BANGLADESH BANK
AGENCY FOR INTERNATIONAL DEVELOPMENT - USA

THE SECOND EVALUATION REPORT

RURAL FINANCE EXPERIMENTAL PROJECT
BANGLADESH

VOLUME—II

MAIN REPORT

CLAPP AND MAYNE INC.
SERVICIOS TECNICOS DEL CARIBE
PROGGANI CONSULTANTS LTD.
PROJECT OFFICE : 62 DHANMANDI R. A. ROAD 7A DACCA 9 BANGLADESH TEL : 31 38 73

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April 1980 / Project No. 388 - 0025

RURAL FINANCE EXPERIMENTAL PROJECT

CLAPP AND MAYNE INC.
SERVICIOS TECNICOS DEL-CARIBE
SAN JUAN, PUERTO RICO, USA

PROGGANI CONSULTANTS LTD.
DACCA
BANGLADESH

PROJECT OFFICE: 62 DHANMANDI R. A. ROAD NO. 7A DACCA 9 BANGLADESH TEL: 31 38 73

Ref. No. RFEP. G.55 (8) 80 - 534A

April 15, 1980

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

Dear Mr. Molla :

I take pleasure in transmitting the Second Evaluation Report of the Rural Finance Experimental Project. It contains two volumes :

Volume I : Executive Summary

Volume II: Main Report

As will be noted, considering the late start in lending under the Rural Finance Experimental Project, on the part of all but one of the lending institutions involved in the experiment, considerable progress has been made in reaching the target group with loans and in mobilizing savings among the target group. For example, over five times more target households had a loan on December 31, 1979 under RFEP than were being reached by lending institutions prior to initiation of RFEP. Seven percent of the capital required for target group lending operations has been generated from the savings of the target group itself.

One of the greatest deficiencies to-date appears to be the implementation of the individual characteristics of the various credit delivery models on the part of the lending institutions. The existing situation is discussed in some detail in Part F of the Report. It is my opinion that the next evaluation report which will be completed before the termination of the present contract, should analyze in depth the current operations and problems involved in the full implementation of the individual credit delivery models called for in the experiment. This should be done so that concrete recommendations can be made with respect to their continuation, dropping or modification.

Sincerely yours,

Alvin Mayne

Alvin Mayne,
President,
Clapp & Mayne Inc.,
For the Joint Venture Firms.

NOTES

1. *In some of tables we have utilized the Bangladeshi system of crores and lakhs and in other tables the English system was used giving quantities in millions and thousands.*

2. *The tables relating to the discussions are to be found at the end of each chapter. This has the advantage of not breaking the text by the interspersing of tables and still placing them in close proximity to the text.*

3. *In this report we have used the initials BJSB and BSBL interchangeably when referring to the Bangladesh Samabaya Bank Limited.*

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PART - A

MAGNITUDE OF THE RFEP EXPERIMENT

I. TARGET AND NON-TARGET HOUSEHOLDS IN THE LENDING INSTITUTIONS' AREAS.

A. The Objectives of the Rural Finance Experimental Project[1/]

The Project will provide the opportunity to Bangladeshi credit institutions to experiment with various systems for extending credit to small farmers, including tenants and sharecroppers, other poor rural producers and for recovering the resources lent, on time with interest. The principal objective of the Project is to identify, at least, one credit model which is successful at both extending credit to and recovering it from, the target group. Corollary objectives are that the success credit system identified -be self-financing and capable of attracting capital for expanded lending through rural savings programs.[2/] Specifically an endeavor will be made to test the effect of interest rates on loans ranging from 12% to 36% and the payment of rates on savings from 11% to 15%. Also several savings Models are to be developed and tested.

B. List of the Various Credit Models

1. Group and Cooperative Lending

Three lending institutions will encourage the formation of groups for the purpose of extending credit.

2. Krishi Shakha : Sub Branch

Sub-branches will deal exclusively with agricultural credit for small farmers.

[1/] The objectives of the project are restated so that this Second Evaluation may be self-contained.

[2/] Taken from the Project Grant Agreement between the Peoples's Republic of Bangladesh and the United States of America for the Rural Finance Experimental Project, Date : 31 August, 1977.

3. Area Development Approach

It will try to identify community development projects and to provide the credit needs of various strata and occupations of the local population.

4. Budgeted Line of Credit

Attempts to extend the credit to areas beyond merely that required for inputs. Normal maintenance items might be included.

5. Small Farmer Service Center

The establishment of local commercial enterprises specializing in one-stop availability of all agricultural input requirements supported by supplier credits.

6. Banker as Ombudsman

Serve not only as credit officers but also agents to arrange for assistance from local agricultural extension agents, rural health centers, etc.

7. Village Agent Model

Use of a knowledgeable villager to act as an agent of the lending institution.

In Chapter X V we have used a different classification of the models which reflects the functional activities involved.

C. The Size of The Areas In Which The Models Are Being Tested As Measured By Number Of Households

At the present time RFEP is being carried out through 62 outlets of nine different lending institutions. In Table I-1 the total number of households in the areas covered by each of the nine lending institutions is provided together with average number of households per outlet. The data used is not the information collected by the lending institutions, but information collected and developed by the Consultant. For those outlets covered by the Baseline Survey the number of households was determined by a complete enumeration of the households in the area. In the case of these areas in which no Baseline survey was conducted, the 1974 Census was utilized and projected to 1979 by increasing the number of households by about 3% per year. It was decided to utilize the information collected by the Consultant rather than by the lending institutions for a number of reasons which are presented in Chapter III of this report.

It will be noted that the size of the outlet varies considerably by lending institution. For example, the average number of households in the Krishi areas amounts to 1381 households whereas in the case of Janata and Sonali the number of households per area average 341 and 380 respectively. It will be seen later, when the performance of the various lending institutions is analyzed, that the difference in their performance may be partly explained by the variation in the differences in the size of the outlet.

The total number of households in the areas covered by Experiment amounts to about 44,000 with an average size of about 710 households per segment.

D. Estimated Number of Target Group Households

The actual population of households for which the Experiment is designed is the so-called target group families. Utilizing special tabulations of the Baseline Survey we separated those households with gross cash income of less than 6000 takas and with owned cultivated land amounting to 2.0 acres or less. For those households without farming activity, only the gross cash income criterion was used.

The results of the special tabulations indicate that for all the lending institutions taken together the target group accounts for 63.2% of the total number of households in the areas or 27,826 households (see table I-2). If the income criterion alone had been utilized then the percentage of target group households would have been 72%. Approximately 65% of the households with some farming activity had a gross cash income of 6000 takas or less while 88.5% of the households without farming activity had a gross cash income of 6000 takas or less.

Because the areas in which Sonali is operating have a relatively small proportion (45.9%) of target group households the average size of each area, as measured in the number of target group households, drops to 174. This is in contrast to the average size of Krishi's areas of 890 target group households

E. The Relative Importance of Households With Some Farming Activity and Those Without Some Farming Activity

It is important to understand the extent of farming activity in the areas covered by various models because it will tend to condition the proportion of various types of loans which can be effectively made with viable results. In Table I-3 there is presented a comparison of the percentage of households with some farm activity among the target and non-target group households. It is seen that, on the whole, only 52.6% of the target group households have some farming activity. In contrast, 87.7% of the non-target households have some farming activity. We are beginning to see that the policy of trying to make crop and other agricultural loans to target group households may run into some difficulties. Only the non-target households in the Sonali areas have a relatively small proportion of households with farming activity. This seems to imply that commercial activity is of great importance in the Sonali areas.

It is to be noted that the proportion of target group households with some farming activity in the Krishi areas is less than 50%. This may be a partial explanation as to why Krishi loans, at least at the beginning, tended to be for non-agricultural purposes.

F. Average Household Gross Cash Income Among Households with Some Farming Activity

We wish to examine the source of income of the target households, especially as it relates to farming and non-farming activity. In the previous section the proportion of households with and without farming activity in the target and non-target groups was estimated in the Experimental areas. It will be seen that a good part of the income of households with some farming activity is derived from non-agricultural sources. The best way to see this is to estimate the average income from each of the two sources — agricultural and non-agricultural.

In Table I-4 the results of the computation from the Baseline survey is presented for the target group households. It is seen that the average gross cash income derived from agricultural activity amounted to 1205 taka while that from non-agricultural activity is only slightly smaller being 1143 takas. The average combined income of the non-target group household is 2348 tak .

As might be expected there is considerable variation in the situation in the areas of the different lending institutions. The average income derived from agricultural activity in the areas serviced by Sonali is almost twice that derived from non-agricultural activity. In the case of the Uttara areas the average income derived from non-agricultural pursuits is over three times that obtained from agricultural activity.

In Table I-5 similar information is presented for the non-target group of households. Naturally, the level of income is much higher. Overall, the non-target average income is 8000 takas or almost four times higher than the average income for the target group. The proportion income derived from agricultural activities accounted for 58.3% of total income whereas among the target group the proportion of gross cash income from farming activity amounted to 51.3%.

Again there is a definite variation in the proposition of gross cash income from farming and non-farming activities among the households in the areas of the different lending institutions. Essentially, the differences follow the same patterns as are to be found with the target groups except that there are two institutions in which the income derived from farming activity clearly tends to dominate. These are Krishi and IRDP. The Uttara non-target families with some farming activity derived most of their income from non-agricultural activity, the same as do the Uttara target group households.

G. Average Income of All Target And Non-Target Households

In Table I-6 the average gross cash income for target group households without farm activity is shown together with those with farm activity. The **former** tends to earn slightly higher income on the average -- 2483 vs 2348. The average income for all target group households is 2445 Takas. Households without farm activity tend to earn slightly more, with the exception of the DSBL households.

The same picture is found with respect to non-target households as can be seen in Table I-7. Since there are very few non-target households without farming activity (See Table I-3), the influence of these households on the average income of all non-target households tends to be small.

For general interest there is presented in Table I-8 a comparison of the average gross cash income of the target and non-target households in the areas served by each lending institution.

H. Source of Gross Cash Income Of Target And Non-Target Households

We are now in a position to determine a very significant set of statistics for the operation of the various models, especially with respect to the policies regarding the purpose for which the loans should be made. The total gross cash income coming from agricultural and non-agricultural sources can be obtained by multiplying the average income from each source by the appropriate number of households. Actually, we utilized the worksheets used to derive the average incomes. In Table I-9 the percentage of income derived from agricultural sources for target households is compared with the proportion derived from such sources for non-target group households. Also in the table, a comparison of the percentage from non-agricultural sources is given for target and non-target households. The important finding given by Table I-9 is that only 26.3% of the gross cash income of the target group households is derived from agricultural activity. This is a contrast with a 52.3% figure or double for non-target group households. Only the target and non-target households approach each other in this regard in the Sonali areas — 41.7% of the target group's income comes from agricultural activities as compared with 53.8% among the non-target group households.

The significance of this table is that it raises questions as to the purpose of the loans which should be made to target group families. Can they really use loans for agricultural purposes when only 26.3% of their gross cash income is generated from agricultural activity?

I. Summary

It was found that the Rural Finance Experimental Project is taking place in areas with about 44,000 families. Of this number it is estimated that nearly 28,000 belong to the target group or about 62%. Furthermore only about 52.6% of the target group households derive any income from agricultural activity in contrast with the non-target group in which 87.7% of the households derive some income from farming activity. Nearly all of the households without some farm activity fall in the target group — 88.5%. Even among the target group households with some farming activity only 51% of their gross cash income is derived from farming activity, the remainder is from non-agricultural sources. The average income of target households without farming activity tends to be slightly higher.

The average income of non-target group households tends to approach four times that of the income of target group households. The most significant finding is given in Table I-9 where the sources of income for target and non-target group households are presented. Overall, only 26.3% of the gross cash income of target group households is derived from agricultural activity as contrast to 52.3% for non-target households. This raises the question of the kinds of loans which should be given to the target group households. In order to generate cash income to repay the loan, the loan must be somehow related to their normal sources of cash income or at least to their potential sources of cash income.

Table I-1

Total Number of Target and Non-Target Group Households by Lending Institution

Lending Institution		Number of Areas	Number of Households	Average Number of Household per Area
1.	Krishi	12	16574	1381
2.	Sonali	5	1900	380
3.	Janata	5	1703	341
4.	Agrani	10	4763	476
5.	Pubali	4	3374	843
6.	Rupali	3	1412	471
7.	Uttara	4	2546	636
8.	IRDP	8	4553 1/	569
9.	BSBL	11	7210 1/	655
	Total	62	44035	710

1/ This is the total number of households in the area in which these institutions are operating, not the membership of the cooperatives which is much lower.

Source : Baseline Survey and census of 1974 projected.

Table I-2

<u>Estimated Number of Households in Target Group</u>

Lending Institution	Percentage in Target Group	Estimated Number in Target Group	Average Number Per Outlet
1. Krishi	64.5	10690	891
2. Sonali	45.9	872	174
3. Janata	62.4	1063	212
4. Agrani	58.0	2763	276
5. Pubali	68.5	2311	578
6. Rupali	76.0	1073	358
7. Uttara	60.1	1530	383
8. IRDP	54.1	2463	308
9. BSBL	70.2	5061	460
Total	63.2	27826	449

Source : Target group percentage from Baseline Survey applied to total number of households.

Table I-3

Estimated Percentage of Target and Non-Target Group Households With Some Farming Activity

Lending Institution		Percent of Target Households With Some Farm Activity	Percent of Non-Target households With Some Farm Activity
1.	Krishi	49.3	83.8
2.	Sonali	68.4	54.3
3.	Janata	55.7	82.8
4.	Agrani	64.3	95.4
5.	Pubali	66.1	97.1
6.	Rupali	65.1	97.1
7.	Uttara	59.3	85.3
8.	IRDP	55.8	94.4
9.	BSBL	37.3	83.3
	Total	52.6 1/	87.7 1/

1/ Weighted by estimated number of appropriate households in each credit model.

Table I-4

Target Households With Some Farming: Estimated Average Income Per Household Derived From Agricultural and Non-Agricultural Activity by Credit Model

(In Taka)

Average Gross Cash Income Per Household

Lending Institution		From Agricultural Activity	From Non-Agricultural Activity	Total Income
1.	Krishi	1,300	1,070	2,370
2.	Sonali	1,416	744	2,160
3.	Janata	1,017	1,525	2,542
4.	Agrani	872	1,495	2,367
5.	Pubali	1,154	1,370	2,524
6.	Rupali	1,139	1,157	2,296
7.	Uttara	604	2,022	2,626
8.	IRDP	1,468	1,178	2,646
9.	BSBL	877	1,799	2,676
	Total	1,205	1,143	2,348

Source : Estimates utilizing Baseline Survey.

Table 1 - 5

Non-Target Households with Some Farm Activity : Average Gross Cash Income From Agricultural and Non-Agricultural Activity

(In Taka)

Average Gross Cash Income Per Household

Lending Institution	From Agricultural Activity	From Non-Agricultural Activity	Total Income
1. Krishi	4,518	2,743	7,261
2. Sonali	4,663	3,285	7,948
3. Janata	5,000	3,806	8,806
4. Agrani	3,895	3,310	7,205
5. Pubali	4,715	3,092	7,807
6. Rupali	3,311	3,742	7,053
7. Uttara	2,898	6,562	9,460
8. IRDP	6,617	3,024	9,641
9. BSBL	3,541	3,759	7,300
Total	4,669	3,344	8,013

Source : Estimated from Baseline survey.

Table I-6

Target Group Households: Comparison of Average Income For Household With Some Farming and Households Without Farming

(In Taka)

Average Income

Lending Institution	Households With Farming	Households Without Farming	All Target Households
1. Krishi	2370	2440	2407
2. Sonali	2160	2960	2400
3. Janata	2542	2335	2845
4. Agrani	2367	2858	1950
5. Pubali	2524	2232	2443
6. Rupali	2296	2036	2223
7. Uttara	2626	2435	2165
8. IRDP	2646	2949	2780
9. BSBL	2676	1404	1745
Total	2348	2483	2445

Table I - 7

Non-Target Group Households: Comparison of Average Income Per Household With Some Farming and Households Without Farming

(In Taka)

Average Income

Lending Institution	Household With Farming	Households Without Farming	All Non-Target Households
1. Krishi	7261	8933	7531
2. Sonali	7948	9454	8051
3. Janata	8806	9454	8914
4. Agrani	7205	8400	7244
5. Pubali	7807	9333	7856
6. Rupali	7053	8000	7088
7. Uttara	9460	6545	9040
8. IRDP	9641	7500	9517
9. BSBL	7300	6815	7219
Total	8013	8363	8046

Source : Estimates using Baseline Survey.

Table I -8

Target and Non-Target Households: Comparison of Average Income Per Household

(In Taka)

Average Gross Cash Income

Lending Institution	Target Group Households	Non-Target Group Households
1. Krishi	2407	7531
2. Sonali	2400	8051
3. Janata	2845	8914
4. Agrani	1950	7244
5. Pubali	2443	7856
6. Rupali	2223	7088
7. Uttara	2165	9040
8. IRDP	2780	9517
9. BSBL	1740	7219
Total	2445	8046

Table I – 9

Comparison of Source of Gross Cash Income of Target and Non-Target Households by Credit Model

Percent of Gross Cash Income

Lending Institution	From Agriculture: Target Group	From Agriculture: Non-Target Group	From Non-Agriculture: Target Group	From Non-Agriculture: Non-Target Group
1. Krishi	26.7	50.4	73.3	49.6
2. Sonali	41.7	53.8	58.3	46.2
3. Janata	23.1	46.5	76.9	53.5
4. Agrani	22.0	51.1	78.0	48.9
5. Pubali	31.7	58.2	68.3	41.8
6. Rupali	33.4	45.3	66.6	54.7
7. Uttara	14.1	27.4	85.9	72.6
8. IRDP	29.4	65.4	70.6	34.6
9. BSBL	13.5	40.8	86.5	59.2
Total	26.3	52.3	73.7	47.7

PART - B

DELIVERY OF CREDIT

II. WHAT WAS THE CREDIT SITUATION BEFORE RFEP ?

A. Loan Incidence Prior to RFEP

The Baseline Survey provides certain information concerning the extent of borrowing among the target and non-target groups during the year prior to the full initiation of RFEP, namely 1978. According to the tabulations from the Baseline Survey some 11.0% of the target group respondents stated that they had received a loan during 1978, as can be seen in Table II-1. To the same question 18.5% of the non-target group households stated that they had received a loan during the previous year (1978).

The loan incidence was the highest in the areas presently served by Sonali. Twenty four percent of the target group households in the Sonali areas stated that they had received a loan from various sources. Actually fewer non-target group households made the same statement-21.3% indicated that they had received some sort of a loan. The other high loan areas for the target group are IRDP, Agrani and Janata. On the other hand, the Rupali areas showed a high incidence of lending to the non-target group and a low incidence to the target group.

B. The Difference Between Use of Credit by Households With and Without Farming Activity

In Table II-2 the incidence of lending from all sources for the target group households, prior to RFEP, indicates that those families with some farming activity tended to borrow more frequently than those without farming activity among target group families. Thus, the incidence of borrowing was 15.9% for families with farming activity as compared with an incidence of only 4.7% for families without farming activity.

The same relative picture is found in the case of the non-target families. Those with some farming activity reported a borrowing rate of 19.7% as against only 7.9% for those families without farming activity (Table II-3). One should also note that among families with farming activity in the target group the loan incidence is approaching that of the non-target group, namely 15.9% compared with 19.7%.

C. Sources of the Loans

In Table II-4 sources of loans received by the Target Group prior to RFEP are presented covering the area in which each lending institution is operating. Overall, 4.1% of the target group households received institutional loans. Almost the same number was received from money lenders — 4.0% and 2.9% received loans from friends and families and other sources. The highest percentage of institutional loans (9.5%) was found in the areas covered by IRDP.

On the other hand, 12.8% of the non-target households received institutional loans. Only 2.5% had loans from money lenders with 3.3% obtaining loans from friends and relatives, etc. The highest percentage of institutional loans is also found in the IRDP areas namely 23.1% of the non-target group residents.

D. Size of Loans

The average size loan given to the target households with some farming activity averaged 581 taka. The average size of the loans to households in the target group without farm activity was slightly higher— 616 taka. The average size loan to non-target borrowers is estimated to have been 1100 taka.

The average size loans given in each of the areas of the lending institutions to households with some farm activity will be found in Chapter IV, Table IV-4.

E. Summary

Prior to the RFEP only 11% of the target group households received any kind of loan as compared with 18.6% for the non-target group. Only 4% of the target households received loans from institutions. Another 4.0% received loans from money lenders and 2.9% received loans from friends, families and other sources. On the other hand, 12.8% of the non-target group received loans from institutions and only 2.5% turned to money lenders.

The average size loan for target group households with some farming is estimated to be 581 taka, while the target households without farming activity received loans averaged 616 taka. In contrast the non-target loans of households with some farming activity - virtually all of the non-target households — averaged 1100 taka.

Table II-1

Target And Non-Target Households:
Comparison Of Percent Receiving
Any Loan During The Year (1978)
Before RFEP

Lending Institution		Percent Of Households Receiving Loans: Target Households	Non-Target Households
1.	Krishi	5.8	13.3
2.	Sonali	24.0	21.3
3.	Janata	11.3	19.5
4.	Agrani	16.7	19.0
5.	Pubali	11.9	11.9
6.	Rupali	5.6	22.1
7.	Uttara	4.4	9.3
8.	IRDP	17.5	31.5
9.	BJSB	5.8	15.4
	Total	11.0	18.6

Table II-2

Target Group Households: Percent Receiving Any Loan During The Year (1978) prior to RFEP

Lending Institution	Households With Some Farming Activity	Households Without Farming Activity	All Target Households
1. Krishi	9.9	1.8	5.8
2. Sonali	30.5	9.9	24.0
3. Janata	24.5	4.2	11.3
4. Agrani	20.9	9.2	16.7
5. Pubali	13.1	9.5	11.9
6. Rupali	7.9	1.3	5.6
7. Uttara	7.5	0.0	4.4
8. IRDP	24.5	8.7	17.5
9. BJSB	12.0	2.1	5.8
Total	15.9	4.7	11.0

Table II-3

Non-Target Group Households :
Percent Receiving Any Loan
During The Year (1978)
Prior To RFEP

Lending Institution	Households With Farming	Households Without Farming	All Non Target Households
1. Krishi	15.1	3.3	13.3
2. Sonali	22.2	9.1	21.3
3. Janata	20.8	13.6	19.5
4. Agrani	19.4	10.0	19.0
5. Pubali	12.3	0.0	11.9
6. Rupali	21.2	50.0	22.1
7. Uttara	10.9	0.0	9.3
8. IRDP	32.2	18.8	31.5
9. BJSB	17.0	7.4	15.4
Total	19.7	7.9	18.6

Table II-4

Target Group : Sources Of Loans
Before RFEP

Lending institution	From Institution	From Money Lenders	From Others	Total
	Percent Of Total Households			
1. Krishi	3.7	1.3	0.8	5.8
2. Sonali	3.5	9.8	10.7	24.0
3. Janata	4.2	4.2	2.9	11.3
4. Agrani	6.2	5.3	5.2	16.7
5. Pubali	1.8	6.2	3.9	11.9
6. Rupali	3.7	0.5	1.4	5.6
7. Uttara	2.6	0.9	0.9	4.4
8. IRDP	9.5	5.9	2.1	17.5
9. BJSB	2.1	2.6	1.1	5.8
Total	4.1	4.0	2.9	11.0

Table II-5

Non-Target Group Households:
Source Of Loans Before RFEP

Lending Institution	From Institution	From Money Lenders	From Others	Total
	Percent Of Total Households			
1. Krishi	10.3	2.2	0.8	13.3
2. Sonali	9.7	7.1	4.5	21.3
3. Janata	12.5	3.9	3.1	19.5
4. Agrani	12.2	1.8	5.0	19.0
5. Pubali	8.4	1.0	2.5	11.9
6. Rupali	17.7	0.0	4.4	22.1
7. Uttara	4.0	1.3	4.0	9.3
8. IRDP	23.1	3.2	5.2	31.5
9. BJSB	12.3	1.2	1.9	15.4
Total	12.9	2.5	3.2	18.6

III. HOW WELL HAS RFEP BEEN REACHING THE TARGET GROUP WITH LOANS ?

A. Introduction

In this chapter we will discuss the number of loans made by the individual lending institution in relationship to the number of target group households in the areas of each institution. This is not a simple matter of taking the number of loans made by each institution and dividing that number by the estimated target group households in the area. For one thing, some institutions started earlier. For example, Krishi started to lend in October 1978 whereas most of the other models did not start lending until March 1979 or later. Additional outlets were opened or even closed from time to time. Thus if comparisons are to be made between credit models it is not fair to the models that started later to be compared, say with Krishi which had a head start.

The second problem is as to whose figure should be taken with respect to the total number of households in an area and the number of those households which fall in the target group for purposes of evaluation of the various models ? Should it be the figures developed by the individual branches or should it be those of the Consultant ?

First taking up the data provided by the surveys conducted by the branches, we have certain points regarding the undesireability of using them for the purpose of evaluation.

1. They were conducted by persons not trained or specialized in conducting surveys.
2. There was no uniformity in the instructions from model to model or the questionnaire used.
3. Generally no verification was conducted.
4. Some branches were not covered by a Baseline Survey on the part of the Managers.
5. The interviewer being from the same area is likely to be

influenced with respect to classifying a particular household within the target group in light of the chance of providing a friend a loan.

6. The target group definition has changed since the RFEP was initiated. This is particularly true with respect to Krishi. Originally the target group definition involved families with less than 3000 Takas. Later it was raised to Takas 5,000 and then to 6000 Takas.

The Consultants in the course of conducting Baseline Survey I also developed estimates of the number of households in the area and data which permits one to identify the number of households falling into the target group. There are some problems with these estimates, but first we shall discuss the advantages of relying on the estimates of total number of households and number of target group households prepared by the Consultants.

1. The Baseline Survey was conducted by trained interviewers, many of them with previous experience in interviewing.
2. They were carefully supervised by the Consultant's central office staff and regional supervisors.
3. The methodology and the questionnaires were identical in all areas.
4. There was a system of verification to ensure that the interviews took place and were not arbitarily filled in.
5. Because there were a large number of questions which provided cross-checks, the information provided could be counted on with a high degree of confidence.
6. Trained editors in the regional offices and central offices checked the information. If it were missing the questionnaire was sent back.
7. Although the baseline itself was a sample, a complete enumeration was made of each household in the area. From this a systematic random sample was drawn which is the most reliable method of sampling.

8. Data collected by the Baseline survey enables one to change the size of the target group with changes in definition. For example the shift from 3000 Taka to 6000 Taka ceiling could be easily accommodated.

On the other hand, there are certain weaknesses in the use of the Baseline Survey at this time, but which will be corrected in the near future.

1. Only 48 outlets were included in the Baseline Survey so that information is lacking for some outlets.[1]
2. There were some expansions in the area covered by a particular outlet after the survey was made.

The 1974 census adjusted upward by 3% per year has been used to estimate the number of households for those areas not covered by the Baseline Survey. It will be assumed that the percentage of target group households found in the segments or outlets covered by a particular institution will apply to those areas not covered in the Baseline Survey. In effect, for this evaluation it is assumed that there is homogenity with respect to the proportion of target group households within a model.

Steps have been taken to initiate a survey of those areas not in the Baseline Survey to collect the information to identify the target and non-target households more accurately. This information will be available for the next evaluation report.

In conclusion, we have opted to use the Consultant's data gathered through the Baseline Survey.

1/ The Baseline Survey was always conceived of as a sample involving a limited number of segments.

B. How Were The RFEP Loans Distributed Between Target And Non-Target Households?

From the Continuous Survey it is possible to determine the proportion that each lending institution made to target and non-target households. This survey is required in order to determine how much will be paid from the project fund to the lending institutions. The information with respect to the percentage of RFEP loans which reached the target group in each lending institution is derived from the mid-term results of Continuous Survey by segments as of Janunry 8,1980 and is given in Table III-1. The percentage of target group households in the area of each lending institution was already established in Chapter I.

From the first column it is seen that the percentage of loans which reached the target group varied from a low of 58.9% in the case of Sonali to a high of 84.8% in the case of Rupali. However, the variation might be attributed to other factors, for example, the percentage of target households may be lower in Sonali's areas than in Rupali's areas. That is why in Table III-1, the comparison with the percentage of target households is made for each lending institution. In the third column of the Table an Index is computed by dividing the percentage of loans to target group by the percentage of target households. If the Index is over 100 then the percentage of loans going to the target group is greater than the percentage of target households in the area. If it is below 100 it means that the non-target households got more than their share. The higher the index number the more efficient was the lending institution in seeking out target group clientele.

In the case of Sonali and Rupali despite the former having a very low percentage of loans made went to the target group (58.9%) while Rupali had a very high percentage (84.8%), it turns out the Index of Efficiency in seeking out target group clientele is higher for Sonali than Rupali - 128 vs 113. This means that while Sonali was not selective,if so saturated its areas with loans that it reached a high percentage of loans to the target group.

Pubali actually gave a lower percentage of loans to the target group than the percentage of target households in the areas which lending institution covers. Only 63.7% of the loans went to the target group whereas 68.5% of the households fall into the target group classification.

C. <u>What Percentage of the Target Group was Reached Through December 1979</u> ?

According to the reports for the date of December 31,1979 provided by the lending institutions at the March 3,1980 meeting, 9,492 loans had been granted by all institutions. However, in certain cases there have been more than one loan to the same borrower. This could be attributed either to the paying off of a loan and then the taking of a second loan or it could be due to more than one loan at the same time. Data on the number of separate borrowers were collected in February from each outlet in a special survey by the Consultant. In Table III-2 the adjustment for multiple borrowing for each lending institution is given. Krishi which has been in operation the longest had an average of 1.35 loans per borrower while Rupali and IRDP have so far made only one loan per borrower. The average is 1.16.

As a result of this computation the number of different borrowers reached was 8,201 instead of 9,492 which is the number of loans. As seen in Table III-1, on the average only 72,6% of the loans went to target group households. It is then necessary to adjust the number of unduplicated borrowers given in Table III-2 by the percentage of loans to target group borrowers. This is shown in Table III-3. The number of borrowers in the target group now totals only 5934. Krishi Bank accounts for 34.5% of the total target group borrowers followed by Agrani with 18.7% of the target group borrowers. However, this is not a good measure of the ability to reach the target group. For example, as pointed out in Chapter II Krishi Bank is operating in areas with 10,690 target group households which amounts to 38.9% of the total target group households in the experiment.

In Table III-4 the number of target group borrowers is compared with number of target group households in the areas served by each of the lending institutions in the experiment. It is clear that Sonali is leading having, as of December 31,1979, reached 50% of the number of target group households in its areas. Agrani is next with a score of 40.21 percent. Leaving aside for the moment IRDP and BJSB, it is seen that the lending institution with poorest record is that of Krishi having reached only 19.1 percent of the target group households. This is despite the fact that Krishi has been in RFEP operation longer (since October 1978) than any other institution. On the other hand, Krishi's average outlet has 890 target group households, on the average, whereas Sonali only has 174.(See Table I-2). There is a rough inverse correlation between the average number of households per outlet and the percentage of the target group reached.

Turning to the question of IRDP and BJSB the question comes up as to what is the size of the target group for these two lending institutions. The target group figures which have been used in the tables refer to the estimated number of target group households in the area in which their RFEP office is located, not to the membership of the cooperatives involved. If, for the moment, we used the area figure then IRDP has reached 21.8% of the target group population and BJSB only 7.2%. Utilizing these figures, as can be seen in Table III-4, 21.3% of the target group had been reached by RFEP by December 31,1979 by all lending institutions.

However, should we utilize only the figures for the members of the cooperatives which fall in the target group and relate that level to the number of target group loans made by IRDP and BJSB, we obtain quite high levels, namely 70.4% for IRDP and 30.9% in the case of BJSB (see footnote to Table III-4). Making adjustments in the total to take account of this definition of target group, the total membership drops to 22,241 from 27,826. The effect of this is to bring the percentage of the target group reached to 26.7%.

Another question might be asked. Namely does it make sense for a household which is securing only 3 takas a day (1000 taka.) gross cash income have the investment opportunity for which to borrow. In effect, it seems realistic that not only should a maximum income be placed on the target group, but at best, for the purpose of realistic statistical comparisons, a lower limit should also be set. If we eliminate those households with 1000 Taka or less of income we reduce the target group by about 2500 families.

If we consider that IRDP and BJSB should serve the whole area then the elimination of household with income of 1000 Takas or less results in a coverage of 23.4% of the target group. If, on other hand, the narrower definition of target group for IRDP and BJSB is used, then the coverage goes up to 30.0%.

D. Comparison of Institutional Lending Before and After RFEP

There is no question that there has been a tremendous increase in the number of loans available to the target group with all but one of the institutions in operation for less than a year. The percentage of the target group households which received institutional loans has risen from 4.5% (see Table III-4) to 21.3%. In Table III-5 the comparison is given of the percentage of target group households in the areas of a particular lending institution that received institutional loans prior to the RFEP with the percentage that received institutional loans after the RFEP from one of the RFEP lending institutions. It is possible that the percentage of target group households receiving institutional loans may actually be greater than indicated because they may have received some loans from lending institutions not included in RFEP although they live in one of the areas of an RFEP outlet.

The change in some areas is dramatic. Thus in the case of Pubali, Sonali and Uttara the number of institutional loans is 13 times or more greater. The smallest increases are found among the two cooperative models, namely 2.4 times in the case of IRDP and 3.4 times in the case of BJSB. This is due, of course, to the fact that they have limited themselves to making loans to members of the cooperatives.

E. <u>How Far Down In the Income Distribution Of The Target Group Did The RFEP Loans Penetrate.?</u>

We know from Table III-1 that 27.4% of the RFEP were outside of the target group either because the loans were given to households with annual gross cash income of 6,000 Taka or with more than 2.0 acres of owned cultivable land, or both. It would also be interesting to determine to what degree the lower end of target group was reached. Table III-6 presents the percentage of target households with an annual gross cash income of 3000 Taka or less which received an RFEP loan compared with those with a gross cash income falling between 3001 and 6000 Taka . The incidence of loans to the lower income households was 13.5% while it was 30.3% to the higher income households.

Over all the rate of loan incidence among the 3001 - 6000 Taka gross cash income households was 2.24 times that of the households with a gross cash income of 3000 or less. The greatest disparity is found in Agrani where the lending incidence is almost 4 times higher among the higher income households than among the lower income households.

On the other hand in IRDP the incidence is identical in the two income groups. It is also interesting to note that in the case of Sonali we are probably at the point of near saturation in the higher income group— 76% of the households in the 3001 - 6000 Taka range received a loan.

F. <u>Summary</u>

The size of the target group in the areas covered by each of the lending institutions was determined from the Baseline Survey information. It was decided not to utilize the information collected by the institutions themselves for a variety of reasons which were presented.

As a result of data obtained from the Continuous Survey it was found that only 72.6% of the loans made under the RFEP went to the target group. This was not much greater than the proportion of target group population in the RFEP areas which amounted to 62.1% of all households. In other words the lending institutions were not too selective in directing loans to the target group. Actually in the case of one lending institution they gave a higher proportion of loans to non-target group borrowers than existed in the population.

By December 31,1979, 21.3% of the target group households had received at least one loan. There was considerable variation in the results with respect to specific lending institutions. In the case of Sonali, 50.5% of the target group was reached while only 19.1% of the Krishi target group was reached even though Krishi had been in operation 5 months longer than any other institution.

If the concept of cooperative membership is considered as a limiting factor for IRDP and BJSB then the percentage of target group reached is 26.7%.

The contrast in the incidence of institutional borrowing by the target group before and after RFEP is very great. Prior to RFEP only 4.5% of the target group received institutional loans. From RFEP institutions alone the loan incidence is 21.3% or nearly 5 times greater. In addition to RFEP institutional loans, members of the target probably received other institutional loans.

The percentage of target group households receiving RFEP loans tended to vary with income. The incidence of RFEP of families with 3000 Taka or less was on the average 13.5% while for those in the income category of 3001 to 6000 Taka the incidence was 30.3% or 2.2 times more. There was considerable variation among the lending institutions. In the case of Sonali it appears that saturation may be approaching for the 3001 - 6000 Taka families with an incidence of 76%.

Table III-1

The Percentage of RFEP Loans Made To Target Group Compared With Percentage Of Target Households

Lending Institution	Percentage of Loans Made to Target Group Households[1]	Percentage Of Target Group Households[2]	Index : % Loans to % Households
1. Krishi	73.4	64.5	113
2. Sonali	58.9	45.9	128
3. Janata	75.7	62.4	121
4. Agrani	77.3	58.0	133
5. Pubali	63.7	68.5	93
6. Rupali	84.8	76.0	113
7. Uttara	73.1	60.1	122
8. IRDP	76.8	54.1	142
9. BJSB	72.5	70.1	102
Total	72.6	62.1	117

[1] Continuous Survey through January 8,1980 - 4830 loans were analysed. Of this number 3505 or 72.6% were made to target group clientele.

[2] Developed from Baseline survey.

Table III-2

Number Of Borrowers : Adjustment for More Than One Loan To Same Borrower From Beginning Of Lending To December 31,1979

Lending Institution	Number Of Loans Made[1]	Adjustment Factor[2]	Number of Borrowers
1. Krishi	3761	1.35	2786
2. Sonali	854	1.14	749
3. Janata	375	1.00	375
4. Agrani	1537	1.07	1436
5. Pubali	962	1.04	925
6. Rupali	266	1.00	266
7. Uttara	492	1.06	464
8. IRDP	698	1.00	698
9. BJSB	547	1.09	502
Total	9492	1.16	8201

1/ Source : Summary provided by lending institutions at March 3, 1980 meeting.

2/ Source : Special survey made by Consultants in sample outlets.

Table III-3

Number of Borrowers Adjusted
For Non Target Lending

Lending Institution	Number of Borrowers	Estimated Percent of Loans To Target Group Borrowers[1]	Estimated Number of Target Borrowers	Percent Of Total
1. Krishi	2786	73.37	2044	34.45
2. Sonali	749	58.87	441	7.43
3. Janata	375	75.70	284	4.79
4. Agrani	1436	77.34	1111	18.72
5. Pubali	925	63.72	589	9.93
6. Rupali	266	84.81	226	3.81
7. Uttara	464	73.14	339	5.71
8. IRDP	698	76.77	536	9.03
9. BJSB	502	72.50	364	6.13
Total	8201	72.31[2]	5934	100.00

1/ Based on Continuous Survey through January 8,1980.

2/ Weighted average obtained by dividing total first column by third column. A difference may result from various roundings made in the process of obtaining the third column.

Table III-4

Estimated Percentage Of Target Group Reached by December, 1979

Lending Institution	Estimated Number Of Target Group Borrowers	Estimated Number Of Target Group Households	Percent Of Target Group Reached
1. Krishi	2044	10690	19.1
2. Sonali	441	872	50.6
3. Janata	284	1063	26.7
4. Agrani	1111	2763	40.2
5. Pubali	589	2311	25.5
6. Rupali	226	1073	21.1
7. Uttara	339	1530	22.2
8. IRDP	536	2463[1]	21.8
9. BJSB	364	5061[1]	7.2
Total	5934	27826	21.3

[1] This assumes the target group members in the areas covered by IRDP and BJSB, not the membership of the cooperatives which fall into the target group classification. If we use this definition which currently operational we obtain the follow :

	Number of Borrowers	Estimated in Target Group	Percent Of Target Group Reached
1. IRDP	536	761	70.4
2. BJSB	364	1178	30.9
The total (adjusted)	5934	22,241	26.7

Table III-5

Comparison Of Percentage Of Target Group Households Receiving Institutional Loans Before RFEP And From RFEP

Lending Institution	Percent Target Households receiving institutional Loans Before RFEP	From RFEP Through 31/12/1979	Ratio of After to Before
1. Krishi	3.7	19.1	5.2
2. Sonali	3.5	50.5	14.4
3. Janata	4.2	26.7	6.4
4. Agrani	6.2	40.2	6.5
5. Pubali	1.8	25.5	14.2
6. Rupali	3.7	21.0	5.7
7. Uttara	2.7	35.0	13.0
8. IRDP	9.5	21.8	2.3
9. BJSB	2.1	7.2	3.4
Total	4.5	21.3	4.7

Table III-6

Comparison Of The Incidence Of Loans To Target Group Households With Gross Cash Income Of 3000 Taka And Less And Households With Income Of 3001-6000 Taka

Percent Of Household Receiving RFEP Loans

Lending Institution	Households With 3000 Tk Or Less of Income	Households With 3001-6000 Taka Income	Ratio Of Loan Incidence Of Higher Income To Lower Income Households
1. Krishi	9.5	30.6	3.22
2. Sonali	26.9	76.1	2.83
3. Janata	15.9	40.8	2.57
4. Agrani	14.9	58.5	3.93
5. Pubali	16.1	38.4	2.38
6. Rupali	19.6	21.9	1.12
7. Uttara	14.7	52.9	3.60
8. IRDP	21.8	21.8	1.00
9. BJSB	17.1	22.3	1.30
Total	13.5	30.3	2.24

IV. HOW MUCH IS BEING LOANED AND WHAT IS THE POTENTIAL DEMAND?

A. The Average Size Loan

The information to calculate the average size loan granted is provided by the monthly reports from the various lending institutions. In order to calculate the average size loan granted by the lending institutions the December 31, 1979 report, distributed in the March 3, 1980 meeting, was used. The results are presented in Table IV 1 It is to be remembered that only 72. % of the borrowers really fell into the target group according to the Continuous Survey. Table IV-2 presents the distribution and size of loans by the lending institutior from the Continuous Survey for only those borrowers who qualified as members of the Target Group.

Because there were a considerable number of non-target borrowers (28%) who probably received larger loans, the average size of the loans received by target group borrowers tends to be lower than the average size of all loans. In Table IV-3 a comparison of the average size loan for the target group and all borrowers is presented for each lending institution. The only institution in which the difference is minor is Rupali.

B. Comparison of Average Size of Loan to Target Group Before and After RFEP

In Table IV-4 the average size of the loan given by each lending institution since RFEP to target group households is compared with the average size loan received in each area before RFEP. It is to be noted that the average size loan after RFEP is 1.78 times greater. The ratios vary considerably from lending institution to lending institution. Sonali's loans tend to average three times larger than before whereas Uttara's average size loan post RFEP tends to be only 60% of those prior to RFEP. This might be inherent in the model of group borrowing that Uttara is carrying out.

C. Hypotheses for Developing Estimates of the Potential Demand for Loans

The normal way for an economist to estimate the potential demand for a commodity is to try to collect data which will enable him to predict what the commodity can be used for and then what are the constraints which limit the theoretical demand to the effective demand. Another method is to take past trends and project the amounts by some associated variable which is more easily predicted, such as population, national income, etc.

It is impossible to do either in this case. First, within the time available it is not possible to develop feasibility studies of how the potential target group borrowers could utilize the loans effectively for productive or even non-productive purposes. In this case, trends are of no value since the principal purpose of the RFEP is to break with the past and to try to reach a group of households with a level of credit which they never had access in before.

There are two methods open to us. One is to utilize some questions which were asked in the Baseline Survey and the second is to utilize information which has been developed from the operations of the RFEP.

D. Projection of Potential Demand for Target Group Borrowing Using Base Line Survey

In the Base Line Survey two questions were asked which are of interest. The first one asked, "If you had an oportunity would you take out a loan?" The second one is "If you want to take out a loan, how much would you like to borrow?"

Among the target group respondents 79% stated that they would be interested in taking out a loan. This varied by residents in the different model areas from a low of [illegible]% in Krishi areas to a high of 90% in the IRDP areas.

It is interesting that answers from the non-target respondents were very similar [illegible]7 % stated that they wished to take out a loan. Similarly Krishi non-target residents had the lowest percentage (65%) and IRDP the highest (91%).

The second question resulted in an average size loan of 1628 taka . In Table IV-5 the estimated number of target group respondents wanting a loan and the average size loan desired is presented for each lending institution area.

Utilizing the estimated number of target group households, the percentage desiring loans from the Baseline Survey and the desired average size loan, a total demand for borrowing has been projected for each lending institution in Table IV-5. The value of loans requested comes to a grand total of 3,58,93,000 taka . We should regard this a maximum. In American slang it would be called "a pipe dream".

E. Projection of Potential Demand Using Best Performance

As can be seen in Table III-3 Sonali reached 50.5% of the target group -- actually 76% of households with gross cash income between 3001 and 6000 taka . On the other hand, it is seen in Table IV-3 that the Janata average size loan was the highest (1327 taka). Utilizing these figures and the size of the target group in each lending institution, the demand for loans is estimated in Table IV-6. This could be called the "pragmatic estimated demand". This method yields a total loan demand of 1,86,46,000 taka , about half of the maximum estimate.

F. Comparison of Performance to Date and Potential Demand Estimates

In Table IV-7 the value of loans outstanding to target group borrowers is estimated. It is not possible to take the raw data from the monthly reports of the lending institutions to arrive at the figure of the Taka amount of loans outstanding to target group borrowers because of three factors already discussed: (1) Multiple loans have been made; (2) about 27% of the loans have gone to non-target members; and (3) the average size target group loan is smaller than the overall average. As a result of taking these factors into account, as can be seen in Table IV-7, the amount of outstanding loans to the target group is estimated to have been 59,98,000 taka as of December 31, 1979.

In Table IV-8 the estimated outstanding loans to the target group is compared with the estimated maximum demand and to the pragmatic demand. Overall, it is seen that 16.7% of the maximum demand has been met and

32.2% of the pragmatic demand. There is considerable variation among the different lending institutions. Sonali and Janata show up the best when the pragmatic demand is used. Agrani, Pubali and Krishi all approach fulfilling 40% of the pragmatic demand.

Considering that most of the lending institutions have been in operation within RFEP for less than a year, it appears that considerable progress has been made in fulfilling the potential demands. However, Sonali and Janata Banks should not rest on their laurels, but should expand their operations by taking in additional villages for a given branch or adding more branches to determine whether they can replicate their record.

Table IV-1

All Loans Calculation of Average Size of Loan Accumulative Through December 31,1979

Lending Institution	Total Amount Loaned	Number of Loans	Average Size of Loan
1	2	3	4
1. Krishi	6165940	3761	1639
2. Sonali	1416974	854	1659
3. Janata	694010	375	1851
4. Agrani	1262790	1537	822
5. Pubali	1107567	962	1151
6. Rupali	293706	266	1104
7. Uttara	416353	492	846
8. IRDP	494122	698	708
9. BJSB	453143	547	828
TOTALS:	12304603	9492	1296

Source: Survey report reached at March 3, 1980 meeting.

Table IV-2

Target Group Borrowers: Percent Distribution of Loan Received

Size of Loan
(In Taka)

Lending Institution	Less Than 300 Taka	301 to 500	501 to 1000	1001 to 1500	1501 to 2000	2001 and Over	Average Size of Loan
1	2	3	4	5	6	7	8
1. Krishi	6.6	11.7	26.0	17.0	17.5	21.2	1307
2. Sonali	2.8	8.7	36.7	14.2	18.3	19.3	1297
3. Janata	0.0	12.6	38.6	8.8	17.2	22.8	1321
4. Agrani	2.0	47.0	39.2	7.4	3.8	0.6	659
5. Pubali	10.0	16.9	28.1	17.2	26.0	1.8	1009
6. Rupali	23.9	25.4	35.8	7.5	3.7	3.7	661
7. Uttara	5.2	12.7	82.1	0.0	0.0	0.0	675
8. IRDP	1.9	23.0	71.9	3.2	0.0	0.0	670
9. BJSB	5.0	10.9	62.4	14.5	6.8	0.4	776

Source: Analysis of 3745 loans collected in the continuous survey dated January 8,1980 which fall in the target group.

Table IV-3

Comparison of Average Size Loan - All Borrowers And Target Group Borrowers

(In Taka)

Lending Institution	Target Group[1]	All Borrowers[2]
1	2	3
1. Krishi	1307	1639
2. Sonali	1297	1659
3. Janata	1321	1850
4. Agrani	659	822
5. Pubali	1005	1151
6. Rupali	661	1104
7. Uttara	675	846
8. IRDP	678	708
9. BJSB	776	828
TOTALS	1033	1296

[1]From continuous survey size of loan given by respondents.

[2]From monthly statements of lending institutions.

Table IV-4

Comparison of Average Size of Loan To Target Group Before RFEP And Under RFEP Program.

(In Takas)

Lending Institution	Before RFEP[1]	Under RFEP Program[2]	Ratio of RFEP Loans to Loans Prior RFEP
1. Krishi	670	1,307	1.95
2. Sonali	460	1,297	2.82
3. Janata	756	1,321	1.75
4. Agrani	463	659	1.42
5. Pubali	579	1,009	1.74
6. Rupali	523	661	1.26
7. Uttara	1,075	675	0.63
8. IRDP	712	678	0.95
9. BSBL	544	776	1.43
Total	581[1]	1,033[2]	1.78

1 / Represents the area presently served by the RFEP lending Institutions. Includes all types of loans - Institutional, money lenders, family and friends etc. Includes only loans to target group within some farm activity.

2/ Weighted averages : Weighted by the number of loans given in the area of each institution.

Table IV-5

<u>Estimated Potential Demand for Loans to Target Group Based on Data From Base Line Survey</u>

Lending Institution	Number of Target Group Households	Percent Wanting Loan	Number Wanting Loan	Average Size loan wanted	Total amount of Loans wanted (000 Takas)
1. Krishi	10,690	67.67	7,234	1,441	10,424
2. Sonali	872	80.52	702	1,318	925
3. Janata	1,063	87.29	928	2,130	1,977
4. Agrani	2,763	82.65	2,284	1,406	3,211
5. Pubali	2,311	81.60	1,886	1,706	3,218
6. Rupali	1,073	76.43	820	1,576	1,292
7. Uttara	1,530	83.58	1,279	2,684	3,433
8. IRDP	2,463	90.43	2,227	1,874	4,173
9. BJSB	5,061	73.94	3,742	1,935	7,241
Total	27,826	79.21	22,041	1,628	35,883

Table IV-6

Estimated Potential Demand Using
Best Experience And Projecting To
All Lending Institutions

Lending Institution	Potential Lenders (50.5%)[1]	Total Demand (000 Taka.)[2]
1. Krishi	5,398	7,163
2. Sonali	440	584
3. Janata	537	713
4. Agrani	1,395	1,851
5. Pubali	1,167	1,549
6. Rupali	542	719
7. Uttara	772	1,024
8. IRDP	1,244	1,651
9. BSBL	2,556	3,392
Total	14,051	18,646

1/ Sonali Ratio .

2/ Total demand is obtained by multiple potential lenders by 1,327 Taka which is the average size loan for Janata.

Table IV-7

Estimated Loans Outstanding to Target Group As of December 31, 1979

Lending Institution	Number of Unduplicated Borrowers[1]	Average size of Loan[2]	Total value of Loans ('000 Taka)
1. Krishi	2,044	1,307	2,672
2. Sonali	441	1,297	572
3. Janata	284	1,321	375
4. Agrani	1,111	659	732
5. Pubali	589	1,009	594
6. Rupali	226	661	149
7. Uttara	339	675	229
8. IRDP	536	678	363
9. BJSB	364	776	282
Total	5,934	1,006	5,968

1/ From Table III-3

2/ From Table IV-4

Table IV-8

Comparison of Estimated Loans Outstanding To Target Group To Two Estimates of Potential Demand

(000 of Taka)

Lending Institution	Estimated Value of Loans Outstanding[1]	Maximum Potential Estimate[2]	Pragmatic Potential Estimate[3]	Percent of Maximum	Percent of Pragmatic
1. Krishi	375	1,977	7,163	25.6	37.3
2. Sonali	572	925	584	61.8	97.9
3. Janata	375	1,977	713	19.0	52.6
4. Agrani	732	3,211	1,851	22.8	39.5
5. Pubali	594	3,218	1,549	18.5	38.3
6. Rupali	149	1,292	719	11.5	20.7
7. Uttara	229	3,433	1,024	6.7	22.4
8. IRDP	363	4,173	1,651	8.7	22.0
9. BSBL	282	7,241	3,392	3.9	8.3
Total	5,968	35,833	18,646	16.6	31.9

1/ From Table IV-7

2/ From Table IV-5

3/ From Table IV-6

V. WHAT IS THE EFFECT OF DIFFERENT RATES OF INTEREST ON THE LEVEL OF BORROWING?

A. Introduction

The basic information which will be used in the analysis of the relation of the level of borrowing and interest rates is derived from the cumulative value of loans through December 31, 1979 which was distributed at the March 3, 1979 meeting. A first glance at the table which totals the loans made by all institutions classified, by interest rates, would definitely give the impression that the lending institutions were having difficulty in making loans at 30% and 36% rates of interest. Only 16% of the loans were made at 30% rate of interest and only 6% of the loans were made at the 36% rate of interest. But a further examination of the information reveals that relatively few of the outlets of the lending institutions were offering loans at the 36% rate of interest. For example, Krishi Bank which has the largest RFEP program was not loaning at 36% rate of interest. This was also true of Sonali, IRDP and BJSB. The same situation, although not so drastic, was true for the number of outlets of the lending institutions which loaning at the 30% rate of interest.

It is, therefore, clear that before we can examine the impact of different interest rates on the level of borrowing, it is necessary to develop estimates of the number of households to which a given interest rate applied. This was done.

B. Estimated Number of Target Households Subject to Lending at Each Rate of Interest

All outlets with a given rate of interest were grouped together and the estimated number of target households computed for those outlets. In effect, we have an estimate of the number of target households which were in the segments of the lending institutes offering 12%, 18%, 24%, 30% and 36%.

Actually because of the fact that IRDP and BJSB offer loans at different rates under varying circumstances, it is necessary to develop several sets of household estimates. For example, in the case of crop loans all their outlets offer loans at 18% whereas in case of other agricultural and non-agricultural loans they offer loans at 24% and 30%. It is necessary to make two estimates of the number of target households distributed by interest rates. The first deals with lending for crops: IRDP and BJSB target households must be placed in the 18% category. In the case of other agricultural and non-agricultural loans it is necessary to include their target households twice -- once under 24% and once under 30%.

Also in the case of IRDP and BJSB, it is necessary to utilize the target group estimate which is drawn only from the member cooperatives since loans have only been offered to their members. In Table V-1 the required target group households are shown together with the percentage distributions. It will be noted how small the percentage of households falling in the 30% and 36% lending categories , especially for crop loans.

C. Crop Loans

In Table V-2 the distribution of crop loans by interest rates charged is compared with the distribution of target group households. In the second column the percent distribution of loans is given with, by far, the highest percentage being distributed at 18%. But that category also has the highest percentage of target households -- 36%. In order to make a systematic comparison between the percentage of the value of loans made at each interest rate and the percentage of target group households in each interest rate category, an Index has been computed. The Index is the ratio of percentage of loan value to percentage of target households at each interest level multiplied by 100. It is shown in the last column. When the Index is 100 then the level of lending is proportional to the number of target households in each interest rate category. If the Index is less than 100 then the demand for loans at that interest rate is less than is to be expected based upon the number of target households. It, of course, may not be only lack of demand it might be a number of other causes such as lack of management drive, lack of personnel, lack of notification etc. However, at least these Indexes do give some indication of the loan demand at each interest level, at least, as related to the number of target households.

It can be seen that the value of loans granted at 12% was actually only 57% of what might be expected based on the percentage of target households. On the other hand, 27% more loans as measured in value were made, 18% more than the expected amount as based on the number of target households. At 24% the actual level was about the amount to be expected. Interestingly, the value of loans made at 30% was 52% higher than expected. At 36% the level was less than expected. Only 5.2% of the loans were made at that interest rate, whereas the percentage of target households in that category was 7.5% to yield an Index of 69. If the 30% and 36% categories are combined, we still get an excess of loan value as compared to the percentage of target households.

D. Other Agricultural Loans

A similar table is to be found relating the value of other agricultural loans to Target households at each interest category. A quick glance at the last column in the Table V-3 clearly points to the fact that the lending institutions have not been successful relative to the proportion of target households in each interest category in making the appropriate number of loans at any interest rate above 12%. At this level, the Index is 173 implying that demand exceeded the expected number by 73%. At 18% interest the level of lending almost came up to the expected amount with an Index of 95. The Index registered well below 80 for each of the other interest rate categories indicating there are insufficient takers.

E. Non-Agricultural Loans

In Table V-4, it can be seen that non-agricultural lending pretty well follows the expected demand based upon the percentage of households in each interest rate category. If anything, the demand for non-agricultural loans is higher at the higher interest rates. Thus the Index for 12% loans is 92 whereas at 30% it comes out to be 117 and even at the 36% rate of interest the Index was 106 or 6% more loans in terms of value was made than expected.

F. Relationship of Purpose of Loan and Interest Rate

Before estimating the cross-relationship between interest and purpose of loan, it is necessary to make sure that the number of households which might receive a 12% crop loan is the same as the number of households which might receive a 12% "other agricultural" loan or a non-agricultural loan, otherwise the comparison would be invalid. The adjustments were made so as , in effect, to equalize the number of households which were exposed to the same interest rate for each loan purpose. After the adjustments were made, Table V-5 was prepared.

It indicates that the highest percentage (31.7%) of crop loans were made at 30% interest rate. Strangely enough the smallest percentage of crop loans was made at 12%. Even with an interest rate of 36% the percentage of crop loans was 50% greater than at 12%.

It is also to be noted that other agriculture loans dominate only at 12%. On the other hand, the proportion of non-agricultural loans tends to increase as the interest rate increases.

G. Summary

The target group households were distributed by various interest rate categories. The distribution of the target group households was used to determine whether the distribution of the value of loans made at each interest rate was consistent with that which might be expected or whether the lending institutions were having difficulty in making loans at the higher interest rates.

In the case of crop loans, it was found that the higher rates of interest did not impede the making of crop loans, especially at the 30% level. Loans at that level were "over-subscribed" by 57%. Difficulty however, was encountered in making loans for other agricultural purposes at interest rates above 12%.

A different picture was found in the case of non-agricultural loans. The value of loans made at 30% and 36% exceeded the expected amount, whereas the value of loans made at 12% fell below the expected demand based on the number of target households in that interest category. This is a particularly significant finding in that 41% of the loans (the largest of three categories) were for non-agricultural purposes.

Table V - 1

Estimated Number of Target Households To Be Used For Different Types of Loans

--- Percentage Distribution For -

Interest Rates	Households Excluding IRDP & BJSB	For Crop Loans[1]	For Other Agriculture and Non-Agriculture[2]	Crop Loans	For Other Loans
12%	6,149	6,149	6,149	27.7	25.4
18%	6,142	8,081	6.142	36.3	25.4
24%	4,126	4,126	6,065	18.6	25.1
30%	2,207	2,207	4,146	9.9	17.2
36%	1,678	1,678	1,678	7.5	6.9
Total	20,302	22,241	24,180	100.0	100.0

Note : IRDP and BJSB Target membership is 761 and 1178 respectively or a total of 1939.

1 - IRDP and BJSB Target household added to 18% interest rate category.
2 - IRDP and BJSB Target household added to 24% and 30% categories.

Table V - 2

Crop Loans : Comparison of Distribution Of Loans Value And Target Households By Interest Rates

Interest Rates	Distribution of Loans Througn Dec. 31, 1979[1] (In Taka)	Percent Distribution Of Loans Value	Percent Distribution of Target Households	Index : Ratio[2] % Loans To % Target Households
12%	452,313	15.8	27.7	57
18%	1,321,021	46.1	36.3	127
24%	510,476	17.8	18.6	96
30%	431,240	15.1	9.9	153
36%	148,081	5.2	7.5	69
TOTAL	2,863,131	100.0	100.0	

1/ Total crop loans made including to non - target households since there is no way to separate loans made to non-target households by purpose of loan.

2/ Times 100

Table V-3

Other Agricultural Loans : Comparison Of Distributions Of Loans And Target House- holds By Interest Rate

Interest Rate	Distribution of Loans Throught Dec 31, 1979 [1]	Percent Distribution of Loans	Percent Distribution of Target Households	Index : Ratio [2] % Loans to % Target Households
12%	2,361,350	44.1	25.4	174
18%	1,155,202	21.6	25.4	85
24%	844,449	15.8	25.1	63
30%	719,400	13.5	17.2	78
36%	268,075	5.0	6.9	72
Total	5,348,476	100.0	100.0	

1/ Total Non-Agricultural loans made including to non-target households since there is no way to separate loans made to non-target household by purpose of loan.

2/ Times 100

Table V-4

Non Agricultural Loans : Comparison of Distribution Loans And Target Group Households By Interest Rate

Interest Rate	Distribution of Loans Through Dec.31,1979[1]	Percent Distribution of Loans	Percent Distribution Of Target Households	Index : Ratio[2] % Loans To % Target Households
12%	1,224,539	23.4	25.4	92
18%	1,278,535	24.5	25.4	96
24%	1,319,613	25.2	25.1	100
30%	1,022,070	19.6	17.2	114
36%	383,383	7.3	6.9	106
Total	5,228,140	100.0	100.0	-

1/ All non-agricultural loans including to non-target households since there is no way to separate loans made to target households by purpose of loan.

2/ Times 100

Table V-5

Percentage Distribution of Loans by Purpose and Interest Rate Charge Cumulative through December 31, 1979

---- Loans For ----

Interest Rate	Crops	Other Agriculture	Non-Agriculture	Total
12%	11.2	58.2	30.2	100.0
18%	29.2	33.6	37.2	100.0
24%	25.7	29.0	45.3	100.0
30%	31.7	28.2	40.1	100.0
36%	18.5	33.5	48.0	100.0

Total amount of Crop Loans· disbursed adjusted upward or downward so as to equalize the number of Target Households offering each type of loan. At the same interest rate corresponding adjustment was made for total loans.

VI. CAN PRODUCTIVE INVESTMENTS BE MADE BY THE TARGET GROUP IF LOANS ARE AVAILABLE?

A. Introduction

It is still too early to determine based upon the experiment whether productive investments can be made by the target group. It will be necessary to analyze certain data which are now accumulating in the information system pipeline. The first part of the information is coming from the lending institutions' records, especially with respect to the repayment records. In a later chapter the current picture will be analyzed to see if the repayment record is such as to indicate whether the loans were put to productive uses. Of course, there may be other factors than the quality of investment which may cause the repayment record to be less than desirable. Thus, a too short repayment period (a frequent complaint), events beyond the control of the borrower, insufficient size of loan, lack of freedom to choose the proper type of investment, etc.

The second type of information to be gathered relates to the tracing through what actually happened to the use of the loan and did it turn out that the use to which the borrower put the money was productive or not. A part of the borrowers is being covered by the farmers' survey. The first survey has been completed in the field and keypunched and will shortly be tabulated. It covers one crop cycle. This type of survey should be extended to non-farmers as well.

In the meantime, an attempt will be made to give some answers to the question. The first will be to utilize the opinions of the target population as provided in the Baseline Survey as to what they would do with the loan. Did they want it for consumption or for investment? What kind of investment? The second, will make some reference to case studies of borrowers made by the Social Anthropologist and the Field Credit Specialists on their field trips. The third will be analysis of the distribution of loans already made in relationship to generation of gross cash income of the target group by source -- agricultural or non-agricultural.

B. The Opinions of the Target Group.

As pointed out in Chapter IV some 79% of the target group respondents replied "yes" when asked the question "If you had an opportunity to take out a loan?" whereas, we know from Chapter II that only about 11% of them had taken out a loan from any source during the previous year. The next question was "What would you use the money for?" They were allowed multiple answers. Only 2.5% of the answers referred to consumption items such as food, build a house, repair a house. If one considered a milch cow a consumption item then the percentage of answers referring to consumption items would go up to about 8%. All the rest of the answers were related to productive investments.

It is interesting that even among the target households with some farming activity the most frequent answer was that of investing in a business. Slightly over 50% of the respondents interested in taking a loan mentioned that use of the money. In the case of the respondents which were classified as not having some farming activity 56% referred to investing in a business. In addition to such broad items other non-farming activity was mentioned such as the purchase of rickshaws. This great interest in investing in business (non-farm activity) on the part of both target group members with farming activity and non-farming activity at the present time is significant because it ties into the analysis of the loans to date with respect to their purpose.

It should also be pointed out that by far the most serious obstacle or the most important need for raising their level of living mentioned most frequently by respondents was that of money for investment.

In view of the kinds of answers target group respondents gave in the Baseline Survey it seems safe to conclude that, in their opinion, if loans were made available they could find investment opportunities and that such loans or funds were of great importance if they are to improve their economic condition. It is also important to note that there is a tendency for them to look toward non-agricultural investment opportunities even if they are carrying out farming activities.

C. The Analysis of Loans by Purpose

In analyzing the distribution of the loans made through December 31, 1979, we use a technique similar to that utilized in the analysis of the impact of interest rates in Chapter V. We will use the sources of gross cash income of the target group as a basis of judging whether distribution of the loans by purpose is proceeding in the correct direction. Our hypothesis which is somewhat pragmatic, is that probably the most efficient way of increasing the income of a person or a group of persons is for him to make investments which are consistent with his past experience. We should not try to impose our preconceived ideas of what is the best for him even if it means a radical change from the manner he is presently earning his living.

In Table VI-1 the cumulative loans through December 31, 1979 are in absolute terms. In Table VI-2 the percentage distribution of the loans by type is presented for each lending institution. The analysis begins with Table VI-3. The percentage of the loans for agricultural purposes (crop and other agriculture) is compared with the percentage of gross cash income coming from agriculture as given in Table I-9.

It is seen that 59.2% of the loans went for agricultural purposes even though the history of earnings of the target group indicates that they receive only 26.3% of their gross cash income from agricultural pursuits. As in the case of other analyses, an Index was developed which is the ratio of the percentage of loans made by each institution for agricultural purposes and the percentage of gross cash income coming from agriculture. If the percentages are the same then the Index will be 100. There are only two lending institutions in which the Index approaches 100 -- Sonali with a 133 and Pubali with an Index of 127.

The most questionable practice with respect to the loans made appears to be that of BJSB. Nearly 85% of their loans were for agricultural purposes even though only 13.5% of their target groups' income is derived from agricultural pursuits.

The picture may be somewhat exaggerated because we have not been able to separate the loans which went to the target group from those that went to the non-target group. We know from the Continuous Survey that 27.4% of the loans went to the non-target group. Although we cannot separate the loans it may be possible to obtain a base for comparison purposes which is more comparable to the situation of the actual borrowers. This could be a significant difference because as was seen in Table I-9, the non-target households received twice as much of their income from agricultural activities than the target group -- 52.3% vs 26.3%.

By weighting the percentage of cash income derived from agricultural activities for the target group and the non-target group in each lending institution by the proportion of target and non-target loans according to the Continuous Survey, we have come up with the percentage of gross cash income derived from agriculture for possible clientele of each of the lending institutions. This figure is shown in the second column of Table VI-4. We believe that it is a more realistic percentage to use since it recognizes that 27.4% of the loans went to non-target borrowers. The average percentage of cash farm income derived from agricultural pursuits is now 33.4%.

As might be expected the indexes for each of the lending institutions drop, with Pubali falling below 100. The overall index is 177 indicating that even allowing for the introduction of non-target borrowers with a higher percentage of cash income coming from agriculture, that the proportion of agricultural loans exceed the percentage of income derived from agriculture by 77%.

D. Summary

While we do not have as yet evidence directly from the Experiment as to whether the target group can find sound investment opportunities for the loans they might receive from the RFEP, we have provided some evidence from that Baseline Survey that, at least, the target group members not only believe that they could make productive uses of the loan but that they need such loans if they are to improve their economic conditions.

More important, they most frequently consider that the productive investments will be outside of agricultural field.

A comparison of the percentage of loans for agricultural purposes with the source of gross cash income of the members of the target group, or even target and non-target group borrowers, indicate that with two exceptions (Sonali and Pubali) the purpose for which the loan is to be used is inconsistent with the borrowers' normal sources of income. This may be the result of directives to push crop and other agricultural loans even though the borrowers may not want such loans. The evidence that they want non-agricultural loans was given in the previous chapter where it was found that such loans were "over-subscribed" at 30% and 36% interest rates. Later, in the discussion of particular case interviews by the Social Anthropologist, evidence will be found to support the fact that the borrower is sometimes being forced to take an agricultural loan when he wants a non-agricultural loan.

Table VI - 1

Total Amount Loaned By Purpose Of Loan Through December, 1979

(In Taka)

--------- Loans For --------------

Lending Institution		Crop	Other Agriculture	Non Agriculture	Total
1.	Krishi	722,440	2,611,550	2,831,950	6,165,940
2.	Sonali	513,204	271,200	632,570	1,416,974
3.	Janata	172,200	1,089,267	179,183	1,440,650
4.	Agrani	464,330	287,425	511,035	1,262,790
5.	Pubali	200,678	246,000	660,889	1,107,567
6.	Rupali	71,985	131,160	90,563	293,708
7.	Uttara	158,401	123,352	134,600	416,353
8.	IRDP	230,750	145,022	118,350	494,122
9.	BSBL	329,143	55,000	69,000	453,143
	TOTAL	2,640,716	4,944,476	5,224,140	12,809,332

Table VI-2

Percent Distribution of Loans by Purpose Through December 31,1979

----------Percent --------------

Lending Institution	Crop	Other Agriculture	Non - Agriculture	Total
1. Krishi	11.7	42.3	46.0	100.0
2. Sonali	36.2	19.1	44.7	100.0
3. Janata	12.0	75.6	12.4	100.0
4. Agrani	36.8	22.8	40.4	100.0
5. Pubali	18.1	22.2	59.7	100.0
6. Rupali	24.5	44.7	30.8	100.0
7. Uttara	38.1	29.6	32.3	100.0
8. IRDP	46.7	29.3	24.0	100.0
9. BSBL	72.6	12.2	15.2	100.0
TOTAL	20.6	38.6	40.8	100.0

Table VI-3

Comparison Of Percent Loans For Agricultural Purposes And Gross Cash Income From Agriculture For Target Group Households

Lending Institution	Percent of Loans For Agriculture	Percent Of Gross Cash Income From Agriculture[1]	Index Ratio[2] % Agricultural Loans To % Income From Agriculture
1. Krishi	54.0	26.7	202
2. Sonali	55.3	41.7	133
3. Janata	87.6	23.1	379
4. Agrani	59.6	22.0	271
5. Pubali	40.3	31.7	127
6. Rupali	69.2	33.4	207
7. Uttara	67.7	14.1	480
8. IRDP	76.0	29.4	258
9. BSBL	84.8	13.5	628
TOTAL	59.2	26.3	225

1 - From Table 1 - 9

2 - Times 100

Table VI-4

Comparison Of Percent of Loans For Agricultural Purpose And The Percent of Gross Income From Agriculture Adjusted To Include Non-Target Group RFEP Borrowers

Lending Institution	Percent Of Loans For Agriculture	Percent of Gross Cash Income From Agriculture[1]	Index : Ratio[2] % Agriculture Loans To % Income From Agriculture
1. Krishi	54.0	33.0	164
2. Sonali	55.3	49.2	112
3. Janata	87.6	28.8	304
4. Agrani	59.6	28.5	209
5. Pubali	40.3	41.3	98
6. Rupali	69.2	35.2	197
7. Uttara	67.7	17.7	382
8. IRDP	76.0	37.8	201
9. BSBL	84.8	21.0	404
TOTAL	59.2	33.4	177

1 - From Table 1-9 obtained by weighting percent gross cash income earned from agriculture for target and non-target households by proportion of target and non-target households given RFEP loans - Table III-1.

2 - Time 100

PART - C

MOBILIZATION OF SAVINGS

VII. WHAT IS THE PRESENT AND POTENTIAL MOBILIZATION OF SAVINGS AMONG TARGET GROUP HOUSEHOLDS?

A. Savings Before RFEP Among the Target Group

The Baseline Survey provides an estimate of the percentage of the target group households which saved prior to RFEP. As shown in Table VII-1, it is estimated that 11.3% of the target group households, or 3,150 households, saved before RFEP. The highest percentage of savers were found in the Janata areas -- 27.8% of the households located in the areas covered by Janata stated that they had saved. Second was IRDP areas with 21.5% of the target group stating that they had saved prior to RFEP.

As pointed out in Chapter II, only 4.1% of the households in the target group had received loans from institutions prior to RFEP. Thus savings was not directly related to borrowing. There is a tendency to save whether borrowing takes place or not. In Table VII-2, a comparison is given between the percent of target group borrowers and target group savers before the RFEP. There is no clear relationship between borrowing and saving. The one fact to be noted, however, is how much greater is the variation in the rate of savings among the areas than in case of borrowing.

B. The Number of Savers

In the analysis which will be made in this chapter, it will be assumed that the same kind of mis-classification of target group borrowers, as revealed by the Continuous Survey, occurs in the classification of target group savers on the part of the lending institutions. This is likely because the process of saving is frequently linked to the process of lending under the RFEP program. In effect, it is assumed that, overall, some 27.4% of the savers or depositors have been classified by the lending institutions as target group savers whereas they belong in the non-target group, even though the outlet may not have a program for non-target group savers in operation.

A small sample survey, which was carried out in February and March 1980 to obtain certain answers related to savings mobilization, came up with the identical proportion -- twenty seven percent of the so-called target group savers turned out to be non-target group members when their land holdings and gross cash income were considered.

In Table VII-3 the number of target group depositors, as reported by the lending institutions, has been multiplied by the percentage of target group borrowers for each lending institution as found in the continuous survey. This yields a total of 5034 depositors in the target group classification or 18.4% of the total number of target group households. It is to be noted that Sonali has the highest percentage of target group savers even after a major reduction due to the amount of non-target lending.

Since RFEP contemplates a relationship between borrowings and savings, a comparison of the percentage of target group members who save and who borrow is presented in Table VII-4. The third column is an Index which is developed by obtaining the ratio between the percentage of savers and borrowers and multiplying the ratio by 100. There tends to be a rather consistent relationship between the percentage of savers and borrowers in each institution since the fluctuation in the index is not very great from one lending institution to another. This seems to indicate that RFEP savers are also RFEP borrowers.

In view of the relatively high percentage of target group households who were savers before RFEP, the question can be raised as to whether a number of depositors who are now under the RFEP savings program were not already savers and merely shifted over. The February/March 1980 sample survey of lending institution depositors indicate that approximately 45% of the current target group depositors were previous depositors. This would mean that of the estimated 5034 target group depositors, approximately 2770 were new depositors and 2264 were previous depositors. Also, it is possible to say that some 900 of the 3160 pre-RFEP savers (see Table VII-1) did not shift to RFEP. This could be due to the fact that they may be saving in a non-RFEP institution or are not aware of the RFEP program.

C. <u>The Amount of Savings</u>

Since one of the objectives of the RFEP is to develop resources locally, it is desirable to see how much the target group savers contribute to the capital being utilized by the lending institutions to provide loans to target group borrowers. Again, under the assumption that some of the non-target group depositors have been mis-classified by the lending institutions as target group depositors, we will have to adjust the value of the target group deposits to take care of this matter. Although it is also likely that the average size deposit by the mis-classified depositors is likely to be higher, no adjustment was made for that factor.[1] In Table VII-5 the relationship between the estimated savings balance by target group households and loans outstanding to the target group is presented. Overall, it appears that target group savers have contributed about 7.1% of the capital needed for target group lending. The highest proportion was by Rupali where 12.8% of the resources came from target group savers.

Of interest is the average size deposit and the average size loan for those depositors who have a loan, Unfortunately, we do not have individual data to permit a cross-classification. The most we can do is to compare the average size loan and the average size deposit by institution and interest rate. In Table VII-6 it is seen that the average size deposit amounts to only about 8.5% of the average size loan. This, in itself, indicates that it is unlikely that target group savers will be able to provide a high proportion of the required resources.

An interesting aspect of the average size of savings is revealed by data collected in the February/March Sample Survey of depositors. The depositors were classified as to whether they had savings prior to the RFEP program. As noted above, 45% of them had. The average size deposit balance of previous savers was 127 takas, whereas the average size balance of new savers was only 67 takas, or half. This may illustrate the effect of the savings habit. It could also mean more confidence in the saving institution.

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[1] The February/March Survey of Depositors revealed that the average size of savings of non-target depositors was 22% greater than the average size savings balance of target group depositors.

D. Effect of Interest Rates of Savings

One of the objectives of the Experiment is to determine whether higher interest rates on savings will attract more depositors. In Table VII-7 the number of depositors in each outlet has been tabulated by interest rate being offered by the RFEP program at that outlet. As was pointed out in Chapter IV, exposure of target households to different interest rates varied considerably. Thus, in the case of loans, many more target group households fell in areas which were subject to 18% interest loans than those falling into the areas where only 36% interest loans were being offered. It was necessary to take this into account in assessing the effect of different interest rates on the number of borrowers and the amount of loans. The same is true for an analysis of the savings patterns.

In Table VII-7 the number of depositors recorded as of December 31, 1979 associated with each interest rate is given in the first column.[1] In the second column will be found the percentage distribution of the number of depositors by interest rates. In the third column is comparable percentage of target households that fall in each interest category. In the final column the Index of comparison is computed. The Index is computed by obtaining the ratio between the percentage of depositors to percentage of target households at each interest rate and multiplying by 100. If the Index is above 100 then there are more depositors than is to be expected. It is clear from the column giving the Index that depositors are attracted to the higher interest rates on savings. This is especially true for the 15% rate of interest.

However, when we look at the total value of the deposits (Table VII-8), we obtain a different picture. The Index is in excess of 100 by a considerable amount at the 11% interest level and only by a small amount at the 15% level of interest. The Index at the interim interest rates is below 100. This implies that the average size deposit varies more or less inversely with the interest rate paid. This is seen clearly in Table VII-9 in which the average size of deposit is related to the

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[1] It is assumed that the portion of target and non-target savers is proportional in each interest group so that no correction is made for non-target depositors who were mis-classified.

interest rate. At 11% the average size deposit is 121 taka while at 15% interest, the average size deposit is less than half -- 54 taka .

Based on the sample survey of depositors referred to earlier, we know that the average size of new depositors is half the size of the deposit of older depositors. It might be that the higher interest rate depositors are primarily newer depositors since the average size of their deposit balance is smaller.

E. Relation of Income and Savings under RFEP

Data from the sample survey of target group depositors mentioned earlier indicates that the more affluent depositors tended to have a smaller percentage of their income in savings than the lower income depositors. Thus, depositors with less than 1000 taka had a savings balance, on the average, which was 29% of their income. On the other hand, those households with a gross cash income of 5000 to 6000 taka had a savings balance, on the average, which was only 2.7% of their income. The decline in savings was pretty consistent with the rise in income.

This, of course, resulted in the average level of savings being higher among the poorest. Thus the average savings among persons with income of 1000 taka or less was 144 taka . It is not until one reaches the 6000 taka level that the average level of savings balance approaches such a figure.

It is pretty clear that an enforced savings operation is taking place under the RFEP program, particularly for the small income households. In fact about 59% of the respondents mentioned that they saved in order to get a loan or the bank staff kept a portion of the loan. Another 11% said that the bank staff advised them to save in the bank.

This may also explain the heavy withdrawals. The money is put into the savings account rather than being given to them at the time of the loan and then it is withdrawn as the need for the money comes about to make the investment for which the loan was intended.

F. Withdrawals

The withdrawals have been quite heavy from the savings accounts, although we unfortunately do not have any standards to go by. There are several explanations for the heavy withdrawals. One was just given, namely that the savings account acts as a conduit for the loan to be paid out as the need for the use of the loan money arises. Another is, at least until recently, that the loan repayments were passed through the savings accounts. This is supposed to be happening less according to the reports we received from our auditors carrying out the Institutional Survey. On the other hand, the financial analyst has pointed out that most of the lending institutions are not geared up to record loan repayments which occur with a frequency yielding time periods of less than a month. It is better for the institution to deposit the instalment on the loan in the savings account and then take it out as it credits the loan repayment. In Table VII-10 the cumulative withdrawal is related to the cumulative deposits. Overall 75.1% of the deposits have been withdrawn. This seems high. However, one can turn the percentage around and say that 25% of the deposits have been retained for the use of the lending institutions.

A month-to-month analysis of withdrawal ratios of some of the institutions show a more moderate rate of withdrawal at least during the last six months. Thus the average rate of monthly withdrawals, calculated by taking the deposits withdrawn in the month as a percentage of beginning balance and the month's deposit, averaged 28% for Krishi. In the case of Pubali it was 12%.

In an effort to analyze the rate of withdrawals from the monthly accounting reports, we tabulated the rate of withdrawal by the interest rate paid. The information is given in Table VII-11. No significant relationship seems to exist.

In the sample survey of depositors carried out in February/March 1980, approximately 11% of the respondents stated that they had made at least one withdrawal from their savings account. The most frequently mentioned reason was that of investing in business (23%) or buying a rickshaw/motor rickshaw (10%). Very few mentioned withdrawal for consumption purposes. It should also be pointed out that the average size of the withdrawals were quite large -- 518 taka . The average size of the deposit balance was only 130 taka . In effect, although only 11% of the depositors made withdrawals, they withdrew 34% of the value of the total savings.

This is seen even more clearly from the monthly accounting records. Thus, the average size withdrawal from Krishi Bank in December was 1720 taka whereas the average size balance was 116 taka .

G. Estimated Potential

Needless to say, the level of potential of savings among the target group is a difficult question to answer. In order to make an estimate we have utilized some information from the Baseline Survey, some intuition and the proposed relationship between lending and savings under the RFEP program.

One of the first assumption we have made is that, as household gross cash income increases the percentage saved is increased. This is contrary to the findings of the sample survey of depositors, but we feel that the finding is a temporary situation as those savings are a pass-through to the loans. Rather arbitrarily we have assumed that the following relationship can exist between gross cash income and the percentage of income saved among the target group.

No Income	-	0% savings
0 - 1000 taka	-	2.0% savings
1001 - 3000 tk	-	3.5% savings
3001 - 6000 tk -		5.0% savings

From the Baseline Survey an estimate of gross cash income received by the target group household for each economic class was developed for each lending institution. The savings percentages noted above were then applied to the gross cash income in each income class and totalled, This implies that every household in the income class will save the percentage of their income as specified above. Since savings is a slow process and the RFEP is expanding over at least a two year period, we assumed that maximum potential could be reached in two years if every household saved. Thus, we would assume that a lending institution which was in operation only six months could only be expected to reach ¼th of the full potential by December 31, 1979. So adjustment was made to take into account the length of the time the lending institution was operating under RFEP.

Another adjustment which was made relates to the relationship between lending and savings. Thus if only 21% of the target group was reached by the credit program, this was taken into account to reduce the maximum potential for the December 31, 1979 potential estimate. However, slightly offsetting this was allowance for pre-RFEP savings. In Table VII-12 the estimated maximum potential was made under the assumption that every household in the target group saves according to the percentages given. In the second column this has been adjusted, for each institution, by the number of months in operation. Thus, the adjustment is the least in the case of Krishi which has been the longest in operation.

In the third column the potential adjusted for months has been reduced in light of the percentage of borrowers in the target group reached and pre-RFEP savings. The fourth column is the value of savings of the target group as of December 31, 1979 taken from Table VII-5. The final column is the percentage of the adjusted potential reached. It is to be noted that Sonali and Rupali exceeded the adjusted potential by a considerable amount. Overall, the record looks pretty good -- 80.2% of the adjusted potential was reached.

A further refinement can be made to take account of the restricted target group definition of IRDP and BJSB. This brings IRDP up to 67.8% from 51.8% and BJSB to 17.1% from 4.7%.

As in the case of the potential for loans to the target group, it is desirable to try to take a more pragmatic approach to the ultimate potential for savings. Instead of making the assumption that all the households will save, let us use the best performance to date, namely that achieved by Sonali. By December 31, 1979, 51.7% of Sonali's target group had some savings. If we multiply column 1 in Table VII-12 by .517, we obtain our "pragmatic" potential of savings.

This is given in Table VII-13. A total of slightly less than 20 crores of savings would be available from the target group under the "best performance" or "pragmatic" assumption. As of December 31, 1979, 60 crores have been loaned (Table IV-7).

We can conclude that the target group itself cannot generate the necessary resources. It is necessary to look toward the non-target group. This is done in the next chapter.

Table VII-1

Estimated Number of Target Group Depositors Before RFEP

Lending Institution Area		Number of Target Group Households 1/	Percent Saving 2/	Number of Savers
1.	Krishi	10,690	9.9	1058
2.	Sonali	872	16.1	141
3.	Janata	1063	27.8	296
4.	Agrani	2763	7.0	193
5.	Pubali	2311	8.3	192
6.	Rupali	1073	1.4	15
7.	Uttara	1530	4.8	73
8.	IRDP	2463	21.5	530
9.	BSBL	5061	13.0	658
	Total	27,826	11.3	3156

1/ From Table I - 2

2/ Special Tabulation of Base Line Survey.

Table VII-2

Comparison of Percentage of Institutional Borrowers and Sources by Lending Institutional Areas.

Lending Institution Area	Percent of Target Group who Borrowed	Percent of Target Group who saved
1. Krishi	3.7	9.9
2. Sonali	3.5	16.1
3. Janata	4.2	27.8
4. Agrani	6.2	7.0
5. Pubali	1.8	8.3
6. Rupali	3.7	1.4
7. Uttara	2.6	4.8
8. IRDP	9.5	21.5
9. BSBL	2.1	13.0
Total	4.1	11.3

Source : Base Line Survey

Table VII-3

Percent of Target Households
Which were Depositors

Lending Institutions	Number of Depositors Reported	Number of Depositors Adjusted to Target Group[1]	Number of Target Households[2]	Percent of Target Group Depositors of Target Households
1. Krishi	2,007	1,473	10,690	13.8
2. Sonali	766	451	872	51.7
3. Janata	247	187	1,063	17.6
4. Agrani	1,235	960	2,763	35.9
5. Pubali	886	565	2,311	24.4
6. Rupali	251	213	1,073	19.9
7. Uttara	466	341	1,530	22.3
8. IRDP	650	499	2,463	20.3[3]
9. BSBL	476	345	5,061	6.8[3]
Total :	6,984	5,034	27,826	18.1

[1] Reduced by the percent of non-target group borrowers as given by Continuous Survey, January 8,1980.

[2] Table I - 2

[3] If the IRDP and BSBL Target households are restricted to membership in cooperatives then the following adjustments are made:

Lending Institutions	Number of Depositors	Adjusted No. of Depositors	Target Households	Percent of Target Group Depositors
8. IRDP	650	490	761	64.4
9. BSBL	476	345	1,178	29.7
Revised Total:	6,984	5,034	22,241	22.6

Table VII-4

Depositors and Borrowers: Comparison of Percent of Target Group Reached by Lending Institution Dec. 31, 1979

Lending Institutions	PERCENT OF TARGET GROUP HOUSEHOLDS Depositors	Borrowers	Index : Ratio % Depositor to % Borrowers 1/
1. Krishi	13.8	19.1	72
2. Sonali	51.7	50.6	102
3. Janata	17.6	26.7	66
4. Agrani	35.9	40.2	89
5. Pubali	24.4	25.5	96
6. Rupali	19.9	21.1	78
7. Uttara	22.3	22.2	100
8. IRDP	20.3	21.8	93
9. BSBL	6.8	7.2	94
Total	18.1	21.3	85

1/ Times 100

Table VII-5

Comparison of Amount of Target Group

Savings and Target Group Borrowing

Lending Institution	Total Deposits Reported as of Dec.31,1979 1/	Percentage of Target Households 2/	Estimated value of Target Group Deposits	Estimated value of Loans 3/	Deposits as percent of loans
1. Krishi	233,273	73.4	171,222	2,672,000	6.5
2. Sonali	97,983	58.9	57,712	572,000	10.1
3. Janata	57,194	75.7	43,296	375,000	11.5
4. Agrani	66,666	77.3	51,533	732,000	7.0
5. Pubali	59,598	63.7	37,964	594,000	6.4
6. Rupali	22,503	84.8	19,083	149,000	12.8
7. Uttara	15,272	73.1	11,164	229,000	4.9
8. IRDP	39,395	76.8	30,255	363,000	8.3
9. BSBL	5,008	72.5	3,630	282,000	1.3
Total	596,892	-	425,859	5,968,000	7.1

1/ From statements of Lending Institutions given on March 3, 1980 meeting.

2/ From Continuous Survey dated January 8, 1980

3/ From Table IV - 7

Table VII-6

Comparison of Average Size Loan and Average size Deposit for Target Group

Lending Institution		Average size Deposit 1/	Average size loan 2/	Deposit as percent of loan
1.	Krishi	116	1,307	8.9
2.	Sonali	128	1,297	9.9
3.	Janata	231	1,321	17.5
4.	Agrani	54	659	8.2
5.	Pubali	67	1,009	6.6
6.	Rupali	90	661	13.6
7.	Uttara	33	675	4.9
8.	IRDP	61	678	9.0
9.	BSBL	11	776	1.4
	Total	85	1,006	8.5

1/ This is the average size loan for all deposits classified by the lending institutions as target group depositors since there is no way to estimate the size of the deposits for "Target" and misidentified Non Target Group Borrowers as in the case of loans utilizing the continuous survey.

2/ Table IV - 2

Table VII-7

Number of Depositors by Interest Rate
with Distribution of Target Households
(December 31, 1979)

Interest Rates	Number of Depositors	Percent of Total Depositors	Percent Distribution of Target Households	Index : Ratio % Depositors % Target Households 1/
11	1,861	26.7	27.0	99
12	1,580	22.6	29.5	76
13	1,623	23.2	22.2	105
14	1,184	17.0	15.2	112
15	735	10.5	6.1	172
Total	6,984	100.0	100.0	

Table VII-8

Value of Deposits by Interest Rates
Compared with Distribution of Target
Households (December 31, 1979)

Interest Rates	Value of Deposits	Percent Distribution of Deposits	Percent Distribution of Households	Index:Ratio % Deposits to % Households1/
11	225,281	37.7	27.0	140
12	129,872	21.8	29.5	74
13	126,432	21.2	22.2	95
14	75,173	12.6	15.2	83
15	40,134	6.7	6.1	110
Total	596,892	100.0	100.0	100

1/ Times 100

Table VII - 9
Average Size of Savings by Interest Rates

Interest Rates	Total value of Deposits (Taka)	Number of Depositors	verage Size of Deposit (Taka)
11	225,281	1,861	121.05
12	129,872	1,580	82.20
13	126,432	1,623	77.90
14	75,173	1,184	63.50
15	40,134	736	54.53
Total	596,892	6,984	85.47

Table VII-10

Estimated Percent of withdrawals by Lending Institutions

Lending Institution	Cumulative Deposits (100 Takas)	Cumulative Withdrawals (000 Takas)	Percent Withdrawals of Cumulative Deposits
1. Krishi	698.4	465.1	66.6
2. Sonali	563.3	465.3	82.6
3. Janata	90.4	33.2	36.7
4. Agrani	478.8	412.1	86.1
5. Pubali	247.5	187.9	75.9
6. Rupali	217.0	194.5	89.6
7. Uttara	40.7	25.4	62.4
8. IRDP	41.6	2.1	5.0
9. BSBL	5.0	0	0.0
Total	2,382.8	1,785.9	75.0

Table VII-11

Savings Withdrawals Versus Interest Rates

Interest Rates	Total Deposits	Total Withdrawals	Percent Withdrawals to Deposits
11%	675,536	450,255	66.7
12%	893,570	763,698	85.5
13%	349,567	223,135	63.8
14%	242,469	167,296	69.0
15%	221,687	181,553	81.9

Table VII-12

Estimated Savings Potentials of Target Group Savers

Lending Institution	Potential of every household saves by end of two years 1/	Potential as of Dec.31, 1979 from time of start of operations 2/	Potential as of Dec. 31, 1979 Related to RFEP Lending Program 3/	Target Group Savings as of Dec.31, 1979 4/	Percent of December 1979 Potential Achieved
1	2	3	4	5	6
1. Krishi	1,327,830	997,279	252,411	171,222	67.8
2. Sonali	118,190	54,133	31,771	57,712	181.6
3. Janata	145,125	84,701	45,620	43,296	94.9
4. Agrani	336,415	140,123	54,788	51,533	94.1
5. Pubali	311,490	142,687	46,159	37,964	82.2
6. Rupali	133,570	44,563	8,663	19,083	220.3
7. Uttara	214,495	89,443	32,897	11,169	33.9
8. IRDP	412,110 5/	154,619	58,429	30,255	51.8
9. BSBL	704,275 5/	293,203	76,907	3,630	4.7
Total	3,703,500	1,753,363	530,738	425,859	80.2

1/ Assume that every one in the target group saves the designated percentage of income.

2/ Column (1) multiplied by the number of months in operation to 24 months.

3/ Columns (2) multiplied by a factor reflecting previous percentage of pre RFEP savers and borrowers under RFEP

4/ Savings as reported by lending institution reduced to target group level based on percentage of loans to target group given by continuous survey.

5/ Based on total target group in areas of cooperative membership only is considered then the following applies :

IRDP	127,930	64,018	44,813	30,255	67.5
BSBL	165,095	68,735	21,239	3,630	17.1

Table VII-13

Estimated Pragmatic Potential Amount of Savings Using Best Performance to Date for Target Group.

	Lending Institution	Potential Every Household saving	Pragmatic potential (51.7% Household saving)
1.	Krishi	1,327,830	686,488
2.	Sonali	118,190	61,104
3.	Janata	145,125	75,030
4.	Agrani	336,415	173,926
5.	Pubali	311,490	161,040
6.	Rupali	132,570	68,539
7.	Uttara	214,495	110,894
8.	IRDP	412,110	213,061
9.	BSBL	704,275	364,110
	TOTAL	3,703,500	1,914,192

VIII. WHAT IS THE STATUS OF SAVINGS MOBILIZATION AND THE POTENTIAL AMONG THE NON-TARGET GROUP HOUSEHOLDS ?

A. Non-Target Group Savings Before RFEP

Based upon a special tabulation of the Baseline Survey it is estimated that 31.6% -of the non-target households located in the areas served by the participating lending institutions had savings accounts prior to RFEP (See Table VIII-1). Thus, out of the non-target group total of 16,209 households, 5125 had savings accounts. Janata areas had the highest percentage namely, 50%. This was followed by IRDP areas with 43.3% and BJSB with 40.7%.

B. Number of Non-Target Depositors Under the RFEP Program

The information received on the monthly accounting reports dealing with the programs of savings for non-target households clearly reveals that the lending institutions are not very concerned with the non-target group savings program. They feel that it is competitive with their present savings programs and will increase cost of their operations. Thus in the paragraph above we see that they were attracting non-target depositors even though they were paying much lower interest rates* on savings accounts than called for by the RFEP.

As a result only 22 of the outlets of the lending institutions out of 62 have non-target savings programs in connection with RFEP. If we eliminate IRDP which is offering only 4.5% and 6 .5% rates of interest on savings account, we are down to 17 outlets. The number of non-target households located in these 17 areas is estimated to be 3400 or only about 20% of the non-target group of households. This means that only one out of five of the non-target households are exposed to the RFEP non-target savings programs. In fact, as will be seen later, only 305 households have the opportunity to open a savings account with 15% rate of interest.

However, we can make a case that without deliberately meaning to, the lending institutions are tapping the savings of a significant number of non-target group households on the assumption that they are making the same mistakes with respect to classifying about 27% of the borrowers as target group borrowers when in reality, according to the Continuous Survey, they belong to the non-target group category. If we make this assumption then we have the right to add this portion of target group savers to reported non-target savers. This has been done in Table VIII-2.

Turning to Table VIII-2 it is seen that , a total of 642 non-target savers fall under the non-target programs of the lending institutions. To this may be added the misclassified savers amounting to 1950 households to bring the estimated total of non-target depositiors to 2592 or 16.0% of the total number of non-target households in the area.

However, as pointed out above, IRDP is not offering savings to non-target group savers at the higher interest rates. If we eliminate IRDP as has been done in footnote "3" the number of target group savers is reduced to 2141 and the percentage of households reached to 13.2%.

C. Amount of Savings Balances

In Table VIII-3 the amount of balances in the savings accounts are given and the average size balance is computed for each of the lending institutions. It is clear that there is a great variation in the average size of deposit. For example, Rupali with 33 savers shown an average deposit balance of 2321 taka . On the other hand, IRDP shows an average balance of only 56 taka . If IRDP is eliminated the average jumps to 708 Taka as indicated in footnote "1".

In Table VIII-4 we have attempted to determine the total amount on non-target deposits under RFEP by developing estimates of balances on deposit for misclassified non-target depositors to those of savers under the non-target RFEP -program. It is our opinion and verified by sample survey of savers carried out in Feb/Mar 1980 that the misclassified non-target depositors have on the average a higher deposit balance than true target group savers. It is about 22% higher. Therefore, in order to make an estimate of the misclassiffied non-target group average deposit, we have inflated the average savings by 22%. This gives a total savings of the non-target group at about 534,000 takas, somewhat greater than the amount saved by the target group after a downward adjustment for misclassification.

D. Impact of Interest Rates on Level of Deposit Balances

It is obvious with such a small exposure to various interest rates on the part of the non-target households, it is difficult to draw definite conclusions as to the effect of interest rates on the savings habits of the non-target group. Nevertheless, we have used the same procedure developed for measuring the impact of different levels of interest on loans to target group borrowers and target group savers to analyze the impact of interest rates on non-target group savers. In Table VIII-5 the distribution of the deposit balances at each interest rate level is compared with the distribution of non-target households exposed to each interest rate. An index has been computed in the last column by dividing the percentage of deposit balance at each interest rate by the pecentage of non-target households at the corresponding interest rate. This ratio when multiplied by 100 gives the Index. If the Index exceeds 100 then the level of the deposit balance tends to be higher than expected at that interest rate considering the number of non-target households. If it were not for the inversion of the Index at 14% interest rate one could almost conclede that higher interest rates attract more deposits. Thus the Index is below 100 at 11% and at 155 is at 15%. We might also ask whether this is such a conclusive test with respect to savers' reaction to varying interest rates for deposits. The range is very narrow, only 4 percentage points, whereas the range for interest rates for loans under the experiment is 24 percentage points.

E. Savings Potential

As in the case of target savings potential we have made two estimates:

1) a maximum one and

2) a pragmatic one. The maximum one assumes that every Non-target household will save according to the percentages of their income given in the next page.

Income	Percentage of Income saved
0 - 1000 taka	2.0
1001 - 3000 "	3.5
3001 - 6000 "	5.0
6001 - 10000 "	6.0
Over 10000 "	7.0

This yields a maximum potential of non-target savings amounting to 8070 thousands of taka as can be seen in the first column of Table VIII-6.

The pragamatic potential takes the average savings per households under the maximum potential hypothesis and assumes that only 55.4% of the households will save. This is the Sonali rate.

This yields a total of 4471 thousand taka as the pragmatic potential . If we limit the non-target group coverage in the case of IRDP and BJSB to cooperative membership, then the maximum potential is reduced to 6132 thousand taka (see footnote "1" Table VIII-6). Similarly, the pragmatic potential is reduced to 3,228 thousand taka (See footnote "2" VIII-6).

Table VIII-1

Estimated of Non-Target Group Savers Before RFEP

Lending Institution	Number of Non-Target Households	Percent of Households Saving	Number of Households Saving
1. Krishi	5884	23.5	1383
2. Sonali	1028	39.6	407
3. Janata	640	50.0	320
4. Agrani	2000	27.0	540
5. Pubali	1063	29.7	316
6. Rupali	339	22.7	77
7. Uttara	1016	29.7	302
8. I R D P	2090	43.3	905
9. BJSB	2149	40.7	875
Total	16209	31.6	5125

Table VIII-2

Percentage of Non-Target Households that were Depositors Under RFEP

Lending Institution	Number of Non-Target Depositor Reported	Number of Non-Target Depositors Misclassi-fied	Total Number of Non-Target Depositors	Total Number of Non-Target Household	Percent of Non-Target Depositors
1. Krishi	29	534	563	5884	9.6
2. Sonali	255	315	570	1028	55.4
3. Janata	17	60	77	640	12.0
4. Agrani 1/	8 1/	275	283	2000	14.1
5. Pubali	0	321	321	1063	30.2
6. Rupali	33	38	71	339	20.9
7. Uttara 3/	6 2/	125	131	1016	12.9
8. I R D P	294 2/	151	445	2090	21.3
9. B J S B	0	131	131	2149	6.1
Total 3/	642	1950	2592	16,209	16.0

1/ October

2/ November

3/ If IRDP is eleminated because the high interest rates are not being offered the total becomes

Total	348	1799	2147	16209	13.2

Table VIII-3

Average Size of Savings Under the Non-Target Savings Programs of RFEP

		Amount of Savings Balance	Number of Depositor	Average size Deposit
1.	Krishi	35427	29	1221
2.	Sonali	128,401	255	503
3.	Janata	20,750	17	221
4.	Agrani	17,325	8	2166
5.	Pubali	o	0	0
6.	Rupali	76600	33	2321
7.	Uttara	1515	6	252
8.	IRDP	16465	294	56
9.	BJSB	0	0	0
Total		262,879	642	409[1/]

1/ If IRDF is eliminated the average goes upto 708 Take .

Table VIII-4

Estimated Saving Under Program Plus Savings
Due to Misclassification

Lending Institution	Total Under Program	Number of Non-Target Misclassified	Average Savings	Average Adjusted 1.22	Total Saving Misclassified	Grand Total
1. Krishi	35,427	534	161	196	104,644	140,071
2. Sonali	128,401	315	128	156	49,140	177,541
3. Janata	20,750	60	231	283	16,980	37,730
4. Agrani	17,325	275	54	66	18,150	35,475
5. Pubali	0	320	67	82	26,322	26,322
6. Rupali	76,600	38	90	110	4,180	80,780
7. Uttara	1,515	125	33	40	5,000	6,515
8. IRDP	16,465	151	61	74	11,174	27,639
9. BJSB	0	131	11	13	1,703	1,703
TOTALS:	296,483	1,950	-	-	237,293	533,776

Table VIII - 5

The Effect of Interest Rates on Savings By Non-Target Households

Interest rates paid	Balance on Deposit Taka (31/12/79)	Percent Distribution	Non-Target Households	Percent Distribution	Index:Ratio % Deposit to % Households-1/
11%	66,187	24.5	947	27.8	88
12%	79,534	29.5	836	24.6	120
13%	55,771	20.7	642	18.9	110
14%	30,055	11.2	671	19.7	57
15%	37,701	14.0	305	9.0	155
Total	269,248	100.0	3401	100.0	-

1/ Times 100

Table VIII-6

Estimated Maximum and Potential Savings From

Non-Target Group Household

		Maximum Potential All Non-Target Households Save (000 Taka)	Number Non-Target Households	Average Saving per Household	Pragmatic Potential (Sonali 55.4% Household Reached)
1.	Krishi	2704	5884	460	1498
2.	Sonali	534	1028	519	296
3.	Janata	334	610	522	185
4.	Agrani	884	2000	442	490
5.	Pubali	547	1063	515	303
6.	Rupali	153	339	451	85
7.	Uttara	597	1016	588	331
8.	IRDP	1304 1/	2090	624	722 2/
9.	BSBL	1013	2149	471	561 2/
Total		8070	16209	498	4471

1/ If based on IRDP and BSBL membership & (IRDP-173, BSBL-206)the maximum savings is reduced to 173,000 for IRDP and 206,000 for BSBL. The maximum potential then becomes 6132 Thousand.

2/ If we use IRDP Non-Target membership (277) and Average loan to Non-Target group which amounted to only 56 Taka we only get only 16,000 takas instead of 722,000 Taka similarly for BSBL we obtain non-target membership of 436 using. IRDP Savings of 56 Taka we get only 24,000 Taka instead of 561,000.

This reduces total non-target pragmatic potential 3,228,000 Taka

PART - D

FINANCIAL VIABILITY

IX. WHAT ARE THE REVENUES AND WHAT ARE THEY LIKELY TO BE ?

A. Cumulative Income to December 31,1979:

Table IX-1 records cumulative income of the Project to December 31, 1979. Except for a small amount of income received from application fees (at Krishi) and miscellaneous income (at Sonali and BSBL), all income of the Project came from interest earned on loans made to borrowers. Column 2 of Table IX-1 records interest realized (paid) and other income of Taka 4,97,665 as of December 31,1979. Column 3 records interest accrued but not realized of Taka 5,35,997 as of the same date. Column 4 records total income of Taka 10,33,662 to December 31,1979.

B. Projection of Income :

Most lending institutions have been increasing the net amount of outstanding loans month by month, which results in increased interest earned on outstanding loans month by month.

For 1980, income is projected on the basis that the rate of growth in interest earned during the four-month period from August to December, 1979, will continue throughout 1980 as the lending institutions swing into fuller operations. This results in projected estimated income of Taka 30,77,666 during 1980 as shown in Column 2 of Table XII-8, which is discussed in Section E-4 of Chapter XII.

In addition to the above income from operations, and to offset losses in a few cases, all lending institutions will continue to share in the US $ 4,000,000 (Taka 6,00,00,000) Project Fund of reimbursement for 1/3 of loans made to and 1/3 of loans repaid by the target group.

Table IX-1

Income as on December 31, 1979-Cumulative

Lending Institution	INCOME		
	Cash Operating Income to 12/31/79 (a)	Net Interest accrued on 12/31/79	Total Income to 12/31/79 Cumulative
1	2	3	4(2+3)
Krishi	3,70,406	2,50,870	6,21,276
Sonali	13,582	95,838	1,09,420
Janata	11,726(b)	27,643	39,369
Agrani	38,690	11,473	50,163
Pubali	26,368	50,018	76,386
Rupali	13,572	10,767	24,339
Uttara	8,860(b)	43,678	52,538
IRDP	13,949	19,117	33,066
BSBL	512(b)	26,593	27,105
Total :	4,97,665	5,35,997	10,33,662

(a) Includes application fees and miscellaneous income, in addition to interest paid.

(b) Includes estimates for November and December, 1979.

X. WHAT ARE THE COSTS AND WHAT ARE THEY LIKELY TO BE ?

A. Cumulative Operating Costs to December 31, 1979 :

Table X-1 records cumulative costs of the Project to December 31,1979, including provision for bad debts.

1. Operating Costs[1/]

   a. Head Office operating costs or overhead of Taka 2,07,330 is recorded in Column 2 of Table X-1.

   b. Branch Office operating costs of Taka 7,17,351 is recorded in Column 3.

   c. Total operating costs of Taka 9,24,681 is recorded in Column 4.

2. Cost of Capital :

   a. Interest of Taka 41,061 paid to target and non-target group savers is recorded in Column 5 of Table X-1.

   b.- Interest of Taka 3,63,868 paid/payable to Head Office or Branch Office for funds used in this Project is recorded in Column 6.

   c. Total cost of capital of Taka 4,04,929 is recorded in Column 7.

3. Bad Debts:

   Though lending institutions have not provided reserves for bad debts in their monthly Reports of Project Performance, provision should be made for the eventual write-off of uncollectible accounts. Column 8 of Table X-1 provides for a bad debt reserve of Taka 2,74,150, which is 3% of the outstanding balance of principal as of December 31, 1979.

4. Total Expense of Taka 16,03,760 to December 31, 1979, including provision for bad debts of Taka 2,74,150, is recorded in Column 9 of Table X-1.

1/ Operating costs are mainly salaries, fringe benefits and travel costs of employees who are assigned to the Project. For employees who devote less than full-time to the project, proportional charges are made to Project accounts. However, it is believed, based upon field observation, that a large proportion of time of personnel supposedly assigned to RFEP is spent on non-RFEP assignments. A more thorough check of payroll records and actual time spent will be made in the future so excess capacity can be more accurately measured.

B. Initial Costs

Initial or one-time or start-up costs of establishing the Project are associated primarily with the costs of conducting the initial training programs and with the costs of conducting the initial surveys by the lending institutions. These costs occurred both at Head Offices and at Branch Offices. These cumulative costs to December 31, 1979 are recorded in Column 3 of Table X-2 as Taka 1,29,055. Column 4 divides these costs by the 62 operating branches, thus giving an average initial cost of Taka 2,082 per branch. Initial cost of establishing the Project varies from a high of Taka 6,930 per branch for Sonali to a low of Taka 470 per branch for BSBL. Column 5 divides the cost per branch by 36 to give an amortized cost of an average of Taka 58 per branch per month, on the assumption that the total lending period of the extended experimental Project will approximate 36 months for most lending institutions.

C. Projection of Costs

1. Operating Costs

It is assumed that operating costs for Head Offices and branch offices will not have to increase with greater loan activity in 1980. It will be seen in Section E of Chapter XII that present productivity is below capacity. However, operating expenses are projected to increase in 1980 at the rate of 20% over such expenses during December 1979. This increase should provide for increased salaries and allowances and inflation. Column 3 of Table XII-8 records this projection of operating costs as Taka 13,11,091 during 1980.

2. Cost of Capital

In Column 4 of Table XII-8, costs associated with the payment of interest on either savings and/or funds from Head Offices or Branch Offices are projected to increase at the same rate as income and to come to Taka 7,29,941 in 1980.

3. Bad Debt Expenses.

In Column 7 of Table XII-8, provision is made for a reserve of Taka 4,58,724 for bad debts based on 3% of the outstanding principal of loans as of December 31, 1979, plus an increase at the same rate as income.

4. Initial Costs.

It is assumed that no new Branch Offices will be opened under this experimental Project and therefore no initial costs are projected after December 31, 1979.

5. Total Costs of the Project during 1980 are projected as the addition of Columns 5 and 7 of Table XII-8, which total Taka 24,99,756, including reserve for bad debts.

Table X - 1

Expense as on December 31, 1979-Cumulative

Lending Institution	EXPENDITURE: Operating costs: Head Office	Branch Office	Total Operating Costs	Cost of Capital: Interest Paid/ Payable for Savings	Interest Paid/ Payable to Head Office/Branch Offices	Total Cost of Capital	Bad Debts Reserve of 3% of the outstanding balance of Principal as on 12/31/79	Total Expenditure to 12/31/79-Cumulative
1	2	3	4	5	6	7	8	9(4+7+8)
Krishi	51,904	3,21,379	3,73,283	20,048	1,93,644	2,13,692	1,30,451	7,17,426
Sonali	38,737	49,235	87,972	7,928	28,126	36,054	33,446	1,57,472
Janata	26,501(a)	65,750(a)	92,251	339(a)	26,744(a)	27,083(a)	16,631	1,35,965
Agrani	28,484(a)	42,311(a)	70,795	1,793(a)	22,914(b)	24,707(b)	31,557	1,27,059
Pubali	5,687	98,118	1,03,805	2,043	36,959	39,002	22,976	1,65,783
Rupali	15,876	16,230	32,106	3,547	8,100	11,647	6,289	50,042
Uttara	16,700	77,526(a)	94,226	1,412	23,997	25,409	9,631	1,29,266
IRDP	5,970	29,060	35,030	3,751(a)	12,944	16,695(b)	10,732	62,457
BSBL	17,471(a)	17,742(a)	35,213	200(b)	10,440	10,640(c)	12,437	58,290
Total :	2,07,330(a)	7,17,351	9,24,681	41,061	3,63,868	4,04,929	2,74,150	16,03,760

(a) Includes Estimates for November and December, 1979.

(b) Estimates

Table X-2

Initial Expense-One-time Expense of Establishing the Project as on December 31, 1979.

Lending Institution	Number of Branches	Total Initial Expenses including Head Office expense	Initial Expense per Branch	Initial Expense per Branch per Month amortized over 36 months
1	2	3	4(3÷2)	5 (4÷36)
Krishi	[illegible]	10,060	838	23
Sonali	5	34,650	6,930	193
Janata	5	29,059(a)	5,812	161
Agrani	10	13,060	1,306	36
Pubali	4	12,807	3,202	89
Rupali	3	10,317	3,439	96
Uttara	4	8,801(b)	2,200	61
IRDP	8(c)	5,136(b)	642	18
BSBL	11(d)	5,165(a)	470	13
Totals :	62	1,29,055	2,082	58

(a) To October 31, 1979.
(b) To November 30, 1979.
(c) At IRDP, 8 branches include 24 segments
(d) At BSBL, Patukhali Branch has been dropped from the Project.

XI. WHAT IS THE EXTENT OF OVERDUE PAYMENTS AND WHAT SHOULD BE THE RESERVE FOR BAD DEBTS?

A. The Extent of Overdue Payments:

1. Loans due and collected: Table XI-1 shows all loans due and collections made by the lending institutions to December 31, 1979. The table shows that the percent of overdue loans at December 31, 1979, varied from a high of 53,49% at Uttara to a low of Nil at IRDP, which reported that all loans due had been fully collected. The second highest percentage of overdue loans was at Sonali with 33.26%. Both Sonali and Uttara had higher overdues than Krishi (30.81%), though Krishi had 15 months of lending experience versus 10 months for Sonali and Uttara.

   Table XI-1 also shows that of the Taka 31,80,063 of principal that was collected upto December 31,1979, Taka 27,05,637 or 85.08% was repaid within the due date, with interest, and thus lending institutions were eligible to receive a grant of 1/3 of that sum[1) from USAID via the Bangladesh Bank. The amount that was repaid within the due date is 61.72% of the Taka 43,83,657 that became due or was paid in advance by December 31,1979.

2. Aging of Overdue Loans: Table XI-2 shows the length of time that loans were overdue as of December 31, 1979, in terms of percentages for each period of time. Again it is noted that both Sonali and Uttara had a higher proportion than Krishi of overdues that were six but less than 12 months overdue; Sonali had 11.33%, Uttara 7.47%, and Krishi 0.27% overdue 6 to 12 months. This, despite the fact that Krishi was in operation 5 months before Sonali or Uttara. One would have, a priori, expected Krishi to have a higher percentage of long-term overdues.

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1) Less deductions for loans to non-target group borrowers.

B. Collection of Loans:

1. Collection by Krishi:

a. Because the only comparisons of developments with respect to collections and overdues with June 30, 1979, can be made in the case of Krishi, a special section on Krishi collections is being provided.

Table XI-3 shows that Krishi had been partially successful in reducing the proportion of loans that were overdue. On December 31, 1979, Krishi's overdue loans represented 30.81% of loans that became due. The comparable overdue loans at June 30, 1979 represented 38.19% of loans that were due.

b. It is also noted from table XI-3 that Krishi had appreciably reduced the percentage of overdue accounts at Madaripur (from 77.80% to 2.51%), Gaibandha (from 73.95% to Nil), Tangail (from 65.59% to 36.07%), and Maijdee Court (from 33.87% to 15.17%). Considering that Krishi commenced lending in October 1978, the success of these four branches in loan collection gives encouragement that all branches can keep overdues to a minimum.

c. However, it is also noted that four Branch Offices (Rangpur, Rajshahi, Khulna and Sylhet) had overdues at December 31, 1979, exceeding 50%. These represent a very serious collection problem. The reasons for the failure of these branches to collect loans on time are not known but should be looked into by the head office.

2. Collections by Sonali and Uttara

Sonali and Uttara commenced lending in March, 1979-some five months after Krishi commenced lending. It would therefore be expected that Sonali and Uttara would have proportionally fewer overdue loans than Krishi.

a. Table XI-1, however, shows that Sonali had Taka 1,50,587 in overdue loans as of December 31, 1979, representing 33.26% of amounts that fell due. This compares with 30.81% of overdues for Krishi. Sonali has one branch-Kuliarchar - which had Taka 17,059 in loans that had been overdue for at least six months. In fact, the total overdues of that Branch -- Taka 51,929--are 46.58% of the amount that became due at that branch by December 31. It is also noted that Gouripur Branch of Sonali had Taka 63,296 in overdue loans, representing 45.60% of amounts that became due by December 31.

b. Table [illegible]-1 shows that Uttara had Taka 1,11,369 in overdue loans as of December 31, 1979, representing 53.49% of amounts that became due. Again, this compares with 30.81% of overdue loans for Krishi. Uttara had one branch--Feni--which had Taka 59,280 in overdue loans, representing 58.02% of the amount that became due at that branch by December 31.

C. Relationship of Interest Rates to Overdue Loans :

Table [illegible]-4 shows that overdue loans increase with an increase in the interest rate charged for those loans, except for loans made at 36%, which show fewer overdue loans than those made at 30%. The percent of overdue loans on December 31, 1979, was 1.37% in branches charging 12%, 26.67% in branches charging 18%, 32.28% in branches charging 24%, 56.73% at branches charging 30%, and 33.99% at branches charging 36%.

A special study will be made of overdue accounts to determine causes and possible actions to be taken to reduce the level of overdue accounts to a minimum. One factor which will be considered in the study will be the relation of different interest rates and overdue loans.

D. Relationship of Volume of Loans to Overdue Loans :

As of December 31, 1979, no apparent relationship has been noted between the amount of principal outstanding and the percent of loans that are overdue.

E. Prevention and Reduction of Overdue Loans:

1. Proper Lending Procedures: Loans that are properly made will be easier to collect.

   a. Loans should be made in the amount needed to accomplish the purpose of the loan. The outlet that lends only Taka 500 for the purchase of a rickshaw can not expect prompt repayment-- Taka 500 is far too little to purchase a rickshaw and the loan will be directed to another purpose.

   b. Loans should be made when needed. A crop loan that is disbursed after the proper time to plant that crop will be directed to another purpose.

   c. Loan repayment terms should be entered in the borrower's passbook as soon as he receives his loan.

2. Schedule of Loan Repayments :

   Repayment of loans on time would be facilitated if lending institutions were to follow these recommendations in connection with loan repayment schedules :

   a. Loan repayment schedules should be realistic and appropriate to the purpose and amount of each loan. Some outlets establish unrealistically short repayment periods. Six or even 12 months is too short a time to repay a loan for purchase of a milk cow or a bullock. Some outlets require repayment in full regardless of purpose of the loan, by August 30, 1980- which is the end of the original experimental project. Other outlets require repayment in lump sum when repayment by installments - at least once a month - would encourage prompt repayment, as for loans for handicrafts, milk cows, rickshaws, and other purposes that generate income on a continual basis.

   b. The exact terms for the repayment of each loan should be recorded in the Project-supplied loan ledger. Some outlets fail to record this information in the loan ledger.

c. The exact terms of the repayment of a loan should be recorded in the Project-supplied passbook so that the borrower will know when and how much to pay. Some outlets fail to provide a passbook to each borrower. Other fail to record loan repayment terms in the passbook.

However, for crop loans, outlets may prefer to show the repayment date in the borrower's passbook as the normal date of harvest, but the loan ledger may show that date plus an approved marketing period.

3. <u>Pursuit of Vigorous Collection Methods</u>

Outlets should exert continual pressure on borrowers to repay promptly and outlets should make it easy for borrowers to repay.

a. Each outlet should have a full-time employee assigned to this Project. IRDP and BSBL operate this project with part-time employees.

b. Employees assigned to this Project should be engaged only in the work of this Project. Some Branch Offices direct Project employees to other work of the branch, especially at statement closing time.

c. Where a Project outlet is a long distance from the Branch Office, a Project employee should go frequently to the outlet to collect loan repayments (and savings deposits). In some outlets, this collection service is not performed regularly due to lack of transport.

d. Branch Managers and Project employees should be rewarded for good performance in loan collection. One type of reward might be a share in loans collected. The lending institution should find it profitable to share some of the 1/3 grant for timely collection with the employees directly responsible for this collection. IRDP and BSBL pay commissions to managers of cooperative societies that fully repay their loans.

e. Prenumbered receipts should be given to borrowers immediately upon their making payments. In a few outlets, receipts given are not prenumbered, which encourages embezzlement by Project employees and results in apparently overdue accounts.

f. Project - supplied passbooks should be immediately posted when loans are given and when payments are made. In many outlets, passbooks are not posted to date, which encourages embezzlement by Project employees and results in apparently overdue accounts.

g. Sincerety, diligence and hard work by the Branch Manager and his staff are probably the least measurable but the most important factors in prompt collection of loans.

4. Rewards to Borrowers for Prompt Repayment

Borrowers should be rewarded for prompt repayment of loans.

a. Rupali, Uttara and BSBL, according to their approved models, should be offering rebates to borrowers for timely repayment of loans.

b. Borrowers should be given second loans, if requested, promptly if first loans are repaid on time.

5. Provision for Insurance

Insurance should be provided to ensure loan repayment when calamity prevents repayment, as with crop failure, death of the borrower, death of the animal purchased with the loan, etc. The insurance premium should be included in loan charges. For further details, see pages B-1 through B-4 of the January 1979 Evaluation of the Rural Finance Experimental Project by Peattie, Rodwin and Strout of the Massachusetts Institute of Technology.

6. Potential for Success in Loan Collection

For the next Evaluation Report, the Consultant will prepare a study of the various positive and negative factors that are responsible for overdue accounts or for their prevention. At this time the Consultant can only offer a hopeful suggestion that loans, generally, can be repaid on time. This statement is primarily based upon two facts :

a. After 15 months of operation, five branches of Krishi had less than Taka 10,000 each in overdue loans at December 31, 1979 ; of these five branches, two had no overdue loans.

b. 58 branch offices had loans falling due by December 31,1979. Of these, 32 branch offices had fully collected all loans that were due. Except for Uttara, all lending institutions had at least one branch office that had fully collected all loans due by December 31, 1979.

F. Reserve for Bad Debts

1. Need for a Reserve for Bad Debts

In the absence of a program of insurance against the risk of default of loan repayment, provision should be made for the eventual write-off of loans that prove to be uncollectible, in full or in part. In order to obtain realistic expense figures for this experimental Project, provision must be made from current income for the eventual expense of bad debts.

2. Amount of a Reserve for Bad Debts

a. The amount of a reserve for bad debts should approximate the amount of loans that eventually will become uncollectible. In the absence of a significant amount of experience, at this time it is very difficult to predict the amount that should be reserved for bad debts for this Project. However, an attempt has been made to develop reserves for bad debts, using the following different bases :

1. Increasing percentage of the amount of overdue loans in accordance with their age.
2. Fixed percentage of net outstanding principal of loans.
3. Amount available to break-even.

b. Table XI-5 shows the amount of reserve for bad debts that would be created by basing the amount of the reserve on the age and amount of overdue loans, increasing the percentage reserved with increase in age of the overdue loans. The rationale is that the longer a loan has been overdue, the less likely is it that the loan will be repaid.

c. Table XI-6 shows, by lending institution, the amount of reserve for bad debts that would be created by reserving 2%, 3%, 5% and 10% of outstanding principal. This table also shows the total amount of overdue loans, the amount of reserve for bad debts based on the age of overdue accounts, and the amount that could be reserved on a break-even basis.

d. Table XI-6 shows that Krishi's reserve of Taka 1,19,716 based upon the age of its overdue accounts approximates a reserve of Taka 1,30,451 based on 3% of outstanding principal. Since Krishi had 15 months of lending experience, compared with 8 or 10 months for other lending institutions, it may be logical at this time to establish a reserve of 3% of outstanding loans for all lending institutions.

When more experience is obtained, it may be more accurate to establish bad debt reserves based upon the age of the overdue accounts.

Table XI - 1

Statement of Loans Due and Collected during the Period from Commecement to December 31, 1979 - Principal only.

Lending Institution	P R I N C I P A L					
	Amount Due or Paid in Advance During this Period	AMOUNT REPAID DURING PERIOD			Amount Over due at end of Period	Percent Overdue
		Within due date	After due date	Total Paid During Period		
1	2	3	4	5 (3 + 4)	6 (2 - 5)	7 (6 ÷ 2x100)
1. Krishi	26,26,779	14,39,062	3,78,505	18,17,567	8,09,212	30.81%
2. Sonali	4,52,697	2,40,311	61,799	3,02,110	1,50,587	33.26%
3. Janata	2,07,491	1,57,548	-	1,57,548	49,943	24.07%
4. Agrani	2,20,069	2,16,569	-	2,16,569	3,500	1.59%
5. Pubali	3,56,464	3,11,780	14,009	3,25,789	30,675	8.61%
6. Rupali	1,20,188	78,074	6,006	84,080	36,108	30.04%
7. Uttara	2,08,198	83,482	13,347	96,829	1,11,369	53.49%
8. IRDP	1,36,298	1,36,298	-	1,36,298	-	Nil
9. BSBL	55,473	42,513	760	43,273	12,200	22.00%
TOTAL	43,83,657	27,05,637	4,74,426	31,80,063	12,03,594	27.46%

Table XI - 2

Statement of Aging Of Overdue Loans as On December 31, 1979

Name of Lending Institution	Less than 1 month	Over 1 & less than 2 months	Over 2 & less than 3 months	Over 3 & Less than 6 months	Over 6 & less than 12 months	Total Overdue accounts
1	2	3	4	5	6	7
1. Krishi	13.21%	29,67%	5.41%	51.44%	0.27%	100%
2. Sonali	48.19%	26.16%	9.99%	4.33%	11.33%	100%
3. Janata	4.79%	93.11%	1.30%	0.80%	Nil	100%
4. Agrani	100%	Nil	Nil	Nil	Nil	100%
5. Pubali	43.30%	9.90%	0.62%	46.18%	Nil	100%
6. Rupali	100%	Nil	Nil	Nil	Nil	100%
7. Uttara	13.43%	48.35%	17.27%	12.98%	7.47%	100%
8. IRDP	Nil	Nil	Nil	Nil	Nil	Nil
9. BSBL	100%	Nil	Nil	Nil	Nil	100%
TOTAL	21.76%	31.86%	6.56%	37.54%	2.28%	100%

Table XI - 3

Change in Proportion of Overdue Loans from June 30, 1979 to December 31, 1979 by Branch - Krishi Bank Only (a)

Name of Branch	As on June 30, 1979		As of December 31, 1979		Change in percent Overdue
	Amount Overdue	Percent Overdue (b)	Amount Overdue	Percent Overdue (b)	
1	2	3	4	5	6
1. Kushtia	94,718	27.86%	95,353	23.04%	- 4.82%
2. Rajshahi	1,11,440	78.62%	2,22,076	66.04%	-12.58%
3. Rangpur	-	-	2,38,063	76.80%	(c)
4. Manikganj	-	-	8,900	3.48%	(c)
5. Tangail	35,743	65.59%	75,773	36.07%	-29.52%
6. Madaripur	41,000	77.80%	5,000	2.51%	-75.29%
7. Sylhet	-	-	1,01,302	54.38%	(c)
8. Faridpur	-	-	-	-	(c)
9. Maijdee Court	23,463	33.87%	25,248	15.17%	-18.70%
10. Pabna	-	-	3,494	2.13%	(c)
11. Gaibandha	15,049	73.95%	-	-	-73.95%
12. Khulna	4,150	34.57%	34,003	58.48%	+23.91%
Total	3,16,563	38.19%	8,09,212	30.81%	-7.38"

a. As on June 30, 1979, only Krishi had a significant amount of overdue loans.

b. Percent of amount of principal falling due or paid in advance

c. No overdue loans at June 30, 1979

Table XI - 4

Relationship of Interest Rates to Amount of Overdue Loans as on December 31, 1979

Rate of Interest Charged by the Outlet	Amount of Principal Falling Due or Paid in Advance to 12/31/79	Amount Over-Due at 13/31/79	Percent Overdue at 12/31/79 /
1	2	3	4 (3-2)
12%	9,53,649	13,061	1.37%
18%	12,32,059	3,28,578	26.67%
24%	9,04,431	2,91,932	32.28%
30%	8,06,409	4,57,449	56.73%
36%	2,95,338	1,00,374	33.99%
TOTAL	41,91,886	11,91,394	28.42

Data is excluded for IRDP and BSBL, since their outlets lend at more than one rate of interest

Table XI - 5

Provision for Reserve for Bad Debts based

on the Age of Overdue Loans as on December 31,1979

Lending Institution	Less than 1 month Reserve at 5%	1 to 2 months Reserve at 10%	2 to 3 months Reserve at 15%	3 to 6 months Reserve at 20%	6 to 12 months Reserve at 25%	Over 12 months Reserve at 50%	Total Reserve for Bad Debts
1	2	3	4	5	6	7	8
Krishi	5,345	24,011	6,567	83,258	535	-	1,19,716
Sonali	3,628	3,940	2,256	1,304	4,265	-	15,393
Janata	120	4,650	98	80	Nil	-	4,948
Agrani	175	Nil	Nil	Nil	Nil	-	175
Pubali	664	304	29	2,833	Nil	-	3,830
Rupali	1,805	Nil	Nil	Nil	Nil	-	1,805
Uttara	748	5,440	2,885	2,892	2,080	-	14,045
IRDP	Nil	Nil	Nil	Nil	Nil	-	Nil
BSBL	610	Nil	Nil	Nil	Nil	-	610
TOTALS :	13,095	38,345	11,835	90,367	6,880	-	1,60,522

Table XI - 6

Comparison of Reserve for Bad Debts Based on Outstanding Principal and on Age of Overdue Loans and on Break-Even Basis, as on December 31,1979

Lending Institution	Total Amount of Overdue Loans	Reserve for Bad Debts Based on Outstanding Principal at				Reserve for Bad Debts Based on Age of Overdue Loans	Break-Even Basis
		2%	3%	5%	10%		
1	2	3	4	5	6	7(a)	8(b)
Krishi	8,09,212	86,967	1,30,451	2,17,419	4,34,837	1,19,716	34,301
Sonali	1,50,587	22,297	33,446	55,743	1,11,486	15,393	Nil
Janata	49,943	11,087	16,631	27,718	55,436	4,948	Nil
Agrani	3,500	21,038	31,557	52,596	1,05,191	175	Nil
Pubali	30,675	15,318	22,976	38,294	76,588	3,830	Nil
Rupali	36,108	4,193	6,289	10,481	20,963	1,805	Nil
Uttara	1,11,369	6,021	9,631	16,052	32,104	14,045	Nil
IRDP	Nil	7,155	10,732	17,887	35,773	Nil	Nil
BSBL	12,200	8,291	12,437	20,728	41,455	610	Nil
TOTALS:	12,03,594	1,82,367	2,74,150	4,56,918	9,13,833	1,60,522	34,301

(a) From column No. 8 of Table XI-5

(b) Net income including net accrued interest, available to break-even. Only Krishi had net income, excluding reserve for bad debts, at 12.31.79.

XII. WHAT ARE THE CONDITIONS REQUIRED TO REACH BREAK-EVEN OR PROFITABLE OPERATIONS ?

A. Viability of the Project

1. Table XII-1[1)] records the viability of the Project, by lending institution, as of December 31, 1979, with the following notes:

   a. No provision is made for bad debts.

   b. Accrued interest earned is included in income.

   c. The percent of viability is calculated by dividing cumulative net operating income (or loss) by the amount of principal of outstanding loans as of December 31, 1979.

   d. All institutions included estimates of Head Office and Branch Office expense.

2. Table XII-1 shows great variation in the viability of the Project as of December 31, 1979 for each lending institution -- from a profit of Taka 34,301 or 0.79% for Krishi, to a loss of Taka 67,097 or 20.90% for Uttara. Identifiable causes of this variation include:

   a. Uttara's high percentage of loss is due to a combination of low volume of loans and relatively high costs of branch office staff.

   b. Janata's very high loss of Taka 79,965 or 14.42% and Agrani's relatively low loss of Taka 45,339 or 4.31% are explained by their differing personnel policies: Agrani was very late in appointing full-time loan officers. Janata was prompt in appointing full-time loan officers and pays relatively well -- Taka 1,200 per month.

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1) In comparing Table XII-1 of this Evaluation Report with Table 28 of the first Evaluation Report, note that the previous table: a) Also did not provide for bad debts; b) Omitted accrued interest earned but not paid, c) Used as the base for the percent of viability the cumulative amount of loans made ; and d) Omitted Head Office expense from several lending institutions and Branch Office expense from one lending institution.

c. The low losses at IRDP of 5.22% and at BSBL of 4.52% reflect very low salaries paid to part-time staff, both at Head Office and in the Branch Offices.

3. Tables XII-2 and XII-3 record the most viable branch outlets and the least viable branch outlets, respectively.

   a. In Table XII-2 it will be noted that the most viable outlets lend at at least 24% and, generally, have relatively large loan volume.

   b. Table XII-3 it will be noted that the least viable outlets tend to have relatively low loan volume.

B. Relationship of Interest Rates to Viability

1. Table XII-4 shows, by rate of interest charged on loans, the viability of the seven lending institutions which charge only one rate of interest at each branch. This table does not make provision for reserves for bad debts. IRDP and BSBL are excluded from this comparison since their individual outlets lend at more than one rate of interest.

   Table XII- 4 shows that branch offices that charge higher rates of interest are more viable. The table shows that the percent of viability for branches lending at 12% was a loss of 3.84% as of December 31, 1979, at 18% there was a loss of 3.23%, at 24% there was a profit of 2.53%, at 30% there was a profit of 3.47%, and at 36% there was a profit of 0.11%. These figures do not provide for bad debts.

   The above relationship of greater viability associated with higher rates of interest is found among the branch outlets of most of the lending institutions. For example, at Krishi, viability of the branches lending at 12%, 18%, 24%, and 30% is a loss of 2.82%, a loss of 1.13%, a profit of 7.78%, and a profit of 5.43%, respectively. Similarly at Sonali, viability at the same interest rates is a loss of 3.36%, a loss of 0.71%, a profit of 4.36%, and a profit of 8.67%, respectively. Neither Krishi nor Sonali lends at 36%.

2. Tables XII-5 and XII-6 present two sets of data on viability by rate of interest charged on loans, using different bases for calculating reserves for bad debts [1].

Table XII-5 provides for a reserve for bad debts based on 3% of the outstanding principal of all loans as on December 31, 1979. Section F 2 d of Chapter XI suggests that 3% may be a logical figure to use to obtain a global figure of reserves for bad debts.

Table XII-6 provides for a reserve for bad debts based on graduated percentages that roughly correspond to the increasing risk of bad debts associated with increase in rate of interest charged. In this table, a reserve of 1% of outstanding principal has been reserved for branches lending at 12%, 2% has been reserved for branches lending at 18%, 3% has been reserved for branches lending at 24%, 4% has been reserved for branches lending at 30%, and 5% has been reserved for branches lending at 36%. Section C of Chapter XI discusses Table XI-4 which shows an apparent increase in overdue loans associated with increase in interest rate charged.

Tables XII-5 and XII-6 also indicate that viability tends to increase as rate of interest increases, except at the 36% rate of interest.

C. Relationship of Volume of Loans to Viability

1. Table XII-7 shows a definite relationship between the amount of principal outstanding at a branch and the rate of viability of the branch - the greater the volume of loans, the greater the profitability.

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1) Table XII-2 presented the same data as Tables XII-3 and XII-4, except that Table XII-2 made no provision for reserves for bad debts.

In Table XII-7 we note that branches having less than Taka 60,000 per branch in outstanding principal at December 31, 1979, had a loss of 9.10%, those having Taka 60,000 to 1,20,000 had a loss of 6.83%, those having Taka 1,20,000 to 2,00,000 had a loss of 5.90%, those having Taka 2,00,000 to 3,10,000 had a profit of 0.78% and those having over 3,10,000 had a profit of 2.96%.

The above groupings of branch offices according to volume of outstanding loans tend to obscure some individual profits and losses that are contrary to the average of their group. For example, the two largest branches - Krishi's branches at Kushtia (Taka 6,44,335) and Manikganj (Taka 5,13,409) made losses of 0.72% and 4.04% respectively: these may be explained by the low rates of interest charged - 19% at Kushtia and 12% at Manikganj. Conversely, with small volume, Agrani's branch at Santiniketan made a profit of 6.32% and Rupali's branch at Kalihati made a profit of 4.86%; again, the explanation is interest rates-30% at Santiniketan and 36% at Kalihati. So it would appear that volume and interest rate are co-determinants in creating viability.

D. Relationship of Bad Debts to Viability

1. Table XII-1 shows, as of December 31,1979, without provision for bad debts, that only Krishi had net income. Krishi's net income of Taka 34,301, if entirely allocated to reserve for bad debts, would provide a reserve of only 0.79% of outstanding principal of loans (34,301 divided by 43,48,373 times 100).

2. Table XII-1 also shows that all other lending institutions had net losses as of December 31, 1979, even with no provision for bad debts. These net losses ranged from Taka 14,606 for Sonali to Taka 79,965 for Janata.

3. However, Table XII-8 which projects income and expenditure for the year January 1 - December 31, 1980, shows that Agrani, Sonali and IRDP, in addition to Krishi, could provide reserves for bad debts and still make a profit in 1980.

See Section E-4 of this Chapter for more details on this projection.

E. Improvement in Viability of the Project

1. Increase Volume of Lending. Most outlets have not approached their potential in lending to the target group. Management studies reveal that most loan officers have developed far fewer loan customers than they are capable of servicing. For example, a recent field trip by USAID revealed that the Baidyer Bazar Branch of Janata Bank issued, on the average, only 6.5 new loans each month.

As of December 31, 1979, a total of 8,369[1)] borrowers had received loans under this Project. Dividing 8,369 by the 62 branches gives 135[1)] borrowers handled per average branch office since the inception of the Project. Included in this average is a high of 229 borrowers per branch at Krishi and a low of 51 borrowers per branch at BSBL.

For a full discussion of the topic of Loan Officer productivity, See Chapter XIV.

Approximately two-thirds of operational costs are relatively fixed-for staff salaries and travel- only one-third of operational costs are for the use of capital--for interest payments to savers and to the lending institution itself for use of capital. Thus, in most outlets, a 100% increase in loan volume would result in only a 33% increase in operational costs.

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1) The above figures show the number of borrowers handled by the Project since its inception. To find the number of loans in the average branch portifolio as of December 31, 1979, it would be necessary to deduct the number of borrowers who had fully repaid their loans and who had not received later loans. However, not many borrowers fall in this category since most lending institutions grant a second loan soon after the first loan is repaid. Thus the number of borrowers in the average loan portfolio at December 31, 1979 probably was slightly less than 135.

2. Reduced Overdue Loans

A certain proportion of overdue loans will become bad debts and thus an expense to the Project. Overdue loans are also an unnecessary burden on the time of loan officers who could be more productively engaged in making new loans. It is therefore necessary for the viability of the Project for overdue loans to be kept to an irreducible minimum. See Section E of Chapter XI for recommendations on prevention and reduction of overdue loans.

3. Increased Interest Rates. In this Project, lending institutions pay 11% to 15% to savers and pay 7% to 10½% to themselves for the use of the capital lent to the borrowers. At these rates of interest, it is virtually impossible for a branch office to pay for the use of capital and pay salaries, travel allowances and a share of Head Office expenses and make a profit if the branch charges only 12% for loans. As Mr. Gary Adams of USAID has shown in Table 1, page 11, of his First Year Findings on the REFP, the break-even point for an outlet in this Project is about 400 loans at 18% or 200 loans at 24%. Thus no branch can be viable charging only 12% interest.

4. Potential for Success of the Viability of the Project

Table XII-8 has been prepared to show the potential for the viability of this Project by December 31, 1980, on the following assumptions :

a. Income is projected on the basis that the rate of growth in interest earned during the four-month period from August to December, 1979, will continue throughout 1980 as the lending institutions swing into fuller operations.

b. Costs associated with the payment of interest on either savings and/or funds from Branch Office or Head Office are projected to increase at the same rate as income.

c. Operating cost is projected to include a 20% increase over December, 1979, to allow for inflation and other contingencies.

d. Provision is made for a reserve for bad debts at 3% of the outstanding principal of loans as of December 31, 1979, plus an increase at the same rate as income.

Table XII-8 shows that all lending institutions should be profitable in 1980, except Rupali and Uttara, if no provision is made for bad debts. In fact, without reserving for bad debts, Krishi would have a profit of Taka 7,71,345 and Agrani would have a profit of Taka 2,22,888.

Table XII-8 also shows that after reserving 3% of outstanding loans for bad debt reserves, profits would be made by Krishi of Taka 5,74,364, Agrani of Taka 1,53,463, IRDP of Taka 48,033, and Sonali of Taka 39,140.

However, all institutions could improve their performance over that projected in Table XII-8 if they were to do one or more of the following:

a. Increase volume of lending at a greater rate than during August-December 1979.

b. Reduce overdue loans so that less than 3% of outstanding loans should be reserved for bad debts.

c. Increase the rate of interest charged for future loans in those outlets now charging 12%.

In addition to the above profits from operations, and to offset losses in a few cases, all lending institutions would continue to share in the US$ 4,000,000 (Taka 6,00,00,000) Project Fund of reimbursement for 1/3 of loans made to and 1/3 of loans repaid by the target group.

F. Projection of Financial Conditions at Pragmatic Potential Lending Level

In order to take another look at the possibility of achieving a viable operation of the RFEP, estimates were made of revenues and costs of operations assuming that the pragmatic potential level of lending to the target group, which was discussed in Capter IV, were reached by the end of 1981 . In order to make such projections the following assumptions were made : 1) operating costs would go up about 40% above that of December, 1979 to permit some adding to the work force, which is believed to have considerable excess capacity, and to take care of increased wages ; 2) the mix in the source of capital (savings /head office advances) would remain the same but total costs of capital would increase in direct proportion to the increase in outstanding loans called for in the pragmatic potential ; 3) No change in the proportion of loans made by each lending institution at different interest rates from that which existed in December, 1979 · 4) the proportion of loans made to target and non-target households would remain the same as that in December, 1979.

Because the financial information for IRDP and BSBL now available would have no relevance if these two institutions were to reach a lending level called for in the estimates of the pragmatic potential, they have not been included in the computations.

The level of outstanding loan balance (including non-target lending by mistake under RFEP), estimated revenues, operating costs, capital costs and net income or (loss) is shown in Table XII-9. Krishi and Agrani clearly are the most profitable in gross terms. Only Janata shows a small loss.

The reason for the difference in performance is in part due to the volume of loans (first column of Table XII-9) but also due to the varying efficiency as measured by costs. In Table XII-10 operating, capital and total costs are shown as a percentage of outstanding loans. Krishi's percentage is only 6.27% and Agrani's is also a low 7.54% . On the other hand Janata's is 20.23% , with Rupali and Uttara costs even higher. Both operating costs and capital costs for Krishi and Agrani are quite low.

In Table XII -11 , net income or (loss) is shown as a percentage of outstanding loans together with various levels of reserves for bad debts. At 3% reserve all institutions except Janata and Rupali would make a profit. If a 10% reserve is used for bad debts, only Krishi makes a profit.

It is to remembered that all the projections above make no assumption about changes in the interest rate mix. Thus dropping 12% or even 18% and replacing them by higher rates would change the picture.

Table XII-1

Statement of the Viability of the Project as on December 31, 1979-Omitting Provision for Bad Debts

Lending Institution	Total income-Cumulative	Total Expense-Cumulative	Net Income (Loss)-Cumulative	Net Outstanding Principal as of 12/31/79	Net Viability (Loss) at 12/31/79
1	2	3	4 (2 - 3)	5	6 (4÷5x100)
Krishi	6,21,276	5,86,975	+ 34,301	43,48,373	+ 0.79%
Sonali	1,09,420	1,24,026	(14,606)	11,14,864	(1.31)%
Janata	39,369	1,19,334	(79,965)	5,54,364	(14.42)%
Agrani	50,163	95,502	(45,339)	10,51,911	(4.31)%
Pubali	76,386	1,42,807	(66,421)	7,65,878	(8.67)%
Rupali	24,339	43,753	(19,414)	2,09,628	(9.26)%
Uttara	52,538	1,19,635	(67,097)	3,21,039	(20.90)%
IRDP	33,066	51,725	(18,659)	3,57,734	(5.22)%
BSBL	27,105	45,853	(18,748)	4,14,550	(4.52)%
Total	10,33,662	13,29,610	(2,95,948)	91,38,341	(3.24)%

Includes application fees and miscellaneous income.

Table XII - 2

Most Viable Branches as on December 31, 1979-Without Provision for Bad Debts

Lending Institution	Branch(a)	Percent of Profit (Loss) (b)	Outstanding Loans-Principal only	Annual Rate of Interest Charged on Loans
1	2	3	4	5
Krishi	Madaripur	+ 12.72%	3,28,250	24%
Krishi	Rajshahi	+ 11.85%	4,06,178	24%
Agrani	Santiniketon	+ 11.63%	61,589	30%
Krishi	Sylhet	+ 11.08%	3,68,506	30%
Sonali	Gouripur Bazar	+ 8.67%	2,77,187	30%
Rupali	Kalihati	+ 4.86%	81,791	36%
Krishi	Rangpur	+ 4.51%	3,27,639	30%
Sonali	Birgonj	+ 4.36%	2,31,223	24%

(a) Data excludes IRDP and BSBL, since their individual outlets lend at more than one rate of interest

(b) Excludes Head Office expenses.

Table XII - 3

Least Viable Branches as on December 31, 1979-Without Provision for Bad Debts

Lending Institution	Branch (a)	Percent of Profit (Loss) (b)	Outstanding Loans-Principal only	Annual Rate of Interest charged on Loans
1	2	3	4	5
Uttara	Tangail	(27.04)%	67,173	24%
Uttara	Basan	(26.84)%	54.935	30%
Uttara	Mymensingh	(21.46)%	88,220	18%
Janata	Jhikergacha	(19.93)%	1,10,747	12%
Janata	Paglapir	(14.52)%	1,37,160	18%
Pubali	Babugonj	(13.46)%	1,49,265	24%
Pubali	Shahbazpur	(12.44)%	1,80,787	12%
Janata	Tajpur	(10.95)%	49,000	36%

(a) Data Excludes IRDP and BSBL, since their individual outlets lend at more than one rate of interest

(b) Excludes Head Office expenses.

Table XII - 4

Relationship of Interest Rates to Viability as on December 31,1979 - Omitting Provision for Bad Debts

Rate of Interest	Net Principal Outstanding as on 12/31/79	Net Income (Loss) Cumulative to 12/31/79	Percent of Viability (Loss) at 12/31/79
1	2	3	4(3÷2x100)
12%	19,31,014	(74,159)	(3.84)%
18%	22,87,151	(73,910)	(3.23)%
24%	19,24,127	48,630	+ 2.53%
30%	16,13,150	55,969	+ 3.47%
36%	6,10,615	699	+ 0.11%
Totals	83,66,057	(42,771)	(0.51)%

Data excluded for IRDP and BSBL since their individual outlets lend at more than one rate of interest.

Table XII - 5

Relationship of Interest Rates to Viability as on December 31, 1979 - Including Provision for Bad Debts at 3%

Rate of Interest	Net Income (Loss) Cumulative to 12/31/79	Estimated Reserve for Bad Debts (a)	Total Income (Loss) Cumulative to 12/31/79	Percent of Viability after Providing for Reserve for Bad Debts
1	2	3	4	5
12%	(74,159)	57,930	(1,32,089)	(6.84)%
18%	(73,910)	68,614	(1,42,524)	(6.23)%
24%	48,630	57,724	(9,094)	(0.47)%
30%	55,969	48,394	7,575	+ 0.47%
36%	699	18,319	(17,620)	(2.69)%
Totals:	(42,771)	2,50,981	(2,93,752)	(3.31)%

(a) Estimated reserve for bad debts is calculated as 3% of the outstanding principal of loans as on December 31, 1979.

Data is excluded from IRDP and BSBL, since their individual outlets lend at more than one rate of interest.

Table XII - 6

Relationship of Interest Rates to Viability as on December 31, 1979 - Including Provision for Bad Debts at Graduated Percentages.

Rate of Interest	Net Income (Loss) Cumulative to 12/31/79	Estimated Reserve for Bad Debts (a)	Total Income (Loss) Cumulative to 12/31/79	Percent of Viability after Providing for Reserve for Bad Debts
1	2	3	4 (2+3)	5
12%	(74,159)	19,310	(93,469)	(4.84)%
18%	(73,910)	45,743	(119,653)	(5.23)%
24%	48,630	57,724	(9,094)	(0.47)%
30%	55,969	64,525	(8,556)	(0.53)%
36%	699	30,532	(29,833)	(4.89)%
Totals	(42,771)	217,843	(260,605)	(3.12)%

Data excluded from IRDP and BSBL since their individual outlets lend at more than one rate of interest.

(a) Estimated reserve for bad debts is calcualted at 1%, 2%, 3%, 4% and 5% of the outstanding princi pal of loans made at 12%, 18%, 24%, 30% and 36% respectively, as of December 31,1979.

Table XII - 7

Relationship of Volume of Loans Outstanding to Viability of Branch Outlets as of December 31, 1979

Range of amount of Net Principal Outstanding of each Branch as on 12/31/1979			Net Principal Outstanding at all Branches within the range as on 12/31/1979	Net income (Expense) without Provision for Bad Debts at all Branches within the range	Percent of Viability (Loss)
1			2	3	4 (3÷2x100)
Over		3,10,000	36,38,518	+ 1,07,629	+ 2.96%
2,00,000	to	3,10,000	21,64,056	+ 16,914	+ 0.78%
1,20,000	to	2,00,000	14,82,915	(87,541)	(5.90)%
60,000	to	1,20,000	8,18,683	(55,931)	(6.83)%
Less than		60,000	2,61,885	(23,842)	(9.10)%
Totals :			83,66,057	(42,771)	(0.51)%

Data is excluded from IRDP and BSBL.

Table XII - 8

Projection of Income and Expenditure For the Period 1 January - 31 December 1980

Lending Institution	Total Estimated Income during 12 months Jan-Dec. 1980 (a)	Estimated Operating Expenditure during 1980 (b)	Estimated Cost of Capital during 1980 (c)	Total Estimated Expenditure during 1980	Total Estimated Net Income (Net Loss) Without Reserve for Bad Debts	Reserve for Bad Debts (d)	Total Estimated Net Income (Net Loss)
1	2	3	4	5(3+4)	6 (2-5)	7	8 (6-7)
KRISHI	13,21,292	4,03,646	1,46,301	5,49,947	+ 7,71,345	1,96,981	+ 5,74,364
SONALI	3,51,707	1,28,722	1,32,004	2,60,726	+ 90,981	51,841	+ 39,140
JANATA	2,19,761	1,12,723	88,448	2,01,171	+ 18,590	34,260	(15,670)
AGRANI	4,00,884	1,16,669	61,327	1,77,996	+ 2,22,888	69,425	+ 1,53,463
PUBALI	2,98,607	1,52,582	1,25,172	2,77,754	+ 20,853	41,587	(20,734)
RUPALI	70,103	1,29,384	25,973	1,55,357	(85,254)	8,050	(93,304)
UTTARA	1,16,419	1,32,581	52,935	1,85,516	(69,097)	12,906	(82,003)
IRDP	1,41,707	49,910	27,451	77,361	+ 64,346	16,313	+ 48,033
BSBL	1,57,186	84,874	70,330	1,55,204	+ 1,982	27,361	(25,379)
TOTALS:	30,77,666	13,11,091	7,29,941	20,41,032	+10,36,634	4,58,724	+5,77,910

(a) Income is projected at the rate of increase in interest earned during the four-month period August to December 1979.

(b) Operating cost is projected to include a 20% increase over December, 1979, operating costs to allow for inflation and other contingencies.

(c) Costs associated with the payment of interest on either savings and/or funds from Branch Office or Head Office are projected to increase at the same rate as income.

(d) Provision is made for a reserve for bad debts at 3% of the outstanding principal of loans as of December 31, 1979, plus an increase at the same rate as income.

Table XII-9

Estimated Revenue, Expenses and Net Income (Loss) Before Bad Debts Reserve if Pragmatic Potential of Lending is Achieved

(000 Of Taka)

Lending Institution	Outstanding Loan Balance	Revenue[3]	Operating Costs[4]	Capital Costs	Total Cost	Net Income (Loss)
Krishi	1,16,53	23,45	4,71	2,60	7,31	16,14
Sonali	16,72	3,40	1,50	1,28	2,78	62
Janata	10,53	2,03	1,31	82	2,13	(10)
Agrani	27,87	4,83	1,36	74	2,10	2,73
Pubali	20,14	4,34	1,78	1,82	3,60	74
Rupali	11,13	2,91	1,76	1,08	2,84	7
Uttara	14,13	3,87	1,55	1,76	3,31	56
IRDP	2/					
BSBL	2/					
Total	1,36,03	44,83	13,97	10,10	24,07	20,75

1/ Sonali which was almost at the pragmatic potential in December, 1979 by definition has been increased by 50%

2/ Not included because to reach the pragmatic potential IRDP and BSBL would have to change operations completely with the result current cost figures are of no value.

3/ December 1979 rate increased by the ratio of potential loan balance to December, 1979 loan Balance annualized. No change in the interest rates charged.

4/ December 1979 costs increased by 40% and annualized.

5/ Same as foot note 3/ assuming same savings/Head Office advance as in December, 1979

Table XII- 10

Operating and Capital Costs As a Percent of Outstanding Loans at Pragmatic Lending Level

		Operating Costs	Capital Costs	Total Costs
1.	Krishi	4.04	2.23	6.27
2.	Sonali	8.97	7.66	16.63
3.	Janata	12.44	7.79	20.23
4.	Agrani	4.88	2.66	7.54
5.	Pubali	8.84	9.04	17.88
6.	Rupali	15.81	9.70	25.51
7.	Uttara	10.97	12.46	23.43

Table X11-11

Net Income (Loss) As Percent of Loan Balance Outstanding For Different Reserves For Bad Debts (Pragmatic Potential Lending)

			Reserve For Bad Debts			
		None	3%	5%	7%	10%
1.	Krishi	13.9	10.9	8.9	6.9	3.9
2.	Sonali	3.7	0.7	(1.3)	(3.3)	(6.3)
3.	Janata	(0.9)	(3.9)	(5.9)	(7.9)	(10.9)
4.	Agrani	9.8	6.8	4.8	2.8	(0.2)
5.	Pubali	3.7	0.7	(1.3)	(3.3)	(6.6)
6.	Rupali	0.6	(2.4)	(4.4)	(6.4)	(9.4)
7.	Uttara	4.0	1.0	(1.0)	(3.0)	(6.0)

PART - E

OPERATION OF THE RFEP EXPERIMENT BY THE LENDING INSTITUTIONS

XIII. STAFFING, QUALITY OF TRAINING AND IMPROVEMENT OF MANAGEMENT

A. Introduction

Management and staffing are paramount to the success of operations. The performance of personnel as of the last part of January and first part of February 1980 does not differ greatly from the situation described as of June - July, 1979.

Four major components of program activities are essential to effective personnel performance.

They are:

1. Personnel's academic qualifications.
2. Technical Training (Banking Training).
3. Assimilation of the purpose of RFEP and their association to rural finance (Technical manpower development based on engineering learning of program for better results).
4. The level of assistance from high level management to field personnel (Management as performance engineers).

B. Overall Academic Qualifications

The overall academic qualifications of both staff and management reflect the profile of "well equipped" people. A survey related to the educational qualifications of a cross section of 41 grade 1 personnel is shown in Table XIII-1.

The rating of the institutions, based on the percentage of diploma holders, shows Rupali leading the way with 69% of personnel having gone beyond the Bachelor's degree level. Janata followed with 50% of such personnel and IRDP with 33%. Agrani, Sonali, BJSB and Uttara also employ personnel with good educational backgrounds.

The high level of educational qualifications of Rupali personnel does not seem to have any meaningful impact on the flow of services of the Bank to the target group. The case of Janata personnel also seems to illustrate this point. With respect to rural finance activities in the areas it appears that high educational achievements do not stand as the paramount factor in personnel performance. The assessment of the staff productivity in chapter XIV will focus on this matter.

C. Banking Training:

The training provided at the Head Offices' Training Institutes has proved to have initiated the skills needed to carry out rural finance activities in the area. Loans are being extended to borrowers, savings mobilized and various services related to the project are being performed. (Accounting, Monthly Reports, Collection of Loans etc.). The comments of field personnel as to the need of further banking training can be seen as a desire of excellence in the profession. Additional banking training at this point does not seem to be among actions to be given priority in the current RFEP staff. Most Managers and Employees in the lending institutions are competent, that is, technically.

In short, if the highest priority is assigned to training and institutional development, the staffing pattern would emphasize job descriptions, identification of suitable incentives related to field positions and RFEP training rather than strict banking training.

D. Understanding the purposes of the Rural Finance Experiment Project:

Training related to various aspects of the project is channeled to the institutions at the time of field visits. The training sessions have been aimed at field officers throughout the five regions.

Informal sessions focused on book keeping, cooperative organization and finances, small farmer production credit and other specific elements of rural banking outlined in the project. (Types of loans - purposes of the loans - loan disbursement - interest rate - credit collection - savings and motivation of the target group).

Sonali's staff ranks first (100%) as to the number of personnel having benefited from training on RFEP matters, followed by IRDP(82%), Janata (75%), Rupali and Uttara (67%) and Agrani (56%).

The February 1980 survey showed field staff of Pubali, Krishi and BSBL claiming not to have received training on the program. The claim perhaps should be understood as to mean formal training sessions related to the project. It does not take into consideration the Specialists' numerous inputs to these institutions at the time of field visits nor does it take into consideration the discussions related to various aspects of the Project.

By February 1980, a high percentage of field personnel expressed the desire for more training on RFEP matters. It reflects undoubtedly a sustained interest in the program among personnel and a desire for more information geared towards better performance.

In this respect, an analysis of the impact of this type of training on model's performance would raise the following issues :

1. Did the nature of training foster a greater understanding of the models among the staff ?

   If not - why not ?

2. Did training foster higher performance of the models ?
   If yes, to what extent ?

E. The Impact of the Training on Improved Understanding of The Model :

A significant percentage of managers and staff viewed the nature of training on the Program as unsatisfactory. This was revealed during the February, 1980 Management Survey in the areas. Tables XIII-2 and XIII-3 relate to the matter.

The somewhat less than perfect understanding of their model seems to have negative impact on several factors essential to the delivery of services. This is reflected through the association of rural dwellers to the project and the need of a stronger mobilization program of savings among target group members. This will require additional training. In this respect, the newly completed additional training materials by the Consultant,the nearly finished training manual and the design of strategies related to a more aggressive training program will prove to be beneficial.

The level of training has demonstrated some implications in the performance of the institutions. Overall activity related to members of loans in the respective areas shows some correlation. This appears in Table XIII-4.

The most relevant fact to be drawn from the table is that the higher the understanding of the model by the staff, the greater the results of services as indicated by columns 3 and 4. This is exceptionally true for Agrani, Krishi, Sonali.

The implementation of more training to the institutions will be beneficial to a greater promotion of the skills necessary to adequately serve the rural poor.

The development of training materials by the Consultant aimed at both field personnel and borrowers, has partially addressed this high service priority. The new training materials focus on aspects of credit savings-group formation-proper utilization of farm inputs features of individual models.

F. <u>Adequacy of Assistance from High Level Management :</u>

In contrast with the first management output survey made in June - July, 1979, the latest one reveals a higher degree of satisfaction with the extent of assistance from high level management with respect to the following :

1. Instructions related to <u>technical aspects</u> of the Program e.g. emphasis on types of loans and desirable purposes of credit and more efficient credit disbursement systems.

2. Instructions related to <u>administrative aspects</u> (monthly data-accountancy-reimbursements). The nature of these instructions is of essence to the project. The current level of assistance matches the interest of field personnel. It reflects a somewhat good conduct of essential processes on the part of high level management. Despite this improvement, the records of personnel assigned to the regional level of the lending institutions show that full time personnel has not been assigned at the regional offices of several of the institutions (Krishi, Uttara, Rupali, IRDP). This should be done as quickly as possible.

It is also suggested to improve efficiency which will be discussed in greater detail in the next chapter.

G. Need for more Authority for Regional Officers :

Personnel in charge of the RFEP Regional Offices (Rajshahi, Khulna, Sylhet, Chittagong, Dacca, etc.) be given more responsibility for implementation of the Technical and Administrative processes concerned on the following :

1. Full authority on approval of loan .
2. Complete hand on identification of most suitable devices(gifts-prizes - lotteries - rewards - rural brokers' commisions) for implementation of savings scheme.
3. Authority on Extension of grace periods- Adjustment of repayment schedules and collection of loans, that is, full capacity to organize - test-implement individual schemes of rural finance related to RFEP institutional elements and Project purposes.

H. The Need for More Accountability of Local Outlets :

This will require some accountability to Head Office for performance in individual areas. The new accountability system will foster a tighter monitoring system of the performance of the outlets. The new system will also foster a greater involvement of the Regional Offices in the delivery of services to the target group members.

I. Strategies Required :

The success of these efforts (greater responsibility of Regional staff through a decentralized system and accountability) will depend on the following strategies:

1. Special Training For Regional Officers

That all regional staff be assigned a 2 week additional training in Dacca on various aspects on the program to ensure improvement in project understanding and job performance as related to project purposes.

Indeed, the concept of a strong Regional staff to be given priority to developing local outlets will need training focusing on project matters. It is suggested that about four trainees should attend from each institution. Tables XIII-5 and XIII-6 outline the suggestions of the Consultant and the approximate costs of the Regional Management Training Program.

2. <u>Regional Offices to be Utilized to Transmit Recommendations and Information:</u>

That Regional staff be supplemented by Consultants recommendations and other relevant flows of expertise through an efficient system. The least expensive system could be the development of policy recommendations forms geared towards specific actions to be taken immediately by the institutions or specific outlets in the areas, as a result of the constant monitoring of the numerous aspects of the experiment

The strengthening of the existing staff at Regional Offices and the assignment of full time personnel to Krishi, Uttara, IRDP and BSBL, RFEP Regional operations could rapidly stimulate higher growth of the quality of field staff in the areas. The recent hiring of two auditors by the Consultant and the availability of their services to management through-out the project zone reflects an appropriate move. Such move will provide additional assistance on key administrative matters (accounting and financial management) in the areas.

Table XIII-1

Distribution Of Officials By Level Of Education And Lending Institutions

Lending Institution	Educational Qualification					
	Under Matric	S.S.C	H.S.C.	Graduate	Above	Total
Krishi		1 12.5%		7 87.5%		8 100%
Sonali			1 20%	3 60%	1 20%	5 100%
Janata				2 50%	2 50%	4 100%
Agrani		1 11.1%	1 11.1%	4 44.5%	3 33.3%	9 100%
Pubali (NA)	-	-	-	-	-	-
Rupali			1 33.3%	2 66.7%		3 100%
Uttara				3 100%		3 100%
IRDP				4 66.7%	2 33.3%	6 100%
BSBL				1 100%		1 100%
Total and Percentage		2 4.9%	3 7.3%	26 63.4%	10 24.4%	41 100%

Note : SSC : Secondary School Certificate

HSC : Higher Secondary Certificate
Graduate : Bachelor's Degree

Table XIII-2

RFEP Training : Rating of Training by Institutions' personnel

Grade I
(Management)

Rating of RFEP Training	Krishi	Sonali	Janata	Agrani	Pubali	Rupali	Uttara	IRDP	BSBL
Satisfactory	NA	2 40%		3 60%	NA	1 50%	1 50%	2 40%	NA
Not Satisfactory	NA	3 60%	3 100%	2 40%	NA	1 50%	1 50%	3 60%	NA

Grade II (Staff)

Rating of RFEP Training	Krishi	Sonali	Janata	Agrani	Pubali	Rupali	Uttara	IRDP	BSBL
Satisfactory	4 (44.44%)	2 (40%)	1 (25%)	1 (100%)	1 (25%)	- -	1 (33.33%)	4 (57.14%)	10 (90.9%)
Not Satisfactory	5 (55.56%)	3 (60%)	3 (75%)	- -	3 (75%)	1 (100%)	2 (66.67%)	3 (42.86%)	1 (9.09%)

Table XIII-3

Summary Of Factors Linked To Unsatisfactory Training On RFEP Matters As Viewed by Staff Of Lending Institutions

Grade I (Managers) Grade II (Staff)

Lending Institutions	Duration of training too short		Insufficient Accounting	RFEP Training	Lack of Case studies	
	Grade I	Grade II	Grade I	Grade II	Grade I	Grade II
Krishi	-	60%	-	40%	-	60%
Sonali	100%	100%	-	-	-	33%
Janata	75%	100%	-	-	-	67%
Agrani	100%	-	100%	-	50%	-
Pubali	-	100%	-	67%	-	-
Rupali	100%	100%	-	50%	-	-
Uttara	100%	100%	-	-	-	67%
IRDP	67%	100%	67%	-	-	67%
BSBL	-	100%	67%	-	-	100%

Table XIII-4

Implications Of Training Performance
To Credit From July 1 To December 31,1979

Grade I (Managers) Grade II (Staff)

Lending Institution	Rating of Institution based on best achievements of RFEP Training (1)	(2)	Productivity per outlet based on number of loans (3)	Productivity per employee based on number of loans (4)
	G. I	G. II		
Krishi	-	4	3	4
Sonali	3	5	4	6
Janata	-	7	5	5
Agrani	1	1	1	1
Pubali	-	7	2	3
Rupali	2	8	6	7
Uttara	2	6	7	8
IRDP	3	3	9	9
BSBI	-	2	8	2

Table XIII-5

Regional Management : Outline of Suggested Training

Topics	No. of Hours	Instructor (s)
1. Understanding RFEP (comparative Analysis of individual models)	12	Project Manager - Research Specialist
2. Staff Motivation and Manpower Development (Techniques and Strategies)	12	Training Consultant
3. Basic Rural Finance Services: Techniques (Identification of constraints to credit, Savings and loan Repayment. Strategies of Productivity)	12	Project Manager Credit Specialist Savings Specialist.
4. Basic Rural Finance Services: Administration and Planning Monitoring Branches activities(Filling out of forms-setting up targets-Group promotion)	12	Financial Specialist Evaluator
5. Seminar : Selected Topics and discussions.	12	All consultants
5 Classes	60 Hours	All specialists

Table XIII-6

Regional Management Training : Cost.

Item	No of Participants	Cost per item(s)	No. of days	Total Cost
Travel	36	Tk. 500/00	-	Tk. 18,000.00
Per diem	36	TK. 100/00	15	Tk. 54,000.00
				Tk. 72,000.00

At 15 Tk. - $ 1.00

i.e. TK. 72,000 $ 4800.00

XIV. WHAT IS THE RATE OF LOAN PRODUCTIVITY AND WHAT IS REQUIRED TO IMPROVE IT

A. Current Status Of Productivity of Loan Disbursement :

Sectoral productivity enables management to formulate precise recommendations related to areas of work. It also help managers apply problem-solving and decision-making skills, communication and leadership skills as needed. A good level of productivity is essential to both the institutions and the customers i.e. the rural poor.

Data from July, 1979 to the end of the calendar year show no significant change in the productivity profile of staff and management in the areas. The calculation of sectoral productivity (related to the delivery of credit) involves the number of loans and total credit disbursements to borrowers divided by the number of outlets and the total number of personnel directly associated to the Program. The current level of productivity for the period 1 July - 31 December 1979 per outlet and individual worker are shown in the following tables at the end of the chapter.

1. Productivity based on number of loans

   Per outlet (Table XIV- 1) Per employee (Table XIV - 2)

2. Productivity based on volume of credit

   Per outlet (Table XIV-3) Per employee (Table XIV-4)

The institutions are ranked with respect to each of the four measures in Table XIV - 5.

B. The Key Factors Determining the Level of Productivity:

The analysis of productivity relies on the understanding of the operating elements. With respect to the institutions, the key elements in the productivity process, geared toward "work effectiveness" include both skills and a proper organization climate providing resources that suport these job activities.

The Key factors are :

1. Clear understanding of project purposes and Individual Model Characteristics.
2. The nature of institutional finance elements.
3. Specification and Criteria of personnel.
4. Availability of incentives .
5. The quality of the implementation tools .
6. Adequate planning.

C. Understanding Of Project Purposes And Model Characteristics :

The factor appears to be greatly responsible to productivity. The disbursement of credit is tied to an understanding of the purposes and goal of the project. It is also tied to a clear picture of the elements to be tested. This is particularly true with respect to the efforts of personnel in reaching the target group. It is certain that financing the poor is a novelty for the banks. Quality services to the poor will not materialize in the areas unless the personnel of the areas reaches higher understanding of the project and its implications to their individual model in particular.

The improvement with respect to this factor, of course, involves the intensification of training programs outlined in the previous chapter.

D. The Nature Of The Institutional Rural Finance Elements:

There are essentially four major elements involved :

1) Interest rates, 2) schedule of payments and refinancing, 3) credit need and 4) credit demand.

1. Interest Rates

Competitive rates of interest are to be found in the areas under the Rural Finance Experimental Program. These rates make business with the target group members, a bit different. This was observed on occasion by the Consultants. The existence of the 100 Crore Program, the Tea Production Scheme, Boro Crop - Aman Crop -Handicrafts, operating at 11 percent, make credit at 18 and 36 percent less attractive. Although simplified loan procedures and the absence of collateral are assets to productivity, the competitive rates of interest, to a certain extent, explained the trends of dwellers to shop for lower rates. This could reduce the RFEP market. However, except possibly for other agricultural loans the interest rate is not a prime impediment to the business of the institutions i.e. Project purposes since it has been shown in earlier chapters that :

a. rural dwellers are seeking and getting loans at these rates,

b. a significant number of loans indeed had been issued at the highest rates of 30% and 36%.

2. The Schedule Of Payments

Short terms credit may also be seen to be a handicap to greater productivity. Besides, the dangers of hampering farmers financial development, short term credit, is a serious bottleneck to sound utilization of credit, specially in the case of non-seasonal loans. (trade, rickshaw, etc.). The latter activities require a more prolonged repayment schedule. Target group members in the areas seem to view the RFEP short term loans as a constraint rather than an asset. An expanded rural credit program will require some realistic adjustment of the repayment schedule in order to to achieve borrowers' financial development, thus ensuring credit repayment. However, the current schedule of payments does not appear to be a key constraint to productivity. Neither does refinancing stand as a problem to increased volume of business.

3. Credit Needs :

The need for credit in the rural areas stands as the biggest factor in the development of financial transactions in the areas. The multiple credit programs are not able to meet the needs of over 75 millions of impoverished rural dwellers. Institutional credit in Bangladesh, regardless of various existing credit programs in the country has not reached the point to fully meet the needs of the majority of rural dwellers. Two points illustrate the matter :

a. As of mid - 1979 the RFEP Baseline Survey indicated that out of 3,129 respondents with farming activity scattered throughout 5 regions of the country, approximately half of the respondents, (to be exact 44.6 percent of the respondents) expressed the opinion that the lack of financing was the most serious problem to effect any effort to increase individual incomes. The situation was even stronger among 1438 respondents without farming activity.

b. The majority of the respondents (52.1%) expressed the opinion that availability of credit would be the biggest help in increasing income.

Such data confirm the current need of credit in the Rural areas. Such need, if properly exploited would boost the activities of the personnel productivity. The current need is an asset to rural finance activities.

4. Credit Demand:

The current demand, however, is a serious handicap to increased banking activities. Demand for credit revolves around the financing of traditional activities of a subsistence economy as previously established. The situation as of date is not different of the situation as of June 1979.

The suggestions of the Consultant (May 1979 Seminar) pertaining to increased credit demand through a wider range of investment possibilities for the target group members do not reflect a meaningful level of implementation at this phase of the project. This, partly may be due, to the non-availability of Production Economists needed for such tasks. The May 1979 seminar mentioned the production of meats (goats, lamb, poultry) fisheries, handicrafts (weaving).

Also another aspect may be improved advanced planning and programming of lending activities similar to what was done by the lending institutions with the help of the Consultants last October and November. This will be discussed in some detail later in this chapter.

E. Personnel : Specifications And Criteria :

Two key elements associated with personnel have become bottlenecks to higher productivity in the areas.

1. The proliferation of part time positions: The assignment of full time personnel to the RFEP portfolio has not been materilized regardless of the consensus reached by the institutions - the Bangladesh Bank - USAID and the Consultant on the matter. Not counting IRDP and BSBL which are completely on a part time basis, the remaining institutions employ 84 part time staff members as compared with only 68 full time members. See Table XIV - 6 for the member of full time and part time employees by lending institution.

2. A lack of organizational structure of the outlets based on clearly defined job description for maximum output. With respect to this, stand most of the institutions particularly the cooperatives.

   Indeed, the current staffing pattern including position titles, number of employees and most important, the processes for which each position is responsible for, does not seem to take into account the best utilization of personnel as called for productivity. This may explain the complaints of the staff to view the experiment as .

   a. an extra burden and

   b. the desire of the institutions to hire additional personnel. Such a need carries with it the possible constraints of costs and programs focus. In fact there are a number of issues which must be addressed related to personnel in the months ahead :

- What is an appropriate Field Staff ? (size of the staff)
- What additional per outlet personnel, if any, are necessary to support the experiment ?

Our future analysis of these issues will take into account :

a. Credit demand per outlet

b. The size of the market (number of target group members per outlet)

c. Projected volumes of business (fair estimate of projected activities)

d. Operating costs of individual outlets

As a result of the above analysis it would appear desirable to:

a. Assign at least one(1) full time person to all regional offices - as previously stated

b. Assign only full time personnel to RFEP

c. Assign at least one (1) full time employee (Manager/Secretary/Accountant or Cooperative Development officer to IRDP or BSBL)

d. Provide adequate training

Although the size of staff cannot be determined fully at this phase of operations, the assignment of permanent staffing is desirable for the development of stable bank - client relationships and permanent operational process.

F. Availability Of Adequate Incentives

The institutions are still searching for appropriate incentives to boost productivity in the areas. The current salary scale of the personnel is less attractive than salaries offered in the private sector of Bangladesh. An idea of the current salaries of personnel is given in Annex XIV-1.

There is no doubt that a readjustment of salary is necessary. Such action could benefit the performances of employees. A significant number of employees view the salaries as being too low. This may well be a serious constraint to operations. However, it appears difficult to quantify the effects of the matter on productivity.

Any increase in salary should be determined by an assessment of earnings versus operating expenses that is, the financial capability of the institutions. It is perhaps too soon to recommend any such increase. The very nature of the experiment commands some caution in overall policies. The best package of incentives at this time will be the identification and availability of prizes geared toward best performance. Monetary incentives such as a TK. 5,000.00 to TK.10,000 sum could be offered jointly by the institutions on a quarterly basis, to the best Loan Officer. It is a negligible investment for the institutions. This could be explored.

G. The <u>Quality Of The Implementation Tools</u>

Rural Banking in Bangladesh does not require the availability of modern tools and equipment needed for the performance of such services. However, the availability of transportation is a key element for Rural Bangladesh. Indeed, as indicated through the June/July 1979 management operation survey, transport seems to be the key tools involved in the performance of said services. It cannot be established at this time what is the extent causative linkages between the volume of business and the availability of transport in given outlets. Although it may be assumed that a greater mobility of the staff should enhance the volume of business.

The Team suggests that allocation of adequate transport (motor cycles) to be met by projects funds should be seriously considered and that costs estimate for their provision be made if appropriate.

H. Adequate Planning

The potential to achieve maximum productivity is directly related to the adequacy of planning. Too often, in the absence of planning, organizational resources and energies are expanded without focus, resulting in achievements far less than those resources would otherwise permit. At this time, very little planning takes place among the institutions. Program Planning and Action Planning as presently carried out can be rated as barely better than unsatisfactory. There is little apparent consideration given to the availability of resources (Project Funds) and few decisions on prioritizing objectives as related to Project purposes are evident.

This appears in the financial projections made by the banks in relation to credit disbursements per institution in the areas (See table XIV-7). At present, the low level of planning is a serious impediment to productivity.

One way to improve the delivery of credit is to carry out advanced planning to meet the seasonal demands for agricultural credit. For example in Table XIV-8 there is presented a monthly schedule for crop planting, harvesting and need for disbursement.

The chart on the next page gives an idea of the variations in the demand for agricultural credit based on Table XIV-8.

CHART

Prospective Institutional Productivity based on yearly Agricultural Schedule

J F M A M J J A S O N D

100%

Assumption:

Level of 80%

Business

(Percentage of Productivity)

Based on 40%

Country's

Agricultural 20%

Calendar year

J F M A M J J A S O N D

CALENDAR YEAR

Table XIV-1

Productivity per outlet based on number of loans for period

Sl. No.	Institution	No. of Loans for period 1st July-31st December	Number outlets	Per outlet	Rank
1	Krishi	1359	12	113.25	3
2	Sonali	441	5	88.2	4
3	Janata	278	5	55.6	5
4	Agrani	1380	10	138	1
5	Pubali	548	4	137	2
6	Rupali	136	3	45.33	6
7	Uttara	167	4	41.75	7
8	IRDP	284	8	35.5	9
9	BSBL	434	11	39.45	8

Table XIV-2

Productivity per employee based on number of loans

Sl. No.	Lending Institution	No. of loans for period 1st July - 31st December	Number of personnel	Loans per employee (for period 1st July - 31st December)	Average Monthly Loans per employee	Rank
1	2	3	4	5	6	7
1.	Krishi	1359	14	97.07	16.18	1
2	Sonali	441	15	29.40	4.90	5
3.	Janata	278	6	46.33	7.72	4
4.	Agrani	1380	15	92.00	15.33	2
5.	Pubali	548	7	78.29	13.05	3
6.	Rupali	136	5	27.20	4.53	6
7.	Uttara	167	7	23.86	3.98	8
8.	IRDP	284	24	11.83	1.97	9
9.	BSBL	434	18	24.11	4.02	7
Grand Total:		5027	111	45.29	7.55	

Table XIV-3

Productivity per outlet based on total credit disbursements to borrowers

Sl. No.	Lending Institution	Amount of credit disbursed	Total No. of outlets	Loan disbursed per outlet	Rank
1	Krishi	2468,790	12	205732.50	1
2	Sonali	250,549	5	50109.80	6
3	Janata	524,680	5	104936.00	4
4	Agrani	1067,750	10	106775.00	3
5	Pubali	640,177	4	160044.25	2
6	Rupali	179,343	3	59781.00	5
7	Uttara	158,188	4	39547.00	8
8	I R D P	195,300	8	24412.50	7
9	B S B L	339,360	11	30850.91	9

Table XIV-4

Productivity per employee based on total Credit disbursement

Sl. No.	Lending Institution	Amount of credit disbursed in Tk.	Number of personnel	Per employee	Rank
1	2	3	4	5	6
1.	Krishi	2468,790	14	176,342.14	1
2.	Sonali	250,549	15	16,703.27	8
3.	Janata	524,680	6	87,446.67	3
4.	Agrani	1067,750	15	71,183.33	4
5.	Pubali	640,177	7	91,453.86	2
6.	Rupali	179,343	5	35,868.60	5
7.	Uttara	158,188	7	22,598.29	6
8.	IRDP	195,300	24	8,137.50	9
9.	BSBL	339,360	18	18,853.33	7

Table XIV-5

Summary of Productivity Based on Number of Loans and Total Credit Disbursements (July - 31 December 1979)

RANK OF INSTITUTIONS

Sl. No.	Lending Institution	Number of loans per outlet	Number of loans per employee	Total Amount of Credit per outlet	Total Amount of Credit per employee
1	Krishi	3	1	1	1
2	Sonali	4	5	6	8
3	Janata	5	4	4	3
4	Agrani	1	2	3	4
5	Pubali	2	3	2	2
6	Rupali	3	6	5	5
7	Uttara	7	8	8	6
8	I R D P	9	9	7	9
9	B S B L	8	7	9	7

Table XIV-6

Institutional Manpower by Models:

Personnel Associated to RFEP

Sl No	Lending Institutions	Total Outlet	Number of Workers								
			As per Respondants' opinion (Management Survey January'80)			As per Head Office Report (February'80)			As per Model design (from Project paper)		
			Full time	Part time	Total	Full time	Part time	Total	Full time	Part time	Total
1.	Krishi	12	12	2	14	12	36	48	12	12	24
2.	Sonali	5	5	10	15	15	10	25	5	5	10
3.	Janata	5	5	1	6	10	5	15	5	5	10
4.	Agrani	10	10	5	15	9	18	27	10	10	20
5.	Pubali	4	4	3	7	8	8	16	4	4	8
6.	Rupali	3	3	2	5	6	3	9	3	3	6
7.	Uttara	4	4	3	7	8	4	12	4	4	8
8.	IRDP**	8	-	24	24	-	25	25	-	16	16
9.	BSBL*	11	-	18	18	-	11	11	-	22	22
Grand Total. and Percentage		62	43 (39%)	68 (61%)	111 (100%)	68 (36%)	120 (64%)	188 (100%)	43 (35%)	81 (65%)	124 (100%)

* Voluntary Services are being rendered by all KSS Managers in the relevant models.

Table XIV-7

Program Planning :

Estimate of Requirements of Project Funds to August 30, 1980

Lending Institution	Estimated Requirements of Project Funds based on pages 59 and 60 of the Project Paper Prepared July, 79: 24 Months Operation US $	% of Col.2	Actual No. of months of Lending operation to August 30, 1980	Adjustment Fund Requirements	Estimated Requirements of Project Funds to 30/8/80 Prepared by the Lending Institutions in May, 1979: TAKA	US$	% of Col.5	Estimated Requirements of Project Funds to 30/8/80 Prepared by the Lending Institutions in February, 1980: Taka	US $	% of Col.10	% of Col.5	% of Col.7
1	2	3	4	5 (Col.4÷24xCol.2)	6	7 (TK.15=US$1)	8 (7÷5)	9	10 (TK.15=US$1)	11	12 (10÷5)	13 (10÷7)
Krishi	1,636,900	40%	23	1,619,000	TK.56,00,000	373,000	23%	56,00,000	373,000	41%	23%	100%
Sonali	436,100	11%	18	327,000	61,00,000	407,000	124%	12,00,000	80,000	9%	24%	20%
Janata	388,900	9%	18	292,000	47,00,000	313,000	107%	9,00,000	60,000	7%	21%	19%
Agrani	436,100	11%	18	327,000	32,00,000	213,000	65%	18,00,000	120,000	13%	37%	56%
Pubali	283,300	7%	18	212,500	34,00,000	227,000	107%	12,00,000	80,000	9%	38%	35%
Rupali	366,700	9%	16	244,500	22,00,000	147,000	60%	4,00,000	27,000	3%	11%	18%
Uttara	383,000	9%	18	287,000	3,00,000	20,000	7%	2,00,000	13,000	2%	5%	65%
I R D P	80,500	2%	18	60,000	14,00,000	93,000	155%	12,00,000	80,000	9%	133%	86%
Samabaya Bank	80,500	2%	18	60,000	50,00,000	333,000	555%	10,00,000	67,000	7%	112%	20%
Other	[illegible]1,100	-	NA	NA	NA	NA	-	NA	-	-	-	-
Total	$4,155,[illegible]	100%	NA	$3,429,000	TK.31,9,00,000	$2,126,000	62%	TK.13,5,00,000	$900,000	100%	26%	42%

February 1980 estimate by Samabaya Bank seem unrealistically high.

Table XIV-8

Higher Delivery of Agricultural Credit in the areas through seasonal Planning : Schedule

Crops	Time of planting	Time of harvesting	Time of credit disbursement
Boro Paddy	January	May	November to December
	February		
Jute Broad casting Amon paddy	March	Jute - July B. Amon - Nov and December.	January and February
Summer Vegetables Aus paddy and Jute	April	Vegetables-June Aus-paddy, June-July, Jute-July and August	February and March
Jute, Aus-paddy and Seed bed for T.Amon	May	July and August T. Amon Seedlings' transplantation in July and August	February and March
Seed-bed for T. Amon	June	Transplantation of Seedlings in July and August.	April and May
T. Amon Transplantation	July	November & Dec.	May
T. Amon Transplantation	August September	November & Dec.	May
Oil Seeds cultivation	October	March	August & September
Wheat, Pulses, Winter Vegetables	November	March & April	September & October
Potato, Sweet-Potato, Boro paddy chillies	December	Boro-May & June Other-March & May	October

SOURCE : RURAL FINANCE EXPERIMENTAL PROJECT:

1. Table shows no prospective agricultural credit activities during June-November and December.

2. Average activities in January - April - August.

3. Brisk activities during - March - September - October

4. Busiest month : February and May
5. As of now, a time table for non agricultural activities that could be a major asset to banks' productivity has not been suggested. However, the Baseline Survey revealed that more than 60% of the rural population were engaged in such activities in the areas.

Personnel : Distribution of Positions And Salaries Annex XIV - 1

(As per Lending Institution Head Office's Report February, 1980)

Name of the Lending Institutions	Total No. of Full Time Personnel: Job Title	No	Salary (Monthly) in Taka	Total No. of Part Time Personnel: Job Title	No	Salary (Monthly) in Taka	Number of Outlet
Krishi	Investigation Officer	12	1275	1. Manager 2. Accountant 3. Cashier	12 12 12 36	3000 1275 800	12
Sonali	K.B.M Field Asst Guard/ Messanger	5 5 5 15	450-630 400-625 150 basic	Manager Farm Technologist	5 5 10	750-1470 TK. 470-1135	5
Janata	1. Rural Credit 2. Clark	5 5 10	760-800 378	Manager	5 5	1010	5
Agrani	1. Field Asst. 2. Project Officer	8 1 9	350 1300	Manager Atorney Asst. Accountant	10 1 7 18	700-1000 7000 350-500	10
Pubali	Lending Officer Field Asst.	4 4 8	750-1470 300-540	Manager Clark	4 4 8	625-1250 300-540	4
Rupali	Loan Officer Field Asst. (Village Agent)	3 3 6	1700-1835 450	Manager	3 3	1700-1835	3
Uttara	Loan Officer Field Asst.	4 4 8	625-1315 425-1035	Manager	4	900-1610	4
IRDP				Project Officer D.P.O. Inspector Accountant	7 5 8 5	750 425 175 425	8 (Out of 10, 2,dropped from Project)
BSBL				Asst. Loan Officer	11	625-970	11

PART - F

IMPLEMENTATION (TESTING) OF THE MODELS

XV. HOW IS THE TESTING OF THE MODELS PROCEEDING ?

A. Introduction

An analysis of the models reveals the existence of key activities whose implementation appears to be vital to the performance of individual models as related to project purposes. Six of these activities stand as the backbone of operational processes. They are :

1. Group Lending
2. Area Development
3. Assistance to Borrowers With Production Plans
4. Technical Support
5. Obtaining and Delivery of Inputs
6. The selling of Farm and Non-Farm Produce

In this chapter each of the key activities linked to individual models will be discussed in detail giving : (a) Summary of the activity (issue) (b) Current Status (c) Apparent constraints; and (d) Recommendations for overcoming the constraints. In the next chapter each lending institution is evaluated with respect to some ten different operational criteria involved in the testing of each model. The information which is utilized in the next chapter was obtained through a special survey made by the Field Research Unit of some 21 outlets. Part of the information in this chapter came from Head Office replies to a special questionnaire.

B. Group Lending : Janata, Uttara, IRDP and BSBL

1. Summary of Proposed Activity :

Group lending is one of the key features being tested in the areas. Uttara, Janata, IRDP and BSBL have been encouraging the formation of village groups. The major argument for extending credit to groups rather than individual members is that :

a. The group can provide collective collateral for loans to individual members. (Speedy delivery of institutional credit to the poorest of the Poor).
b. Peer pressures will reduce the incidence of default. (Thus the ability of the models to collect their loans on time).

2. Current Status :

Table XV-1 shows the number of existing groups by model and the major activities associated to the groups. An analysis of the table leads to the following findings :

a. The size of the groups varies under the different models, such as 5 members in Uttara, 5 to 8 members in Janata, 32 to 216 members in IRDP. No data are available for BSBL.

b. The totality of activities covers the multidimensional aspects of a subsistence economy both qualitatively and quantitatively The major crops being financed are : Rice for Uttara, IRDP and BSBL, rice and tobacco for Janata. The other activities (milching cows, goat and beef fattening, rickshaws, sewing machines) do not reflect large scale production units as it might be expected. The existence of the groups stands more as schemes for speedy delivery of credit rather than organized associations geared toward higher output and viable financial organizations.

c. A comparative estimate of credit disbursements shows the impression that the groups have not created higher volumes of business through the existence of bigger financial markets available to the institutions as a result of the group. This appeared in the Chapter XIV on productivity.

3. Constraints

The most serious obstacles to collective organization in the areas remain :

a. The strong individualism of the rural dwellers and the low impact of the cooperatives in creating stable and aggressive collective organizations. The latter explains the difficult task for IRDP and BSBL to expand through new memberships which would be of benefit to the cooperatives and the rural areas.

b. Rural individualism is further enhanced through the countryside by the lack of solid understanding by the rural poor of the implications of participating in collective production activities.

4. Recommendations :

a. Good measures to foster group action by the rural areas will have no impact on sound development and growth of such groups unless some level of awareness of the local communities is found, motivation through a better understanding of the rural finance schemes attained and a more organized approach developed by the cooperatives (IRDP - BSBL) and any other given model.

b. The process of facilitating group action should be carried out partly by the institutions through a more structural program of assistance. Such assistances relate to the identification of the motivation schemes, the delivery of needed services to the organization and the setting of viable targets of production. Briefly, it is fair to state that an efficient rural finance system related to organized groups should be looked at.

C. Area Development : Janata and Sonali

1. Summary of Proposed Activity and

2. Current Status

Implementation of Janata and Sonali's area development seem to be at loose ends. Janata Bank seems to be concentrating on developing sound loans based on careful loans appraisal and effective disbursements rather than execution of overall finance activities geared toward aggreate development. Sonali in Comilla, Chittagong, Mymensingh, Dinajpur and Khulna is engaged in some forms of area development whose detailed operations will be assessed in the months ahead.

3. Constrai ts :

a. The implementation of the Janata and Sonali Models requires a high level of trained personnel in area development. The scheme also requires master plans related to given areas as well as adequate number of macro and micro feasibility studies covering the social and economic infrastructure, water resources development, energy, roads, health, education, agricultural development etc. The performance of such studies is imperative to

1) the identification of development targets
2) an estimation of costs
3) establishment of priorities
4) the implementation of works
5) constant assessment of progress.

b. Both planning and work implementation require substantial investments. The identification, availability and commitment of such investments are hampered by the life expectancy of the Project ($1\frac{1}{2}$ to 3 years).

c. The association of big farmers, businessmen and industrialists to a viable area development scheme makes the selection of small farmers and landless poor difficult to overall regional development afterward. This was acknowledged by both institutions as a major constraint. Initially, the target of the Rural Finance Experimental Project is the small farmer and the landless poor.

4. Recommendations :

a. Janata

At this time of operations two alternatives are possible.

1. To provide some technical assistance to Janata for the design of small scale regional development schemes which will rely greatly on the involvement of rural poor i.e. target group members and will not require any substantial long term investments.

2. To test Janata's rural finance activities on strict institutional rural finance factors i.e. rates of interest, credit demand, and repayment schedule.

It is desireable for the Bank to assess these options in order to commit its resources to the implementation of its choice.

b. Sonali

A sound assessment of Sonali's area development scheme requires additional monitoring of the matter. It is the Consultant's judgement that a detailed picture of Sonali's scheme should be available in the months ahead.

D. Assistance to Borrowers with Production Plans : Krishi, Janata, Sonali, Pubali, IRDP, and BSBL

1. Summary of Proposed Activity

Production Plans are essential to both agro-economic and economic aspects of production activities. The design and implementation of farm and non farm prototypes lead to improvement of agricultural production and sound production units, thus a better utilization of credit. This explains the production plan as one of the key features involved in the design of six of the models.

2. Current Status :

The lack of data on the matter makes it hard for the Consultant to estimate whether the banks and the cooperatives involved in designing profitable production plans to be extended to the borrowers are lagging behind. However available data based on head office interviews for Krishi shows a good utilization of the production plans in Krishi loan disbursements. This appears in the overall amount of the use of production plans as called for by the Project Paper and the number of applications related to crop production, agricultural production as a whole and non agricultural production (see Table XV-2 for the status of lending).

3. Constraints

The explanation of this status perhaps lies with some of the constraints associated to production plans. Chief among them are :

a. The staff's level of understanding of the economics of agricultural credit and other small scale production units. The projects latest Management Output Survey indicates a low level of understanding of both the forms and the value of the production plans as integral to evaluating loan applications.

b. The staff's limited experience with the banks production plans and loan applications.

This indeed also appeared in the latest Management Output Survey. It is to be recognized that production credit loan analysis is far more complex than is the case with provident and consumers loans. The "success" of Krishi in this matter perhaps is due to the long association of the bank to Agricultural credit. Janata, Sonali and Rupali are new comers in the field whereas the cooperatives seem to suffer from an overall low capability in the matter.

c. All six models were unanimous to point out the futility of the plans to sound credit disbursement as of now. This is due to misinformation received from borrowers at the time of credit applications, making some of the calculation of profitability a rather useless exercise.

4. Recommendations :

Successful production credit programs require support in the development of production plans. Such plans ensure a level of return to the farmers adequate to repay the loan and principal and to motivate the producer to increase and expand his production. Assuming that properly promoted by the institutions, such a program could substantially enhance their total impact. The Baseline survey showed the lack of sound production plans as a serious handicap to farmers projected return. 69.9% of 193 respondents report that the failure of borrowers to pay back their loan was due to wrong estimates of crop output. This makes the utilization of adequate production plans imperative. In this respect, the Consultant would recommend that :

a. All staff and management be provided additional training as scheduled in April and May, 1980. The April May training workshops to be conducted by the Consultant will focus on a better understanding of the forms. This should lead to a more efficient utilization of the forms at the times of credit applications.

b. The enclosed production plan form relates to agricultural activities (annex 1 to this chapter dealing with rice-vegetables). Other forms related to non crop activities (weaving mats-handicrafts) will be designed by the consultant's credit specialist and made available to the institutions by May.

c. The skill level associated with production plans be continuously assessed by the lending institutions in order to promote better utilization of staff in this matter.

E. Technical Support : Sonali, Agrani and Pubali

1. Summary of Proposed Activity

Technical support relates to numerous services to be provided to borrowers such as extension services, storage etc. Technical support and proper utilization of credit are integrally related. Such services as outlined in the project paper were geared toward the achievement of greater utilization of credit by the borrowers. Thus borrowers development is ensured. The relatively low level of education of the poor and the necessity of providing additional needed services along with credit to impoverished rural dwellers reflect the importance of such services in a rural finance scheme.

2. Current Status

As of March, 1980 an appraisal of the situation in the areas is shown in Table XV-3. The current table highlights the following points :

a. Technical support is strictly limited to personnel support to borrowers through the availability of agricultural agents, Veterinarians and agronomists.

b. Agrani's small farmer service centre according to our data does not reflect a full utilization of technical support in the implementation of the model.

c. Sonali has 1 technical person serving approximately 122 customers, Pubali 1 for roughly 106 borrowers.

3. Constraints

The key problem to higher delivery of technical support to the experimental areas lies in the structure and utilization of the staff. Available data show a substantial number of part time assignments in the areas among extension personnel and the lack of a clearly defined description of individual tasks, to be performed. Such status is clearly an impediment to the availability and development of technical support as related to project purposes.

4. Recommendations

The present situation calls for the following :

a. Development of local and regional skill bank

1. Local branches should attempt to identify all possible resources for each required skill. This will be particularly vital to Agrani and Sonali's Farmer Service centres whose life depends heavily on such support.

2. It is recommended that such locally available resources from Government Ministries (Ministry of Agriculture, Ministry of Fisheries, Rural Development - Livestock etc) be used on the basis of special arrangements with the concerned departments for the benefits of the program.

b. Adequate Planning

Using data related to past credit disbursements and projected purposes of credit as well as potential demand based on realistic production schemes, the branches should list these resources in order of priority for best utilization of available support.

c. Appropriate Training

Upgrading of Sonali, Agrani and Pubali Technical staff at Mymensingh Agricultural Varsity or other suitable place be also required (In country Training).

It might be appropriate to use resources from the local Government agencies to assist the Banks personnel in developing higher technical capability. This view was shared by Agrani's personnel in charge of RFEP, Head Office, Dacca.

It should be noted that the next report will assess if, given the limited technical resources of the banks, financial investments associated to active participation in technical support development in the areas, should not have to be mandatory for the models in question.

Whatever the outcome may be, it is clear that as of now, a greater involvement of the technical agents in providing adequate support to the borrowers is practical and desirable. The above mentioned recommendations related to the matter may be of help.

F. Marketing I - Obtaining and Delivery of Inputs : Janata, Agrani, Pubali and IRDP

1. Summary of Proposed Activity

The development of a sound agricultural credit program is inextricably linked to the timely availability of equipment and supplies. In the project paper, four of the models emphasized the delivery of inputs as credit in kind before the crop seasons and repayment after harvest. The availability of seeds, fertilizers, seed treatment chemicals and storage insecticides could be major assets to agricultural production. Thus, a positive element to seasonal credit. With the tendency of rural dwellers to investigate all sorts of possible sources of income outside of farming, credit in kind (supplies) may be one of the best schemes of "forced" improved technology in the areas.

2. Current Status

The delivery of inputs to date is given in Table XV-4. It indicates that the quantity of supplies handled by the Institutions is extremely limited.

In Table XV-5 the money disbursed for the quantities of supplies is given.

In the case of Agrani and Pubali, the total amount of purchases per model compared to total credit disbursements of models stands as follows :

Agrani :	Total amount (supplied)	Tk. 79,275
	Total credit disbursed	Tk.12,62,790
Pubali :	Total amount (supplied)	Tk. 86,100
	Total credit disbursed	Tk.11,07,567

These figures indicate that :

a. The level of implementation of the delivery of inputs scheme by individual operations is low.

b. The percentage of credit allocated to supplies is, according to available data, also low.

c. The status of improved farm technology in the experimental areas is unsatisfactory.

The success or failure of the delivery of inputs will be matched to the status of repayment in the months ahead in order to assess some possible links as to any significance to :

1. The demand of agricultural credit in the areas under Janata, Agrani, Pubali and IRDP schemes.

2. The economic preparations of improved agricultural output.

3. Repayment as related to project purposes.

3. Constraints :

a. The only explanation to the current status lies in the relatively low significance of agricultural production (crop production in particular) in the incomes of the target groups members. As this point, improved farming based on utilization of inputs, does not seem to be "in" within the areas.

b. The impact of management and staffing in the promotion of inputs could not be assessed at this time.

c. Although short time loans utilised for agricultural inputs may have resisted the serious difficulties with respect to the timely delivery of these inputs to borrowers before planting times, however both the August 1979, survey and discussions of the matter with field staff and Management lead to the following point :

Quicker delivery of supplies to borrowers is desirable. Management links the problem to the somewhat less than aggressive performance of the Bangladesh Agricultural Development Corporation (BADC).

The specialists field trips do not reflect any significance change in the picture as of March, 1980.

4. Recommendations : The Gathering of Data

A deeper assessment of the matter by the Consultant is necessary. This along with some relatively simple studies will be undertaken in the weeks ahead to determine :

a. A more detailed picture of the delivery of inputs to target group members.

b. The identification of most efficient ways to speed up purchases and delivery of inputs. In this respect, the role of BADC will be assessed. Indeed, BADC supplies the quasi totality of agricultural inputs available in the country.

Direct buying from individual farmers, village societies, cooperatives and others have virtually no role in the supply of agricultural inputs. The one exception is the arrangement for vaccination of livestock. The decision of the Government in February, 1980, to allow direct orders of insecticides from suppliers has been widely acclaimed by the institutions and rural dwellers.

In brief, the most relevant recommendation for the next report is the gathering of data on the delivery of equipment and supplies geared towards expanded agricultural production and farmers financial development. As stated previously, this will be implemented by the Consultant in the weeks ahead.

G. Marketing II The Selling of Farm And Non Farm Produce : Janata-Pubali :

1. Summary of Proposed Activity

Support of marketing activities was seen by Janata and Pubali as a good strategy geared toward greater agricultural and non farm production.

The identification of market outlets as well as the setting of the machinery involved in reaching buyers is of essence to the operational processes.

2. Current Status :

From the beginning of RFEP credit disbursement until now, few banks and cooperatives have coordinated the marketing of crops. With respect to marketing activities of Janata and Pubali, the non existence of data on the matter makes it virtually impossible to assess the magnitude of operations as well as the constraints associated to current operations in the experimental areas.

3. Constraints :

Unknown at this time due to a lack of data on the matter.

4. Recommendations :

The importance of marketing in overall producers' financial development calls for an adequate assessment of the matter in relation to Janata's and Pubali's activities. To assess the operation of the Banks' marketing programs and their relevance to project purposes, two types of data are needed.

a. Data related to the Magnitude of Operations.

The consultant will design a monitoring form for Janata and Pubali which will enable the institutions to gather the information needed in order to grasp the qualitative and quantitative aspects of marketing activities with respect to the models implementation.

b. Data related to Markets' Development and Overall Strategies.

To improve the operation of the Banks existing marketing programs , practical research is needed. Such data will relate to aspects of overall activities of the rural population, the ability of the institutions to develop new internal and foreign market opportunities. Such data will also serve the information needs of assessing the implications of marketing on usual finance overall development strategy as related to RFEP purposes (See Annex XV-2 : Outline of Research).

Table XV-1

Distribution Of Size And Activities
Of Group Lending Per Relevant Model

Name of Institution	Number of Sectors (Outlets)	Number of groups	Number of Members
Janata	5	72	485
Uttara	6	98	490
IRDP	8	23	1738
BSBL	11	11	NA.

Table XV-2

Percentage Of Production Plans Out
Of Total Number Of Loan Disbursement
From Beginning Of RFEP To December
31, 1979

Name Of Institution	Number Of Plans	Loans	Percentage
Krishi	3044	3761	80.97
Janata	NA	375	NA
Sonali	NA	854	NA
Pubali	NA	962	NA
IRDP	NA	698	NA
BSBL	NA	547	NA

Table XV-3

Technical Support : Magnitude
Of Operations

	Sonali	Agrani	Pubali
Extension Service Number of extension agents in experimental areas.	1 Veterinarian 1 Agronomist 5 Agricultural Agents	Not available	1 Veterinarian 4 Agronomists 4 Agricultural Agents.
Average number of borrowers per extension agent.	$\frac{854}{7} = 122$	Not available	$\frac{962}{9} = 107$
Number of storage facilities associated to RFEP	Nil	Nil	Nil
Number of borrowers per storage facility	Not applicable	Not applicable	Not applicable

Table XV-4

Delivery Of Supplies Per Institution
As Of December 31,1979

(In Tons)

Name Of Institution	Equipment	Seeds	Fertilizers	Insecti- cides	Vaccine (Livestocks)
Janata	NA	NA	NA	NA	NA
Agrani	Not yet supplied	Potato 1.3 tons	Urea-13 tons TSP - 9 MP - 9.5 DSP - 2	Not yet supplied	
Pubali	-	Wheat 0.30 tons Paddy 0.50 tons	50 tons	0.05 tons	10 cows
IRDP	Spray machine widspaddle thres hers.	Mostly vegetables and paddy			

Table XV-5

Delivery Of Supplies Per Institution
As Of December 31,1979

(In Taka)

Name Of Institution	Equipment	Seeds	Ferti-lizers	Insec-ticides	Vaccine	Total
Janata	NA	NA	NA	NA	NA	NA
	Information not available at Head Office					
Agrani	NA	10,000	67,275	2,000	NA	79,275
Pubali	NA	3,800	80,000	2,000	300	86,100
IRDP	NA	NA	NA	NA	NA	NA
	Information not available at Head Office					

Production Plan : Proposed Farm Budget Survey Sheet

SEASONAL PROJECTION OF INCOME AND EXPENSES

Business (type of)	:	Agricultural Production
Crop(s)	:	(Rice) (other crops)
Size of Farm	:	Bigha/Farm unit
Price of Rice	:	TK. per seer

I. Estimated Sales or Revenue

Yield/.........................
No. of bighas ....
Total Production...............
Price/seer.....................
Total value of production ......
Value of auto consumption.......
(estimated seers/family)
Cash income....................

II. Estimated Operating Expenses

	Cost Taka	Total Cost
Labour............................		
Supplies per bigha/seer...........		
Insecticides......................		
Ammonium Phosphate................		
Urea..............................		
Total Cost (inputs)...............		

Production Cost
(Estimated Operating Expenses)

III. Estimated Net Profit (or loss)Prior to Taxes and Loan Repayment(Equipment)

Taxes

Income Taxes....................
Other Taxes.....................
Total taxes.....................

IV. Net Income
Depreciation................

V. Repayment of Loan Principal (Taka)/(inputs)

VI. Retained Earnings (Net Cash Flow).........

Janata - Pubali: Marketing II : Action Research

The main objectives of this "Action research" will be to obtain a basic , detailed understanding of the following components of the marketing system of Janata and Pubali.

1. -A description of actual marketing systems for major food and cash crops including the number and type of market participants, market channels and cultural patterns.

2. -The nature and economic structure of the market systems which link target group food and cash crop producers to majour groups of urban food consumers and to the major purchasers of cash (e.g. exporters, processors, industrial users etc.) and potentioal markets in foreign countries (handicrafts).

3. -The extent of marketable surplus in food production for different regions, crops and family structures. So far, the relatively small size of land holdings amongtarget group members (less than 2 acres) and the level of agricultural credit(crop production) in the areas do not point up the potential for a significant percentage of foodgrain production(rice) and other food produce (vegetables) to reach the market. This information will help to estimate the amount of production potentially available to marketing campaings of the selected institutions.(Janata-Pubali)

4. - Marketing margins at various points in the marketing channels and their relationship to marketing costs, including factors such as the bearing of risk by market participants. This information will help to determine wheter market intermediaries (Janata and Pubali) are detrimental to target group members financial development and will help isolate specific RFEP interventions to reduce marketing margins. Cost data will be assigned in such a way that it can be "assigned" to the marketing of a specific crop from a given region to its ultimate rural or urban consumer.

5. -<u>The nature of on farm and commercial storage, particularly of rice and more perishable products such as tomatoes, califlowers, peas, onions, and other kinds of vegetables</u>. The costs of traditional farm - level and commercial storage particularly the losses by season - This will help answer some basic questions about the economic returns to alternative farm and village - level storage facilities and the degree to which seasonal price movements can be attributed to storage costs. The availability of these data to Janata and Pubali will provide guidance to the banks in choosing market intervention strategies which will contribute to the multiple goals, of increasing production, target group members incomes, marketing efficiency and self-generated operating capital.

XVI. HOW THE LENDING INSTITUTIONS RATE WITH RESPECT TO MODEL IMPLEMENTATION

A. Introduction:

In this chapter the models are analyzed on the basis of their characteristics. First, all models have been evaluated on their strengths and weakness and secondly, an attempt is made to see if the models are being implemented according to the model design. This has been done in the following way :

1. Analysis of the general features of all models and the relative merits and potentials of each model
2. Evaluacion of special aspects of the model design i.e. if the models being implemented according to the model design
3. Grouping of all models according to the degree of model implementation-a ranking has been devised to see the status of all models
4. Provision of a set of recommendations regarding the relative strengths and weakness of each model. For models which demonstrate little prospect of satisfactory performance, modifications are recommended. Recommendations are also made to introduce new variations for experimentation. Lastly, we have identified the strong features of all models, modified and improved them based on our findings.

One note of caution must be added. The models have been formulated on the basis of certain assumption and expectation. In testing the models we have found many "unexpecteds" and some model aspects which were preconceived to be positive have produced negative results, e.g. Krishi Shakha model's inability to reach the target group (lowest among lending institution) seems to be a result of the over-dominance of the village leaders in selection of loanee. The model did not envision the problem of "patronage" relationship whereby an influential person chooses his own clients for control of power. Thus in many cases, the poor performance on part of the lending institution may reflect an a priori assumption rather than a direct organizational problem.

Again, since the project is an experiment aiming to test a series of credit sub-systems for reaching the target group, a high incidence of failure should be expected. Considering this, the project will be of significant success even if only one effective credit model is identified. In fact at this point in the project it is imperative that the number of models be minimized particularly those which are heavily constrained (e.g. BSBL, IRDP), and work with those that are proving to be successful (Rupali, Pubali, Janata). It is emphasized here that the good or bad performance of a model which is reflected by "efficiency or effictiveness" of a lending institution may to a large extent depend on the model design. The concepts and procedures incorporated with the individual models have determined the parameters and results of the project.

B. Methodology:

The Model Implementation Survey which was carried out in February/March 1980, was designed to examine whether the lending institutions in the field are working according to the model designs or if they are diverging from their respective model designs. If there is any divergence between the model design and model implementation, the survey aimed at finding the points of divergence and also the extent of divergence.

Since a very tactful method of interview was needed to acquire information about the actual method of operation of the lending institutions at the branch level, the job was assigned to a special team of researchers consisting of one Specialist, Regional Supervisors, and experienced Research Officers.

The questionnaire designed for the survey was a short one high-lighting the very vital points of the models designed for each lending institutions. The questionnaire consisted of two parts; one to study the general and common characteristics applicable to all models and the other to study the special characteristics applicable to a particular model.

Twenty one (21) segments were selected out of total 62 segments in operation on the basis of proportionate random sampling. Samples selected from each lending institution was proportionate to the total number of branches of the institutions in operation. Thus 33% of branches of all models were surveyed. The survey was aimed at only those officers who are directly concerned with the lending operations.

C. <u>Specific Factors Utilized in the Rating of Model Implementation.</u>

In order to assess the extent of implementation of the models, some criteria were taken into account which we have assumed to be the key feature of all models in general. In the following pages we have discussed these factors in detail.

The factors are :

1. Lending officials knowledge about the models
2. Knowledge of model characteristics
3. Types of Loan Security
4. Selection of Borrowers and Loan Disbursement Procedure
5. Loan Sanctioning Authority
6. Modes of Loan Disbursement
7. Modes of loan Recovery
8. Technical Supervision
9. Mobilization of Savings
10. Special Characteristics of individual Models

1. <u>Lending Officials' Knowledge about the Models :</u>

Lending officials were asked to name their respective models i.e. Village Agent, Krishi Shakha etc., designed for their institution. Ten out of total 21 officers quoted the names correctly, one gave a correct idea, and the remaining 10 either quoted incorrectly or could not say anything regarding the model.

Thus, almost 50% of the officers do not know the name of the model which is they are supposed to implement. (Table XVI-1)

Regarding institutions, none out of five officers interviewed of BSBL and IRDP could tell that they are working with the model "Cooperatives for landless, share croppers and women". On the other hand all the Sonali, Rupali and Pubali bank officers interviewed told the model name correctly. Only one BKB officer out of 4 interviewed could tell the model name correctly (See table XVI-1).

2. Lending Officials' Knowledge about their Model Characteristics'

The Lending Officers were asked "what are the special characteristics of the model which is being implemented by your institution". As a reply to this question, only 4 officers out of 21 gave correct statement about the respective model characteristics,6 gave a correct idea, though the answer was not precise; the remaining 11gave wrong ideas or no idea at all (Table XVI-2).

In this respect again, none of the BSBL and IRDP officers could give a correct statement about their model characteristics. On the other hand, all the Rupali and Pubali Bank officers gave correct and precise statement on their model characteristics.

3. Types of loan Security:

Table XVI-3 showsthe types of security taken by the lending institutions for sanctioning RFEP loans. The lending institutions are classified according to the grades obtained by them based on a comparison with the security requirements in the model design in accordance with the project paper . Regarding security, a significant divergence is observed here for most of BSBL branches. In fact 100% of BSBL/ lending staff take mortgage deeds of land or other valuables as security though the model requires only membership in the co-operatives created for RFEP since the members have some share in co-operatives which it self is a form of security.

IRDP which is implementing a similar model requires that the loanee should be a member ofthe co-operatives, and 100% of respondents from IRDP are following the model in this regard. Types of security taken by the Pubali and Sonali banks are in accordance with the model design.

4. Selection of Loanees and Loan Disbursement Procedures:

Table XVI-4 shows the typology of loan disbursement procedures applied by the lending institutions. All the Krishi, Pubali and Rupali Branches followed the process of surveying the village, supplemented by spot enquiries.

Sonali Branches followed the process of spot enquiry, but it is to be confirmed by local leaders. Sonali bank requires that the loan be approved by the "Village Advisory Committee" which is composed of influential local people (micro-political group) even though it is not a part of the model design that there shall be such a committee of village leaders and elders to select loanees and approve loans. There is a pitfall in the Sonali model in this respect. It was expected that participation of village leaders and elders in the process of loan operation will ensure smooth functioning of the model, but it has proved to be an impediment in this regard.

Reliance on local leaders for selection of loanees has made the process faulty and much longer. It is observed that the village leader often discriminates against those who are not socially or factionally loyal to him. This process has hampered the independent decision making of the Krishi Shakha In-Charge regarding selection of loanees.

It was stated in the project paper that loanees will be selected by the K.S. Incharge based on his personal knowledge and contact of the borrowers. But this study notes a divergence from this process. It was envisaged in the Project Paper that the Krishi Shakha In-charge will be assisted by a "five-man village volunter group" in his work[1] The present operational procedures relies

1/ Project Paper Annex B. 6 Page 22 of 35.

on a "Village Advisory Committee" for loan disbursement, selection of target group, as well as security. In all the Sonali branches surveyed, the Krishi Shakha In-Charges have stated that the Village Advisory Committee select the loanee and that they have no say in the selection procedure. BSBL and IRDP model requires that selection should be through Cooperatives and that its membership be the only basis of eligibility. But one BSBL segment is working against the model which justifies eligibility of loanees by what he called "Credit Worthiness" meaning financial solvency of the applicant. Uttara is following the procedure of Group Lending according to the model design.

Janata Bank selects the loanees in accordance with the prepared list of prospective borrowers by means of a socio-economic survey of the villages. But 100% of Janata Officers have said that the list of selected applicants is sent to the Bank's Head Office in Dacca for final approval which is against the model design, obviously time consuming and hampers timely disbursement.

5. Loan Sanctioning Authority:

As per model design, the branch manager is the loan sanctioning authority for Agrani, Rupali, Janata and Uttara; the executive committee of Co-operatives in case of IRDP and BSBL; Krishi Shakha In-Charge for Sonali; Investigation Officer and Managers for Krishi. Here in practice we see a deviation from the design in case of Janata, Uttara and Sonali. In Janata Model 100% of the branches surveyed mentioned that the loan is finally sanctioned by the Head Office and in one case of Uttara, out of 2 surveyed, decision is taken by the Accountant of the Branch (Table XVI-5).

In case of Sonali Bank the decision is supposed to be taken by the Krishi Shakha In-Charge upto a limit of Tk. 990 per loan.[1] But in practice the Manager of the parent branch takes all the loan sanctioning decision, irrespective of loan amount. Thus all

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[1]Project Paper, Annex B.4.B. Page 2.

of the lending officials surveyed said that the In-charge has no loan sanctioning power.

According to Pubali and Krishi Model, the Loan Officer and Investigation Officer are the respective authority and in practice they are performing this function. In Krishi the maximum loan did not exceed TK.3000/-. So the I.O. has sanctioned all the loans.

In BSBL & IRDP model, the Loan Committee of the cooperative is the sanctioning authority which is supposed to be elected by general members. There is a slight divergence in the implementation of this model. In case of IRDP, the loan sub-committee of the T.C.C.A. takes the decision of loan sanctioning which consists of indirectly elected members i.e. not elected by the general members of the primary co-operatives of KSS but elected by Board of Directors. In case of BSBL the Executive Committee of the co-operatives which is the loan sanctioning authority is selected by the Board of Directors of which the Directors are elected by general members. In both cases we observed a gross malfunctioning resulting in a vicious circle with the co-operatives and Board of Directors reinforcing each other to remain in position and have an upperhand in the selection of borrowers

6. Modes of Loan Disbursement :

It is observed here that Sonali Bank is supposed to disburse loan in kind normally.[1] But in practice it disbursed only 3% of all loans in kind (Table XVI-6).

The model proposed disbursement mostly in kind to assure proper use and to minimiza cash needs at the Shakha. But as of now a very insignificant amount has been disbursed in kind. Moreover, none of the Sonali branches provide any storage or marketing facilities as required in the project paper.

Agrani, Janata, Rupali and Uttara are supposed to disburse both cash and kind loans. Janata Bank has provided all the loans in kind while Uttara Bank has disbursed 22% of its loaned amount in kind. The proportion for Rupali and Agrani is 10% and 7% respectively.

1/ Project Paper Annex B.4. B Page 3 of 4.

IRDP, BSBL, Krishi, and Pubali models are required to pay only cash loan which they are following more or less. BSBL and IRDP have loaned out all the amount in cash, while Krishi and Pubali have disbursed 0.16 and 3% of total amount in kind.

7. Modes of Loan Recovery .

Agrani's Service Centre model is supposed to receive repayment both in cash and kind while Sonali's Krishi Shakha model is supposed to recover all loans in kind. Recovery in kind was not proposed for rest of the models, except that Pubali model proposed that "Repayment in kind will be listed".

So far none of the branches surveyed yet recovered any loan in kind.

8. Technical Supervision:[1]

IRDP and BSBL model proposed no systematic technical supervision aside from informal advice. The Uttara model also did not propose any structual technical service- it proposed only frequent supervisory visits. On the other hand Rupali emphasized "intensive supervision" Krishi proposed "identification of critical technical problems through the process of budgetting and planning and advising in their solution" Sonali relied on the knowledge and acquintance of it's locally recruited Krishi Shakha in-charge while Janata proposed appointment of one trained person in each outlet to provide technical assistance. Pubali model strongly emphasized technical service through the credit officer who as an Ombudsman would help the loanees in obtaining services from other government agencies in this regard. The Agrani model proposed a 'medium level' of technical assistance("Low level-Low cost" supervision).

Table XVI-8 shows the types of technical supervision actually provided by the officials of the outlets surveyed. Half of the Krishi, Uttara, and IRDP branches, one-third of Agrani and BSBL provided no technical supervision. Twelve branches, two each

1/ Project Paper, Annex B.4 A to Annex B.4. H.

from BSBL, Krishi, Pubali and Sonali and one each from Agrani, IRDP, Janata and Uttara provided oral advice only. Three branches one each from Agrani, Janata and Rupali provided better and more effective technical service including treatment of livestock (Agrani), assistance purchase of inputs at fair prices (Rupali), helping in purchase of livestock or other economically viable assets (Janata).

9. Mobilization of Savings:

Mobilization of savings by the lending institution was an important aspect of the model designs, but very little effective measures have been taken to mobilize savings. It is a major weakness of model implementation in most of the instiuttions.

Table XVI-9 shows the types of measures taken by the lending institutions in order to mobilize savings. Most of the lending officers replied that they are trying to mobilize savings by persuation. Some have opened savings account along with the credit account of borrowers as a compulsory measure while some others deduct compulsory small savings from the borrowers.

Chapter VII in which the actual statistics on Mobilization of savings among the target group is discussed indicates that several of the lending institutions have been successful in increasing the level of savings under RFEP (Sonali and Pubali exceeded by a considerable amount the expected potential for December 31, 1979).

10. Assessment of Each Lending Institution in Light of Implementation of Special Characteristics.

1. Krishi:

Krishi's special characteristics is that the model proposed to finance a "Budget Line of Credit" for both production and non-production purposes including wedding, festivals, medical care to meet the entire cash needs of loanees. But, so far the survey shows that none of the branches interviewed has provided loan for non-productive purposes(except for one very recent case of loan sanction for a wedding by Krishi's

Tangail Branch)(Table XVI-II). This reflects a basic misunderstanding of the model resulting in an inability to test the very vital element of the model i.e. feasibility of provision of consumption credit. It may also reflect the current attitude of looking at credit from a "profit-loss" point of view rather than credit "needs" as most of the respondents expressed a fear of loss associated with consumption credit.

Krishi's performance in quantitative terms is the highest among all the models (in terms of both number and amount of loan disbursed per branch and per worker), yet its performance in qualitative term is discouraging. It is crucial to point out that one should not judge the performance of lending institution by the volume of loans and number of loanees. The very purpose of the project is testing of models and in this regard, the Krishi Bank is not working according to the most essential elements of the model design.

Krishi Bank was supposed to open Union level sub-branches for operation of the RFEP but, no union level branch has yet been opened and the project is being operated from branches located in the towns like Tangali, Manikganj, Rangpur etc. whereas the model areas are located about 10 miles away from the branches which may be one of the reasons for a failure to implement the model in a pos tive way. All of the branches are situated in a urban area and the borrowers are mostly from urban or semi urban areas.

2. Sonali :

Sonali's Krishi Shakha model proposed disbursement of all loans in kind while the proportion of kind loan disbursed by Sonali branches are negligible. It also proposed repayment of loan in kind and provision of warehousing facilities to assist marketing of output, but practically none of these were done.

3. Janata :

The special characteristics of the Janata's Area Development Approach is the "maximum coverage" of target group people in the model area. In this respect Janatas performance is not encouraging, since half of the branches surveyed showed only 31% and 51% coverage of target group people; the rest of the target group people has not been reached by the lending institution. In respect to the distance of the villages from the branch and the surveying of the villages the model's performance is quite satisfactory (Table XVI-13).

4. Agrani :

Agrani's special characteristic is the linkage of other agro-services with financing credit through the "Service Center". Out of all branches surveyed, service centres effectively exists only in one-third of the branches which has provided fertilizer to the loanees at govt. price and the quantity is noteworthy (Table XVI-10).Otherwise, Agrani has been ineffective in functioning as a service Center. It has provided only 7% of all loans as agri-input which is an insignificant amount.

5. Pubali :

Though Pubali's performance in many respect is quite satisfactory, yet it's response to the special characteristics of the model is not acceptable to the model design. Pubali is functioning well as a lending institution i.e. but not as an "Ombudsman". No special service is being provided by the lending officers except for general supervision of the loans as a banker of the project[1] i.e. loan disbursement, loan recovery, savings rate etc.

1/ None of the lending officers interviewed has provided any service or assistance in terms of input, price support, referral services of TCCA, Rural Health Centre etc.

6. Rupali :

Rupali's response to special characteristics of the model is quite satisfactory. It treats the Village Agent as a bank staff; it has implemented the system of financial incentives to the Village Agent and has introduced a "coupon" system of fertilizer distribution as per model design.

7. Uttara :

Uttara's response to the special characteristics is fair , but the lending officers could not tell the rules and regulations regarding the composition of groups. One Uttara branch provided only cash loans while the model calls for disbursement of both cash and kind loans.

8. BSBL/IRDP:

The model "Co-operatives for Landless, share croppers and Women" sponsored by IRDP and BSBL showed very poor performance in almost all respects. In model implementation also the scores obtained by them are very low, but as for this particular variable special characteristics of the model, their performance is satisfactory (Table XVI-12).

D. Summary : Grading of the Lending Institutions with Respect to Model Implementation :

Methodology:

In order to summarize the findings it was decided to compute an overall score derived form each of the 10 characteristics or variables used to measure model implementation. The performence of each model with respect to each characteristic was given a score of 10 or 20. The variables or characteristic were given the following weights.

Variables	Maximum scores obtainable (weight)
1. Statement on Model Name	20
2. Statement on Model Characteristics	20
3. Security of loan disbursement	10
4. Selection of loanees and loan disbursement procedures 5. Loan sanctioning authority	10
6. Modes of loan disbursement (Cash/Kind) 7. Modes of loan recovery (Eash/Kind)	10
8. Technical Supervision	10
9. Mobilization of savings	10
10. Other characteristics (Special model characteristics listed in Table XVI-10 to 17)	10
Total :	100

The scores are awarded to each lending institution on each of the variables depending on the percentage distribution obtained by the branches surveyed in each institution.

An illustration will made the point clear. Krishi Bank scored 7.5 in variable number 2 (lending officers' statement on Model characteristics). Table XVI-2 shows that 1 Krishi branch (25%) gave correct statement on Model Characteristics, 1 (25%) gave correct idea and the other 2 either gave wrong idea or no idea at all. Score 20 is awarded for correct statement and 10 for correct idea but imprecise statement on this variables. For wrong idea or no idea score is zero. So Krishi branches as a whole scores 20x.25+10x.25 = 7.5 in the variable number 2 as seen in Table XVI - 01.

Grade and Score on Successful Model Implementation

The lending institution have been grouped and ranked based on the extent of model implementation, i.e. to see if the procedures and concepts incorporated in the models are being followed. The degree of implementation has been grouped according to the extent of divergence from the models. In the following paragraph the final ranking is presented.

In Table -XVI-0 the lending institutions are classified into three broad categories i.e. A,B and C on the basis of scores obtained by them as of Table XVI-01. Thus Rupali and Pubali falls in category A scoring 88% and 74% respectively. Sonali, Uttara, Janata and Agrani comes under category B scoring a range of 52% to 60% while, Krishi, IRDP, and BSBL falls in category C, scoring 49%, 44% and 31% respectively.

Tablo XVI - O

RANKING OF THE LENDING INSTITUTIONS ACCORDING TO THE DEGREE OF IMPLEMENTATION OF THEIR RESPECTIVE MODEL S

Grade	Description of the Grade	Lending Institutions	
A.	Low Divergence	Rupali	88%
		Pubali	74%
B.	Moderate Divergence	Sonali	60%
		Uttara	58%
		Janata	55%
		Agrani	52%
C.	Gross Divergence	Krishi	49%
		IRDP	44%
		BSBL	31%

Grading : A. Score : 70% or above

B. 50% to 69%

C. Below 50%

Tablo XVI – 01

SCORE/OBTAINED BY LENDING INSTITUTIONS REGARDING IMPLEMENTATION OF RESPECTIVE MODELS

Bank/ Institution	Variables 1	2	3	4	5	6	7	8	9	10	Total Score
	Maximum Score obtainable										
	20	20	10	5	5	5	5	10	10	10	100
1. Krishi	5	8	6	5	5	5	5	2	5	3	49 III
2. Sonali	20	5	10	5	–	2	1	6	7	5	60 II
3. Janata	10	10	5	–	–	5	5	8	7	5	55 II
4. Agrani	17	3	5	4	5	3	3	5	4	3	52 II
5. Pubali	20	15	10	5	5	4	5	5	5	0	74 I
6. Rupali	20	20	2	5	5	5	3	10	8	10	88 I
7. Uttara	10	10	8	5	3	5	3	3	6	5	58 II
8. IRDP	0	0	10	4	5	5	5	3	5	7	44 III
9. BSBL	0	0	0	3	5	5	5	3	4	6	31 III

Variables :

1. Name of the Model.
2. Characteristics of the Model.
3. Security taken against loans.
4. Loan disbursement procedures and selection of loanees.
5. Loan approval authority.
6. Modes of loan recovering (cash/kind).
7. Modes of loan disbursement (cash/kind).
8. Technical supervision.
9. Mobilization of Savings
10. Other characteristics(Special characteristic of individuals model in Table XVI-10 to 17)

Table XVI - 1

RESPONDENTS' KNOWLEDGE OF THE MODEL
(NAME OF THE MODEL)

Bank/ Institution	No. of Outlets	THEIR KNOWLEDGE OF THE MODEL NAME			
		Correctly stated[1]	Correct Idea[2]	Wrongly stated	No Idea
1. Krishi	4	1 (25)	-	2 (50)	1 (50)
2. Sonali	2	2 (100)	-	-	-
3. Janata	2	1 (50)	-	1 (50)	-
4. Agrani	3	2 (67)	1 (33)	-	-
5. Pubali	2	2 (100)	-	-	-
6. Rupali	1	1 (100)	-	-	-
7. Uttara	2	1 (50)	-	-	-
8. IRDP	2	-	-	1 (50)	1 (50)
9. BJSB	3	-	-	-	3 (100)
Total	21 (100)	10 (47.62)	1 (4.76)	4 (19.05)	6 (28.57)

Note : Figures in the paranthoses indicate percentage distribution

1/ Name of the Model correctly stated

2/ Name of the model was stated using different "word"

Table XVI - 2

RESPONDENTS' KNOWLEDGE OF MODEL CHARACTERISTICS

Bank/ Institution	STATEMENT ON MODEL CHARACTERISTICS				
	No. of Outlets	Correctly stated[1]	Correct Idea[2]	Wrongly stated	No Idea
1. Krishi	4	1 (25)	1 (25)	1 (25)	1 (25)
2. Sonali	2	-	1 (50)	-	1 (50)
3. Janata	2	1 (50)	-	-	1 (50)
4. Agrani	3	-	1 (33)	-	2 (67)
5. Pubali	2	1 (50)	1 (50)	-	-
6. Rupali	1	1 (100)	-	-	-
7. Uttara	2	-	2 (100)	-	-
8. IRDP	2	-	-	1 (50)	1 (50)
9. BSBL	3	-	-	1 (33)	2 (67)
Total :	21 (100)	4 (19.05)	6 (28.57)	3 (14.29)	8 (38.09)

1/ Characteristics of each model in specified in the project paper. Number of respondants correctly stating the characteristics of their model is entered under this column.

2/ Statements which are not exactly the same as in the project paper but the idea is more or less similiar is entered under this column.

Table XVI.33

SECURITY OF LOAN DISBURSEMENT BY MODELS

Bank/ Institution	No. of Outlets	TYPES OF SECURITY[1]					GRADING OF SECURITY[2]			
		1	2	3	4	5	1	2	3	4
1. Krishi	4	1 (25)	2 (50)	-		1 (25)	2 (50)	1 (25)	-	1 (25)
2. Sonali	2	-	2 (100)	-	-	-	2 (100)	-	-	-
3. Janata	2	-	1 (50)	-	1 (50)	-	1 (50)	-	-	1 (50)
4. Agrani	3	-	1 33	-	2 (67)	-	1 (33)	-	2 (67)	-
5. Pubali	2	-	2 (100)	-	-	-	2 (100)	-	-	-
6. Rupali	1	-	-	-	1 (100)	-	~~1~~	-	1 (100)	-
7. Uttara	2	1 (50)	1 (50)	-	-	-	1 (50)	1 (50)	-	-
8. IRDP	2	-	-	2 (100)	-	-	2 (100)	-	-	-
9. BSBL	3	-	-	-	-	3 (100)	-	-	-	3 (100)
Total	21 (100)	2 (9.52)	8 (38.10)	3 (14.29	4 (19.05	4 (19.05	11 (52.38)	2 (9.52)	3 (14.29)	5 (23.81)

1/ Types of Security Codes :

1. No Security taken
2. Superivision, crop hypothecation with or without guarantor as a mere formality.
3. Group Security/KSS
4. Recommendation, from influential local leaders is a necessary condition.
5. Mortgage deeds.

2/ Grading of Security :

1. In accordance with the Model
2. Slight divergence.
3. Gross divergence.
4. Against Model design.

Table XV1-4

SELECTION OF LOANEES AND DISBURSEMENT PROCEDURES

Bank/ Institution	No. of Outlets	PROCEDURE TYPES 1	2	3	4	5	GRADING OF PROCEDURES 1	2	3	4
1. Krishi	4 (100)	4 (100)	-	-	-	-	4 (100)	-	-	-
2. Sonali	2	-	2 (100)	-	-	-	2 (100)	-	-	-
3. Janata	2	-	-	-	2 (100)	2 (100)	-	-	-	2 (100)
4. Agrani	3	2 (67)	1 (33)	-	-	-	2 (67)	1 (67)	-	-
5. Pubali	2	2 (100)	-	-	-	-	2 (100)	-	-	-
6. Rupali	1	1 (100)	-	-	-	-	1 (100)	-	-	-
7. Uttara	2	-	-	2 (100)	-	-	2 (100)	-	-	-
8. IRDP	2	1 (50)	-	1 (50)	-	-	1 (50)	1 (50)	-	-
9. BSBL	3	-	-	2 (67)	-	1 (33)	-	2 (67)	-	1 (33)
Total	21 (100)	10 (47.62)	3 (14.29)	5 (23.81)	2 (9.52)	1 (4.76)	14 (66.67)	4 (19.05)	-	3 (14.29)

Procedure Types :

1. Survey and enquiry by lending officials
2. Enquiry plus confirmation from local leaders
3. Cooperative Members select loanee
4. Preliminary selection list is sent to Head/Regional Office for approval
5. Justified by "Credit worthiness"(Must not be poor i.e. must have a reliable and steady source of income)

Grading of Procedures :

1. According to Model design
2. Slight divergence
3. Gross divergence
4. Against Model Design

Table XVI-5

LOAN SANCTIONING AUTHORITY BY MODELS

Bank/ Institution	No. of Outlets	Manager	K.S.Incharge Loan Officer Investigation Officer	Executive Committee of Cooperative	Accountant	Head Office Reg. Office	Right	Wrong
1. Krishi	4	-	4 (100)	-	-	-	4 (100)	-
2. Sonali	2	2 (100)	-	-	-	-	-	2 (100)
3. Janata	2	-	-	-	-	2 (100)	-	2 (100)
4. Agrani	3	3 (100)	-	-	-	-	3 (100)	-
5. Pubali	2	-	2 (100)	-	-	-	2 (100)	-
6. Rupali	1	1 (100)	-	-	-	-	1 (100)	-
7. Uttara	2	1 (50)	-	-	1 (50)	-	1 (50)	1 (50)
8. IRDP	2	-	-	2 (100)	-	-	2 (100)	-
9. BSBL	3	-	-	3 (100)	-	-	3 (100)	-
Total	21 (100)	7 (33.3)	6 (28.57)	5 (23.81)	1 (4.76)	2 (9.52)	16 (76.19)	5 (23.81)

Table XVI-6

MODES OF LOAN DISBURSEMENT

Bank/ Institution	No. of Outlets	Modes of Disbursement: Cash	Kind	Both	Amount Disbursed[1]: Cash	Kind	Total
1. Krishi	4	3 (75)	-	1 (25)	1924706 (100%)	-*2	1927706 (100%)
2. Sonali	2	-	-	2 (100)	430635 (97)	11985 (3)	442620 (100)
3. Janata	2	-	2 (100)	-	-	256220 (100)	256220 (100)
4. Agrani	3	-	-	3 (100)	489079 (93)	34376 (7)	523455 (100)
5. Pubali	2	1 (50)	-	1 (50)	625900 (97)	21000 (3)	[illegible] (100)
6. Rupali	1	-	-	1 (100)	82851 (90)	9620 (10)	92471 (100)
7. Uttara	2	-	-	2 (100)	69672 (17.18)	19443 (22)	89115 (100)
8. IRDP	2	2 (100)	-	-	1355500 (100)	-	135500 (100)
9. BSBL	3	3 (100)	-	-	180948 (100)	-	180948 (100)
Total	21 (10)	9	2	10	3939291 (91.72)	355644 (8.28)	4294935 (100)

1/ Source : Model Implementation Survey, January 1980
Management Survey - II

2/ -* Negligible

Table XVI - 7

MODES OF LOAN RECOVERY

Bank/ Institution	No. of Outlets	MODE OF RECOVERY			AMOUNT RECOVERED		
		Cash	Kind	Both	Cash	Kind	Total
1. Krishi	4	4	-	-	1043742 + NA	-	-
2. Sonali	2	2	-	-	245742	-	-
3. Janata	2	2	-	-	66398	-	-
4. Agrani	3	3	-	-	70652 + NA	-	-
5. Pubali	2	2	-	-	156700	-	-
6. Rupali	1	1	-	-	34091	-	-
7. Uttara	2	2	-	-	+ NA	-	-
8. I R D P	2	2	-	-	59575	-	-
9. BSBL	3	3	-	-	494663	-	-
Total	21	21	-	-	1758695	-	-

Table XVI - 8

TECHNICAL SUPERVISION PROVIDED BY **MODELS**

Bank/ Institution	No. of Outlets	TYPE OF TECHNICAL SUPERVISION 0	1	2
1. Krishi	4	2 (50)	2 (50)	-
2. Sonali	2	-	2 (100)	-
3. Janata	2	-	1 (50)	1 (50)
4. Agrani	3	1 (33)	1 (33)	1 (33)
5. Pubali	2	-	2 (100)	-
6. Rupali	1	-	-	1 (100)
7. Uttara	2	1 (50)	1 (50)	-
8. IRDP	2	1 (50)	1 (50)	-
9. BSBL	3	1 (33)	2 (67)	-
Total	21 (100)	6 (28.57)	12 57.14)	3 (14.29)

Technical Supervision codes:

0. No technical supervision provides
1. Oral advice only
2. Helps to get production inputs at fair prices treatment of livestock, helps to purchase economically viable assets i.e. livestock.

Table XVI - 9

MEASURES TAKEN TO MOBILIZE SAVINGS

Bank/ Institution	No. of Outlets	MEASURES TAKEN				
		0	1	2	3	4
1. Krishi	4	-	4	-	-	-
2. Sonali	2	-	1	-	1	-
3. Janata	2	-	1	-	-	1
4. Agrani	3	1	1	1	-	-
5. Pubali	2	-	2	-	-	-
6. Rupali	1	-	-	1	-	-
7. Uttara	2	-	1	1	-	-
8. IRDP	2	-	2	-	-	-
9. BSBL	3	-	1	-	2	-
Total	21 (100)	1 (4.76	13 (61.90)	3 (14.29)	3 (4.29)	1 (4.76)

Measures Code :

0. No measure taken
1. Persuasion only
2. Compulsory opening of S.B. Account
3. Compulsory small savings from borrowers
4. Incentive by higher interest rate

Table XVI-10

ACCEPTABILITY OF THE MODEL ON THE BASIS OF
THE SPECIAL CHARACTERISTICS OF MODEL DESIGN

AGRANI BANK
THREE OUTLETS

CHARACTERISTICS	ACCEPTABLE	NOT ACCEPTABLE
1. Whether service Centre effectively exists	1 (33.33)	2 (66.67)
2. Functioning of the Service centre	1 (33.33)	2 (66.67)

Tablo XVI - 11

ACCEPTABILITY OF THE MODELS ON THE BASIS OF THE SPECIAL CHARACTERISTICS OF THE MODEL DESIGN

KRISHI BANK
FOUR OUTLETS

CHARACTERISTICS	ACCEPTABLE	NOT ACCEPTABLE
1. Whether loan is provided for Non-Production purposes	-	4* (100)
2. Preparation of Farm Budget	3 (75)	1 (25)
3. Existence of Union level sub-branches	-	4 (100)

* One branch of Krishi Bank (Tangail) disbursed one loan for non-Production purpose. But, it is in significant compared to total number of loans, so it is not considered in this regard.

Table XVI -12

ACCEPTABILITY OF THE MODELS ON THE BASIS OF THE SPECIAL CHARACTERISTICS OF THE MODEL DESIGN

Characteristics	IRDP		BSBL	
	Acceptable	Not Acceptable	Acceptable	Not Acceptable
1. Whether non-Target Group people are allowed to borrower from the RFEP in Principle	2 (100)	-	2 (66.67)	1 (33.33)
2. Existence of loan committee	2 (100)	-	3 (100)	-
3. Mode of loan disbursement	2 (100)	-	3 (100)	-
4. Election of Committee	-	2 (100)	-	3 (100)

Table XVI - 13

ACCEPTABILITY OF THE MODEL ON THE BASIS OF THE SPECIAL CHARACTERISTICS OF THE MODEL DESIGN

Characteristics	JANATA BANK TWO OUTLETS Acceptable	Not acceptable
1. Distance of the village from the bank	2 (100)	-
2. Survey of villages	2 (100)	-
3. Extent of coverage of Target Group 31% and 55%	-	2 (100)

Table XVI-14

ACCEPTABILITY OF THE MODEL ON THE BASIS OF THE SPECIAL CHARACTERISTICS OF MODEL DESIGN

Characteristics	Acceptable	PUBALI BANK TWO OUTLETS Not Acceptable
1. Whether any significant ancillery service provided by the Lending Officer as an "Ombudsman"	-	2 (100)
2. Whether Inputs are supplied to loanees	-	2 (100)
3. Whether Price support is given to any crop in any form	-	2 (100)
4. Whether the lending officer helps the loanees to get services of TCCA Rural Health Centre, etc.	-	2 (100)

Table XVI-15

ACCEPTABILITY OF THE MODEL ON THE BASIS OF THE SPECIAL CHARACTERISTICS OF MODEL DESIGN

RUPALI BANK

ONE OUTLETS

Characteristics		Acceptable	Not Acceptable
1.	Whether the village Agent is treated as Bank staff	1 (100)	-
2.	Incentive to village agent for timely recovery of loan	1 (100)	-
3.	Whether "coupon" system for fertiliser is implemented	1 (100)	-

Table XVI - 16

ACCEPTABILITY OF THE MODEL ON THE BASIS OF THE SPECIAL CHARACTERISTICS OF MODEL DESIGN

SONALI BANK

TWO OUTLETS

Characteristics	Acceptable	Not Acceptable
1. Distance of K.S. from the main branch	2 (100)	-
2. No. of Days Open	2 (100)	-
3. K.S. Incharge's activities on closed days	2 (100)	-
4. Recruitment of K.S. Incharge	2 (100)	-
5. Loan sanctioning authority	-	2 (100)
6. Visits from main branch	2 (100)	-
7. Mode of disbursement (Cash/Kind)	-	2 (100)
8. Selection of borrower	-	-

Table XVI - 17

ACCEPTABILITY OF THE MODELS ON THE BASIS OF THE SPECIAL CHARACTERISTICS OF THE MODEL DESIGN

	Characteristics	UTTARA BANK TWO OUTLETS Acceptable	 Not acceptable
1.	Composition of Group	-	2 (100)
2.	Is Individual lending permissible	2 (100)	-
3.	Landholders representation	2 (100)	-
4.	Mode of loan disbursement	1 (50)	1 (50)

PART - G

VIEWS OF THE RFEP BY THE TARGET CLIENTELE

XVII. WHAT ARE THE PROBLEMS AND BENEFITS OF RFEP AS SEEN BY ITS TARGET CLIENTELE?

A. Introduction

There are essentially two approaches to the evaluation of the RFEP as discussed in the MIT Report. One is operational and is more or less macro-approach to find out the impact that the program has on economic conditions of the target clientele. The second approach deals with the target clientele, not as a statistics but as a human being and through in-depth case studies tries to find out what is the impact not only on his economic condition but also on his way of living while, at the same time, elicits suggestions for changing the operation of the RFEP. In the First Evaluation Report a sociological survey was made which attempted to get such information through a formal interviewing procedure. Even this resulted in the target group clientele in becoming a statistics.

In this section of the report we will attempt to be more humanistic and let the clientele speak for himself. However, it should be pointed out that cases mentioned were not developed with this particular concept in mind but rather were by-products of field visits by various specialists. More full-fledged social anthropological studies are now in progress. Pilot social-anthropogical case study research which was carried out in February and March, 1980 in three areas at Baligaon in Dacca district under Agrani Bank, at Joydebpur in Dacca district under Uttara Bank and at Baneswar in Rajshahi district under Janata Bank has provided most of the data for the preparation of this chapter. Some relevant field-data of a survey carried out by the Field Credit Specialist at Jongli (Natore-Rajshahi) have also been used. For the next evaluation report more representative areas will be selected for a specific anthropological case-study research. That will provide more descriptive and qualitative field-data for a fuller and clearer picture of the views of the borrowers towards RFEP.

B. Borrowers Views Toward Rate of Interest

1. Annual Rate of Interest is 30% on Credit and 14% on Savings at Baligaon Outlet in Dacca district under Agrani Bank Small Farmers' Service Centre Model :

Narayan Das, a Hindu Fisherman, (CS 1)[1] thinks that 30% interest on credit is too high but acceptable as the local money lenders charge 10% interest a month.

Radesh Sham Das, a Hindu fisherman, (CS 2)[1], also thinks that 30% interest was too high but he was happy to get it as he needed it and also could not get a bank loan. He knows that local money-lenders charge 10% interest a month; that is too much and compared with that, 30% interest on the project loan is quite good. All the borrowers interviewed said that interest on savings (14%) was all right, because it was more than the rate currently offered by banks.

2. Annual Rate of Interest is 30% on Credit and 14% on Savings at Joydebpur in Dacca district Under the Uttara Bank Village Group Lending Model

Chan Mohan Mondal, is a rice husker. He said he had no objection to 30% interest rate. He was very glad to get the project loan (CS 5).

Hem Chandra Mondal, is a farmer. In his opinion, 30% rate of interest is all right since charges by local money lenders are too high and vary from 8% to 12% per month (CS 6).

Shirajur Rahman, a farmer, said that he did not mind 30% interest rate. He did not get a loan before and was glad to get it (CS 7).

Mizanur Rahman, a farmer, thought that 30% interest rate was quite high but he did not mind it."The Bank has done well giving us a loan", he said (CS 8).

The case study data from Joydebpur outlet suggest that 30% annual rate of interest was acceptable to almost all people. Only a small percentage said they had some objection, which seems to mean that they too find this loan quite acceptable at 30% rate of interest.

1/A fuller report on the individual case studies referred to may be obtained on request.

3. The Annual Rate of Interest Is 24% On Credit and 13% on Savings at Baneswar Out-let Under Janata Bank Area Development Model :

It appears from the case-study data given below that 6 out of 7 borrowers considered 24% rate of interest to be all right and acceptable; they had no objection for such a rate of interest. Only one borrower said that 24% interest rate was too high. Most people were happy to get a loan; 24% interest rate was not a problem.

Satter Paramanik, is a farmer and tomtom (horse cart) businessman (his brother drives it for the whole family). He thought that the project loan and the rate of interest (24%) thereon were all right (CS 9).

Ishag Paramanik is a farmer, He thinks that 24% interest rate is high but acceptable (CS 10).

Enamul Huq is a landless labourer and said " I have no objection to 24% interest rate because I have obtained a loan". (CS 11).

It seems that most of these people are just happy to get a loan; to them 24% interest rate is no problem.

Sukur is a butcher. He is of the opinion that 24% interest rate was all right if he gets a loan for which he has a need. In fact he was refused to get a loan for his business and as such he is not happy with RFEP program (CS 12).

Abdul Quader is a young farmer and passed the Higher Secondary Examination. He lives in his father's Joint family. In his opinion, the 24% interest rate is high but acceptable (CS 13).

Mohammad Tobarak Molla is a landless labourer. He took loan for two bulls and a cart. He said "I do not mind 24% interest rate". (CS 14).

Idris Ali is a farmer. He thinks that the rate of interest is too high. Why ? Because the Bank charges less interest on other loans. But he agreed that it was better than the loan from local money lenders who charged up to 10% interest a month (CS 15).

4. Jongli under IRDP - Interest Rates : 18, 24 and 30%

All borrowers at Jongli (Natore-Rajshahi) under IRDP Project said that they had no objections to 18% (for crop), 24% (for livestock) and 30% (for non-farm activities) rates of interest.

C. Purpose of Loan

All borrowers at Baligaon under Agrani Bank model and at Joydebpur under Uttara Bank model received loans for their purposes. But at Baneswar under Janata Bank model about 43% borrowers were in fact refused loans for the purpose they requested. Instead they were given loans for something else. They are very unhappy with the situation.

In total, over 85% of the loans at three outlets under three models of Agrani, Uttara and Janata Bank have gone to crop and other agriculture (milch cow and fishing) and only 15% to non-farm activities (rice-husking and ox-cart). Under Agrani Bank and Janata Bank 50% loans went for crops and 50% for fishing (other agriculture); under Uttara Bank 75% loans went to crops and 25% to non-farm activities, while under Janata Bank about 41% loans went for crops, about 41% loans were given to other agriculture (milch cows) and about 18% loans went to non-farm activities. In Jongli (Natore) under IRDP 46% loan went to crop and 54% to non-farm activities.

D. Size of Loan

Under Agrani Bank, the average size of the loan was Tk. 1100/-. Two borrowers out of four received less than they asked for. Later the Branch Manager confirmed and explained that Tk. 2,000/- was the highest ceiling, so he could not pay more than Tk. 2,000/- in one case and in another case he paid Tk. 700/- instead of Tk. 1,000/- because there was not enough security (CS 1 and 3).

Three out of four of the borrowers under Agrani Bank said that bigger loans (upto Tk. 5,000/-) would be more helpful. (CS 1,3 & 4).

Under Uttara Bank the average size of the loan was only Tk. 975/-. Three borrowers out of a total of four received the amount of loan they applied for and one borrower received Tk. 1,000/- but applied for Tk. 1,500/- (CS 6). It was later explained that Tk. 1,000/- was the highest ceiling put by the Head Office. Under Uttara Bank model at Joydebpur half of the borrowers wanted bigger loans up to Tk. 3,000/- (CS 5 and 6).

At Baneswar under Janata Bank, average size of the individual loan was about Tk. 4,000/- and it seemed to be adequate for each borrower. But it seems to be too high compared to what has been suggested for in the RFEP.

Under these models, the average size of the individual loans seems to be about Tk. 2,000/-.

The size of loan under IRDP at Natore varied from Tk. 500/- to Tk. 1,000/-.

E. Distance Borrowers Have To Travel From Home To Bank :

Both Agrani Bank branch at Baligaon and Janata Bank branch at Baneswar are close to the project outlets and people do not have to travel long at all.

The Uttara Bank branch at Joydebpur is quite far, about 8 miles each way from the project area. This is certainly quite at a distance, but field-data show that the loan officer does a great deal of work on behalf of the branch and for the borrowers, i.e., he collects and takes application to the Bank branch and also takes cash to the borrowers who are sanctioned loans and collects savings. So, people do not have to travel such a long distance and do not have to go very often from their village home to the Bank at Joydebpur..

The three miles one way distance at Natore (Jongli) under IRDP also was no problem since committee officials do the work for members.

F. Timelines of the Loan

On the average, it took about a month for each borrower to get his loan after filling in his application form. This seems to be a rather lengthy procedure for a single loan.

The Uttara Bank at Joydebpur seems to have disbursed loans more quickly. It took about a week on the average and the borrowers do not seem to complain about it.

For the Agrani Bank at Baligaon, it took from one week (CS 2) to 2 months (CS 4) to give loans,

But the longest time was taken by the Janata Branch at Baneswar, where all the applications had to be sent to the Dacca Head Office. It took, on the average, about a month and a half for the loanees to get loans after application. This of course was very discouraging for the loanees. (CS 9 to 15).

But recently the Dacca Head Office has transfered the loans sanctioning authority from the Head Office to local branch and as such no more applications will have to be sent to Head Office. The Baneswar Branch has confirmed it.

The borrowers at Jongli (Natore) under IRDP received loans four weeks to six weeks after submitting applications. This delay is due to the fact that all the applications must be sent to Dacca Head Office of the IRDP and must be signed by officers at different levels. The borrowers complained about this long delay.

G. Duration of Loan and Repayment Method

Most of the loans disbursed by the Agrani Bank at Baligaon (Dacca) were given for six months. This was done, as explained later by the Branch Manager, keeping in mind the expiration date of the RFEP (August, 1980).

All the borrowers said they would be able to repay the loan in six months.

Radesh Sham Das (CS 2) is also a fisherman. The loan has helped him because with the loan he repaired his own net. Without this loan he would have to borrow from the local money lenders at a much higher rate of interest (10% a month). Now he has his own net and keeps the total earnings from his work. His family gets full-meals everyday and necessary clothing. He is better off than before.

Kalachan Sheikh (CS 3) said that the loan has helped him very much. He was poor and so could not get any other loan. Without this loan he could not cultivate wheat. Mohammad Siddique Sheikh (CS 4) said that the loan has helped him to buy a small boat to ferry people and this brings him daily cash income. If he had not received this loan he would have had to work as a day labourer which is an uncertain job.

All borrowers interviewed at Nilorpar village at Joydebpur(Dacca under the Uttara Bank Project) said that they have been benefited by the loan.

Chan Mohan Mondal, is a resident of Nilorpar village (CS 5). He said that he used the loan for rice husking, and now his family can get more food than before. If he had not got the loan he would have to sell or mortgage his land. " That could be disasterous", he said.

Shirajur Rahman is a farmer and resides at Nilorpar village (CS 7). He has used the loan for cultivation. He said loan has helped but could not give any evidence except that he could not cultivate his land without this loan, "because loan from local Mohajons (Money-lenders) will carry 10% interest a month; that is too much", he said. After the harvest, he will get full benefit of the loan. Also see CS 3 and 8.

Less than one half of the borrowers at Baneswar(Rajshahi) under Janata Bank said without any reservation that the loan has helped them (CS 9, 13, 15). The rest, more than one half of the borrowers (57%), said that loan had been given for the real need they had, the loan would have certainly helped them.

Narayan Das, Kalachan Sheikh and Mohammad Siddique Sheikh at Baligaon said they need larger loans and the repayment period should be extended from six months to one and a half years (CS 1, 3 and 4).

The loan officer of the Uttara Bank outlet at Joydebpur said it was difficult to form a group since people simply do not want to take responsibility for and on behalf of other borrowers of the group.

At Joydebpur (Dacca) under Uttara Bank, Chan Mohan Mendal was given a loan for rice-husking and was told to repay TK. 40/- a week. Hem Chandra Mondal was given a loan in kind (fertiliser) and was told to repay loan in four installments. Both of them said it was difficult to pay by instalments, they prepared to pay all the loan at the end of the period (CS 5 and 6).

However, all the borrowers said they would repay on time.

Over 70% loans disbursed by the Janata Bank at Baneswar (Rajshahi) were due to be paid by instalments, of them 60% borrowers said they found it difficult to pay by instalment for various reasons(Ox-cart) business was not good, cow gives less milk etc.) (CS 11, 12 and 14).

All the borrowers wanted to extend the duration of loan period (from the present one year period to one and a half years or two years). All borrowers seem willing to make full repayment.

IRDP loans for the project at Jongli (Natore) were given mostly for six months. Borrowers had no complaints about it.

H. Was the Loan Helpful ?

The field-data indicate that all borrowers interviewed at Baligaon under the Agrani Bank have benefited from the RFEP loan.

Narayan Das (CS 1) is a fisherman. He said the loan has helped. He stated that without the loan he could not have bought his own fishing net. Without his own fishing net he would have to share fishing with others which would mean less income, or he would have to work as a labourer.

Ishaq Ali, a farmer is one of a group of 10 loanees who jointly took a loan of TK. 24,000/- for farming on a big plot of college land. Ishaq Ali said they wished to cultivate wheat or sugar-cane but the loan officer told them to plant banana. He seemed very unhappy. He said he did not know how this crop could bring profit.

Enamul Huq is a landless labourer. He wanted to use loan for a business "That would bring real benefit", he said. But he was refused instead he was given loan in kind for one milch-cow. He has no money even to buy fodder. He could not make any repayments. "The milch-cow cannot help me," he said.

Sukur is a butcher. He wanted loan for his butcher business or for any other business; instead he was given loan in kind of 4 calves for beef fattening. He finds it difficult to buy fodder for them. For him the help from loan seems very remote.

Tobarak is a landless labourer. He wanted a loan for ox-cart. He also wanted to choose and buy two cows/bulls and ox-cart himself but he was not allowed, instead the loan officer bought them for him. Though Tobarak was present he could not but accept what was bought for him. He complained that one cow was somewhat good and the other was totally bad. So, he could not use them everyday, and the business was poor. He cannot earn enough to make installment payments.

The field-data of a survey carried out by the Field-Credit Specialist at Jangli (Natore-Rajshahi) show that one hundred percent borrowers said that the loan has helped them, and there was 100% realization of the first loan on right time. These loans were mostly for 4 - 6 months duration.

I. Savings

The project out-let at Ariol Baligaon under the Agrani Bank model did not have any savings up to January, 1980. When asked why, the loan officer explained that the people were very poor and so, could not make any savings. But this did not seem to be the right answer; perhaps he did not put enough work in the area to motivate the borrowers to make savings.

At Joydebpur under Uttara Bank Model. The average size of the savings of every target group family was TK.47/- in 10 months, that is, about TK.5/- a month. The Uttara Bank collected savings from only the target group families. Of the total loanees about 80% made savings.

The average savings of TK.4/- a month made by an individual family seems too small for any economic activities or capital formation for the people in the area.

The Janata Bank at Baneswar collected savings from both the target and non-target group families, and the officer did not keep any record to show the figures of savings separately. The figures show that, on the average, each savings (from both target and non-target) was TK.20/- per family per month.

Indeed one hundred percent target group families in the cooperative society (not in the whole project village/area) made savings under IRDP. The average size of savings under IRDP at Jongli in Rajshahi was Tk. 32/- per family per month.

PART - H

RECOMMENDATION

XVIII. RECOMMENDATIONS

A. Restructuring Outlets

1. The areas of all lending institutions with the possible exception of Krishi, should be expanded so that the average number of target group per outlet approches that of Krishi. This will mean the total (target plus non-target) number of households should average about 1400 households per outlet.

2. Unless IRDP and BSBL extend their lending activities to the entire target population and meet the level called for in recommendation (A-1) then consideration should be given to droping these lending institutions for the experiment.

3. In order to obtain a more efficient testing of interest rates of different levels, the number of target households involved at each level of interest rate should be equalized.

4. If any lending institution has less than five outlets it should hot be permitted to have more than one model at the same interest rate.

B. Credit Norms Revision

1. A way must be found under the experiment to enable longer repayment periods when the earning to be realized from the loan can materialize in the short period presently allowed in the Project.

2. Although the average size of loan is larger than received before RFEP, apparently there are many cases in which the loan size is too small for the purpose for which the loan is being made.

3. In view of the source of gross cash income on the part of the target group members the pressure to obtain crop and other agricultural types of loans should be reduced especially the latter. The distribution of loans by purpose in a given outlet should come closer to the normal sources of gross cash income of the target group in each outlet.

4. Care should be exercised on the part of branch manager and the loan officer, particularly in those models which involve lending in kind, that the borrower not be forced to use a loan for the purpose he is not equipped to handle or is not desireous of having.

C. Savings

1. Now that it has been demonstrated that the target group can save the lending institutions should come up with some innovative suggestions for increasing the savings among the target groups which they can introduce.

2. The special savings survey demonstrates the importance of habit in savings. Thus the average size savings account under RFEP of previous savers was twice the size of first time savers. The lending institutions should develop methods of generating the savings habit under the RFEP program.

3. The lending institutions should be more vigorous with respect to introducing the RFEP savings programs to the non-target group.

4. The IRDP and BSBL savings programs should not be considered as part of the RFEP experiment since they are only paying 4.5% and 6.3% interest.

D. Financial Viability

1. Increase the volume of loans being made per outlet by :

   a. Increasing size of outlet (Recommendation A-1)

   b. Ensuring that the staff assigned to RFEP is not to carry out Non-RFEP operations. Because the number of loans made in an outlet is a direct function of the percentage of time spent on RFEP especially by lending officer.

   c. Increase the level of RFEP training.

2. Each lending institution should review the overdue account in each outlet and report on actions which will be taken to reduce the level of overdues.

3. Each lending institution should set up a reserve for bad debts based.

4. Drop 12% interest rate lending and replace them with 30% and 36% rate outlets. Twelve percent loan outlets cannot be viable.

E. Improvement in operation of Model

1. Training

a. Consultant should complete the preparation of training manual as soon as possible.

b. Effect of the two day regional workshops should be assessed upon their completion by the Field Research Staff in its next management survey.

c. Consultant's training officer should develop together with Training Institution of each lending Institution an appropriate curriculum and schedule covering the next 12 months with respect to RFEP for that lending institution.

d. The Consultant's Evaluation and Training Specialists should develop a course on Evaluation with appropriate modifications so that the special characteristics of each model might be covered in the lending institution's own evaluation.

e. Once the course contents have been accepted, the Evaluation course should be given to the Evaluation Officers of each of the lending institutions.

f. The Consultant's training officer together with Project Officer of each lending institution should develop a system of having any new appointee or transfer into the RFEP program be given training appropriate to the credit model before taking up his duties.

g. A Special Training Session for Regional Officers should be carried out in Dacca.

2. Management

a. The second management report should be distributed by the Bangladesh Bank to each lending institution with sufficient copies for each outlet. The Bangladesh Bank should prepare a directive which would require the branch manager of each outlet to comment on the findings with respect to his branch and what corrective action he recommends or he is taking. In turn, at the head office, the project officer should indicate what corrective actions are being taken by the lending institution in relation to the report.

b. Productivity : The project officer of each lending institution, together with a loan disbursement official of the institution should review the performance of each outlet and then make a field visit to each outlet to determine what the constraints are with respect to increasing the number of loans being disbursed per month in each branch. Recommendations should be made to the Managing Director of each lending institution and to the Bangladesh Bank as to the actions which have to be undertaken to remove the constraints in order to increase productivity. The assessment should deal with, but not be limited, to such items as adequate incentives, quality of implementation tools, training needs, adequate planning. etc.

F. Model Implementation

1. Each lending institution should be sent a copy of the Consultant's Survey of Model Implementation in 21 outlets, which is summarized in this Evaluation Report and shortly will be published in full.

2. The lending institutions should comment to the Bangladesh Bank on the report and indicate steps which are being taken to correct the deficiencies.

G. Target Group Definition

I. If only the maximum gross cash income of 6,000 takas were used, 65% of the households with some farming activity would have fallen into the target group.

2. The further restriction which requires that the target household not own more than 2.0 acres of cultivated land reduces the percentage of target households with some farming activity to 52%.

3. Without the land restriction the total target group including landless households would increase from 63% to 72% of the total households in the areas being served by RFEP.

4. It is recommended that the target group definition be changed so as not to include the land restriction of ownership of not more than 2.0 acres of cultivated land since approximately 9% of low income households are ineligible for RFEP loans because of this restriction.

APPENDIX

APPENDIX

MULTIPLE REGRESSIONS FOR SAVINGS AND LOAN SIZE

A. Introduction

In the MIT Team's report "Evaluation of the Rural Finance Experimental Project" there is a long Technical Note which suggests that the development of a number of equations relating certain variables such as the amount of savings per household and amount of loans per households to a variety of variables should be carried out. We made only the first preliminary explorations to develop such equations. The results are given below.

B. Loans

Utilizing a random sample of 400 cases from the Continuous Survey, the relationship of the following variables were studied with respect to the size of the loan received by a household under RFEP. The size of the loan was related to : 1) Purpose of Loan — Agriculture or not; 2) Monthly rate of interest; 3) amount of land owned; 4) other cultivated land; and 5) gross cash income.

The interest rate and the amount of other land cultivated turned out to not have a significant relationship to the size of loan. While the equation utilizing the remaining variables purpose of loan, amount of owned cultivated land, and income level proved to be statistically significant, the multiple correlation coefficient was relatively low, amounting to only 0.274.

The equation was :

Size of Loan = 489+360(Purpose)+.84(Decimals Land Owned and Cultivated)+.0222(Income)

C. Savings

Utilizing 200 cases from the Sample Savings Survey, the relationship of the size of savings of a household was related to the following variables : 1) Gross Cash Income; 2) Rate of Interest Paid; 3) Amount of Land Owned; 4) Distance from Bank; 5) Regular Savings or Not; 6) Knowledge of Interest Paid; 7) Occupation; 8) Previous Saver; 9) Number of Loans; 10) Purpose of Saving.

The only vaiables which proved to be significant were : Distance from Bank; Previous Saver; and number of loans. The multiple correlation coefficient was almost the same as for loans, namely 0.26.
The equation was as follows :

$$\text{Amount of Saving} = -7.65 + 1.336(\text{Distance}) + 40.16(\text{Purpose}) + 36.84(\text{Number of loans})$$

D. Conclusion

These results, which are statistically significant, do not warrant a great deal of attention because they do not explain a sufficient amount of the variation in either the size of loans nor in the size of the deposit balances. Further econometric studies should be carried out.