

PDCAA204

**SUMMARY OF THE MARCH 1982 RURAL FINANCE EXPERIMENTAL PROJECT  
EVALUATION REPORT**

**INTRODUCTION:**

Under the consultant contract with Public Administration Service and S.F. Ahmed & Co., the consultant will provide two major evaluation reports. The first report was submitted on 19 March, 1982. The purpose of the evaluation is to assess the project and highlight areas of significance particularly with respect to the follow-on project. The major conclusions of the report are summarized as follows:

**MAGNITUDE OF BORROWING:**

As the following table shows, Krishi and Sonali have carried out the largest amount of borrowing:

Insti- tution	No. of		Total		Total		Tk. (000)	
	Out- lets	%	No. of Borrow- ers	%	No. of Loans	%	Volume of Loans	%
Krishi	16	16.7%	11,812	33.6%	18,720	34.3%	31,933	37.3%
Sonali	10	10.4	5,984	17.0	7,874	14.4	14,858	17.4
Janata	11	11.5	1,386	3.9	2,188	4.0	3,867	4.5
Agrani	11	11.5	4,513	12.8	7,160	13.1	8,741	10.2
Pubali	4	4.1	2,282	6.5	3,861	7.1	5,470	6.4
Rupali	7	7.3	2,301	6.6	3,378	6.2	4,815	5.6
Uttara	5	5.2	840	2.4	1,174	2.1	1,336	1.6
IRDP	13	13.5	3,144	8.9	6,442	11.8	6,508	7.6
BSBL	19	19.8	2,917	8.3	3,821	7.0	8,025	9.4
<b>Total</b>	<b>96</b>	<b>100.0</b>	<b>35,179</b>	<b>100.0</b>	<b>54,618</b>	<b>100.0</b>	<b>85,553</b>	<b>100.0</b>

On a per outlet basis, Krishi, Sonali and Pubali have the best performance.

	<u>Loans per Outlet</u>	<u>Borrowers per Outlet</u>	<u>Taka lent per Outlet (000's)</u>
Krishi	1,170	738	1,996
Sonali	787	598	1,486
Pubali	965	571	1,368

The average size of a loan is Taka 1,566. IRDP (55.9%), BSBL (49%), and Janata (42%) have the greatest percentage of the total lending portfolio extended to crop loans. Krishi (50%), Uttara (37.6%), Janata (35.5%), and Sonali (34.9%) have the greatest percentage of the total lending portfolio going to agriculture related loans.

BSBL (68.8%), Rupali (44.3%) and Pubali (43.2%) have the greatest percentage to non-agricultural loans. The report correctly notes that a significantly larger proportion has gone to non-agricultural activities and other agricultural activities than has gone to crops. Field trips indicate that most of the alternative uses of lending have gone for employment generation activities such as oil or rice processing or financing the purchase of rickshaws and tools.

#### LOAN PROCESSING TIME:

The volume of lending achieved by each participating institution is related to loan processing time. Over 80% of the borrowers at Krishi, Rupali, IRDP and Uttara required no more than two visits to the branch office to get their loans processed. On the other hand, over half the borrowers at BSBL and Janata had to visit their outlets at least three times. This is not a staffing problem since the branches who have done a larger volume of lending also have a larger lending portfolio per officer. Krishi (369 borrowers per officer), IRDP (241 borrowers per officer), and Sonali (199 borrowers per officer). Krishi Bank disburses nearly twice the RPEP average and is 50% higher than the second ranked institution. It is the low volume, small portfolio model that takes the longest time to disburse loans either because of problems in model implementation or management deficiencies.

#### REACHING THE TARGET GROUP:

The project lends funds to families with a gross cash income of Tk. 6,000 or less and owning land of two acres or less. Performance as of the end of October 1981 is as follows:

#### PROPORTION OF TARGET GROUP HOUSEHOLDS BORROWING

<u>Institution</u>	<u>No. of borrowers per outlet</u>	<u>% of T.G. % households</u>
Krishi	738	64.8
Sonali	598	56.2
Pubali	571	31.7
Agrani	410	46.0
Rupali	329	44.6
IRDP	241	59.6
Uttara	168	32.6
BSBL	154	45.0
Janata	126	48.0
Average	366	51.5

LOAN RECOVERY:

The single most important element of any rural credit project is to lend and recover funds on time. On a national scale, the amount of the lending portfolio overdue averages around 50%. Such performance is of course unsatisfactory. As detailed below, the performance of RFEP outlets is significantly better.

PERCENTAGE OF LOAN AMOUNTS OVERDUE

<u>Institution</u>	<u>% Overdue</u>	<u>Amount overdue Taka</u>
IRDP	4.4%	( 143,270 )
Agrani	5.8	( 315,745 )
Rupali	6.1	( 112,217 )
Krishi	10.4	( 1,312,112 )
Sonali	13.4	( 645,834 )
Uttara	16.3	( 124,257 )
Janata	17.1	( 301,271 )
Pubali	20.8	( 661,026 )
BSBL	36.4	( 1,252,305 )
All institutions	13.1	( 4,868,037 )

AGEING OF OVERDUE LOAN AMOUNTS BY INSTITUTIONS

<u>Institution</u>	<u>% Less than 3 months</u>	<u>% 3-6 months</u>	<u>% 6-12 months</u>	<u>% More than 12 months</u>
IRDP	81.8	16.8	0.7	0.7
Pubali	74.8	3.0	14.1	8.1
Rupali	59.0	33.0	5.3	2.7
Krishi	50.5	23.9	12.3	13.3
BSBL	33.5	44.0	10.1	12.4
Sonali	49.7	13.5	15.6	21.2
Agrani	43.6	24.4	10.5	21.5
Janata	23.4	4.8	48.9	22.9
Uttara	14.5	1.6	6.5	77.4
All institutions	47.4	23.1	13.9	15.6

While overdue performance is better than national averages, improvement is still possible. The reasons for overdues vary depending whether one asks the borrower or lender. Borrowers say they default because they lose confidence in the outlet and feel they will not get repeat loans. If they feel confident about a repeat loan, they will go to some lengths to repay even from other sources. Banking branch staff think overdues are caused by either enterprise failure or laziness on the part of the borrowers.

The group and cooperative lending models present a special situation in that often a momentum of overdues builds up particularly among non-homogeneous groups. Such a reaction is hard to check, especially if the borrowers know that subsequent loans will only be forthcoming when all have been repaid. This has been the case with Janata Bank. Uttara's overdues were reduced markedly after groups were allowed to exclude defaulters. (Uttara's overdues are 14%, but excluding one exceptionally poor performing branch they drop to 4%).

The IRDP has had the best overdues position. Good management at the TCCA has been a factor as has the educational efforts to relate prompt repayment with repeat loans. Also KSS membership has been careful to exclude higher risk borrowers.

Institutional lending to individuals generally has a much lower level of overdues. Much of the overdue amount is short term and if one excludes overdues of less than three months, the overall position improves to around 6%.

In summary, the most important factor in loan recovery is establishing a genuine client customer relationship. This gives the borrower the assurance that credit will be available in the future. It also obligates the lending branch to make an aggressive effort to collect loans when they fall due and not let overdues age past three months. In outlets where management has been good, overdues are negligible or nil. These are Cadet College and Bhatra (Agrani), Gaibandha and Rangpur (Krishi), Basan (Uttara), Ellenga (Pubali) and Kalihat (Rupali).

#### FINANCIAL VIABILITY:

The question of financial viability is a critical one for RFEP and indeed for the entire banking system. The consultant's analysis of profitability is based on actual interest earned, real administrative costs, the real cost for borrowed funds, and a detailed provision for loan losses much more strict than that currently used in the Bangladesh banking system. Further analysis needs to be done with respect to the cost of funds to include the alternative opportunity costs. However, the conclusions are useful and are summarized below.

PROFITABILITY OF INSTITUTIONS  
(12 months ending September 30, 1981)

<u>Institution</u>	<u>Actual</u> <sup>1/</sup>	<u>Adjusted</u> <sup>2/</sup>	<u>Profitability, eliminating best/worst and new outlets</u>
IRDP	8.0%	8.3%	6.1%
Krishi	6.4	5.9	3.5
Sonali	3.2	4.6	1.3
Rupali	1.3	(0.4)	3.3
Agrani	( 0.1)	0.3	1.1
Janata	( 4.4)	( 1.5)	4.7
BSBL	( 6.7)	( 0.7)	6.3
Pubali	(10.9)	( 5.0)	( 6.6)
Uttara	(23.5)	(26.0)	(30.5)
Average	1.9%	2.9%	2.4%

The four institutions IRDP, Krishi, Sonali and Rupali which are currently profitably account for 68% of lending done to date. The most important reasons for their profitability are: high volume, an adequate spread between interest earned and interest paid for borrowed funds, reasonable control over administrative expenses, and a comparatively smaller requirement to provide for loan losses because of better collection experience. Special mention should be made of Krishi Bank which, besides performing above average, accounts for 37% of total lending in the project.

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1/ Based on actual interest rates (12-36%) and 10½% interbranch borrowing rate.

2/ Hypothetical: 24% interest rate; 10½% interbranch borrowing 12% savings rate

SAVINGS:

RFEP shows that bankers have been hesitant to amass deposits they could not profitably lend at non-project loan rates. Because of the large (one-third, one-third) lending incentive, the project to date does not constitute a valid test of any savings model nor should the data available to date be regarded as an accurate measure of the potential for savings mobilization among the rural populations of Bangladesh.

For the project as a whole total savings was equal to 12.9% of the taka amount of loans outstanding (Tk. 6,855,000). The following tables give detailed performance:

SAVINGS AS PERCENTAGE OF LOANS OUTSTANDING  
SEPTEMBER 30, 1981  
(Data through 30 September, 1981)

<u>Institution</u>	<u>Old Outlets</u>	<u>New Outlets</u>	<u>All Outlets</u>
Krishi	9.6%	4.8%	8.8%
Sonali	9.4	5.0	13.3
Janata	28.3	26.6	27.7
Agrani	31.5	146.3	32.7
Pubali	3.8	-	3.8
Rupali	70.3	9.6	34.1
Uttara	8.9	15.0	8.8
IRDP	11.8	14.7	12.4
BSBL	2.9	2.3	2.6
All institutions	15.1	8.0	12.9

Per the above, three of the participating institutions, Agrani, Rupali and Janata have financed as much as a quarter to a third of their loans with locally mobilized funds. Also old outlets show a higher ratio of savings deposits to outstanding loans balances indicating that generating savings is a long-term proposition. The figures suggest that if the self-financing goal is to be achieved, special attention will have to be given to reaching the non-target group since over 80% of savings come from them.

While there is no clear tendency for the average account size to either rise or fall as the rate of interest varies, the savings data indicates that the target group borrower is sensitive to the large variations between loan interest rates and savings interest rates permitted in the project. Target group savers are also target group borrowers. Where the difference between interest rates and saving

rates are highest (21%), borrowers had a strong incentive to repay their loans as quickly as possible and not accumulate significant savings. Bankers, on the other hand, appear sensitive to the interest rate and prefer to borrow from their head office at 10% rather than pay higher interest on local savings even though a potential exists for accumulating savings.

A special institution is Krishi Bank. There has been rising trend in the ratio of total savings to total loans outstanding. In February 1981, Krishi Bank commissioned women savings mobilizers. The women visit the homes of the non-target group in their project areas and solicit deposits from women. The innovation was subsequently extended to all 16 RFEP outlets operated by the Krishi Bank. The Krishi Bank maintains that this has had beneficial results as the following table shows.

KRISHI BANK TOTAL SAVINGS, 1981  
(in Taka)

	<u>Target</u> <u>Group</u>	<u>%</u>	<u>Non-Target</u> <u>Group</u>	<u>%</u>	<u>To</u> <u>Total</u>	<u>%</u>
Sept. 30	1,265,622	70.1	538,837	29.9	1,804,459	100
Dec. 31	1,698,702	53.2	1,495,184	46.8	3,193,886	100
Change	433,080	31.2	956,347	68.8	1,389,427	100
% change	34.2%		177.5%		77.0%	

KRISHI BANK TOTAL SAVINGS  
COMPARED WITH LOANS OUTSTANDING  
(in Taka)

	<u>Loans</u> <u>Outstanding</u>	<u>Savings</u>	<u>Savings as % of loans</u> <u>Outstanding</u>
Cumulative to Sept. 30	20,616,684	1,804,459	8.8
Cumulative to Dec. 31	24,295,240	3,193,886	13.1
Net change, Fourth Quarter 1981	3,687,556	1,389,427	37.8
Net change, Month of Dec. 1981	885,741	665,766	75.2

As seen from the above, 37.8% of credit extended during the last quarter of 1981 was funded from new savings. In other words, net savings mobilized in December represent 25% of cumulative savings through November 1981 and was sufficient to finance 75% of the net disbursement of credit at Krishi's 16 project outlets during the month.

Outside of RFEP, Krishi's savings performance has been good. In 1981, for example, it is reported that savings as a percent of loans outstanding were 33.7%. Over a four year period, total savings have grown at a rate of 50% per annum. Even so the performance of Krishi Bank under RFEP in the last part of 1981 was better and should be supported.

#### SAVINGS SUMMARY AND CONCLUSIONS:

1) Incentives must be provided if banks are to more effectively mobilize savings. Although various clauses permitted the banks to increase effective rates of interest paid on deposits above the nominal rate, the banks continue to regard saving mobilization among the poor as a high cost source of funds. This must be changed.

2) Special attention must be given to mobilizing the savings of the non-target group saver who is sensitive to the rate of interest paid for his money.

3) Significant savings can be mobilized from the non-target group by taking deposits at a higher rate of interest. Three banks Rupali, Agrani and Janata, generated the bulk of their deposits in these outlets.

4) Special savings mobilization as per the Krishi Bank example should be developed

GROUP LENDING:

The group lending approach tried under RFEP was assumed to reduce costs, increase loan officer productivity, reduce borrower's transaction costs, better mobilize savings, and increase the repayment rate. With some modifications Janata, Uttara, IRDP and BSBL tried the group approach. The individual lending approach, however, has reached more people. Loan officer productivity is measured as the number of borrowers and number of loans per full time RFEP officer at the outlet. With the exception of IRDP, the group models' productivity is lower than any of the individual models:

## COSTS OF DISBURSING LOANS

<u>Institution</u>	<u>Administrative cost per loan disbursed (Taka)</u>
<u>Individual</u>	
Krishi	72.2
Sonali	57.0
Agrani	60.3
Pubali	113.3
Rupali	112.8
Average	74.4
<u>Group <sup>1/</sup></u>	
Janata	173.9
Uttara	293.6
IRDP	32.5
BSBL	62.7
Average	86.6
All institutions	77.1

While over two-thirds of all borrowers taking individual loans received their loans in a week or less, only 12% of those borrowing in groups did so. About 75% of them have to wait for more than two weeks and in some cases up to four months to have their loan approved under the group lending model. This was especially the case for BSBL. The table below shows the respective overdue position of the two types of approaches. With the exception of Pubali, the individual approach appears to have been more positive.

<sup>1/</sup>The cost per loan is the cost per borrower, not the cost per group or KSS loan.

## PERCENTAGE OF LOAN VOLUME OVERDUE

<u>Institution</u>	<u>As of June '80</u>	<u>As of Sept '80</u>	<u>As of June '81</u>	<u>As of Sept '81</u>
<u>Individual</u>				
Krishi	17	10	9	10
Sonali	31	28	12	13
Agrani	1	5	4	6
Pubali	7	4	19	21
Rupali	5	3	3	6
<u>Group</u>				
Janata	18	25	16	17
Uttara	19	28	18	16
IRDP	0	6	3	4
BSBL	35	38	32	36
Overall	16	13	11	13

Source: Monthly Financial Reports.

The implementation of the group concept is illustrated by some of the Uttara outlets. Current practice allows groups to reform in order to exclude a defaulter so that the group can take further loans. On some occasions, loans are given to individuals. Not only is this a negation of the group approach concept but also a tacit admission by the institutions that the approach is less acceptable to borrowers. This is also confirmed by the consultant's sociologist who reports that borrowers would prefer to receive loans as individuals.

Four reasons account for the generally poor performance of the group approach:

- 1) Most groups formed did not have any binding common interest.
- 2) Outlet staff have not had enough specialized training. Only Janata Bank has covered the group approach in their training courses.
- 3) Branch staff consider group lending as a hindrance.
- 4) Borrowers do not like group lending because of the long loan sanctioning process and bureaucratic delays in loan approval (i.e., Janata, IRDP, and BSBL).

There are examples of successful group lending in Bangladesh, most notably the Grameen Bank Project and the IRDP experience in Comilla. But both of these have had group solidarity, mandatory deposit requirements, good local leadership and have combined credit with other services. Under KFEP the best group lending has been achieved by Janata Bank at its outlets in Baider Bazar, Jhikergacha, Khankhanapur and Burghatta outlets.

#### LOANS TO WOMEN:

Existing social conditions in rural Bangladesh do not permit women to act independently. Loans are often made in the name of a male family member even though the activity financed is carried out by a female.

The table below gives the detailed breakdown of lending that has been made directly to women.

#### R.F.E.P. LOANS TO WOMEN

<u>Institution</u>	<u>Total Borrowers</u>	<u>Women Borrowers</u>	<u>% Women to Total</u>	<u>Average number of Women Borrowers per Outlet</u>
Krishi	11,812	512	4.3	32
Sonali	5,984	151	2.5	15
Janata	1,386	42	3.0	4
Agrani	4,512	259	5.7	24
Pubali	2,282	53	2.3	13
Rupali	2,301	94	4.1	13
IRDP	3,144	273	8.7	21
BSBL	2,917	73	2.5	4
<b>Total</b>	<b>35,178</b>	<b>1,494</b>	<b>4.2</b>	<b>16</b>

#### LOAN USES OF WOMEN BORROWERS

<u>Activity</u>	<u>Percentage</u>
Preparation of puffed rice	31.3
Handicrafts	25.0
Paddy Husking	21.9
Livestock Husbandry	9.4
Betel Leaf Selling	3.1
Marriage of Daughter	3.1
Rickshaw Repair	3.1
Other	3.1
<b>Total</b>	<b>100.0</b>

While the women borrowers said loan interest rate levels were too high, over 50% were repeat borrowers.

Of the respondents interviewed, 19% said they had not yet earned additional income from their loan though it should be noted that about 40% of those women interviewed had not fully utilized their first loan. In order of frequency the uses of the income generated from loans are as follows:

#### USE OF ADDITIONAL INCOME FROM LOANS

<u>How Income was used</u>	<u>Percentage</u>
Consumption	81.1
Purchase Livestock or Capital Goods	40.5
Repair House	10.0
Increase Working Capital	5.4
Purchased Land	5.4
Invested in Crop Production	2.7
Loan did not generate income	18.9

Outlet staff regard women as better credit risks, and feel they can make a profit at the same rate as a man. Branches also say women's repayment record is better. Only one institution, Krishi, has employed women as loan officers, despite the recommendation that such staff might be an effective way of reaching the estimated 10% of target households headed by women.

#### SOCIOLOGICAL FINDINGS:

##### 1. Attitude Toward Interest Rates:

<u>Advantages</u>	<u>% of Number</u>
Low interest rate	42.5
Facilitates Livelihood	16.8
Easy Repayment Conditions	10.4
Timely Disbursement Conditions	9.4
Capital Formation	6.2
Others	7.6
No Advantage	1.5
No Response	5.6
Total	100.0

In spite of higher than average interest rates, borrowers view the RFEP loans favorably. In fact low interest rates is the most often cited favorable reason. This reflects the high cost of informal credit when available and indicates the acceptance of higher interest rates on the part of the borrowing population.

**BORROWERS WHO STATE THAT LOW INTEREST RATE  
IS THE MAIN ADVANTAGE OF THE LOAN, BY THE  
INTEREST RATE OF THEIR LOAN**

<u>Interest</u>	<u>Total No. of Borrowers</u>	<u>% of Total Borrowers</u>	<u>Borrowers Who Stated Interest Rate Lower</u>	<u>% of Col. 4</u>	<u>% of Col. 4 Against Col. 2</u>
<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
12%	51	6.6	23	7.0	45.1
18%	213	27.4	102	30.8	47.9
24%	223	28.7	89	26.8	39.9
30%	254	32.6	109	32.0	42.9
36%	37	4.7	8	2.4	21.6
<b>Total</b>	<b>778</b>	<b>100</b>	<b>331</b>	<b>100</b>	<b>42.5</b>

There is little significant difference as to the attractiveness of loans at 18%, 24%, and 30%. Rural people frequently calculate interest by the month. They appreciate borrowing at 1%, 1-1/2%, 2%, or even 2-1/2% a month which seems more reasonable for short term loans than the 10% a month often required for non-institutional loans. They believe that 30% and 36% is high for medium term loans such as a two year loan for a milch cow and that the investment may not be sufficiently profitable.

**2. Effects on non-Institutional Credit:**

Between 40% and 65% of rural people take non-institutional loans. About 40% are for rice or other basic consumption and about 30% are for short or medium term capital for agriculture, petty trade, and livestock. Other uses are a daughter's marriage, health care, home building, education and buying land. RFEP has had a significant effect on informal credit. In several RFEP areas, money lenders who previously charged 120% annual interest have reduced their rates to 60% or 40%. All 15 moneylenders interviewed said they regard RFEP as a threat to their profession.

### 3. Attitude of Major Rural Groups

a) Landowners: Landowners generally dislike the program. They say RFEF has added a new dimension to the socio-economic environment. Field workers now try to lease land. It is more difficult to get agricultural laborers and wage rates have tended to go up.

b) Religious Leaders: Two-thirds thought the program was aimed properly at the poor; the remaining one-third were not aware of the program.

c) Village Pradhans: Of 30 people, 18 thought the program threatened their control of the poor and 12 were satisfied that the program helped the villagers achieve greater economic security.

d) Local political leaders: Twenty out of thirty local political leaders thought the program was helping the poor attain self-reliance and that borrowers were becoming more socially, economically and politically conscious.

Union Parishad: Of 15 chairmen, 8 thought the program was helping the poor; the remainder were unaware or believed the program made the poor too politically conscious.

Gram Sarkar Pradhans: Of 15 interviewed, 12 believed the program was very helpful.

### 4. Repayment Methods

Repayment differs according to loan purpose and bank policies. Rupali tailors repayment to purpose; IRDP often requires repayment in a lump sum to minimize bookkeeping by the cooperative secretary. Generally, loans for crops or raising animals are repayable in a lump sum, those for trade, rickshaws and industries are repayable in installments. The biggest incentive for repayment is the expectation of future loans. At IRDP in Burhanuddin and Babujanj there are many repeat loans and an excellent repayment record.

### 5. Customer Perception:

Nearly 90% of the borrowers interviewed expressed satisfaction with the services given by the RFEF staff. For the 10% that were dissatisfied, the reasons most often given were delay in disbursement of the loan, favoritism, unofficial fees, and land documents being required as security.

## 6. Economic Effects:

While more data is required, RFEP appears to stimulate economic activities and reduce the level of under-employment. Loans are usually taken for activities to supplement main occupations. In some places, landless people take loans for goats, then take repeat loans for cattle and other agricultural purposes. In outlets near towns or bazaars, farmers take loans for petty husking, mat making and tin smithing.

7. The RFEP is currently known by a number of names. It should have a Bengali name.

8. There is a degree of discrepancy between bank records and borrowers, actual circumstances with respect to an estimation of net worth, land holding size and loan purpose. In 90% of the cases, however, eligibility does not change.

9. While complete accuracy and independent verification for eligibility is difficult, a contributory factor is factionalism existing in virtually every village. In outlets where recommendation signatures are required, local leaders may recommend loans on behalf of non-target people to build up a political following. In some cases local brokers collect fees for disbursal of application forms or for expediting loan approval.

10. The distribution of borrowers by income and cultivable land holding is as follows:

### DISTRIBUTION OF BORROWERS BY INCOME AND CULTIVABLE LAND HOLDING

<u>% By Income</u>		<u>% By Land Holding</u>	
<u>Income Bracket</u>	<u>% of Borrowers</u>	<u>Landholding</u>	<u>% of Borrowers</u>
0 - Tk 2000 p.a.	22.6	No land	25.6
Tk 2001 - Tk 4000 p.a.	33.6	.01 - 0.5 acres	33.7
Tk 4001 - Tk 6000 p.a.	32.1	.51 - 1.0 acres	20.9
Tk 6001 - and above	11.6	1.01 - 1.5 acres	12.1
		1.51 - 2.0 acres	5.1
		2.01 acres and above	2.5
<b>Total</b>	<b>100.0</b>	<b>Total</b>	<b>100.0</b>

RFEP is strongly represented in semi-urban areas. Many borrowers shown as landless in the above table are engaged in petty trade or business and live near bazaars or in suburb areas. In rural areas borrowers who have no agricultural land are a smaller percentage than might be expected.

11. Instances are noted where banks require either a pledge of land as security or deposit of land parcha (official record showing boundaries for tax purposes), or an official mortgage paper, or mortgage by a guarantor of the borrower. Some of the landless cooperatives allow members with up to two acres.

12. Landless agricultural laborers in a number of outlets have reported that they do not borrow because they fear reprisals in case they fail to repay. They are afraid to enter a bank having an armed guard, where they will be embarrassed by not knowing the procedures and not having any security. They cannot psychologically shift easily from living by daily labor to taking up an enterprise since they rarely get a non-institutional loan.

13. The pattern of loan use depends on the outlet. In some areas almost all loans are for agriculture and livestock. In outlets near towns and bazaars a high proportion are for small trade. Some borrowers need money for a daughter's marriage, medical expenses, or other emergencies, and some borrow to release mortgaged land or pay off other debts. Since all incorporate the loans into their family budgets, it is not entirely possible to separate productive from non-productive uses.

Date  
**November 10, 1980**

**ROUTING AND TRANSMITTAL SLIP**

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. ASIA/PD, R. Van Rualte ✓		
2. ASIA/TR, T. Arndt		
3.		
4.		
5.		

*file in project files*

Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

**REMARKS**

Re: Bangladesh: FY 82 CP Project Sheets

Attached for your clearance are 5 Project Summary Sheets on projects to be initiated in FY 82. Small Scale Irrigation II and Rural Finance were cabled by the Mission. The other 3 Summaries, per Mission instructions, were drafted by Vikka Moldrem who is currently in Washington.

ASIA/DP has requested clearance by November 14. Please call me with comments and/or clearance.

**DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions**

FROM: (Name, org. symbol, Agency/Post)

ASIA/BI, Nancy Tumavick

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U. S. Government Printing Office: 1980-311-150/24

**OPTIONAL FORM 41 (Rev. 7-76)**  
Prescribed by GSA  
FPMR (41 CFR) 101-11.206

TITLE Rural Finance		FUNDING SOURCE:	AG. RD & N: X	HEALTH:	PROPOSED OBLIGATION (in thousands of dollars)		
NUMBER 388-0037		NEW <input checked="" type="checkbox"/>	POPULATION:	ED. & HR:	SEL. ACT.:	FY 82 10,000	LIFE OF PROJECT FUNDING: 60,000
GRANT <input checked="" type="checkbox"/> LOAN <input type="checkbox"/>	CONTINUING <input type="checkbox"/>					ESTIMATED FINAL OBLIGATION FY 85	ESTIMATED COMPLETION DATE OF PROJECT FY 87

**PROJECT PURPOSE:** To install a rural finance system which meets short-term credit needs of small producers in selected rural regions.

**PROJECT DESCRIPTION:** The Rural Finance Project will support a rural credit and savings program, designed from the experience gained with the Rural Finance Experimental Project (RFEP), 388-0025, an FY 77-82 activity involving a series of small-scale credit/savings systems supported through rural financial institutions. RFEP objectives are to identify ways of providing credit/savings programs to the rural poor. RFEP tests policy and procedural variables in areas of credit interest rates, savings interest rates, village outlets, simplified forms, savings promotion, and incentives for loan officer productivity.

The follow-on Rural Finance Project will replicate successful systems developed in the RFEP project. The systems will consist of small outlets to serve 3-6 villages and 500-1,000 customers. Short-term production credit will be made available to finance small farm investments in high yielding variety seed, fertilizer and irrigation as well as investments in small, off-farm enterprises. Management emphasis will be on sound interest rate policies, borrower training and organization, and creation of rural financial institutions. The major issues to be addressed by the new project include reaching target groups, loan recovery, capital mobilization, and the financial viability of rural based financial institutions. Funds will be disbursed by nationalized commercial banks and other institutions such as the Integrated Rural Development Program and the Agricultural Bank.

**RELATION OF PROJECT TO AID STRATEGY:** Agricultural credit is the central link which enables the rural poor to have access to the productive technologies and inputs which provided by the development program.

**HOST COUNTRY AND OTHER DONORS:** Agricultural credit is a Bangladesh Government priority program that has been expanded since 1976.

Several major donors finance rural credit programs in Bangladesh usually as adjuncts to agricultural inputs programs. Since fundamental credit issues are often overlooked, the Rural Finance Project will provide data to strengthen other donor investments in the agricultural sector.

**BENEFICIARIES:** The target group includes sharecroppers and small farmers owning 2 acres or less. They are among the poorest elements of the rural society and they lack access to institutional credit. Credit provided to this group can finance the small investments needed to expand production or establish an alternate source of income.

TITLE Small Irrigation II		FUNDING SOURCE:	AG. RD & N: X	HEALTH:	PROPOSED OBLIGATION (in thousands of dollars)			
NUMBER 388-0023		NEW <input checked="" type="checkbox"/>	POPULATION:	ED. & HR:	SEL. ACT.:	INITIAL OBLIGATION FY 82	ESTIMATED FINAL OBLIGATION FY 86	ESTIMATED COMPLETION DATE OF PROJECT FY
GRANT <input checked="" type="checkbox"/>	LOAN <input type="checkbox"/>	CONTINUING <input type="checkbox"/>				6,350	LIFE OF PROJECT FUNDING: 42,000	

**PROJECT PURPOSE:** To increase the availability of low priced manually operated pump sets for irrigation to small farmers.

**PROJECT DESCRIPTION:** Small farmers holding two acres or less of cultivable land generally do not have the opportunity to grow irrigated crops. Their landholdings are too small to justify large irrigation equipment and their inferior financial and social position places them at a disadvantage in farmers' cooperative irrigated schemes or in dealing with large pump operators. They rarely have access to institutional credit.

Manually operated hand pumps are an inexpensive means by which small farmers can irrigate crops. Under Small Scale Irrigation Phase I (SSIP I), FY 76-81, the Bangladesh Agricultural Development Corporation (BADC), a quasi-governmental organization, procures pump set components from local manufacturers and suppliers and distributes them to BADC appointed dealers, government cooperatives and PVOs. Credit is made available through banks and cooperatives. By the end of FY 80 56,000 pumps sets had been produced. Farmer demand is strong.

Small Scale Irrigation Phase II will extend the present operation and seek to increase the role of the private sector in manufacturing and marketing hand pumps. It will address constraints within the present system through improvement of raw materials importation, development of small foundry participation and improvement of the distribution/marketing network.

**RELATION OF PROJECT TO AID COUNTRY STRATEGY:** Improvement of small farmers' crop yields through irrigation will contribute significantly to achieving foodgrain self-sufficiency. Manually operated pumps will make increased food production possible without increasing additional demands on Bangladesh's energy resources. In addition, since hand pumps are used mainly by small farmers, the project encourages equitable growth.

**HOST COUNTRY AND OTHER DONORS:** The Bangladesh Government (BDG) Second Five Year Plan recognizes manually operated hand pumps as an important element in achieving foodgrain self-sufficiency. A five year goal has been set of 500,000 manually operated shallow tubewells in operation. Other donors, notably the World Bank, are planning hand pump projects beginning in FY 82. Close coordination of BDG agencies and donors will be needed to ensure compatibility of AID inputs.

**BENEFICIARIES:** Direct beneficiaries are small farmers who will increase crop production through pump use. About 350,000 farmers will receive hand pump sets under the project. Other beneficiaries include small foundry manufacturers whose manufacturing operations will be facilitated and improved through the development of appropriate small industry promotional measures and improved manufacturing techniques.

PROGRAM:

## PLANNED PROJECT SUMMARY SHEET

CP 82-09 (8-80)

TITLE Zilla Roads Maintenance and Reconstruction		FUNDING SOURCE:	AG, RD & N: X	HEALTH:	PROPOSED OBLIGATION (in thousands of dollars)		
					FY 82 5,000	LIFE OF PROJECT FUNDING:	8,500
NUMBER GRANT <input checked="" type="checkbox"/> LOAN <input type="checkbox"/>	NEW <input checked="" type="checkbox"/> CONTINUING <input type="checkbox"/>	POPULATION:	ED. & HR:	SEL. ACT.:	INITIAL OBLIGATION FY 82	ESTIMATED FINAL OBLIGATION FY 83	ESTIMATED COMPLETION DATE OF PROJECT FY 85

**PROJECT PURPOSE:** To develop Bangladesh's capability to maintain, reconstruct and improve rural roads.

**PROJECT DESCRIPTION:** One of the major obstacles to marketing of agricultural products, access to agricultural inputs and other goods, and to provision of government services in general is the inadequacy of rural roads. The AID-financed Rural Roads study, completed in 1979, investigated the feasibility of rural roads construction program and found it to be uneconomic in the absence of a reliable system of road maintenance. This project will assist the BDG to improve its road maintenance and improvement capability in three districts found to have the greatest need for roads improvement and for which inland waterway systems are not a feasible alternative. The project will focus on Zilla-level (district) roads, which fall under the jurisdiction of district government and which generally connect district to thana (county) centers. It will provide technical assistance to district engineering staff, finance for some limited road reconstruction to reduce maintenance costs of poorly designed roads, and small bridge construction.

**RELATION OF PROJECT TO AID STRATEGY:** This project directly supports both the goals of increased agricultural productivity and of off-farm employment generation. Improved systems of transport and communication linking rural areas with markets and services will expedite both improved crop production and rural industry creation. In addition, road maintenance and reconstruction will provide employment directly.

**HOST COUNTRY AND OTHER DONORS:** The BDG and district level governments will finance all normal maintenance costs. In addition, levels of annual AID financing of construction programs for each district will be tied in part to annual increases in the districts own expenditures for roads maintenance. No other major donors are currently financing rural roads project at this level.

**BENEFICIARIES:** The beneficiaries are farmers and other rural residents who receive year-round access to markets and services due to road improvement. Since the project involves no road-widening and

little paving, the benefits will fall to small farmers dependent upon traditional means of transportation rather than the large farmers who might truck their crops. The district governments will also benefit from an improved capability to maintain and improve the rural roads under their jurisdiction.

PROGRAM:

## PLANNED PROJECT SUMMARY SHEET

CP 82-05 (8-80)

TITLE		FUNDING SOURCE:	AG. RD & N:	HEALTH:	PROPOSED OBLIGATION (In thousands of dollars)		
Palli Chikitsak (Village Medics)				X	FY 82	1,600	LIFE OF PROJECT FUNDING: 5,000
NUMBER 388-0055	NEW <input checked="" type="checkbox"/>	POPULATION:	ED. & HR:	SEL. ACT.:	INITIAL OBLIGATION	ESTIMATED FINAL OBLIGATION	ESTIMATED COMPLETION DATE OF PROJECT
GRANT <input type="checkbox"/> LOAN <input type="checkbox"/>	CONTINUING <input type="checkbox"/>				FY 82	FY 84	FY 85

**PURPOSE:** To increase the quality and availability of low cost health care services to rural Bangladeshis.

**DESCRIPTION:** Bangladeshi villagers are faced with high morbidity and mortality rates. For most there is no convenient, affordable source of health care except for traditional practitioners and drug sellers whose treatment capabilities and preventive care knowledge are limited. The Bangladesh Government (BDG) Ministry of Health and Population Control (MHPC) is expanding its health infrastructure to rural areas by including roving health visitors. However, this system will not be able to provide continuous health care in the village. To meet this need, the MHPC has initiated a program to train one person from each village as a primary health care practitioner, called a "palli chikitsak" (village medic). These men and women will be taught to identify and treat common village ailments, give first aid, provide family planning services, and refer difficult cases to government health facilities. The village medics will be private practitioners who charge a small fee for services. In less than three years 150 training schools have opened, each with a class of 50. The program is in need of an improved, more appropriate curriculum and better trained teachers.

This project will assist the MHPC to upgrade its village medics training program through technical assistance for curriculum reform, teacher training, production of teaching materials and provision of training equipment and supplies. A major output will be increased BDG capability to train paramedical cadres.

**RELATION OF PROJECT TO AID STRATEGY:** Availability of adequate health care, particularly maternal and child health care, directly influences acceptance of family planning. This project, by providing low-cost basic health services throughout the rural areas of Bangladesh, is expected to bring about an increased demand for family planning services. Village medics, trained in family planning as well as health, will simultaneously increase availability of family planning services in rural areas.

**HOST COUNTRY AND OTHER DONORS:** The BDG finances all current costs of the Village Medic program, including teachers' salaries, student stipends and materials and supplies. UNICEF provides medical kits and some teaching aids.

**BENEFICIARIES:** The primary beneficiaries of the project are the middle and lower-income rural families who will have increased access to improved low-cost health care from the more than 30,000 village medics trained by this project. The BDG will benefit from an improved paramedical training capability.

**PLANNED PROJECT SUMMARY SHEET**

CP 82-05 (8-80)

PROGRAM:

TITLE Rural Irrigation Works		FUNDING SOURCE:	AG, RD & N: X	HEALTH:	PROPOSED OBLIGATION (in thousands of dollars) FY 82 5,000		LIFE OF PROJECT FUNDING: 28,000
NUMBER 388-0012 GRANT <input checked="" type="checkbox"/> LOAN <input type="checkbox"/>	NEW <input checked="" type="checkbox"/> CONTINUING <input type="checkbox"/>	POPULATION:	ED. & HR:	SEL. ACT.:	INITIAL OBLIGATION FY 82	ESTIMATED FINAL OBLIGATION FY 85	ESTIMATED COMPLETION DATE OF PROJECT FY 86

**PURPOSE:** To expand irrigated crop area and improve equity of access to irrigation through command area development.

**DESCRIPTION:** Increased use of high yield variety crop production depends upon irrigation. This project will support development and improvement of relatively small (100-300 acres) irrigation and drainage sub-projects in six districts of Bangladesh through the Rural Works Program of the Ministry of Rural Development. The Rural Irrigation Works feasibility study, completed early 1980, indicated that the coverage of existing irrigation facilities (such as low-lift pumps and deep tubewells) can be increased as much as three to four times through properly designed distribution systems. Given the fragmentation of land holdings in Bangladesh, this increased coverage immediately allows for greater access to water by small and landless farmers. The project will provide technical assistance in engineering and will finance construction of irrigation systems. The Ministry of Rural Development will assume progressively greater responsibility for selection, design and evaluation of project systems. Water user groups will be expected to bear the costs of construction over the long-term via loan repayment.

**RELATION OF PROJECT TO A.I.D. STRATEGY:** Improved irrigation directly supports AID's major goal of increasing agricultural productivity. In keeping with AID's concern for ensuring increased irrigation does not result in excessive demands for imported diesel fuel, the project will focus on increasing efficiency of pump operation and promoting use of electrically powered pumps.

**HOST COUNTRY AND OTHER DONORS:** The BDG is contributing about \$5 million equivalent. The International Development Association, the Netherlands, Denmark, the Asian Development Bank, and the United Nations Development Program also provide assistance to irrigation activities in other selected areas in Bangladesh.

**BENEFICIARIES:** Construction of the irrigation systems under this project will assist approximately 47,000 farm families cultivating an average of two acres per family. Landless laborers will also benefit from employment in the systems' construction over the life of the project.

378-1037

William A. Wolffer, D. (A)

March 25, 1979

Rufus A. Long, AGR

Quarterly Project Status Report

1. Historical Data

Title: Rural Credit (FY 1980)

Purpose: To develop a viable rural credit system broadly accessible to the country's poorer farmers and to current and potential small rural entrepreneurs.

Funding: This project has not been approved.

Counterpart  
GOP Agency: Not yet decided.

2. Financial Status Project Not yet approved

3. Accomplishments

A general prefeasibility study of agri-service centers was conducted in the four provinces with the assistance of the Liaison Officers (LOs). The LOs with the participation of AID Islamabad staff, the banks, PASSCO, RSCC, IRDP and other government officials made field visits to determine first hand the feasibility of the agri-service center concept.

The concept of agri-service centre embraces a one stop facility where farmers can obtain required inputs and services such as fertilizer, machinery, rentals etc.

Overall their reports while pointing out problems were favorable to the continued exploration of the concept and development of the Project. A more specific prefeasibility study is planned for the coming quarter. Both PASSCO and National Bank of Pakistan as well as the Habib Bank and RSCC were active participants in the field visits contributing significantly to the feasibility studies. The team reports consisting of some 200 pages are being reviewed by the Project Committee members.

- b) A revised draft PID, for the consideration of the project committee was prepared.
- c) A tentative schedule for preparation of the PP, submission to AID/W, approval and execution of the Project Agreement by December 31, 1979 has been prepared.

4. **Problems Impeding Progress:**

The major problems have been those that are typically encountered in narrowing the focus of the project and in designing it to yield benefits to small farmers and rural laborers.

5. **Issues/Actions Requiring Participation of:**

A. **Other Mission Offices:**

There will be a number of committee meetings this quarter for guidance in developing a rural credit model.

B. **Mission Director**

Depending on circumstances, we may ask Director to participate in some meetings with high GOP officials.

C. **AID/Washington**

A request for technical assistance in developing the PP will be submitted for AID/W action.

6. Accomplishments and Actions  
Anticipated during Next Three  
Months

- a. In further collaboration with Pakistan officials, a rather detailed model, (Project Description) of the rural credit project will be developed. This model will receive USAID approval.
- b. The technical assistance requirements to prepare the Project Paper will be submitted to AID/W.
- c. Pending outcome of discussions with Mr. Nishtar, Chairman of the Agricultural Development Bank, we may conduct a study for a specific agri-service center for each of the Provinces.

**CLEARANCES:**

ELHeadrick, C/AGR \_\_\_\_\_  
RWHooker, AGR \_\_\_\_\_  
DWendel, PDM \_\_\_\_\_

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