Planning and Health Services.' Experience in Bangladesh suggests that economically empowered women tend to have smaller families, and are more aware of the nutritional and health requirements of their children.

The CDSS has identified the 'involvement of women' and 'sustainability' as Crosscutting Themes. This project will ensure women's access to available resources and opportunities so that, as participants in cottage enterprises and microenterprises, women are able to increase their economic contribution and improve their social status in their households and communities. Given existing cultural norms which limit women's social and economic participation, by reaching women entrepreneurs the Project unleashes a vital underutilized human asset. Sustainability will be fostered through investment in commercially viable enterprises. Further, by improving the livelihood of very poor households, the Project will alleviate pressures on the natural resource base, fostering environmentally sustainable development. Finally, the Project will contribute to the institutional sustainability of the Women's Enterprise Development Project.

As noted in the Mission Private Sector Strategy, 'The intensity of unemployment problems and the nature of Bangladesh's comparative advantages make the growth of small-scale enterprises a development imperative.' By fostering labor-intensive cottage and microenterprises, the Project is consistent with the Private Sector Strategy which aims to accelerate the rate of economic growth and expand the role of the private sector in Bangladesh's economic development. It aims to further these objectives while involving a largely marginal population: poor rural women. The Project is complementary to other Mission initiatives targeted to the small and medium enterprise sector. In

particular, the Project will draw upon the analytical work completed under the Employment and Small Enterprise Policy Project and, by focusing on the rural informal cottage and micro level private enterprises, reach a target population not supported through MIDAS, the Industrial Promotion Project, PRE Loan Guarantee Window or Business Advisory Services Council. By demonstrating more efficient credit delivery methods and devising effective means to reach small borrowers, the Project will complement the goals of the Financial Sector Reform Project which intends to strengthen the commercial banking system.

Congruence with A.I.D. Policy Guidelines

The Project is consistent with the Agency's Four Pillars of Development. The **Private Sector** is strengthened through the Project's support for its most numerous and widespread units: cottage enterprises and microenterprises. The Project will further **Institution Building** by providing a critical phase of institutional support, setting the stage for the Women's Enterprise Development Unit of the Bangladesh Small and Cottage Industries Corporation to meet a national mandate. **Technology Transfer** is anticipated in the dissemination of appropriate credit delivery methods while **Policy Dialogue** is envisioned in areas such as interest rate policy and support of women in development.

A.I.D.'s Women in Development policies are adhered to by expanding women's employment opportunities in non-traditional and/or more remunerative sectors of the economy. The Project is consistent with the Agency's policies for Private Enterprise Development and with the Microenterprise Development Program Guidelines. It conforms with private enterprise development policies by fostering the 'growth of productive self-sustaining income and job producing private enterprises in developing countries.' The Project is structured to meet the ideal design features outlined in the Microenterprise Development Guidelines in that it a) 'seeks out the very smallest enterprises'; b) 'helps firms to access formal financial systems'; and c) 'makes more than 50 percent of resources available to women operated enterprises.' Enterprises assisted through this project have fewer than ten employees and most loans will be at or below $300 with average loan size of US$83. The project will therefore support private sector activities and at the same time contribute toward meeting the annual congressional earmark for microenterprises. For FY 1990, the earmark is $75 million.

Congruence with Host Country Policies

The Project promotes one of the main features of the host country's Fourth Five Year Plan (FFYP), "Poverty alleviation through employment generation and human resource development." In the plan, the government is proposing mutually dependent sectoral growth whereby agricultural development will create the necessary dynamism for induced industrial growth, particularly through decentralized small industries which complement agricultural production. Further, the Project reinforces the government's priority on Women in Development, which emphasizes women's role in the promotion and planning of "such areas as the generation of employment, income, savings, investment etc. at the local level." The Project, is therefore consistent with the goals and means of the Bangladesh governments development program.

The BDG agency responsible for providing support services (marketing, training, advisory services) to entrepreneurs in the private sector is the Bangladesh Small and Cottage Industries Corporation (BSCIC). Organized during the Pakistan period, the existence of BSCIC represents a long-standing drive to encourage the growth of the private sector. The BDG appears to be fully committed to the Project in

its current form. Follow-on support for the Women Entrepreneurship Development Project has already been earmarked by the government in the Fourth Five Year Plan demonstrating it's resolve to support this sector from its own resources. USAID assistance has been sought to finance a critical final phase in an institution building process in order to overcome present operating constraints and establish the institutional means for a sustained cottage enterprise and microenterprise support system.

SECTION EIGHT

A.I.D. POLICY ISSUES

Women and Credit

The Agency's initial strategies to promote women in development emphasized women-specific projects. The original Women's Entrepreneurship Development Project was an example of this approach. In recent years, however, Agency-wide efforts have aimed to integrate women into all development programs, veering away from women-specific programming.

The Women's Enterprise Development Project provides an unusual example where continued support for women-specific programming is justified. Within a Muslim society, credit services are not typically provided to women; to ensure women's participation, an explicit strategy is necessary. By operating as a women-oriented project it has been possible to recruit women field officers, an important factor which has facilitated the delivery of services to women.

Although the Project targets women clients, it finances critical assets which are utilized for the benefit of the entire household. Given cultural constraints, women involve male household members in different enterprise functions, particularly in procurement and marketing. Employment is therefore not only generated for the women borrowers but also for male household members. In so doing, the Project contributes toward the broader goals of integrating women into the mainstream of economic activities. The 1989 evaluation of the prior WEDP Project demonstrated that through their participation in credit and training, women were increasing their influence in household decision-making and thereby improving their material well-being and social status. This women-specific program contributes to Agency objectives of incorporating women within the development process.

Choice of Implementing Partner

Although there is an overall Agency preference to work through private organizations, the Mission has proposed the WEDP Unit of the Bangladesh Small and Cottage Industry Corporation (BSCIC) as the implementing agency. A number of alternative implementing partners were initially considered by the Mission. However, based upon consideration of the following factors, the Mission believes that WEDP Unit, in conjunction with the Bangladesh Krishi Bank, will provide the most effective institutional framework for this project.

Past Performance and Established Capacity

The Project intends to build upon the WEDP Unit's prior experience and to complete a critical phase in an organization building process. The Mission is pleased with the WEDP Unit's performance during the prior Women's Enterprise Development Project. Overall, project targets were exceeded, repayment rates outperformed that of other local agencies, and financial accountability was well maintained. The WEDP unit has an established field delivery capacity with trained personnel in place which is critical given that microenterprise credit programs are staff intensive and rely considerably on the quality of personnel and their preparation for their duties. By switching to a private NGO at this

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juncture, the Mission would forgo the benefit of its substantial institutional investment and initiate an institution building process with a new organization which reasonably could not be completed by the PACD.

Options for Collaborating Banks

The continued collaboration with the Bangladesh Krishi Bank is recommended. No other bank has as an extensive branch network with facilities in the remote Upazilas served by the WEDP Unit. BKB is also unique in its offer to match USAID credit funds two to one for the purposes of this project. The past collaborative arrangement has established a level of trust and familiarity which will facilitate the new credit arrangement with direct Project management of credit funds. Further, through its participation in an ADB supported project, BKB is already seeking efficient methods for delegating credit administration for very small loans, indicating their willingness to engage in this type of collaboration. Private banks considered lack sufficient branch networks in remote rural areas and have not demonstrated their interest in the target population given the scale of their financing requirements (most loans being below US $100).

WEDP Unit Privatization

The WEDP Unit has operated within BSCIC with relative autonomy. While heretofore the it has not seriously contemplated spinning-off from its parent agency, the WEDP Unit and BSCIC may chose to do so in the future. The Grameen Bank has tested an innovative strategy for privatization. In its earlier phases, the government owned the majority of shares in the Grameen Bank and held a commensurate number of seats on the Bank's board of directors. Overtime, however, the combined effect of issuing and selling shares to member borrowers and buying back government-owned shares has reduced the government to a minority position. Once a sound institutional base has been established, the WEDP Unit may seriously consider privatization among its options for future sustainability. While it is premature to contemplate such an institutional plan, USAID would consider such a spin-off consistent with the Agency's policy mandates.

Policy Dialogue

By involving governmental agencies within A.I.D.'s development program, the policy dialogue process can be strengthened. While the small project size diminishes the full policy level impact, some policy dialogue has already been generated through the Project. Progress has been made on adjusting interest rate policies for small industry borrowers through collaboration in this project. The BDG had originally called for subsidized, below-commercial interest rates for the cottage and small industries sector (10 percent and 14 percent respectively.) Through project involvement, interest rates to the WEDP program were adjusted to the commercial interest rate of 16 percent, demonstrating that the potential for policy leverage may be greater than the project size would imply.

Financial Leverage

Substantial governmental financial support has been pledged for the Project. The BDG will make available US$MM 1.85 for project expenses and the Bangladesh Krishi Bank will direct US$MM 1.2 for credit funds. Altogether, the government's portion of project finance exceeds 50 percent. This level

of counterpart support is unusually high in Bangladesh and demonstrates the BDGs commitment to this project. Counterpart funds exceeds resources which could likely be pledged by a private entity.

Alternative Options

The Mission considered alternative arrangements and found no other institution likely to accomplish the project's goals in the timeframe established or afford the Mission the same leverage. For example, the Grameen Bank has assembled a consortium of donors who combined contributed $105 Million for the present three year phase. (1990-1992). Other NGOs which deliver credit demonstrate comparable or inferior field performance and as a new activity would require much more intensive project management. The development impact which can be attained by financing this critical institutional strengthening phase exceeds the potential gains which can be generated by a different institution, or through an alternative use of modest resources.

Enhanced Sustainability

The Project is intended to support the third and critical phase in an institution-building process. The Project should therefore be assessed in terms of its potential to assist BSCIC to attain sustainability. The literature has established a number of definitions and paradigms of sustainability which can be applied for analytical purposes (VanSant, 1990; Boomgard, 1989). On two facets of sustainability, institutional and financial, the Women's Enterprise Support Sub-unit has made significant progress and has demonstrated the potential to attain long term viability.

Institutional Sustainability

As a result to the prior phases, the WEDP Unit has become institutionalized within BSCIC. Project leadership is fully committed and involved in all aspects of project management. Staff have been trained and fielded, currently operating in twenty Upazilas throughout the country. The WEDP Unit has attained the support of BSCIC upper management and receives wide recognition throughout the agency. Necessary institutional arrangements have been established to foster the Project's viability. The WEDP Unit operates on an autonomous basis and is afforded considerable control over decisions such as staff appointment, project planning among other areas. This is accomplished by a women-directed, and largely women-managed and women-staffed organization, a highly unique circumstance given Bangladesh's cultural traditions.

Nevertheless, to overcome present constraints, arrive at adequate levels of operational efficiency and to develop the organizational basis needed for substantial expansion, steps are necessary to strengthen the institutional sustainability of the Project. These are detailed as the third Project Component. Specifically, to accommodate the projected doubling of operations, steps will be taken to strengthen management and staff development (regional-level field supervision, improved intra-organizational communications, staff and management training). Second, adjustments to key inter-institutional arrangements will be made. The operational autonomy within BSCIC the WEDP Unit presently enjoys will be expanded further and, more direct involvement in credit administration will be assumed. Having addressed these institutional features, the WEDP Unit will be in a position to expand to a national scope, continuing without further USAID support.

Financial Sustainability

Since its initial pilot phase, the WEDP Unit has made steady progress toward financial sustainability by increasing operational efficiencies. Using total project cost per taka lent as an indicator, the initial pilot phase (1981-1984) operated at TK 1.50 per taka lent, with the cost per taka during the WEDP project (1985-1990) averaging TK .98. The Project anticipates a substantial drop in the cost per taka lent to .50 as part of the drive to increase operational efficiency. By adjusting the field methodology, it will be possible to increase clients and loan volume per field agent ratios, contributing to substantial reductions in per unit costs. These targets are not overly ambitious when considering that the 1989 Evaluation noted that costs varied significantly across Upazilas, with some already having attained this .50 rate.

WEDP's experience should be viewed within the context of other institutions providing comparable services in Bangladesh and elsewhere. The 'A.I.D. Microenterprise Stocktaking: Synthesis Report' demonstrates that for services provided to a comparable target population, average cost per dollar lent was US$ 3.24. Even when viewing costs of streamlined minimalist credit methods, typically targeted to a more experienced enterprise group, average cost per dollar lent was US $ .42, a cost target which is not substantially below the target for this Project. It should be noted that the Grameen Bank, which has attained significant economies of scale, continues to rely on donor support and is not expected to reach financial self-sustainability for several years.

A cost ratio in the .50 range will clearly not be fully borne through interest earnings, nor should it. The WEDP Unit does not exclusively provide financial services. The skills training, management training, counseling, and experimental elements of the Project should not be financed solely through interest earnings.

The WEDP Unit will adopt a three faceted strategy to ensure its long-term financial sustainability. First, as discussed above, the WEDP Unit will become more efficient by increasing the concentration of clients and field workers, utilizing group collection and supervision techniques, streamlining the application processing and loan disbursal methods, among others. Second, adjustments to the collaborative arrangement with BKB would allow the WEDP Unit to earn a portion of the interest earnings which now fully accrue to the BKB. Further by segregating the loan fund from BKB's assets, the WEDP Unit could capture loan reflows for future on-lending, and turnover the credit more aggressively. Third, the WEDP Unit will continue to attract modest-levels of government support into the foreseeable future. The government has expressed its strong commitment for this Project, and has contemplated a nation-wide expansion. The BDG, through BSCIC and in conjunction with broader donor support will be in a position to meet the anticipated modest gap between project earnings and expenses.

By the PACD, the WEDP Unit will have completed a vital institution building process overcoming present obstacles to institutional sustainability. It will have instituted efficient operations in the delivery of core services and introduced services to microenterprises with potential for employment generation. A sound institutional framework will have been formed which will allow the WEDP Unit direct involvement in credit administration and portfolio management while ensuring operational autonomy. The management capacity of the WEDP Unit will be developed to enable expansion. The WEDP Unit will be poised to provide national coverage and USAID will have fulfilled its institution building program. At that juncture, the WEDP Unit will be in a position to consider a number of alternative options for sustainability including: the privatization of the unit; expansion with support from a consortium of international donor, some of which have already expressed interest; and/or, full integration within BSCIC.

ANNEX A

THE GRAMEEN BANK AND THE WOMEN'S ENTERPRISE DEVELOPMENT PROJECT

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THE GRAMEEN BANK AND THE WOMEN'S ENTERPRISE DEVELOPMENT PROJECT

The Grameen Bank is commonly cited as one of the world's best, if not the best, credit programs for the poor. Grameen's outstanding achievements raise an obvious question for USAID/Bangladesh: why should AID fund the Women's Enterprise Development Project when the Grameen Bank is efficiently providing credit to poor rural women on a scale that far surpasses that projected for the Project? The consulting team spent several days studying the Grameen Bank, including a field visit, in order to answer that question. This annex provides a brief summary of the operations and achievements of the Grameen Bank and a justification of the proposed project as a needed complement to the Grameen Bank in Bangladesh.

The Grameen Bank

(The first part of this section is taken directly from the draft version "Credit for Women: A Review of Special Credit Programmes in Bangladesh" by Mahabub Hossain and Rita Afsar, August, 1988, Bangladesh Institute of Development Studies.)

> The Grameen Bank was created out of an action research project initiated by a professor of economics in a village near the Chittagong University in 1976. The experience was replicated as a pilot project in a district beginning in December 1979 and was finally transformed into a specialized financial institution called the Grameen Bank in 1983. The Bank's borrower share-holders contribute about 75 per cent to its paid up capital amounting to Tk 72 million (approx. $US 2.2 million), the remainder 25 per cent is owned by the government.
>
> One member of a household that owns less than 0.5 acres of cultivable land or assets not exceeding the value of one acre of medium quality land is eligible to take loans from the Bank. The loan is issued without collateral and bears an interest rate of 16 per cent per annum. Recognizing that most of its target group are illiterate and shy to come to banks, the banking services are brought to their door steps. The bank workers go round the village, help prospective borrowers to form groups of five like-minded persons and train them in the rules and procedures of the bank. A number of groups in the area are federated into a *centre* and the elected centre chief conducts weekly meetings on a fixed day and time where the bank business is conducted and borrowers are trained in all round social development.
>
> Loans are given to individuals without any collateral. A borrower may use the credit in any productive activity, but the loan has to be used immediately and the

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principal repaid in fifty weekly installments[1]. A repeat loan is not approved for any member until all members of the group repay the loan. The group functions as an institution to ensure mutual accountability. The credibility of the group as a whole and its future benefits in terms of new loans are in jeopardy if one member breaks the discipline and defaults on loan repayments. The individual is kept in line by a considerable amount of pressure from other members of the group. The existence of the group thus acts as the collateral for the bank loan.

By the end of June 1988, the Grameen Bank had opened 453 branches and covered 8,960 villages, which is over 10 per cent of total villages in the country. It enlisted 413,000 members in 16,910 centres and disbursed a cumulative amount of Tk 2870 million (approx. $US 84.4 million) to them of which Tk 2284 million (80 per cent, approx. $US 67.2 million) had already been recovered. The members saved about Tk 281 million (approx. $US 8.3 million) in Group Fund and Emergency Fund, from which they can borrow at times of distress. The savings per member stood at Tk 680 (approx. $US 20), about 14 per cent of the per capita income of the country for FY 1987. (pp. 50-51).

Since the above was written, Grameen has continued to increase its membership and expand. By June, 1990 the Bank was active in 17,483 villages with 30,753 centres and 760,947 members, 90 percent of whom are female. Over Tk 6475 million (approx. $US 185 million) had been disbursed and the repayment rate was 98 percent. It is also worth noting that Grameen provides numerous services in addition to production credit and savings. These include, among others: housing loans for long-term borrowers, seed distribution schemes, irrigation projects, non-formal educational activities, and the promotion of "16 Decisions" which were written by the members to encourage practices such as vegetable gardening, the use of pit latrines, dowry-less marriages, the education of children, and others.

Complementarity Between the WEDP Unit and the Grameen Bank

The WEDP Unit and the Grameen Bank are both reaching poor, rural women with small loans and other related services. The average loan sizes are comparable, between $US 50-100. The types of activities financed are also similar, although WEDP places more emphasis on manufacturing activities and less on trading, shopkeeping, and animal raising.

Grameen Bank loans (Hossain, p.49)		WEDP loans (Hashemi, annex 1-B)	
trading/shopkeeping	33.8%	handicrafts/manufacturing	50%
livestock/poultry/fisheries	31.9%	food processing	39%
processing/manufacturing	24.4%	animals/fishing/crops	9%
transport/services	5.6%	others	2%
crop cultivation	4.3%		

[1] Author's note: The official 16% rate of interest on a declining balance amortized over 50 weeks corresponds to 8.12% average interest. The interest is paid in the 51st week and the compulsory deposit to the Emergency Fund (an amount equal to 25% of the total interest) is paid in the 52nd and final week of the loan (Fuglesang and Chandler, p. 113).

Despite the programs' similarities and the strengths of the Grameen Bank, there are several reasons why it is preferable for AID to support the WEDP Unit rather than the Grameen Bank.

1) Although the Grameen Bank has undertaken a dramatic geographic expansion, there are still 26 districts in Bangladesh where the Grameen Bank is not operating. The WEDP Unit, with its expansion plans, can give rural women access to credit in some of those districts. Even within the districts where Grameen is active, there are villages without access to Grameen's services.

2) The strict operational procedures of Grameen (formation of 5-member groups, required weekly meetings, memorization of the 16 decisions, conformity with the decisions of the centre, etc.) are not appropriate for all women entrepreneurs. In areas where both programs are currently operating, several Grameen members have switched to WEDP because they found the many Grameen requirements to be too time-consuming.

3) Grameen's strict loan sizes and terms (first loans rarely exceed $US 45 there is a ceiling of $200, and all loans are for one year with weekly payments) and asset ceilings (.4 acres of land or assets worth 1 acre of productive land) mean that growing, profitable enterprises may outgrow Grameen. Furthermore, Grameen actually discourages its borrowers from expanding their enterprises and hiring workers, arguing that most such employment is exploitative. The Project, on the other hand, has the flexibility to increase loan sizes and terms for good borrowers, and to encourage business growth and employment generation.

4) Strong international support has enabled Grameen to build a large capital base which provides substantial operating income and long-term stability. By the end of 1987, the Grameen Bank had over 400 million taka (approx. $US 12 million, 33 percent of its total assets) in interest-earning investments. In addition, Grameen's world-wide reputation has placed it in the enviable position of being able to pick and choose among willing donors, who channel their support through a consortium. While Grameen does not need AID funding, the planned expansion and institutional consolidation of the Project does require AID's support.

What the Project Can Learn from Grameen

Although it is important that the Project capitalize on its differences with the Grameen Bank in order to serve a clientele not being adequately served by Grameen, there are several lessons from Grameen which could help the WEDP Unit reach its goals of greater coverage, efficiency and sustainability.

1) More field workers and borrowers per field office could decrease costs per taka lent/recovered and increase the Project efficiency. While Grameen will lend to a woman for nearly any type of economic activity, WEDP has tried to be selective and support activities considered as more productive, entrepreneurial, or industrial. However, financing more relatively low-risk activities like trade, animal rearing, and traditional activities would permit the program to attain greater levels of efficiency, reach more rural women, and have a greater impact on poverty alleviation.

2) Although the Project may not want to replicate Grameen's rigid group structure, it could experiment with some group mechanisms to enable more efficient disbursement and collection of loans. For example, a Grameen field worker generally collects on 60 loans in less than 2 hours by attending two centre meetings. Such efficiencies are not reached by WEDP field workers who collect from borrowers individually.

3) Another advantage of some type of group mechanism is that much of the loan supervision and repayment pressure becomes the responsibility of the group of borrowers, freeing the field worker for other tasks.

4) The many compulsory savings schemes of Grameen (emergency fund, group savings, individual savings) have enabled its borrowers to deal with crises and other outflows of capital (floods, sickness, marriages, etc.) without falling behind on their loan repayments, decapitalizing their businesses, or resorting to moneylenders. Similarly, the Project could implement a compulsory savings scheme which creates a financial buffer for borrowers during difficult periods.

5) Grameen's emphasis on frequent and open communications among personnel, and staff training and development encourage high staff performance and morale. In addition, innovations from the field are encouraged, tested, and then shared with all field workers as a process which continually improves the efficiency, quality, and variety of services to the borrowers. The dedicated Project staff could also make continual innovations and improvements in their operations if appropriate field training and communications systems were established.

6) The management information system and decentralization of portfolio management to the field level with adequate supervision and monitoring have been critical in permitting the rapid and efficient expansion of the Grameen Bank. The Project might find similar techniques useful in its expansion phase.

In sum, while there are many lessons from Grameen which can help increase the efficiency and quality of services of the WEDP Unit, there are also several important components of the Project which enable it to meet needs not being addressed by the Grameen Bank. These include: serving villages not being reached by Grameen, providing credit and savings services without numerous time-consuming meetings and other requirements, and giving borrowers access to progressively larger loans to encourage business expansion and employment generation.

SOURCES

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Women's Enterprise Development Project in Bangladesh:

Background Paper

Rural Credit, Donor Strategies, and Field Experiences

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SECTION ONE

INTRODUCTION

Even a casual observation of some of the macro indicators of rural Bangladesh reveal the intensity of the prevailing poverty. More than half the rural population have a daily caloric intake that is less than the recommended minimum, while a third of them receive less than the critical minimum needed to maintain body weight. Anthropometric measures reveal that three-fifths of the rural children suffer from chronic malnutrition. Unemployment and under-employment in rural Bangladesh have reached critical proportions due to high landlessness (more than half of rural households are functionally landless); low absorptive capacity of agriculture (a deceleration of growth since 1986); high population growths (a million entrants into the labor force every year).[1] In such a situation, both the Government of Bangladesh and donors have identified an increase in off farm employment opportunities as being an important element in their strategies for poverty alleviation and economic growth.

The Women's Enterprise Support Project, having an experience of working in 20 upazilas with nearly 12,000 women, would provide an important institutional framework for supporting efforts for both poverty alleviation and economic growth. The project, through provisions of credit and training services, will assist cottage enterprises to increase assets, income and employment, and will support the growth of a select number of slightly larger micro enterprises with the capacity to generate wage employment and sustained asset building. The project is intended, at the end of the third and final phase (1995) to have the institutional mechanism and program methodology to eventually provide national coverage for a sustained cottage enterprise and micro enterprise support system.

This paper seeks to explore the relevance of the Women's Enterprise Support Project in terms of the prevailing situation of rural credit, donor perspectives, and the experience of other interventions. More clearly, this paper intends to (a) place other rural financial initiatives in the country, thereby determining if there is an unmet need for credit to rural women, (b) to examine the initiatives of other donor interventions in this sector — to determine if there is a niche which can be filled by WEDP, and (c) to ascertain whether there are lessons to be learnt from other governmental and NGO credit programs.

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[1] See appendix for basic country statistics.

SECTION TWO

THE STATE OF RURAL CREDIT

INFORMAL CREDIT MARKET

The informal credit market (referring to non-institutional credit) in rural Bangladesh, is characterized both by borrowing from money lenders at high interest rates and loans from friends and relatives at no interest. Demand for funds is usually for meeting consumption gaps or to pay for costs of agricultural inputs (seeds, fertilizer, etc.). About half of the funds borrowed by all categories of households come from friends and relatives, with no interest payments, being demanded. Of course informal conditionalities do prevail and range from assurances of reciprocal credit, to maintenance of kinship/factional ties, to even unpaid labor services.[2]

In terms of direct consumption loans two types of interest bearing transactions are common. Short term consumption loans for this purchases on credit from the local shopkeeper. Money for this purpose is paid back usually within a few days or a month and only "credit worthy" peasants receive such credit. Long term consumption loans are either the paddy or money and taken during the lean months or just before harvest. The duration of such consumption loans is usually for two months. A family borrowing one maund of paddy has to sometimes return one and a half maunds. On cash loans the interest is usually 10 percent a month but could sometimes be as low as 5% a month. Of course friends and relatives provide credit normally without any monetary interest. Most money are loaned out by rich peasants but a few money lenders are also present.

Interlocked land lease and credit markets are common in Bangladesh. The usual system known as "bandkah" incorporates borrowing against land mortgages. The creditor enjoys the fruits of the land for a stipulated time period (sometimes even ten years). At the end of the stipulated period the loan is considered repaid. Borrowers have the option of repaying the unpaid amount of the loan at any time and get their land back, but they are usually discouraged from doing so. Land is also sometimes held as collateral against loans. As interest rates increase and loans remain unpaid, land gets transferred from the debtor to the creditor. In fact in a situation of high man-land ratio with land prices being forbidding, land acquisitions through mortgaging are the principal means of land transfer.

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[2] For more information on rural credit markets, see Syed M. Hashem, "Land Ownership and Tenure Reform in Bangladesh," UNDP-ASR, Dhaka, 1988 mimeo.

Another prevailing aspect of the credit market is the system of "Dadan." "Dadan" represents the interlocking of the credit and product markets. Poor peasants normally borrow against standing crops, under the stipulation that repayment will be in kind. In the case of paddy, peasants borrow during the lean period on the assurance that at harvest time they will pay back in the form of paddy. Of course, the rate of exchange is fixed far below the market rate. Dadan is usually taken in the lean periods and repaid after the harvest. Repayment is made normally after two months. Peasants currently take dadan at the rate of one hundred taka per maund of paddy implying that for each one hundred taka borrowed they have to pay back one maund of paddy. The post harvest paddy price prevailing last year was 170 takes per maund. So the implied interest rate per annum turns out to be 42 percent. Of course, the highest market price during the season was as high as 200 takas per maund.

Institutional Interventions in Rural Credit Market

The first significant attempts at institutional intervention in the rural credit markets of Bangladesh developed in the sixties when the "Comilla Model" of rural development was adopted on a national scale in the from of the Integrated Rural Development Program (currently the Bangladesh Rural Development Board). Yet, even in 1971 the extent of credit disbursed by the Agriculture Development Bank and the cooperatives amounted to only takas 153 million and increased to takas 467 million in 1976. In 1977, however, a special Agricultural Credit Program was initiated that essentially allowed for a major role of formal credit in agriculture. Between the fiscal years of 1978 to 1985 the amount of credit disbursed increased from takas 1569 million to takas 11319 million-a rate of increase of 33% per year. The number of rural branches of commercial banks also increased from 854 in 1975-76 to 3225 in 1983-84, extending both their scale of commercial banks increased from takas 461 million to takas 10087 million during the same period.[3]

Though the information on formal credit is indicative of its volume it is unclear exactly how far it has been successful in restricting the size of the rural informal financial markets. Actually a determination of the extent of the informal credit market remain contentions. In 1974 Alamgir estimated it to be 91% of all rural borrowing. It was also strongly indicated that due to the restricted access to formal credit and its pervasive on-lending, the size of the informal credit market may be resilient to further shrinking.[4]

The access of the rural poor to this greatly increased formal credit remain limited. The major portion of this credit is received by the rich. The International Fertilizer Development Center Survey of 2400 households in 1982[5] revealed that only 4.6% of farmers received institutional credit — 1.2% of marginal farmers (owning less than 1 acre of land) and 7.2% of rich farmers (owning more than 5 acres). The joint review of agricultural credit by IDA and the Government of Bangladesh found that most

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[3] Based on Mahabub Hossain & Rita Afsar, "Credit for Women's Hashem, "Land Ownership and Tenure Reform in Bangladesh," UNDP-ASR, Dhaka, 1988 mimeo.

[4] Atiur Rahman, "Credit for the Rural Poor," UNDP-ASR, Dhaka, 1988 mimeo.

[5] International Fertilizer Development center, *Agricultural Production, Fertilizer Use and Equity Considerations; Results and Analysis of Farm Survey Data*, Muscle shoals, Alasama, 1984.

of the institutional credit went to farmers owning more than 3 acres of land.[6] The BIDS/IFPRI study in 16 villages in 1985[7] in indicated that only 7% of the landless were receiving formal credit amounting to 8% of the total while 21% of the rich were receiving loans amount 38% of the total. In another study it was shown that while ordinary farmers had received loans averaging around takas 2,000. Upazila chairmen had outstanding loans of takas 20,747.[8]

Rural women are of course even more restricted in their access to credit. Hossain, in a study of 800 households, found that only 10 (1.25%) reported receiving loans in the name of a female members.[9] Two factors essentially contribute to limiting women's access to credit. Firstly since normal banking practice emphasizes the need for collaterals for loans, women are excluded because patriarchal dictates exclude women from de facto ownership of asset (though juridical ownership may remain). Secondly, activities generally identified for purposes of loan giving are male dominated. Traditionally women's economic/productive activity are homestead based and revolves around post harvest processing of agricultural produce, growing in kitchen gardens raising poultry and livestock, and a myriad of expenditure saving activity such as quilt making, house repairs, gathering firewood, etc. Since loans are earmarked for financing of agricultural input purchases and non crop sectors such as rural transport, fishery and small industry, women are effectively excluded.

To ensure access of the rural poor and women to institutional credit several government, quasi-government and non-government interventions have taken place in recent years. Though commendable, these programs have as yet been able to extend little coverage. Atiur Rahman[10] in an exercise involving an examination of bank and NGC records show that less than 6% of the rural poor (defined as those owning less that 2.5 acres of land) probably had access to institutional credit sources in 1987. Hossain and Asfar[11] using reportings of the different programs (which are of course very optimistic and probably includes double countings) estimate that at best the major women's programs cover 1.12 million women and have disbursed credit amounting to nearly takas group and 9.2% of women belonging to the functionally landless (households owning less than 0.5 acres of land). The amount of loans received by these women account for 5.2% of all rural formal credit between 1980-88.

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[6] GOB/IDA, "Bangladesh Agricultural credit Review," Dhaka, 1983.

[7] IFPRI, Development Impact of the Food for Work Program in Bangladesh. Washington, D.C., 1985.

[8] Quoted in Atiur Rahman, op. cit.

[9] Hossain & Afsar, op. cit.

[10] Atiur Rahman, op. cit.

[11] Hossain & Afsar, op. cit.

TABLE 1

AN ASSESSMENT OF THE COVERAGE OF WOMEN THROUGH SPECIAL RURAL CREDIT PROGRAMMES

	Period	No. of women covered by the programme (thousand persons)	Cumulative amount of loans disbursed to them (million Taka)
Formal:			
BRDB MSS	1982 to June 1988	122	91
BRDB MBSS	1982 to June 1988	147	99
Project Implemented by the Ministry of Social Welfare and Women's Affairs	till 1985	96	30
Women's Entrepreneurship Development Programme under BSCC	1982 to 1990	12	—
Quasi Formal:			
Grameen Bank	1976 to June 1990	650 approx.	7475
Swanirar	1978	300	460
Non-Government organization:			
BRAC	1972 to 1989	218	73
Proshika	1986 to 1987	8	9

SECTION THREE

DONOR PERSPECTIVES

ECONOMIC GROWTH OBJECTIVES

Donor and governmental response to this pervasive poverty and persistent exploitative interest rates in the informal credit market, have been diverse. There however seems to be three discernible trends in terms of rural credit strategies that have been pursued. The first strategy is premised on the assumption that the critical constraint is one of credit scarcity. The resolution of this problem is hence perceived as lying with extending access to credit. Major amounts of subsidized credit is then made available through institutional financial intermediaries, the expectation being that the increased supply of credit would both compete down interest rates in the informal markets as well as provide for a valuable input for achieving growth. Much of donor strategy, especially IDA sponsored agricultural credit, has been influenced by this logic. The problems with his strategy stem from its implicit assumptions — firstly, that credit is not fungible and would be used for the stated productive purpose, and secondly that access of the poor would not be restricted by economic and extra-economic maneuverings of the rich.

The availability of subsidized credit, in a situation of credit scarcity, normally gives rise to credit rationing. Bank options regarding credit disbursements are influenced by its transactions costs and risk aversion. The costs of supervising multitudes of small loans increases bank transaction costs for small borrowers. Additionally the lack of collaterals of the poor make them high risks, under conventional banking wisdom. Hence the preference for longer established borrowers. In fact it is even argued that efforts to force such banks to provide credit to the poor without any changes in banking methodology, will only lead to increased bank costs and would therefore be counterproductive and uneconomical. The consequence of such a situation is therefore an increase of loans to the non-rationed large borrowers which decreasing (or not initiating) loaned to the rational small borrower. interestingly, the only possible (and sometimes practiced) access of the poor to such credit is through payments of the scarcity premium in the form of bribes to bankers.

The strategy of increased credit provisions through normal banking channels does make credit available, and does provide valuable resource inputs. However beneficiaries are determined through their initial asset endowments and credit distribution is specifically biased in favor of the rich. In fact often the rich will on-lend their subsidized credit to the poor (in the informal market) at higher interest rates. How far growth objectives are served remain contentions but clearly such a strategy reinforces the systemic basis of poverty.

Poverty Reduction Objectives

Conventional micro growth processes have proved to be inadequate in decreasing unemployment/under employment and poverty in rural Bangladesh. The slow growth in the economy acts as a limit to necessary employment expansion. The modern industrial sector due to its low base an capital intensity have proven incapable of absorbing a significant portion of the growing numbers of the unemployed. Employment opportunities in the crop production sector is also not expanding. Only a fourth of the labor force increase is absorbed in the agricultural sector. Given an annual increase of the

labor force by one million, 750 thousand people are being forced into the current unemployment pool of 10 million. Most donors, even including IDA and the ADB, have therefore resorted to income generating schemes for the rural poor to provide for some safely netting mechanism. Aside from employment generation through infrastructural works (e.g. Food for Works Program) a major emphasis has been in credit extensions. Women form a major component in these programs.

Donor support for these self employment schemes have proliferated in the recent past. Small credit channeled into household based production and petty trade have made use of underemployed family labor and create increases inn family incomes. Women, who previously were performing many non-cash-income generating productive activity (e.g. agro-processing) have benefitted greatly from being integrated with the market. Their production is now increasingly neared towards market sale. Though returns to labor in such enterprises and services are typically below the market wage rate, the fact that the opportunity cost of much of this family labor is even lower (close to zero), such increased activity have been a major life saver for many targeted rural households. This seems to be the general line of argument of the Grameen Bank and most NGOs. In fact initial impact on incomes of targeted households have been very positive. The poverty reduction strategy is therefore geared towards increasing extensive coverage by providing micro credit for household based production and services.

Economic Growth Through Poverty Reduction Objectives

There is considerable discussion on an ultimate constraint to micro credit based poverty alleviating programs as run by the Grameen Bank and other NGOs. It is argued that large scale expansion of these activities without asset creation and productivity increases would ultimately create demand constraints and reduce profitability of funded enterprises. Within the current context however, this does not seem to be a problem. Most of the currently funded off-farm activities are characterized by high backward and forward production linkages and consumption linkages. Most of such production uses agricultural raw materials — paddy processing, cane and bamboo, etc. In a major study on rural industries it was found that most of these household based activities used 57.9 of their raw materials from the agricultural sector — a strong backward production linkage. The most commonly used agricultural inputs were paddy, wheat, wood, jute, tobacco, leaves, sugarcane and oil seeds. In terms of forward linkages with agriculture 13% of the products of these rural enterprises were used on intermediate inputs. More importantly there seems to be a strong enough demand for such enterprise products within the rural economy. The rural industrial study also attempted to estimate the expenditure elasticities for various rural enterprise products. The expenditure elasticity of a commodity refers to the percentage charge in demand of that commodity in response to a unit percentage change in total expenditure. Thus commodities having expenditure elasticities greater than 1 are likely to face increasing demands when household incomes/expenditures increase. On the other hand demand will decrease if the expenditure elasticity is less than 1. The results of the rural industries exercise is presented in Table 2.

Clearly, cane and bamboo products, mat making, weaving and agroprocessing face little demand constraint. It is important here to point out that paddy processing, which is by far the most important funded activity for rural women, do not in most instances use 'dheki.' In the overwhelming majority of cases, paddy is parboiled, sun dried and cleaned at home and husked in machine operated mills. Hence the low elasticity of dheki rice has no bearing on paddy processing activities.

TABLE 2

ESTIMATED EXPENDITURE ELASTICITIES FOR VARIOUS RURAL INDUSTRIAL PRODUCTS

Rural Industry Production	Expenditures Elasticity of Demand
Dairy products	1.11
Mustard Oil	1.02
Bakery	1.14
Dhenki Rice	0.33
Mill rice	1.08
Sugarcane gur	0.94
Juice gur	1.13
Bidi	0.62
Tobacco	0.71
Wooden furniture	2.00
Wooden fixture	2.24
Wooden agricultural equipment	0.83
Boats	1.98
Cane & Bamboo furniture	2.98
Bamboo chatai	1.21
Shital pati	1.38
Mats	1.11
Lungi	1.61
Sari	2.00
Gamcha	0.50
Than Cloth	1.30
Katha	0.82
Other bedding materials	1.67
Hosiery	0.87
Tailoring services	0.96
Cordage	0.78
Fishing nets	0.79
Potter's utensils	0.38
Blacksmithy household goods	0.91
Blacksmithy agricultural tools	1.06
Bricks and tiles	0.43

Source: Kholiquzzaman, 1986.

It can therefore be claimed that currently demand constraints do not create a limit to the expansion of enterprises funded under the poverty alleviating programs. However when substitutes are concerned (especially substitutes from the manufactured sector), the results may change. More importantly for future expansion having the scope of national coverage the sustainability of micro enterprises becomes crucial. Asset building from internally generated funds must be promoted to ensure either that scarce credit funds are not monopolized by a small section of enterprises or that productive expansion could absorb hired labor and thus generate employment. In other words poverty alleviation to have a national scope must at some level be tied in with the imperatives of economic growth. This forms the third strategy regarding micro credit extensions. It would seem that the Grameen Bank has currently reached the threshed of its 'poverty alleviating' phase and is now involved in resolving the set of issues related to economic growth.

The WEDP Niche

The WEDP strategy would seem to fall into the third category — economic growth through poverty reduction objectives. Basically WEDP strategy would provide for an extensive coverage of poor rural women and in addition set the stage for asset building, productivity increases and economic growth.

Given the level of pervasive credit needs in rural Bangladesh, even with the planned Grameen Bank and other NGO expansion, the overwhelming majority of the rural poor will still remain outside of the net of institutional sources of credit. The possibility of WEDP duplicating efforts, therefore, remain extremely low. Moreover, except for the Grameen Bank, it is unclear whether WEDP efforts are inferior to that of the other NGOs. As a result of the successful Women's Entrepreneurship Development Program between 1982-1990, the Project has developed a reasonably effective methodology for assisting cottage enterprises and microenterprises involving women's participation. The Project will extend this assistance to new areas and increase the operational efficiency of service delivery. Over the next five years, the project will double its size and expand to 40 upazilas (9% of all upazilas) in the country and cover 20,000 women.

The second set of issues on the WEDP agenda is that of microenterprise support — assistance to those enterprises that would be productive and create employment opportunities. Already within WEDP a number of jewelry, tailoring, bakery, snack food preparation units, etc. are existing which are increasing asset size and hiring in wage labor. It is estimated that by the end of the next phase (1995) WEDP will include 2,000 such enterprises (10% of their total clientele). These would include both those that have 'graduated' from a smaller size and those that would be started off on a large scale. Currently the emphasis of most poverty alleviating programs are income generation of the assetless, the poorest. There is very little scope within such programs to deal with the set of households having some assets (though remaining under the poverty line). In fact in some program support is taken away as soon as the assetless do gain some assets and thus move away from the predetermined 'target' group. WEDP by including within it elements of support for larger enterprises/activities can, in addition to remaining with its own clients, be able to support graduated clients of other poverty alleviating programs. The few examples of Grameen clients switching to WEDP may be indicative of a potentially more general trend.

Rural Credit Programs

As already indicated only a small section of the rural poor are currently being covered by any institutional credit programs; the coverage for women being even less. This in itself provides a strong

rationale for more micro credit interventions for women. However for improving program efficiency, for ensuring institutional sustainability, it is imperative that a project design should incorporate experiences of similar programs. In this section a brief review of the better known governmental (BRDB), quasi-governmental (Grameen Bank and Swanirvar) and non-governmental (BRAC) women's credit programs are made to specify what WEDP could learn from them. The importance of these programs lie both in the magnitudes of their interventions (national in scope) and at least at specific periods, their interventions (national in scope) and at least at specific periods, in their varied successes.

BRDB Women's Cooperatives

The Bangladesh Rural Development Board is the largest formal institution working for rural development in Bangladesh. BRDB was created in 1982 by converting the Integrated Rural Development Program for farmers. An institutional base for the rural poor was included within the old frame works. Credit inputs were maintained as instrumental for development and the program methodology of cooperatives for landowning peasants (Krishi Samabaya Samity), societies for the landless (Bittoheen Samabya for women from landless households. Both the BSS and MBSS were intended to provide support services to the functionally landed rural households through credit, training and input supplies for organizing both on-farm and off-farm activities. The emphasis of BRDB, however, clearly lay with the landed peasantry. Up to June 30, 1988 over 91% of total BRDB credit was disbursed to KSS members while BSS, MBSS and MSS members received 4.5%, 2.8% and 1.5% respectively. In terms of the members of cooperatives, BSS and MBSS account for only a little over 1/4th of total BRDB cooperatives. There is additional bias against women members. The average loan size for MSS and MBSS members are takas 660 and 649 compared to an average of takas 1189 for KSS members.

Women become MSS members by purchasing a ten taka share and receive loans after approval of a production plan. MBSS members must be functionally landless and be either from an agricultural wage working household or in off farm activity. Each society comprises of a group of between 20 to 30 members. Credit is received by individually after a production plan is reviewed by the society and accepting by the upazila level coordination unit (UCCA). Commercial banks make out loans against a mortgage on collaterals, and personal surety bonds of two members. Actually BRDB acts as the guarantor. Repayment can extend up to 18 months but more generally for 12 months. The interest rate is 17% for MSS and 17.5% for MBSS. New loans are contingent upon full repayments and purchase of 5% of loan value in the form of society shares and savings. Repayment rates are now generally around 89% for MSS and about 80% for MBSS. Credit is used primarily for rice husking and animal fattening, though cottage industry type activities are also common. Group loans for pond fishing, purchase of irrigation equipment and sericulture is available but rarely taken.

Hossain and Afsar identify a series of problems with BRDB women's program. There are severe staffing problem both in terms of availability of female staff and quality of their training. Secondly with respect to credit, proper supervision and monitoring is absent. This leads to credit not being made available at the right time and in the right amount. Review of loan applications and credit sanctioning takes a long time and assurances of repeat loans are absent. Hossain and Afsar also feel that adequate technical support that could generate increased cottage industry production, is strongly lacking. Understaffing of BRDB increases inefficient operations. Finally the BRDB structure which is judicially separate from the cooperatives (which are run by separate laws of the cooperative bureau), inhibits its direct intervention in removing corrupt and inefficient cooperative organizers. There has developed therefore a general apathy regarding the needs of the poor and women. Widespread corruption with disbursements and repayments are also reported.

Grameen Bank

The Grameen Bank is probably the best known credit program for the rural poor. It began as an action research project in one village in August 1976. Expansion in another district took place in 1979, and finally in October 1983 it set itself up as a full fledged bank. By June 1990 the bank was active in 70,483 villages with 30,753 centers and 760,947 members (90% female). Over takas 7475 million have been disbursed with a repayment of 98%.

Grameen Bank operates through a network of village branches each of which is run by managers with assistance from a few bank workers. Bank workers are responsible for forming groups, disbursing loans, collecting repayments, and overseeing center meetings. Normally a Bank worker serves about 250 members. Grameen Bank members are from functionally landless households. Five members from the same village enjoying mutual trust and confidence form one group. Group meetings are held weekly. Loans are given by the bank both for individual and collective enterprises but under group responsibility for ensuring repayments. Loans are repaid in weekly installments extending dover one year. Group savings are generated through weekly member contributions. There are also provisions for group funds and emergency funds to offset risk in repayments or emergency credit needs. Loans are small ranging between 2000-3000 takas with an interest payment of 16% annually. Loans to women are generally for livestock, poultry, agro-processing, and cottage industry. Though essentially a credit program, Grameen Bank nutritional issues, for emphasizing children's education, for rights of women (especially against dowry), and more generally in increasing self-esteem amongst the poor. However, the most notable feature of the Grameen Bank is its emphasis on innovations. As noted in the A.I.D. Staff Appraisal Report on the Poverty Alleviation and Rural Employment Project:

> The innovative features of GB include its strategic assumption that the poor themselves can locate and individually operate productive activities with minimal guidance from the lending institution or from others outside local poor groups, that savings mobilization should accompany credit access, and that group formation provides support and affirmation that makes the poor effective users of credit while discouraging the rich and the powerful from attempting to invade and capture the system. GB is innovative in its staffing and staff training, which attracts dynamic young educated people to its ranks, for its reliance on socio-economic data-gathering in its training, and for its insistence on continuous detailed financial reporting from each of its offices.[12]

Swanirvar Bangladesh[13]

Swanirvar was established in 1975 by a top-ranking civil servant with the object of achieving self-reliance through people's participation in planning, administration and in implementation of development projects and programs. It was intended as a comprehensive village development program Plans would be initiated at the village level by the villagers on the basis of their perceived need. Villagers would be

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[12] A.I.D. staff Appraisal Report, "Poverty Alleviation & Rural Employment project," A.I.D., 1990.

[13] Based on Rita Afsar "Swanirvar as a Strategy for Endogenous Rural Development," BIDS, 1988. mineo, and Qazi Kholiquzzaman, Promotion of Employment Income Through Rural Now-crop Activities in Bangladesh," BiDS, 1986. mimeo.

organized into village organizations referred to as a Gram Sarkar. In order to ensure that elite domination was thwarted, Gram Sarkars would be formed with two representatives each from landowners, the landless, artisans, women, the youth, and an additional member from the largest group. Representatives were to be elected in open meetings. The movement received governmental support from its inception and in 1979 was accepted as a Governmental Program. By 1980 Gram Sarkars were adopted by the government as the local self-government unit at the village level.

Currently with the loss of patronage, it has moved (from 1978) towards credit funded income generating programs for the landless. The Swanirvar Credit Program (SCP) started in ten upazilas encouraging asset loss women to make savings and invest from such savings. Later, under a Bangladesh Bank directive a nationalized bank started advancing loans to both male and female members of SCP. Swanirvar does not directly disburse any funds but screens clients for the banks. Swanirvar was functioning in 138 upazilas by mid 1988 and had an active credit program in 90 upazilas, reaching at the end of 1987, 8884 villages and 446,200 clients, of which about 65% are claimed to be women.

The credit delivery/recovery mechanisms of Swanirvar is similar to that of Grameen. Groups of five individuals are formed, weekly meetings held, savings generated, name signing taught, individual loans (but under group guarantee) given, recovery made in 52 weekly installments. Volunteer Rin Shahojogies (credit associates) are appointed and receive a token honorarium form a trust fund set up with members' contributions. Unlike the Grameen Bank, these volunteers are neither Bank nor Swanirvar employees. The average loan size for Swanirvar is small, ranging from takas 1000 to 1500. Loans are made out mostly for paddy and food processing, animal fattening and running small shops. Afsar in her study of Swanirvar found that contrary to claims, at least in her sample villagers, only 22% of borrowers were women. In addition to an annual interest of 13% on loans, clients also have to pay a 5% group tax, a 1% emergency fund, and a 2 taka a week for the workers Trust Fund. The repayment rate has deteriorated over time — from 100% in 1981-1982 to 77% in 1986.

Several factors contributed to the downturn in Swanirvar performance. Firstly corruption was set in with the Rin Shahojogies without any built in mechanism for its removal. Secondly, bank infatuation with Swanirvar has ended specially with the death of the charismatic founder. Currently this bureaucratic apathy prevents proper loan identifications (loan ventures cannot be run on a taka 1,000 loan), proper supervision, on time disbursements (loanees sometimes wait a year for loan disbursements after submitting applications), and close relationships with Swanirvar workers. Finally the group mechanism has been rendered ineffective and weekly meetings are not held.

Bangladesh Rural Development Committee[14]

BRAC is one of the pioneers of the NGO movement in Bangladesh and is currently also one of the largest. It started in 1972 under the imperatives of providing immediate relief to refugees of the war of independence. However, BRAC soon realized that any attempts at meaningful poverty alleviation could not be dependent on relief provisions but would have to be part of an integrated strategy for rural development. Thus it undertook community development activity for all section of village society. At this stage the scope of BRAC's work somewhat paralleled that of Swanirvar. However, BRAC again realized that they were being ineffective in reaching the poor. Benefits were being monopolized by the

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[14] Based on BRAC Annual Report, 1989.

rural elites and dependent relationships reinforced. BRAC subsequently shifted to a "target group" approach to development for the poor. Target groups are identified as the landless and assetless.

BRAC organizes its target groups through consciousness raising efforts. Functional education courses are provided for BRAC groups to ensure literacy, awareness of the structural causes of poverty, increase self-esteem, and a realization of the potential strength of the poor. BRAC credit is extended only after a year of such awareness training. BRAC feels that systemic basis of rural oppressions and poverty and hence, development of the rural poor must be preceded by a breaking down of such patriarchal relationships. Herein lies the basic philosophical difference between the Grameen Bank and BRAC.

BRAC's credit program is set under its rural development program. The Rural Development Programme, grew out as a result of the integration of two separate programs, the Outreach Programme concerned with credit and training. The ultimate goal of the Rural Development Programme is to "contribute towards a more just and equitable society in which landless poor are joined together in their own organizations to attain a high degree of self-reliance in managing their own affairs and to achieve sustained improvement in levels of living." These goals are pursued by different activities which are organized through a branch (formally called Area Office) equipped generally with 6-7 staff including one Area Manager (AM), three Programme Organizers (PO), one staff for special programme (e.g. education) and one or two accountants. They are assisted by locally recruited Gram Sebika/Sebok (village women/men workers). A branch when matured (around the third year of operation) generally covers 50 villages, covering 50 men and 50 women cooperative groups (formally known as village organization) with 6000 to 7000 total membership. Each Gram Sebika/Sebok (GS) is responsible for 10 groups, who in turn is supervised by a PO. The GSs generally have a secondary level education while the POs and AMs are university graduates.

RDP which has completed its first phase of operation in December 1988 has by now grown into a comprehensive program. In 1989 RDP has evolved a new operational strategy and under this, an RDP branch in an area will operate for a period of four years, a period which is necessary to develop the institution building activities without substantial BRAC support. The branch then would be handed over to the BRAC Bank Project (BBP) (formally Rural Credit Project) provided that the branch operates at provide RDP groups with credit, formerly made available by RDP branches.

BRAC's credit facility, which takes the form of a Revolving Loan Fund (RLF), and is operated within the framework of the Rural Development Programme (RDP), is designed to meet the credit needs of BRAC organized landless group members who do not have access to commercial institutional credit. Loans realized are credited to a from a part of the fund which is used for extending further credit. This revolving process ensures that credit facilities are available eventually to all group members. The objectives of the revolving loan fund are:

- Generating employment for group members;
- Mobilizing local resources;
- Introducing new activities in the rural areas (e.g., irrigation, sericulture);
- Supporting the development of new skills among the group members.

A few basic rules serve as guidelines for granting loans. These are:

(i) Priority is given to schemes/projects with visible economic and social profitability potential.

(ii) No loan is given to a group member to buy land from another group member.

(iii) No "collateral" (in the traditional sense) is required.

(iv) To be eligible for a loan, a group member, however, has to meet the following conditions:

- Regular savings habit;
- Must have a savings account;
- Must have savings equivalent to five percent of the loan requested;
- Must have completed functional educational (awareness part).

(v) All loans carry a 16 percent interest calculated on reducing balance, and repayable in weekly installments.

Medium term and long term loans for three years and over three years are also made out, but the percentage is small, and few women receive them. Up to december 1989 RDP had covered 3,359 villages, formed 6,524 village organizations (56 percent women's groups), and had a membership of 355,875 (61 percent women). The average loan size is small, ranging around 1,000 takas (798 takas for women and 1,239 takas for men). The majority of the loans are for petty trading, livestock fattening and paddy husking. The current repayment rate is 95 percent (excluding outstanding interest payments). Group loans are also made for bigger projects.

Lessons for WEDP

Given the successes (and failures) of these programs in reaching poor women, in delivering credit, in increasing incomes and in running an efficient operation, certain elements could play a critical role in increasing overall WEDP effectiveness.

First, all of the programs have experimented with the group mechanism, of course with varying degrees of success. WEDP's current emphasis on individual loans do not allow for either collective loans or even group responsibility for loan repayments. In fact, WEDP's methods of loan disbursements and recovery have been fairly effective in terms of repayment rates. However, the amount of time and effort spent in interacting with individual clients on a monthly basis translates into high overheads. WEDP could therefore experiment with forming loose groups to allow for servicing several client recoveries at the same time. A predetermined time and location could allow for as much as 30 to 40 clients to be together. Repayments could then be received in little time. This would imply lowering overheads — a problem that WEDP currently faces.

Second, and this has also been a problem with other programs WEDP needs to better assess both the amount and timing of loan disbursements. To high a loan would imply costly wastage, since repayments with interest would nevertheless have to be made on the entire loan amount, while too low

a loan would inhibit asset formation. The timing of the loan also becomes essential to ensure appropriate utilization of credit funds. Too often even moneylenders high interest paying credit becomes a better option simply because of long delays in institutional credit disbursements.

Third, some of the program experiments with forced savings, emergency funds, etc., have been extremely positive. These funds act as a buffer during unforeseen emergencies. Most poor household live at the edge of subsistence consumption. Any sickness, disability short term price fluctuations, immediately proves destabilizing. Consumption shortages are met by decapitalization and sale of assets leading to further deprivation.

Fourth, part of the reason for Grameen Bank success has been its control over its own credit funds. In fact, BRAC too is setting up its own bank. Since the current setup of BKB administering the loan fund is costly because the number of small clients it has to service, WEDP should move toward direct administration of a revolving loan fund. Interest earnings from this fund could then be shared with BKB. The revolving loan fund and savings could be deposited in the local BKB branch, but responsibility for sanctioning, disbursal and portfolio management could shift to the Project. Given the staff experience with project development, supervision and loan collections, the increased flexibility and autonomy will more than offset the additional responsibilities in this new arrangement. In fact, WEDP could both increase its efficiency regarding loan disbursements and also make available more funds, due to the revolving nature of the loan fund. Additionally, WEDP could also be earning interest payments for its program.

Finally, WEDP should realize that what contributes most to Grameen Bank success is its constant attention to innovations. WEDP should experiment with methodological options that would allow for a freer exchange of ideas between clients and staff and amongst the staff. Institutional mechanisms should be created to allow for ideas to come from the field and for field-testing new ideas. In the long run, only the desire to innovate will ensure that WEDP remains dynamic and not slip into a bureaucratic mode of program administration. Much of WEDP success is due to this dynamism that encourages women to actively manage field offices and ensure a corruption-free organization.

ANNEX B

COUNTRY STATISTICS — BANGLADESH

ANNEX B

COUNTRY STATISTICS — BANGLADESH

Country Statistics

1.	AREA	143,996	km^2
2.	POPULATION (1988)	109	million
	Rate of Growth	2.45	
3.	DENSITY (1988)	757	per km^2
		1,087	per km^2 of cultivable land
4.	POPULATION CHARACTERISTICS (1988)		
	Crude Birth Rate (per 1,000)	39.0	
	Crude Death Rate (per 1,000)	15.0	
	Infants Mortality (per 1,000 live births)	125.0	
5.	LIFE EXPECTATION AT BIRTH (1988)		
	Male	55.6	
	Female	54.9	
6.	HEALTH		
	Population per physician	5,900	
	Population per hospital bed	3,600	
7.	ACCESS TO PIPED WATER (1980)		
	Percent of population — urban	26	
	Percent of population — rural	40	
8.	ACCESS TO ELECTRICITY (1980)		
	Percent of population — urban	3.5	
	Percent of population — rural	---	
9.	NUTRITION (1983)		
	Calorie intake as percent of requirements	84	
	Per capita protein intake (gram)	42	
10.	DISTRIBUTION OF LANDOWNERSHIPS (1978)		
	Percent owned by top 10 percent of owners	49	
	Percent owned by bottom 10 percent of owners	2	

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11. LABOR FORCE

Civilian labor force participation	43.9
Male	78.2
Female	8.2
Unemployment (percent)	0.9
Male	1.1
Female	0.5

12. INCOME/CONSUMPTION (1988)

GNP per capita	US$ 170
GDP growth rate (percent) (1981-1989)	3.5
Per capita foodgrain availability (grams/day)	433
Per capita cereal consumption (grams/day)	
Rural (1986)	503
Urban (1986)	433

13. POVERTY INDICATORS (1985/1986)

Percent of income according to:	National	Rural	Urban
Bottom 40 percent	19.35	19.95	19.20
Lower Middle 40 percent	35.80	36.21	37.87
Upper Middle 15 percent	24.67	23.71	26.10
Top 5 percent	21.35	21.36	18.04

14. NUMBER OF PEOPLE BELOW POVERTY LINE (million)

	National	Rural	Urban
Below 2122 cals/day/person	51.2	44.2	7.0
Below 1805 cals/day/person	21.5	19.1	2.4

15. RURAL HOUSEHOLDS (1,000)

	1960	1977	1983/1984	Percent
Total	8,239	10,871	13,818	100
Farm	6,139	6,257	10,048	73
Nonfarm	2,100	4,614	3,770	27
Landless	2,100	4,614	3,770	27
Near Landless (less than 2.0 hours)	803	342	2,417	17
Subtotal	2,903	4,956	6,187	44

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Women's Enterprise Support Project in Bangladesh:

Background Paper

Field Methodologies

INTRODUCTION

The three principal components of the Women's Enterprise Support Project are to: extend service delivery with operational efficiency, experiment with methods to serve borrowers with more potential for enterprise expansion and development, and increase the program's level of sustainability. This paper examines the current methodology of credit delivery, recovery, and related services employed by the Women's Enterprise Development Project (WEDP) unit. It suggests areas that WEDP should consider modifying in order to increase operational efficiency during the implementation of the Project. It also identifies some of the opportunities, risks, and methodological implications that the proposed increased focus on microenterprise development presents for WEDP.

Increased operational efficiency is critical for the success of the proposed Women's Enterprise Support Project. Although evaluations of the first two phases of WEDP's work have been quite positive, the operational cost of approximately 1 taka per taka lent has surfaced as problematic. Such high costs limit WEDP's impact and ability to reach a significant number of rural women. As WEDP begins an expansion phase which will double the number of upazilas being served, its impact will be directly related to its ability to reach more borrowers in each upazila at a lower cost. The magnitude and urgency of rural poverty in Bangladesh, coupled with the proven ability of credit to women to bring families out of poverty, demand that WEDP reach as many borrowers as possible with the available resources.

The observations and recommendations included in this paper are drawn from visits to two WEDP field offices, Jhenaidah and Muksedpur, extensive conversations with the staff at those offices, visits to borrowers in those areas, reports from WEDP and the Bangladeshi Krishi Bank (BKB), and conversations with staff at the head office. Structured interviews were carried out with 9 borrowers in Muksedpur, most of them identified as having some potential for expansion; several other Muksedpur and Jhenaidah borrowers were interviewed informally. Although the experiences of the other 18 field offices might be quite different from those of the two offices visited, the recommendations in this paper are intended to elicit analysis by WEDP staff and management, who can then determine their usefulness for improving field level efficiency.

This paper has been organized into seven sections: borrower selection and application procedures; loan sizes, terms, and uses; management information systems; loan recovery; additional services; microenterprise development; and, summary and conclusions. Each of the first six sections includes a brief description of current procedures, discussion and recommendations for improving those procedures to increase the program's impact per taka spent.

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SECTION ONE

BORROWER SELECTION AND APPLICATION PROCEDURES

Current Situation and Observations

WEDP, as a sub-project of the Bangladesh Small and Cottage Industries Corporation (BSCIC), has an institutional commitment to promoting and supporting industrial enterprises, as opposed to enterprises involved in services or commerce. Theoretically, as an entrepreneurship development program, WEDP targets enterprises that have potential for growth and development. This strategy implies a preference for what are considered non-traditional activities, as opposed to traditional cottage enterprise activities. Non-traditional activities include baking, tailoring, jewelry-making, etc., while common traditional activities include rice-husking, animal rearing and others with seemingly low growth potential.

WEDP has the additional mandate of working with enterprises with women's involvement. Although women-managed or controlled enterprises are the priority target of WEDP, social and cultural factors in rural Bangladesh limit the number of women-controlled enterprises. Consequently, WEDP-funded enterprises include many that are male-controlled but have the active participation of a woman, who assumes responsibility for the loan. Most of the WEDP enterprises are family-run enterprises with female participation, although management decisions, raw material purchases, and marketing tend to be carried out by men. There are, however, a number of enterprises that are the sole sources of income for widowed or abandoned women.

The reality in rural Bangladesh is that women who are economically active are primarily involved in traditional activities. The more industrial, productive, or non-traditional an activity, the less likely for a women to be controlling it. Consequently, despite efforts to fulfill both the industrial and women-controlled mandates, the majority of funded activities are traditional, with men controlling most of the non-traditional activities with higher growth potential.

The concentration of borrowers per village or area covered appears to be adversely affected by efforts to fulfill these two conflicting mandates. Since WEDP attempts to locate enterprises that come as close as possible to meeting both criteria, a relatively small percentage of the potential women borrowers in each village actually receive loans. WEDP might work with 1 to 2 women per 10 households, when at least half of the households have women involved in economic activities that could benefit from a loan.

Potential borrowers are first identified by WEDP field staff through visits to villages. Identified women are encouraged to apply for a loan, and must visit the WEDP office to apply. WEDP staff feel that the visit is an important indication of borrower interest in financing their activity. The application is filled out in the WEDP office, recommended by WEDP staff, sanctioned by the local BKB branch, and then disbursed from the bank. Loans recommended by WEDP are sanctioned by the bank with few exceptions, although loan amounts are sometimes reduced. According to WEDP reports, since inception, 79% of entrepreneurs identified have applied for loans, and 88% of those that have applied have received loans.

The following chart shows the number of entrepreneurs identified, applied, and receiving loans each year since May, 1985:

Period	Number Identified	Number Applied	Number Disbursed
5/89 to 5/90	2,803	2,496	2,259
7/88 to 5/89	1,988	1,802	1,365
5/87 to 7/88	1,900	1,970	1,433
5/86 to 5/87	1,311	1,534	1,784
5/85 to 5/86	2,192	2,129	2,043

(Note: Number applied and disbursed include repeat loans, while number identified only refers to new potential borrowers.)

Except for a considerable increase from May 1989 to May 1990, the number of loans disbursed has not shown much of an increase since 1985. However, these figures do not indicate how many borrowers are actually in the program, as the number disbursed includes both repeat loans and new loans. In the Muksedpur area office, for example, it appears that approximately 50% of the 444 loans disbursed since 1988 have been repeat loans. In other words, only about 100 new borrowers were added to the program in that area in each of the last two years.

Once applicants file their application, they are visited by a WEDP assistant extension officer, and usually the extension officer as well. In theory, in some areas, the BKB field officers also visit the loan applicants before sanctioning a loan, although it is not clear how widespread that practice actually is. The period from loan application to disbursal varies. The 10 borrowers interviewed in Muksedpur, who had received 18 loans among them, had an average period of 5 weeks from the time of loan application to disbursal. The period varied from 3 to 11 weeks. Second and third loans were just as likely to be delayed as first loans. According to the WEDP staff, this delay is usually due to the bank approval process, and sometimes the liquidity situation of the local bank branch.

The loan application is divided into two sections, one for WEDP and one for BKB. Most of the information required is very general in nature, including applicant's name, husband's name, address, etc. However the applicant is required to submit a notarized statement of identification, two photographs, and a promissory note authorized by a local administrative officer. Information gathered on the economic activity to be financed is limited to: purpose of loan, other debts, applicant's experience with activity, how fixed and/or working capital portions will be invested, projected production and income from that investment, projected monthly sales and income, and where the product is to be marketed. There is little or no information gathered on the actual economic situation of the borrower, her actual sources of income, the current operations of the enterprise to be financed (WEDP staff estimate that about 60% of the loans go to existing enterprises), or any other baseline economic data.

Discussion and Recommendations

Efforts to locate women involved in industrial activities decrease the number of eligible borrowers per village. Because field staff have a vision of the type of activity in which potential borrowers are involved, they will occasionally comment that "there are no eligible borrowers in that village." It is difficult to believe that there is any village in which women are not involved in some type of household-based economic activity to contribute to their family's income. Traditional activities, service, and commerce are viable and necessary economic activities in rural areas. Supporting them can have the same positive impact on household incomes as non-traditional industrial activities.

Fewer constraints on the selection of WEDP borrowers, specifically the promotion of traditional, commercial, and service activities in addition to industrial activities, would enable the program to reach more women in each village or area covered. A more aggressive and flexible strategy to find eligible borrowers could greatly increase borrower concentrations. This will increase program efficiency and impact by enabling each field office to serve more borrowers in the same geographic area.

The period from loan application to disbursal is lengthy. World-wide studies have shown that, for microentrepreneurs, access to quick loans is extremely important. That is one of the main reasons that moneylenders, despite the high cost of their credit, are an important source of credit. In most cases, BKB's input in the applications process is simply a rubber stamp approval, without a visit or any change in the recommended application. The small size of WEDP loans (average $96 in 1989/90) and WEDP's own selection process decrease the need for extensive BKB participation.

The application form includes a considerable amount of repeated information. Some of the requirements, such as photographs and local approvals, may not be necessary if BKB's participation in the loan approval process is reduced. On the other hand, information which is important to determine the appropriate loan size, loan term, and repayment capability of the borrower, is not gathered. Nor is any baseline economic information gathered which could help evaluate the impact that loans have on the borrowers and their families.

- WEDP should develop a more aggressive borrower identification and selection process that will increase the number of new borrowers reached and increase the concentration of borrowers in each village and area in which WEDP is working. An expanded target population, including all economic activities in which women are involved, be they traditional, industrial, service or commerce, would be one viable component of this strategy. Of course, WEDP should continue to limit loans to activities that generate sufficient income to cover loan repayments on time.

- Efforts should be made to streamline the applications procedure and, if possible, limit BKB's participation in that procedure. If necessary, a loan amount could be established above which BKB would have to approve loans. Repeat loans should be particularly quick as a reward for borrowers who maintain good payback records.

- The loan application form should be revised to eliminate unnecessary and repetitive information and to include information such as: current sources of family income; monthly expenditures; number of dependents; actual production levels, cash flow, markets, and income of economic activity to be financed. This type of information will enable WEDP to select only those borrowers with sufficient income to meet their basic consumption needs <u>and</u> repay their loan.

- Applications should also include some simple information on the current living standard of the household (type of house, number of meals eaten per day, number of children in school, etc.). This information, coupled with the information about the enterprise mentioned above, will enable WEDP to measure the impact that their loans have on the enterprise and the economic situation of the family.

- Information gathered for repeat loans should be limited to up-dating the economic data of the enterprise and household, and the plan for investment.

SECTION TWO

LOAN SIZE, LOAN TERMS, AND LOAN USES

Current Situation and Observations

WEDP's average loan size has steadily increased from 2250 taka ($64) in 1985/86 to 3360 taka ($96) in 1989/90. Most of this increase can probably be attributed to inflation and the increasing number of repeat loans, which tend to be larger than first loans. First loans tend to be for 1500 ($43) to 3000 taka ($86) and repeat loans from 3000 to 5000 ($143) with exceptional loans going up to 10,000 ($286) or 15,000 taka ($429). Field staff seem to determine loan size according to their previous experiences with similar activities. For example, most paddy husking loans will start at 1000 to 2000 taka, while more industrial and capital-intensive activities, like weaving and tailoring, will start at 2500 to 4000 taka.

Loans are for working capital or fixed capital purposes. Working capital loans are almost exclusively for a twelve month period, with monthly payments of capital and interest due after the first month. They do not appear to be tailored to the cash flow or business cycle of the enterprise. Instead, they are structured to allow the borrower to make small monthly payments over a 12-month period, no matter how many times the enterprise may rotate the loan capital during this period. Although further study is needed, this practice appears to be appropriate because of the subsistence level of many of the borrowers and the extremely low levels of profit of many of the financed activities [1]. A long payback period gives the borrower a chance to maintain a sufficient amount of working capital in the business, make monthly loan payments, increase consumption of basic items, and even begin to accumulate some family or enterprise assets (a tin roof for the home, chickens, etc.).

Fixed capital loans tend to be for 2-3 years, although they may be for up to five years. Fixed capital loans are sometimes used for the purchase of fixed assets, such as animals, looms, sewing machines, etc. Frequently, fixed capital loans are disbursed with working capital loans, with the working capital payments due during the first year, and the fixed capital payments beginning in the second year. In many cases, fixed capital loans are granted for working capital purposes, such as paddy husking, mat making, and food processing (puffed rice or snacks). In these cases, fixed capital loans are used to make payments very small and manageable for the borrower over a long period of time, at least two years.

Borrowers who successfully pay back a first loan are eligible for a repeat loan, which is frequently for a larger amount. Although some borrowers may receive more than three loans, WEDP has an informal policy of discouraging more than three loans per borrower. This policy is based on two beliefs: (1) with limited credit resources, new borrowers should be given access to loans, rather than the same women over and over again, and (2) that three loans, which might stretch out over a five-year period or more, should be sufficient for borrowers to build up their working capital so they no longer need access to credit.

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[1] The 1989 Hashemi evaluation found that of the 29 activities studied, 19 had negative rates of return if a shadow wage rate for family labor (30 taka/day for men and 15 taka/day for women) were applied. However, the real opportunity cost of family labor in rural areas seems to approach zero, especially for women. Without applying a shadow wage rate, all 29 activities do produce an income, making these activities important sources of income for survival.

Annex D provides information gathered from several interviews which illustrate the income-generating and asset-building functions of the WEDP loans. Cases 1-3 are examples of the traditional activities of the majority of WEDP borrowers. Cases 4-9 are examples of less traditional, more industrial activities with potential for growth and employment generation. Though these latter cases are the exception among WEDP borrowers, they were examined because of WEDP's interest in increasing the percentage of borrowers in these types of activities.

The case studies reveal several important aspects of loan use among WEDP borrowers:

(1) The traditional activities show little potential for growth or generation of wage employment. A WEDP loan usually enables production to increase to a certain level, where family labor is more fully utilized, and then stabilize at that level. The resulting surplus is not re-invested in the business, but often used for basic consumption needs and initial stages of household capital accumulation. This tendency to not reinvest may be due to several factors: consumption needs were not being met at lower levels of production, family labor cannot produce larger quantities, markets for larger quantities are unsure, diversification into other economic activities appears less risky, or others.

(2) The opportunity to increase consumption and accumulate some household assets is extremely important for the rural poor of Bangladesh, who commonly suffer from malnutrition. Increased consumption is needed to maintain or improve the family's basic health conditions. Any household assets become insurance or savings, as they are items (land, a tin roof, furniture, farm animals) that can be sold in times of an emergency. This cushion helps prevent the family from completely decapitalizing an economic activity which provides an important source of income, or resorting to the local moneylender who's 10% monthly interest rate can slowly impoverish them.

(3) The relatively long payback periods contribute to the family's ability to increase consumption and assets, as very small surpluses are produced each month. Repeat loans are also important, as they increase the period over which this accumulation process takes place. During the first working capital loan period, a tin roof might be purchased. During the second period, enough accumulation might take place to purchase a cow, etc. Repeat loans are extremely important as a means of slowly lifting families from a day-to-day survival level to a more stable level with some assets as insurance.

Discussion and Recommendations

Loan sizes and terms were initially investigated to determine whether or not it would be beneficial to tailor them more closely to the activities being financed. However, because of the basic consumption needs of the borrowers, the year-long working capital loan term appears appropriate as it gives the borrower the opportunity to rotate the capital many times, extracting a small surplus for consumption or asset-building each time. In addition, tailoring the loans to the activity would require frequent, short-term loans, and dramatically increase the amount of administrative work.

It is important that the initial working capital loan amount not exceed an amount that can be immediately invested in the activity. When possible, this amount should be determined by the current level of operation, the availability of family labor, and the local demand for the product. Otherwise, funds may be diverted to consumption and repayment becomes difficult. A good understanding of the

borrower's economic situation at the time of loan application and close supervision are also important to ensure that the entire loan amount is invested in the activity.

The importance of repeat loans, even beyond three per borrower, should not be underestimated. The immediate consumption needs of many of the WEDP borrowers often necessitates a period of more than three years to build their own working capital. Instead of investing additional profit in their enterprise, it is used first for food, and then to begin to build a household asset base. The longer the borrower has access to loans, the more she can build an asset base that will provide the family with some support during a crisis, and may eventually lift them from a subsistence level. Losing access to loans before an asset base (including savings) is created may result in the borrower returning to the pre-loan level of poverty. If credit is ever needed after she is no longer eligible for the program, which is quite likely, she is forced to decapitalize the business or borrow from the moneylender, both of which can have disastrous effects. This very real possibility, that "graduated" borrowers might end up in the same desperate economic situation they were in when they entered the program, should be balanced against WEDP's inclination to grant only three loans per borrower.

The role that fixed capital loans play is not completely clear. When used for working capital purposes, they stretch out the repayment period and reduce the monthly payment size. They appear to enable a considerable number of borrowers to make payments before they are due, in order to access a larger, repeat loan before the final due date of the current loan. In other words, in many cases, the borrowers do not need the lengthy repayment period. In Muksedpur, 2.3 million taka of principal fell due between July 1989 and July 1990, while over 3.2 million was repaid, giving them a principal recovery rate of 139% for that period. Some of this might have been collection of payments that were overdue, but the bulk appears to be from advance payments.

While the use of fixed capital loans for working capital purposes does help WEDP's recovery rate by enabling borrowers to pay in advance (see Section IV), it leads to an inefficient use of funds by both the lending institution and the borrower. These disproportionately long repayment periods result in a very slow rotation of the portfolio, limiting the number of borrowers reached by a given active portfolio, and reducing the interest income from that portfolio. As WEDP assumes responsibility for the financial management of the portfolio, a more detailed study should be made of the use of fixed capital loans and their effect on the portfolio.

Likewise, from the viewpoint of the borrowing enterprise, the extremely long terms (over 12 months for working capital purposes) encourage a slow rotation of the working capital within the enterprise. Several businesses visited in Jhenaidah and Muksedpur had relatively large amounts tied up in working capital, either as inventory or raw materials. These investments were not producing any income for the business, but were producing costs in the form of the interest payments on the loan.

It does not appear that WEDP field staff thoroughly understand the way in which different loan sizes and loan terms can effect a business. They seem to feel that, in general, longer terms are better because it makes it easier for people to repay. They must learn to recognize, however, that longer term loans, if not used efficiently, are more expensive for the borrower and do not encourage sound business practices. Some staff training on the role that loans play in these small businesses and the importance of appropriate loan sizes and terms, could by quite useful.

- Year-long working capital loans are acceptable, but their amount should not exceed what can be immediately invested in working capital for the enterprise.

- Repeat loans, based on good payback records, should be encouraged even beyond the current three-loan policy. They are a viable mechanism for enabling poor rural families to increase their level of consumption, accumulate assets, and slowly emerge from a level of bare subsistence.

- The use of long-term fixed-capital loans for working capital purposes should be re-examined to ensure that they are justified by the activity to be financed. Their misuse can have adverse effects on the financed business and results in an inefficient use of the portfolio.

- WEDP field staff need additional technical training to better understand the use of credit and the importance of appropriate loan sizes and terms to ensure the most efficient and profitable use of credit by borrowers.

SECTION THREE

FIELD MANAGEMENT INFORMATION SYSTEMS

Current Situation and Observations

A considerable amount of information is recorded by the field offices. Registers reviewed in the Muksedpur office include:

1. Loans disbursed with general information, in order of date disbursed.

2. Field visits made, in order of date visited.

3. Payments received, in order of date payment received. A receipt book is also kept for payments received.

4. Official registry of payment, by date payment received.

5. Visits to new borrowers, in order of date visited.

6. General loan recovery book, organized by union and borrower; records payments received against amounts due for each borrower.

There are other registers as well, including one for recording second loans, one for third loans, one for loans over 5000 taka, and others.

Several reports are also received and prepared by the field offices. A bank statement from each local branch is received monthly and lists the: cumulative (since branch's first recorded operation with program) amount sanctioned, cumulative amount disbursed, amount due, cumulative amount recovered, and total balance. These figures, and information from the registers, are used to prepare the monthly field office report which is sent to the head office.

At the end of each fiscal year, in July, the bank branches send a portfolio report which lists each borrower by name and details the status of each account: name, date of loan, amount disbursed, amount paid, and balance. According to the Muksedpur field staff, a considerable amount of time is spent each month, and at the end of each fiscal year, trying to reconcile the bank's records with those of the WEDP office. They claim that they have had to correct the bank on several occasions. Currently, the bank has the sole responsibility for the management of the loan portfolio. However, WEDP field staff need timely, reliable, and appropriate information in order to supervise the borrowers and promote on-time payments of loans. Out of necessity, WEDP staff tend to rely on their own records in order to manage their borrowers. There is considerable duplication of efforts as loans are tracked by both WEDP and the bank branch.

Discussion and Recommendations

The proposed Project includes a transfer of portfolio management responsibility from the BKB branches to the local WEDP offices. While such a transfer will increase the level of administrative work of the WEDP offices, the increase will not be overwhelming, as the WEDP offices already keep extensive records. However, the records being kept will have to be revised to track and supervise accurately and efficiently the use of funds in the portfolio and the corresponding interest. The transfer will also decrease the amount of time that is currently spent coordinating applications, disbursals, and repayments with the bank, as well as the time spent reconciling WEDP records with bank records.

WEDP field staff expend considerable effort on recording information and maintaining registers. This type of record-keeping and reporting are necessary for the headquarters and for BSCIC records. However, the information is not kept in a format that facilitates the work of the field staff in any way. A sincere effort should be made to eliminate information that is not used or important, and minimize the amount of field staff time that must be spent on keeping these records, which complicate instead of facilitate the work of the field staff.

Because the information system has been set up with the needs of the headquarters and BSCIC in mind, the information kept does not help the field staff track their borrowers, manage their portfolio, or analyze trends in the portfolio effectively. Instead of just recording information to be sent to the head office, the field staff should be analyzing some of that information before it is sent. For example, is the number of active borrowers increasing? Is the portfolio balance growing month to month? Is the percentage of the active portfolio overdue increasing or decreasing?

Furthermore, much of the information is kept in the registers by date recorded, making it extremely difficult for the field staff to use the information to plan their work. To see all contacts and transactions made with one borrower, a field officer must look through numerous registers and scan numerous pages within each register to find where that borrower's name appears. The current information system makes it extremely hard for the field staff to organize their work and borrower visits efficiently.

One management information system that has proved quite efficient in loan programs throughout the world is a card system. The field office maintains a large card for each applicant. Initially, for borrowers identified, the card includes the basic information about the borrower, the enterprise to be financed (name, address, activity), the date identified, and is kept in an "identified" file. When the borrower is registered, the date registered is entered and the card is moved to the "registered" file. If a loan is approved and disbursed, the card is moved to an "active borrower" file, which is usually organized by geographic regions, and then alphabetically by borrower's name within each region. A separate file of approved loan applications is also kept. Each loan disbursal, payment of capital, payment of interest, savings deposit, any other transaction, and the resulting balance of each account, is recorded by date on the card. Even the dates of visits can be recorded on the card. In addition to the card file, which remains in a safe place in the office, each borrower keeps a passbook in which the transactions are recorded. Borrowers who close their accounts with WEDP have their cards moved to an "inactive" file.

A card system lets the field workers quickly and easily gather all needed information about any of the borrowers, or about all of their borrowers in a specific area. It also facilitates the production of monthly reports. At the end of each month, each card file is reviewed card by card to add up: number identified, number registered, number of loans disbursed, number of active borrowers, amount received, amount disbursed, amount overdue, balance of portfolio, balance of savings accounts, and any other

needed information. This information is then reconciled with the receipts and disbursals from the portfolio and savings accounts, which also include: amount disbursed, amount due, capital received, interest received, savings deposits, balance of account, etc. A card system is one possible management information system that could increase the efficiency of the WEDP field offices.

- The transfer of portfolio management responsibilities from BKB to the WEDP field offices will require a restructuring of the accounts and registers kept by the field offices. However, it will reduce the amount of time that WEDP field staff spend reconciling the records that they already keep with those of the bank. The design and implementation of an efficient and accurate accounting system for portfolio management will be critical for WEDP's success as a lending institution.

- The information systems within the field offices should be re-examined so that the reporting needs and field staff management needs can both be met in an efficient and effective manner. Some type of card system would facilitate the work of the field staff. A restructured information system can decrease the amount of time spent by staff on record-keeping, increase their easy access to information for planning and analyzing their work, and thereby increase the efficiency of the field offices.

- As the WEDP field offices assume increasing responsibility for the management of the loan portfolios, they should carry out monthly analyses of their portfolios to detect trends, improvements, emerging problems, and to plan their future lending and recovery strategies.

SECTION FOUR

LOAN RECOVERY

Current Situation and Observations

WEDP's repayment rates and other portfolio figures are included in Annex C. According to the BKB report of June, 1990, WEDP's cumulative repayment rate is 77%. This means that of the total amount that has fallen due since the beginning of the program in 1982, 77% has been collected. While this is not an exemplary performance by international standards, it is a far better repayment rate than any of the other government programs of this type in Bangladesh, and most of the NGO programs as well. Furthermore, no loans have been written off, and interest has continued to accrue on loans made since 1982 (although penalty interest has not been included). If one looks just at principal, the cumulative repayment rate increases to 83%.

The amount overdue (principal plus interest) divided by the active portfolio plus overdue interest, is 36%. Of the total amount overdue, nearly half is overdue interest payments, much from loans that probably should have been written off the books years ago. If one looks just at principal, the portion overdue falls to 24%. The bank does not provide any information on the age of the arrears and, as with the repayment rate, the lack of any write-offs since the program began means that poor loans made during the program's first years are still reflected in the portfolio.

In order to better understand the WEDP portfolio, the monthly reports sent to A.I.D. were examined, and the cumulative figures broken into yearly figures in order to detect trends (Annex C). Leaving out the initial pilot phase of the program, and calculating the cumulative repayment rate since June, 1986, there is a very positive trend:

FROM:	6/86 to 5/90	6/87 to 5/90	8/88 to 5/90	6/89 to 5/90
Total Recovered / Total Due	82%	83%	91%	103%

Several WEDP field offices actually have cumulative recovery rates of greater than 100%. The only reasonable explanation for this phenomenon is that some payments are being made in advance, before they fall due. These advance payments are included in the numerator (total payments received), but not reflected in the denominator (total fallen due) until the date due. Advance payments appear common, in large part, because of the use of long-term fixed capital loans for working capital purposes. Borrowers are able to make payments before they fall due, and do so in order to access a repeat loan. Including these advance payments in the calculation of recovery rates inadvertently hides payments that become overdue. A field office might have a repayment rate nearing 100% but also a large share of the portfolio overdue.

According to WEDP field staff, WEDP borrowers pay because they are closely supervised. Each borrower is visited within 7 days of receiving a loan. Throughout the duration of the loan, borrowers

are supposed to be visited monthly. In areas where there are many borrowers, they might be visited up to three or four times per month. Visits are made by the extension officer, the assistant extension officers, and the field workers, whose sole responsibility is to visit borrowers to collect payments.

While WEDP staff identified supervision as the most important factor encouraging repayment, borrowers mentioned their sense of obligation and access to future loans as their primary reasons for repayment.

Although WEDP loans are on an individual basis, some informal group mechanisms have been developed in the field to facilitate supervision and collection of loans. In Muksedpur, the extension officers sometimes arrange visits ahead of time to certain villages so that many borrowers can be visited and many payments collected all at once. In one village, the husband of a borrower has emerged as an informal leader. He encourages borrowers in the village to pay on-time, informs the extension officer of any problems, and serves as a communications link between the officer and the many borrowers in the village. Even though formal village groups are not organized, the extension officers in Muksedpur use peer pressure to encourage recovery, telling even good borrowers that, unless their fellow villagers repay their loans, they themselves might not be able to get future loans.

Discussion and Recommendations

The importance of future loans as an incentive for repayment has been shown in microenterprise credit programs around the world. This factor makes it extremely important that WEDP be able to reward good borrowers with timely repeat loans. If borrowers doubt that they will be able to receive a repeat loan, it is in their best financial interest **not** to repay their current loan. WEDP must make sure that borrowers always have an incentive to make on-time payments on their loans. The assumption of portfolio management responsibility from BKB will give WEDP the control it needs to ensure timely disbursal of repeat loans.

The close supervision of borrowers by field staff is also a very important factor contributing to repayment. These visits create an obligation between the borrower and the program and, many times, a strong personal obligation between the borrower and the field staff. The borrower respects the field staff, appreciates their assistance, and does not want to abuse that relationship by not repaying the loan.

The only problem with individual visits is that they are very time-consuming for the field staff, and can severely limit the number of borrowers reached by the program. Furthermore, without an information system that helps the field staff plan the visits, they may be quite inefficient--repeat visits to the same area by different field staff, visiting several villages which are far apart in the same day, etc. The informal group mechanisms being used are an effective way to reduce the number of individual visits needed in order to recover loans, and take advantage of peer pressure within villages to ensure recovery.

- The importance of repeat loans as an incentive for on-time repayment should not be underestimated. WEDP should use that incentive to its advantage, ensuring that good borrowers are rewarded with timely repeat loans. Full WEDP control of the portfolio will facilitate this.

- Close borrower supervision is also an effective mechanism for encouraging repayment, although it is very labor intensive for the field staff. Efforts should be made to experiment with group and/or peer pressure mechanisms that can facilitate the supervision and repayment

of loans. For example, all loans in a certain area could be structured so that payments fall due during the same week each month. One visit per month would enable the field staff to collect on all of the loans.

- Field level information systems should be designed to help the field staff plan and carry out loan supervision and recovery functions in the most efficient way possible.

SECTION FIVE

ADDITIONAL SERVICES

Current Situation and Observations

In addition to loan disbursement and recovery, field staff visits provide many other informal services to borrowers. Counselling on personal and enterprise-related issues is frequently provided and perceived by the extension officers as an extremely important aspect of their job. Staff feel that this counselling helps increase the self-esteem of the women borrowers and motivates them to assume more control over their lives. The assistant extension officer in Muksedpur teaches borrowers to sign their name, provides information on family planning, and encourages borrowers to open savings accounts. Because these services are not formal components of the WEDP program, their provision may depend considerably upon the relationship which develops between the borrower and the field officer.

As mentioned in the previous section, some informal group activities also take place when field staff visit villages. Unfortunately, none of these group activities could be witnessed during the field visits to Jhenaidah and Muksedpur, making it impossible to comment on their frequency, content, or impact.

Formally, WEDP provides two types of training to its borrowers. A two-day management course is offered which reviews WEDP policies and procedures, discusses entrepreneurship, and gives advice on economic issues, like the use of credit and savings, and women's issues. Although this course is intended as a type of orientation to WEDP, very few borrowers actually receive it. It is only given by someone from the head office, usually the Managing Director, and frequently includes local dignitaries from BKB and BSCIC. The course is given in each field office once or twice a year, with about 30 participants each time.

Intensive skill training courses are also offered. They last for 2-4 months, 6 days a week, for 3-4 hours a day, and are aimed at providing women with a skill that they can use to earn an income. Skill trainings are offered in areas such as: batik, soap-making, tie-dye, cane-bamboo products, imitation jewelry, pottery, radio-TV repair, and others. The instructors are usually located by BSCIC. Participants are generally not WEDP borrowers, but may apply for loans after completing the course. The courses are offered 1-3 times a year in each field office and have 15 to 25 participants.

In Muksedpur, from January 1988 through June 1990, four skill training courses were given: string-making, bamboo products, tailoring, and soap-making. A total of 75 women participated in the courses. Of them, 6 became borrowers, and 2-3 from the last course (finished in August, 1990) were seen as potential borrowers. Whether any of the other participants were using the skill they had learned could not be determined.

Discussion and Recommendations

It is impossible to determine the impact of the training activities currently carried out by WEDP. The field staff in Muksedpur felt that the two-day management training session was very valuable for the participants. One borrower in Muksedpur also mentioned that the course had been very helpful, teaching her how to buy when prices were low and sell when they were higher, among other things. The greatest

benefit from the session seems to be its motivational impact. For many of the borrowers it may be the first time they ever participate formally with other women to hear about and discuss issues important in their daily lives. The session helps them realize that they can learn new things and perhaps improve their lives and the lives of their families. It also creates a stronger bond and sense of obligation between them and WEDP.

Unfortunately, the orientation is not given to all WEDP borrowers. There are many advantages to having a group orientation in which all new borrowers participate, even if it were for only one day, or several hours. It gives the borrowers an opportunity to interact with each other, gives the program a chance to get to know the new borrowers a little better, and is an excellent forum for the program to emphasize important messages about the use of credit, the value of savings, the importance of family planning, etc. The extension officers themselves could learn to give the session and offer it periodically so that all new borrowers would participate.

Similar educational and motivational group activities could also be carried out in the villages by field staff. These sessions could be designed around different topics of importance to the women borrowers, and be participative in nature, giving the women ample opportunity to discuss their own problems amongst themselves. They would increase the presence and impact of WEDP, reduce the need for individual visits, and promote women's active participation in and management of the economic activities being supported. Topics could include: basic management skills, the value of savings, family planning, health issues, etc.

In terms of skill training, a more detailed study needs to be carried out. The skill training involves numerous direct costs to WEDP. There is a training coordinator in headquarters, trainers are hired, raw materials are purchased, and the participants are paid food and transportation expenses. The number of participants is extremely limited, and the use of the training by the participants is undetermined. WEDP should study carefully whether or not the impact of the skill training justifies the expenditure being made, or whether the resources could be put to better use.

Because of the extremely limited asset base of WEDP borrowers, savings can provide a critical cushion during difficult situations. Savings also provide the bank and WEDP with a small guarantee for outstanding loans. Although savings are being promoted informally in the field, a compulsory savings program, paying commercial rates of interest, could be easily implemented for the benefit of the borrowers and WEDP. The following examples are two of numerous possible strategies.

(1) A certain percentage of each loan (say 10%) is deposited in a WEDP account and credited to the borrower. A borrower receiving a 3000 taka loan would actually be responsible for repaying 3300 taka. She would take home 3000 taka and the other 300 would remain in her name in the account. When the loan was fully repaid (3300 plus interest), she would have access to the savings (300 plus interest earned). WEDP could require that a certain percentage of the savings be maintained for the borrower to receive repeat loans.

(2) Borrowers pay a fixed monthly amount (say 20 taka) or an established percentage of their monthly payment (say 10%) to their savings account with each monthly payment. They could have continual access to this savings account, but a certain amount would need to be on deposit for them to receive a repeat loan.

In addition to individual savings accounts, WEDP may want to explore options for establishing a group emergency or insurance fund on the village level. The fund could be established with a certain

percentage of each loan disbursed, a several taka "tax" on each payment, or with some other mechanism to be determined. The fund could then be used, upon recommendation of the borrowers in the village, to make loans to reliable borrowers who have suffered an extreme and verifiable emergency.

- A basic orientation or management course should be provided to all new borrowers. The extension officers should be trained to offer this course and participate in the development of the content of the course.

- The skill training courses should be analyzed to see whether they have an impact on poor rural women that justifies their expense. In addition to the cost of the instructors, raw materials, and expenses paid to the participants, all of the planning, organizing, and related costs should be considered. A small study of past trainees should be undertaken to determine to what extent the skill training is used.

- WEDP should implement a formal, compulsory savings program for its borrowers. They should also investigate the possibility of establishing some type of group emergency or insurance fund for reliable borrowers that suffer a crisis.

SECTION SIX

MICROENTERPRISE DEVELOPMENT

Current Situation and Observations

The large majority of WEDP borrowers are rural women involved in traditional activities using un-paid household labor. Significantly less than 5% of the total client base of WEDP is comprised of microenterprises with the potential to expand and generate wage employment. The Jhenaidah field office has about 420 borrowers, with an average loan size of 2-3000 taka. Six borrowers have loans of 10,000 taka and above, four of whom were visited. They included a woman producing hair oil, a baker, and two tailors. All of the larger borrowers were located in the market town of Jhenaidah, whereas the large majority of other borrowers were in the surrounding rural villages.

The field staff in Muksedpur estimate that of a total of approximately 1900 loans disbursed, perhaps 25-30 have been for 5000 taka or more to enterprises that use wage employment or seem to have the potential to generate wage employment. Five of these enterprises were visited in Muksedpur and are presented as case studies in the annex.

As described in the section on borrower selection and application, locating women-controlled, non-traditional activities with potential to generate employment in rural Bangladesh is difficult. There are very few of them. In market towns, like Jhenaidah, there are a considerable number of enterprises with potential for growth, but women's involvement in them is usually quite limited. There are some, however, and WEDP has decided to increase its efforts to locate these enterprises during the next five-year phase of the project. WEDP would like to increase the proportion of these microenterprises from less than 5% of their borrowers to 5 to 10% over the next five years. These borrowers will tend to be women involved in enterprises like those presented in cases 4-9 in Annex D. They may be located in market towns or peri-urban areas instead of rural villages. The vast majority of current WEDP borrowers fall within the poorer fifth of the population; this new borrower sub-set will probably fall within the poorer third of the population.

WEDP will locate these potential microenterprises by focusing slightly more attention on market towns, and by opening 5 of the planned 20 new centers in peri-urban areas. It is expected that the loan size for these new borrowers will range from 5,000 to 50,000 taka ($150 to $1500).

Discussion and Recommendations

The planned increased emphasis on microenterprises, as opposed to the subsistence level cottage enterprises which comprise the vast majority of WEDP borrowers, presents new opportunities and risks for WEDP. This section identifies those opportunities and risks. Because this shift will be done on an experimental basis, with a target of only 5 to 10% of WEDP borrowers, WEDP will be able to minimize the risks, study the results, and use the experience to determine whether this sector merits an increasing or decreasing focus.

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Opportunities

- WEDP can use this shift to overcome its present resistance to disbursing more than three loans to any one entrepreneur. There may be more enterprises than currently recognized that, with access to loans over a long period of time, can grow and possibly generate wage employment. Repeat borrowers are also very low-risk borrowers as they have an established payback record.

- The expansion plans of the Grameen Bank and the expansion plans of WEDP will increase the number of areas where both Grameen and WEDP are working. The Grameen Bank only loans to members who have assets valued at less than 1 acre of productive land. WEDP may be able to provide credit to ex-Grameen borrowers who, because of growth in their enterprise, no longer qualify for Grameen loans.

- Locating WEDP areas in five peri-urban centers will enable WEDP to serve a larger, more diverse borrower population than the current one. It should also increase WEDP's efficiency because the concentration of borrowers should be higher, as should the number of borrowers per field staff.

- Reaching slightly larger enterprises, and having offices in peri-urban areas, will enable WEDP to experiment with the provision of additional services the borrowers. For example, WEDP might want to develop basic record-keeping forms for borrowers with larger loans. Or, a rural WEDP office might be able to set up a marketing contact in a more urban area through another WEDP office. Frequent communication between WEDP field offices will be necessary to promote this type of collaboration.

- New experiences with larger loans will provide an important learning opportunity for WEDP. Experiences among the field offices need to be shared so that efficient methodologies, based on experience, are developed for working with this relatively new clientele.

Risks

- As better-off, better-educated women gain access to loans, WEDP must ensure that the traditional WEDP clients do not begin to feel that the program is no longer for them. The new, peri-urban offices should initially promote loans to the poorer women in the area, and then target the microenterprise sector in a second phase. Otherwise, WEDP runs the risk of creating an image in a new area that WEDP loans are only for better-educated women with larger enterprises, and that poor women need not apply.

- Larger loans are more risky than smaller loans. Loans to new borrowers should start small, even if they are for activities with considerable expansion potential, and grow as the borrower learns to manage a growing business and builds a good repayment record.

- Loans in peri-urban areas, to better-educated, more sophisticated women, are actually harder to collect than those in rural areas disbursed to women who have had no previous experience with institutionalized credit. Peri-urban borrowers are likely to have had more experience with development organizations and feel less obligated to pay loans back on-time. Field staff in the Jhenaidah office asserted that borrowers in the market town needed much more follow-

up to assure recovery than borrowers in the more rural areas. This risk should be minimized, to the greatest extent possible, by having timely repeat loans serve as an incentive for prompt repayment. First loans should be small and relatively short-term, maybe even less than a year if the enterprise's profit margin enables quicker repayment. Once the borrower has shown the capability and willingness to pay on time, larger repeat loans can begin to support the gradual growth and expansion of the enterprises.

- As businesses grow, the constraints they face become more complex and difficult to resolve. These constraints include: inadequate market links, poor cash-flow management, inconsistent supplies of raw materials, quality control, and others. WEDP staff do not have the technical skills necessary to resolve these constraints. WEDP will need to identify what new skills are needed by which field staff to work effectively with these larger enterprises.

- The challenges presented by this new level of business will consume significant staff time because the loans will be larger and the staff will not be able to rely on past experiences. WEDP must measure the importance of this new clientele in comparison to the current clientele which is far more numerous, and for which WEDP has an established methodology and a successful track record. The current clientele should continue to form the base of the WEDP program, and should not be short-changed by WEDP's desire to experiment with larger microenterprises.

SECTION SEVEN

SUMMARY AND CONCLUSIONS

Conclusions

As WEDP plans for its next phase of operations it faces a tremendous opportunity and challenge. It has the opportunity to make a significant contribution to enable poor rural women to increase their income and livelihood. The challenge lies in making this contribution through the efficient use of limited project resources. For WEDP to attain its optimum level of operations it will need to engage in an on-going process of experimentation and adaptation. Recommendations for the diverse facets of the field methodology provide a coherent strategy for improving operational efficiency while achieving greater levels of impact.

Summary of Recommendations

As a result to the analysis of field operations, the following recommendations have been provided to assist WEDP to increase their operational efficiency and impact on poor rural families in Bangladesh.

Borrower Selection and Application Procedures

- WEDP should develop a more aggressive borrower identification and selection process that will increase the number of new borrowers reached and increase the concentration of borrowers in each village and area in which WEDP is working. An expanded target population, including all economic activities in which women are involved, be they traditional, industrial, service or commerce, would be one viable component of this strategy. Of course, WEDP should continue to limit loans to activities that generate sufficient income to cover loan repayments on time.

- Efforts should be made to streamline the applications procedure and, if possible, limit BKB's participation in that procedure. If necessary, a loan amount could be established above which BKB would have to approve loans. Repeat loans should be particularly quick as a reward for borrowers who maintain good payback records.

- The loan application form should be revised to eliminate unnecessary and repetitive information and to include information such as: current sources of family income; monthly expenditures; number of dependents; actual production levels, cash flow, markets, and income of economic activity to be financed. This type of information will enable WEDP to select only those borrowers with sufficient income to meet their basic consumption needs and repay their loan.

- Applications should also include some simple information on the current living standard of the household (type of house, number of meals eaten per day, number of children in school, etc.). This information, coupled with the information about the enterprise mentioned above, will enable WEDP to measure the impact that their loans have on the enterprise and the economic situation of the family.

- Information gathered for repeat loans should be limited to up-dating the economic data of the enterprise and household, and the investment plan.

Loan Size, Loan Terms and Loan Uses

- Year-long working capital loans are acceptable, but their amount should not exceed what can be immediately invested in working capital for the enterprise.

- Repeat loans, based on good payback records, should be encouraged even beyond the current three-loan policy. They are a viable mechanism for enabling poor rural families to increase their level of consumption, accumulate assets, and slowly emerge from a level of bare subsistence.

- The use of long-term fixed-capital loans for working capital purposes should be re-examined to ensure that they are justified by the activity to be financed. Their misuse can have adverse effects on the financed business and results in an inefficient use of the portfolio.

- WEDP field staff need additional technical training to better understand the use of credit and the importance of appropriate loan sizes and terms to ensure the most efficient and profitable use of credit by borrowers.

Field Management and Information Systems

- The transfer of portfolio management responsibilities from BKB to the WEDP field offices will require a restructuring of the accounts and registers kept by the field offices. However, it will reduce the amount of time that WEDP field staff spend reconciling the records that they already keep with those of the bank. The design and implementation of an efficient and accurate accounting system for portfolio management will be critical for WEDP's success as a lending institution.

- The information systems within the field offices should be re-examined so that the reporting needs and field staff management needs can both be met in an efficient and effective manner. Some type of card system would facilitate field operations. A restructured information system can decrease the amount of time spent by staff on record-keeping, increase their easy access to information for planning and analyzing their work, and thereby increase the efficiency of the field offices.

- As the WEDP field offices assume increasing responsibility for the management of the loan portfolios, they should carry out monthly analyses of their portfolios to detect trends, improvements, emerging problems, and to plan their future lending and recovery strategies.

Loan Recovery

- The importance of repeat loans as an incentive for on-time repayment should not be underestimated. WEDP should use that incentive to its advantage, ensuring that good borrowers are rewarded with timely repeat loans. Full WEDP control of the portfolio will facilitate this.

- Close borrower supervision is also an effective mechanism for encouraging repayment, although it is very labor intensive for the field staff. Efforts should be made to experiment with group and/or peer pressure mechanisms that can facilitate the supervision and repayment of loans. For example, all loans in a certain area could be structured so that payments fall due during the same week each month. One visit per month would enable the field staff to collect on all of the loans.

- Field level information systems should be designed to help the field staff plan and carry out loan supervision and recovery functions in the most efficient way possible.

Additional Services

- A basic orientation or management course should be provided to all new borrowers. The extension officers should be trained to offer this course and participate in the development of the content of the course.

- The skill training courses should be analyzed to see whether they have an impact on poor rural women that justifies their expense. In addition to the cost of the instructors, raw materials, and expenses paid to the participants, all of the planning, organizing, and related costs should be considered. A small study of past trainees should be undertaken to determine to what extent the skill training is used.

- WEDP should implement a formal, compulsory savings program for its borrowers. They should also investigate the possibility of establishing some type of group emergency or insurance fund for reliable borrowers that suffer a crisis.

ANNEX C

WEDP CREDIT STATISTICS

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ANNEX C

WEDP CREDIT STATISTICS

TABLE 3

DATA ON WEDP, DECEMBER 1982 TO MAY 1990

(Figures are cumulative with amounts in 000's taka)								(Yearly totals with amounts in 000's taka.)				
DATE	# IDENTIF.	# APPLIC.	# DISBURS.	AMNT. DISBURS.	TOTAL DUE	TOTAL RECOV.	% RECOV.	# DISBURS.	AMNT. DISBURS.	TOTAL DUE	TOTAL RECOV.	% RECOV.
5/90	20,068	15,778	13,900	35,887	29,601	23,833	80	2,259	7,598	6,228	6,397	103%
5/89	17,265	13,282	11,641	28,289	23,373	17,436	75	1,365	4,240	4,527	3,379	75%
7/88	15,277	11,480	10,276	24,049	18,846	14,057	75	1,443	4,735	5,831	3,909	67%
5/87	13,377	9,510	8,833	19,314	13,015	10,148	78	1,784	4,238	4,219	3,474	82%
5/86	12,066	7,976	7,049	15,076	8,796	6,674	76	2,043	4,588	4,081	3,313	81%
5/85	9,874	5,847	5,006	10,488	4,715	3,361	71	1,509	3,119	2,530	2,368	94%
5/84	7,896	4,126	3,497	7,369	2,185	993	54	2,033	4,063	2,185	910	42%
6/83	BKB	1,586	1,464	3,306		83		1,391	3,306	0	83	
12/82	BKB	25	73					73	0	0	0	

Note: Because the amount recovered includes both principal and interest, it is impossible to determine the loan balance or the amount overdue or to calculate other portfolio trends such as % growth, changes in arrears, etc.

Source: WEDP reports to A.I.D.

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TABLE 4

DATA ON WEDP, JUNE 1990

(Figures are cumulative, with amounts in 000s taka.)

DATE	# APPROVED	AMNT. APPROVED	# DISBURS.	AMNT. DISBURS.	PRINCIP. DUE	INTEREST DUE	TOTAL DUE	PRINCIP. RECOV.	INTEREST RECOV.	TOTAL RECOV.	AMNT. OVERDUE	AMNT. OUTSTAND.	% RECOV
6/90	1[illegible],355	35,094	13,2[illegible]	34,026	19,821	9,110	28,931	16,408	5,735	22,143	7,833	18,613	77%

TOTAL ARREARS [Amnt. Overdue/Amount Outstanding (Interest Due-Interest Recovered)] = 36%

PRINCIPAL ARREARS [Principal Overdue/Principal Outstanding] = 24%

Note: These figures, though a month later than the latest WEDP figures, do not seem to correspond. One possible explanation is that WEDP offices use branches of non-BKB banks. The WEDP report would include these transactions, but the BKB report would not. There may be other explanations, such as different formulas used to calculate different numbers as well.

SOURCE: BKB, June 1990 report to WEDP

ANNEX D

ENTERPRISE CASE STUDIES

ANNEX D

ENTERPRISE CASE STUDIES

CASE 1

Activity: Paddy Husking

1st LOAN:	Working Capital	2,000 Tk	Disbursed:	25-9-88
2nd LOAN:	Working Capital	3,000 Tk	Disbursed:	10-9-89

Paddy Price (raw materials) is 250 per maund. Paddy must be dried, parboiled, and milled. Milling costs 5 Tk per maund. 1 maund paddy produces .70 maund rice. Some firewood used as fuel but mostly paddy shells. Processed rice is sold for 410 per maund. Weekly, borrower purchases approximately 8 maund of paddy and sells 5.6 maund of rice. Two to three family members work full-time, 6 days a week, on this activity, but no wages are paid.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash	2,296	9,184
Expenses		
Raw Materials	2,000	8,000
Operations (milling)	40	160
Earnings	256	1,024
Loan payment (est.)	68	272
Profit	188	752

Comments

The family unit includes the borrower, her husband, three sons, and one daughter in-law. Estimated monthly food bill is 500 Tk. Additional income is provided by: one son, who is in shrimp trading business; 20 decimals of land, which provides two months worth of rice per year; and, sporadic day labor by the husband.

Paddy husking is extremely important source of income for family's daily consumption and provides some surplus. During periods of difficulty, like husband's current sickness, the profit and even some of the business' working capital is used to purchase medicine or other necessities. The WEDP loan

has twice enabled the family to increase income from paddy husking after having depleted working capital to take care of basic necessities.

CASE 2

Activity: Cow Rearing, Milk Production and Sales

1st LOAN: Fixed Capital 4000 Tk

Disbursed: 11-23-88
Due: 8-16-90

After 10 months, cow began producing milk. Two seers are produced each morning and sold for 20 Tk; One-half seer is produced in the evening and consumed by the family. The cow has produced one calf and also produces dung used for fuel.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash	150	600
In-kind (milk consumed)	30	120
Expenses	0	0
Earnings	180	720
Monthly loan payment (est.)	55	220
Profit	125	500

Comments

Family unit consists of husband, wife, 2 sons and 4 daughters.

In addition to income produced by cow, the new calf is an important asset for the family. The husband is a homeopath doctor in neighboring market and has a reliable income.

Borrower pointed out that the only real risk with cow-fattening is the risk of fatal disease, which leaves one with the debt and no benefit from the investment.

CASE 3

Activity: Puffed Rice

1st LOAN:	(WC) 2500 Tk.	Disbursed:	1/20/86	Paid:	10/7/87
2nd LOAN:	(WC) 2000 Tk (FC) 1000 Tk.	Disbursed:	5/2/88	Paid:	1/1/90
3rd LOAN:	(WC) 2000 Tk. (FC) 1000 Tk.	Disbursed:	3/5/90	Due:	3/5/92

Paddy price is 250 per maund. Paddy must be dried, parboiled, milled, and then cooked in dry pots with hot sand to puff. Use several large pots (worth 35 tk. each) to process paddy. Pots may last for years. Burn rice husks and other wastes. Four family members work nearly full-time in the activity, but no wages are paid. Approximately 5 maunds of paddy are processed weekly.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash	1400	5600
Expenses		
Raw Materials (paddy)	1000	4000
Operations (milling)	25	100
Earnings	375	1500
Loan Payment	75	300
Profit	300	1200

Comments

Family unit has a total of 8 members. They own 1.5 acres of land. Husband produces rice and jute and sells pots from village to village. Borrower feels that they could not produce much more than they are already producing, although they could sell more.

According to the borrower, the first loan was paid back late because some of the investment was diverted to consumption and, at that time, the family was in a very difficult financial position. Their condition has improved considerably over the past couple of years, as they now have a nice house with a tin roof and savings of an undisclosed amount, neither of which they had before. Borrower attributes these improvements, in large part, to the puffed rice activity.

CASE 4

Activity: Jewelry-making, rings and nose posts

1st LOAN: 3000 Tk. Disbursed: 1/11/86

Jewelry operations involve entire family (2 females in production and 5 males primarily involved in buying raw materials and selling finished products). No wages are paid.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash	350	1400
Expenses		
Raw Materials	250	1000
Earnings	100	400
Loan Payment (Est. Initially)	68	272
Profit	32	128

Comments

Initially, several monthly installments were made on time, totalling about 1000 Tk. Several months after loan was disbursed, husband became quite sick and then died. The business was decapitalized to pay for medicine and funeral expenses. Payments slowed down, and no payments have been made since May, 1988. All current earnings are actually used to meet family's consumption needs. The current outstanding balance of the loan, including regular interest but not penalty interest, now stands at over 3610 Tk. The family has no other reliable source of income, besides occasional day labor.

CASE 5

Activity: Weaving

1st LOAN:	Working Capital	3000 Tk.	Disbursed:	4/25/89
	Fixed Capital	2000 Tk.	Repaid:	6/07/90
2nd LOAN:	Working Capital	3000 Tk.	Applied, not disbursed.	
	Fixed Capital	5000 Tk.		

Husband and wife own one loom and produce "gamcha," small towels. They also trade in towels.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash (towels produced and sold)	700	2800
Cash (towels bought and sold)	700	2800
Expenses		
Raw Materials (production)	350	1400
Raw Materials (towels bought)	630	2520
Earnings	420	1680

Comments

Family owns 27 decimals of land which, if not damaged by floods, produces 5-6 months of rice for family's consumption. Number of dependents and other sources of income were not disclosed. Family owns one loom, worth about 4000 taka and hopes to use the second loan (applied for, not disbursed) to purchase another loom, hire one laborer (at 1000 taka per month) and double production, thereby increasing monthly earnings to 2080 taka. Husband feels that he can easily sell double his current production, and maybe even triple his current production.

Previously, there were 44 weaving households in the village. Because of competition from factory products, this has been reduced to 2 or 3. This weaver has survived because he makes gamchas of inferior quality that are sold very cheaply.

CASE 6

Activity: Mat-making

1st LOAN:	WC	1000	Disbursed:	3/25/85
2nd LOAN:	WC	2000	Disbursed:	2/16/86
3rd LOAN:	WC	3000	Disbursed:	2/11/87
	FC	1000		
4th LOAN:	WC	3000	Disbursed:	12/20/89
	FC	2000		

Date palm leaves are brought from Jessore (to Muksedpur) every 6 months and borrower purchases 3000 to 4000 taka worth, an amount that produces 420 mats. Approximately 36 mats are sold every 15 days for 1000 taka total. The husband sells and the borrower and a female laborer produce.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash	500	2000
Expenses		
Raw Materials	146	583
Transportation	21	84
Labor	50	200
Earnings	283	1133
Loan payment (est.)	61	245
Profit	222	888

Comments

CASE 7

Activity: Tailoring

1st LOAN:	Working Capital	3000 Tk.	Disb.: 11/05/85	Paid: 12/21/86
2nd LOAN:	Working Capital	8000 Tk.	Disb.: 7/09/89	Paid: 3/18/90
3rd LOAN:	Working Capital	9000 Tk.	Disb.: 4/16/90	Due: 4/16/93
	Fixed Capital	6000 Tk.		

Husband and wife have a shop where they sell cloth, keeping about 5500 Tk. worth in stock. They have one sewing machine, worth 4500 Tk. Clients purchase cloth and pay to have clothes made. Borrower keeps accounts and reported the following earnings for an average month.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash (earnings from sewing)	283	1,132
Cash (earnings from cloth sales)	74	296
Expenses	0	0
Earnings	357	1,428
Loan payment (est.)	132	528
Profit	225	900

Comments

Borrower learned to sew from a WEDP training course. She also keeps a garden and sells some of the vegetables. Profits have been invested in land and she has savings of 800 Tk in the bank.

CASE 8

Activity: Production of Chanachur (snacks)

1st LOAN:	Working Capital	3000 Tk.	Disb.	10/25/89	Paid	8/8/90
	Fixed Capital	1000 Tk.				

Small factory includes pots, pans, and an oven worth about 4500 Tk. Production takes place 6 days per week with 3 family members and 3 paid laborers. The husband manages the business and the borrower, his wife, works in it. Approximately 6 maunds of snacks are produced a day and sold for 820 taka per maund.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash	29,520	118,080
Expenses		
Rent of factory	125	500
Labor	540	2,160
Materials/electricity/transport	27,035	108,140
Earnings	1,820	7,280

Comments

Taka 20,000 of final product is in the market, on credit, waiting to be sold. Husband feels that there is considerable unmet demand for the product and that he could use loans of 10,000 to 20,000 taka. Family owns enough land to produce food for 7-8 months of the year.

CASE 9

Activity: Jewelry Making

Earrings and necklaces are made from clam shells. Husband runs the activity and his wife and daughter work in the business. There are also 4 hired male laborers, each paid 600 to 900 Tk per month, and 4 female laborers, each paid 200 Tk. per month. They use 2 machines valued at 10,000 Tk.

1st LOAN:	Working Capital	3000 Tk.	Disbursed:	9/12/85
	Fixed Capital	2000 Tk.		

The first two loan payments were made. Soon thereafter, the borrower committed suicide. The husband abandoned production and acquired numerous debts: 25,000 Tk. from relatives, 3000 from the moneylender, 7000 from the bank. He remarried after a while and re-started the jewelry business in 1989. He has been able to pay off the moneylender, the bank loan, and 3000 of the loan from relatives. He has not made any payments to WEDP since 1986.

INCOME AND EXPENSES

	Weekly	Monthly
Income		
Cash	7,500	30,000
Expenses		
Rent of factory	125	500
Labor	950	3,800
Raw materials	4,750	19,000
Earnings	1,675	6,700

Comments

The husband has taken 18,000 outstanding in the market as producers' credit. he is actually interested in a larger loan size of 40,000 taka to help him buy more machinery and expand production. He sells in markets in Cox's Bazaar, 200 miles away and is assured of steady demand for his products. There does seem to be a good market for his products.

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Women's Enterprise Development Project in Bangladesh:

Background Paper

Institutional and Organizational Issues

INTRODUCTION

The Women's Entrepreneurship Development Project has demonstrated that a women directed and largely women-staffed Project can broaden women's participation in cottage and microenterprises. The Women's Enterprise Development Project (the Project) will form the third and critical phase in an institution-building process. The Project aims to establish the institutional means within the Women's Enterprise Development Unit to sustain services to rural women entrepreneurs beyond the life of the Project. This background paper will focus on the institutional and organizational issues which must be addressed to permit the WEDP Unit to reach full institutional sustainability. The paper will complement the Project Identification Document and other background papers prepared in support of the project development.

In order to assist WEDP[1] to attain long-term institutional viability, an institutional strengthening strategy is presented as Component Three of the Women's Enterprise Development Project. A discussion of the steps in this strategy and pending issues form the framework for this paper. Section I will examine the relationship between BSCIC and the WEDP Unit. Section II will review the proposed adjustments to the collaborative credit arrangement with BKB. Section III will develop a program for staff and management development, while Section IV, examines organizational development. Section V, summary and conclusions, will focus on areas for further examination to be investigated during the project preparation phase.

[1] The sub-unit operating within BSCIC responsible for project execution will be called WEDP.

SECTION ONE

WEDP/BSCIC INTER-INSTITUTIONAL RELATIONSHIP

The Women's Entrepreneurship Development Project has been established as a unit of the Bangladesh Small and Cottage Industries Corporation, a Bangladesh para-statal established to support cottage and small industry. The WEDP Unit, enjoys considerable operational autonomy within BSCIC. The WEDP Project Director, a BSCIC General Manager, reports to the Director of Projects. WEDP field extension officers, while tenured personnel within BSCIC, have established their own Upazila-level office structure. Although officially, the WEDP Extension officer reports to the Manager of the BSCIC Departmental Office, in practice, there is a direct communication link between the WEDP Project Director at the headquarters in Dhaka and the Upazila-level WEDP staff. The WEDP Extension Officer is in effect the manager of an Upazila-level Center, overseeing up to 9 staff members. This is a level of responsibility which is greater than that awarded to BSCIC Extension Officers assigned to District offices. WEDP participates in the recruitment of officers for its program and the appointment of staff is managed by the WEDP Director. WEDP extension officers are recruited directly from the University into the project, with Extension Officers holding masters' level training. The majority of WEDP Extension Officers and Assistant Extension Officers, and virtually each Officer-in-charge, are women. WEDP is unique in Bangladesh in being a women's managed operation.

While enjoying considerable support from the leadership of BSCIC, as part of a public agency, WEDP is constrained by a number of standard bureaucratic procedures. The first, and most critical is recruitment. As WEDP personnel are technically officers of BSCIC, they must be recruited through the standard BSCIC channels. WEDP participates in the selection process, so that it is able to hire persons it considers suited for their positions. The difficulty lies in the lengthy procedures which are followed by the government to fill any post. For example, all post must be openly advertised. It is not uncommon for the advertisement of a single post to receive more than 1,000 applicants. According to standard governmental procedures, each applicant must be given full consideration. The personnel division within BSCIC, constrained in size itself, is attempting to meet the recruitment requirements of all sections of the organization. Presently, a significant share of field slots are vacant.

WEDP was able to overcome the recruitment bottleneck for lower level personnel (classified as Level III). Falling within this category are field workers, clerk-typists, drivers, etc. The flexibility in Level III recruitment has allowed WEDP to hire local personnel to work in field centers. WEDP will seek from BSCIC the authority to hire Level II employees directly. Level II includes the first professional tier, such as Assistant Extension Officers and Accountants. By allowing WEDP to recruit Level II professionals directly, it will be able to fill the majority of vacant staff positions.

Given the vacancy problem, this authority to recruit Level II personnel is critical to the success of the Project. While it is a serious constraint to present operations, the Project will simply not be able to meet its targets and effectively administer credit funds without a complete staffing pattern. For example, presently, several of the centers are not staffed with Accountants. The accountants will be expected to expand their functions in direct support of the credit administration. Given the availability of trained personnel, the allocation of staff positions, and financial resources to cover these positions, a way can be found to facilitate recruitment.

The second constraint, procurement, may be more difficult to resolve. Presently, despite available financial resources and a supply of locally manufactured three-wheeled vehicles (baby taxis), a number of bureaucratic regulations make it very difficult to retire the field vehicles once they have been fully depreciated and are no longer reparable. Presently, many field vehicles are not in operation. Means to address this procurement constraint have not been identified, however adjustment to the standard government procedures should be considered.

The future Project Implementation Letter, to be signed with BSCIC should stipulate that the present levels of operational autonomy should be maintained. Further, the PIL should specify that the Project be provided the appropriate authorization to recruit Level II personnel. Finally, further investigation is called for to identify methods to resolve the procurement bottlenecks identified above.

SECTION TWO

WEDP/BKB INTER-INSTITUTIONAL RELATIONSHIP

Rationale for Changes in Credit Arrangement

The Project proposes to substantially alter the arrangement adopted with BKB for the administration of credit. In the proposed arrangement, WEDP will effectively borrow (or draw from a line of credit) with BKB. WEDP would then be responsible for conducting all facets of the credit administration and will carry the full credit risk. This shift in inter-institutional relations reflects adjustments to a number of the initial hypotheses which guided this project in the past.

One of the fundamental purposes of the original WEDP was to enable women to have access to standard banking channels. It was assumed that because of their low social status and literacy levels, a 'helping hand' was needed if women were to capture bank financing. Further, it was assumed that WEDP was not in the position to act as a lender itself. WEDP, as part of BSCIC, was by nature a governmental agency which provided services to entrepreneurs and was not a financial institution. However, an examination into the program and its operations demonstrated that the implicit problem could be approached from a different viewpoint and more effective results could be attained. While a 'helping hand' can assist women to obtain credits from standard channels, there are more efficient methods for extending very small loans. Second, once developing sufficient experience, the lending function became 'demystified.' WEDP, learned that even as part of BSCIC, it could disburse and receive very small credits without being a 'financial institution.'

The decision to recommend a shift in the inter-institutional arrangement for credit delivery was based on a number of observations derived during field visits and meetings in Dhaka.

1. The WEDP conducted the vast majority of loan functions, including identification, project preparation, supervision and collection. Further, WEDP maintained a parallel set of credit records, which while not complete, went a long way toward satisfying the needs of a complete credit administration system.

2. BKB often required between two to six weeks to process an individual loan request. The WEDP officer assisted the client to complete the loan application. After the loan request was submitted, WEDP personnel often had to visit the bank repeatedly to ensure the timely follow-up on their client's loan request.

3. The loan application process, while initially developed with BSCIC input, was far too cumbersome for the size of loans disbursed through this program.

4. BKB's assessment of the loan requests, in some instances, were treated in an arbitrary fashion. Requested amounts would be reduced, with little explanation; Loans requested as both fixed and working capital would be released solely as one or the other.

5. The WEDP lending operations were effected by overall bank activities. From May 1990 onward, for a three month period, all lending was halted due to liquidity problems experienced by BKB. These constraints were totally external to the WEDP project.

6. Whereas previously, the WEDP staff were reluctant to assume the banking function, their confidence in credit administration appears to have grown over time. This sentiment was particularly fueled by the liquidity crunch listed above — in recent months, BKB has not been in a position to perform their part of the program as originally intended.

7. A significant share of WEDP staff and management time was expended conducting the liaison function with BKB. This far exceeded the time required to directly conduct the remaining credit functions now performed by the bank.

8. WEDP could exercise greater responsibility for the project if it had more control over the lending operation and access to timely information about portfolio performance. Presently, the BKB serves as a convenient 'whipping boy'—deflecting attention away from problem areas which WEDP should address itself.

9. The present arrangement was not only cumbersome for WEDP, but it ultimately did not represent a sound use of BKB staff time. Typically, WEDP borrowers represented approximately 5% of the total number of borrowers and less than 2% of the total value of the portfolio for a branch. Yet, WEDP clients captured a disproportionate share of staff time given the poor performance of BKB's total portfolio.

10. The Financial Sector Reform Project is intended to work intensively with BKB to improve their performance. As that project gets underway, BKB will go through substantial restructuring which could have a disruptive effect on the WEDP project.

11. Advisors to BKB are likely to arrive at a conclusion similar to our own, the supervision and involvement required by WEDP is not a good use of BKB staff time. Instead, we can assist BKB to arrive at an effective model which allows them to on-lend to marginal borrowers.

The proposed relationship will entail considerable risks and rewards for WEDP. In addition to the straight forward monetary risk, there is an institutional risk. The client's perceptions of the program may change — either assuming that their credit obligation is not as binding (unlikely) or becoming less trusting of WEDP advisors who increasingly could be perceived as 'bankers.' Experience elsewhere, and in Bangladesh has demonstrated that non-traditional financial arrangements can instill repayment discipline and sustain trusting relationships. The up-side potential for WEDP is significant. Once adequate administrative systems are established and staff confidence in the new methods are reached, WEDP could double the volume of their operations if they are not constrained by the slow operations of the Bank. Further, reliable and timely information about the portfolio will allow WEDP to manage their operations much more effectively.

Proposed Credit Arrangement

The credit arrangement under consideration is similar to the one proposed in the ADB, Rural Women's Employment Creation Project, micro-credit option (ii). The basic elements of such an arrangement are simple:

- BKB would extend a line of credit to WEDP for on lending to women entrepreneurs.
- WEDP would assume full operational responsibility for identifying, approving, disbursing, supervising and collecting loans to women borrowers.
- WEDP would lend to borrowers at 16% and assume the full credit risk.
- The cost of funds to WEDP would reflect the reduced risk and responsibility of BKB and would be made available at a 'wholesale rate', such as 9.5%.
- WEDP would continue to hold loan funds and related savings funds on deposit in a WEDP account in BKB.
- A.I.D. would extend its share of credit funds directly to WEDP. WEDP would lend out the A.I.D. funds at 16 percent.

Credit Arrangement Design Issues

While the basic features of such an arrangement are straight forward, there are numerous points which would need to be addressed during negotiation with BKB and in the project preparation and planning. Such items include:

The mechanism for the loan (line of credit). The most satisfactory arrangement may entail a line of credit with interest due only on the portion which has been on-lent, while the balance is on deposit at BKB. The WEDP would make interest payments for the amount outstanding to sub-borrowers.

Loan Loss Reserve. WEDP has not established a loan loss reserve. While the repayment rate has improved over time, the proposed interest earnings is not likely to fully offset loan losses. A separate arrangement for a loan loss reserve would be needed. For example, WEDP may set aside their interest earnings into a loan loss reserve account.

Guarantee requirements. Presently, WEDP loans are unsecured and the proposed ADB arrangement does not contemplate any form of guarantees on behalf of the NGO borrowers. However, if BKB were to require some level of guarantee in the proposed arrangement, there are several options for funds which could be held in guarantee by BKB: Borrower savings generated as part of a compulsory savings plan or a loan loss reserve accumulated as a portion of interest earned by WEDP. Although in some situations, A.I.D. does not permit its funds to be used in a guarantee arrangement, this option could also be explored.

Scale of Projects Financed. WEDP and BKB may conclude that only loans under a certain ceiling should be handled directly by WEDP. Both parties may agree that loans above TK 20,000 should receive additional review and oversight and consequently fall outside the sub-borrowing arrangement. If this is the case, alternate arrangements for larger microenterprise loans would need to be considered, and once again can be similar to the ADB arrangement.

A.I.D. Credit Funds. A.I.D. credit funds could form one third of the total credit funds. This would have the effect of lowering the cost of funds to WEDP to a combined 6.27% (9.5% on 66% of BKB credit funds and 0% on 33% A.I.D. credit funds). Or, the BKB credit funds could be used for direct lending, with A.I.D. credit funds used as a source of guarantee and/or a cushion to offset loan losses.

Pilot Test. The new collaborative arrangement should be pilot tested in several Upazilas before being fully adopted. A program for pilot testing and dissemination would need to be defined.

Transition. Methods to phase out the current arrangement and phase in the new arrangement would need full consideration. BKB would need assurance that supervision of entrepreneurs which received loans directly from BKB would not be reduced while WEDP increases supervision of its new sub-borrowers.

Initially, responsibility for credit administration, portfolio management and the interest obligation created through the letter of credit extended to WEDP may appear daunting. However, once WEDP becomes accustomed to these new responsibilities, it will grow to appreciate the increased control and flexibility it can permit the program. Further, once credit delivery becomes operationalized and an efficient management information system is established, WEDP will likely be surprised by the actual time it saves in this new arrangement, thereby freeing personnel to reach a greater number of women clients.

SECTION THREE

STAFF AND MANAGEMENT DEVELOPMENT

Staffing Considerations

Virtually, each component of the Project will require adjustments to the existing staffing pattern. Increased operational efficiencies, services to microenterprises, direct credit administration, and setting the stage for the future growth potential of the project--all have staffing implications.

Headquarter Personnel

The 1986 and 1989 Hashemi evaluations both critique the level of headquarter personnel involvement in providing direct support to field offices. Hashemi described a management system which was verified by the present team: Officers in Charge in each Center reported directly to the Project Director. Other headquarter personnel were involved largely with administrative tasks. While some of the administrative tasks could be conducted more efficiently (for example, the use of form letters for standard personnel transactions, streamlined procurement procedures), some administration is part and parcel to the functioning of a program such as WEDP. Rather than anticipating a heightened involvement of headquarter personnel in field service delivery, which has not come about even with evaluation recommendations, discrete roles should be defined for headquarter and regional offices.

The Project anticipates the recruitment of a second Deputy General Manager, with the present Deputy responsible for administrative matters and the second assuming charge of operations. The post of Deputy General Manager for Operations must be recruited with a specific set of responsibilities in mind. Namely, as the WEDP Unit expands to forty Centers, it will not be possible for each Center Officer in Charge to maintain a direct and personal relationship with the Project Director. Institutional authority over field delivery will need to flow from the Project Director to the Deputy General Manager for Operations to each of the Regional Officers (discussed below). The person filling this post should anticipate substantial travel, on the order of the schedule currently maintained by the Project Director. They will have to bring to their position field experience and a genuine interest in the practical problems encountered by field personnel. The capacity of the program to execute the proposed expansion successfully, will be inextricably linked to the professional qualifications and drive of this Deputy General Manager. That person will serve as the principal link between the regional and center offices and that of headquarters.

Once expanding its credit functions, the WEDP Unit will need to bring on board a Financial Manager. This is a senior level position which is not contemplated in the BSCIC Project Proforma. The Financial Manager would be responsible for overseeing the credit operations. He will require the support of two or three Level II accountants which will form a credit unit within WEDP. The Financial Manager will be responsible for: Compiling credit statistics provided to the headquarters from the field; Analyzing the performance of the portfolio; Managing all relations with the bank; Tracking branch performance; Allocating credit funds across branches, Conducting training workshops for field personnel on credit delivery and administration, Updating credit policies and procedures as needed; and, Updating the credit monitoring systems to ensure timely and complete information. It is important to recognize that the Financial Manager will require analytic capabilities and familiarity with credit administration. These

functions are distinct from the financial accounting performed by all public institutions. The two or three Level II accountants will support the Financial Manager in the execution of his responsibilities. Despite the anticipated level of lending activity, it should not be necessary to expand the unit by more than two or three accountants. Considerable credit administration will be conducted at each Upazila center and the headquarters operation should not attempt to duplicate the credit administration maintained by the field. Rather, their function will be to compile credit statistics and to generate the information needed for effective portfolio management.

Outside of the addition of a Deputy General Manager for Operations and a Financial Manager which oversees a credit unit within WEDP, substantial expansion of headquarters personnel should not be anticipated. Wherever possible, field support functions should be assigned to the regional offices described below.

Regional Personnel

To permit a more decentralized management approach, Regional or Divisional Officers should be established. These Officers could either be the Officer in Charge of a peri-urban Center, with an expanded staff to reflect their additional duties, or would operate their own smaller regional office. The Regional Officer could be recruited from among the more capable Extension Officers. The responsibilities of the Regional Officers would include: Supervision of the Extension Officers in their region; Coordinating the testing and dissemination of new field methodologies for more efficient service delivery to cottage level enterprises and for methods to reach microenterprises; Working with a select number of larger microenterprise borrowers which require more sophisticated technical support; Coordinating the credit administration, portfolio management and project performance information flow to headquarters; Hosting regional workshops of Extension Officers and Assistant Extension Office.

If assigned to a peri-urban center, then the Center's staff would be expanded to include the Regional Officer, an Extension Officer, a second Level II Accountant, and the usual number of Assistant Extension Officers, Field workers and administrative personnel. If located apart from a WEDP Center, the Regional Officer would maintain a small office, having assigned one Assistant Extension Officer, Accountant, and secretary/clerk.

The Regional Officer positions are very important for the smooth operation of the Project and for establishing a management system which would enable the Project to grow in the future. These positions should be filled by appointment from among the current Officers in Charge. This will create an avenue for advancement within the organization. In the past, the WEDP Unit has lost some of its better personnel to other parts of BSCIC as these individuals sought career advancement. Further, individuals which have come through the field system have a first hand knowledge of the problems facing field officers and a genuine interest in seeing such problems resolved.

Field Personnel

To date, the field personnel have been one of the WEDP's greatest assets. The commitment and concern field officers have brought to their position has been most impressive. With the change in field methodologies and direct credit administration, the staffing pattern at the WEDP Centers should be adjusted. The Officer in Charge will assume the principal responsibility for the credit administration. This person is already familiar with the clients in the Upazila and their credit performance. They will

however, require additional training for this new expanded responsibility. The number of field days required of the Officer in Charge will be reduced in this new arrangement. However, the Officer in Charge should anticipate spending at minimum one third of her time in the field (8 working days).

Presently, each Center is slated to have two Assistant Extension Officers and two field workers in addition to the Extension Officer. With the new methodology which will encourage concentration of clients and the additional responsibilities of credit administration, each center should have three Assistant Extension Officers and three field workers. The third set of field personnel will pick-up in part the reduced field responsibility of the Officer in Charge, but also support more intensive service delivery in the Upazilas where WEDP is already operating. The Project then would aim to increase the number of women reached in a given Upazila.

Finally, the Level II Accountant will have increased responsibilities with the new direct credit functions. It may be necessary to include an additional clerk-bookkeeper to provide support to the Accountant if field experience demonstrates that sufficient clerical support is not available. In terms of the credit-related responsibilities, the Accountant would compile credit information developed by the Assistant Extension Officers and provide support to the Officer in Charge in credit statistics and portfolio analysis.

The recruitment constraint for field positions was discussed in the initial section of this paper which reviewed the relationship between the WEDP Unit and BSCIC. When considering the performance targets and the increased responsibility resulting from the new credit arrangement, it becomes imperative that all staff positions are filled. It simply will not be possible for this project to meet its objectives if appropriate field personnel are not recruited and placed.

Lessons from the Grameen Bank Experience

The Grameen Bank stands out for its efficient delivery of timely services to a rural population of significant scale. While WEDP will not attempt to 'replicate' the Grameen Bank experience, there are important lessons which can be derived from an analysis of their management and staffing pattern.

Assistant Extension Officers Maintain Credit Administration Records. Significantly, the Grameen Bank Branches, their equivalent to Upazila Centers have fewer support personnel than WEDP, even when each Branch services more than 2,000 clients on a regular basis. Each Bank worker, their equivalent to the Assistant Extension Officer, not only conducts the field work of identifying clients, supervising loan requests, monitoring client progress, but also is responsible for maintaining the administrative and financial records for their clients. By spreading this record keeping responsibility across all officers, records can be maintained in a timely basis. In addition to the Assistant Extension Officer positions (six to a branch), Branches are staffed by a manager (Officer in Charge), Senior Assistant to the Officer in Charge, and an office cleaner/helper. This entails nine staff persons in total. Significantly, branches are not equipped with Accountants of Secretary/Clerks. While WEDP does have additional administrative personnel at each branch, the lesson of having each Assistant Extension Officer maintains their credit records is an important one.

Slim Regional Operations. The Grameen equivalent of regional offices are also thinly staffed. These are staffed by a core team of five persons, including the Regional Officer, a Program Officer, two Field Liaison Officers, and a clerk/typist. This is a very slim staffing arrangement when considering that each regional office supports 20,000 borrowers. The important recognition here is that the majority of

the credit administration is maintained at the branch or Upazila Center. There is no attempt to maintain a parallel set of information at the regional level.

Multi-tiered system. Presently, the WEDP management system is structured like a bicycle wheel with the headquarters serving as the hub and each spoke leading to an Upazila Center. This arrangement will not be adequate to sustain expansion. Grameen is also impressive with its decentralized, multi-tiered approach. Each Branch (Center), feeds into a Regional Office. These Regional Offices then feed into a Zonal Office. The Zonal Offices then funnel information to the national headquarters. This decentralized approach has allowed Grameen to reach 800,000 clients (40 times the level projected for WEDP for this Project). As WEDP is contemplating its staffing pattern and organizational system, it should be devising an arrangement which can be replicated in order to support the continued growth of the program.

Management and Staff Training

The most outstanding public and private institutions have strong staff training. Training is not limited to an initial orientation program, but is integrated throughout the tenure of service. By building upon its human capital, the Project establishes its most valuable asset. The need for training is particularly compounded in that Assistant Extension Officers are recruited with diverse backgrounds, most of which have only generally prepared the new officer for her field responsibilities. For such professionals, a sustained in-service training approach is needed which intermixes field experience with periodic professional skills and analysis development.

Management and Marketing

Brief field visits indicated that while staff were highly motivated and committed, they were short in a more comprehensive understanding of basic business principles, financial management and marketing. What is most significant, is that many did not appear to realize that their knowledge in basic business concepts was not fully developed. If given a broader business foundation, Extension Officers and Assistant Extension Officers, could make a much greater contribution to their clients.

The management and marketing training required for Extension Officers and Assistant Officers, should not focus on sophisticated financial engineering which would be of little value for the women entrepreneurs they service. However, Officers need to be fully familiar with the basic concepts which underlay the balance sheet and income statement, understanding the relationship between cash management problems and areas such as inventory, accounts receivable, producer and supplier credit among others. Officers need to have a full grasp on how diverse facets of a business come together to generate a profit for their owner. This level of understanding will become all the more pressing as WEDP is expected to evaluate credit proposals on its own.

Marketing is a key business constraint for many cottage and microenterprises-- yet it appears that Officers have received little preparation in this area. Marketing is a broad area including product development and pricing, in addition to the more obvious elements of packaging and promotion. Most importantly, for many of the small producers, critical marketing constraints are tied to the distribution system. Relations with distributors and outlets should be fully understood so that entrepreneurs can be advised to take advantage of many opportunities.

In an environment such as Bangladesh where the majority of clients are not literate, management training to the entrepreneurs necessarily will be brief. WEDP needs to strengthen the flow of improved management and marketing practices to the clients by strengthening the understanding of its own field officers. Wherever possible, Officer training should draw upon case exercises and bring together Officers of similar levels and experience. One or two week in-service trainings should be contemplated for the Assistant Extension Officer levels once a year for the first three year of service. Following this, in-service training should be provided once every second or third year. Extension Officers training would by necessity be of briefer duration (2- to 5-day seminars) being held once every two or three years.

Credit Administration

To institute more direct involvement in Credit Administration, training will be required at several levels.

Extension Officer in Charge. The Extension Officer in Charge will require training for them to assume their credit responsibilities. While recognizing that it is difficu't for persons with such on-going responsibilities to leave their posts--two five day trainings should be anticipated. This training is absolutely vital for WEDP to successfully assume credit responsibilities. Without this training, there is great likelihood that the credit delivery could be seriously impaired. Training sessions must extend long enough for participants to fully grasp the information provided and to gain confidence in their skill to utilize this new information in order to perform their duties. If possible, the Financial Manager should be involved with the development and execution of this training.

Extension Officer in Charge training should include but not be limited to the following subjects:

Project development and project appraisal. How much do women really need for a given enterprise type? How to appraise the past performance of the enterprise and arrive at realistic projections for enterprise growth? How much working capital in relation to fixed assets is recommendable? what are appropriate inventory levels? Over how many weeks should a woman turn over her inventory? How to evaluate the cost of equipment proposed for a loan? Which business types are riskiest? Danger signs to look for during the project development phase? What volume of products can the enterprises market realistically absorb?

Loan administration. What basic information needs to be developed for each loan applicant? How do you conduct the calculations to determine the principal and interest payment schedule? Officers should be familiar with the system to be developed by WEDP and understand the basic concepts behind these systems--gaining general exposure to loan administration methods used by other programs (e.g., interest on declining balance, discounted interest payments, etc.).

Credit Statistics. Each branch will be responsible for maintaining its own credit statistics and supplying these to regional and national offices. Officers in Charge will need to be familiar with all the record keeping they will be expected to maintain. They will need to understand the relationship between the different components of information they will be providing in their reports.

Portfolio Management. Officers in Charge should be briefed in basic portfolio management concepts (diversification, aging of arrears, etc.) and understand the implications for the different key indicators used to assess portfolio quality (e.g., repayment rate, arrears rate, percentage of portfolio effected by arrears).

Accountants. Accountants will require training to prepare them to work with the credit administration system. Once again, training will entail introducing the accountants to the new system and providing them sufficient opportunity to practice what they will be expected to do so they are familiar and comfortable with their new responsibilities. Accountants may also require two five day workshops.

Assistant Extension Officers. In many ways the responsibility of the Assistant Extension Officer will not change significantly from the present to the new system of credit involvement. One or two three day workshops will be needed to acquaint them with the new system, the records they will be maintaining and to extend their understanding of project development and appraisal (which is relatively weak at this point).

International Training

Presently, WEDP Officers may have the opportunity to attend a training program in India on Entrepreneurship Development. We recognize that out-of-country travel is an important bonus for field officers and expands their professional horizons. If possible, WEDP should consider additional or alternative training options in India and in Bangladesh itself. Many professionals travel to Bangladesh to visit the Grameen Bank field operations. WEDP Professionals may also want to do so to observe the very efficient field delivery system and to develop in their own minds a clear understanding of their approach to in addition to those of other organizations in their country. In India, there are also several other well established women's enterprise programs which could be visited (Women's Forum, SEWA are two which come to mind).

SECTION FOUR

ORGANIZATIONAL DEVELOPMENT

WEDP is a very successful organization which draws upon many qualified and dedicated members at all levels. However, if WEDP is to increase operational efficiencies and to develop a sound organizational base which can expand to meet the tremendous need for its services in Bangladesh, there is considerable scope for organizational growth. Studies demonstrate, in Bangladesh or elsewhere in the world, the most successful organizations are ones which foster continued innovation and refinement. Successful organizations also have the means for intra-organizational communication so that ideas and experiences are exchanged and a common base is established upon which to build.

Organizational Strategy

Many of the features for organizational strategy have been indirectly touched upon in the discussion on staffing. Specifically, an organization such as WEDP should aim to:

Multi-tier Approach. WEDP is particularly vulnerable in its mid-management level. As the organization grows, it will need to develop layers, which will permit operational decentralization and appropriate delegation of responsibilities. Organizational growth is not possible until such mid-management is formed. To the extent possible, WEDP should aim to recruit its mid-management positions from among its Officers in Charge.

Field Centered. While there is the need to develop some levels of mid-management, the strength of WEDP to date has been its field orientation. The real excitement at WEDP occurs at the field level. By calling for a multi-tier approach we are not asking for a large Dhaka centered bureaucracy. Rather, regional offices, which are close in proximity and spirit, to the Upazila centers will keep the organizational focus on the field while enabling a responsive organizational and management framework.

Generalists. The organizational approach adopted calls for generalists. Overspecialization would be counter-productive in an organization which services very small enterprises and where familiarity with the entrepreneur's characteristics and the local economic constraints are significant factors influencing enterprise performance. It is specifically for this reason that we have channeled the credit responsibility through the Officer in Charge and not segregated this function from the other elements of the field delivery system.

Intra-organizational Communications

Presently the staff is brought together one day a year. This is not sufficient given the rich methodological adaptations which are developed in the field. Means have to be established which will allow for exchange of experiences and a 'trickling up' of new methods. An appropriate program for intra-organizational experiences may include:

National/Extension Officers. A two or three day meeting should be planned each year which brings all Officers in Charge together. Organization wide planning and budgeting, involving the

Extension Officers should be held. Discussion sessions on special topics of interest should be planned. Presentations from each of the regions could be held. Incentive bonus awards could be presented in a public forum to afford Officers greater recognition in their duties.

Regional/Extension Officers. Once or twice in the year, a one or two day regional workshop may also be called for to review the status and operations of Center portfolios, to review new methodologies being introduced, to discuss monitoring and evaluation procedures or provide training in personnel/time management. These small workshops would be planned and executed by the Regional Officers.

Regional/Assistant Extension Officers. Once a year some 2-5 days regional workshop should be planned among selected Assistant Extension Officers. This would complement the training activities identified above.

Regional/Accountants. Similar to the program described above the Assistant Extension Officers, an annual regional level workshop will provide the opportunity to complement skills training and reinforce staff in the performance of their tasks.

SECTION FIVE

CONCLUSIONS

The WEDP Unit is at an exciting juncture and faces tremendous future potential. To realize this potential, however, steps can be taken to establish a sound inter-institutional framework, to develop an effective staff and management development program, and to strengthen the organizational dynamic. Once these new organizational approaches are fully integrated, WEDP will be in the position to accomplish whatever growth plans it defines for itself.

Areas to be further examined in the Project Preparation Phase include:

a) Cost analysis, including cost per taka lent. Definition of targets for outputs based on staffing, credit methods, and cost target levels.

b) Program for testing and disseminating field methodologies.

c) Credit Policies and outline for Credit Administration Methods and Management Information Systems.

d) Organizational structure and job descriptions.

e) Review of long term organizational alternatives.

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