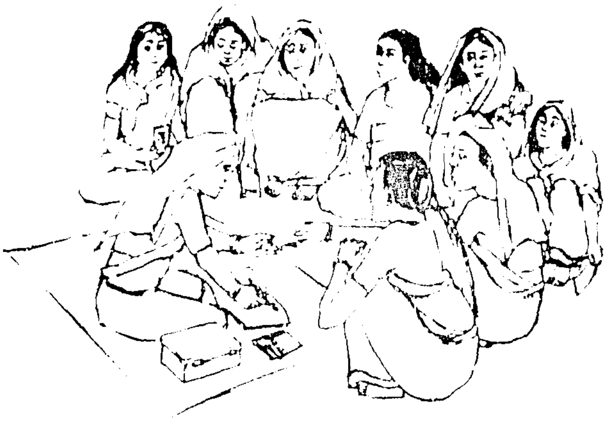
PN ABX-561



Credit to the Poor through Groups : the RDRS Example

Clarence Maloney

Credit to the Poor through Groups: the RDRS Example

Clarence Maloney

A publication of Community Development Library
in collaboration with PACT Bangladesh/PRIP

Credit to the Poor Through Groups: the RDRS Example

Clarence Maloney

First Edition : August 25, 1989
Second Edition : August 02, 1993

Published by
Community Development Library
House 39, Road 14A
Dhanmondi R/A
Dhaka 1209, Bangladesh

In Collaboration with
PACT Bangladesh/PRIP
House 56, Road 16 New
Dhanmondi R/A
Dhaka 1209, Bangladesh

This document has been produced with assistance from PACT Bangladesh/PRIP as part of a grant from the United States Agency for International Development (USAID) Bangladesh.

Preface

This series of book is published by the Community Development Library in conjunction with PACT/PRIP as a contribution to the sharing of information on development topics relevant to NGOs in Bangladesh.

The contents of the books do not necessarily reflect the opinions of either CDL or PACT/PRIP, but are felt to be useful contributions to the development of NGOs.

Contents

Credit to the Poor and Marginal Farmers through Groups : the RDRS Example

A. General Comments

A-1. RDRS Credit

This paper originated as a brief commissioned observation to make recommendations about the credit system of Rangpur-Dinajpur Rural Service (RDRS, an arm of Lutheran World Service).

There are many methods and models of organizing small credit delivery.[1] This paper focuses on the RDRS model. Very modest loans are given directly by RDRS to medium-sized groups of the poor and marginal farmers having less than one acre. The credit is for either group or individual use, interest-free, to be paid back in some months or a year according to the activity undertaken. The group is prepared and the money is given by a field worker called Organizer, who also collects the repayments; he is responsible not only for credit, but for comprehensive development of the target population. This is only one model among the many worked out by different development agencies.

RDRS has experimented with credit over many years now. In the 1970s it had a scheme of giving credit to the government-sponsored cooperatives, but the money was mostly lost. It recently had a scheme to give direct credit to small groups of small farmers (having 2 acres or less) for agriculture, and it had another scheme to give credit to larger groups of the landless for "income-generating" activities. It also had a scheme for delivery of tiny loans from banks for purchase of treadle pumps.

But in 1989 RDRS reorganized its entire operation, changing from focus on sectoral assistance (agriculture, health, disaster relief) to a comprehensive development effort directed towards those persons/families having less than one acre of land or equivalent wealth.[2] RDRS has a huge clientele in its area of work, and sponsors 8000 groups. So RDRS desired recommendations concerning credit under its new comprehensive strategy, the purpose of the original consultancy on which this paper is based.

The present paper is an expansion and generalization of the original, done at the request of the Private Rural Initiatives Program (PRIP) in the belief that these ideas might be of interest to other private development organizations (PDOs = NGOs) in Bangladesh. The recommendations apply to RDRS (based on brief observation only), and may not necessarily apply to other organizations.

---

1) See Clarence Maloney and A.B. Sharfuddin Ahmed, ***Rural Savings and Credit in Bangladesh*** *(University Press Ltd, Dhaka, 1988), from which some of the ideas here are taken. The book discusses the role of informal groups, development organizations, and financial institutions; there is an (outdated) appendix summarizing the models of 16 organizations arranging credit for the poor.*

2) Other agencies such as BRAC and CCDB have also made the shift from sectoral emphasis to comprehensive development efforts for the target population.

A-2. More Credit

Is more credit for the poor needed ? At least 8 Bangladesh government or quasi-government agencies have schemes of cash loans for the poor, and besides, more than 90 PDOs have credit components for the poor or economically marginal people in their development strategies.[3] Despite all this, at present only about 15% of the target group (laborers and/or economically marginal people) get these unsecured loans from banks and helping organizations.[4]

Most loans in rural Bangladesh are still from non-institutional sources.[5] In 1987, 36% of the 15 million households of Bangladesh had loans during that year, but 68% of them were from friends, relatives, and moneylenders, and only 32% were from banks, cooperatives, and helping organizations.[6] And though PDOs are so numerous, according to this study they provide only 1.36% of loans (though many of them also facilitate bank loans). Even RDRS with its 8000 groups has been able to organize only some 8% of its target population in its districts. So there is still huge scope for more such credit--especially far off the roads.

---

3) Data on 92 PDO small credit programs was collected by the present author during World Bank/IDA mission to identify a poverty alleviation strategy, March 1988. See also the published ADAB list of agencies eligible to receive foreign funds. Government agencies providing small cash loans to the poor are youth, social welfare, women's affairs, cooperatives, industries (BSCIC), and Manpower and labor, besides the big quasi-government agencies Swanirvar and Grameen Bank.

*4) **The Rural Credit Survey in Bangladesh** 1987 (Bangladesh Bureau of Statistics, Dhaka, May 1989, p.22) shows that of all loans 2.5% are from Grameen Bank and 1.4% are from PDOs less than 4% of all loans, or 12% of all institutional loans. By another calculation, if we add up the loans given to agricultural and non-agricultural laborers by the banks, cooperatives, and government organizations, plus all the loans given by Grameen Bank and the PDOs, it comes to 505,000 such loans given in the year 1987 (p.326). This **Survey** assumes 15 million households in the country in 1987. If about 50% of households are laborers and/or target populations of Grameen Bank and the PDOs, then about 15% of them had such loans understanding in that year. 15% was also the rough estimate made in 1988 by the World Bank/IDA preliminary poverty alleviation mission (in which this author participated), in discussions with BIDS staff and by analysis of the numbers of borrowers of nearly a hundred organizations.*

*5) See a recent detailed study, K A S Murshid and Atiq Rahman, **Rural Informal Financial Markets In Bangladesh: An Overview** (draft, BIDS, September 1988).*

6) Bangladesh Bureau of Statistics Survey (1989, pp.22). The sample was extrapolated to the 15 million households in the country in that year. Sources and amount of loans were as follows :

Krishi Bank	*11.08%*	*of loans*	*5275*	*taka average loan size*
Sonali Bank	*3.16*		*5878*	
Grameen Bank	*2.46*		*3109*	
All other banks	*3.06*		*5331*	
Cooperative societies	*5.33*		*2749*	
Government and semi- govt	*1.94*		*3809*	
PDOs (NGOs)	*1.36*		*3157*	
Friends and relatives	*38.81*		*3070*	
Professional moneylender	*29.21*		*32.65*	
Others	*3.59*		*2546*	
	100%			

As regards effectiveness, credit is not so pivotal that it can be called the key to getting clients out of economic marginality, but it certainly helps. The great majority of such cash-loan borrowers do have measurable improvement in their economic condition, as found in the Rural Finance Experimental Project (RFEP).[7] Mahabub Hossain's study of the Grameen Bank concluded that "Whatever methodology is used one reaches the same conclusion, that the bank had a positive impact" on the income of the borrowers.[8] Atiur Rahman's recent study of that institution concluded the same, and made the further point that because the rural economy is getting commercialized and job-specific, their is almost no limit to demand for such loans.[9] Effectiveness of these efforts is confirmed in a further study by Atiur Rahman of small credit by 5 organizations.[10] Women hardly get bank credit, and several agencies have found that credit for them is particularly helpful in the development process.[11]

But not all PDOs feel that giving credit is essential to their work. Nijera Kori, for example, has a large women's development program but offering credit is not part of its policy.

In RDRS, officers and staff have varied opinions about credit. There was general agreement among them that it was desirable to do more with credit. But there was difference of opinion over whether this should be directly part of RDRS effort, or provided through financial institutions. There was concern principally : 1) that any greater credit effort should be based on a clearer system, and 2) that credit recovery would not take so much of the time of the field staff that they could not promote other sectors in the new comprehensive and multi-pronged strategy. Probably some other PDOs will find their situation similar.

This paper deals mostly with credit provided directly by the PDO (Parts B and C). Another issue is credit provided by financial institutions, perhaps on the recommendation of the PDO (Part D). Yet another related issue is different kinds of registration of groups so they can more easily get credit (discussed in a separate paper).

---

*7) **Rural Finance Experimental project,** Vol 1 : **Borrowers Final Survey** (USAID)/ Bangladesh Bank, 1992). RFEP was a $7 million USAID project to test the effects of different interest rates and modes of lending, both on the borrowers and on the banks. As far as this elaborate study could determine, 88.5% of the borrowers increased their level of consumption during the time of the loan (p.59) . More important 61% of borrowers increased their net worth during the time of the loan, and of female borrowers 74% increased their net worth during that time (pp. iii-v).*

*8) Mahbub Hossain, **Credit for the Rural Poor : The Grameen Bank in Bangladesh** (BIDS,1984), Chapter 5. He used a number of separate statistical techniques, and found that borrowers' per capita income increased 31% over that of a control group. Return on a loan given was about 45%.*

*9) Atiur Rahman, **Demand Marketing Aspects of Grameen Bank** (University Press Ltd. , Dhaka, 1986) p, 82.*

*10) Atiur Rahman, **"Credit for the Rural poor"** (UNDP/BIDS, 1988. He compared BRAC, Proshika, Swanirvar, Grameen Bank and RRDB.*

*11) Mahabub Hossain and Rita Afsar, **"Credit for Women : A Review of Special Credit Programmes in Bangladesh"** (BIDS, 1986).*

On terminology : those who take loans are referred to here as "borrowers" because they must take responsibility for repayment. Or they may be called " clients" to show their relationship of their own free will to the sponsoring organization. Two terms commonly used in Bangladesh are avoided here " loanees " (implying the downward perspective of the bank) and "beneficiaries" (implying charity).

A-3. RDRS Group Strategy

RDRS gives credit to well-prepared medium-sized groups of about 15 members, for use either by the group or an individual within the group, but in all cases guaranteed by the group.

There are 5 contrasting models different helping organizations in Bangladesh employ to get credit to their target populations. It may be given to :

1) Individuals, (BURO, most of RFEP, Enfants du Monde, etc.)
2) Groups of 5 (Grameen Bank , BRAC, Swanirvar, Department of Youth, FIVDB, and nominally Bureau of Manpower). These little groups are created mostly for purposes of credit, to generate social pressure for repayment. But such small groups are artificial in terms of banding together for their project. Group size of 5 has been especially popularized by Grameen Bank, which has a very strict and successful method , but after some years of experimentation other agencies are finding that it does not always suit them so well
3) Medium-sized group of 12 to 15 (RDRS, Proshika's women's groups, CARITAS, MCC, CCDB Farmers' groups, etc.)
4) Larger groups or cooperatives of 20 to 40. (CRWRC, VERC, BRDB, etc.). Such large groups usually have to have a boss who then might exploit the others, or need to follow some formal system involving elections, like the rules of the Department of Cooperatives, which brings its own problems.
5) Individuals through a village Organisation (BRAC, SCF, Comilla Proshika, etc.).

The RDRS experience in this regard may be useful for other organizations. It used to sponsor two categories of groups: small farmers' groups of about 8 or 10, and landless groups of 30 to 35. It now feels that the best group size for all its target population and the comprehensive program is roughly 15 members, which is to be the norm from now on.

It is the observation of this consultant that group size of about 15 is fine. In an earlier study of spontaneous informal savings and loan groups throughout Bangladesh, this size group was found to be slightly more stable than large groups.[12] This size of group is small enough to : 1) function on the basis of trust, 2) be a committee of the whole when necessary, and 3) cooperate in work.

---

*12) Clarence Maloney and A.B. Sharfuddin Ahmed, **Informal Savings and Credit Groups In Bangladesh** (USAID, Dhaka, 1986), also summarized in Maloney and S. Ahmed 1988. Among informal groups, group size 11-15 and 16-20 had a somewhat lower rate of failure than groups of 26-40.*

RDRS groups have many of the qualities which make informal savings and credit groups successful in Bangladesh. They work well, with few instances of mistrust within the group. Group functionaries are appointed by democratic consensus without the divisiveness of formal elections or the power of a few vested in a management committee.

Also, it is very important that RDRS groups are not formed mainly with the objective of getting credit, but for self-help and mutual assistance in line with the current RDRS strategy of comprehensive development. Self-help was the original idea of the cooperative movement, which has been largely abandoned as more and more cooperatives were formed as a strategy to get "loans" and government inputs. A recent BIDS study[13] comparing BRDB with BRAC in 4 villages shows dramatically the results of BRDB formation of cooperatives mainly with the objective of giving credit, in contrast with BRAC formation of groups for conscientization, savings, group help, and group planning, to which credit is then sometimes added.

New RDRS credit given out in its Western Zone (office in Thakurgaon) is mostly used well by the groups, and repaid well. In its Eastern Zone (office in Kurigram) default has accumulated in many of the older groups because of RDRS reorganization, staff transfer, and floods. It is suggested that RDRS mount a drive for recovery after the current crop, with promise of new loans after the groups show stability. Then it should probably abandon those areas where there is a momentum of default which cannot be overcome.[14] If started a new on a firm basis, the credit system should work well.

A-4. Reaching the Poor

It is the observation of this consultant that RDRS credit can and does reach the very poor in many cases-- probably more so than in schemes in which the loan is given to the individual borrower who is somewhat poor but also looks more loanworthy (RFEP, Bureau of Manpower, BSCIC). Several other agencies give loans on condition that the borrower can repay it weekly from the household budget (Grameen Bank, BRAC, and Swanirvar, though they also do try hard to reach the poor). In any case, RDRS seems to be achieving its objective of reaching those who are indeed poor.

Also, the practice in some RDRS regional Units of having the groups list their members beginning with the poorest, and seeing that individual credit is extended to them in order of priority, is an additional mechanism to really reach the poor. This has also been done successfully in India and Indonesia. It is recommended that this be applied in all RDRS groups so that loans will be provided first to the neediest.

---

13) Q K Ahmad and D K Roy, ***Development Communication and Grassroots participation; Bangladesh Case*** *(Research Report no. 78 , BIDS, Dhaka, 1988 .*

14) This consultant has observed in RFEP, BMET, and other loan programs that when default reaches some point, say 30%, there is a momentum that can hardly be stopped because each person sees that his neighbor who doesn't repay has nothing to fear, and besides, such loans are usually old and the capital is no longer available. It is better to abandon such places and use the field staff more effectively in new locations started on a firm basis.

At present, RDRS defines its target population of marginal farmers and the poor mostly on the basis of landholding--those owning one acre or less.As more and more people derive no subsistence from the land, other criteria such as income or nutrition might be used. For this, there is an excellent analysis of poverty by Atiq Rahman and Trina Haque.[15] It found that the figures in circulation showing substantial increase of income of laborers in 1982-86 were exaggerated. And it is apparent that since 1986 there has been a resumption of decline of real wages of laborers.Such studies can help agencies like RDRS refine their target group focus from time to time using criteria other than landholding.

Most of the poor are quite aware of strength in numbers, but they need a catalyst to help them get organized. It is recommended that, as now, RDRS form new groups not just to get credit, but with the core motive of self-help and raising capital through savings. The attitude of the organizers is critical; if their method is top-down instead of listening, the target people think they can get inputs and "loans." But if they sincerely give their time and energy, the attitude of the groups also become sincere and helpful.[16] RDRS has done very well in moving from its original mandate of relief to promoting development as a reciprocal process.

B. Seed Capital to the Groups

B-1. RDRS Seed Capital Fund

As a general principle, disbursing loans is done better from a bank than from an agency's field personnel. But in the case of RDRS, it is recommended that it maintain its own scheme of directly offering modest credit, as now, because this has been closely integrated into its development program, its effectiveness is proven, and the Organizers have been successfully doing it as part of the comprehensive development strategy. Quite a number of other PDOs similarly maintain their own revolving loan fund (Proshika, Comilla Proshika, CCDB, CARE, CARITAS, BURO, etc.)

At present, the RDRS funds allocated for credit are part of its budget for development. But it is recommended that RDRS maintain this as a revolving fund which might be called Seed Capital Fund, with separate accounting. Money from the Fund may be allocated by RDRS administration among the 8 RDRS geographical Units (at present, for example, some Units have allocation of 100,000 taka for seed credit). To begin with, each Unit will keep its own Fund accounting, but before long all data on the Fund, including information on all groups and names of borrowers, should be merged through computerization.

---

15) Atiq Rahman and Trina Haque, ***Poverty and Inequality In Bangladesh In the Eighties : An Analysis of some Recent Evidence*** *(BIDS , May 1988).*

16) The BIDS study of 4 villages by Ahmed and Roy (1988, p.36) found that in the two BRDB villages, the Thana officers wanted to be treated like government officials and had the authoritarian attitude that government should make and implements plans. They suggested to the clients what to do, and the clients mostly expected loans (=money). But the attitude of the BRAC field staff promoted a two-way relationship, which created a different atmosphere throughout and yielded more economic development.

But the size of the fund will remain very modest considering the potential need of 8000 groups (present loans are often 2000 to 5000 taka for the whole group, and only a minority of groups get loans). The Fund will serve as seed capital, meaning it will generate more group planning, activities, and savings, and enable the groups to build up a good record of repayment for getting institutional credit later.

B-2. Interest on RDRS Loans

At present RDRS loans are interest-free. It strongly recommended that no more interest -free loans be given, at least to the end-borrowers. There is a long history in Bangladesh of clients expecting that interest-free loans (there is even a term for them free loans)" do not need to be repaid. This has only been avoided in RDRS by intensive field supervision. Part of the development process is that clients should realized the cost of money. There is considerable professional opinion that continued cheap institutional credit damages the development process.[17]

It is recommended that the RDRS Seed Capital Fund be so managed that at the minimum it retains its value, meaning takes in interest to compensate for expenses, default, and inflation. In other words, the viability of the institution as well as of the borrowers should be protected. RDRS policy will then have to decide from time to time how much the fund may increase by 1) interest above expenses, and 2) donor contributions to the Fund.

To maintain viability of the Fund, if inflation for example is 10% a year and default in the scheme is 4%, the Fund would charge the borrowing groups interest of at least 14%. Direct costs such as record-keeping, bank transfers, etc. could perhaps cost another 2%, = 16%. This would be the minimum.

We may assume that for now other overhead costs, such as Organizers, salaries, project offices, and motorcycles and bicycles, will be borne by RDRS as part of its comprehensive development efforts.In small bank loans, these overhead costs run 20 to 30% of loan value, even without allowing for motorcycles, inflation, or much default, as discussed below. The RDRS Seed Capital Fund will be different from a bank because it will not have income from savings of the borrowers (for example, Grameen Bank meets a large part of its overhead costs by interest income from clients savings of 222 million taka which it holds). On the other hand, the RDRS Fund will not have to pay interest on capital borrowed from Bangladesh bank like the commercial banks do, and will probably have overhead costs borne by the RDRS comprehensive program.

*17) Dale Adms et al., **Undermining Rural Development with Cheap Credit** (Department of Agricultural Economics and Rural Sociology, Ohio State University, 1989).*

B-3. Comments on Interest Rates

Small bank loan at 16% are highly subsidized by government. The banks have to borrow from Bangladesh Bank at 8% or so, and the balance spread of 8% is not enough to cover overhead and default -- and apart from any adjustment for inflation. The recently privatized banks (Rupali, Pubali) have stopped giving rural credit simply because they found it was a losing exercise.

RFEP was set up to find out what rates of interest are required for viability of financial institutions as well as for borrower viability. It found that small loans could not be managed at less than 22 to 30% interest, depending on whether a bank officer was handling 400 or 200 loans, and even this did not allow for inflation. RFEP also found that borrowers repaid 12%, 18%, 24% and 30% loans equally well, but at 36% interest repayment dropped a little. Borrower viability was best at 18%, but almost as good at 24% and 30% interest. It also found that individual loans were repaid better than group loans and cooperative loans.[18] But RFEP loans were used especially for animal raising and small trade, which can support this level of interest (see discussion of loan use below).

The true cost of small bank loans at 16% taken by poor borrowers is actually about double that, considering time lost making multiple trips to the bank, delays, bribes, fees, and sometimes humiliation by the formalities.[19] They hardly get a loan without paying up to 10% of it to the *Dalal* (agent) who stands near the door of the bank or comes around for a visit afterwards.[20]

This makes non-institutional credit often competitive, which is why most loans in the country are still from friends, relatives, and moneylenders. Many such loans are for emergencies and are interest-free-- these comprise 42% of all loans, and 46% of loans by volume.[21]

---

18) Findings are discused in great detail in ***Terminal Evaluation Report, Institutional Survey, and Borrowers Financial Survey*** *(USAID/ Bangladesh Bank, 1992). This study, in which this author participated, found individual loans preferable to group or cooperative loans, but that was because the participating financial institutions were unable to function as development agencies to form effective groups of the poor or to manage economic extension activities. That was beyond their capacity, but the PDOs can do it and can get the loans repaid.*

19) Zia U. Ahmed, ***"Effective Costs of Rural Loans In Bangladesh,"World Development*** *17:3 1989. This was based on his dissertation for Ohio State University which specifically examined the true cost of bank loans to small borrowers.*

20) Borrower reported that they spent 7.49% of Krishi Bank loans on getting the loan, and even for NGO loans they spent 3.67% of the loan amount (Bangladesh Bureau of Statistics ***Survey*** *1987, p. 26). This presumably represents cost in cash only.*

21) Murshid and Rahman 1988, p.17.

Non-institutional loans which carry interest are commonly at 45% to 60% real interest, or occasionally 120% or even more.[22] There are few professional moneylenders in Bangladesh now, but anybody with capital is probably a moneylender, so that as against 5.05 million borrowing households in Bangladesh in 1987, there were 1.59 moneylending households.[23] (We should put to rest the old image of the evil exploitative moneylender--it is largely a matter of supply and demand). An interesting tact is that there are a great many women moneylenders, and the interest they charge on loans to other women is higher than the interest men charge each other, 10% or even 15% a month (120 to 180% a year).[24] So interest on PDO loans should be seen in the light of the actual costs to the borrower of alternative sources of credit, institutional or non-institutional.

Loans arranged by PDOs in Bangladesh often carry effective interest of 20 to 30%. Borrowers of Grameen Bank loans pay about 27% (16% interest , 5% savings, 4% insurance, weekly fee, etc.) though they get the savings back later. Borrowers of Swanirvar loans similarly pay some 32%. Borrowers of Bangladesh Unemployed Rehabilitation Organisation (BURO) loans actually pay 40%; they are told it is 20%, but that is on the whole loan amount and not on the declining balance, so actual interest is double that-- and still there is growing demand for its credit.

It is also suggested that RDRS in its loan agreements with groups state the interest rate in monthly terms, in conformity with local custom. For example, bazar businessmen usually give loans to each other at between 3 and 5 taka per hundred per month (=36% to 60% a year). So:

12% annual interest would be stated as 1 taka per hundred per month 15% would be 1 1/2 taka per hundred per month 18% would be 1 1/2 takas per hundred per month, etc.

The usual rate for a borrower from his group might be 2 taka per hundred per month=24% a year, or even 3 per month=36% a year, which is acceptable in the society. This could be computed also on the declining monthly balance.

---

*22) Clarence Maloney and A.B. Sharfuddin Ahmed, **RFEP : Sociological Report** , Bangladesh Bank, Dhaka, 1982). People commonly state that the interest rate of non institutional loans is 10% a month (120% a year), and it sometimes is that high, but the usual annual rate works out to be more like 45 to 60%.See also the BIDS study by Murshid and Rahman, 1988, which found the actual rates of interest in informal loans in three locations to be 54%, 51% and 62% a year (apart from interest-free loans often given by friends and relatives). See also Trine Haque, **Women and Rural Informal Credit Markets in Bangladesh** (BIDS, 1988)*

*23) Bangladesh Bureau of Statistics **Survey** 1989, p. 48.*

*24) Therese Blanchet, **"Rural Women , Savings and Credit : An anthropological view"** (unpublished, USAID, Dhaka, 1986).*

B-4. The Issue of Declining Balance

Rural borrowers often do not perceive the importance of whether interest is computed on the declining balance, or on the whole loan amount. A bank normally computes interest daily by a set formula, or monthly, on the actual outstanding balance of the loan. On a loan of 1000 taka at 16%, if the repayment is monthly with equal decline of the principal in all installments, 500 taka would be repaid by mid-year.[25] Interest would be charged only on that. But if the borrower pays the principal off regularly and still full interest is charged till the end of the year, he would actually pay about double, 32%. The importance of this is lost too many rural borrowers, who are used to paying off loans in a lump sum, and if there is a declining balance they cannot calculate true interest.

This assumption is to simplify the argument. Banks here usually apply repayment amounts to interest before principal, though the reverse is true in BURO loans.

Several indigenous PDOs (BURO, BKS) use this to charge high interest to cover the real costs of giving such loans-- this is not a criticism, for PDOs not supported by donor funds may have to do it to meet their overhead costs. Even Grameen Bank, whose loans are officially at 16%, sometimes takes advantage of this to advertise that it gives loans at 8%--but it would be better if development agencies were not so defensive about interest rates as to make such misleading statements. Grameen Bank would do better to emphasize its success in getting borrowers to pay in at a rate of 27% of the loan amount.

B-5. Interest as an Incentive to Group Functioning

An important point observed is that RDRS groups lend to individual members of the groups at a true interest rate of around 20 to 25% a year-- whether the loan money was from their own savings, or from an RDRS loan to the group. This was not known to several RDRS staff, who have been thinking only in terms of interest-free or low-interest loans. The group may say they lend to members at 12% (1% a month) but if repayments are regular instead of in a lump sum at the end, true annual interest would be about 24%.

RDRS should understand further that the rates of interest these groups charge their members are an effective incentive for group functioning and lending to needy group members.Group members know that even if some one also gets the loan this time, group assets will increase. That is why we found some group members continuing to the active and pay in savings though they said they do not intend to take a loan from the group.

25) This assumption is to simplify the argument. Banks here usually apply repayment amounts to interest before principal, though the reverse is true in BURO loans.

So while no cheap credit should be given to individual borrowers, RDRS may consider to make a policy decision to offer cheap loans to groups as a strategy to keep the groups active as catalytic agents. For example, if RDRS charges 4% and the groups on lend to a member at 24% , the spread is 20% which is a strong incentive to group functioning. If RDRS charges 14% and the group charges its member 24% , there is still a spread of 10%. If RDRS charges 16% interest plus 4% for insurance and incentives (see below), and the group on-lends to its members at 20%, there is no spread and therefore less incentive for group functioning or for advancing loans to help its individual members.

No RDRS groups visited were planning to divide up the profit among members, such as non-sponsored informal groups do. Desire for continued group investment to reduce poverty is evidently the result of successful RDRS field supervision.

B-6. Loan Use

It is recommended that Fund loans may be sanctioned for use by the groups as a whole, or by sub-groups, or by individuals within the groups, but always recommended and guaranteed by the groups. It is suggested that RDRS initially sanction half of its Fund loans for group or joint activities, and half for individual members activities, monitor these, and ultimately determine the right proportion of Fund credit for group as against individual economic activity.

It is recommended that loans from the Seed Capital Fund be made available for any type of investment that appears profitable. This may be agricultural or industrial production, processing, workshop and repair types of activities, service enterprises, and commercial or retail enterprises.

As a general principle, how a loan is actually used need not be of concern to the lender as long as the loan is repaid and the interest covers the cost of making the loan. But if loans are subsidized (as with RDRS loans because the whole overhead cost is donor-funded), there may be a policy about supervising loan use. PDOs differ widely in whether they are strict about monitoring loan use, or leave it up to the borrower. Of all loans taken in Bangladesh for cultivation, for example, 20% are actually used for something else, especially for household expenditure.[26]

26) Bangladesh Bureau of Statistics Survey, 1987, p. 27 findings are that of the 15 million families in Bangladesh in 1987, 5.42 million took loans in that year, with the following stated and actual loan uses :

Activity	as stated for loan	As actual	Average amount
Cultivation	51,39%	41.27%	5449
Livestock	17.5%	23.01	5304
Household expenditure		14.05	5226
Business	14.23	13.43	5509
Housing	1.75	2.28	5263
Cottage Industry	1.24	1.18	5661
Fishery	1.12	1.18	5086
Transport	1.02	1.10	5226
Industry (excluding cottage)	0.06	0.04	5147
Other	11.61	2.46	5369
	100%	100%	

In RFEP it was found that only 19.3% of loans were fully used for the stated purpose.[27] We cannot easily condemn this because people know their own needs and situation best. But at the same time the real purpose of RDRS in subsidizing loans is to promote self-help of groups of the poor, so how loans are used is vital to the purpose of the whole effort.

Therefore, it is recommend that the fund lend to groups only as investment for an economically profitable enterprise, and this be systematically verified by the organizer. The Fund will be too small to allow use for housing, education, medicines, ceremonies, etc., but groups may lend their own money to members for these purposes. RDRS has already given some loans for houses, and there is certainly demand for that. If RDRS wishes to make housing loans available, it may follow the example of Grameen Bank and set up a separate fund for that.

One exception to the rule requiring loans to be invested in profitable enterprises is recommended : lending to the poor to help them pay off old debts or mortgages. This is a good way to help get some clients get started. But then it should be ascertained beforehand that the borrower has some way of moving ahead economically so he doesn't fall into debt again.

RDRS may consider making policy decision about sanction of loans for two purposes which are profitable but perhaps not within its concept of long-term organization of the poor for production. These are 1) " stock" business, buying produce at harvest time for sale later, and 2) lending to outside individuals at high interest. These are among the most frequent and profitable investments of informal savings and loan groups.[28] Also, groups lending to outsiders get 5 or 10% a month interest, and can double their capital in a year or two. Registered cooperatives are prohibited by cooperative rules from lending to outsiders, which is one reason some of these spontaneous groups do not wish to register as cooperatives.

Of course, it is risky for the poor to lend to persons over whom they may have no clout, but if it is their money the risk is theirs. The groups are free to invest their own savings in these activities. RDRS may decide whether it will approve loans from its Fund for such short-term profit, or whether it should stick with loans for enterprises building up long-term capacity of the groups for economy-building production/service activities.

As regards loan size, most agencies making cash loans for the poor keep in the range 500 to 5000 taka. Quite a few RDRS loans are as low as 1000 or 2000 taka even for group activities because of limited funds, though group savings are added.

---

*27) RFEP, **Borrowers Financial Survey**, p. 20.*

28) 90% of unsponsored informal groups lend to persons outside the group.
Nearly half such groups engage in " stock business." These profits are the main reason for the existence of many unsponsored groups (Maloney and S. Ahmed 1988, pp. 95-96).

New borrowers are shy to handle much money.RDRS sponsored bank loans for treadle pumps were for about 300 taka only. But most lending agencies find there is a tendency for loan size to creep up with time-- and this is not unjustified because as borrowers take repeat loans they want larger loans. Moreover, it was shown in two studies of Grameen Bank that income of the borrower increase proportionately as loan size increases.[29] It has increased its maximum now to 8000 taka for individual borrowers.

On the other hand, some PDOs continue lending for activities which are inherently not profitable. Many activities traditionally done by women, such as yarn winding,pottery beating, mat making, or fishnet weaving, bring so little money it may be calculated as negative income in view of the time involved. Similarly, many cottage industries bring in marginal income,[30] which may not support the required level of interest. Most borrowers of RFEP and Grameen Bank loans used them for animal raising and small trade, which is generally profitable enough to support interest of 20 to 30%. PDOs would do well to not give loans at less than it costs to administer small loans on the ground the clients are undertaking unprofitable activities. Rather they should try to improve product design or marketing so they become profitable, or else encourage the clients to take up activities which are profitable.

B-7. Credit Discipline

Credit discipline has to be built into the system from beginning to end--this is done in Grameen Bank and all successful loan programs.Several PDOs earlier started giving credit without this, lost their capital, and ultimately had to stop, re-organize, and start again with more discipline (CCDB, CARITAS, also RDRS).

A main failing of Government in Bangladesh and India is forgiveness of loans or interest for political purposes, which destroys credit discipline and the banking system in the country. Forgiveness of loans or interest, done here from Pakistan times and by most governments, and often by the President on the excuse of floods etc, has had pernicious effect. Giving of loans for political purposes is equally pernicious because the borrowers are aware of the motive and feel they don't have to repay, of which there are many examples.[31] Some local politicians also dishonestly promise loan forgiveness, especially for those loans which they identify as from foreign or donor funds. It is recommended that PDOs giving loans should counter this by explaining to borrowers that while they want to help the people, in the broader public interest they will be absolutely firm about credit discipline.

---

29) Atiur Rahman, p.27 also quoting Mahabub Hossain's study.
*30) BIDS, **Rural Industries Study Project : Final Report,** 1981.*
*31) Maloney and S. Ahmed, 1988 , pp. 176-190; also Raka Rashid, **Rural Credit Forgiveness Programs** : 1984 & 1985 (USAID, Dhaka)*

C. System and Procedures for RDRS Credit

C-1. Pre-requisites for Groups Getting Loans

It is recommended that before a loan application is sanctioned by RDRS a group show:

a) Successful organization and group trust for at least 6 months
b) Bank account
c) Training of the group by RDRS Organizer in a set curriculum including basics of entrepreneurship, group functioning, and wide menu of possible investments.
d) Some prior group activity, preferable investment, but group labour activity may also be acceptable qualification
e) Literacy of at least 2 members sufficient to keep accounts (some RDRS staff recommend that the majority of group members undergo a literacy course, but Swanirvar tried this and found it delays progress of economic activities.
f) Family planning acceptance by all group members having 2 children (Swanirvar, BURO, and other organizations also do this, with variants, such as requiring group members with non children or 1 child to delay having another). If a member with 2 or more children gets another after the Fund gives the loan to the group, RDRS may try to enforce a rule that his name be moved to the bottom of the list for individual loans from the group.
g) Group savings of at least 30% of proposed project investment, and willingness to invest this in the project. This may be reduced to 10% for proven groups in case of large investments such as power tillers or diesel pumps.

C-2. Procedure of Credit Disbursement

It is recommended that :

a) The group pass a resolution signed by all members (as now), which is also necessary for withdrawal of savings from the bank
b) The group fill out a RDRS credit application form
c) RDRS Organizer recommends
d) RDRS Project Coordinator (Union level) recommends
e) RDRS Project Administrator (Thana or District level) refers to specialists (agriculture, small technology, fisheries etc, as necessary) and recommends, which is sanction, meaning the money can be disbursed.
f) The whole procedure to be done within 10 days maximum, and the applicants to be informed right away of sanction or rejection, and if rejection the reasons should be given
g) Agreement is signed between RDRS and the group; all group members sign (as now) providing group guarantee for the loan. Agreement will specify repayment schedule, and also state that equipment / assets purchased with the loan belong to RDRS unit paid off, and they can be repossessed by RDRS in case of default.
h) Loan is given in form of bank transfer to account of the group, or to supplier of equipment.
i) Organizer certifies in writing that group has invested its own proportion, and utilized the loan as proposed.
j) A group should not get a new loan until a gap of perhaps some months, to avoid roll-over lending

k) A group should usually have only one loan from the Fund, but a maximum of two if one is for group activity and another is for loan to an individual within the group.

C-3. Roll-over Loans

It is common for borrowers having a loan overdue to seek a new loan to absorb the overdue. If a borrower has overdue of 1000 taka and gets a new loan of 3000 taka, he is still clear by 2000 taka. The RDRS Organizer (or bank branch) may be happy to do this because the default is removed from the record. But when the second loan is due the borrower will seek to roll it over again, or may default because the second loan was then not viable. The real repayment position of Bangladesh government-sponsored rural loans are all the time distorted by this procedure. Skeptics of the high repayment rate of Grameen Bank suspect distortion by roll-over lending, but since under the system the borrowers have to pay off loans in 50 weekly installments, roll-over lending is not so easy. Roll-over lending is common in government cooperative, agricultural, and small industries loans, which partly accounts for their poor repayment record.

Therefore, some RDRS officers require a gap of 6 months between loans. May be the gap does not need to be that long, but some gap is recommended, and it should not be just a few days because then a borrowing group could cough up an informal loan for a few days to pay off the overdue, take out a new RDRS loan pay off the informal loan, and still have some cash in hand . The day of reckoning will just be postponed.

C-4. Procedure for Credit Repayment

It is recommended that :

a) Repayment of loans be tailored in each case to the needs. Repayment may be monthly, quarterly, or in final lump sum. Loans may be for crop, for the year, or maximum 2 or in exceptional cases 3 years. Each loan agreement will show the repayment schedule. Crop loans may be repaid a couple of months after the crop to avoid sale of crop at a low price.

b) Loan repayment should be by check on the group account, which should be crossed payable to RDRS. If there are no checks, it may be paid by bank check, checks may be hand-carried by the organizer.Or if the organizer does not visit, payment may be made by bank transfer. Carrying cash with its temptations may thus be avoided.

c) On single-repayment loans, interest should be paid quarterly (as is practiced in other such projects). The purpose is to keep the group aware that the loan is active, as well as to provide timely interest to the Fund. For example, if interest is at the rate of 15%= 1. 1/4 per hundred taka per month, one quarter's interest would be 3. 3/4% of the loan principal.

C-5. Loan Overdues

It is recommended that :

a) If a loan is overdue, try a lot of friendly pressure, group pressure, and repeated visits, which usually brings repayment - PDOs are there to help people, not punish them.
b) If overdue persists, RDRS should be very strict. If a loan is overdue by one quarter, RDRS should begin charging penal interest. The usual bank penal rate is an additional 2% a year (1/6% a month).
c) If a loan is overdue for two quarters, and there is some capital equipment or produce which can be recovered, RDRS may recover it.This will have to be decided case by case, however, as seizure of the equipment may make it impossible for the group to earn to repay more of the loan.
d) Alternatively, RDRS may offer the incentive of a new loan (after a gap), because in most credit programs hope of a new loan is a good incentive to repay, but if borrowers think there will be no new loan they may feel they can default with impunity. Alternatively, RDRS may penalize the group by withholding other services.
e) In locality where a momentum of default is allowed to accumulate and borrowers all know that others have not repaid, and the capital from the loans no longer brings profit, it may be necessary to abandon the locality, write off the default, and start a fresh in a new locality on a more firm basis.

C-6. Incentives

It is suggested that RDRS consider offering monetary incentives to Organizers, and perhaps to their Supervisors also, for credit recovery performance.This can be financed by adding 1% or 2% to the rate of interest.

One danger is that the Organizers will recommend big projects in order to get more incentive.

Past RDRS practice of penalizing organizers by salary deduction in case of default of their groups is a negative incentive, and not recommended.

Alternatively , RDRS may consider other forms of incentives, such as recognition, promotion, or fellowships.

C-7. Insurance

It is suggested that RDRS consider insurance to cover death to animals or loss of crops by natural disasters, and death or disappearance of the borrower. Every credit program faces this problem, especially the death of animals bought with loans.Does one forgive it, or insist on repayment, or give a new loan ? RDRS Organizers sometimes handle this for a sincere borrower by a combination of group assistance to the member who suffered the loss, forgiveness of interest on the old loan, and sanction of a new loan.

Grameen Bank handles this by insurance. Every borrower pays an additional one quarter of his interest=4% of the loan amount, into the local Emergency Fund. This helps make the default rate low, because if there were no such fund the repayment rate for Grameen Bank might not be 98% but something like 94%. And moreover, Grameen Bank is still able to advertise that its interest is 16% (though in effect considering this loss of default, it is 20% , and actual payment by the borrower is about 27% including his savings).This insurance or Emergency Fund is handled by the Branch, and members can also borrow emergency consumption loans from it. There is a second level of insurance handled centrally, for death of the borrower. This is covered by a contribution of one quarter of the interest on the local emergency fund, which goes to the central fund insuring against death of borrowers. Actuarial analysis could be made on the insurance premiums in regard to economic activities, but in fact it has not been needed since Grameen Bank has been able to attract donor funding to capitalize its insurance schemes.

Another approach is life insurance of the borrower.BRAC and BURO have this,which is not necessarily linked with the credit schemes but is an added security for repayment of the loans.

C-8. Analysis of Economic Activities

It is recommended that RDRS have one or more rural economists (not theoretical but practical rural researchers) analyze the investments and economic activities - an activity which RDRS has already started from its Rangpur office. This may include the following steps:

a) Collect lists of investment activities of the poor from other PDOs and government organizations. Grameen Bank has a list of 427 investment activities.[32] BRAC, Proshika, BURO, Swanirvar, etc., the government agencies, and the banks all have their own lists.But these are mostly lists, not investment profiles.[33]

---

32) Grameen Bank, Annual Report 1987, These are grouped in 9 categories :

Trading	*147*	*specific activities*
Processing and manufacturing	*140*	
Agriculture and forestry	*38*	
Services	*35*	
Peddling	*23*	
Shopkeeping	*17*	
Livestock and fisheries	*16*	
Collective enterprises	*9*	
	427	

33) All the 92 PDOs and 8 government agencies making loans to the poor for economic activities, besides the financial institutions, have their experiences of successful and unsuccessful activities. Certain largor PDOs would have helpful records : BRAC, Proshika, Comilla Proshika, EDM, CCDB, etc. besides Swanirvar, and the Departments of youth and women's affairs. The department of cooperatives has records on membership, growth, and failure of a large number of special-purpose cooperatives besides the BRDB cooperatives of the assetless and women. It would be useful to collect and collate this information and produce small investment profiles for the individual activities. The following are some examples of sources:

RDRS Project Office Rangpur, has started compilation of lists of hundreds of such economic activities , with the intention to produce some profiles.

b) Modify for RDRS purposes and by close observation in target villages.
c) Prepare for each activity a description of requirements of capital, resources, and skills, with estimates of marketability and potential profit-- a mini investment profile.
d) Adapt this list to each Unit of Thana according to its resources, skills, and markets, and highlight recommended activities for that Thana.
e) Train the Organizers in utilization of the lists/profiles.
f) Organizers use the list in training of client groups to broaden their view of economic activities, to prevent many groups from undertaking the same activity. Most rural people have a very narrow range of investment ideas, but a wider range enhances not only individual profit, but national productivity.
g) Organizer should never select activity for the group because if it fails, the group will blame RDRS. But he should give the group a wide menu to chose from.
h) Modify the lists/profiles through monitoring and evaluation.

BSCIC produced one-page investment profiles for quite a number of " small scale" industries, and also published a collection of these in book of investment profiles about 1978. These are mostly larger enterprises than we are considering , but the profile format might be useful.

*RFEP **Borrowers Financial survey** pp 31-39 shows profitability and borrower viability for a good number of activities, including a list of specific crops and animals.*

*RFEP **Sociological Report,** by Maloney and S. Ahmed, pp. 24-42 discusses all the economic activities and loan uses found in that survey.*

***Rural Industries Study Project, Final Report** (RISP) (BIDS, 1981) funded by USAID, presents detailed information on a large number of rural industries found in a 2-year study of 10 Thanas. RISP also produced a number of other volumes on specific subjects (one roofing tiles and pottery by Maloney, others on linkages, subcontracting, etc.)*

*Alam Mia, **Handloom Industry : Viability and Critical Issues** (MIDAS, 1983), presents enough information on this industry, which employs more people in the country than any other. Recently a multi-volume study was commissioned by the World Bank : Bangladesh Handloom Sector Study (BIDS, 1988)*

BRAC has a department dealing entirely with self-employment, which has rich experience in selection, promotion, and funding of micro-activities, and this experienced is taught in the BRAC Training institute . All BRAC data could perhaps be utilized.

MIDAS has several economists who have been carefully analyzing its investment activities, a number of which promote employment of the poor.

DANIDA has been promoting a variety of self-employment activities in its Noakhali project for more than 10 years, and has records on results on pottery, coir, agro-processing, etc.

BSCIC has investment information, repayment records, and technical data, on a large number of rural industries and handicrafts in its ILO-funded project. It has further data for many women's rural enterprises in its USAID-funded women's enterprise project. Sonali Bank has loaned to so many assetless and women's cooperatives, besides collaboration with Bureau of Manpower and in other projects, that its staff have an idea of investment amounts for a range of micro-enterprises, and have issued guidelines accordingly. All other banks dealing with rural credit also have investment guidelines used in various projects. Also, all these banks have their Training Institutes where some persons might be found who have knowledge of this subject.

A large number of agencies in India have analyzed these activities, their investments, and their profitability, with results perhaps relevant to Bangladesh. Special mention should be made of the Khadi and Village industry Commission in Bombay which promotes and trains nation-wide in about 20 such industries, the All India Handicrafts Board in New Delhi, the handloom Commission in New Delhi, the Sericulture Board, the Coir Board, and a number of other such boards; also perhaps the Small Industries Development Organization (SIDO) in New Delhi though it deals mostly with " small industries." Most of these agencies have offices at the state level, and those in West Bengal would have information relevant to Bangladesh conditions .

But not all lending agencies pay so much attention to loan use. In particular, Grameen Bank has the policy that loan use is entirely up to the borrower, that poor rural people have many ideas and experiences, and that the field staff should not impose any economic ideas or activities on the groups. It gives no training to the borrowers in economic activities. To generate ideas, Grameen Bank arranges visits of leaders of Centers (groups of groups) to other Centres to see what they are doing with their loans. Grameen Bank can point to its list of 427 activities which the borrowers have come up with themselves to justify its policy.

RFEP had the policy that as long as the borrowers repaid and interest covered the cost of the loan, it was not the concern of the banks to chase after them to see what they do with the money. BRDB also gives loans to landless and women's cooperatives without much analysis of proposed activities.

However, Grameen Bank, RFEP, and BRDB are essentially credit agencies, whereas RDRS is a comprehensive development agency.

C-9. Training

It is recommended that RDRS Organizers and other staff have training, such as in the BRAC one-week course "Credit Management" which it has developed for other PDOs. Grameen Bank can conduct training in its large facility, but it trains only in the Grameen Bank philosophy and method. It offers a one-week course for policy-level people and a 3 week course for field officers, and has already conducted training in its method of offering credit for the poor in 30 other countries.[34] The training institutes of Proshika and VERC in Saver also have the facilities to arrange such courses. BARD in Comilla and the sister institutes in Bogra and Sylhet provide training in cooperative credit, but geared to BRDB instead of special-purpose cooperatives.

Another possibility for RDRS would be courses in the Training Institutes of the four banks involved in the IFAD project : Sonali, Janata, Krishi, and Agrani. This would doubtless be geared to the IFAD project (see below) , but would be useful for the RDRS Fund loans also.

Any training of RDRS Organizers by other institutes would have to be done with RDRS trainers sitting in to clarify its method, and to help the trainees understand and utilize the economic activities lists / profiles as adapted to the Thanas where RDRS operates. With this, the Organizers would be able to train the client groups properly.

34) Grameen Bank is now setting up an International Training Wing. Its basic Syllabi are in Bangla, but parts are available in English, Emphasis is claimed to be not on economic activities of the borrowers, nor even so much on the Grameen credit method, but on how to identify and work with the poor.

The Rural Finance Project (RFP) has suggested curricula for a one or two week course in rural credit for bank managers, a more advanced refresher course, and a course in management and supervision for mid-level bank officers.These have been offered at the Bangladesh Institute of Bank Management. Possibly RDRS or other PDOs could send key personnel for such training, or adapt the curriculum so that key officers get a grasp of the whole subject of rural credit and also are prepared to deal with institutional credit.[35]

C-10. Record Keeping and Computerization

It was found that records of RDRS loans are not kept systematically, nor the same way, in different offices. For example, in Kurigram, there is no group serial number (each group is given a different number in successive monthly statement), there is no consistent statement of number of repayment installments, there is no column in the same page for repayments realized, nor for overdue or default.

At present there seems to be no way to determine the total repayment rate of RDRS loans. It is recommended that RDRS calculated this as evidence of its performance when it wants to arrange institutional credit for its clients in future.

---

*35) RFP, funded by USAID, was successor to RFEP and a consultancy project in Bangladesh Bank. See **Final Report, Rural Finance Project,** Volumes I and II (Robert R. Nathan Associates/S.F Ahmed and Co, Dhaka, 1986). See Vol. 1, pp. 42-52. Complete course notes prepared by RFP are in Bangladesh Institute of Bank Management.*

***General** 1 or 2 week course :*
Principles of sound lending
Tyes of loans
Loan application and interview
Feasibility and evaluation, crop loans Role of UACCs, RFAs, and block supervisors
Loan Security
Valuation of security
Documentation
Sanctioning loans
Loan disbursement
Loan diversion
Loan supervision and follow-up
Loan recovery
Nursing sick loans
Limitation
Certificate cases
Special situations in lending
Specialized lending programs

***Specialized** 2 week course :*
Rural economy and rural finance
Objectives for the rural branch
The branch publics
Command area analysis
Deposit mobilization
Bangladesh Bank and rural branches
Evaluation of a branch and its officers
Management information systems
Time management
Financial counselling
Passbook system

It is recommended that a record-keeping system be developed with a permanent serial number for every one of the 8000 groups,with basic information : group leaders' names, address, bank name and account number, training received, and credit history mentioning purpose and past repayment performance. There should also be a running record of each group having current loan, with columns showing serial number, purpose, amount contributed by group savings, repayment schedule, actual monthly/ quarterly repayment, balance due, overdue, and penal interest due, all with principal and interest separately shown, besides name of responsible Organizer.

This should eventually be computerized centrally for the Seed Credit Fund. Then the data can be manipulated to analyze performance of RDRS staff , areas, profitability of activities, effectiveness of training, etc.

There are a number of models of computerization of loan data in the banks and other lending agencies in Bangladesh, and there are sufficient computer consulting firms and individual consultants in country to set up a suitable system for RDRS or any other lending agency.

Grameen Bank has a well-organized Computer Section.Loan information on 120,000 borrowers is recorded in ledgers in the Branches, weekly reports are sent for computerization to its 9 zonal offices, and weekly statements are issued for monitoring. Aggregate information only is sent by the Zones to the Dhaka office, which has an IBM type Multi-user computer system with 8 terminals. The data sheets record aggregate information on 1) loan amount 2) amount realized, 3) outstanding, and 4) overdue, each with sub-headings for principal, interest, and total. (This is an advance over most commercial/nationalized banks here, which mostly compute interest on loans only once each calender year) Data such as sex of borrower, region, area, and scheme type, are all coded. There are separate data sheets on savings and group funds. There are also separate data sheets on economic activities, compiled in the Branches and computerized in the Zones and in Dhaka. These show the loans and repayment position according to some 427 activities, but do not attempt analysis of profitability or other characteristics of the separate activities.

Another model is BMET plans for computerizing its cash loan data for up to 40,000 borrowers on a Macintosh II, in Bangla. Forms are being developed for the district offices to send in data monthly for two computer file systems : 1) Borrower information including name , area and address, bank branch, sex, age, family members, occupation, credit history, etc., taken from the loan application forms, and 2) loan information updated monthly, including loan date and amount, repayment schedule, principal and interest paid, due, and overdue, etc., which has to be obtained by the BMET field staff by monthly visits to the concerned branches of Sonali Bank. A code system is to be developed for district, Thana, bank branch, and village. The borrower code number will be the same as his Sonali Bank loan account number, which should also be the same as his bank savings account number. The complete data base can be manipulated for monitoring and to spot reasons for differential performance.

If RDRS sets up its computer system in Bangla to begin with, it may avoid troublesome change-over later. A program can be added for automatic translation of certain data columns into English for foreign donors when necessary. Grameen Bank is now trying to switch from English to Bangla, but such a change is time-consuming. BMET is computerizing in Bangla from the beginning, for which the Macintosh type computer is favored because it can more clearly produce various scripts and graphics. There are companies in Dhaka which can program standard Macintosh data base systems to Bangla language, or scripts of several languages.[36] However , Bangladesh Bank and the other banks use IBM-type computer systems, which can also handle Bangla now.

D. Sources of Institutional Credit

The following is only an introduction to promote discussion. If RDRS wants to pursue this, it may have to make some policy decisions while negotiating with financial institutions.

D-1. IFAD Project

The International fund for Agricultural Development (IFAD, based in Rome , affiliated with the UN) has opened an office in Kurigram to implement " Marginal and Small Farm Systems Crop Intensification Project." The field agency for implementing this will be RDRS only (IFAD held negotiations with BRDB and others but with no results). This is an excellent project, and it fits well with RDRS. The project will cost about $17 million over 6 years, but in that time it will be able to expand over only 2 districts. The money is largely from GTZ (West Germany), which has appointed a German Project Coordinator in Kurigram.

This project will make loans available through 4 nationalized banks (Krishi, Janata, Sonali, and Agrani) to RDRS groups which meet RDRS criteria as credit-worthy " good groups, " to be used for either groups investment or for on-lending to group members. Interest to the borrower will be 16% , and loan amount is not yet specified. Target people will be those with less than one acre of own land because that is the RDRS definition, though this will be enlarged in the IFAD project by including those who lease in or sharecrop more land. Fortunately, IFAD has agreed that these loans are not limited to agriculture, animal raising, fisheries, forestry, or agro-processing, but will also be for productive activities not related agriculture so the landless can participate.

This is an excellent plan, but during the next few years RDRS is likely to need institutional credit for its other district of operation.

D-2. Bank Credit

RDRS may initiate talks with the banks to make credit available without guarantee fund. The 4 banks participating in the IFAD project already will know RDRS performance.

Bangladesh Bank requires that the nationalized banks expend some 2% of credit on unsecured loans to the poor. Under this requirement, nationalized banks for some

36) For Macintosh, National Computers and Anandapatra have developed separate Bangla keyboards, and both companies can program adaptation of a standard Macintosh data base system to Bangla language environment, or Bangla with English or any other language.BRAC has 3 Macintosh computers, used mostly for Bangla word-processing, and uses the Bangla keyboard from National Computers. But most newspapers published on desk-top in Dhaka are with Macintosh using the Anandapatra keyboard, which is newer and more efficient as the computer combines conjunct consonants.

years have been making unsecured loans to the poor in collaboration with Swanirvar, Department of youth, Directorate of Women's affairs, Department of Social Welfare, etc. Likewise, Sonali Bank is lending to Bureau of Manpower borrowers and the BRDB cooperatives. So there are plenty of precedents, but these are government or quasi-government schemes. RDRS may persuade the banks that such loans should be given through PDOs too because the loans will be repaid better.

It is not recommended that any such loan be taken for the RDRS Seed Capital Fund, because groups must graduate to deal themselves with banks. But it is too much to expect these banks to make tiny loans to individual groups. RDRS is now forming Federations of Groups (like second-tier cooperatives) in different Thanas, which might be able to arrange institutional credit. This credit would be negotiated on the strength of past performance in credit recovery of the concerned federations and of RDRS as a whole.

If RDRS is not successful in arranging unsecured institutional loans, it may put up a guarantee fund of perhaps 30%. The bank would advance the whole amount for loans to RDRS or its Federations, but would be able to draw down on the 30% guarantee fund in cases of default. Such a 30% arrangement has been made by ILO/Bureau of Manpower with Agrani Bank for a cash loan scheme for self-employment.[37] Proshika MUK has 50% security fund with Krishi Bank. MCC had an arrangement with Janata Bank, while BSCIC, CRWRC, SOVA, and other agencies have put up security money, usually 30% or one third of the total loan amount.

There is some professional opinion, for example in MIDAS, that development agencies should not put up such a guarantee fund, but prepare there clients so they will be considered credit-worthy by a bank in their own right and under normal bank processing. This is sound policy for its clients, but may not be possible in case of really poor borrowers or those with no previous credit record.

D-3. RDRS Bank

Another possibility is that RDRS could set up its own "bank" as several other PDOs have done (BURO, FIVDB, BKS). BRAC is setting up its own real bank with capital of quite a few million dollars, and will decide in future whether it will be a registered bank.

RDRS borrowers may be impressed with the need for credit discipline if it looks like they are dealing with a "bank" instead of a friendly organizer. The "bank" may be a teller counter with glass with holes, teller stools, etc, and with its own printed passbooks and check books. The Group Federation would be the "bank" for the member groups.

It would be necessary, however, to investigate the government attitude at the time about unregistered "banks".

D-4. Group Registration

To facilitate getting institutional loans, RDRS may consider different forms of group registration and affiliation. This is the subject of a separate paper by PRIP.

---

37) An advantageous provision of this agreement was that Agrani Bank would not draw on the security fund until a loan was one year overdue. They would draw the amount of the principal only, not the interest. But if it succeeds later in recovering the loan, it will replace the principal into the guarantee fund and keep the interest as an incentive.

Acronyms

ADAB	Association of Development Agencies in Bangladesh
BIDS	Bangladesh Institute of Development Studies
BKS	Bangladesh Karmasangsthan Sangstha
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BSCIC	Bangladesh Small and Cottage Industries Corporation
BURO	Bangladesh Unemployed Rehabilitation Organization
CCDB	Christian Commission for Development in Bangladesh
CRWRC	Christian Reformed World Relief Committee
DANIDA	Official Danish Aid
EDM	Enfants du Monde (formerly Int'l Union of Child Welfare)
FIVDB	Friends in Village Development, Bangladesh
MIDAS	Micro Industries Development Assistance Society
MCC	Mennonite Central Committee
PDO	Private Development Organization (NGO)
PRIP	Private Rural Initiatives program
RDRS	Rangpur -Dinajpur Rural Service
RFEP	Rural Finance Experimental Project
RFP	Rural Finance Project
SCF	Save the Children Fund (USA)
SOVA	Social Organization for Voluntary Activities
VERC	Village Education Resource Centre.