

**Features of loan disbursement at Matlab RDP during
1992-1995**

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EXECUTIVE SUMMARY

BRAC's credit programme forms the core of the Rural Development Programme (RDP), itself the central programme of BRAC's development interventions. In the context of the BRAC - ICDDR,B Joint Research Project in Matlab, it is important to have a clear picture of BRAC's credit activities in Matlab to understand the impact of BRAC and its programmes on the health and well-being of the rural poor. This study provides a preliminary understanding of the structure of BRAC's loan portfolio in Matlab during 1992-1995, focusing on the following areas: membership growth, loan portfolio growth, loan repayment, average loan size, and the distribution of loans between loan type, sector and scheme.

Analysis indicates that in Matlab, membership and loan portfolio growth rates have been slower than in other area offices of the same age. This may be due to difficult communication in the area. After 1995, growth rates of membership and loan disbursement have improved. Matlab RDP showed no overdue loans and negligible late loans during the study period. For these reasons, Matlab RDP can be considered a successful BRAC area office. Average loan size increases with the number of loans taken, but after the third loan the increase was less significant. Multiple and concurrent loans were not common.

During the study period, loans in Matlab were predominantly targeted towards agricultural activities: 44.1% of the total loan was used for agricultural activities, primarily for those which were *not* supported by BRAC training and inputs. Small scale trading was the second significant destination for BRAC credit at 26.7%, and 9.8% went towards transport activities, predominantly rickshaws. These three largest credit destinations reflect the Matlab environment where agriculture and trade, particularly in fruits and vegetables, is the major source of employment, and communication is difficult.

It is recommended that the information regarding credit in Matlab should be gathered in a more coordinated way, so that the distribution of loans can be monitored in such a way that Matlab's status, compared to other BRAC area offices can be clearly noted. This is particularly relevant for monitoring the growth in targeted Employment and Income Generating sectors, which had not been major loan destinations in Matlab to the end of 1995.

INTRODUCTION

In 1992, BRAC and the International Centre for Diarrhoeal Disease Research, Bangladesh (ICDDR,B) jointly initiated a collaborative research project in the Matlab thana of Chandpur district. As ICDDR,B has been involved in demographic surveillance and health interventions in the area since the early 1960s, the availability of baseline data presents a unique opportunity to investigate possible linkages between socioeconomic interventions and changes in human well-being in areas such as health, nutritional status, fertility, income, empowerment, and literacy.

BRAC's Rural Development Programme (RDP) forms the core of BRAC's activities aimed at empowering the rural poor and alleviating poverty, and in terms of economic intervention, the RDP credit programme is focal. It is therefore, important that BRAC's credit activities in Matlab be carefully monitored. In this way, an understanding of the impact of BRAC's credit programme on the health and well-being of the community can begin. In this working paper, therefore, an initial picture of BRAC's credit activities in Matlab will be described in order to provide researchers with an indication in terms of time and location, of RDP-Matlab's loan status.

Objectives

This study aimed to provide a preliminary understanding of the credit programme in Matlab, between 1992 and 1995. More specifically, the following points were addressed:

- trends in VO membership;
- trends in the number, total amount, and average size of loans disbursed; and
- trends in the distribution of loans for different purposes and a comparison of this distribution to that of other BRAC area offices.

METHODOLOGY

Study area

Matlab, a large thana in Chandpur with a population of approximately 400,000, is situated about 55 km southeast of Dhaka. This delta region is intersected by the canals and branches of two major rivers: the Meghna and the Gumti. During the monsoon most of the area is flooded making transport and communications difficult. An embankment was constructed during the 1980s, and some villages of Matlab have been able to take advantage of the embankment for flood control, drainage, irrigation, and road transport.

Most people in the Matlab area are involved in agricultural work as owner-operators, sharecroppers, labourers, or as a combination of these. The staple food and major crop is rice, grown during the monsoon. Vegetable and jute crops are also often grown during winter, spring, and summer. Small scale trading, transport, service, and fishing have also been noted as important activities (1).

BRAC has been operating in Matlab thana since 1992, and, as of mid-1996, 66 villages have been covered by RDP. Before 1994, the amount of loans available to borrowers ranged from Tk. 500 to Tk. 10,000, although the loan ceiling for the first, second, and third loans was Tk. 3,500, Tk. 5,000, and Tk. 7,000, respectively. At that time the interest rate was 20%, calculated on a declining balance¹ for a period of one year, or up to three years for housing loans. In 1995, the minimum loan amount was raised to Tk. 1,000, and the interest rate became a 15% flat rate¹. A member may receive concurrent multiple loans for different schemes only after the first loan has been taken and repaid.

Data collection

Data regarding branch growth and loans were obtained from the Matlab AO register and the RDP-MIS maintained by RED at Matlab. These figures were cross-checked with RDP-MIS and the accounts department at Head Office. Additional information regarding scheme distribution of loans was obtained from the Branch Manager of Matlab AO.

Operational definitions

There are three *loan types*:

- ***General loans***: VO members decide the use of these loans, and are not supported by BRAC in any other way. General loans are further divided into *schemes*, such as manual rural transport, weaving, or health related uses, for example.
- ***Sector (or programme) loans***: VO members take these loans for specific activities, for which services such as training and inputs (e.g. poultry vaccines, or vegetable seeds), etc. are also received from BRAC. Sector loans are divided into eight EIG (Employment and Income Generation) *sectors*: poultry, livestock, fisheries, sericulture, agriculture, social forestry, irrigation, and the Rural Enterprise Programme (REP). REP covers some of the new or experimental programmes that are supported by credit, inputs, and/or training.²
- ***Housing loans***: VO members use these loans to repair or construct their houses or associated structures, such as latrines or tubewells. Loan amount *outstanding* is that amount of principal loan which is yet to be repaid. A *late loan* is that which has not been paid off by the end of the one year period during which it was considered current.

¹ 'Declining balance' interest rates are calculated by only taking interest payments on the remaining amount of loan capital, but not that which has already been repaid. 'Flat rates' are calculated on the original loan amount.

² It is important to note that not all *schemes* that might be included under each of these *sector* headings are in fact sectoral schemes. For example, although vegetable cultivation, maize cultivation, and paddy cultivation are all agricultural activities, the former two are sector schemes, supported by training and inputs, but paddy cultivation is an unsupported general scheme.

- An overdue loan is that which has not been paid within two years after receipt of loan
- Loan Portfolio refers to the size and composition (in terms of the activities that the loans are used for) of BRAC's loan funds.

RESULTS

Membership growth, loan disbursement and loan recovery

As shown in Table 1 below, by the end of 1995, Matlab RDP had 5,653 members in 141 VOs: an average of 40 members per VO. This is approximately the same as the average membership per VO of other RDP AOs of the same age, although the range is from 32 to 50. In Matlab there was only one male VO; all others (140 out of 141 in 1995) were made up solely of women. Matlab had the lowest cumulative membership in 1994 of all third year branches at that time; 10% lower than the mean membership size, and almost 4% lower than that of the branch with the next lowest membership. By 1995, however, the difference with the mean had decreased to less than 5%, partly due to rapid growth of the Matlab branch.³ It is likely that Matlab's initial slower growth of membership and number of VOs was largely due to difficult communication between the AO and VOs, and the lack of an outpost in this large area.

Table 1. Trends in membership growth, and disbursement and recovery of loans in Matlab.

	1992	1993	1994	1995	TOTAL
Cumulative number of members	Not available	3 732	4 929	5 653	-
Cumulative number of VOs	Not available	114	122	141	-
Average number of members per VO	Not available	33	40	40	-
Number of loans disbursed	60	1,445	3,481	4,222	9,208
Total amount of credit disbursed	75,000	2, 682,000	9,492,000	15,240,000	27, 489,000
Cumulative amount disbursed	75,000	2,757,000	12,249,000	27,489,000	-
Cumulative amount of credit realized	Not available	1,247,935	6,837,537	20,765,556	-
Outstanding at the end of the year	Not available	1,663,083	5,127,265	9,475,748	-
Overdue loans	Not available	0	0	0	0

³ Some reshuffling of the membership of other AOs of the same age also affected this ratio.

Table 2. Membership of AOs started in 1992.

Mean number of VOs		Mean number of members		Mean number of members per VO		Range of number of members per VO	
1994	1994	1994	1995	1994	1995	1994	1995
136	143	5752	5933	42.6	42.1	32.2-49.7	32.3-50.4

Table 3. 1995 Cumulative loan disbursement and loans outstanding of all AOs started in 1992 (Taka).

Mean cumulative amount disbursed	Range of cumulative amount disbursed	Mean cumulative amount outstanding	Range of cumulative amount outstanding
32,428,717	25,235,500 -	10,000,320	3,555,796 -

By comparing Tables 1 and 3, it can be noticed that by the end of 1995, the cumulative amount of credit disbursed in Matlab was approximately 15% lower than the mean amount disbursed in other AOs of the same age. The amounts disbursed in these branches, however, do deviate strongly from the mean. Similarly, the loans outstanding in Matlab were about 5% lower than the mean amount outstanding in branches of the same age, but again, this figure ranged greatly. This is of course related to the membership size, which, as has been noted above, was lower in Matlab than in those AOs of the same age. Matlab was, by the end of 1995, showing a stronger-than average growth rate of 125%, in cumulative principal disbursed.

According to RDP-MIS data, at the end of 1994 none of the branches started in 1992, including Matlab, showed any overdue loans. Matlab showed as one of the only branches with a late loan amount; however, this amount was negligible, and it did not become an overdue loan.⁴

Size of loans and number of loans taken

As is expected, in Matlab the average size of a member's loan increases with the number of loans taken, suggesting the growth of the supported enterprises. This increase is particularly notable during the first three loans. After the third loan, the marginal increase in the average size of current loans declines.

⁴In Matlab, at the end of 1994, Tk. 6,783 were recorded as 'late loan' - only 0.11% of the total amount outstanding. Six other branches also had late amounts at this time, but none of these were more than 0.1% of the outstanding amount.

Between 1992 and 1995, only approximately 8% of membership (138) had taken more than four loans from BRAC during their membership. Although at least one-third of the 1995 membership did not join the branch in its first year, this still suggests that up to this time, taking of multiple and concurrent loans is not a common practice.

Table 4. Average size of current loans by the number of loans taken in Matlab.

Number of loans taken	Number of borrowers	Average size of current loan (Taka)	Total amount of loans taken by group (% of Total)	Average amount of cumulative loans (Taka)
1	1 849	2,647	4,894,500 (18%)	2,647
2	1 358	3,721	7,948,000 (29%)	5,853
3	810	4,159	7,449,500 (27%)	9,197
4	375	4,234	4,876,000 (18%)	13,003
5	120	4,201	1,939,500 (7%)	16,163
6	13	4,555	252,000 (1%)	19,385
7	5	4,600	129,500 (0.5%)	25,900

Disbursement pattern by loan type, sector and scheme

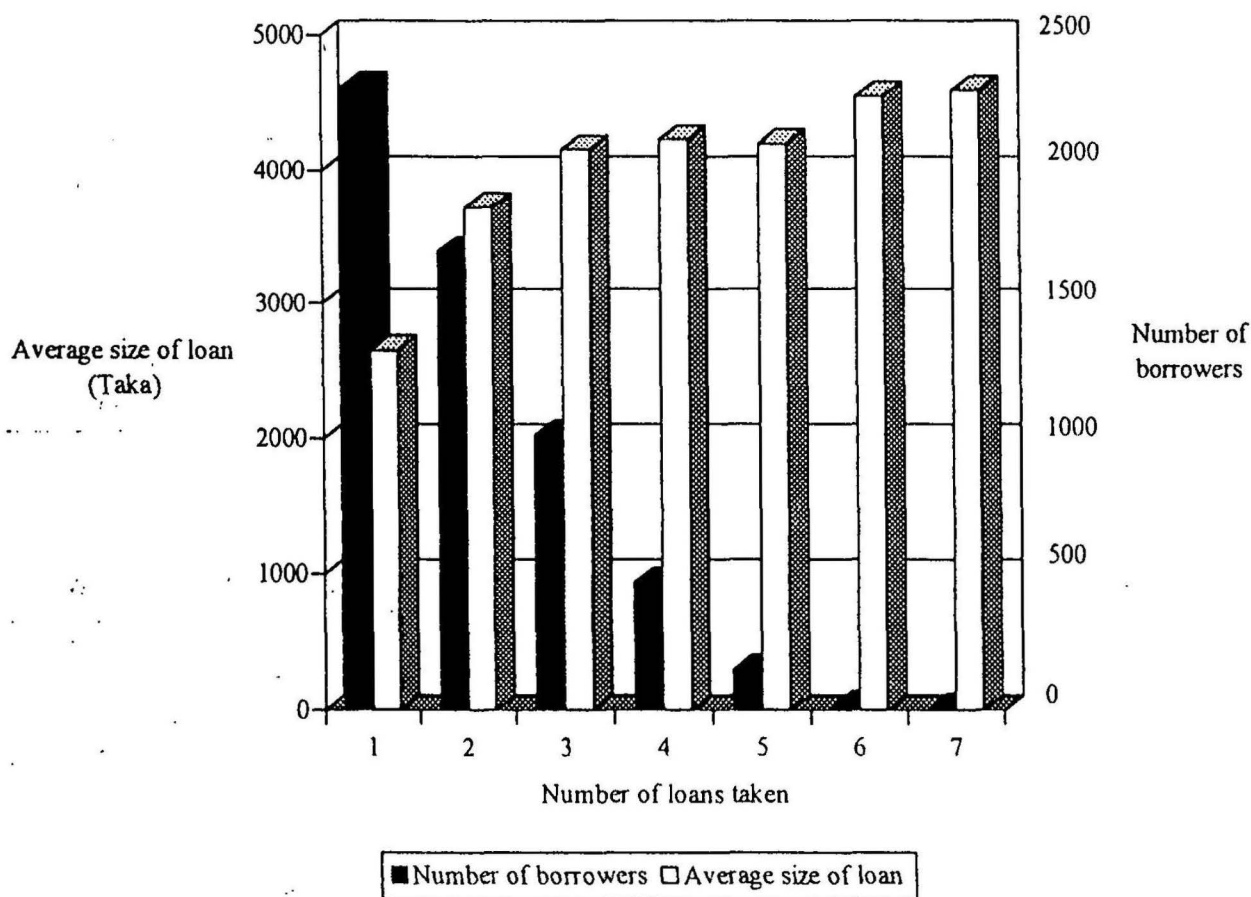
The predominantly agricultural employment base of the Matlab region is clearly shown by the disbursement pattern: 44% of the total loan amount between 1992 and 1995 went towards the agricultural sector.⁵ These loans also grew the fastest over the entire period. Due to the coding procedure used by Matlab and other BRAC branches, it is difficult to ascertain the exact proportion of agricultural credit that goes towards sector schemes and general schemes respectively. However, it has been indicated by the Matlab Branch Manager that paddy cultivation and potato cultivation - both general schemes - took up the most agricultural credit, with the remainder going to *rabi* crop cultivation, maize cultivation (a sector scheme) and wheat cultivation. Therefore, most agricultural loans are not supported by training or inputs.

The importance of small scale trading and transport in the region is also manifested by the data: 26.7% of loans went towards trading activities, in particular the trading of fruits and vegetables. Around 9.8% went towards transport: predominantly manual rickshaws, although manual boat purchases with BRAC loans also occurred. Fisheries and service, also activities of relative importance in Matlab, do not seem to have been supported by BRAC loans in a corresponding fashion. Only 2.9% of the disbursement went towards fish culture and baor, whereas a negligible amount went towards service-related activities, although some of the activities listed as 'miscellaneous' may in fact be service-related. Livestock was the other major sector for which BRAC loans were taken (6.9%). Housing

⁵ Similarly, 45% of the number of loans went to agricultural activities.

loans also took up a relatively large proportion of BRAC credit in the area (4.8%); most of this went towards housing repair and/or construction rather than latrine slabs, for instance.

Figure 1. Loan size and number of borrowers by number of loans



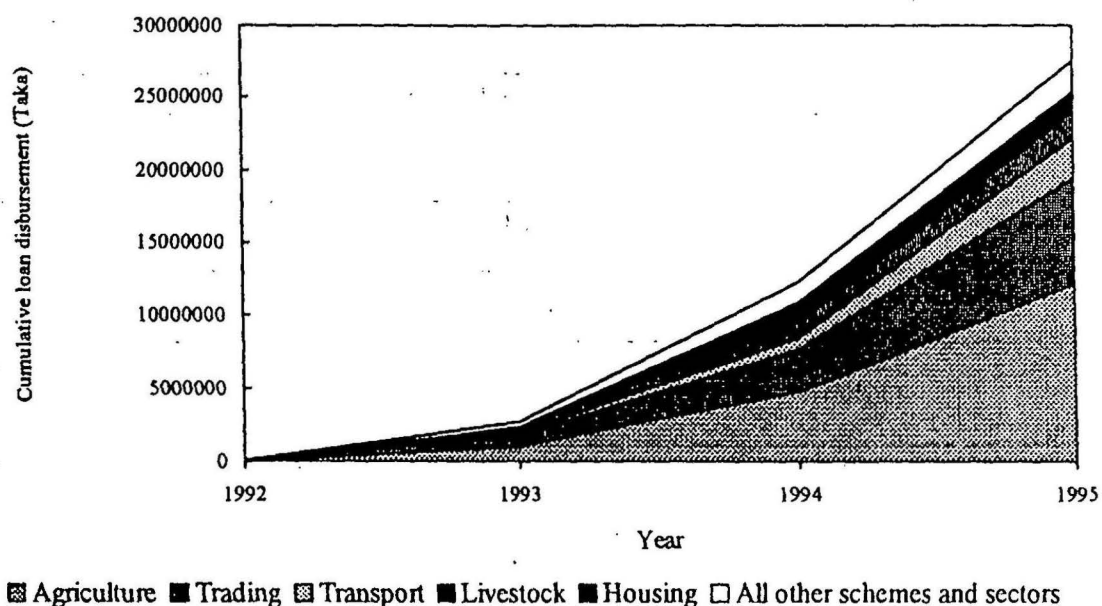
Across BRAC branches of *all* ages, the trend is for rural trading schemes to be the largest recipient of BRAC credit, followed by food processing (a scheme barely represented in the Matlab data), agriculture, housing, and livestock, in that order. In this context, the agricultural sector in Matlab still seems particularly large, and the rural transport sector also seems to play a larger than normal part as a credit destination. Many of the other BRAC branches are, however, much older than Matlab, and it can be hypothesized that over time the Matlab agriculture sector will become less dominant as a credit destination, as other less traditional activities are ventured into.

Rural trading loans increased very rapidly from 1992 to 1995 in Matlab, including more than doubling in the last year, suggesting the start of a trend that will bring Matlab more into line with other BRAC branches. However, at the end of 1995, the agriculture sector

still seemed to be growing faster than almost any other. Agriculture-targeted credit almost doubled from the year before. Fisheries, sericulture, and food processing showed a decline in 1995 after fairly promising starts.

Interestingly, the target EIG sectors in the RDP IV Project Proposal for 1996-2000 (2), with the partial exception of livestock, have not, in large measure, been developed in the Matlab area between 1992-1995. These target sectors are: poultry (0.8% of Matlab credit), livestock (6.9%), fisheries (2.9%), social forestry (0%), vegetable cultivation (0%)⁵, sericulture (0.1%) and REP (0%).

Figure 2⁶. Trends in disbursement of loans by sector, scheme, or loan type



⁶ Although not apparent in RDP-MIS Matlab or branch office figures, there is some indication that vegetable cultivation loans and horticulture nursery loans (social forestry sector) were in fact disbursed between 1992 and 1995 in Matlab.

Table 5. Trends in disbursement of loans by sector, scheme, and loan type (Taka)
(% of year's disbursement).

	1992	1993	1994	1995	Total
A. Sector loans					
Poultry	19,500 (26%)	77,000 (3%)	103,000 (1%)	26,000(0.2%)	225,500 (0.8%)
Livestock	14,000	386,000	706,000 (7%)	790,000 (5%)	1,896,000
- Goats	(19%)	(14%)	280,000	188,000	(6.9%)
-	14,000	235,500	426,000	602,000	717,500
Cow/draught animals	0	150,500			1,178,500
Fisheries	8,500 (11%)	143,500 (5%)	370,000 (4%)	274,000 (2%)	796,000 (2.9%)
- Fish culture	8,500	143,500	370,000	270,000	792,000
- Baor	0	0	0	4,000	4,000
Sericulture	0	0	16,000 (0.2%)	3,000 (0%)	19,000 (0.1%)
Social forestry	0	0	0	0	0
Irrigation	0	0	17,000 (0.2%)	30,000 (0.2%)	47,000 (0.2%)
REP ⁷	0	0	0	0	0
Sub-total	42,000 (56%)	606,500 (22%)	1,212,000 (12%)	123,000 (7%)	2,984,000 (10.9%)
B. Housing loans	0	10,000 (0.4%)	1,264,000(13%)	26,000 (0.2%)	1,300,000 (4.7%)

Table 5 continued....

⁷ Although RDP-MIS Matlab information showed no evidence of Rural Enterprise Program (REP) Sector Loans, some of the General Loans might be included under the REP heading.