(OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS) PD-ABS-053

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT:
USAID/Bangladesh
(Mission or AID/W Office)
(ES#)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?
yes [ ] slipped [X] ad hoc [ ]
Eval. Plan Submission Date: FY ___ Q ___

C. EVALUATION TIMING
Interim [X] final [ ] ex post [ ] other [ ]

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
388-0074	Financial Sector Reform TA Project First Interim Evaluation	91	12/96	19,400	15,800

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
(See Attachment)		

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 11 day 14 yr 93

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature Typed Name	Peter Amato:OEE	N/A	JRockliffe-King / Emily McPhie:PRO	Richard M. Brown
Date:	3/30/94		3/31/94	4/7/94

H. EVALUATION ABSTRACT (do not exceed the space provided)

The FSR Technical Assistance Project (6/91-4/96) aims to help the Government of Bangladesh (BDG) move from a centrally directed to a market-oriented financial system through changes in policies and practices in Bangladesh Bank (BB) and through the upgrading and reform of four nationalized commercial banks (NCBs) which dominate the banking market. A team supplied by a joint venture (JV) between Booz, Allen, Hamilton and Nathan Associates is implementing the project which is in conjunction with the World Bank's Financial Sector Reform Program. A team from Development Alternatives Inc. conducted this first interim evaluation in May 1993, 15 months after the start-up of project activities, for the purpose of reviewing progress to date and suggesting possible improvements. The evaluation team interviewed BDG and BB officials, JV team management, interactively surveyed JV team activities in each of the NCBs, and studied most of the reports, studies, teaching manuals, and other documents which the JV team has produced to date. The major findings and conclusions are:

- With the cooperation of the BDG, the JV team can partially achieve the EOPS objectives during the life of the project. However, the realization of the financial soundness of the NCBs not eventually privatized will be a longer-term proposition.

- The JV team has achieved considerable success in shaping market-oriented reforms in interest rate determination and open market operations at the central bank (BB), and in influencing market-oriented responses to these changes in the NCBs.

- The JV team is making progress in implementing modern banking techniques in the NCBs, but a lack of basic skills and little incentive for improvement complicates the effort.

- The JV team has produced a list of problem areas on which it will exert influence with the BDG, and others which will require assistance from USAID, the World Bank, or other donors as solutions are beyond the resources or life of the project.

The evaluators noted the following lesson:

- The challenge is much greater than originally foreseen in the project paper.

ABSTRACT

I. EVALUATION COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US$)	Source of Funds
Robert LaPort	DAI			
Robert Emery	DAI			
Pedro Perez-Gambino	DAI	AEP-5451-I-02-2059-00	95,000	Project
Khalilur Khan	DAI			
Shamsul Haque	DAE			

2. Mission/Office Professional Staff Person-Days (estimate) 30

3. Borrower/Grantee Professional Staff Person-Days (estimate) 40

COSTS

Attachment (Section E)

Action Decisions	Action Agents	Planned Completion Date	Date Completed	Status
The TA team should, with BDG cooperation, put in place a dedicated bank supervision expert to work with the five relevant departments within the Bangladesh Bank (BB)	FSRP JV	1st quarter FY94	Dec 93	TA in place. Work plan nearing final agreement.
USAID and the joint venture should renegotiate the contract to permit the reprogramming of person-months.	USAID/ JV	1st quarter FY94	Nov 93	Completed.
TA quarterly report to USAID should be expanded to track output and EOPS objectives, or a separate report tracking EOPS should be completed.	JV team/ USAID	1st quarter FY94	Dec 93	Will be reported to USAID in a separate report.
TA team should encourage World Bank, IMF, and other donors to establish a training program for BB and NCB staff based on its 5-year comprehensive training strategy.	JV/ MOF/ NCBs/ BIBM/ donors	2nd quarter FY94		In process; review with MDs of NCBs, BB, MOF, BIBM, USAID, WB, and others. FSRP's training strategy includes domestic training as well as overseas.
The BDG should complete the draft Bankruptcy Law and expedite its passage. It should also expedite formation and staffing of 34 planned Bankruptcy Courts.	BDG/JV Team	2nd quarter FY94		Bankruptcy Law drafted; Planned for Parliamentary action in 94. Staffing loan courts under BDG consideration.
The BDG should discontinue directed lending and distribute fiscal monies directly and transparently to target sectors.	BDG/JV	1st quarter FY 94		With completion of the Jute Sector interim financing, directed lending will cease.
The BDG should commit itself to a policy of giving BB increased autonomy from the MOF in order to mobilize donor support for programs to prepare the BB for autonomy.	WB/BDG	1st and 2nd quarter FY 94		BB is now exercising increased autonomy in monetary policy formulation.

Action Decisions	Action Agents	Planned Completion Date	Date Completed	Status
The MOF and BB should review, eliminate, or consolidate and clarify the body of bank regulations to improve efficiency. Regulations should be modernized to improve bank control of commercial banks.	JV team/ BDG	1st, 2nd, and 3rd quarter FY94		In process; FSRP and BB targeted to release new ECD manual by end 93, and new BCD manual 1st or 2nd quarter 94.
The BDG should request the WB to commission a study of alternatives to the civil service status of public financial sector employees with a view to removing employees from the civil service and an end to the appointment of senior management by MOF.	BDG/BB	3rd quarter FY94		Partially covered in recent WB Mission report. Proposals now being developed on innovative personnel management in NCBs.
The BB should eliminate loan bands and consider eliminating floors on deposit rates as it improves its ability to manipulate rate structure through issuance of government paper and buying and selling its paper in open market operations.	BB/JV team	on-going		FSRP/BB/BDG regularly reviewing the situation.
BDG should permit BB to establish norms and control issuance of new banking licenses. NCB's management should have authority to close redundant or unprofitable branches. New branches would require BB approval.	BDG/BB /JV team	on-going		FSRP completed one paper on subject; also subject covered in WB's Banking Supervision Report. NCB management can close branches with BB permission in 7 days.
The BDG should seek donor assistance to strengthen the accounting profession and institute standards.	BDG/BB	on-going		FSRP doing limited amount through MIS/Accounting Specialist and in Credit Training; project resources not sufficient for major intervention.
The BDG, through BB, should require improvement in standards of financial information presented by potential borrowers.	BDG/BB	on-going		FSRP/BB working on minimum borrower disclosure standards. FSRP/BIBM now developing acct. training courses.

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)
Address the following items:

* Purpose of activity(ies) evaluated
* Purpose of evaluation and Methodology used
* Findings and conclusions (relate to questions)
* Principal recommendations
* Lessons learned

Mission or Office: USAID/Bangladesh   Date this summary prepared: September 1993

Title and Date of Full Evaluation Report: First Interim Evaluation, August 1993

Background: The purpose of the FSR Technical Assistance Project (FSRP TA) is to: (1) implement more flexible central bank (BB) monetary policies and improve the central bank supervision of the commercial banks; (2) develop financially sound nationalized commercial banks (NCBs) that are suitable for privatization; and (3) expand the share of the banking sector controlled by private banks, including divestiture of government interests in one or more of the four NCBs. FSRP TA is being performed in conjunction with the World Bank/IDA $175 million credit under the Financial Sector Reform Program, the International Monetary Fund, and the Bangladesh Government. The project is implemented under a contract with Booz, Allen & Hamilton and Nathan Associates (the joint venture), which provides 845 person-months of technical assistance through the life of project. This is the first interim evaluation of the project.

Technical assistance to the BB and the NCBs is delivered by five TA teams working with selected counterparts within each of the institutions to develop the products to be installed and used in each institution, and then train others. Assistance is focused in each NCB on: credit analysis and loan portfolio administration; computerization; management information systems; training; planning; and development and profitability analysis. The TA also assist the BB in developing techniques in money supply tracking and open market operation, and in formulating macroeconomic policies and strategies.

Findings and Conclusions and Recommendations: The TA team is on schedule in assembling baseline data to track purpose and output objectives and indicators. Since the TA team reached an effective staffing level, progress in meeting purpose objectives has been considerable; outputs are about half complete. Progress, however, varies among NCB. Results should begin to be measurable at the time of the midterm evaluation.

The TA have assisted the BB to make major strides in money supply tracking and open market operation, and in developing the ability to formulate macroeconomic policies and strategies. In a major accomplishment, the team was instrumental in persuading the BB to eliminate most interest rate controls, and in persuading the NCBs to break ranks on rate quotations. The added flexibility of both loan and deposit rates has enabled the NCBs to generate substantially increased net interest income, and is a giant step away from central direction and toward market-oriented operations.

The four NCBs which have almost 50 percent of the country's banking assets and 70 percent of deposits, 3,500 branches and 60,000 employees, have been used as tools of centrally directed government policy since independence, and this relationship has led to many problems which the TA team is addressing: (1) More than 50 percent of NCB loan portfolios are impaired, loan collection is poor, and the legal environment favors the debtor; (2) Banking skills are lacking, and extensive training in accounting, credit analysis, portfolio management, computer operations, and bank management is required; (3) There is rote compliance with centrally issued directives, which is against the best interests of the system and its institutions; (4) Too many branches are unprofitable and operations are inefficient; (5) There is almost total reliance on manual operations and very little computerization; (6) Personnel performance is lackluster because there is little incentive to excel; and (7) Management continuity is missing because senior managers are replaced frequently by the Ministry of Finance (MOF).

The TA have made excellent progress in promoting market-oriented monetary policy advances and in strengthening the BB's Monetary Management Technical Unit. They do not have expertise to strengthen the very important bank examination and supervision functions. Recommendation: *The joint venture should expedite the arrival of a bank examination and supervision expert.*

SUMMARY

The NCBs classify loans just once a year under present regulations. This is too infrequent because a loan can be unpaid for two years before it is classifiable, during which time manage-ment is unaware that the loan requires remedial action, and the examiners are not involved.
Recommendation: *The TA team should encourage the bank to require classifications every six months, and in two years require loan classification quarterly.*

The 3,500 NCB branches file several reports a month to the BB's Banking Control Department, in addition to reports submitted to NCB Head Offices. Millions of person-hours are spent in this duplicative effort monthly.
Recommendation: *The TA team should make efforts to convince the BB to allow branches to report to their Head Offices, which in turn will file consolidated reports with BB.*

As the project has progressed, the Quarterly Report to USAID has become increasingly voluminous and complex. Activities are tracked, along with the next quarter's plans. However, progress toward achieving project output and EOPS objectives is difficult to follow.
Recomendation: *The quarterly report should be expanded to track output and EOPS objectives, or a separate report should be prepared.*

The TA team is attacking the problems of the financial sector through training and the introduction of techniques new to the NCBs such as management by objective and MIS. Cleaning up the loan portfolios will require massive capital injections from the government. The TA team is striving to ensure that government and NCB policies and practices are changed so that gains made through the project are sustained. The team needs the support of USAID, the World Bank, IMF, and other donor agencies in persuading government that the recommended changes are necessary and desirable, and that the project objective of creating financially sound, privatizable institutions will be met. The TA team should promote the following actions directly with the government, or indirectly through USAID, the World Bank, or other donors.

SUMMARY (continued)

• Technical assistance resources are insufficient to provide the specialized offshore academic and on-the-job training program that bank officials need. Furthermore, training requirements identified in the sector exceed the resources and the life of the present project.
Recommendation: *The team encourage the World Bank, IMF, and other donor agencies to establish a BB training program.*
• The team, World Bank, and others feel that the Banking Companies Act is antiquated and needs revision.
Recommendation: *The team should work to persuade the BDG to modernize the Act.*
• At present, the legal system does not provide adequate or timely protection to creditors. Recommendation: *The BDG should complete the formation and staffing of the 64 planned Bankruptcy Courts and pass the Bankruptcy Law to help expedite judgements.*
• The poor condition of NCB loan portfolios is caused in part by loans made to uncreditworthy sectors of the economy at the direction of the government.
Recommendation: *The BDG should discontinue directed lending as soon as possible and distribute fiscal monies directly and transparently to target sectors, or sponsor loans through the NCBs acting in a fiduciary capacity for the government.*
•The BB should eventually receive autonomy from the BDG to enable it to manage the monetary affairs of the country professionally with less political influence.
Recommendation: *The TA team should work with the BB and the MOF to ensure that autonomy is an obtainable goal, and that the BB prepares itself accordingly.*
• Bangaldesh's banking regulations are complex and confusing. Regulations have been partially and incrementally amended by circulars and letters over the years so that a correct interpretation of regulations is difficult to determine.
Recommendation: *The TA team should work to gain BDG support for the review, revision, and reissuance of important bank regulations over time to save transaction costs and facilitate bank examination.*
•The TA team advises that MOF is aware of the personnel situation in the NCBs and of the negative effect that the lack of incentive reward has on performance.
Recommendation: *The BDG should solicit donor support for an in-depth study of the alternatives to the present civil service status of NCB employees.*

•Considerable progress has been made in eliminating interest rate controls. Interest rate bands still exist for loans to three economic sectors, and floors are in effect on several deposit categories.
Recommendation: *The BB should eliminate the loan bands and consider the elimination of the floors on deposit rates.*
•The only active government paper market is in 91-day Bangladesh Bank bills, and that at a low volume.
Recommendation: *The BDG should survey the possibility of expanding the money market to include the purchase and sale of a variety of maturities.*
•The team has been working with MOF and the BB on the issuance of new banking licenses. Recommendation: *The BB should be permitted to establish and publish norms for the issuance of new licenses.*
•MOF agrees with the team that legal protection for banking consumers is desirable.
Recommendation: *The MOF should sponsor the drafting of a Banking Consumer Protection Act similar to those in many other countries.*
•The reliability of financial data that prospective borrowers provide to banks is low, and there are no standards for the accounting profession.
Recommendation: *The BDG should seek donor assistance for training to strengthen the accounting profession and institute standards.*
•The Negotiable Instruments Law does not provide criminal penalties for passing bad checks or check kiting,nor does it protect "innocent holders for value."
Recommendation: *The Law, last amended in 1920, should be revised to provide criminal penalties and innocent holder protection.*

ATTACHMENTS

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

Evaluation Report

MISSION COMMENTS ON FULL REPORT

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

The first interim evaluation was very helpful to the Mission, Bangladesh Bank and the TA contractor in considering future direction and focus of this project. The recommendations in Section E represent all parties' consensus on critical actions needed to accomplish project objectives and to strengthen Bangladesh's financial sector.

89390

First Interim Evaluation

Financial Sector Reform Program Technical Assistance Project:

Bangladesh

Prepared for the U.S. Agency for International Development under contract number AEP-5451-I-02-2059-00.

Robert LaPort, Team Leader
Robert Emery
Pedro Perez-Gabino
Khalilur Khan
Shamsul Haque

August 1993

DAI
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

PREFACE

A five-person Evaluation Team went to Bangladesh from May 1 to June 4, 1993 to conduct the First Interim Evaluation of the U.S. Agency for International Development Financial Sector Reform Program Technical Assistance Project (FSRP TA). The Team Leader went May 1 to work with Mr. Khan. The other members began work May 9. This report presents the team's findings.

The team wishes to thank the officers of the Office of Economics and Enterprise, the USAID Mission in Dhaka, the Team Leader and members of FSRP TA, and the officers of the Bangladesh Bank, the nationalized commercial banks, and the Ministry of Finance. Their time, their assistance, and their cooperation during interviews and in providing data and other information and help were much appreciated.

TABLE OF CONTENTS

APPENDICES

ANNEXES

ACRONYMS

ADB	- Asian Development Bank
AGM	- Assistant General Manager
A.I.D.	- U.S. Agency for International Development
BB	- Bangladesh Bank (Central Bank)
BDG	- Bangladesh Government
BIBM	- Bangladesh Institute of Bank Management
BKB	- Bangladesh Krishi Bank
CIB	- Credit Information Bureau
Crore	- 10 million taka
DGM	- Deputy General Manager
DMD	- Deputy Managing Director
FSRP	- Financial Sector Reform Program (World Bank's IDA)
FSRP TA	- Financial Sector Reform Program Technical Assistance Project (USAID)
GM	- General Manager
IBRD	- International Bank for Reconstruction and Development (World Bank)
IDA	- International Development Association
IMF	- International Monetary Fund
Lakh	- 100,000 taka
MD	- Managing Director
MIS	- Management Information System
MOF	- Ministry of Finance
NCBs	- Nationalized Commercial Banks
OEE	- Office of Economics and Enterprise, USAID Mission, Bangladesh
PC	- personal computer
TA	- technical assistance
Tk	- Taka ($1.00 = 39.7 Tk)
USAID/B	- A.I.D. Mission in Bangladesh
WID	- Women in Development

EXECUTIVE SUMMARY

The U.S. Agency for International Development Financial Sector Reform Program Technical Assistance Project (FSRP TA) is described in the USAID/Bangladesh Project Paper approved June 6, 1990. The contract for providing the technical assistance was signed with the firms Booz, Allen & Hamilton and Nathan Associates (the joint venture) on June 20, 1991. The FSRP TA requires that the joint venture provide 845 person-months of technical assistance through the end of calendar year 1995 with a wrap-up of the project in the first quarter of 1996. This report is the first interim evaluation of this project.

FSRP TA is being performed in conjunction with the World Bank/IDA $175 million credit under the Financial Sector Reform Program, the International Monetary Fund, and the Bangladesh Government.

End of Project Status (EOPS) objectives of FSRP TA are to:

- Implement more flexible central bank (Bangladesh Bank) monetary policies and improve the central bank supervision of the commercial banks;
- Develop financially sound nationalized commercial banks (NCBs) that are suitable for privatization; and
- Expand the share of the banking sector controlled by private banks, including divestiture of government interests in one or more of the four NCBs.

Technical assistance to the central bank and the NCBs is delivered by five TA teams made up of an International Advisor and a National Advisor who are working with selected counterparts within each of the institutions. The counterparts are full-time or part-time staff, or a combination of both, depending on the wishes of the NCB management. The counterparts are trained on the job by the advisors to develop the products to be installed and used in each institution, and then to train others. A core group of technical specialists is assisting the advisors and their counterparts in product development and dissemination. The areas of technical specialization on which assistance is focused in each NCB are:

- Credit analysis and loan portfolio administration;
- Computerization;
- Management information systems;
- Training;
- Planning; and
- Development and profitability analysis.

The technical advisors are also assisting the Bangladesh Bank in developing techniques in money supply tracking and open market operation, and in developing the ability to formulate macroeconomic policies and strategies.

PROJECT STATUS AS OF THE FIRST INTERIM EVALUATION

The TA team is on schedule in assembling baseline data to track EOPS objectives, EOPS subpurpose objectives, and 15 output objectives. In the 15 months since the TA team reached an effective level of staffing, progress in meeting EOPS subpurpose objectives has been considerable; output objectives are about half complete. Progress differs at each NCB because of the differences among the banks and the areas of emphasis that managements have chosen. Results should begin to be measurable at the time of the midterm evaluation.

The technical assistance advisors have also assisted Bangladesh Bank in making major strides in money supply tracking and open market operation, and in developing the ability to formulate macroeconomic policies and strategies.

In a major accomplishment, the team was instrumental in persuading Bangladesh Bank to eliminate most interest rate controls, and then to persuade the NCBs to break ranks on rate quotations. The added flexibility of both loan and deposit rates has enabled the NCBs to generate substantially increased net interest income, and is a giant step away from central direction and toward market-oriented operations.

The technical assistance for Bangladesh Bank's supervisory function has not yet been provided. This was originally to have been furnished by the IMF. The TA team assumed responsibility to provide an expert only in September 1992 after the IMF relinquished its responsibility. Several candidates were identified, but chose other jobs before clearances were obtained. However, we understand that this much-needed position will be filled shortly.

THE CHALLENGES REMAINING

The four NCBs have almost 50 percent of the country's banking assets and 70 percent of deposits. They have between them some 3,500 branches and 60,000 employees. The NCBs have been used as tools of centrally directed government policy since independence, and this relationship has led to many of the problems that the TA team is addressing. The team has identified serious common problems in the NCBs, among which are the following:

- More than 50 percent of the loan portfolios are impaired at each of the NCBs, loan collection is poor, and the legal environment favors the debtor;
- Banking skills are lacking, and extensive training in accounting, credit analysis, portfolio management, computer operations, and general bank management is required;
- There is rote compliance with centrally issued directives, and this compliance is against the best interests of the system and the institutions in that system;
- Too many branches are unprofitable and operations are inefficient;
- There is an almost total reliance on manual operations and very little computerization;
- Personnel performance is lackluster because there is little incentive to excel; and
- Management continuity is missing because senior managers are replaced frequently by the Ministry of Finance (MOF).

The TA team is attacking these problems through training and through the introduction of techniques new to the NCBs such as management by objective and MIS. Cleaning up the loan portfolios will require massive capital injections from the government. The TA team is striving to ensure that government and NCB policies and practices are changed so that gains made through the TA team's efforts are not subsequently lost through a return to former practices. For example, the team is working hard to influence the government to make decisions that will permit the banking system to evolve with a market orientation so that the NCBs will compete to serve their customers. The team needs the support of USAID, the World Bank, IMF, and other donor agencies in persuading government that the recommended changes are necessary and desirable.

It is difficult to see how the EOPS objective of creating financially sound, privatizable institutions will be met during the life of the project. However, the TA team is making progress in helping to rationalize the NCBs.

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

1. The Team's advisors at Bangladesh Bank have made excellent progress in promoting market-oriented monetary policy advancements and in strengthening the Monetary Management Technical Unit. They do not have the expertise to help strengthen the bank examination and supervision functions, which are of prime importance and in considerable need of help.

We recommend that the joint venture expedite the arrival of a bank examination and supervision expert.

2. Meetings between USAID and the joint venture are to take place shortly to consider the reallocation of 67 of the person-months remaining in the contract between the advisors and needed functional specialists.

We recommend that USAID agree with the reallocation in accord with the TA Team Leader's concept paper.

3. The NCBs classify loans just once a year under present central bank regulations. The TA team believes, and we concur, that this is too infrequent because a loan can be unpaid for almost two years before it is classifiable. Thus, management does not become aware that the loan requires remedial action, and the examiners do not become involved.

We recommend that the TA team push the bank for classifications every six months, and that in two years loans be classified on a quarterly basis.

4. At the present time, about 3,500 NCB branches file several reports a month directly to the Bangladesh Bank's Banking Control Department, in addition to reports submitted to NCB Head Offices. According to the TA team, millions of person-hours are spent in this duplicative effort monthly.

We recommend that the TA team make its best effort to have Bangladesh Bank restructure the system and allow branches to report to their Head Offices, which in turn will file consolidated reports with Bangladesh Bank as soon as practicable.

5. As the technical assistance project has progressed, the Team Leader's Quarterly Report to USAID has become increasingly voluminous and complex. Activities of team participants are tracked, along with the next quarter's planned activities. However, team progress toward achieving project output and EOPS objectives is difficult to follow.

We recommend that the quarterly report be expanded further to track output and EOPS objectives, or that a separate quarterly report be prepared by the TA team.

6. The TA team should promote the following actions directly with the government, or indirectly through USAID, the World Bank, or other donors.

- Technical assistance resources are insufficient to provide the specialized offshore academic and on-the-job training program that bank officials need over the medium term. *We recommend that the team push for the establishment of a Bangladesh Bank training program with the World Bank, IMF, and other donor agencies.*

- The team, World Bank, and others feel that the Banking Companies Act is antiquated and needs revision. *We recommend that the team persuade the government of the need to revise and modernize the Act.*

- At present, the legal system does not provide adequate or timely protection to creditors. *We recommend that government complete the formation and staffing of the 64 planned Bankruptcy Courts and the passing of the Bankruptcy Law to help expedite judgements.*

- The poor condition of NCB loan portfolios is caused in part by the loans that the banks have made to uncreditworthy sectors of the economy at the direction of the government. *We recommend that the government discontinue these activities as soon as possible and distribute fiscal monies directly to target sectors or sponsor loans through the NCBs acting in a fiduciary capacity for the government.*

- Bangladesh Bank should eventually receive autonomy from the government, which will enable the bank to manage the monetary affairs of the country professionally with less political influence. Although not ready today, *we recommend that the TA team work with Bangladesh Bank and the Ministry of Finance to insure that the bank's autonomy is an obtainable goal and that the bank prepares itself accordingly.*

- Banking regulations are complex and confusing, according to the TA team. Regulations have been partially amended by circulars and letters over the years so that a correct decision is difficult to determine. *We recommend that the TA team work to gain government support for the review, revision, and reissuance of important bank regulations over time to save transaction costs and facilitate bank examination.*

- The TA team advises that MOF is aware of the personnel situation in the NCBs and of the negative effect that the lack of incentive reward has on performance. *We recommend that government solicit donor support for an in-depth study of the alternatives to the present civil service status of NCB employees.*

- Considerable progress has been made in eliminating interest rate controls. Interest rate bands still exist for loans to three economic sectors, and floors are in effect on several deposit categories. *We recommend that Bangladesh Bank eliminate the loan bands and consider the elimination of the floors on deposit rates.*

- The only active government paper market is in 91-day Bangladesh Bank bills, and that at a low volume. *We recommend that government survey the possibility of expanding the money market to include the purchase and sale of a variety of maturities.*

- The team has been worki g with MOF and Bangladesh Bank on the issuance of new banking licenses. *We recomme that the bank be permitted to establish and publish norms for the issuance of new licenses.*

- The training requirements identified by the team, which are contained in the medium-term plan, exceed the resources and the life of the present project. *We recommend that the government enlist financial support from other donors to enable the plan to be carried out.*

- MOF agrees with the team that legal protection for banking consumers is desirable. *We recommend that MOF sponsor the drafting of a Banking Consumer Protection Act similar to those in many other countries.*

- The reliability of financial data that prospective borrowers provide to banks is low, and there are no standards for the accounting profession. *We recommend that government seek donor assistance for training to strengthen the accounting profession and institute standards.*

- The Negotiable Instruments Law does not provide criminal penalties for passing bad checks or check kiting. Nor does it protect "innocent holders for value." *We recommend that the Law, last amended in 1920, be revised to provide criminal penalties and innocent holder protection.*

CONTENTS OF THE EVALUATION TEAM REPORT

In the report that follows, the authors first introduce the project, its objectives, and the constraints identified to the rationalization of the banking system in Bangladesh. Next the achievements of the TA team as related to project outputs and end-of-project objectives are discussed. We then examine what the project has accomplished in the area of women in banking, and look at the status of training and of resource use, and at the quality of USAID support for the project. The report concludes with findings, conclusions, and recommendations.

The appendices contain substantive information relevant to FSRP TA and to this evaluation. The annexes present material requested by USAID such as the methodology used by the Evaluation Team, the contacts made by the team, and the suggested scope of work.

INTRODUCTION

The purpose of the first interim evaluation of the U.S. Agency for International Development Financial Sector Reform Program Technical Assistance Project (FSRP TA) is to:

- Assess project progress toward meeting purpose and output level indicators; and

- Assess project success in institutionalizing inputs and establishing essential baseline data.

Institutionalization is defined as the transfer of knowledge, technology, and process skills from the TA team members to the client institutions, and the grafting of these transfers onto the minds and operating methodology of the clients. The Evaluation Team looked at how well these mandates have been met. In addition, the team found and reported upon several factors that deserve and have received special mention.

- The FSRP Project Paper lists technical assistance inputs (p. 24) at 964 person-months, although the contract between USAID and the FSRP TA joint venture between Booz, Allen, Hamilton and Nathan Associates contains a requirement for 845 person-months of assistance. The remaining 119 person-months are under the control of USAID and include hiring the Project Coordinator (52 months), bringing technical assistance to the Bangladesh Bank's Technical Unit prior to the start-up of the FSRP TA (12 months), computer system configuration and acquisition (2 months), the conduct of four evaluations (37 months), and 16 person-months for handling exigencies as they occur.

- The Project Paper incorporates several output and purpose-level indicators that have been incorporated from World Bank Financial Sector Reform Program loan negotiations that took place in 1989 and 1990. As a result, some of the accomplishments mentioned in this evaluation were achieved prior to the inception of the Technical Assistance Project in 1991.

- Similarly, a few indicators have been carried forward to the Project Paper without sufficient resources to undertake the necessary studies and implementation programs. The study on revision of the bank personnel regime is one such case.

- Lastly, the Evaluation Team concurs with the findings of the TA team that the financial condition of the nationalized commercial banks (NCBs) and the quality of their internal operations are much worse than was implied in the Project Paper. The preparers of the Project Paper did not have information that later became available to the TA team. Figures available to the public showed a different picture, with the banks posting profitable operations. It is now clear that the NCBs probably cannot be brought to a privatizable condition with internal operational and management improvements alone; government policies must be changed, and substantial additional financial assistance be given to the NCBs if project purposes are to be fully achieved.

DELIVERY OF FSRP TA TO THE BANGLADESH BANK

Bangladesh Bank, the central bank, is headed by a Governor and three Deputy Governors. The bank has six regional offices headed by General Managers, as well as several functional heads at its headquarters in Dhaka headed by General Managers.

FSRP TA has stationed four advisors in the bank under the direction of a Financial Macroeconomist. There are two National Macroeconomists and two part-time lawyers assisting in the preparation of the draft Bankruptcy Law.

The project's Financial Macroeconomist and his colleagues have prepared 14 studies and reports on the subjects required of the joint venture. The TA team will prepare four additional studies in 1993 and 1994. In addition, they have given valuable advice to senior bank officials and officers within the Ministry of Finance (MOF) on a continuing basis.

The bank supervision area has not yet been adequately addressed by the FSRP TA. The International Monetary Fund (IMF) at one point agreed to provide assistance, but dropped out in late 1991. FSRP, after 10 months of negotiation, assumed responsibility in September 1992. Four attempts since then to contract for an international consultant for bank supervision have been unsuccessful. In the meantime, the Team Leader, Macroeconomist, Training Specialist, and other bank advisors have given seminars and other assistance to the bank's Banking Control Department.

DELIVERY OF FSRP TA TO THE NCBs

In accord with the FSRP contract, the FSRP TA Team Leader has stationed one international bank consultant and one senior local counterpart full-time in each of the four NCBs for the duration of the project. The main, and continuing, task of the international consultant and his colleagues has been to build credibility with the Managing Director and the General Managers at each bank to win their trust and support for the project. Without this trust, the institutionalization of project initiatives within the Bangladesh Bank and the NCBs cannot occur.

The responsibility for overall planning of the project effort has been assigned to the Team Leader and the senior banking consultant. They have divided project operations into six functional areas:

- Credit analysis and credit administration;
- Management information systems;
- Computerization;
- Training;
- Planning; and
- Development and profitability analysis.

Each bank advisory team — over time and with varying degrees of difficulty — has assembled counterpart groups. These groups consist of employees of the bank who have been assigned to the FSRP effort on a full-time or a part-time basis to develop programs in each of the above functional areas. Detailed work plans for each area have been prepared by the FSRP TA bankers/advisors who work with FSRP functional specialists and their FSRP counterparts.

The priorities in the design and implementation of each functional program have varied for each of the four banks and have depended on the individual needs of the institution as perceived by its senior management. Later in the report, the findings regarding the priorities chosen by each bank and the progress that the FSRP effort has been able to achieve will be discussed.

In the interviews held by the Evaluation Team, NCB Managing Directors have expressed appreciation for the attention that senior USAID Mission officers have given to the project and for their visits to the NCBs. The directors hope that the visits will continue and be even more frequent.

MAJOR CONSTRAINTS TO RATIONALIZATION

After a year or more on the job, the TA team members are aware that several major constraints remain to be overcome in rationalizing the operations of the Bangladesh Bank and the NCBs. They are also aware that policy decisions not carefully considered beforehand can cancel progress made very quickly.

The major constraints that the TA teams have identified in the Bangladesh Bank and the NCBs, and the areas of greatest vulnerability confronting these institutions, are discussed below.

Bangladesh Bank

Although the scope of the Bangladesh Bank does not compare with the problems confronting the NCBs with their 3,500 branches and 60,000 employees, the problems that must be attacked before the Bangladesh Bank will be in a position to operate effectively as an autonomous central bank are daunting.

The primary functions of a modern central bank are:

- Control of the money supply;
- Control of the nation's foreign exchange reserves;
- Management of the internal interest rate structure;
- Regulation of the country's commercial banks;
- Examination of the commercial banks to ensure soundness; and
- Issuance or withdrawal of financial sector licenses.

The expert performance of these and many other functions are dependent upon the possession of a high level of knowledge and skills by bank staff. The Bangladesh Bank lacks staff with these qualities. A vast amount of specialized training in each of the functional areas listed above, and others, will be required if the bank is to reach international standards in the quality of its personnel.

The Bangladesh Bank is not computer-equipped to handle the mass of data that it receives monthly from the thousands of commercial bank branches. These reports are now processed manually. A system is no stronger than its weakest link. In this respect, both the NCBs and the central bank are laboring under antiquated conditions. The principal drawback to this manual system is the difficulty of exposing problems to the light so that they can be corrected in a timely fashion. Instead, the problems remain buried within a mass of uncorrelated information.

The body of regulation that the Bangladesh Bank is meant to oversee and enforce through the examination process is antiquated and confusing, according to the TA team. Original regulations have been partially updated and amended numerous times so that the determination of the correctness of an action requires the review of the original regulation and all of the subsequent changes. This makes the determination of compliance as difficult for the examiner as for the decision maker.

Bangladesh Bank has operated for several decades as a vassal of the Ministry of Finance. This has acted against the development of independent thinking within the institution, and of the take-charge attitude that typifies central banks in most developed countries. For, indeed, a central bank must take charge of the economy.

Nationalized Commercial Banks

The politicalization of the NCBs resulting from their use as instruments of economic and social policy under a centrally directed system is the foremost problem to be dealt with. Directed lending and investing is only one manifestation of the political orientation of the banks. The appointment of senior management and boards and the civil service status of the rest of the staff have resulted, over two decades, in bureaucratic behavior without incentives for risk-taking or superior performance. Planning and strategic direction have been decided in the government and imposed upon the banks. Government imposition of operating decisions on management and staff have vitiated the ability of NCBs to analyze and solve problems, and negated their motivation to improve.

The TA team has found enormous need in the NCBs to upgrade human resource skills. Thousands of bank officers lack a sound knowledge of accounting, and training needs progress upward from that point. The training needed to achieve proficiency in financial analysis, bank operations, and computerized reporting systems requires a large, long-term commitment of the government and donors alike.

As civil servants protected by regulation, bankers have little incentive to create and manage a tightly run and profitable operation. The mediocre bank official is promoted along with those that strive to meet challenging objectives. The TA team found that apathetic professional behavior is particularly prevalent among older officers, but that the younger generation of bankers still has a feeling of a need for pride in their achievements. This holds a ray of hope that, if the personnel system were reformed and made competitive, improved performance by bankers might be possible to achieve.

The low quality of NCB loan portfolios results in part from decades of lending at the direction of the central government to economic sectors and companies that have been marginal or unable to repay their loans. Banking regulation contributes to the problem. A loan is not considered past-due for loan classification until it remains unpaid for one year. Because loan classification is made only annually, a loan can remain unpaid for almost two years before it is classified and brought to the attention of senior management and the bank examiners. Efforts to collect the loan or realize upon collateral pledged to secure the loan are hampered by lengthy court proceedings that can last a decade.

In their desire to ingratiate themselves with the voters, politicians have, on occasion, proclaimed and instituted debt forgiveness programs for their public. The NCBs' loan recovery efforts are thus made more difficult, and diligent efforts can be negated by the next election.

Loan portfolio cleanup is a prerequisite to achieving institutional sustainability and facilitating privatization. Funds to support the provisioning or write-off of uncollectible loans can come from injections of cash or bonds by the government, or from increased earnings by the NCBs. The likelihood that the NCBs will generate earnings sufficient to clean up their loan portfolios, particularly if central bank circular 34 is strictly applied, is almost nonexistent. The only chance will be additional government support.

FSRP TA PROGRESS IN ACHIEVING PROJECT OUTPUTS

This section describes the Evaluation Team's findings on the progress the FSRP TA team has made thus far in achieving the outputs specified in the FSRP TA Project Paper. Further details are contained in the appendices that follow the text and to which we refer.

1. A more detailed analytical framework for macrofinancial analysis

The Bangladesh Bank has had a Technical Unit (TU) since 1985, and established a framework for macrofinancial analysis with IMF assistance in 1988. However, only recently, as a result of FSRP TA insistence, has the TU gained any stature or significance. Project stress on the essential nature of the unit within a market environment, and a new bank Governor who understands and agrees that the TU's functions are vital, have led to the unit's receiving increased human and other resources.

The TU was upgraded and renamed the Monetary Management and Technical Unit (MMTU) in February 1993. MMTU has received approval to expand its existing monetary programming analysis, and now has 10 qualified professionals. Data are being collected and analyzed in five main areas:

- Monetary accounts;
- Bank credit and interest rates;
- Exchange rates;
- Government expenditures and receipts; and
- The balance of payments.

According to the TA team, the reports from MMTU, which are for the Governor and senior management of the bank, are being taken more seriously than in the past.

The Governor recently established a Monetary Policy Management Committee (MPMC) consisting of himself, the three Deputy Governors, and the two Executive Directors responsible for the Banking Control Department and the Foreign Exchange Department, respectively. MPMC will convene monthly to study present monetary market conditions and decide on future bank actions to influence the market. It is too early to judge the effectiveness of MPMC at this time.

Although much remains to be done in developing a good analytical framework for macrofinancial analysis, the upgrading of MMTU and the creation of MPMC have meant that appropriate mechanisms for discussing and acting to affect monetary policy options are now in place. (See Appendix 1.)

2. A better-trained cadre of officers on macrosector policy

Progress has been slow in developing a well-trained cadre of officers at the central bank and the Ministry of Finance to advise on macrofinancial policies. The attempt to establish a Policy Analysis Cell at the Ministry of Finance was terminated after resource, conceptual, and funding problems developed.

The Bangladesh Bank has been able to upgrade the status of its technical unit, MMTU, and the number of key officers in the unit is scheduled to rise from the current 10. FSRP TA has given 311 student-days of training to, primarily, MMTU personnel. Eight bank officers are presently on the Fisk/Citicorp five-month training program in the United States. Serious consideration should be given to establishing a more formal program for central bank and Ministry of Finance personnel to receive graduate training abroad in economics and finance with a reciprocal commitment to serve a specified number of years with the central bank or the ministry after their return to Bangladesh. The Bank of

Thailand, which has had such a program for many years, might serve as a guide in this endeavor. (See Appendix 1.)

3a. A fully operational rediscount window

The Bangladesh Bank has eliminated preferential lending to the commercial banks, and now operates on a rediscount basis against the delivery of short-term trade paper or government bills. The bank's lending rates have been unified into a single rediscount rate, currently 6.5 percent. This rate was lowered from 9.75 percent in September 1991 in a series of steps to reflect the decrease in the inflation rate. It has been changed more frequently than in earlier years.

Except for a group of small donor programs, such as the one with Norway, all central bank accommodation of commercial banks is now at the uniform bank rate. (See Appendix 1.)

3b. The sale and purchase of Bangladesh Bank securities

Since December 1990, the central bank has successfully offered its own 91-day bills to the banks, although the total amount of bills outstanding is still relatively small in relation to total bank liquidity. The bills are now auctioned monthly, but on a limited basis: only taka 200 to 400 million are marketed each month. About taka 900 million were outstanding in April 1993. The low-bid rate(s) accepted reflects the supply and demand for bills at the time. As a result of its monthly decision regarding the volume of bills that it will supply to the market, the Bangladesh Bank now has some influence on bank liquidity. The procedure differs from the government's previous unsuccessful attempts to market its own bills through the Bangladesh Bank at predetermined, not market-oriented, interest rates.

We are not aware, since banks were liquid at the time of the initial evaluation, whether the Bangladesh Bank has ever acted on the other side of the open market by creating liquidity through the purchase of its 91-day bills. (See Appendix 1.)

3c. A fully operational interest rate policy

FSRP TA has played a significant role in the process of moving the banking system from centrally controlled deposit and lending rates in 1991 to a more flexible and market-oriented system. Banks are now free to set their interest rates on deposits at whatever level they consider appropriate above a minimum rate. Floors are still in force for savings and time deposits. Bangladesh Bank and the Ministry of Finance are presently debating the pros and cons of eliminating the floors as well. Bank lending rates for all but three of 14 sectors are now uncontrolled, and banks are free to set their loan rates wherever they wish. The three sectors still subject to an interest rate band are agriculture, exports, and small enterprises. As soon as conditions permit, elimination of these bands should also be considered.

The project has taught NCB managements that interest rate movement to take advantage of changing conditions can be done independently without endangering the institution. As a result, there were more changes in the deposit rates offered by banks in the first four months of 1993 (3) than during all of 1992 (2). Although this is a good first step toward active asset/liability management, the bankers still have a long way to go. For example, the concept of pricing loan tenor (the length of the loan) and risk is still not used, nor is the practice of producing a negative yield curve by dropping rates offered on undesired longer-term deposits. (See Appendix 1.)

4. Expansion of Bangladesh Bank's computer operations and MIS system, with a staff trained in computer, statistics, and econometric skills

The FSRP TA's computerization efforts at the central bank include the installation of 15 PCs in 9 departments. All PCs are now functional and heavily used in spreadsheet applications and analysis functions. The Request for Proposal and a model contract to replace the bank's outdated mainframe were prepared, as well as longer-term planning for automation development. This process is still pending and the hardware not yet delivered. The project developed the Credit Information Bureau (CIB) Phased Automation Plan. The Pilot CIB Reporting Automation System was completed, which includes credit reports, CIB Performance Statistics, a User Manual, and the CIB Database (using imported December 1991 data; the December 1992 database is almost finished). Of requests for data, 2,704 were received thus far in 1993 versus 749 in 1992. The project developed PC technology standards and delivered a draft report. Bank forms are being rationalized and the elimination of redundant reports begun. Some training provided to personnel in computer and statistics (300 student-days of CIB training). A computerization group has been formed and is providing information to the consultants and management as and when needed. (See Appendix 8.)

5. Improved reporting system of the NCBs to the Central Bank

This is part of the banking supervision core for which dedicated technical assistance has not yet been provided. This output also relates to the accounting, reporting (forms management), and computerization assistance that the project is giving to the NCBs.

At present, banks and their many individual branches (more than 3,500) each send a great volume of reports to the Bangladesh Bank monthly, 99 percent of which are manually prepared and use data whose accuracy is suspect. Branches should report to their regional headquarters and they, in turn, to their Head Offices. The Head Offices should make their reports to the central bank.

Realignment, standardization, simplification, and consolidation of the reporting system so that the central bank receives one consolidated report from each bank monthly is a gigantic task that will not be accomplished soon. However, it is a task that must be accomplished. At present, the accuracy of the reports the bank receives from individual branches is highly suspect. (See Appendices 3-6.)

6. Bank supervision methods based on analysis of bank financial condition

The bank supervision core area has not yet received dedicated expert technical assistance. FSRP TA did not become responsible for this area until September 1992. Since that time, four consultants have been nominated for the position but did not receive clearances before choosing other work. The TA team leader and others have given seminars and other support to the Banking Control Department in the absence of dedicated core support. We understand, however, that the stalemate with respect to dedicated technical assistance is about to end.

Our interviews with the Deputy General Manager of the bank's Bank Inspection Department indicate that inspections are limited to the review of the branch loan portfolio to the extent possible (a sample rather than 100 percent review). Examinations do not yet verify that a strict interpretation of Circular 34 in the loan classification process is being carried out. Deposit accounts are examined, but no verification with depositors is made. Only the latest month's general ledger is examined. All information examined is taken at face value and the examiners make no outside verification.

The supervision of branch loan portfolios will be facilitated if more frequent loan classification than the once per year policy now utilized is adopted. At present, a loan can remain unpaid almost two years before it is classified. Initially, a change to twice per year would help. But hopefully within two years the quarterly reporting of loans unpaid for 30 days beyond maturity will be required. This will assist loan portfolio management and bank supervision considerably.

7. A fully operational Credit Information Bureau

A CIB has been established in the central bank and regulations have been issued to the banks that the CIB must be informed of all new credits or rescheduling of existing credits. More than 3,000 inquiries have been handled on a 24-hour turnaround basis so far this year compared to less than 1,000 during all of 1992. Additional computers that will increase the capacity are on order and expected soon. The database will be updated to use more complete 1992 data than the 1991 data used now. The changeover should be complete within a month or two. (See Appendix 8.)

8. MIS systems and improved loan accounting systems established in the NCBs

The accounting systems and methodology the TA teams found in the NCBs were medieval. The lack of modern systems is complicated by the large branch networks that each NCB has, and by the lack of standardized accounting methods, especially interest accrual, or of forms used by branches belonging to the same bank. Standardization of accounting methodology and forms, and timely, accurate reporting are some of the major challenges TA teams are facing.

All NCBs have made some progress under the project's technical assistance in improving and simplifying accounting reports by eliminating stale reports and statements, computerizing several reports, expanding computer capabilities, and providing training. FSRP has designed new loan ledgers, which they have implemented on a pilot basis after providing the necessary training. The bank consultant teams have completed sample good and bad loan reviews and prepared ratio analysis. However, the teams have reviewed accounting procedures and found them to be deficient in all the banks.

MIS systems cannot be better than the quality of the data used. However, we are happy to report considerable initial progress by the TA teams. Of greatest note, the MIS specialist has developed a model to project a year of Projected Quarterly Balance Sheets and Profit and Loss Statements, which at least one bank has successfully tested, and which can be used to model "what if" scenarios concerning loan write-off or other discretionary variables and projected capital requirements. The teams are now planning to implement the program in all of the banks. (See Appendices 3-6.)

9. Expanded computerization of NCB Head Offices and a limited number of branches

All NCBs have embarked on automation plans that include the automation of a selected and limited number of branches. The number of computers, including PCs and mid-range, for NCBs and the Bangladesh Bank are as follows: of 75 PCs ordered, 5 have been installed in each of the NCBs; 3 mid-range computers have been ordered, 1 for the Bangladesh Bank, and 1 each for Janata Bank and Rupali Bank, but delivery had not taken place at the time of this evaluation.

The two NCBs with mainframes, Sonali and Agrani, use them for one shift of 8 to 12 hours. They could gain increased and expanded usage by going to a multiple shift, 24-hour-per-day operation. Of the two, only Agrani Bank is using its mainframe for banking operations. Sonali Bank is using its computer for payroll accounting, personnel records, and other administrative matters.

The computerization of the NCBs, including only the Head Offices and a small percentage of the total number of branches, is a long way from realization even on a limited-function basis. TA team efforts in the accounting, loan ledger, and branch reporting areas are designed for that day in the future when all NCB branches will be forwarding their reports to Head Office via computer. (See Appendices 3-6.)

10. Planning and performance budgeting systems established in the NCBs

The TA team's objective is to develop, establish, implement, and follow up the Management by Objectives (MBO) system. The teams have introduced MBO for the managing director and general manager levels in each NCB; it has been introduced to the regional and branch level in Agrani Bank, and to the regional level in Rupali Bank.

Management by objectives taught, indoctrinated, and used by bank officials down to the branch manager level will eventually give support to the notion that the destiny of each unit of revenue and expenditure, or staff section, is the personal responsibility of the person in charge of that unit. By making and fulfilling reasonably ambitious but attainable objectives during a year, the unit manager has the power to improve the profitability and the health of the balance sheet of the unit, or the effectiveness of the staff section.

Ambitious objectives fulfilled are usually rewarded with bonus compensation for the manager and his or her key performers. However, this isn't possible under the civil service system of which NCB employees are members. Similarly, mediocre management performance is not frowned upon or punished. MBO can be a powerful tool for good business or bank management, but without the ability to reward those who achieve difficult objectives, MBO can turn out to be a hollow tool. The present personnel system in the bank and the NCBs needs to be reexamined. (See Appendices 3-6.)

11. Revised loan policy procedures and improved loan recovery of NCBs

Rupali is the pilot bank to introduce new loan policies that are presently under development. Sonali Bank has introduced a program to monitor unclassified loans over Taka 1 *crore* ($250,000), and completed a diagnostic report on the jute sector.[1] Janata is completing a 25 good/bad loan study and started a recovery program for 100 of the largest defaulters. Agrani has developed a credit administration program, developed a computerized spread sheet, created a manual for computerizing loan classification, and, with management, instituted an aggressive loan collection plan in 1993. Rupali has completed an analysis of its industrial credits, introduced a loan quality monitoring system, and a program to recover large defaulter loans.

Accurate data on loan recovery is not yet available. Part of the problem that the Evaluation Team found is the difference in the definition of "recovery" that is used among banks. Some include rescheduling, which will place a loan back into current status, as a recovery. Others use the term only when repayment is received. The definition should be standardized, and recovery and rescheduling differentiated in the MIS reporting systems and in the MBO process of setting goals for branch managers as the program reaches branch level.

Bangladesh Bank loan classification requirements in Circular 34 call only for annual classification of loans. More frequent loan classification, preferably quarterly, would assist recovery by calling management's attention to the defaulted loan. (See Appendices 2-6.)

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[1] Ten million taka = 1 *crore*.

12. Enhanced loan pricing and deposit rate setting/adjustment capabilities of NCBs

The TA team has been effective in inducing independent judgment in the NCBs on interest rates that should be offered or charged. Breaking the NCB interest rate cartel in late 1991, which existed because the Bangladesh Bank had permitted independent interest rate quotations within bands three years earlier, was the key to the evolution of NCB courage and ability to reach independent rate decisions.

All NCBs have made several downward adjustments in deposit interest rates paid, and upward adjustments of loan rates followed by some downward adjustments of loan rates under government pressure. Interest rate adjustments by the banks have resulted in about taka 300 *crore* in increased net interest income for the NCBs. The profit planning specialist is in the process of drafting a loan pricing manual.

However, the banks are a long way from understanding the use of loan and deposit interest rates to manage their balance sheets. In advanced markets, rates change from day to day, hour to hour, and minute to minute to reflect supply and demand. Bangladesh doesn't need this degree of rate volatility and communications wouldn't be able to cope. However, interest rates are a primary tool for asset and liabilities management, attracting desirable business or discouraging the inflow of undesirable business. (See Appendix 2.)

13. Improved course offerings of the Bangladesh Institute for Bank Management

FSRP TA has completed an in-depth, five-year training strategy for BIBM. The study includes a proposal for designing a new 14-week midcareer course for officers at the Assistant General Manager and Deputy General Manager levels. FSRP TA has given 726 student-days of training in the quarter ending April 30, 1993 alone. It also contains plans for upgrading or creating several courses. The general credit course has been upgraded and is ready for introduction in May 1993; an upgraded term lending course is to be ready for July; courses in agricultural financing and rural development are to be ready in August; a loan classification and provisioning course is to be completed by November; and a performance budgeting course is to be upgraded for offer in February 1994. A new course in microfinancial and monetary economics is to be prepared by a short-term consultant in 1994.

The training needs of financial sector officers are mammoth; BIBM will require a long-term commitment and funding from the donor community to fulfill the plans the TA training specialist has prepared. The banking community will have to continue to provide its officers to be trained with time to complete the courses of study. BIBM must be in a position to affiliate with other domestic and foreign educational institutions to obtain the skilled instructors it will need to carry out its programs. There are literally thousands of bank officers whose skills require upgrading at a level above that obtained at the in-bank training institutes, according to the TA team assessment. (See Appendix 7.)

14. Outputs, manuals, and techniques available to commercial banks

The courses taught or planned for BIBM are at a level beyond that taught in the individual NCB institutes, and manuals and other materials produced by BIBM are available to the NCBs, private banks, and foreign banks upon request. All studies, manuals, and training materials prepared by any group or individual of the FSRP TA that does not contain proprietary or confidential information are available to all banks, NCBs, private, or foreign, upon request. A system to publicize this fact is under way. (See Appendix 7.)

15. Studies completed on (a) privatization, (b) personnel issues, (c) gender discrimination, (d) effects on rural areas

None of the four studies specified in this output objective have been drafted to date. However, preparation of studies on the prior privatization of two NCBs in 1989, and rural banking are scheduled for later this year, and initial data gathering has begun. A paper on personnel policy will be prepared in 1994. Informal estimates on gender discrimination, limited to the percentages of women officers and clerical staff, have been made, and the Bangladesh Bank has provided some 1993 baseline data. These, however, do not yet constitute a study.

Information on the number of women borrowers, which is required in the Project Paper, cannot be obtained from the banks. Such a study would need a survey of women-owned businesses, which would require resources beyond those remaining to the FSRP TA joint venture.

The only reasonable conclusion that we can reach, given the position of the government and the bank, is that USAID or the Embassy take up this matter with the government at the highest level.

FSRP TA PROGRESS TOWARD ACHIEVING END OF PROJECT STATUS OBJECTIVES

As stated in the Scope of Work on the Financial Sector Report Project, there are three broad project purposes in the five-year program. These are to:

- Implement more flexible central bank monetary policies and to improve central bank supervision of the commercial banks;
- Develop financially sound NCBs that are suitable for privatization; and
- Expand the share of the banking sector controlled by private banks and continue the movement to divestiture of the NCBs.

The following provides an initial assessment, as of May 1993, of the extent to which these project purposes have been, or are being, achieved in certain areas. Further detailed findings of the Evaluation Team are included in the appendices.

IMPLEMENT MORE FLEXIBLE CENTRAL BANK MONETARY POLICIES

1. Replacement of direct monetary controls by flexible indirect instruments

Prior to January 1990, the Bangladesh Bank relied on direct controls to execute monetary policy such as credit quotas and ceilings, and import margin requirements. The bank administered interest rates for the commercial banks, and also provided subsector-specific subsidized refinancing credits to the commercial banks. In January 1990 the central bank replaced its subsidized refinancing facility for priority sector loans with a more general rediscount facility at the Bangladesh Bank's uniform bank rate. In December 1990 the Bangladesh Bank began to auction its own obligation, a 91-day bill. The Bangladesh Bank's 91-day bills are auctioned monthly and the yield on the bills reflects demand and supply forces.

As a result of establishing a market for these bills, the central bank is now able to influence monetary conditions slightly when it offers its bills to the market each month. However, we understand that the demand for bills has exceeded the amount the bank has been willing to offer; one foreign private bank with heavy taka deposits has been purchasing the bulk of the bills, we have been told. We do not know if the Bangladesh Bank has also purchased bills on the market to supply liquidity to the system. The banks have been very liquid recently, which would indicate that the bank has not been purchasing bills. In any case, a tentative start toward market control through the use of market mechanisms has been made.

The concept is new and the techniques that remain to be used to achieve indirect control of the system are as yet untried. Much more technical assistance, training, and hands-on experience are needed to enable the Bangladesh Bank to build confidence and to show the government that indirect monetary controls will work. Those involved in both the government and the banks don't yet have this degree of confidence, or are afraid to give up the powers inherent in the previous system.
(See Appendix 1.)

2. More bank loans based on market-determined interest rates

In 1992, all lending rate controls were eliminated except for the maintenance of rate bands on loans to three economic sectors (agriculture, exports, and small industry). The banks have since been free to set their lending rates at whatever level deemed appropriate to the remaining 11 sectors. At the urging of the TA team, significant progress has been made in obtaining greater flexibility in bank lending rates. Until 1990, commercial bank loan and deposit rates were fixed arbitrarily by the central bank. In the spring of 1990, lending rate bands were established for 14 economic sectors based on the central bank's estimate of a shadow (true market) rate for the different categories. Although this increased the degree of flexibility available to banks, freedom to set rates to 11 of the 14 sectors resulted from FSRP TA team involvement in the issue.

Notwithstanding the above, there is little competition among banks for loans because marketing is an unknown science. Nor are rates used to differentiate loan tenors and level of risk. The use of interest rates to attract or discourage new business is neither understood nor practiced. Therefore, one cannot truly say that market-determined lending rates are yet a reality. (See Appendix 1.)

3. Technical unit established at central bank with trained staff

The Bangladesh Bank has had a Technical Unit since 1985. Although not a department, its status was upgraded after a new central bank Governor assumed office in December 1992 and the unit's name was changed to the Monetary Management and Technical Unit. Since late 1992, the unit has had a staff of 26 to 30 persons, of whom 5 were officers. With the addition of transfers, and the return of two officers who have received training in the United States, MMTU now has 10 professionals to oversee projects. MMTU is making gradual progress in the development of its capabilities. The TA team now feels that staffing has reached an adequate level for the time being.

MMTU tracks inflation, the compliance of banks with reserve level requirements, and the amount of 91-day bills outstanding, and recommends amounts that should be bought or sold to affect bank liquidity and interest rate levels. It also recommends the need for changes in the rediscount rate or the level of reserve requirements, and other monetary policy activities.

MMTU is a general macroeconomic research unit. As such, it is at the heart of much of what a central bank should be doing. Yet its existence has only recently been recognized, and much more attention should be given by both the Bangladesh Bank and the Ministry of Finance to strengthening these activities, which are crucial to central bank management of a market-determined money market. (See Appendix 1.)

4. Conduct more frequent and focused inspection of branch portfolios

As the dedicated technical assistance for the bank supervision function is not yet in place, we have not been able to determine the status of this indicator. Bangladesh Bank's Banking Inspection Department with 250 inspecting officers reports that it is inspecting each commercial or industrial lending branch once per year. Examinations concentrate on branch loan and deposit records. No outside verification of loans or deposits are made. Examiners take information at face value; for example, they do not raise questions regarding inconsistencies in accrual accounting methods or general ledger format. They are also apt to miss past-due loans that have not yet been classified. The Deputy General Manager in charge states that they are doing business as usual and have not received any assistance from the project to date.

In addition to the Banking Inspection Department, Bangladesh Bank has a departme' ' that inspects rural branches and a third that inspects foreign exchange branches. Each reports to its own Deputy General Manager and General Manager.

If the project is to have an impact on improving the quality of bank supervision, the dedicated technical assistance eventually supplied must cover all of the departments.

5. Credit Information Bureau established

The CIB has been established and is functioning well given that it is newly operational. The 1991 database presently in use does not contain detailed information. The database will be upgraded to 1992 next month. Banks are presently required to submit information to CIB, but the use of CIB to request information is not yet mandatory. Two additional PCs are on order, which will permit an increase in capacity. (See Appendix 8.)

DEVELOP FINANCIALLY SOUND AND PRIVATIZABLE NCBs

6. All commercial banks are implementing Bank Bangladesh Circular 34 with regard to loan classification

The banks have begun to implement Circular 34 slowly. Several have geared up programs to approach the task systematically, but there is great resistance from senior management because of the expected negative impact on their bank's balance sheet and the profit and loss statement. Senior managers have been receiving bonuses on stated profits for years, so there is understandable reluctance to show losses resulting from loan provisioning.

Loans are studied for classification only once yearly. At this time, a loan that matures and goes unpaid early in 1993 is not defined as past due until early 1994, and is not considered for classification until early 1995. Bangladesh Bank is in the process of preparing a regulation that loans be examined for classification every six months. Eventually, the review should be quarterly.

We have already referred twice to the importance of more frequent loan classification. It brings a problem loan to the attention of management in a more timely fashion so that remedial action can be taken. Secondly, the classified loan is more visible to bank examiners who are then able to draft a more accurate report for the central bank. (See Appendix 2.)

7. All commercial banks have carried out comprehensive reviews of their credit policies and procedures and issued appropriate manuals

This program is under way in all NCBs to a greater or lesser extent. The bank TA teams have reviewed all lending policies. The FSRP credit specialist has drafted several new manuals. Although new credit policies have not yet been formalized, some banks have adopted interim policies. This is an area that, because of its magnitude, creates a situation in which each potential improvement uncovers many new problems to be addressed.

Policy changes will need to be accompanied by massive training. For instance, a requirement for customer's financial statements will, in turn, require training in accounting and financial statement analysis (which is under way in some banks). Loan pricing policies, another part of the lending policy equation on which the TA teams are just beginning to focus, introduces the concept of risk and term-related pricing, which is unknown in Bangladesh banking today. (See Appendices 3-6.)

8. Capital adequacy requirements of the banks are maintained according to the Banking Companies Ordinance

Before meaningful determination on the status of this indicator can be made, the NCBs must finish their loan classification and provisioning programs. The full extent of the recapitalization that will be required is not yet known. NCB TA teams have, however, recently completed estimates of the capital shortfall for each of the NCBs.

Factors outside of the NCBs' scope also have a significant impact on the bank's ability to meet this EOPS. For instance, at the time of this interim evaluation, discussions between the World Bank and government concerning a jute industry facility were taking place. The degree to which the government will eventually be able to recapitalize the NCBs for loan losses in the jute sector is yet to be determined. (See Appendices 3-6.)

9. Effective performance planning and budgeting systems established by NCBs

Each of the NCBs has begun management by objective programs for senior officers and has introduced an MIS product to assist in performance budgeting.

MBO and MIS development are both in the initial stages, and it will be some time before benefits are perceptible. The existing personnel system mitigates against receiving larger benefits from MBO as the appropriate incentive reward systems are lacking. The development of meaningful MIS is hampered by inadequate, inaccurate, and untimely data on which to base the MIS. However, the first steps have been made, and the government and Bangladesh Bank will realize that "parts of the systems" will have to be developed and installed later to complete the systems after the fact. (See Appendices 3-6.)

10. Increased computerization of NCB Head Offices and pilot computerization of 2-3 major and 5-10 smaller branches

Twenty PCs have been delivered to the NCBs, five to each, of the 75 ordered. These are primarily for the Head Offices. Several of the NCBs have invested their own resources and initiated the computerization of some of their branches. Agrani Bank, which also has an old but serviceable mainframe computer, is the most advanced in this respect. Mid-range computers, one for Bangladesh Bank and two for NCBs, are on order but had not been delivered at the time of this evaluation.

We have every reason to believe that this EOPS will be met without difficulty during the life of the project.

PREPARE NCBs FOR PRIVATIZATION AND EXPAND PRIVATE BANK MARKET SHARE

11. MIS established in NCBs according to project guidelines

All NCBs have developed and are in the process of implementing an MIS system product. Because some NCBs have more information in their databases than others, implementation of MIS, which requires data inputs, is more advanced in those NCBs with a higher degree of computerized data availability.

The comments regarding MIS made in #9 above apply equally here. The accuracy and timeliness of data is problematical, so truly meaningful MIS must await efficient accounting systems using standardized procedures and accurate data inputs best supplied by computer. However, the accounting systems will eventually catch up with the developments in MIS. (See Appendices 3-6.)

12. Private banks have increased their share of bank lending

Baseline data indicate that private banks have 55 percent of bank lending at this time. Because of low loan demand, there has been little movement in that figure. However, as NCBs increase their level of compliance with loan provisioning and write-off requirements, and if their capital adequacy levels are reached through a corresponding reduction in deposits, the size of the NCBs will decrease. Therefore, the percentage of banking assets (loans included) held by the private sector banks can be expected to increase. (See Appendix 11.)

13. Understanding problems emerging from bank privatization has been improved by studies

The bank privatization study will not be undertaken until later this year. The TA team has begun the process of gathering its initial data for the report.

14. Satisfactory divestiture program and timetable presented by the government

This is an FSRP project objective, not a TA contract deliverable. The government has not yet presented a program or timetable to USAID.

The TA team is improving the internal operations of the NCBs, and endeavoring to influence several MOF and Bangladesh Bank-level policies relating to the eventual privatizability of the NCBs. The project is conceptualizing a "good bank/bad bank" methodology that might facilitate the creation of privatizable banks within the next two to four years.

We understand that the government holds shares in several national private banks, which could be sold off to private investors now if it so desired.

WOMEN IN BANKING

The U.S. Government-funded FSRP TA project calls for the study of women in banking, or as specifically entitled in the Project Paper (p.77), "Gender Considerations." The study is to be divided into two parts. The first will be the establishment of baseline data on rates of hiring and promotion, and areas of substantive responsibility and decision-making authority, as well as the professional clerical and professional female employees, by bank. This data is to be examined and progress noted in each of the project evaluations.

We have examined estimates for each of the NCBs that show, by percentage of the total number of employees and by the percentage of female officers, that the total number of female employees increased during 1989-1992 in three of the NCBs from 4 to 6 percent of the official staff, while all staff increased from 5.1 to 5.9 percent overall. In Agrani Bank (the fourth NCB), the percentage of women officers remained constant at about 8 percent throughout the period, and the proportion of women of the total staff remained constant at 7.2 percent.

The government and the Bangladesh Bank have been reluctant to tackle the element of the project related to gender. However, they have provided some 1993 baseline data to the TA team that complement the percentage estimates for prior years mentioned above.

The TA team has not yet scheduled work on the second requirement, the study of the number of women loan applicants and the degree to which they receive equal treatment with men. The FSRP TA might find the necessary data from internal NCB sources, but the existence of customer records categorized by gender is doubtful. Without these it would appear that USAID would have to commission a separate study, outside of the FSRP TA, which would gather the data from a survey of women-owned businesses. The FSRP TA does not have sufficient resources remaining to conduct an outside survey of this type.

STATUS OF BIBM TRAINING, PLANNING, AND PROGRAMS

FSRP TA has placed a Training Expert and a national counterpart in the Institute of Bank Management. They have completed the draft of a comprehensive training needs assessment study. They have also completed a Bank Training Strategy and Medium-Term Plan for the banking sector and BIBM. The goal for BIBM under the plan is to make BIBM a center of excellence for the banking system in Bangladesh. The elements of the medium-term plan, many of which are in preparation, are:

- A program offering a Master of Bank Management degree;
- Mid-career banking course and computer training;
- Development of BIBM faculty and infrastructure;
- Development of Bangladesh Bank TA;
- Development of NCB training institutes;
- A program for overseas training of Bangladesh Bank officers;
- A banking supervisors overseas training course;
- A program of training course upgrades;
- Institution of pre-course, post-course testing; and
- Preparation of case studies for course use.

The estimated cost of these programs is $4.3 million.

In 1992, BIBM trained 2,077 officers in 20 training courses and 9 workshops. All trainees must have a bachelor's degree to be eligible for participation.

The entire training segment of the project is discussed in the appendices, and the specific outputs and purpose-level indicators are covered in the body of the paper. However, the program — the Fisk University/Citicorp Institute Overseas Training Program — deserves special mention.

Twenty participants departed Bangladesh on January 3, 1993 to spend five months on the first of two programs conducted at Fisk University and the Citicorp Institute of Global Banking. From mid-January through mid-April, the students raised a number of problems and issues surrounding the program in such areas as:

— housing and dormitory facilities
— food
— medical and dental coverage
— the Fisk University library
— per diem allowances
— textbook allowances and book shipment
— the cut-off of electricity
— the quality of instruction

From January to mid-April, the FSRP TA team, local bank management, and USAID attempted to address and resolve these problems by fax and telephone communications with the joint venture head office, the Citicorp Institute, and Fisk University. Most of the complaints were resolved favorably. However, a few important allegations remained outstanding as the Fisk portion of the program was nearing completion. As a result, USAID and the joint venture agreed to send the International Training Advisor to the United States and resolve the persistent issues first-hand, mainly per diem allowances and the quality of instruction. At this point, the remedial investigation trip has been completed, and the International Training Advisor is in the process of preparing a draft report.

The FSRP Review Committee (including the Project Director, the FSRP Team Leader, and the USAID Project Officer) have officially agreed to conduct a full-scale, formal evaluation of the Fisk/Citicorp program after the return of the 20 participants in early June. The evaluation is expected to lead to recommendations and decisions regarding phase II of this program. This formal evaluation is expected to deal with decisions at two distinct levels:

Level I: Options for shaping Phase II

- Cancel Phase II in total, and redirect resources to other training opportunities;
- Replace Fisk University and/or the Citicorp Institute with one or more alternative institutions; and
- Modify the level of instruction or course content to be delivered.

Level II: Methods of Execution

- Strengthen provisions for testing, screening, and prequalifying candidates for selection;
- Provide supplemental training and preparation of participants prior to their departure; and
- Improve instruction to participants prior to departure on the disbursement of funds, the opportunities of the program, and the limitations of the program using experience from the evaluation mentioned above.

FSRP TA RESOURCE UTILIZATION TO DATE AND REMAINING RESOURCE AVAILABILITY

The FSRP TA project contract between USAID and the Booz, Allen, Hamilton/Nathan Associates joint venture calls for the provision of 845 person-months of international and national technical assistance.

From the inception of work under the contract, beginning June 20, 1991 through April 30, 1993, the FSRP Team Leader has provided information concerning person-months actually expended by quarter, which shows:

June 20 to October 31, 1991	3.25	person-months
November 1, 1991 to January 31, 1992	12.50	"
February 1 to April 30, 1992	43.00	"
May 1 to July 31, 1992	58.25	"
August 1 to October 31, 1992	55.75	"
November 1, 1992 to January 31, 1993	62.25	"
February 1 to April 30, 1993	65.00	"
Total expended through April 30, 1993	300.00	"

The 300 person-months expended represent 35.5 percent of the total of 845 person-months of the project.

It is important to analyze the breakdown of the resources allocated to each of the major components of the technical assistance effort, along with the actual person-months expended to April 30, 1993:

	PMs Planned	**PMs Used**	**Percentage Used**
Project Management	112.0	40.75	36.4
Macro Fin./Supervision	104.0	41.75	40.1
NCB Consultants	384.0	117.50	30.6
Long-Term Specialists	144.0	65.25	45.3
Short-Term Specialists	48.5	27.00	55.7
Head Office Support	13.0	7.75	59.6
Totals (average of percentages)	**805.5**	**300.00**	**44.6**

The difference in the percentage calculation of total person-months expended/total person-months contracted (845), 35.5 percent, and the arithmetic mean of the person-months expended by major category/person-months planned, 37.3 percent, is an indication that certain categories of effort will be expended before others.

A review of the staffing chart provided by FSRP reflects this in graphic fashion. The FSRP Team Leader is projected to remain until March 1996 and his colleague until year-end 1995. The Sonali Bank International Consultant is scheduled to leave in December 1995; his national counterpart, and the six other NCB advisors, are scheduled to remain through the end of 1995 and up to three months beyond.

All have 48-month contracts, and their departure schedules are a reflection of their varying arrival times in-country.

On the other hand, the long-term functional specialists were signed to 12- or 24-month contracts, in accordance with the format set forth in the project design. These are detailed below, together with their time expended, total contract period, and the percentage of their total time used thus far:

	Contract (Months)	PMs Utilized	Percentage Utilized
Credit Specialist	12	12.0	100.0*
Loan Admin. Spec.	12	6.0	50.0*
Training Specialist	24	11.0	45.8
Int. Computer Spec.	24	13.25	55.2
Nat. Computer Spec.	24	11.5	47.9
Nat. Computer Spec.	24	2.25	9.4
Acctg./MIS Spec.	12	5.5	45.8
Planning/Budget Spec.	12	3.75	31.3

*Note: Contract person-month allocations for the Credit Specialist and the Loan Administration Specialist have been combined.

The short time remaining for several key functional specialists is a source of some concern to both the USAID Project Officer and his staff, and the FSRP Team Leader. Although the functional specialists are succeeding in their tasks of developing products required by the NCBs, the Bangladesh Bank, and BIBM in their areas of expertise, the introduction of those products to the various units and, more significantly, their roll-out and implementation within the daily operations of the units will be left entirely in the hands of the NCB advisors. The functional specialists will no longer be available to assist in this key phase.

The 12-month contracts for credit and loan administration are particularly bothersome. At present, only six months remain for specialist assistance in the credit and portfolio management area, which is a large if not the largest of the serious problem areas in the NCBs. Also, the extension of MIS, and instruction in its use throughout just the core branches of each of the NCBs will require much more than the six months (plus) of specialist time remaining. Although the computer specialist is not scheduled to leave until March 1994, no counterparts have apparently been identified to train those who will take over in the NCBs and Bangladesh Bank after departure, nor does the expert have time to undertake such training at this time. Therefore, this is an area in which the project could benefit from an extension.

The USAID Project Officer informed us that contract talks are planned for later in 1993 between the joint venture and USAID to renegotiate the terms of the contract. The conceptual framework for the negotiations will be centered upon the cut-off of NCB technical assistance on June 30, 1995. The Team Leader and his Administrative Officer would remain for an additional three months to close down the project. This would free up 26.5 months of International Consultant time, 32 months of National Consultant time, and 8.5 months between the Team Leader and Executive Administrator, for a total of 67 person-months. These could be reallocated to the functional specialist category, thus extending their ability to assist in the implementation and use of the products they have developed. The TA Team Leader mentioned that added consultants could be contracted to assist the implementation process when needed. Additional help could be contracted to draft the four macroeconomic studies to be prepared during the latter part of 1993 and the early months of 1994.

The FSRP TA, in all, has completed 24 months of the 56-month life of project (from April 20, 1991 through December 31, 1995), or 42.9 percent. If the restructuring of the project following the conceptual framework mentioned above takes place, 48 percent of the core project will have been completed, not including the Team Leader's close-down period. The reallocation of the 67 TA person-months will permit a greater concentration of effort within a shorter time frame, which should enhance rather than damage project effectiveness.

USAID MISSION SUPPORT OF FSRP TA

FSRP TA is under the jurisdiction of the Mission's Office of Economics and Enterprise. The Director of OEE and his Deputy, the Project Officer, spend part-time on the contract. A U.S. Personal Services Contractor who functions as the Project Coordinator spends almost full-time on the project.

We are informed that the Project Officer spends about 40 percent of his time on FSRP TA oversight and administrative support, the OEE Director spends about 25 percent of his time on the project, and the Project Coordinator almost full-time. In all, we estimate that the Mission has expended about 1 1/2 to 2 person-years in project administration and oversight.

Outside of Mission duties, USAID is represented at Project Review Committee meetings, which are held every two to four months. Approximately once per year, a senior project officer will visit the Bangladesh Bank or one of the NCBs. In addition, the FSRP TA Team Leader meets at the Mission with OEE officers every two weeks, and is in telephone contact as often as required.

Project supervision is more than satisfactory. The Team Leader is becoming increasingly familiar with USAID administrative requirements, and the Mission has responded with ever more timely cooperation.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FSRP TA is proceeding very well. The basic deliverables to fulfill output objectives have been more than half completed by the Bangladesh Bank and NCB advisory teams and their counterparts, as well as by the functional specialists. Completion of the remainder and the implementation of those already completed — a process that has already begun — is the next, more difficult and time-consuming stage. The banking system can only benefit from the efforts of the FSRP TA to the extent that the tools developed by the TA teams are disseminated and used intelligently.

USAID Mission supervision of the FSRP TA project has been more than satisfactory. The administrative support that the Mission has given to the project has been invaluable. The learning curve of all parties concerned in dealing with the difficult requirements inherent in a project such as this has been surmounted and decisions are now made with a minimum of delay in most cases.

The Managing Directors of the NCBs have also expressed their appreciation for senior USAID Mission attention, and hope that this can be increased, if possible, in the future. The USAID evaluator has pointed out that this situation lends itself to increased contact and policy dialogue between the Project Officer and the NCB managing directors.

Our findings, conclusions, and recommendations follow in their order of priority and the level of control or influence that FSRP TA can bring to bear on their eventual realization.

1. Expedite Technical Assistance for Bangladesh Bank's Bank Supervision Activities

The Bangladesh Bank portion of the FSRP TA is well under way with several of the studies required under the contract completed. The Technical Unit is functioning and now has more than 10 qualified personnel. The shift from Bangladesh Bank loans to commercial banks to the rediscount of commercial bank paper is under way. The Bangladesh Bank now issues 91-day bills that are sold to the banks at auction — the initial steps toward the development of a money market. The TA team has been instrumental in influencing five interest rate changes since 1992. Bangladesh Bank subsidies to the commercial banks have been eliminated. The Credit Information Bureau has been established and is functioning ahead of schedule notwithstanding the fact that two computers are still to be delivered. The new 1992 database information will be in place next month.

However, the Bangladesh Bank needs considerable strengthening before it will be ready to function as an independent central bank. The central bankers lack quality macroeconomic education and have no experience in managing the money supply and interest rates using indirect, open market operating tools. Because this area is outside the project's scope and resources, a recommendation is included under #6A below.

The Bangladesh Bank must also improve its banking regulation and supervision capabilities. The dedicated assistance for which the FSRP TA is now responsible has not yet been provided, and should be offered at the earliest possible time.

Recommendation: *That FSRP TA do its utmost, with government cooperation, to put in place a dedicated bank supervision expert to work with the five relevant departments within the Bangladesh Bank.*

2. Joint Venture/USAID Contract Resource Reallocation

Because of the protracted arrival of personnel at the start-up of the TA project, personal contract ending dates are uneven and stretched-out. At the same time, the Project Paper underestimated the need for additional specialist assistance in the implementation process, and the time required to complete the several studies in the macroeconomic area. We conclude that a renegotiation of the technical assistance contract between USAID and the joint venture to redeploy technical assistance resources is desirable.

Recommendation: *That USAID and the joint venture renegotiate the project contract to permit the reprogramming of the person-months contracted for. Reallocation of the 67 person-months now extending beyond June 30, 1995 will permit the redeployment of resources suggested by the Team Leader in his draft concept paper, "NCB Resources/Future Directions," if agreeable with USAID.*

3. Increase the Frequency of Loan Classification

The lending area is a paramount problem due to both poor credit analysis because of a lack of accounting skills and to directed lending policies. Loan portfolio management is virtually nonexistent, because there has been little incentive to collect loans. The sheer volume of loans that must be examined and classified according to Circular 34 is immense, and banks have made little progress in this area to date. The accepted practices of (1) not considering a loan past due if unpaid until one year beyond its maturity date, and (2) only undertaking the loan classification process annually is utterly inadequate for proper loan portfolio management A loan can remain unpaid almost two years before being identified and classified.

An awaited Bangladesh Bank regulation to review loans for classification every six months will be an improvement. However, quarterly or even monthly classification of loans that go 90 days past due will give management the tools to exercise the kind of portfolio administration that is sorely needed.

Recommendation: *The TA team must spur the bank into quick passage of the semiannual classification requirement, and obtain the bank's commitment to require quarterly classifications, based upon nonpayment 90 days after the maturity date of the loan, within two years, or sooner if possible. Quarterly reporting of loan classification will approach international standards, which are monthly in most countries.*

4. Branches Should Report to Head Offices and the Head Offices to the Bangladesh Bank

NCB and Bangladesh Bank management, and other users of NCB financial and nonfinancial information, are not receiving adequate, reliable, or timely information from their branches. The main causes are the lack of standardized accounting systems for input to MIS and a lack of trained accounting personnel. The system is complicated by too many unnecessary reports (see Appendices 5 to 8). Branches report independently to the Bangladesh Bank as well as to their Head Offices.

The FSRP TA automation plan for the NCBs is fairly well advanced. Cumbersome procedures have delayed the acquisition of planned procurement of computers and accessories. This has delayed the implementation of MIS somewhat, but all NCBs have at least a basic system in place, and senior managers are gaining experience in its use as a management tool. However, branch financial information reported to the Bangladesh Bank and to the Head Offices is highly suspect.

The project is giving some basic accounting training to those with whom it comes into contact in implementing credit programs, MIS, profit planning, and development, but the technical assistance is not funded to reach deeply into the banking system in this respect (see #6F below).

Recommendation: *As soon as system capabilities permit the timely reporting of branches through their Head Offices to the Bangladesh Bank, direct branch-to-central bank reporting should be discontinued. This will eliminate scores of superfluous and inaccurate monthly reports prepared by each of more than 3,500 branches. The TA team must urge the Bangladesh Bank and the government to agree that this is the direction to proceed as soon as practicable.*

5. Improvement of the TA Team Quarterly Report Format

FSRP TA's preparation of baseline data, both quantitative and qualitative, has been completed and is in a form that can be measured in subsequent evaluations. Tracking systems of the qualitative data are in place. However, these are primarily through the means of the monthly reports prepared by the NCB TA teams, the quarterly report prepared by the FSRP TA Team Leader, and the Quarterly Progress Status Reports, which are prepared by the Mission based upon information supplied by the FSRP TA team. In addition, the annual reports prepared by the TA team members will provide a most useful measure of progress in the future (the first year's reports covered the start-up operations and early tasks, primarily, and are a helpful supplement to the baseline diagnostic reviews).

The format of the quarterly reports can be improved to provide the Mission with a clearer picture of progress made to date toward accomplishing project outputs and purpose-level indicators. Alternatively, we believe that the Mission would be equally satisfied if the TA team were to report progress toward meeting output and EOPS objectives quarterly in a separate report.

Recommendation: *The TA team should amplify the FSRP Quarterly Report to show progress toward meeting output and EOPS objectives progressively, or report such progress separately. The Mission should receive an overview of progress without the need for the reader to return to previous reports to pick up a line of continuity. Product development can be shown as a bar chart showing percentage of completion. In the implementation phase, progress in each bank toward its own targets can also be shown as percentages. In the implementation phase, it would also be appropriate for the project to establish and track quarterly quantitative goals for product implementation.*

6. Actions the TA team Should Promote Directly with the Government or Indirectly through USAID, the World Bank, or Other Donors

The situation within the Bangladesh Bank and the NCBs at the inception of the project was much worse than imagined at the time the Project Paper was written. The Project Paper team did not have access to the actual financial conditions of the project target institutions. Financial reports published by these institutions showed profitable operations and positive capital positions. The reality that TA team members found, once they were made privy to the actual human and financial situation, was far more serious than imagined.

Massive financial assistance from government will be required to permit the NCBs to write off uncollectible loans, and to make provision for substandard and doubtful loans in accordance with Circular 34, and to end up with sufficient capital and reserves to meet capital adequacy requirements. This massive government program will also be required to preserve the improvements in internal operations and policies that FSRP TA has assisted in developing under the project.

FSRP TA members have brought to light many problem areas and specific items that the government, or the bank and other donors together with the government, must address if the Bangladesh financial system reform is to succeed on a sustainable basis. These problems are beyond the scope and resources of the TA project. However, we know that work on the solution of one problem often raises others. We strongly believe that the 13 areas, which both the TA team and the Evaluation Team recommend receive immediate attention, are critical to the healthy evolution of the financial system.

Recommendation A: *The TA team advises that training needs within both the Bangladesh Bank and the NCBs, based upon 15 months of observations, are monumental. Improved training for NCB officials is planned within the context of the project, which includes the upgrading of both NCB Institutes and BIBM. The TA Training Specialist has drafted a comprehensive plan to accomplish these improvements. However, the TA team believes that the specialized academic and practical training needed to enable bank officials to better manage macroeconomic and open market operations indirectly and to regulate and supervise the banking system can most effectively be obtained abroad.*

The TA contract does not provide sufficient resources to permit such training at the present time. The training Specialist is in the process of preparing a five-year training strategy that will include the need for overseas academic and on-the-job training for central bankers. The Evaluation Team concurs with these findings and conclusions.

USAID, the World Bank, or other donors, with the Bangladesh government, should consider basing a comprehensive overseas training program for Bangladesh Bank officials upon the recommendations of the TA team's study. The program should include (1) an academic component in monetary economics; (2) practical experience in the management of the money supply and interest rates through the use of open market techniques; and (3) banking system regulation, and the examination and supervision of banks, within a largely private system.

Recommendation B: *The TA team believes that the Banking Companies Act is antiquated and does not lend itself to the modern central bank/independent commercial bank system that is being structured in the country. This view is shared by the World Bank, USAID, and other bilateral donors, according to the TA team. The Evaluation Team concurs.*

Government should revise The Banking Companies Act, with technical and legal assistance from the World Bank, USAID, or other donors, to permit banks to operate in a modern, autonomous manner consistent with the eventual goal to privatize some or all of the NCBs.

Recommendation C: *The present legal code makes it virtually impossible for a bank to foreclose upon real or other property pledged to secure a loan that goes into default. The defaulter's remedies under the present system can keep the judgement process in the air for more than a decade. Recognizing this, the government has instituted a plan to open 64 Bankruptcy Courts to speed up due process, and passing a Bankruptcy Law that will level the playing field between debtor and creditor. The Ministry of Finance is presently working to finalize drafting the new law and to establish the Bankruptcy Courts, 30 of which have been opened.*

Government should complete the draft law and expedite its passage. It should also expedite the formation and staffing of the 34 Bankruptcy Courts needed to reach the planned level of 64.

Recommendation D: *A substantial percentage of the loan portfolio problems of the NCBs can be attributed to years of making loans to companies and economic sectors at the direction of the government. The NCBs have been used by the government as instruments of government policy. The Evaluation Team concludes that the government should provide the fiscal resources to fund key sectors, and that if such funds are transferred by the government directly, or through the NCBs in a fiduciary capacity only, future impairment of the NCBs' balance sheets from this source will be eliminated.*

Directed lending by the NCBs to economic sectors at the wishes of government should be discontinued as soon as possible, and replaced by the direct transfer of fiscal resources or through government use of the NCBs in a fiduciary capacity.

Recommendation E: *According to the TA team, there is a genuine desire at the MOF to grant the Bangladesh Bank increased autonomy and enable the bank to operate as central banks operate in England, France, and Australia. However, in the opinion of the government, the Bangladesh Bank is not capable of autonomous (or semiautonomous) operations at this time. The central banker training program, recommended in #6A above, is vital to reaching this goal over the medium term. However, a specific statement of government intention and direction with regard to the status of the Bangladesh Bank, in terms of policy, would help to mobilize donor support for the training and for other assistance needed to effect the evolution of the bank's autonomy.*

Government should commit itself to the program of eventually giving Bangladesh Bank increased autonomy from the Ministry of Finance.

Recommendation F: *The body of banking regulation, especially regulations overseen by the Bangladesh Bank's Banking Control Department and the Foreign Exchange Operations Examination Department, are confusing and overlapping. Regulations, circulars, and amending letters have piled upon each other over the years and created a confusing and contradictory regulatory environment. Some are no longer applicable because some deregulation has occurred. According to the TA team, a banker is rarely certain that an action outside of the most ordinary operation meets all of the regulatory requirements. Each regulation, and the permutations that apply to it since its origin, should be assembled and clarified, followed by the redrafting and passage of a replacement incorporating the characteristics desired. This would increase efficiency and reduce transaction costs within the banking system.*

MOF and Bangladesh Bank should review, eliminate, or consolidate and clarify the body of bank regulations to increase efficiency and reduce transaction cost within the banking system. Modernization of the regulations would also facilitate improved bank control of the commercial banks.

Recommendation G: *MOF is aware that the personnel situation in the NCBs and Bangladesh Bank requires an extensive review. The civil service status of clerks and bank officers is not conducive to attracting and retaining the best and brightest personnel: the present system does not offer incentive rewards for exceptional performance or penalties for mediocrity. Competition with the private sector will intensify over time, and good bankers will be in increased demand. Change is essential to depoliticize the banking system and enable the building of a body of professional commercial bankers and central bankers.*

The government has, the TA team advises, placed this matter on the table and requested that the World Bank include human resources within its work plan. We recommend that MOF pursue the matter vigorously, and request World Bank to commission a study of the entire personnel area of the public financial sector with a view to the removal of bank employees from the government civil service and an end to the appointment of senior management by MOF.

Recommendation H: *At the time of this evaluation, interest rates on deposit instruments and loans in the system retained elements of control. The comparison between the rate earned on Postal Savings Certificates at 15 percent per annum, a real return of almost 10 percent, and a high risk NCB loan rate of 15 percent is indicative that distortions in the financial system still exist. We concur that deposit rates should be positive versus the inflation rate, but a major variance between bank and other institutional rates offered to the public will be counterproductive in the long run.*

As the Bangladesh Bank improves its ability to manipulate the rate structure through the issuance of government paper and the buying and selling of its paper in open market operations, the bank may be in a position to eliminate all ceilings on loan and deposit interest rates (except for a usury rate on loans), and possibly floors. Pricing of government bills through auction will establish one of two reference rates. The other reference rate would be the bank's rediscount rate. The bank should have jurisdiction over all deposit-taking institutions if they do not have this jurisdiction now.

Recommendation I: *A corollary to H above, the evolution of the Bangladesh money market should include the issuance and sale of a range of maturities of government paper. The TA team has informed us that the Bangladesh Bank is in agreement with this concept.*

MOF and Bangladesh Bank should pursue the expansion of the bank bill market into a broader money market to give banks and individuals sound, readily salable instruments in which to invest excess liquidity.

Recommendation J: *Discussions are under way between the TA team and the government for increasing Bangladesh Bank's authority to issue new banking licenses and to give NCB management the authority to close redundant branches.*

Government should permit the Bangladesh Bank to establish norms and control the issuance of new banking licenses. The NCB's management should have authority to close redundant or unprofitable branches without the need for outside approval. Authority to open new branches would still require the Bangladesh Bank's approval.

Recommendation K: *The Bangladesh Bank and NCB training needs assessment that the TA team is presently completing will provide a blueprint for the sector's training requirements extending far beyond the life of the TA contract. Government should give a high priority to enlisting donor financial support for the continuing training requirements of BIBM and the Bangladesh Bank and NCB training institutes.*

Recommendation L: *Bangladesh does not have a Truth in Lending Act similar to that in the United States or other Western countries for the protection of the consumer. MOF agrees that legal protection for the banking customer, both depositor and borrower, would be desirable.*

Government should develop and pass a Banking Consumer Protection Act law containing the provisions that it feels the country needs to protect its consumers.

Recommendation M: *The TA team has found that the level of accounting skills within the financial sector and among the borrowing clients of the sector are weak, and the use of chartered accountants to audit annual figures spotty at best. Little emphasis has been placed on the requirement, common in most countries, that banks receive complete and accurate financial accounts from prospective borrowers.*

The government, through the Bangladesh Bank, should require improvement in the standards of the financial information presented by borrowers soliciting a bank loan. Because this recommendation is directed to the commercial or industrial user of bank credit rather than to the bankers themselves (who would receive accounting and analytical training under the FSRP training segment), the government should consider seeking donor assistance for general accounting training outside of the context of the FSRP.

Recommendation N: *The Negotiable Instruments Law, which governs the use of checks, drafts, and other negotiable instruments, originated in 1909 with revisions in 1913 and 1920. The law was drawn during a different age to satisfy different people and different conditions. For example, there is no* *criminal penalty for writing a check without funds or for "check kiting" (pyramiding uncollected balances or "float" between banks and cashing out before the first check deposited bounces).*

The government should review and modernize the Negotiable Instruments Law to increase the protection afforded to financial institutions and "innocent holders for value" who, at this time, have little or no protection.

APPENDIX ONE

RECENT DEVELOPMENTS IN BANGLADESH BANK'S OPERATIONS

As stated in the Scope of Work on the Financial Sector Report Project, there are three broad project purposes in the five-year program. These are:

(1) to implement more flexible central bank monetary policies and to improve central bank supervision of the commercial banks;

(2) to develop financially sound NCBs that are suitable for privatization; and,

(3) to expand the share of the banking sector controlled by private banks and to continue the movement toward divestiture of the NCBs.

The following provides an initial assessment as of May 1993 of the extent to which these project purposes have been, or are being, achieved in certain areas.

IMPROVING MONETARY POLICY OPERATIONS

Prior to January 1990, the Bangladesh Bank relied on certain direct controls to execute monetary policy such as credit quotas and ceilings, import margin requirements and administered interest rates for the commercial banks. As a result of government policy, the central bank provided subsector-specific subsidized refinancing credits to the commercial banks and administered the system of cash and liquid asset requirements which were seldom varied.

Since January 1990, however, significant progress has been made with regard to the central bank's refinancing operation. The introduction of a short-term central bank obligation that could eventually be used actively in conducting open market operations, and the elimination of much of the administered system of commercial bank loan and deposit rates. Despite this progress, the process of moving toward an adequate system of flexible indirect monetary controls is not yet complete. In addition, one Deputy Governor at the Bangladesh Bank has indicated that the Bank needs to develop a native team fully competent to carry out monetary policy.

CENTRAL BANK REFINANCING

The movement toward more flexible instruments of monetary control began in January 1990 when the central bank replaced its subsidized refinancing facility for priority sector loans with a more general rediscount facility at the Bangladesh Bank's uniform bank rate. Over time the number of sectors receiving subsidized loan rates was reduced and currently all central bank loans are made at the uniform bank rate of 6.5 percent except for a group of small donor programs such as the one with Norway.

At present, much of the decision-making power with regard to central bank loans to the commercial banks rests with the Banking Control Department. That Department must see that a bank does not borrow an amount from the central bank that is in excess of 30 percent of its deposit liabilities.

However, this cannot in any way be construed to indicate that BB analyzes the financial condition of a bank before making the rediscount window available.

Besides this "balance sheet" control of central bank lending, the Department also considers how its lending will affect its target rate of growth for high-powered money. In this regard, the central bank has developed an increased awareness of how its actions impact directly on the monetary system--an awareness that was certainly less evident in the 1980s.

A continuing problem with the central bank refinancing facility is that the two specialized agricultural banks (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) have become heavily dependent on the facility and currently account for about half of bank borrowing from the central bank. Attempts by the central bank to restrain these credits have brought complaints from the two banks that any reduction in central bank credit would mean that they would be unable to pay their staff. Hence, this is a problem that merits attention.

A further indication of greater flexibility in the central bank's monetary policy is the more frequent adjustments made by the bank in its bank rate. During much of the 1980s, the central bank changed the bank rate only slightly most of the time and not very often. But since the fourth quarter of 1991, bank rate has been changed more frequently. From a level of 9.75 percent in the third quarter of 1991, it has been lowered in a series of steps to 6.5 percent in April 1993.

THE 91-DAY BANGLADESH BANK BILLS

In a move to expand the central bank's potential instruments of monetary control, Bangladesh Bank began to auction its own obligation--a 91-day bill--in December 1990. This action was envisioned in the June 1990 Financial Sector Reform Program, largely because the national government's treasury bills have not been a suitable vehicle for the central bank to use in carrying out open market operations. The amount of treasury bills outstanding is relatively small, the bills are not offered on a regular basis, and the government specifies a fixed rate for the bills that generally does not reflect true market forces. On the other hand, the Bangladesh Bank 91-day bills are auctioned monthly and the yield on the bills currently reflects demand and supply forces. As a result of establishing a market for these bills, the central bank is now able to influence slightly monetary conditions when it decides how large a supply of bills to offer each month.

Although the central bank's system for supplying 91-day bills is fully operational, the amount of bills outstanding is still relatively small. Approximately 200 to 400 million taka of 91-day bills are auctioned each month and roughly 900 million taka in 91-day bills were outstanding in April 1993. Since the national government's budget is currently registering a surplus, government officials have reportedly been reluctant to expand significantly the monthly issue of 91-day bills. The authorities are to be commended for having successfully launched this new central bank obligation, which has the potential to be used by the central bank in the future to carry out open market operations.

FLEXIBLE LOAN AND DEPOSIT RATES

Until 1990, commercial bank loan and deposit rates were fixed by the central bank, often below or above true market levels. In 1980 the authorities adjusted bank deposit rates to levels generally higher than the inflation rate, but no other significant changes were made in the 1980s. In the spring of 1990, however, interest rate bands were established for 12 lending categories or borrowing sectors, as based on the central bank's estimate of a shadow (true market) rate for the different categories. This eventually allowed all banks to vary their lending rates within these bands--thus providing more flexibility in bank lending rates. For those lending rates below the shadow rate, the government paid a subsidy to the bank. In 1992, at the urging of the FSRP team, all of the bands were eliminated except for three sectors (agriculture, exports, and small industry), and the banks since then have been free to set their lending rates at whatever level they believe appropriate.

Also, in the spring of 1990, commercial bank deposit rates were freed except that floor and ceiling rates for savings and fixed deposits were established. In 1992, again at the urging of the FSRP TA team, the interest rate ceilings for deposits were removed, but the minimum rates for savings and fixed deposits were continued. Two rate changes were made in 1992 and 3 in 1993. Currently the minimum rates are 5.0 percent for savings and 6.0 percent for fixed deposits.

As is evident from the above, significant progress has been made in introducing greater flexibility in the interest rate system. There still remains the task of eliminating the loan rate bands for the three sectors--agriculture, exports and small industry--and removing the floor rates for savings and time deposits. When the government sets the floor rates for these deposits there is a non-market impact on monetary and credit conditions.

There also is currently a problem regarding the high level of lending rates in real terms. The annual inflation rate has declined from about 9 percent in Fiscal 1990 and Fiscal 1991, to about 4 percent this past January. The recent year-over-year inflation rate is about 2 percent. But most of the bank lending rates have remained at about 15 percent. It is clear from these figures that there has been a substantial rise in the real cost of funds for borrowers. However, banks need present high margins to provide earnings against which to provision for bad loans. The four NCBs play a predominant role in total bank lending and their lending rate policies tend to be influenced more by particular government policies than by market forces. The appropriate solution to this problem is not readily evident, but the problem is an important issue that should be addressed.

THE MONETARY MANAGEMENT AND TECHNICAL UNIT

The Bangladesh Bank has had a technical unit to do monetary analysis since 1985, but it has taken some years for the unit to become more formally established and to play a more significant role in advising on monetary policy. It has played an important role in providing the analytical framework that facilitated the implementation of the interest rate policies discussed earlier and the tendering mechanism for the central bank's 91-day bills. In February 1988, the technical unit, aided by an IMF advisory mission, established its procedures and analytical framework for monetary programming. To date the technical unit has not been established as a regular department in the central bank, but it has been recognized as a formal part of the bank. Its status was upgraded after the new Governor of the central bank assumed office in December 1992. In the spring of this year he established a Monetary Policy Management Committee to assist him in formulating monetary policy. The Committee is very new and just had its first meeting on May 3, 1993. The Governor plans to convene midmonth meetings of the Committee in the future. The name of the Technical Unit has also been upgraded to the Monetary Management and Technical Unit.

The new Monetary Policy Management Committee (MPMC) consists of the Governor, the bank's three Deputy Governors, the Executive Director with responsibility for the Banking Control Department, and the Executive Director with responsibility for the Exchange Control Department. It would appear to be too early to assess how important and effective this new committee will be in the execution of monetary policy.

The Monetary Management and Technical Unit (MMTU), as it currently operates, can propose various actions to the Governor and senior management of the central bank. It also deals actively with the FSRP group. Since late 1992 it has had a total staff of about 26 to 30 persons, of which at least five are officers. In addition, two officers are receiving training in the United States, and with the addition of one other officer, the MMTU will eventually have eight officers to oversee various projects. At present, work is mainly being carried out in five areas:

(1) monetary accounts;
(2) bank credit and interest rates;
(3) exchange rates;
(4) government expenditures and receipts; and
(5) the balance of payments.

Data on these topics are being collected and the staff is in the process of understanding and analyzing the data. It is only as recently as February of this year that MMTU began to expand the bank's existing monetary programming analysis. Gradual progress is being made in the development of the staff's capabilities.

APPENDIX TWO

THE SITUATION OF THE NCBs IN 1991/92

One of the first tasks of the FSRP TA following its start in late 1991 was to perform a diagnostic review of the four NCBs and a high level review of the private banks. The findings of this diagnostic review, which took place over the first year of the TA, were that the NCBs were in poor financial condition, notwithstanding a number of positive steps which the Bangladesh government (BDG) had taken in 1987 and 1989, which included:

The establishment of capital adequacy requirements at 6% of deposits for domestic banks and 5% for foreign banks.

Allowing Bangladesh Bank (BB) to sell securities to banks and opening a single rediscount window.

The partial deregulation of interest rates on loans and deposits to permit banks to operate within fixed bands, and allowing banks to set their own fee for services.

The publishing of BB Circular 34 which established norms for loan classification and provisioning requirements.

Adjusted income tax regulations to permit deductions on additions to interest expense and loan provisions up to stipulated limits.

The recapitalization of the NCBs.

The Interim Evaluation Team has been given access to and reviewed the financial information for the individual banks comprising the quantitative baseline data for future evaluations. The FSRP TA team delivered this information, some last year and more this year, to the USAID Mission as a separate document whose details are proprietary and confidential. However, the net income figures and 18 performance ratios which comprise the baseline data will permit midterm evaluators to compare 1993 data against 1991 data and provide a measure of the progress of the NCBs in comparison to the 1991 baseline.

In addition to the all-important loan portfolio issue, the FSRP found a number of serious problems affecting the NCBs and their operations which would need considerable remedial attention if the TA were to have any possibility of achieving its objectives and purposes. The more important of these are, inter alia:

The deleterious impact of twenty years of BDG directed lending which has destroyed lending accountability, eliminated credit analysis skills, and weakened loan collection and recovery activities.

An antiquated legal system which favors the borrower and makes it almost impossible for a creditor to foreclose on collateral or collect against a guarantor's assets.

Burdensome and unnecessarily large branch networks which could not be trimmed due to political and employment considerations.

A lack of internal planning, both in terms of organization, management, and profitability, due to the imposition of centrally directed budgets.

A lack of basic accounting skills and a lack of standardized information reporting (methods of accrual and composition of the branch general ledgers) within individual banks.

A great disparity between the NCBs in terms of computer data processing, and a lack of use of small computers and specialized programs for management information purposes.

A lack of manpower planning and the need to improve the training capabilities within the NCBs and the Bangladesh Institute of Bank Management.

Each of the four NCBs suffers ill-effects generated in each of the problem areas listed above to a greater or lesser degree. The loan portfolio problem is universal.

APPENDIX THREE

SONALI BANK

Sonali Bank is the country's largest with 1,296 branches, deposits of about Tk 6,100 crore, loans of Tk 5,125 crore, and a staff of over 25,000 as of year-end 1991. Unlike the other NCBs, Sonali Bank has always been a public sector institution. During the Pakistan period, it was the National Bank. It was created with two primary objectives in mind, the financing of the jute trade, and to act as fiscal agent of the government and perform a number of duties for the treasury. It is still active in fulfilling both of these responsibilities. In addition, Sonali is by far the largest financier of rural sector activities among the NCBs.

Below a managing Director (MD) and his deputy there are seven General Managers (GMs) who have functional responsibilities and operate in matrix fashion. A branch manager will report to one GM on a given functional area and to another GM on something else. In effect, a branch manager reports separately to seven GMs.

The FSRP TA team in Sonali Bank is led by an International Consultant and a National Consultant. The effort is organized in six work groups as follows:

Credit workgroup	2 part-time
Computer workgroup	2 part-time
MIS workgroup	6 full-time
Profit Planning	2 part-time
Training workgroup	2 part-time
Development workgroup	2 part-time

In addition, two full-time research officers have been added. The workgroups include the DGM head of Central Accounting and the DGM head of the Computer Department.

The FSRP team has been very active in Sonali Bank and, to date, has completed the following tasks:

Training diagnostic report
Completed diagnostic report on the bank's situation
Review of the existing profit planning/budgeting system
Attitude survey of bank officials
Drafted a three year automation plan
Deposit and loan pricing strategy report and action plan
Time deposit tracking report on a monthly basis
Study and recommendation for fee increases on 10-year contract for servicing Treasury
Revised schedule of fees and commissions on services
Revised the income and expense format for branch reporting
Instituted monitoring unclassified loans over Tk1 crore
Seminars on "managing change" to GMs, DGMs, and AGMs
Diagnostic report on jute sector (US$ 300 million exposure)
Programmed write-off of Tk 495 crore in agricultural loans
Completed capital adequacy study showing 4.43 percent actual
Completed branch profitability report of 1,281 branches

Preparing manual on branch MIS for later implementation
Development of a simplified general ledger format in process

The FSRP team suggested the formation of a Management Credit Committee only to find that such a committee had existed at one time but had been discontinued. The program of credit review by the committee was revitalized, and it now meets regularly. New credits are reviewed prior to their recommendation to the Sonali MD and Board.

A Loan Recovery Division headed by a GM has been established to monitor recovery targets on classified and unclassified loans (141 cases over Tk 1 crore) throughout the bank. Senior management, including the Chairman and MD, welcome the increased attention and centralized coordination of the loan recovery process and are closely tracking progress There are over 11,000 defaulter cases pending in the court system, and another 19,000 pending certificates before magistrates (both classes are mostly rural credits). These numbers are an indication of the extent of the credit recovery problem. The division contains 60 people including 10 officers of DGM level. A branch diagnostic report showed that 90 percent of non-agricultural loans were concentrated in about 100 branches. Information of this nature facilitates more effective control and loan collection monitoring.

The top priority for Sonali Bank is in the area of bank accounting and MIS. A concerted effort to implement improvements in MIS are in progress. There will be a consolidation of some 200 reports which branches send monthly to the Head Office to about 130. In the Head Office, 120 monthly reports are being reduced to 20 and will reduce staff preparation requirements from 100 people to 15. A common general ledger format is being introduced for the first time; in addition, all branch reporting will be standardized. The new loan ledger card is an important step in this direction. Accounting standards need to be installed throughout the branch system. Once the MIS system has been introduced, the FSRP team will work on the implementation of profitability planning. Management has accepted the concept, and work on this project is scheduled to begin in 1994. However, the International Consultant indicated that the introduction of a work standards and model branch program for Sonali would be premature at this time.

Accounting for the many activities which Sonali Bank performs for the Bangladesh Treasury is in the process of being standardized and computerized. Central Accounting is in charge of this effort. The computerization of the reconciliation of 1,301 branches has just come on-line and will be accomplished monthly.

The Computer Department now has automated the 2,500 Head Office officers payroll, a daily compilation of government transactions, the maintenance of 25,000 employee pension fund accounts, and the personnel files for 25,000 employees. FSRP has been involved in branch computerization with three branches targeted and one already accomplished.

Training is another major priority of the bank. Given Sonali's size and the number of employees, the small Staff College is inadequate. The bank owns a property adjacent to BIBM and is planning to build a new training center. Approvals are presently being sought. The lack of effective training in certain areas has been identified, and improved courses are being written. For instance, the skills survey indicated that 84 percent of bank officers felt that they needed a comprehensive course in credit and loan portfolio management. The need for a good general banking course was second with 78 percent responding positively.

According to the International Consultant, Sonali Bank management has recently been somewhat more receptive of FSRP initiatives. The bank has the most advanced computer equipment, but is using it mostly for personnel records and not for banking operations. They are well aware of their problems. As the largest and most bureaucratic NCB, progress has been slower than in the others in many areas.

Management has not evidenced much interest in long-range strategic planning. While changes which generate positive impacts in the short-run can gain enthusiastic management support, longer term initiatives are not well received. However capable they may be, the BDG rotation system for MDs and GMs mitigates against one taking a long-term view, particularly if a decision requires the spending of political capital or taking substantial risk. The long-term outlook for the institution is outside senior management's area of concern.

The present MD at Sonali Bank is a banker who served his allotted time to retirement and then was asked to stay on for an additional year. His extension runs for another six months. As good as he is, he is not interested in making major, and controversial, long-term strategic reforms such as in the area of branch rationalization and consolidation. While difficult from many points of view, the branch issue will have to be confronted in Sonali Bank and the other NCBs if their basic structure is to be placed on a sustainable and profitable basis.

APPENDIX FOUR

JANATA BANK

Janata Bank is the second largest NCB with 895 branches and 18,000 staff of whom 8,000 are officers. Deposits are about Tk 4,400 crore and loans Tk 2,800 crore. The total balance sheet excepting contra items is about Tk 5,000 crore.

Janata's first priority for FSRP focus is increasing profitability, followed by computerization and, thirdly, credit.

The FSRP TA team consists of an international and a national consultant. A Deputy General Manager serves as the coordinator of the FSRP efforts. Initially, each of the six work groups were staffed with part-time people; more recently, a number of full-time staff were assigned. The present alignment is as follows:

Development workgroup	3 part-time
MIS workgroup	4 full-time, 3 part-time
Credit workgroup	2 full-time, 3 part-time
Planning workgroup	1 full-time, 2 part-time
Training workgroup	1 1/2 part-time
Computer workgroup	1 full-time

To date, the FSRP TA team has been involved in a sizable number of projects within Janata. The results of the work group's efforts have positively impacted the bank's operations through increased revenues as well as creating a deeper understanding among bank management of the dynamics of banking on a commercial basis. Among the tasks accomplished have been:

Presentation given to senior management explaining 1991 results
Computer profitability model for deposit pricing
Computer model for loan pricing
Completed a diagnostic report on the bank's situation
Conducted numerous training seminars on various subjects
Developed 100 large defaulter recovery program
Identified 25 good loan/bad loan names for case studies
Developed a computer spread sheet for credit analysis
Completed report on MIS rationalization; eliminated 32
Developed a simplified MIS report for bank management
Started a real-time deposit level monitoring system
Developed a balance sheet/p&l forecast and capital shortfall model
Prepared goals and action plans for the MD
Report on the existing planning system
Completed a staff attitude survey
Completed data for utility billing service pricing
Collected data for profitability analysis by product
Completed training assessment report
Completed skill level report
Completed training requirements report
Identified software requirements for branch automation

Initiated and completed a hardware procurement program
Developed an MIS database system
Drafted a three year plan for additional computerization
Assisted with translation of Planning Manual into Bengali

According to the International Consultant, Janata is behind the other NCBs in completing contract deliverables pertaining to credit and loan portfolio matters. The relatively low priority assigned these activities is responsible in part. Much greater attention to asset quality is required. There is no formal branch loan recovery program in place nor accountability assigned. A Head Office group has just been formed to handle the 200 largest defaulters.

The consultant also indicates slow progress in obtaining cooperation from bank management to perform studies in the credit area, notwithstanding the fact that the computerized credit analysis spread sheet was developed and its manual prepared in Janata Bank. Courses in its use are being taught, and the spread sheet is in use in several Head Office departments which have computers. As part of this process, the teachers found that basic accounting skills are lacking among most officers. The only individuals who had sufficient accounting knowledge to understand the full implication of the accounts in the spread sheet and their inter-relationship are those with MBA degrees. That may be a testimony to the superior skills of MBAs but it is also a reflection on the poor accounting preparation of the vast majority of the bank's officers.

Janata handles and finances about one third of the country's foreign trade. For this reason, fee income is a very important component of the bank's revenue stream. The repricing of several services resulted in a Tk 15 crore increase between 1992 and 1991, notwithstanding a drop in the volume of transactions handled. The recently completed study comparing Janata's fees for services compared with the cost of those services reflects a reasonable relationship across the board.

Janata Bank is heavily involved in the jute sector with over 20 percent of loans in this area. In addition to jute, Janata is heavily involved in financing textile export industries, general working capital, and "special industries."

The International Consultant was insistent that, while the MD and the DMD were in place throughout 1992, a great benefit to FSRP, half of the GMs were rotated during the year under BDG policy. The new GM must be brought up to date on the projects which FSRP has completed, are underway, or planned. FSRP progress risks being upset with each transfer, and even when an enthusiastic supporter appears, time and energy must be expended in the education process.

Janata's presentation concluded with a detailed look at the new performance planning system with particular emphasis on the capital adequacy calculations programmed into the model. The capital model, which was delivered within the scheduled work plan, first tracked the impact of several of the interest rate changes which were made during the year. It showed the effect of increased deposits on the balance sheet and the resultant capital shortfall; it also showed the impact of increased deposits on the profit or loss statement. Lastly, the model was manipulated to show the two sets of BDG bonds which the bank expects to receive this year, the last tranche of FSRP loan and the Jute loan being negotiated by the BDG and the World Bank, and the impact of Janata's share of the bonds on capital, earnings, write-offs and provisions under various assumptions. It was an impressive display of a sophisticated management tool properly used.

The bank must initiate an overhaul of its accounting system during 1993. This is expected to be a five year effort. Special attention will be paid to standardizing the methodology for calculating accrued interest on deposits and loans, which, at the present time, are calculated in a variety of manners making earnings figures suspect. With a standardized accrual accounting method, the introduction of the new loan ledger card into use in the major branches will assist the building of a reliable MIS system. However, the provision of reliable accounting data bankwide is still a year or more in the future.

Another area on which Janata Bank will concentrate in 1993 is the preparation of a comprehensive training plan, drawing on the data in the skills assessment and the training assessment reports which have already been completed. Other plans include the preparation of courses in loan recovery, loan administration, the use of the automated spreadsheet, and training in the use of the new loan ledgers.

Continuing and increased emphasis must be placed on improving loan portfolio quality and on collecting classified loans. Human resources must be better trained and motivated to accomplish these tasks.

APPENDIX FIVE

AGRANI BANK

Agrani Bank is the third largest NCB with 890 branches and about 14,250 employees. As of 12/31/92 it had deposits of Tk 4,176 crore, loans of Tk 2,533 crore, investments of Tk 1,064 crore, and a capital of Tk 105 crore.

FSRP TA effort is staffed by an international consultant and a national associate who are assisted by 19 full-time dedicated counterparts. These have been joined recently by 12 additional full-time counterparts for the roll-out of the planning and performance budgeting component. FSRP within Agrani is organized into six work groups as follows: Credit group, MIS group, Planning group, Computer group, Development group, and the Training group (with six part-time employees assigned).

Early FSRP team experience indicated that change would be difficult to implement, so the FSRP Task Force prepared a study on the Agrani Bank culture, and then prepared a manual on the subject of institutional change and a seminar on the subject. A series of "change" seminars were given to about 800 officers at branch manager, Assistant General Manager (AGM), and Deputy General Manager (DGM) levels. A major thrust of the training was to imbue participants with the idea that Agrani was their bank and that they had a stake in, and responsibility for, its improvement. The program also attempted to increase the level of risk tolerance among the attenders. The FSRP TA staff also:

developed a straight-line capital shortfall model
prepared a 15 year capital shortfall forecast
drafted an action plan to meet minimum capital requirements
developed a computer model for deposit and loan pricing
created a seminar for understanding income and expense
developed a presentation skills seminar for all FSRP members

Individual FSRP TA workgroups have also completed a comprehensive series of tasks which include, inter alia:

development of a credit management program
development of a spread sheet for credit analysis purposes
development of a simplified MIS report for management
design of a comprehensive loan ledger card
development of a real-time deposit monitoring system
development of goals and action plans for the MD and GMs
a Planning Manual translated into Bengali
development of and MIS data base system
completion of a diagnostic report on the bank's situation
a three-year plan for the computerization of the bank
preparation of bank profitability report by product
creation of a manual for computerizing loan classification
completion of a diagnostic report on bank training
preparation of a report on future training needs

According to the Managing Director (MD), Agrani Bank has taken the lead in the FSRP TA effort since it has no problems with unions (four of which exist within the bank) who have been prohibited from demonstrating or promoting their activities on the premises. Following considerable negotiation, the MD agreed to second highly capable staff to the FSRP team. He has agreed to the establishment of model branches by FSRP and to a comprehensive internal study to develop work standards for the productivity measurement of the branches. This was high on his list of priorities. In January 1993, the MD was the first to plan and adopt a series of goals for his activities in 1993 as part of the program to institute "management by objectives" and has implemented the MBO system to all branch managers.

Agrani was the first bank to break the "cartel" in March 1992 and lower the interest rates which it was paying on deposits. Later, Agrani raised loan rates to improve its operating spreads. It has led changes in interest rates made by the banks in all except one or two occasions.

A second high priority is loan collection. Managers have been given ambitious goals for loan collection in 1993 (which includes the rescheduling of loans), and several branch managers were removed for mediocre collection efforts during the past year. A reward system for loan collection has been installed which gives perquisites to managers who meet or exceed targets.

The MD has instituted a program to recover loans to large borrowers. The total amount of past due loans, about Tk 800 crore, represents about 63,000 cases. Of these, 75 names account for 60 percent of the past due portfolio. During 1993, recovery from these large defaulters has been targeted. Two crore has already been collected this year.

The MD has established an Evaluation Committee to review senior officer's performance. While civil service procedures must be followed generally, above average performance can be rewarded by early promotion at the recommendation of the Committee.

In addition to these efforts, a general review of the Agrani organization is under way. The MD is studying reducing Agrani's present regional "zones" from 52 to 20, and moving some general mangers out of Dhaka to head the enlarged zones which will have greater powers that at present. At the same time, overhead will be reduced. Improved MIS will assist the decentralization effort. While branches cannot be closed due to political constraints, the reorganization should improve the efficiency and profitability of the bank. Two new loan programs were added, an overseas worker loan program and a Special Commercial loan scheme, also to enhance bank profitability.

Management is aware of the serious problems in the loan portfolio and the need to improve credit granting skills. Consequently, about 500 officers have attended a basic credit training course in 1993 thus far, and more courses will be given. New loan policies to be introduced during 1993 will further add to the credit training requirement.

In launching the effort to prepare a reliable MIS system for management, the work group found that branches used a variety of methods for accruing interest on both sides of the balance sheet. This discovery highlighted a need for standardized methodology and for basic accounting training so that employees understand the reasons behind performing their tasks in a uniform manner. Another problem encountered by the MIS group is the sheer number of monthly reports which each branch must prepare, both for the Head Office and for the Bangladesh Bank (BB). The work group is studying both the consolidation and elimination of reports, and 22 have been eliminated thus far.

Agrani Bank is making good progress in the early stages of the FSRP effort. The Managing Director presently involved has demonstrated interest in and cooperation with the program. The

International Consultant has expressed appreciation for this fact and stated that both the MD and the AGM assigned as coordinator between the FSRP work groups and the bank have been key elements in the successes of the FSRP team to date. He is hopeful that the MD's support of the Project will be mirrored by the Chairman and perhaps by other Board members so that even greater project will be forthcoming in 1993 and beyond.

APPENDIX SIX

RUPALI BANK

Rupali is the smallest of the four NCBs with 512 branches and about 7,000 employees of whom about 3,000 are officers. Deposits were Tk 1,900 crore, loans Tk 1,160 crore, and investments Tk 400 crore.

Rupali Bank is not a true NCB today, and in the words of the Managing Director, "the situation gives Government a headache." The government attempted a partial divestiture of the bank in 1986 through the sale of shares to the public. This early attempt at privatization was ill conceived and poorly executed. Only about 10 percent of the shares of the bank were sold compared with government's target of 49 percent. Even though BDG still owns 90 percent of the bank, the unhappy privatization experience and its present mixed ownership, with two directors on the Board representing the private owners, causes BDG to view Rupali as being different from the other NCBs. We were told that Rupali would probably be the first bank to be privatized during the course of the FSRP.

The international FSRP TA consultant and his national colleague have organized their efforts using only eight full-time task force members, but they have 69 part-time counterparts who spend a minimum 25 percent of their time on FSRP duties, with some rotation of personnel, as required. There are six office support staff. Rupali selected credit and the loan portfolio as being the area of highest priority for FSRP team attention. As a consequence FSRP's Credit Specialist has a permanent office in the bank. Rupali inputs to the organization and staffing of the FSRP Task Force are:

Coordination of FSRP efforts	2 part-time
Development Workgroup	1 full-time, 4 part-time
Credit Policy Workgroup	1 full-time, 7 part-time
MIS/Accounting Workgroup	2 full-time, 5 part-time
Training Workgroup	1 full-time, 6 part-time
Computerization Workgroup	1 full-time, 5 part-time

The implementation of FSRP TA initiatives within the bank is directly through the pertinent Rupali Bank department responsible for the subject matter.

Among the more important tasks accomplished by the FSRP TA team since May 1992 have been:

Establishment of a deposit and loan rate review system
Establishment of a deposit monitoring system
Design of a bank reorganization plan
Completed an analysis of industrial credit
"Managing Change" seminars given
Establishment of a deposit and loan pricing strategy
Cost of Funds/Yield analysis conducted
Rate change impact measurement system developed
System for measuring sector profitability established
Loan quality monitoring system developed
Three P/Cs and printers installed
Skills database for two thirds of officers completed
Management by objectives introduced to top management

Introduced concept of recovering large defaulter loans
Completed a diagnostic report on the bank's situation
Completed staff attitude survey
Completed a credit training survey

Rupali does not have a sectoral lending specialty as do the other NCBs. The only area that may be considered a specialty is the "other Loan" category, a catch-all BB classification. However, the bank is heavily extended in the jute sector and the rural sector for its size. Both of these are problem areas. Credit recovery is the responsibility of the branch managers. In addition, there are regional credit recovery groups. The recovery effort has not been working well, so the FSRP team has selected the Comilla Zone where 10 to 15 classified loans will be selected and recovery, or loan work-out, plans designed on a pilot basis. Motijheel Branch (the Head Office branch) has also begun a pilot program to collect 15 large classified loans. The Rupali Board has instructed that these large defaulters be targeted for collection or restructuring.

FSRP has completed a skills survey of 2,000 officers. Another 1,000 officers remain to be surveyed. Training in Management by Objectives and Profit Planning efforts continue. Strategic planning and profitability analysis were non-existent; FSRP has determined that it will take about five years, continuing the present pace of current business and loan provisioning, for the bank to break even. The budget is prepared by Central Accounting. The Development Department is now preparing the performance budget.

Rupali Bank is far behind the other NCBs in terms of computerization and MIS systems development. There were only one or two PCs in the bank. MIS is being developed manually. The MIS group is under the Development Department, and is in the process of preparing performance reports for management in a summary fashion. They are now in the process of setting up a full-fledged MIS Department headed by an AGM. In this process, FSRP has uncovered a serious need for training for both departmental people and senior officers (AGM and above) in the usage of MIS information. This is an important development since MIS and its proper use is fundamental to the furtherance of all of the FSRP objectives.

The MD, who was involved extensively in the establishment of the Financial System Reform Program as a senior executive in Bangladesh Bank, has a paternalistic regard for the project. He is the 10th MD in as many years. However, he has only been MD of Rupali Bank for about six months and does not have a commercial banking background.

He is aware of many of the structural problems of the NCBs and environment like the need for a new bankruptcy law, changes in the banking law, and he was convinced that FSRP TA could help bring about positive changes in these areas. As far as Rupali is concerned, the MD was very concerned about ownership issues and didn't feel that major reforms could occur until this issue is resolved. The FSRP international consultant has been able recently to gain access to the MD on a weekly basis for about half an hour.

Rupali Bank has only recruited 174 new officers in the last ten years, and in the last five years have not recruited any. However, they have recently appointed a reputable private accounting and consulting firm, Rahman, Rahman, and Huq, to initiate the process of recruiting some new officers. The first advertisements for candidates have been published. Women constitute about six percent of the total workforce. There are a number of women officers but none above the grade of Assistant General Manager.

The bank's training institute has given courses to an average of 650 officers per year. These are foundation courses in banking operations and credit. In addition, 304 Rupali officers have attended the BIBM during the last four years.

The FSRP TA team leadership has completed an overall strategy for improving the operation of the bank and a short-term action program. The strategy involves (a) resolving the ownership issue and restoring confidence and direction, (b) consolidating operations, concentrating on commercially sound loans and collecting or writing-off bad loans, (c) improving the quality of personnel by training and retraining, and (d) restructuring the bank to improve profitability and management's ability to measure performance.

Rupali Bank is far behind in several key areas, particularly computerization, MIS, and profit planning and performance budgeting. The FSRP TA team has identified the problem areas and is in the process of designing remedial programs which will be implemented in due course. The indirect approach taken by the FSRP TA in Rupali, that is, the involvement of Rupali officers on a part-time basis who work in the various areas under study, has led to a somewhat slower start. However, these and other officers who are aware of FSRP's efforts are now coming forward with ideas of their own, and the reform process is accelerating.

APPENDIX SEVEN

BANGLADESH INSTITUTE OF BANK MANAGEMENT (BIBM)

BIBM was established in August 1974 for training a limited number of midlevel and senior-level officers of commercial banks. The Bangladesh Bank Training Academy (BBTA) for training BB staff was established in 1979 which is now housed in the BIBM. The institute occupies a campus in the western part of the city, including a dormitory and eating facilities.

BIBM has a governing Board whose Chairman is the Governor of Bangladesh Bank. All NCB and local bank MDs are Board members. The Deputy Governor of Banking (BB) and the former director of the Institute of Business Administration (IBA), Dhaka University, are also directors.

The Institute has a permanent faculty of ten, and five on deputation from various banks. In addition, it draws from the university, ministries, and other sources for guest lecturers from time to time.

In 1992, BIBM trained 2,077 officers in 20 training courses and nine workshops. All trainees must have a bachelor's degree to be eligible for participation.

FSRP TA has placed a Training Expert and a national counterpart in the BIBM. They have completed the draft of a comprehensive training needs assessment study. They have also completed a Bank Training Strategy and Medium-Term Plan for the banking sector and BIBM. The goal for BIBM under the plan is to make BIBM a "center of excellence" for the banking system in Bangladesh. The elements of the medium-term plan, a number of which are underway, are:

a program offering a Master of Bank Management degree
midcareer banking course and computer training
the development of BIBM faculty and infrastructure
development of the BBTA
development of the NCB's training institutes
a program for overseas training of BB officers
a banking supervisors overseas training course
a program of training course upgrades
the institution of pre-course, post-course testing
the preparation of case studies for course use

The estimated cost of these programs is US$ 4.3 million. This includes extensive faculty development including advanced degree programs abroad, the importation of foreign faculty, and the development of new course material.

The first of two overseas training courses for BB and NCB bankers is almost complete. Twenty carefully selected bank officers are participating. The course involves formal academic studies at Fisk University followed by training at the Citibank Global Training Center in New York. The second program will be given in the near future.

The BBTA established in 1979 is to provide training to BB officers. The main program is a six month foundation course of which three months is theoretical and three months is practical training. The FSRP Training Consultant proposes the extension of this course to one year. He also proposes the expansion of the student body to include officers promoted from clerical ranks in addition to the direct entry officers presently served. BBTA also conducts specialized central banking courses to BB officers and occasionally to other bank officers. FSRP TA advisors have lectured in the BBTA frequently.

The Training Consultant also recommends that the training institutes presently operated in each of the four NCBs expand their six week foundation courses to six months, and in 1995 to one year.

APPENDIX EIGHT

BANGLADESH BANK
CREDIT INFORMATION BUREAU

The Credit Information Bureau (CIB) was established in August 1992 under FSRP auspices to receive information from banks regarding a borrower's credit usage and standing, and to transfer that information to other banks upon request.

The Bangladesh Bank database is being used to supply rudimentary information, whether or not a borrower's loan is classified or current, at this time. Banks are instructed to supply current and more comprehensive information to CIB at the time they receive a request from CIB. They are also required to request information from the CIB at the time that a new application for credit is received. The CIB is updating its data base which will, over time, become quite sophisticated. From 1/1/93 onward, banks are required to supply information on borrowers (CIB Form 01) at the time that a loan is approved or rescheduled. Banks being asked to approve loans are requested to solicit borrower's information from the CIB on all loans 10 lakhs and above. CIB has in its database all the basic information from the BB database as of year end 1991. New information received will serve to update the database so that, eventually, the database will contain the comprehensive information contained on CB Form 01.

At the present time, CIB is authorized a staff of 29 including a GM and a DGM. Staffing is not yet complete. Four additional P/Cs have been ordered through FSRP but have not yet arrived. As a result, CIB has one P/C and is borrowing the use of two more. The GM states that as soon as he has the equipment, CIB will complete its staffing and will be able to reach its capacity of handling up to 1,000 inquiries per day. The present workload is about 1,000 inquiries per month which CIB is answering within a 24 hour turnaround time.

Use of CIB information should be made a requirement at an appropriate time and FSRP should sell the usage of CIB as a matter of discipline in the credit approval process. The mandatory supply of information to CIB is already in place and the mandatory use of CIB should be codified in BB regulations as soon as practical.

APPENDIX NINE

RECENT ECONOMIC DEVELOPMENTS

Real GDP growth in Bangladesh has averaged slightly under four percent in recent years. Growth rates have ranged between 2.5 percent in FY 89 and 6.6 percent in FY 90. The current estimate for FY 92 is 3.9 percent. There has been considerable variation in both the agricultural and industrial sectors. Agricultural output was flat in the three years through FY 89, but increased 10 percent in FY 90. Industrial production was up substantially by 10.5 percent in FY 92, but slowed to a rate of 5.7 percent in the third quarter of over the same period a year earlier.

Money supply has been increasing steadily at relatively high rates in recent years, with the annual increase in narrow money (MI) averaging 14.8 percent in the three years through Fiscal 1992. In January of this year MI was up 14.1 percent over the same month a year earlier. Broad money (M2) has also increased at a fairly steady and relatively high rate, averaging 14.3 percent annually in the three years through Fiscal 1992. In January, M2 was up 11.5 percent over a year earlier. On the other hand, the annual rate of increase in total domestic credit has been decelerating, declining from 19.2 percent in Fiscal 1990 to 7.1 percent in Fiscal 1992. In January of this year, total domestic credit was up 6.0 percent from the same month a year earlier. Some of this slowdown reflects the impact of measures taken under the Financial Sector Reform Program.

During the past two years the rate of inflation has decreased significantly and more recently interest rates have also declined. In Fiscal 1990 and 1991, the cost of living index (annual average) increased about 9 percent each year, but in Fiscal 1992 the increase was only 5.1 percent. In January of this year, the index was 4.1 percent higher than a year earlier. Partly reflecting the reduced rate of inflation, the central bank's bank rate has dropped steadily from 9.25 percent in June 1990 to 6.5 percent in April of this year. Commercial banks' average deposit rates have not dropped as rapidly, declining from a high of 9.55 percent in September 1991 to 7.4 percent in December 1992. Average bank lending rates, due to the program of interest rate liberalization that began in November 1989, remained at roughly the 15 percent level through September 1992, but since then have declined by several percentage points.

Turning to the external side, exports have generally been rising in recent years, but imports have roughly leveled off since 1989. The result has been a decline in the trade deficit from $2.0 billion in 1989 to an estimated $1.3 billion last year. Net inward private and official transfers have also increased somewhat, with the result that the deficit in the current account declined from a high of $1.1 billion in 1989, to a small surplus of $65 million in 1991 and a surplus of $93 million in the first half of 1992. One factor contributing to the decrease in the trade deficit has been the depreciation of the taka, from a rate of 32.27 to the U.S. dollar at the end of 1989, to 39.40 currently. Holdings of official international reserves have increased from a low of $502 million at the end of 1989, to $1.9 billion in January of this year.

Key Economic Indicators

Fiscal Years Ending June 30:	1987/88	1988/89	1989/90	1990/91	1991/92	6/30/92 1/31/93
Domestic						
Real GDP Growth	2.9	2.5	6.6	3.6	3.9	---
M1 Money Supply, % change	-4.1	8.2	16.6	13.1	14.6	14.1
M2 Money Supply, % change	13.9	16.5	16.8	12.1	14.0	11.5
Domestic Credit, % change	11.1	13.5	19.2	10.4	7.1	6.0
Cost of Living Index, Dhaka, %	11.4	8.0	9.3	8.9	5.1	4.1
Central Bank's Bank Rate	8.5	9.8	9.3	9.0	8.5	6.5 (May)
Agric. Produc. Index, %	0.0	0.0	10.1	2.7	2.4	---
Industrial Production Index %	0.7	2.1	12.8	2.4	10.5	---

Budget (billion Taka)						
Expend.	99	110	127	136	152	---
Local Revs.	53	60	70	82	98	---
Deficit	-46	-50	-57	-54	-54	---
For. Aid	44	42	50	54	54	---
Balance	- 2	- 8	- 7	0	0	---

International (million U.S.$)	1988	1989	1990	1991	1992 (Jan-Jun)	1993
Exports	1,291	1,305	1,672	1,689	1,019	
Imports	2,735	3,300	3,259	3,075	1,682	
Balance	-1,444	-1,995	-1,587	-1,386	- 663	
Current Account	- 273	-1,100	- 397	+ 65	+ 93	

Sources: Economic Trends, Bangladesh Bank, Bangladesh Economic Survey, Ministry of Finance, International Financial Statistics, International Monetary Fund and Bangladesh Bank staff.

Bangladesh Taka / U.S. Dollar Exchange Rates and Foreign Reserve Position

	1988	1989	1990	1991	1992	1993 (May)
Exchange Rate (Taka / U.S.$)	32.27	32.27	35.79	38.58	39.00	39.40
Int'l Reserves (million U.S.$)	1,046	502	629	1,278	1,825	(Jan) 1,917

Sources: Economic Trends, Bangladesh Bank, Bangladesh Economic Survey, Ministry of Finance, International Financial Statistics, International Monetary Fund and Bangladesh Bank staff.

APPENDIX TEN

BANGLADESH FINANCIAL SYSTEM AS OF MAY 1993

A. Bangladesh Bank (central bank)
B. Deposit Money Banks
    1. Nationalized Commercial Banks
        a) Agrani Bank
        b) Janata Bank
        c) Rupali Bank
        d) Sonali Bank
    2. Private Commercial Banks
        a) Al-Barakah Bank Ltd.[1/]
        b) Arab-Bangladesh Bank
        c) Bank of Small Industries and Commerce
        d) City Bank
        e) Eastern Bank Ltd.
        f) International Finance Investment and Commerce Bank
        g) Islamic Bank Bangladesh Ltd.[1/]
        h) National Bank
        i) Pubali Bank [2/]
        j) United Commercial Bank
        k) Uttara Bank [2/]
    3. Foreign Banks
        a) American Express International
        b) Grindlays Bank
        c) Habib Bank
        d) Indosuez Banque
        e) Standard Chartered Bank
        f) State Bank of India
    4. Specialized Banks
        a) Bangladesh Krishi Bank
        b) Bangladesh Shilpa Bank
        c) Bangladesh Shilpa Rin Sangstha Bank [3/]
        d) Rajshahi Krishi Unnayan Bank
C. Other Financial Institutions
    1. Cooperative Institutions
        a) Grameen Bank
        b) Bangladesh Jatiya Samabaya Bank
    2. Insurance Companies
    3. Other Financial Institutions
        a) Bangladesh Commerce and Investment Co. Ltd. [4/]
        b) Bangladesh Rural Development Board
        c) House Building Finance Corporation
        d) Industrial Promotion and Development Company
        e) Ind. Development Leasing Company

f) Investment Corporation of Bangladesh
g) National Credit Ltd. [5/]
h) Saudi-Bangladesh Industrial and Agric. Investment Co.

Notes:
1/ Operates according to Islamic banking principles.
2/ Previously nationalized commercial bank.
3/ Status to change to deposit money bank soon.
4/ Operation temporarily suspended.
5/ Slated to become a deposit money bank in the near future.

APPENDIX ELEVEN

TRENDS IN COMMERCIAL BANK DEPOSITS, LOANS, AND INVESTMENTS

Bangladesh banking statistics divide the deposits of the deposit money banks into three categories, viz., "Demand," "Time," and "Other." As indicated in the following table, "Deposits of the Deposit Money Banks," "Other" deposits include interbank and government deposit liabilities. Demand deposits have generally increased since 1989, but in the six months through January 1993, they have tended to level off. There was only a 0.9 percent increase over the period disregarding an apparently seasonal blip in December 1992. Full deposit data, such as those shown in the "Deposits of the Deposit Money Banks" table, are only available currently through June 1992.

On the other hand, time deposits have continued to rise fairly steadily, and increased 5.2 percent in the six months through January 1993. In recent years,, time deposits have increased at annual rates of 12 to 17 percent, and in June 1992 they were 14 percent higher than a year earlier. "Other" deposits have also increased and were up 23 percent in the 12 months through June 1992.

Between June 1990 and June 1991, total bank deposits rose 12.6 percent. During the following 12 months to June 1992, they increased faster at a rate of 15.1 percent. But some slowing appears to have occurred in the six months from July 1992 to January 1993 when demand and time deposits only, i.e. excluding "Other" deposits, rose just 4.5 percent.

With regard to the composition of bank deposits, demand deposits since at least 1990 have accounted for only 15 percent of the total. This somewhat low proportion may reflect the fact that receivers of checks in Bangladesh do not have adequate legal recourse when the check is not backed by sufficient funds. In recent years time deposits have accounted for roughly 75 percent of total deposits, while "Other" deposits have accounted for the remaining 10 percent.

The next table, "Bank Deposits by Category of Bank," indicates the respective amounts of deposit liabilities for the four categories of deposit money banks. The data indicate that government banks, i.e. the four NCBs and the Specialized Banks, held 70 percent of the deposits in mid-1992, with the NCBs holding 65 percent and the Specialized Banks 5 percent. The private domestic banks held 25 percent of the total deposits at that time and the foreign banks 5 percent. These proportions in mid-1992 were only slightly different from the situation in mid-1991.

The third table, "Assets of All Deposit Money Banks by Major Category," not only provides separate data on such bank assets as advances, investments, and bills, but also indicates how much credit for these different categories has been provided by each of the four banking groups. The total assets for all of the deposit money banks rose 7.7 percent in the 12 months to mid-1991, and a further 17.3 percent in the next 12 months to mid-1992. At the end of June 1992, government banks held 66 percent of total bank assets, the same as in mid-1990, while the private banks held 34 percent.

Two aspects merit some comment. One is the 5 billion taka decline in advances from the NCBs between mid-1991 and mid-1992. Total advances rose slightly, but this was mainly due to a rise in advances by the domestic private banks. Advances by the private domestic banks rose 16.3 percent in the 12 months to mid-1991 and a further 13.8 percent in the next 12 months.

The second aspect is that NCB investments more than doubled in the 12 months to mid-1992, rising from 15 billion taka in mid-1991 to 39 billion taka in mid-1992. Much of this rise reflected the issue of government bonds to the NCBs by the national government in order to help recapitalize the banks. Earlier, the banks had been required by the government to write off most of their loans to the agricultural sector.

DEPOSITS OF THE COMMERCIAL BANKS
(Billions of Taka)

	6-30-90	6-30-91	6-30-92
Total Deposits	208	235	270
Demand Deposits	32	36	42
Time Deposits	159	178	203
Other [1/]	17	21	26

1/ Deposit liabilities to government and interbank.
Note: Data may not total exactly due to rounding.

Source: Bangladesh Bank Bulletin, Bangladesh Bank, Apr.-June 1992.

DEPOSITS BY CATEGORY OF BANK
(Billions of Taka)

	6-30-91	3-31-92	6-30-92
All Banks[1/]	228	243	262
Nationalized Commercial Banks	145	152	169
Specialized Banks	11	11	13
Private Banks	61	65	66
Foreign Banks	12	15	14

1/ Data on bank deposits in Scheduled Banks Statistics are slightly smaller than those in the Bangladesh Bank Bulletin.

Source: Scheduled Banks Statistics, Bangladesh Bank, April-June 1992.

ASSETS OF COMMERCIAL BANKS BY MAJOR CATEGORY
(Billions of Taka)

	6-30-90	6-30-91	6-30-92
Total Assets	417	449	526
NCBs	215	226	259
Specialized Banks	59	66	88
Private Banks	95	111	125
Foreign Banks	47	47	56
Advances	190	213	216
NCBs	100	113	108
Specialized Banks	40	42	44
Private Banks	39	45	51
Foreign Banks	12	13	13
Investments	23	26	50
NCBs	14	15	39
Specialized Banks	1/	1/	1/
Private Banks	6	8	8
Foreign Banks	3	4	3
Bills	10	10	12
NCBs	5	5	6
Specialized Banks	1/	1/	1/
Private Banks	4	4	5
Foreign Banks	1	1	1
Other Assets 2/	145	152	202
NCBs	69	65	80
Specialized Banks	16	20	41
Private Banks	34	42	50
Foreign Banks	27	25	31

1/ Less than 500 million taka.
2/ Excluding Cash in Hand and at Banks, Money at Call, and Foreign Currency Balances.

Note: Data may not total exactly due to rounding.

Source: Bangladesh Bank Bulletin, Bangladesh Bank, April-June 1992.

ANNEX I

EVALUATION METHODOLOGY

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The five-man team used a variety of means in undertaking the First Interim Evaluation of FSRP-TA. Foremost were interviews with Bangladesh Bank officials, other government officials, commercial bank officers, FSRP staff, and other relevant officials. (See Annex II, "List of Contacts.") A substantial number of meetings were also held with AID/Bangladesh and FSRP officials, during which aspects of the project were discussed in considerable detail. Reports and relevant publications were also studied by the team. (See Annex III, "Bibliography.")

Other components of the team's methodology included collecting and analyzing relevant data, and physical observation of actual operations in the commercial banks and certain units of the Bangladesh Bank. In addition, team members conducted internal discussions, comparing their analysis of the subjects examined, and shared both specific and general information and data with each other. Lastly, informal discussions were held with NCB, FSRP, and other officials on several occasions.

ANNEX II

LIST OF PERSONS CONTACTED IN THE EVALUATION PROCESS

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USAID/DHAKA

Mission Executive Office
Dr. Mary C. Kilgour, Director
Dr. Frank Young, Deputy Director

Economics and Enterprise Office
Dr. James L. Mudge, Director
Dr. Peter Amato, Deputy Director (FSRP TA Project Officer)
Dr. Zia U. Ahmed, FSRP TA Project Coordinator

Program Office
Ms. Jan Rockliffe-King, Evaluation Specialist
Mr. H. Paul Greenaugh, Evaluation Specialist

FSRP TECHNICAL ASSISTANCE PROJECT TEAM

Mr. Patrick J. Vath, Chief of Party and Team Leader
Mr. Forrest E. Cookson, Macro Financial Economist
Mr. William Emery III, Int. Bank Consultant, Sonali Bank
Mr. Anthony R. Barned, Int. Bank Consultant, Janata Bank
Mr. Terry J. Bradigan, Int. Bank Consultant, Agrani Bank
Mr. Robert F. Sebastian, Int. Bank Consultant, Rupali Bank
Mr. Haris Jafri, Int. Training Consultant, B.I.B.M.
Mr. John Landsberg, Credit Administration Consultant
Ms. Barbara Kaminski, Accounting/MIS Consultant
Mr. Michael Morris, Consultant-Performance Planning & Budgeting
Ms. Shula Riss, Computerization Consultant
Mr. Syed S. Kaiser Kabir, National Macro Econnomist
MD Omar Choudhury, National Consultant, Agrani Bank
Mr. Humayun Hamid, National Consultant, Sonali Bank
Mr. A.M. Shamsuddin, National Consultant, Janata Bank
Mr. Abidur Rahman, National Consultant, Rupali Bank
Mr. Akbaruddin Ahmad, National Computer Consultant

MINISTRY OF FINANCE, GOVERNMENT OF BANGLADESH

Dr. A. K. Abdul Mubin, Joint Secretary
Mr. Amir Ul Mulk, Additional Secretary

BANGLADESH BANK

Mr. Kamal Uddin Ahmed, Deputy Governor (No. 1)
Mr. A.B.M. Mahbubul Amin Khan, Deputy Governor (No. 2)
Mr. Shah Abdul Hannan, Deputy Governor (No. 3)

Mr. Muhammed Golam Mostafa, General Manager, Banking Control Dept.
Mr. Nazrul Huda, Deputy Gen. Mgr., Banking Control Dept.
Dr. Muhammad Mohasin Ali, Economic Adviser
Md. Waliul Islam, General Manager, Dept. of Research (MMTU)
Mr. Murshid Kuli Khan, Dpty. Gen. Mgr., Personnel Dept.
Mr. Mir Abdur Rahim, Dpty. Gen. Mgr. Bank Inspection Dept.
Mr. Nazmul Hague, DGM, Computer Division, Bangladesh Bank
Mr. Nur Karin, Gen.Mgr., Computer and Statistics Division

NATIONALIZED COMMERCIAL BANKS (NCBs)

Mr. M. Ahsanul Haque, Managing Director, Sonali Bank
Mr. Rafiqul Karim Chowdhury, Deputy MD, Sonali Bank
Mr. K.M. Murshid, General Manager, Sonali Bank
Mr. Mosharraf Hossain, General Manager, Sonali Bank
Mr. Rashid, General Manager, Credit, Sonali Bank

Mr. Muhammad Taheruddin, Managing Director, Janata Bank
Mr. Nizam-ul-Islam, Deputy MD, Janata Bank
Mr. M.A. Talukder, Deputy General Manager, Janata Bank

Mr. Mustafa Aminur Rashid, Managing Director, Agrani Bank
Mr. Ibrahim Khaled, General Manager, Agrani Bank
Mr. Rahman, Credit Group, Agrani Bank
Mr. Mia, Credit Group, Agrani Bank
Mr. Kahn, Credit Group, Agrani Bank
Mr. A.M. Ershad, DGM, Computer Division, Agrani Bank

Mr. M.R. Khan, Managing Director, Rupali Bank
Mr. Mohd. Abdul Hashem, General Manager, Rupali Bank
Mr. MD. Shamsuzzoha, Dep. General Manager, Rupali Bank
Mr. Alfazuddin Ahmed, Asst. General Manager, Rupali Bank
Mr. M.A. Gafur, AGM, Computer Department, Rupali Bank
The Asst. General Manager, Foreign Exchange Branch, Rupali Bank

ANNEX III

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ANNEX IV

OUTLINE OF SUGGESTED SCOPE OF WORK FOR THE MIDTERM EVALUATION

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I. BACKGROUND (included in same form as interim evaluation)

II. THE INITIAL EVALUATION

The purposes of the initial evaluation conducted in May 1993 were to focus upon:

- the assessment of project success in "institutionalizing" inputs, and in establishing essential baseline data and project monitoring systems.
- the assessment of project progress against planned purpose and output level indicators; and, overall, its progress in achieving policy objectives; and,

The Initial Evaluation Team has accomplished both purposes covering the period from the overall start-up of the project in March 1992, by which time International and National Consultants were located in each of the NCBs and the BB, through April 30, 1993. Defining "institutionalization" as the transfer of knowledge, technologies, the initial evaluation found that the TA team had completed over half of the deliverables contracted for, and had begun the process of implementation, or "roll-out," of those products and services within the banks. The remaining deliverables were being prepared, or were scheduled for preparation. The TA had delivered the baseline measurement data, which is bank-proprietary, to USAID by early 1993. The tracking systems, periodic reports to USAID prepared by the TA team, are in place.

III. THE MIDTERM EVALUATION

The midterm evaluation should assess the continuing progress of the project toward meeting output and EOPS purpose-level indicators. It must also include aspects of the FSRP TA Project which were not covered in the initial evaluation due primarily to the short life-span of the TA at that time:

o Measure quantitative progress within the NCBs utilizing 1993 versus 1991 baseline bank proprietary data from the TA proprietary reports. This would be in a separate, proprietary document for USAID's use only.

o Perform the first financial analysis of the project in terms of dollars expended versus dollars obligated by USAID and dollars remaining under the contract. Verify status with the USAID Mission Controller, and assess the sufficiency of dollars remaining to complete the contract.

The remaining tasks to be performed in the Midterm Evaluation will be to update the TA's progress in reaching output objectives and accomplishing the Purpose-Level Indicators (EOPS Measurements). The evaluators should also consider the need, or advisability, to redirect the thrust of the project if opportunities stemming from changes in BDG policies have arisen.

The initial evaluation has prepared suggested follow-up activities for future evaluations relating to the Project's output objectives and purpose-level measurements. These are intended as a guide only, and are listed below:

PROJECT OUTPUT OBJECTIVES

1. A more detailed analytical framework for macro-financial analysis

Subsequent evaluations should examine the macro-financial framework constructed by the central bank--though not necessarily the specific numbers--to ascertain the degree of relevance of the framework to the Bangladesh economy.

2. A better-trained cadre of officers on macro-sector policy

Subsequent evaluations should examine in some detail:
(1) the number of officers selected for overseas training from the ministry and the central bank;
(2) the colleges or universities attended and the degrees, if any, received; and,
(3) the person's work assignment(s) after return to Bangladesh.

3a. A fully operational rediscount window

Subsequent evaluations should examine the absolute and proportional size of the donor programs in relation to the central bank's total accommodation, as well as any tendencies for the share to increase over time. Evaluators should also investigate what steps, if any, have been taken to deal with the problem of excessive reliance by the two specialized agricultural banks on central bank financing.

3b. The sale and purchase of Bangladesh Bank special securities

Subsequent evaluations should assess the extent to which the central bank has been able to make some use of the monthly auctions in achieving its monetary objectives through open market operations.

3c. A fully operational interest rate policy

Subsequent evaluations should ascertain whether the remaining constraints on deposit and loan rates have been removed and whether interest rates are reflecting competitive forces.

4. Expansion of BB's computer operations and MIS system, with a staff trained in computer, statistics and econometric skills

Subsequent evaluations should verify the delivery and installation of the mid-range computer, the level of training of the staff, and the applications for which their computers are being used.

5. Improved Reporting system of the banks to the BB

Subsequent evaluations must judge the core bank supervision activity on the basis of dedicated TA and the development work which the TA accomplishes. This output is also highly dependent on progress made within individual banks in computerization and in improving the quality of data. Therefore, this assessment must also include assessments on the quality of reporting from the banks.

6. Bank supervision methods based on analysis of bank financial condition

Subsequent evaluations should take note as to whether dedicated bank supervision TA has become available, and whether the quality of bank examination is taking financial condition into greater account, particularly in the loan classification and provisioning process.

7. A fully operational Credit Information Bureau (CIB)

Subsequent evaluations should see that 1992, or perhaps 1993 data has replaced the 1991 data in the databank. Expected PCs should be on line, and the staff expanded and trained accordingly. Volume of usage of the CIB should increase substantially. Verify if CIB usage is required at the time new loans are contemplated.

8. MIS systems and improved loan accounting systems established in the NCBs

Subsequent evaluations should look for continued development of the implementation of MIS and for the use of the information as a management tool by the bank's senior managements.

9. Expanded computerization of NCB Head Offices and a limited number of branches

Subsequent evaluations need to evaluate the uses, on a sample basis, which banks are making of their PCs to increase the efficiency of their operations.

10. Planning and performance budgeting systems established in the NCBs

Subsequent evaluations should look for wider usage of MBO and at more levels in the various banks.

11. Revised loan policy procedures and improved loan recovery of NCBs

Subsequent evaluations should look for revisions in sectoral loan policies such as jute. Verify progress in the cash recovery and rescheduling of loans. Goals should be included in a branch manager's MBO program eventually. Developments stemming from the bankruptcy law initiative and the bankruptcy courts may enhance recovery efforts.

12. Enhanced loan pricing and deposit rate setting/adjustment capabilities of NCBs

Subsequent evaluations should verify increasing use of the freedom which each bank has to manage its deposit and loan positions by using interest rates to encourage or discourage undesired inflows of business. This gets into Asset/Liability Management which is not an FSRP TA requirement, but should be taught as an important part of bank management in future projects.

13. Improved BIBM course offerings

Subsequent evaluations should verify the completion and introduction of new courses and upgrades, and plans for further course development.

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14. Outputs, manuals, and techniques available to commercial banks

All studies, manuals and training materials prepared by any group or individual of the FSRP TA which does not contain proprietary or confidential information is available to all banks, NCB, private, or foreign upon request. Verify the degree to which FSRP TA manuals and other resource materials are being used by private or foreign banks.

15. Studies completed on: (a) privatization, (b) personnel issues, (c) gender discrimination, (d) effects on rural areas

Verify status of these studies which were not completed, but had been scheduled, at the time of the interim evaluation.

END OF PROJECT STATUS SUB-OBJECTIVES

1. Replacement of direct monetary controls by flexible indirect instruments

Subsequent evaluations should examine the central bank's instruments of monetary control to ascertain how effective they are and that they are an indirect means of monetary control.

2. More bank loans based on market-determined interest rates

Subsequent evaluations should ascertain the extent of progress in removing all of the bands, and the degree to which bank lending rates are actually a reflection of market forces.

3. Technical unit established at central bank with trained staff

Subsequent evaluations should determine whether the size of the Unit has increased, and whether the quality of Unit activities has improved, as well as the degree of its influence on monetary policy decisions.

4. Conduct more frequent and focussed inspection of branches' portfolio

If the Project is to have an impact on improving the quality of bank supervision, the dedicated TA eventually supplied must cover all of the departments.

5. Credit Information Bureau established

Subsequent evaluations should verify the scope of the data base and whether lenders are required to check with CIB before making a loan.

6. All commercial banks are implementing BCD Circular 34 with regard to loan classification

Subsequent evaluations should verify the progress of the loan classification effort, the installation of a regulation defining a loan "past due" if unpaid within 90 days of maturity, and the status of BB regulations and enforcement of a more frequent loan classification process. These would come close to approximating recognized international standards.

7. All commercial banks have carried out comprehensive reviews of their credit policies and procedures and issued appropriate manuals

Subsequent evaluations should review the status and the degree to which new policies and procedures in lending and loan pricing have been formalized by manuals, and the degree to which training and implementation have taken place.

8. Capital adequacy requirements of the banks are maintained according to the Banking Companies Ordinance

Subsequent evaluations should check the status of this situation for an up-to-date reading.

9. Effective performance planning and budgeting systems established by NCBs

Subsequent evaluations should verify progress toward the full implementation of these systems.

10. Increased computerization of the NCB's Head Offices and pilot computerization of 2-3 major and 5-10 smaller branches

Subsequent evaluations should verify increased PC delivery, and the delivery of the mid-range computers, until all of those programmed within the TA have been installed.

11. MIS established of NCBs established according to project guidelines

Subsequent evaluations should search out the degree to which MIS is provided and used by management, and for what purposes, in each NCB.

12. Private banks have increased their share of bank lending

Subsequent evaluations should verify changes against baseline data and then current banking industry figures available from the Bangladesh Bank.

13. Understanding problems emerging from bank privatization has been improved by studies

Subsequent evaluations should review the study which is scheduled for preparation in late 1993 or early 1994.

14. Satisfactory divestiture program and timetable presented by the BDG

Subsequent evaluations should verify the status of the BDG timetable, the status of government shareholdings in other banks, and the then present status of the good bank/bad bank scenario within the NCBs.

ANNEX V

EVALUATION ABSTRACT

BANGLADESH FINANCIAL SECTOR REFORM PROGRAM (FSRP)
TECHNICAL ASSISTANCE PROJECT
388-0078

The Technical Assistance Project (6/91-4/96) aims to help the Government of Bangladesh (BDG) move from a centrally directed to a market-oriented financial system through changes in policies and practices in Bangladesh Bank (BB) and through the upgrading and reform of four nationalized commercial banks (NCBs) which dominate the banking market. A team supplied by a joint venture (JV) between Booz, Allen, Hamilton and Nathan Associates is implementing the project which is in conjunction with the World Bank's Financial Sector Reform Program. A team from Development Alternatives Inc. conducted this first interim evaluation in May 1993, 15 months after the start-up of project activities, for the purpose of reviewing progress to date and suggesting possible improvements. The evaluation team interviewed BDG and BB officials, JV team management, interactively surveyed JV team activities in each of the NCBs, and studied most of the reports, studies, teaching manuals, and other documents which the JV team has produced to date. The major findings and conclusions are:

- With the cooperation of the BDG, the JV team can partially achieve the EOPS objectives during the life of the project. However, the realization of the financial soundness of the NCBs not eventually privatized will be a longer-term proposition.

- The JV team has achieved considerable success in shaping market-oriented reforms in interest rate determination and open market operations at the central bank (BB), and in influencing market-oriented responses to these changes in the NCBs.

- The JV team is making progress in implementing modern banking techniques in the NCBs, but a lack of basic skills and little incentive for improvement complicates the effort.

- The JV team has produced a list of problem areas on which it will exert influence with the BDG, and others which will require assistance from USAID, the World Bank, or other donors as solutions are beyond the resources or life of the project.

The evaluators noted the following lesson:

- The challenge is much greater than originally foreseen in the project paper.

ANNEX VI

RESUMES OF EVALUATION TEAM MEMBERS

ROBERT E. LAPORT

Key Qualifications

Robert Laport has 30 years experience in the fields of international investment, trade and banking. While in senior management positions with such major international lending banks as Chase Manhattan, Libra and American Express, Mr. Laport not only contributed to the development of the banks on a macro scale -- through impacting corporate strategies for international lending, establishing branches and subsidiaries, arranging syndicated financing, and developing merchant banking capabilities -- but also in the micro sense -- managing day-to-day banking operations including personnel recruitment, administration and training. Mr. Laport's areas of expertise include restructuring of existing institutions, acquisition and divestiture, privatization, trade and investment program design and evaluation, rural development finance, capital market development, private sector development policy formulation. Since retiring as a Senior Vice President of American Express in 1986, Mr. Laport has undertaken a number of assignments related to foreign assistance efforts in his field. He has completed four assignments for the Center for Privatization, assisted in the evaluation and design of several credit delivery programs in Latin America, served as team leader of a mission charged with providing recommendations for the re-organization of Guatemala's Agricultural Development Bank, and has served as a financial advisor for numerous USAID and Asian Development Bank projects.

Education

M.P.A.: Public Policy Analysis, University of North Carolina, 1992
B.A. : Foreign Trade, American Graduate School of International Management, AZ, 1958
B.A. : Economics, Upsala College, New Jersey, 1955
Advanced Management Program: IMEDE, Lausanne, Switzerland, 1973
Six Week Executive Seminar: Harvard Business School, 1970/71

Professional Experiences

Senior Vice President, American Express Bank Ltd., New York (September 1978-August 1986)
Responsible for Western Hemisphere Merchant Banking (82-86) and in charge of Latin American Area (78-81). Recruited team to build area into a major profit contributor; established six branches, subsidiaries, and representative offices in Region. Broadened scope of a highly effective and profitable merchant banking capability to include syndicated loans, securitized lending, and interest rate, currency, and debt for equity swaps.

General Manager of Project Finance, Libra Bank Ltd., London, England (a Chase affiliate) (May 1977-August 1978)
Responsible for finding, structuring, and arranging syndicated financing for major projects originating in the OECD countries to be carried out in Latin America. Complex financial structures required cooperation with the major public and multi-national organizations such as Exim Bank, ECGD, COFACE, the World Bank, and IADB.

Senior Vice President, Latin American Territory (1975-1977), **Deputy Head Latin America** (1972-1974), **Vice President in charge of Mexico, Central America, Caribbean, and Venezuela** (1968-1971)
Chemical Bank, New York (September 1968-April 1977)
Built and trained a team which, over ten years, became one of the most successful territories in Chemical Bank; opened eight branches, joint-venture subsidiaries and representative offices throughout the Region.

Assistant Vice President Andean Pact (1966-1968), and of **Brazil and Southern Cone** (1963-1965); **Assistant Treasurer** 1963; **Assistant Representative, Buenos Aires** (1961-1962) covering Argentina, Uruguay, Paraguay, and Chile; branches in Puerto Rico (1959-1960) following training in New York (1958), **The Chase Manhattan Bank**, New York (June 1958-August 1968)

Relevant Consultancies

Between January 1986 and the present, Mr. Laport has completed short-term assignments on behalf of a number of consulting firms for the U. S. Agency for International Development and the Asian Development Bank. These have included:

Privatization Specialist, Price Waterhouse/Development Associates (1993)
Member of a team which provided a study of the possibilities for privatizing functions of the economy in Morocco now being undertaken by government entities.

Team leader, Phase I W&S, REDSO/ESA and PRE/CAP (September 1992)
Led capital project identification for East and Southern Africa region.

Team Member, USAID/India (April-June 1992)
Participated in design team for industrial pollution control and abatement project to involve US technologies.

Financial/Personnel Analyst, Ecuador (April 1992)
Perform a financial and personnel analysis of thirteen Ecuadorian water and/or sewer utilities for WASH Project.

Privatization Specialist, Republic of the Marshall Islands (June and September 1991)
Assist preparation of privatization plan, prospectus, registration statement, share registration, and stock transfer manual for the National Telecommunications Authority, Republic of the Marshall Islands.

Finance Specialist, USAID/El Salvador, Banco de Fomento Agropecuario (May and Jul 1991)
Assist Banco de Fomento Agropecuario comply with transaction cost, non-banking activity divestiture, and other requirements of USAID/El Salvador.

Financial Analyst, Development Associates, Inc., RDO/SP, USAID (July-August 1990)
Evaluation of the financial systems of Fiji, Papua New Guinea, and Vanuatu, and an appraisal of the potential for privatization in those countries.

Privatization Specialist, Aries Group, Ltd., Asian Development Bank, Lao P.D.R. (May-July 1990)
Contributed to design of a national privatization strategy. Member of two [illegible]an team contracted by ADB.

Advisor, Development Associates, Inc., RDO/SP. USAID (January 1990)
Assisted preliminary design of Market Access and Regional Competitiveness project covering five South Pacific countries.

Investment Promotion Advisor, Aries Group, Ltd., USAID/Guatemala, (November 1989)
Designed program for the promotion of Far East investment into Guatemala for USAID Guatemala.

Financial Specialist, USAID/El Salvador (May 1989)
Evaluated and redesigned credit delivery system for FUSADES, a large private foundation.

Privatization Specialist, Center for Privatization, USAID/Malawi (Apr 1989)
Member of team which evaluated a national privatization program.

Financial Specialist, Arizona State University, USAID/El Salvador (March 1989)
Design project loan criteria, analysis, and loan monitoring methodology for Cooperative Finance Program.

Advisor, Development Associates, Inc., USAID/Guatemala (January-February 1989)
Team member for preparation of Cross-Cutting Evaluation of USAID assistance to the Guatemala Highlands since inception of the Guatemala mission.

Credit Specialist, Development Associates, Inc., USAID/El Salvador (August 1988)
Evaluated and partially re-designed credit delivery program to the reformed cooperative sector.

Financial Institutional Specialist, Development Associates, Inc., USAID/Guatemala (April 1988)
Team leader for evaluation and suggested reorganization of Agricultural Development Bank.

Foreign Investment Specialist, International Science and Technology Institute, RDO/SADCC, Zimbabwe (February 1988)
Interviewed British banks to design and structure their role in a pre-export financing program proposed by RDO/SADCC, Zimbabwe.

Advisor, International Science and Technology Institute, PRE/USAID, (January 1988)
Studied failed shrimp-farm project in Antigua, and recommended future course of action.

During 1986 and 1987, various assignments have included the design of a privatization program in Papua New Guinea including obtaining Cabinet approval in May 1987; the valuation of eleven companies for privatization by the Corporacion Financiera Nacional in Ecuador during the course of several visits in 1987; the preparation of an RFP for a major ammonia project in Mozambique in 1986; and a project paper for the formation of a venture capital firm in Papua New Guinea.

Languages

Conversationally fluent Spanish and Portuguese; fair French

Robert F. Emery

Current Address

3421 Shepherd Street
Chevy Chase, MD 20815
(301) 652-8018

Work Experience

World Bank, June-December 1992. Consultant. Prepared a technical paper to be published in 1993 entitled "Developing a Government Bond Market" that indicates the main elements involved in developing a government bond market for middle- and low-income countries.

Development Alternatives, Inc., Bethesda, MD. May 13-June 2, 1992 in Tanzania. Prepared a report for USAID/Tanzania entitled "Looking Ahead (1995-97): Financial Sector Reform in Tanzania."

Board of Governors of the Federal Reserve System, 1955-92. Economist, responsible for analysis of economic developments in certain major Latin American countries (1955-58) and for most East Asian countries and India (1958-1992); Board's representative to the U.S. National Advisory Council on International Monetary and Financial Policies (1978-92) and to the Export-Import Bank of the United States (1986-92).

Southeastern University, Washington, DC. Adjunct Professor of Finance, 1960-88. Chairman, Department of Financial Administration, 1963-65. Dean, Senior Division, 1965-68. Professor Emeritus, 1988. Taught: Money and Banking, Economic Principles, International Economics, Economic Development, and Commercial Banking Theory.

University of Michigan. Teaching Fellow. 1954-55.

Advisory Capabilities

I have had many years of experience in analyzing the financial and economic problems of the less-developed countries. My lengthy book on the financial institutions of Southeast Asia provided me with knowledge regarding the defects in financial systems, unrealistic interest rate structures, ideas for the development of money and capital markets, and the factors contributing to development banks' successful operations.

As a result of producing my July 1991 book on East Asian money markets, which involved several years of study and a field trip, I feel that I have a special expertise in this area. After an extensive study of the eight countries examined in the book, I believe that I am qualified to provide advisory services on the development, strengthening, and adjustment of money markets in developing countries.

For some time now I have also been engaged in a study of the bond markets in eight East Asian developing countries with specific attention to the factors contributing to the success or lack of success in the development of these markets. I plan to publish the results of this study as a book.

Education

University of Michigan, 1952-56. Ph.D. in Economics, Feb. 1956. Doctoral dissertation: Governmental Accounts for Economic Planning in Burma.

1951-52. M.A. in Economics, June 1952.

Oberlin College, 1947-51. B.A. in Economics.

Awards, Professional Activities

First prize in Jerome Davis Essay Contest (Oberlin College). Second prize in the Aaron Mercer Economic Essay Contest (Oberlin College). Horace H. Rackham Graduate Fellowship, 1952-53 (University of Michigan). Fulbright Research Student, 1953-54 (University of Rangoon).

Member: American Economic Association, Society of Government Economists (Treasurer, 1976-78), International Economists' Club (President, 1977-92).

Publications

Books

The Money Markets of Developing East Asia, Praeger, July 1991.
The Japanese Money Market, Lexington Books, 1983.
The Financial Institutions of Southeast Asia, Praeger, 1971.

Other Publications
See attached list.

Languages
Basic reading ability in Spanish and French.

Personal

Born 1927. Married since 1957. Three children.

References

Thomas Connors, Chief, International Development Section, Division of International Finance, Board of Governors of the Federal Reserve System. Office phone: (202) 452-3639.

Charles J. Siegman, Senior Associate Director, Division of International Finance, Board of Governors of the Federal Reserve System. Office phone: (202) 452-3308.

Robert F. Emery - Published Articles

"Mexican Monetary Policy Since the 1954 Devaluation," Inter-American Economic Affairs, Spring 1959.

"Agricultural Production Trends and Problems in Indonesia," Far Eastern Survey, August 1960.

"The Japanese Measures to Restore Economic Equilibrium," Asian Survey, June 1962.

"The Successful Philippine Decontrol and Devaluation," Asian Survey, June 1963.

"Measures for Increasing the Rate of Savings," Annals: 7th Reunion of Technicians of Central Banks of the American Continent, December 1964.

"Developing Japan's Domestic Bond Market," Oriental Economist, April 1965.

"Recent Economic Developments in Communist China," Asian Survey, June 1966.

"Interest Rates as an Anti-Inflationary Instrument in Taiwan," (with R. J. Irvine), The National Banking Review, September 1966.

"The Successful Development of the Philippine Treasury Bill Market," Central Bank News Digest (Manila), June 13, 1967.

"The Relation of Exports and Economic Growth," Kyklos, June 1967.

"Economic Trends in Asia in 1966," (with H. F. Lee), Asian Survey, November 1967.

"Eurodollars Go Asian," Columbia Journal of World Business, March-April 1971.

"Philippine Inflation, Balance of Payments and Economic Developments," Asia: Journal of the Asia Society, Autumn 1971.

"The Use of Interest Rate Policies as a Stimulus to Economic Growth," Staff Economic Studies, Federal Reserve Board, September 1971.

"Interest Rate Policy, Resource Allocation and the Mobilization of Domestic Savings," CENTO Symposium on Central Banking, Monetary Policy and Economic Development, January 1973.

"The Asian Dollar Market," International Finance Discussion Papers, No. 71, Federal Reserve Board, November 1975.

"Postwar Financial Policies in Taiwan, China," International Finance Discussion Papers, No. 252, Federal Reserve Board, December 1984.

"Monetary Policy in Taiwan, China," Monetary Policy in Pacific Basin Countries, ed. by Hang-sheng Cheng, Kluwer Academic Publishers, 1988, pp. 381-99.

"Central Banks' Use in East Asia of Money Market Instruments in the Conduct of Monetary Policy," International Finance Discussion Papers, No. 426, Federal Reserve Board, March 1992.

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EDUCATION

BS - Business Administration, University of Puerto Rico

LANGUAGES

Bilingual Spanish/English, some French

WORK EXPERIENCE

Mr. Perez-Gabino, a Technical Specialist with Development Associates, has over 25 years of experience in Asia, Latin America and the Near East, working in the analysis and establishment of banking systems in developing countries, including systems for financial accountability and management information. Most recently for Development Associates he was Chief of Party for a four-person Development Associates team that evaluated the policies and operations of the Central Reserve Bank of El Salvador on a Project funded by USAID/El Salvador. One component was an assessment of the effectiveness of the Salvadoran credit mechanisms aimed at agriculture sector reform and agribusiness development. On a 1988 assignment with Development Associates, he served as the Credit Analyst on an evaluation of the Agricultural Development Bank (BANDESA) in Guatemala. On this assignment, undertaken in the spring of 1988, Mr. Perez-Gabino evaluated the lending activity of the bank in a major region of the country. He assessed a wide variety of functions: loan approvals and rejections; the ratio of new borrowers to old borrowers; savings mobilizations; management information; accounting systems; staffing issues; the degree of home office technical support; steps in lending operations; loan delinquencies; expense control; training provided; and general administration of the regional office. He then made a series of recommendations based upon his analysis.

Mr. Perez-Gabino has worked to improve the business and regulatory conditions of numerous on-going credit programs, such as BANDESA in Guatemala, the Central Credit Cooperative in Paraguay, and the National Community Development Services Agency in Bolivia. He has recommended sensitive modifications to various credit programs, including the agricultural marketing cooperatives in Panama, BANDESA in Honduras, and the Puerto Rican Cooperative Bank. He has also provided extensive technical assistance and training in credit analysis techniques to all of the financial intermediaries with which he worked.

1989-Present **Development Associates, Inc.**

An intermittent employee of Development Associates since 1987, Mr. Perez-Gabino has fulfilled the following assignments for the firm:

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- Chief-of-Party. Mr. Perez-Gabino headed a team of four specialists from the firm who undertook an assessment of the USAID El Salvador's Agrarian Reform Financing Project. He was involved in analyzing the business and regulatory climate in which the program had been carried out and assessed its success. The team's report provided the USAID with information and recommendations useful in guiding future Missions actions in the sector. (1991).

- Banking and Credit Analyst. Mr. Perez-Gabino was part of a Development Associates team that undertook a mid-term assessment of the $67 million Agrarian Reform Financing Project funded by USAID/El Salvador. A major element was the extent to which the general business and regulatory climate affecting banking and credit was affecting the outcomes of the project. For that Mr. Perez-Gabino was responsible. The success of this mission caused the USAID to ask Development Associates to do the final evaluation of the project.

- Banking and Credit Analyst - Guatemala. Mr. Perez-Gabino served on a Development Associates team which conducted an operational analysis of the Agricultural Development Bank (BANDESA) in Guatemala. In particular he focused on ways in which the Bank could improve the efficiency and overall operations of its ongoing credit program through improved MIS and accounting systems. He further made recommendations for modifications to its programs in order to make its overall credit program stronger. (Spring 1988)

- Cooperative Specialist - Panama. On another short-term assignment Mr. Perez-Gabino designed an internal financial control system for the agricultural marketing cooperatives of the Republic of Panama under the ACDI/USAID Cooperative Assistance Project. He then trained local personnel of the cooperatives and the government agency in charge of cooperative development in the use of the system.

1979 - 1987 Coopers & Lyrand, Director of International Management Consulting Services

For one and one-half years (5/79 - 1/81) Mr. Perez-Gabino served as Project Manager on a contract with the Honduran National Agricultural Development Bank. He designed the loan procedures for small, medium, and large farmers as well as for cooperative organizations. These procedures centered on the formulation of credit policies and programs for agro-industries and the Management Loan Information System. He also elaborated on the staffing program to be used in the Bank, and in the organizational structure of the institution, including job descriptions of Bank officers.

On a two-month assignment he was the team leader on a project for the Development Industrial Bank of Egypt. He analyzed the overall operational capacity of the Bank.

For over four years he served as the Chief-of-Party on an assignment with Pertamina, the Indonesian Oil Company. As a financial advisor he prepared a detailed design of a cost accounting and variance analysis system for the supply and distribution operations of Pertamina. He further designed and implemented a gas and oil quantity accounting system in all five Pertamina exploration and production units, and then wrote a Procedures Manual that was applied company-wide. Finally, he trained the staff of the Operations and Finance Division in the use of the new systems.

1977 - 1979 Robert R. Nathan Associates

During this period Mr. Perez-Gabino was an advisor to the Training and Rural Organization Departments of the National Community Development Services Agency. He provided technical assistance and training in the preparation of agricultural credit regulations to be used by the Central Office as well as rural and cooperative organizations in the field. Other responsibilities during this period included:

- Providing technical assistance in the organization of multiple purpose integral agricultural cooperatives;
- Preparation of an accounting manual for agricultural cooperatives; and
- Training of small-scale farmers and staff members of cooperatives.

1964 - 1972 Credit Union National Associations (CUNA)

During this eight year period Mr. Perez-Gabino held positions with the following organizations.

- Central Credit Cooperative - Paraguay. As the Financial and Agricultural Credit Advisor he advised the management of the Central Credit Cooperative (CREDICCOOP) in the preparation of agribusiness projects, the provision of credit, and the evaluation of administrative and credit operations of the various cooperatives in the field. (1975-1977)
- Savings & Loan Cooperative - Laos. As a Financial and Credit Advisor, he provided training and technical assistance in the mobilization of rural savings and the extension of credit for agricultural production projects. He also designed an accounting manual and auditing and internal control procedures, and then helped to implement them. (1973-1975)
- Credit Union Federation - Panama. As a Financial and Credit Advisor he provided technical assistance in the establishment and development of credit departments. This involved devising policies and procedures for country-wide implementation of credit departments in Costa Rica, Ecuador, Honduras,

Colombia, El Salvador, Panama, Nicaragua, Bolivia, and the Dominican Republic. He also established curriculum to train personnel in the application of policies and procedures for rural credit. (1970-1973)

- Credit Union Federation - El Salvador. Mr. Perez-Gabino served as the Country Program Director, responsible for developing and implementing the first nationwide credit union program. He prepared feasibility studies for the organization of the new credit unions, assisted in their implementation, and hired and trained personnel. After organizing several of these first-level cooperatives, he was instrumental in the organization of a second-level organization, the El Salvador Federation of Credit Unions (FEDECES). He also designed various mechanisms to enable small-scale farmers to have access to credit, financial counsel, and technical advice. (1964-1970)

- Puerto Rico Cooperative Bank. Mr. Perez-Gabino served as a Loan Officer, in which capacity he provided technical, credit, and administrative advice to all types of cooperatives operating under the laws of Puerto Rico. (1959-1964)

CURRICULUM VITAE

1. NAME : KHALILUR RAHMAN KHAN

2. Date of Birth : 27th January, 1936

3. Sex : Male 4. Nationality : BANGLADESHI

5. Mailing Address : PROFESSOR
Institute of Business Administration
Univ. of Dhaka, Dhaka-1000, BANGLADESH
Phones : Office 507050-51, RES : 506024

6. Education : a. M.B.A. (Major in Quant. Bus. Analysis, Business Economics & Computer-based Information System), School of Business, Indiana University, Indiana, U.S.A.--1971

b. M.A. (Mathematics)--First Class, First--1961 University of Dhaka, Dhaka, Bangladesh

c. B.A. (Economics & Mathematics)--1959 University of Dhaka, Dhaka, Bangladesh

7. Other Training :

a. Special study and research in TQM--Total Quality Management at University of New Brunswick, Frederickton, CANADA during Fall Semester 1992.

b. Training in UNIX, ORACLE & 'C' at Bangladesh Computer Council, Dhaka, Bangladesh--1991.

b. Special study and research in DSS--Decision Suport System & Computer-based Information Systems at School of Business, University of Wisconsin--Milwaukee, Wisconsin, U.S.A. during Fall Semester 1986.

c. 10-weeks Workshop on Development of Small Enterprise at Cranfield Institute of Technology, Cranfield, England during September--November, 1978.

d. Training of Trainers for Export Promotion at International Trade Center--ITC-UNCTAD/GATT, Geneva--November 1977.

e. Training of Trainers for Export Promotion at International Trade Center--ITC-UNCTAD/GATT, Geneva--July 1974.

8. Language & Degree of proficiency:

- Bengali - Mother Tongue
- English - Excellent.

9. Memberships :

a. Fellow & Ex-Vice-President, Bangladesh Computer Society.

b. Member, Bangladesh Economics Association, Dhaka.

c. Member & Chairman, Computer Professionals' Association.

d. Member, Bangladesh Mathematics Association.

10. EMPLOYMENT RECORD :

a. FROM JULY 1992 TO DATE

POSITION HELD : PROFESSOR OF MANAGEMENT SCIENCE & MIS
Institute of Business Administration
University of Dhaka.

b. FROM DECEMBER 1977 TO JULY 1992

POSITION HELD : ASSOCIATE PROFESSOR
Institute of Business Administration
University of Dhaka

c. FROM FEBRUARY 1971 TO DECEMBER 1977

POSITION HELD : ASSISTANT PROFESSOR
Institute of Business Administration
University of Dhaka

d. FROM FEBRUARY 1969 TO FEBRUARY 1971

POSITION HELD : FORD FOUNDATION STUDY FELLOW (M.B.A.) at
School of Business, Indiana University,
Indiana, U.S.A.

e. FROM JANUARY 1964 TO FEBRUARY 1969

POSITION HELD : LECTURER/SENIOR LECTURER, Dept. of Mathes.
University of Dhaka, Dhaka.

f. FROM AUGUST 1961 TO JANUARY 1964

POSITION HELD : LECTURER in Mathematics,
Dhaka College, Dhaka & two other Colleges.

11. SPECIALIZATION :

a. Teaching: Quantitative methods, Operations Research, MIS, DSS, Computer Programming, Systems Analysis & Design, Simulation, Operations Management, TQM, Mathematical and Econometric Modeling.

b. Research & Consultancy: Operations Management, Export Promotion, Survey Research & Studies, Project Evaluation, Financial Analysis, Planning Models-Econometric, Computer System Analysis and Design, Programming & Implementation of computer-based systems.

12. CONSULTANCY: (FROM 1988 TO DATE)

a. Evaluation of investment portfolio of MIDAS--March 1993--Sponsored by USAID.

b. Study of the Materials Management & Logistics System of a large pharmaceutical manufacturing & distribution firm-February--December 1992. Includes identification of computer-based management control systems related to the field.

c. Study of the Services Sector in the Bangladesh Economy---1990-91. Sponsored by ESCAP.

d. Market and Demand Study for transformers and switch gears in Bangladesh--1988-89. Sponsored by a large multinational firm operating in Bangladesh.

13. CONSULTANCY: (FROM 1973 TO 1987)

a. Computer-based project-monitoring system for the UPE project--1985. Sponsored by UNESCO.

b. Pre-feasibility Study for a computer system in the Establishment Division--1982. Sponsored by World Bank.

c. Three product-demand & supply studies for Export Promotion Bureau--1979-81. Sponsored by ITC--UNCTAD/GATT, Geneva.

d. Macro-modeling and analysis of 5-year 1980-85 Development Plan of Bangladesh. Sponsored by Planning Commission--April 1979 to January 1980. Computer simulation done.

e. Operations Management Studies on eight Public Sector industrial production units--1976-78.

f. Study of Manpower Utilization in a Big public sector organization with over 2200 office workers. Used activity sampling and other work study techniques and computer analysis--1976.

g. Computerized loan-repayment monitoring system for an industrial development bank--1973-74.

14. PUBLICATIONS:

a. Eight text books in quantitative methods and computer programming and Systems Analysis & Design.

b. Eight articles on computer, information systems and management planning & control.

c. Twenty research and study reports and monographs.

15. CERTIFICATION:

I, the undersigned, certify that to the best of my knowledge and belief, the above details correctly describe myself, my qualifications and experience. I understand that any wilful mis-statement described herein may lead to my disqualification or dismissal, if employed.

(Khalilur Rahman Khan)
Res:
18-G Fullar Road
Dhaka-1000, BANGLADESH

Phone : 880-2-506024

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CURRICULUM VITAE

3 5 2

1. NAME: M. SHAMSUL HAQUE

2. Date of Birth : 2nd March, 1941

3. Sex : Male 4. Nationality : BANGLADESHI

5. Mailing Address: Professor & Director
Institute of Business Administration
University of Dhaka, Dhaka-1000, Bangladesh
Phones: Office: 500517, 507050-51/100, RES.: 816272

6. Education: a. Ph. D. (Finance & Public Policy), Manchester Business School, U.K., 1977

   b. M.B.A. (Major in Finance), School of Business, Indiana University, Bloomington, U.S.A., 1965

   c. M. Com. (with Agricultural Economics as a special paper), Rajshahi University, 1963

7. Other Training :

   1. Computer Modeling Specialist with Spread Sheet Programmes. LOTUS & IFPS AND BASIC.

   2. Eight weeks Training in the US Dept. of Commerce on National Income Accounting and Balance Sheet.

   3. Three months study in Canada on Entrepreneurship and Small Business Development.

8. Language & Degree of proficiency: Bengali - Mother Tongue, English - Excellent

9. Membership of Professional Societies :

   a. Treasurer, Dhaka University Teachers Association Executive Committee, 1991-92.

   b. Executive Secretary, Association of Management Development Institutions of Bangladesh (AMDIB)

   c. Vice-President, Investment Forum, Dhaka

   d. Founder Chairman, Centre for Entrepreneurship & Small Business Development (CESBD), IBA

   e. Member, ICMA Council, 1993

10. Countries of Work Experience : a. Bangladesh b. Canada c. U.K.

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11. EMPLOYMENT RECORD :

1. FROM SEPTEMBER 1987 TO DATE

POSITION HELD: PROFESSOR OF FINANCE
Institute of Business Administration
University of Dhaka

AND

CONSULTANT to several projects of GTZ, IDE, BCEOM, MIDAS, CIRDAP, Ministry of Industries (Govt. of Bangladesh), The World Bank, The Asia Foundation, ADB, ILO, UNDP, UNICEF, and Other National firms.

2. FROM JULY 1984 TO AUGUST 1987

VISITING PROFESSOR IN FINANCE
Faculty of Business, MUN, Newfoundland, CANADA

3. FROM 1973 TO 1984

POSITION HELD: ASSOCIATE PROFESSOR
Institute of Business Administration
University of Dhaka

4. FROM SEPTEMBER 1973 TO 1977

POSITION HELD: ASSOCIATE PROFESSOR
Institute of Business Administration
University of Dhaka
(ON STUDY LEAVE FOR Ph.D. PROGRAMME AT MANCHESTER BUSINESS SCHOOL, U.K. ON FELLOWSHIP)

5. FROM SEPTEMBER 1969 TO NOVEMBER 1973

POSITION HELD: ASSISTANT PROFESSOR
Institute of Business Administration
University of Dhaka

6. FROM SEPTEMBER 1967 TO AUGUST 1969

POSITION HELD: SENIOR LECTURER (Assistant Professor)
Institute of Business Administration
University of Dhaka
(ON STUDY LEAVE AT INDIANA UNIVERSITY,USA TO STUDY MBA PROGRAMME UNDER FELLOWSHIP FROM THE FORD FOUNDATION)..

7. FROM NOVEMBER 1963 TO AUGUST 1967

POSITION HELD: SENIOR LECTURER (Assistant Professor)
Department of Commerce
University of Rajshahi, Rajshahi

12. SPECIALIZATION:

A. Teaching: Financial Management, Investment Analysis, Managerial Accounting, International Finance, Capital Budgeting, Computer Softwares, BASIC, LOTUS 1-2-3 and IFPS.

B. Research & Consultancy: Financial Analysis, Economic & Social Analysis, Evaluation of Projects, Feasibility Study, Rural Credit, Small & Cottage Industries Survey, Accounting System Design and Management Control, Survey on the use and impact of the treadle pump for manual irrigation, etc.

13. CONSULTANCY: (FROM 1988 TO DATE)

1. Strengthening of Institutional framework for restructuring Public Manufacturing Enterprises, Ministry of Industries/ Crown Agent Senior Consultant for MIS and reorganization; June - September 1992.

2. Canadian High Commission Study on the Potentials of Joint Venture Projects by Canadian companies in Bangladesh. (July-August 1992).

3. 'Strategic Planning for Marketing the Treadle Pump (Manual Irrigation Pump) with a Pilot Credit Delivery Project; Sponsored by - International Development Enterprise (IDE) and SDC, 1990 (On Going).

4. Evaluating the training and technical assistance of four organizations engaged in entrepreneurship & small Business development in Bangladesh, 1991, Sponsored by The World Bank, Dhaka.

5. Financial Analysis of Dhaka WASA - Affordability and Tariff Structure to Improve Financial Viability of Dhaka WASA under an extended Investment Programme for Surface Water Treatment Plant under a French Project, 1991; Sponsored by BCEOM (French Co.) and EPC (Dhaka).

6. A study on Dhaka Stock Exchange, 1990-91; Sponsored by the Asia Foundation, Dhaka

7. Management Problems with Reference to the Private Sector in Bangladesh, 1989-90: Sponsored by GTZ and Pathmark Associates Limited.

8. Feasibility Studies on Housing Finance Companies in the Private Sector, 1989-90; Sponsored by Business Research Associates, MIDAS, GTZ and Pathmark Associates Limited.

9. A study on Sick Industries of Bangladesh, 1988; Sponsored by Ministry of Industries, Government of Bangladesh.

* Current Projects:

1. Principal Consultant, Portfolio Analysis and Selection Study for MIDA

14. RECENT PUBLICATIONS:

1. Commerce Education in Bangladesh: Its Prospects & Problems; Collection of Seminar Papers published by the Bangladesh Commerce Education Association; December 1992.

2. An evaluation of the enterprise development policy in Bangladesh and rationale for increasing institutional support for Entrepreneurship and small business development; Journal of Business Administration, IBA (Forthcoming issue, 1992).

3. Foreign Investment in Bangladesh- Still a Mirage; The Daily Star, February 1, 1992.

4. Facts on Bangladesh with Special Reference to the Private Sector; Journal of Business Administration, IBA, volume 16, No. 1 & 2, April 1990.

5. Budget 1991: Transition to Public Accountability, The Bangladesh Time; July 3. 1991.

6. The 1990 Nobel Prize Winners in Economics: A Note of Appreciation of their contributions; Souvenir Issue, IBA Alumni Day, 1991.

15. BOOKS PUBLISHED:

1. Accounting Methodology, Prices Policy and Corporate Financial Viability; Published by IBA, 1983.

2. Cottage Industries of Bangladesh - Potential for Development; Published by IBA, 1984

3. Jute Production, Procurement and Price Support Policy in Bangladesh; Published by IBA, 1984. Co-writers are Professor Muzaffer Ahmad and Professor Alimur Rahman.

16. CERTIFICATION:

I, the undersigned, certify that, to the best my knowledge & belief, the above details correctly describe myself, my qualifications and experience. I understand that any will mis-statement described herein may lead to my disqualification or dismissal, if employed.