

PROPOSAL
for
Rural Credit and Training Project
An innovative approach to finance
the rural poor in productive pursuits

August, 1978

BANGLADESH RURAL ADVANCEMENT COMMITTEE
3, New Circular Road, Maghbazar
Dacca - 17
Bangladesh

RCTP - Phase - 1

RCTP
up to December, 1980

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SUMMARY OF PROPOSAL

1.1

One of the major constraints of economic uplift of the poor in Bangladesh is their inability to get institutional credit for productive purpose at reasonable cost. To meet their minimum credit needs they are forced to place themselves in the clutches of exploitative money lenders and traders. The landless, the women and the other economically disadvantaged groups are unable to take advantage of whatever rural credit is given from institutional sources. In the rare case a poor person gets a loan he is unable to use it very productively because of his inability to secure the required inputs, including knowledge of better methods of production, on favorable terms.

The Bangladesh Rural Advancement Committee (BRAC) has been involved in rural development activities for the last ~~six~~ years. The emphasis is on making the disadvantaged farmer or fisherman aware that he can change his environment and then to give him the knowledge to do so. BRAC's efforts are severely restricted by the limitation on its resources which prevents the organization from providing the farmers credit to procure the inputs he needs to improve his economic condition.

BRAC challenges the conventional wisdom that the poor are bad credit risk and lending to them is unprofitable. While this may be true if profit maximization is the goal, BRAC feels that lending to the rural poor makes good sense both socially and economically.

This proposal seeks to set up a project which will combine agricultural extension, farmer training in resource management and vocational skills, and extension of credit. The project, to be called the BRAC Rural Credit and Training Project (RCOTP), will be essentially a five year experiment to see if such an integrated approach to credit and economic development can be successful. In the first three years, fourteen branches will be set up in selected rural areas. In the next two years, the operations will be consolidated and the performance evaluated to measure the success or failure of the experiment.

Extension of credit will be closely tied to assisting the borrower in developing profitable ventures, giving him the necessary training in funds and inputs management and also production skills where necessary, monitoring the venture during its entire life and assisting in the marketing of his output.

Emphasis will be on giving loans which either develop new productive resources or generate employment. Consumption loan may be given against produce hypothecation to strengthen the holding capacity of the subsistence farmer.

It is anticipated that during the five year development phase, (RCTP) will be able to break even on its credit operations and even contribute towards the training and extension costs. Though the expenditure on training and extension could be curtailed to match the contribution from credit operations, we consider these activities as an integral part of the proposal and hence must be financed from other sources.

This proposal sets out our approach to rural credit and development. Detailed operational policies and procedures for lending (including loan monitoring), staff training, borrower training, marketing and warehousing, and evaluation will be developed separately as the project goes into operation.

The estimated cost of setting up the (BRAC Rural Credit and Training Project will be U.S.\$ 3.8 Million over five years. A summary budget is given in Annexure - I.

I

INTRODUCTION

A. THE ROLE OF AGRICULTURE IN BANGLADESH

Bangladesh is not only an agricultural country, it is overwhelmingly so. Nearly 60% of the nation's income comes from agriculture as compared to only 8% from industry. Out of 75 million people about 70 million live in 65,000 villages. There is only one city with a population over one million. Eight out of ten able-bodied men are trying to make a living out of agriculture where there are hardly enough jobs for five. The most important agricultural product of Bangladesh is rice but the country has never produced enough to meet its own needs. Though production has been growing gradually the increase in population is keeping the demand ahead of production. Production in 1976 was approximately 12 million tons and the demand 13.5 million tons. There are three major varieties - aman accounting for about 60%, followed by aus 30% and boro 10%. The pattern and percentage, however, are changing with the introduction of both imported and domestically developed high yielding varieties and the increase in irrigation. Subject to availability of water, rice can be grown round the year.

Jute is the second most important agricultural commodity and also the most important export commodity. Though productivity per acre is showing slight improvement, the total production and acreage under cultivation are declining due to the decline in demand and the need for growing more food. Unless there is increase in productivity, the competition between rice and jute offsets the gain in one by loss in the other, since both grow on the same soil at the same time.

The other important crops are sugarcane, potato, tobacco, oilseeds, pulses, wheat and tea. Of these, only the last one, tea, has an exportable surplus. Other agricultural products grown locally are pineapples, mangoes and other fruits and vegetables.

Bangladesh, being the delta of a major river system of the world, has innumerable inland waterbodies in the form of rivers, lakes and ponds. There are 3 million acres of inland water bodies and 2.5 million acres of territorial waters. As the First Five Year Plan of Bangladesh states, "Few countries of the world of comparable size, physiography and climate enjoy such vast fisheries potential within their boundaries and territorial waters as Bangladesh". Yet, fish is becoming a scarce item in the already low-protein diet of the average Bengali family. True, some shrimps and other sea food items earn foreign exchange, but it is only at the cost of denying consumption at home.

B. AGRICULTURAL CREDIT IN BANGLADESH

One of the major constraints of economic uplift of the poor in Bangladesh is their inability to get institutional credit for productive purposes at reasonable cost. To meet their minimum credit needs they are forced to place themselves in the clutches of exploitative landlords, traders and money lenders. The landless, the women and the other economically disadvantaged groups are unable to take advantage of whatever rural credit is given from institutional sources.

No survey of agricultural credit has been undertaken in the country since 1962 but it is estimated that the current credit need is in excess of Tk.10,000,000 of which only 5-10% is met by institutional sources. Another 20% comes from friends and relatives who would often prefer not to give loans but are forced to do so because of social obligations. The remainder either comes from exploitative large landowners or goes unfulfilled. In either case, it is a retardant to growth. Borrowing from non-institutional sources is either in cash or kind, as is repayment. The interest rate of non-monetary loans could be 300-400%. In some cases it is even higher. Quite often the poor farmer loses

his land because of his inability to repay the principal and the interest. As a U.S.A.I.D. study observes, "Whatever the rate of interest the main objective of landowners making loans of this kind is to acquire land, since the value of land - approximately Tk.10,000 to 15,000 per acre - is far more significant to him than the returns in the form of interest".

Though, in contrast, the stated interest rate of 13% of institutional loans seems very reasonable, the cost to the farmer (for running about and giving bribes to the bank staff) often pushes the effective interest rate for a loan of Tk.1,000 to an estimated 36 to 67%. For smaller loans the rate is even higher.

A BRAC rural study indicates that 75% of respondents have indebtedness. It is felt that among the small farmers and landless the indebtedness would be even higher.

Until quite recently, the credit institutions in Bangladesh stayed away from rural lending. The commercial banks received a majority of their deposits from rural areas but gave negligible loans and advances to the farmers, resulting in a transfer of rural resources for urban and industrial development. Even the agencies created specifically for lending to the agricultural sector, such as the Bangladesh Krishi Bank and its predecessors, restricted their lending to tea plantations and other large borrowers.

Some of the reasons are complex economic considerations which discourage both the lending agencies from giving and the small farmers from taking institutional credit. All the major delivery systems - cooperative banks, agricultural banks, rural development agencies - share the same problems - default, low impact and drift towards a large loan clientele. From the farmer's viewpoint also, there are problems in borrowing from these agencies - bureaucratic red tape, surety requirements, delay in

his land because of his inability to repay the principal and the interest. As a U.S.A.I.D. study observes, "Whatever the rate of interest the main objective of landowners making loans of this kind is to acquire land, since the value of land - approximately Tk.10,000 to 15,000 per acre - is far more significant to him than the returns in the form of interest".

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processing, bribes, and other costs arising from loss of work and travelling from his village to the bank.

A world-wide review of small farm credit concludes that the conditions under which public credit can successfully affect small farmer productivity are more restrictive than commonly supposed.

There is an apparent conflict between the political or welfare objectives of a government and the efficiency objectives dictated by the economics of rural credit. Since neither of these objectives can be sacrificed, ways and means are being sought by all concerned in Bangladesh to reconcile the two. There has been a remarkable increase in awareness among the banks of the need to improve performance without sacrificing the socially desirable goal of arresting the rising inequality. Some of the banks have taken an innovative approach to lending to those who have so long been neglected by them. An agreement has been signed between the Governments of Bangladesh and the United States for a \$8,000,000 US grant for a Rural Finance Experimental Project. A number of different models will be tested under this project to identify at least one workable system for meeting the credit needs of the small farmers.

C. BANGLADESH RURAL ADVANCEMENT COMMITTEE

History: The Bangladesh Rural Advancement Committee is a Bangladeshi voluntary organisation which has been involved in rural development work since the inception of Bangladesh as a sovereign country. BRAC's activities are now carried on by a group of over 250 development workers and supporting staff. Its activities have expanded into Sylhet, Dacca, Rangpur, Tangail, Jessore and Comilla districts directly and other districts indirectly. The sectors in which BRAC is involved are agriculture (including fishery, poultry, duckery, sericulture, horticulture); adult education; health care & family planning (including a health

insurance scheme); institutional development (including organising economic activity groups, cooperative societies, and village development committees); and human development (including adult education teacher training, health worker training, leadership training and occupational skills training). (see: Summary of Current Activities, 1973).

BRAC's Approach to Development: BRAC believes that no genuine development can be possible without the people actively participating on their own behalf. Participation of the rural masses implies enhanced capacity to perceive their needs, formulate their demands, organise to promote their legitimate interests and play a major role in the management of their own affairs. The prevailing social and economic conditions in rural Bangladesh discourage the masses from participating in development efforts on their own behalf. Unless they can be made critically aware of the reality of their situation and can be voluntarily drawn into changing it, genuine development will continue to remain unrealised.

BRAC's approach is to raise the critical awareness of the people by conducting workshops, adult functional education centres, organising cooperative societies and groups to undertake economic activities and building cadres of village level volunteer workers.

Since its inception, BRAC has given loans in cash and kind amounting to Taka 1,500,000. Our overall experience in loan utilisation and recovery has been satisfactory.

Loans have been granted for agricultural inputs, maintenance expense during cultivation period, fish culture, fishing, and women's economic group activities such as net making, weaving, rice husking etc.

In keeping with the organisation's policy, financial assistance is given only as an extension of its overall effort. BRAC workers

are involved throughout the process - inception, utilisation, repayment and follow-up. No loan is given unless the project has been personally inspected by the BRAC worker and discussed in detail with the participants.

D. RATIONALE FOR EXPANSION OF BRAC CREDIT ACTIVITIES

BRAC's efforts, particularly in the field of agricultural extension, have been circumscribed by the existing land holding practices and the organisation's own resource limitations. Whereas BRAC can have none or only a limited impact on factors such as landholding patterns, the expansion of its credit operation would enable the farmers to put to practical use the many ideas generated by their interaction with BRAC.

Expansion of credit operations is a logical extension of BRAC's rural development work. BRAC believes that credit is only a component of rural development. It cannot be isolated nor can it be ignored. It must form a part of the total development efforts.

It is encouraging to note that the Government has put great emphasis on increasing agricultural production and directed the banks to make loans available to the small farmers. The banks, despite their commitment to helping the small farmers, face certain practical difficulties.

Banks are essentially financial institutions and their lending policy, role and operations are guided by commercial considerations. Extension and collection of credit is their main function. The banks are not organisationally geared to provide other supportive services necessary for maximising productivity.

There is a vital difference between the approach of the existing credit institutions and BRAC. The existing institutions start with credit, then proceed on a limited scale to the other aspects of agricultural development. BRAC started with development

efforts and only now feels confident to embark on a credit programme of a substantial scale.

REAC feels that its experience in rural development, involvement with the rural people, particularly the poorer sections, its resources in other fields, such as training and its different approach towards rural credit place it in a position to expand its credit programme. In addition to being of immediate benefit to the poor who have so far remained excluded from institutional credit, it is expected that the experience gained from this programme will also benefit the other credit institutions in national rural financing.

..II
THE PROPOSAL

BRAC proposes to set up a (Rural Credit & Training Project) which will combine the following functions:

- i. Credit operations, including extension and recovery in kind.
- ii. Training of borrowers in funds management and occupational skills.
- iii. Training of (RCTP) workers in loan management and rural development.
- iv. Technical assistance to borrowers, including facilitating supply of inputs.
- v. Experimental warehousing and marketing from selected branches.

The objective: is to improve the economic status of the borrowers by providing opportunities to undertake profitable economic activities.

The strategy: is to facilitate the availability of all possible inputs for an investment to be profitable to the farmer with full recovery of principal and interest by the RCTP.

The focus: will be on assisting small farmers, landless tenant farmers, women's groups and unemployed rural youth. Seventy-five percent of farmers in Bangladesh own less than two acres of land or none at all. Their credit needs are virtually unmet by existing credit agencies. Almost all of RCTP loans will be aimed at this section. The development phase of RCTP will last five years. In the first year, four branches will be established in one or two rural areas, followed by four more in the second year and six in the third year. Each branch will cover an average of 1 Thana (Police station) having 150 villages with a population of 150,000. In the fourth and 5th years, the expansion of the previous years will be consolidated and the performance evaluated for possible further expansion.

A. CREDIT OPERATIONS

1: Types of Loans

Loans will be given for the following types of activities.

a) Employment Generation: Chronic underemployment and seasonal unemployment is extremely high due to the dominance and primitive nature of agriculture in Bangladesh. Of the 20 million people involved in agriculture, about 7 million are unemployed or underemployed.

Loans will be given to this group to provide them profitable employment of either a permanent or seasonal nature. Some of them will move from farming to agricultural service or other occupations of a permanent nature. Example: A group of landless farmers may be given a loan for a cargo boat to engage in transportation and marketing activities. Seasonally unemployed persons may be given short-term loans for economic activities during the slack period which is often longer than their busy period. Example: Fish net making, small trade etc.

More and more rural women, driven by economic pressures or changing social values, are undertaking economic activities within or outside their homes. Loans will be given to them to generate either their major income or a supplemental income. Example: Biri (indigenous cigarette) making, handloom weaving, paddy husking etc.

While it is difficult to say exactly how many new jobs will be created, it is estimated that at least a substantial part of hidden unemployment in the areas covered by RCTP branches will be eliminated.

b) Resource Mobilisation:

i) There are certain unproductive rural resources which could be turned into productive resources with some inputs and training of borrowers. Example: In most areas of Bangladesh an average village has 5 to 10 derelict ponds. Re-excavation of these ponds and water bodies, stocking them with HYV fish fingerlings, supply of fertilizer and feed, training of borrowers in

care and cultivation of fish, assisting them in marketing etc. would transform these ponds into productive resources.

ii) There are certain agricultural crops and rural based industries which exist in some parts of the country and not others. Loans may be given to borrowers who are interested in trying out such activities in their own areas. Example: Sericulture has hitherto been confined to North Bengal (particularly, the districts of Rajshahi and Bogra). Recent efforts in growing "bheranda" trees (a better substitute of the mulberry tree) and rearing cocoons in other areas of Bangladesh indicate the possibility of extending sericulture to other parts of the country. In addition to training the borrowers extensively in sericulture, small capital investment in the form of seeds trays, spinning wheels, etc will be required. Example: New varieties of vegetables imported from overseas have found acceptance in some areas of Bangladesh. However, these are grown only in kitchen gardens for home consumption. Loans could be provided for commercial cultivation of vegetables of high nutritional value.

iii) Application & Introduction of Technology: The level of technology in the vast rural sector is extremely low. In the industrial sector, the adoption of sophisticated technology of the advanced countries is taken for granted but in the rural sector, even the less sophisticated agricultural technology is ignored. While "HYV" has become a term of common usage among decision makers, co-ordinated efforts to make available the necessary technology and inputs for HYV have been weak. High yielding varieties of rice, wheat, fish, poultry, ducks, cattle and vegetable have been imported from other countries but the high yield achieved in other countries has not been matched at home. An important reason is that the expectation of output has not been matched by the needed inputs.

ROTF will provide loans on a selective basis so that the new technology can be applied at economic costs. Example: HYV seed

Apart from the improved farming technologies a number of simple 'intermediate' or 'appropriate' technologies have been developed both in Bangladesh and other countries. These, however, have not found acceptance because they are out of the reach of even the better-off farmers. Loans may be granted to borrowers who can use such technology profitably. In granting such loans, consideration will be given to provide a linkage between the new technology and other economic activities. Example: 'Gobar' or cow-dung is used extensively both as fuel for cooking as well as fertilizer. The present method of utilisation is inefficient. Gobar-gas plants have been successfully used in several parts of India. A loan for cattle raising could be linked with a loan for a gohar gas plant. The gas could be used for cooking or firing glazed pottery and the slurry used as fertilizer. Example: The Bangladesh Agricultural Research Institute has developed a low cost pedal rice dryer. Destitute women who are currently being given small loans for paddy husking could be given loans to integrate the rice dryer into their husking operations. Example: Another Bangladeshi invention is a simple silk yarn spinning machine. ERAC has already begun field testing of these machines.

With regard to the adoption of these new low cost technologies, it has to be remembered that they are still in the development stage. Understandably, subsistence farmers cannot risk an investment at this stage. At the same time, unless these technologies are introduced in the environments of actual use, their cost-effectiveness, efficiency and suitability cannot be determined. Loans will be given initially to progressive farmers and groups on a risk sharing basis.

2: Principles of ICTP Credit

i) Loans will be granted on a self-liquidating basis. Repayment of principal and interest must derive from the use to which the loan is put. Thus, to give a loan for agricultural

purposes and arrange repayment from, say, land rent income would not satisfy that condition.

However, it has to be recognised that subsistence farmers also require and obtain loans for consumption purposes. Most subsistence farmers have a surplus of only two to three months after repaying the land owners' share and outstanding loans from their harvest. For as long as nine or ten months they have to borrow from the land owner or other sources to meet their daily needs. This is a vicious cycle from which small farmers cannot easily get out.

Unless certain amount of consumption loan is given, the farmer will not be able to extricate himself from the clutches of the exploitative creditors. Such loans will be given on a limited basis to only those farmers who have been granted production loans. No loan will be given for ostentatious consumption, such as, spending for weddings and funerals beyond the farmer's means, and clients of RCTP will be discouraged from seeking such loans from other sources as it will jeopardise their ability to repay RCTP loans.

(ii) No loans will be given to a farmer to buy land from another farmer who owns less land than he.

iii) Repayment will be expected and scheduled in increasingly graduated steps to correspond with the completion of the loan's gestation period and increasing income from the venture. Since subsistence farmers have competing demands on their income, loan repayment must follow immediately on receipt of the income. The longer a loan is outstanding the more difficult it is to get repayment.

(iv) Loans will be given on margin.

The concept of margin is that the borrower is expected to contribute his own resources to the extent that one considers that he will have a significant stake in the success of the venture.

In other words, margin is a threshold commitment figure below which it is reckoned that the borrower will not feel the personal stake strongly enough to make the necessary effort for its success.

The margin figure will normally depend on the borrower's net personal worth. The higher the net worth, the higher should be the margin figure. However, strict adherence to this principle would make the loans gravitate towards the richer farmers, thereby defeating the purpose of this project. To overcome this tendency without sacrificing the soundness of the loan, RCTP personnel will have to be much more involved in loan processing in the field and subsequent monitoring.

v) There will be a minimum of security documentation. /

The existing credit institutions, at the direction of the Government, are gradually moving away from insisting on mortgage security. Land mortgage security is virtually useless since titles are often defective and such mortgage has never been enforced in case of default.

Elimination of collateral raises the problem of security of the loan. Since the primary objective of RCTP is to lend to subsistence farmers who have little or no worthwhile assets to offer as collateral, the RCTP proposal will aim to substitute collateral with thorough investigation of the borrower's ability and the proposed venture's income generating potential prior to sanctioning of a loan and continuous, intensive monitoring during the entire life of the loan. In other words, the credit worthiness of the borrower will not depend on his existing wealth but on his ability to use a loan to produce a return on investment higher than the original investment, and his intentions regarding repayment. Both of these will require a thorough knowledge of the borrower on the part of the RCTP worker. He must also have a working knowledge of the production techniques, economics and

profitability (including marketing prospects) of income generating activities in the area covered by him.

The very satisfactory results of following this principle in BRAC's current lending is the testimony of its validity.

Needless to say, collateral will not be foregone where available. Where loan is given for purchase of an income producing asset, the asset will remain hypothecated or RCTP will retain ownership until the loan is completely repaid.

Subsistence farmers are invariably forced to sell their surplus output right after the harvest when prices are depressed. In selected branches RCTP will provide warehousing facilities so that a farmer may store his immediate surplus and obtain a loan against it to meet his obligations, then sell it when the price is more favourable. This facility would strengthen the subsistence farmer's holding capacity to a great extent.

vi) Loans will be given for rural economic activities which have a strong development component.

Loans will be given preferably for activities where the return will be more than the return the borrowers have received from similar activities in the past. Thus, a farmer who has been growing the traditional varieties of rice will have a much better likelihood of getting a RCTP loan if he switches over to HYV. Implicit in this policy is the availability of all the inputs and immediate profit potential of the scheme. Loans for conventional activities may still be given if the borrower derives a higher income or can build up an asset or if denial of loan would leave him unemployed. Even in such cases, efforts will be made to increase productivity and efficiency.

3: Forms of Credit

The rural sector of Bangladesh is substantially non-monetised. Barter is still a considerably important means of conducting transactions. Both produce as well as labour are offered in barter. The primitive stage of the market economy is both a cause and

effect of the non-monetary rural business transactions. Most farmers are at subsistence level and what little they have to sell gets them barely enough to purchase the other necessities of life. Money management is, therefore, not a well developed skill amongst the poorer sections.

Under these circumstances, purely monetary banking transactions will place a significant strain on the borrower. Giving of a loan presupposes that the borrower has the capacity to spend the money efficiently and the inputs for which the loan is given are easily available to him at the lowest price. Similarly, demanding repayment of principal and interest in cash also presupposes the borrower's ability to sell his output at a favourable price and the existence of market facilities (including storage and transportation) which are necessary for receiving a good cash price.

In our opinion, these assumptions are largely invalid. The borrower is often not in a position to know exactly the amount and proportion of various inputs, and the inputs may not be available to him at a favourable price. RCTP's policy, then, will be to give credit in cash, kind or a mix of the two. If credit is given in kind, the monetary value of the loan will be established at cost or market price, whichever is lesser. Supplying credit in kind will involve a complete purchasing and storing function.

Similarly, repayment of loan (principal and interest) may also be in kind. Where repayment is accepted in kind, the borrower will have the option of giving his produce at the market price of the day or store it in RCTP warehouse for sale at a later date when the price is more favourable. In that case, sale will be arranged by the farmer and RCTP will deduct the amount of the loan and a reasonable storage cost. Any surplus will be the farmer's income. In case there are strong indications that the market will not rise within a reasonable time, the farmer will

have the option of repaying the loan in cash or selling the stored produce at the prevailing price and making up to RCTP any difference between the sale proceeds and the loan. In this case, the farmer will be exempted from storage charge.

The policy of in-kind credit and repayment will be tried in selected branches. During the first three years, the scheme will be adopted in one branch each year. This will include setting up a centralized buying (of inputs) and decentralised storage and marketing of repayment received in kind. A warehouse will be built in each of the locations. Apart from the cost of construction of warehouses, no significant additional costs are anticipated. The warehouse will be built adjacent to the Branch Office and supervised by the Branch Manager who will also be responsible for the sale of produce. One Store Keeper may be required, whose salary could come out of the warehousing income.

If the scheme is successful, it will be adopted in the remaining branches.

4: Loan Recovery

Realization of the loan will provide the greatest challenge to the RCTP experiment in rural credit for the poor. In case of the failure of an undertaking, should and could, RCTP insist on repayment in accordance with the original agreement with the borrower? Such a strict policy would place the borrower in great difficulty and may force him deeper into the hands of the unscrupulous money lender or to sell his other meagre assets. Even then, such a loan may not be recoverable. Rolling over the loan or extending it for an additional period or season in itself does not increase the borrower's capacity to repay. Instead, an additional loan may be necessary to improve the income situation of the borrower. The danger of this policy is that loans may pile up, increasing both the debt burden of the borrower and the bad debt risk of RCTP. A policy of insuing new loan only after

the repayment of the outstanding loan may lead to other kinds of malpractices. Writing off loans, while the easiest form of retiring a loan, is clearly not a policy alternative, no matter how genuine the hardship of the borrower.

In short, recovery of loans where the venture has failed to produce the expected return, whether due to climatic reasons or mismanagement, will be a vital test of the viability of the concept of integrating sound credit principles with the socially desirable objective of improving the economic position of the poorest sections of the rural population. At the current stage of our thinking, a mixed policy of rescheduling and extension of repayment period, combined with additional loans in following periods, may be the most practical method. Of course, whether the policy is rigid or flexible, in every lending operation there will be some loans which are difficult or impossible to recover. Realistically, RCTP lending will not be immune to this either. In fact, the risk will probably be greater since RCTP will be lending for experimental undertakings which are expected to have great benefits if they are successful. If a farmer undertakes an experimental project as a result of the extension work or persuasion of a RCTP Loan Officer, it will be only fair that RCTP also assume part of the risk. The general guiding principle will be to get full repayment in case of success and defer repayment, combined with partial write-off of principal and total write-off of interest, in case of failure of the scheme through no fault of the borrower. In such a case, the Loan Officer or the approving officer will be accountable to RCTP. Willingness to take calculated risk and be sympathetic to the hardships of the poor is not to be confused in any way with inefficiency, neglect or soft-heartedness of the Loan Officer. The greater the risk element involved, the more demanding will be the task of monitoring.

5: Interest on Loans

The prevailing interest rate in Bangladesh is 12 to 17.5% . A worldwide review of small farmer credit notes that "Interest rates applied in small scale farmers programmes are much lower than rational economic policy would dictate". It challenges the theory that increasing interest rate would reduce demand for credit and consequently lead to decreased investment and production.

Low interest rates do not cover operating expenses and portfolio losses of the credit institutions; the costs of technical supervision, credit investigation, monitoring and inflation; nor do they necessarily attract the small farmers. As noted earlier, reasons other than the interest rate keep the banks from lending to the small farmers and the small farmers from seeking bank loans. Subsidised credit results in inefficient allocation of scarce resources or unproductive expenditures. What needs to be subsidised is extension work and not credit.

While doubling or even tripling the prevailing formal interest rate would have little effect on the desirability of borrowing from the credit institutions, it would have a significant effect on the incentive for such institutions to seek out rural borrowers. Since the small farmer already borrows at even higher rates of interest from the landowners, he would not be averse to going to the credit institutions provided the quality of service is comparable. If the institutional sources can grant loans as quickly and efficiently as the landowner, the borrower would not be so irrational as to pay the prevailing ten times higher interest rate to the landowner and also risk losing his land in case of default.

According to an EAO study, experience in India shows that if other agencies offer credit facilities for the development of agriculture, they tend to crowd out the money lender, provided

credit provided by the moneylender decreased from 70% to 50% between the period 1951-52 and 1951-62, the credit provided by the cooperative increased from 3.17 to 15% during the same period.

There is, therefore, a strong case for raising the interest rate for agricultural credit. If the quality of lending has to improve, the cost must be realised from the beneficiaries. The Rural Finance Experimental Project which will be implemented shortly has received the approval of Bangladesh Government to experiment with interest rates ranging from 18% to 36%.

RCIP proposes to follow the same interest rates subject to government approval.

B. TRAINING BORROWERS

Some people, in trying to admire the village folks, proclaim glibly that the farmer knows best. BRAC does not go along with that. More often than not, it is precisely because of lack of knowledge of what is best, that the farmer is exploited. If knowledge is power, then ignorance is lack of power and powerlessness is the attraction for exploitation. The biggest exploiter of the poor is their own ignorance, and though sometimes a poor farmer is aware of his ignorance he has no means of removing it.

Agriculture is a science but seldom thought so by the average farmer. While every farmer cannot be a research scientist, he could profitably use new scientific discoveries in the field of agriculture. Better farm management is also an art which could be learned. Considerable agricultural training facilities exist in the country from an Agricultural University down to Thana Training and Development Centres. Unfortunately, training is given almost entirely to people who are not actual farmers but policy makers, administrators, officials and the like. The agricultural extension workers spend almost all their time in

paperwork. Even when training is given, follow-up and supportive services are weak or non-existent.

There is no programme for training by the existing credit institutions. These credit agencies are already straining their limit in supervising loans and there is no likelihood of their getting involved in borrower training.

Borrower training would be an integral part of RCTP's functions. Since RCTP would be lending to illiterate, destitute people who have no physical security to offer for loan, borrower training would be one method of strengthening the security of a loan.

In doing the feasibility investigation for a loan, the RCTP worker will also determine the ability of the prospective borrower. If the investigator is otherwise convinced about the desirability of giving the loan, but the borrower's skill is wanting, then the investigator could make the loan on condition that the borrower undergoes training to acquire the skill.

The other type of situation is when a new technology is introduced in an area. If RCTP feels that a new trade, crop or technology could be profitably introduced in an area, it could make arrangements to train those who are interested in learning the new trade and support them later by providing loans, to establish themselves. For example, RCTP could provide a small inventory loan to village level health workers to buy medicines, after they have been properly trained.

C. TRAINING FIELD WORKERS

A systematic approach to integrated rural development work is a fairly new occupation. The people involved in this field come from diverse cultural and experiential backgrounds. Employees of a multitude of government departments and agencies, semi-governmental organisations and voluntary organisations are involved. A few of them have come out of dedication to rural development.

Others find themselves in this field because of their employment.

Academic studies and training in economic or rural development hardly exist in Bangladesh. The existing knowledge, culled from experience, has not been gathered into a body and sufficient theoretical framework has yet to emerge.

Training is an important aspect of ERAC's activities and a separate training apparatus has been established to meet the needs of ERAC's own staff and field workers of other organisations.

To grant credit and supervise its proper utilization, RCTP field workers must know not only the mechanics of lending but also how loans are used effectively. They must be thoroughly familiar with the problems of rural development and have some idea about how to solve them.

Every RCTP field supervisor will need training in rural development and credit management.

D. TECHNICAL SERVICES

1. End-use Monitoring and Supervision: After the loan is sanctioned the actual disbursement will be scheduled to correspond with the funds requirement of the borrower in order to minimise the chance of misuse of funds.

The RCTP worker responsible for a loan will stagger funds disbursement as a monitoring tool, so that he can ensure its proper utilisation. He will visit the farmer in the village from time to time to solve any problems the farmer may face.

2. Facilitating Inputs Supply: At the time of sanctioning a loan the RCTP worker will have taken into consideration the availability of the inputs. If the input is not easily available to the farmer, the RCTP worker may have to organise joint procurement of the input for a number of borrowers undertaking the same type of venture. For example, if there are, say, fifty borrowers who need vegetable seeds which are not available locally, the RCTP worker may assist them in procuring the same from the

3. Problem Solving: Borrowers may be faced with technical problems for which they do not have a solution. For example, rice under cultivation may have been attacked by a pest and the farmers do not know which pesticide to use. The RCTP worker will recommend the correct pesticide and, if necessary, assist the farmer in procuring it.

In order to provide this kind of technical assistance, RCTP will build an inhouse resource capacity by training its workers. Every worker will have a working knowledge of major agricultural crops and rural occupations, and special knowledge of a particular crop.

Farmers facing difficulties in dealing with government officials or others will also be assisted by the RCTP workers.

For example, if a group of women wish to form a cooperative society, the RCTP worker will help them in organising and fulfilling the registration requirements. The worker will also provide continuous guidance until the society's members can handle their affairs themselves.

4. Warehousing and Marketing: Warehousing and storage is a difficult problem in Bangladesh due to high humidity, heavy rain fall, pests and insects, the sheer absence of individual storage facility and the lack of holding power of the subsistence farmers. The existing storage capacity of the Government is less than 1,000,000 tons. Public warehousing is non-existent. Private warehousing of the grain dealers only exploits the inability of the small farmer to hold on to his produce.

RCTP proposes to integrate warehousing into its operations to meet the need for warehousing arising from different considerations.

The following would be the advantages:

- i) Enable RCTP to adapt to local trading practices by dealing in kind rather than solely in cash.
- ii) Ensure the supply and use of such inputs as fertilizers and pesticides.

- iii) Accept repayment of some loans in kind.
- iv) Provide storage facility to the farmers.
- v) Increase the storage capacity of the area.

As noted earlier the rural sector of Bangladesh is substantially non-monetized and barter is a prevalent practice. Unless RCIF can adapt to the local conditions and trade practices, its involvement in the economic sphere will be limited by that extent.

Certain loans may be given in kind, not only to ensure proper end-use but also to ensure that the farmer gets the input. Similarly, insisting on repayment in cash only places the borrower at a disadvantage since he may be forced to sell his produce in a depressed market to raise the cash. Therefore, where possible, repayment will be accepted in kind.

A marketing function would be involved in selling the repayment received in kind. RCIF technical assistance to borrowers would also cover assistance in marketing.

III IMPLEMENTATION PLAN

The project has been designed for a period of five years. In the first year four branches will be opened in one or two areas. In the second year, another four branches will be opened in the same areas or new areas. In the third year six more branches will be opened, bringing the total number to fourteen. In the next two years, the expansion during the previous three years will be consolidated and the project's performance evaluated for possible future expansion.

A. SELECTION OF BRANCH LOCATIONS

Branches will be located preferably in areas where institutional credit is not easily available to the rural poor. For security and accessibility reasons, the branches will be situated near motorable roads but will cover villages within a radius of ten miles. Other factors will be nearness to markets, availability of inputs, diversification of agriculture and related activities.

Each branch will cover about one Thana with an average of 150 villages and a population of 150,000. There will be about 30,000 men and women who are engaged in economic activity.

Much of the work will be in the villages and the branch will serve mainly as a receiving and disbursement office. Two locations in Sylhet and Comilla have been tentatively selected for branches to be opened in the first year.

B. ORGANIZATIONAL STRUCTURE

In keeping with RUP's major focus on rural development, the organization will emphasize extension services, close supervision and monitoring. Routine lending function will be of a supportive role.

The first line of implementation personnel will be the field supervisor who will also be the lending officer and collection officer. Thus, one individual will be responsible for the entire process - from start to finish. The field supervisor should not be like a cog in the

wheel but must feel total responsibility for the success or failure of a loan venture. Divided responsibility often means the evaporation of responsibility.

In the selection of such personnel who will have power to influence the flow of large sums of money, ability and integrity will be of paramount importance. There are pros and cons of recruiting locally versus recruiting from outside. Local workers would have many of the strengths of the money lenders, such as, familiarity with the area and personal knowledge of the villagers. They are also likely to be more acceptable than a stranger. The weaknesses are that since the field supervisor will have to be educated (preferably graduate) he is more likely to belong to the elite section of the village and reflect his class interests. There would also be more chances of nepotism and poor quality loans since he will be subject to social and family pressure to entertain the requests of his friends and relatives.

It is planned that branch staffing will not be wholly one or another (local or outsiders) but a mixture of the two. The first line workers, i.e., the field supervisors, will be locally recruited as far as possible but the branch manager will be an outsider. This will provide check and balance. Three to four field supervisors will work out of a branch, each handling 200-250 loans.

Each branch will be headed by a Branch Manager who will be responsible for planning of the credit needs of the area, sectoral allocation, approving loans exceeding Tk.1,000, review and supervision of the field staff, maintenance of accounts and administration of the branch. The Branch Managers will have at least five years lending and managerial experience, preferably as a rural branch manager of a bank.

Each branch will also have an accountant/cashier responsible for accounting and funds receipt and disbursement. There will be some ancillary staff such as clerk/typist, security guards etc..

The Branch Manager will report to the Deputy General Managers for Operations and Credit.

The Head Office of RCTP will be located in Dacca. There will be no lending activity in the Dacca Office.

The RCTP organization will be headed by a General Manager who will report to the Executive Director of BRAC.

C. BASELINE SURVEY

Before the opening of a branch, a socio-economic baseline survey will be conducted covering the entire population of the area. The study will be important to determine the regional policy, for planning and also in loan processing. Data will be collected to determine crop pattern, seasonality of activity, land holding pattern, types of occupations, marketing potential etc..

Cost analysis will be made of all major occupations in the area which will act as guideline in determining quantum, profitability and risk factor of each occupation. The cost analysis will be updated annually. The baseline data will also be required for comparative study and project evaluation.

D. LOAN PROCEDURE

In conducting the baseline survey and cost analysis, the future field supervisors will be acting as field investigators. This will be their orientation with the area. (This orientation will not be required in first year's operation of RCTP as a number of experienced staff will be drawn from BRAC).

Ideally, applications for RCTP loans will be initiated by the prospective borrower during his interaction with the field supervisor during the latter's visits to the villages and well ahead of the borrower's first visit to the branch. The RCTP personnel will not wait for the borrower to come to the branch to be viewed as a stranger, since many illiterate and poor farmers feel intimidated by 'offices' and 'officers' and stay away from them. The borrower should not feel that RCTP has done him a favour by giving a loan. He should be encouraged to view his contact as a business deal between two equals - he the producer and RCTP the financier.

On receiving a loan application (either in writing or a verbal enquiry), the field supervisor will do a specific cost/benefit study of the venture, an evaluation of the credit worthiness of the prospective borrower and consider the practical constraints/incentives of undertaking the venture. The field supervisor will take into account the borrower's ability to undertake the venture, his resources in terms of time, skill and interest. He will sanction loans below Tk.1,000.00 where repayment is within one year. For larger amounts or if duration, he will approve the loan but will first clear it with the Manager who will be authorised to reject the loan application. Since the Manager is not required to approve the loan, the responsibility will remain entirely with the field supervisor. The Manager's role in this case is merely to stop a bad loan from being sanctioned and not to assure or share the responsibility for the loss since he is not the initiator.

Loan Portfolio

To build up a good loan portfolio requires, among other things, considerable lending experience. Since RCTP will be a pioneer in the field of exclusively rural credit and there are no reliable financial analysis of profitability of the various components of the rural economy, the loan portfolio will be based on the broad economic indicators and the social objectives of RCTP.

Approximately Tk.63,000,000 will be given as loans and advances over five years. The breakdown of the monetary volume by types of loans indicated in the Credit Operation section of this proposal will be as follows:

- | | |
|----------------------------|-----|
| 1. Employment Generation: | 64% |
| 2. Resource Mobilization: | 29% |
| 3. Appropriate Technology: | 10% |

It has to be noted that there are not sixticht compartments.

Some of the loans will cut across the above categories or could be classified under one or the other category. In a sense all loans will generate employment. For example, re-excavating a derelict tank would

create a resource as well as provide employment.

Approximately half of the total loan will be given to small farmers engaged in paddy or jute cultivation. Average size of loan will be Tk.750.00 and the duration six months. Fifteen percent of the loan will be given for pisciculture. Average loan size will be Tk.5,500 and the duration three years.

The remaining 31% will go to other professions and for development of appropriate technology.

A picture of the probable loan portfolio is given in Annexure X to XII.

Cost and profitability projections of a few major occupations are given in Annexure XIX to XXVI.

The above allocations are purely tentative and may have to be modified considerably in the light of the particular location and demand for credit.

In very general terms, it can be said that the the bulk of the loans will be given to farmers growing rice, jute, potatoes, vegetables and other food products. Development of pisciculture will receive substantial attention. Loans will be given for other rural activities such as paddy husking, weaving, black smithy, pottery, carpentry etc..

Training

Physical Facilities: As stated earlier, training of both the borrowers and the RCTP field workers is an important aspect of this proposal.

ERAC already has a training side consisting of field training teams, a mobile training centre operating from Rangpur and the main training group currently operating out of Dacca. Fifteen acres of land near Savar (about 20 miles from Dacca) for setting up a Training and Resource Centre (TARC) has been acquired. Some construction has already been started.

TARC will be expanded to accommodate the training needs of RCTP. Facilities will include a training institute including a library,

living accommodation for trainers and trainees and training facilities such as fish tank, irrigated land for crop demonstration, duck and poultry hatchery and breeding houses etc.. Facilities for other occupational skills training will be added gradually.

Three Regional Training facilities will be attached to some selected branches so that borrowers do not have to travel long distances. The regional training centres will have limited scope and will be used mainly for refresher courses and training courses of shorter duration. It is expected that the geographical distribution and types of training provided will adequately serve the needs of the localities in which RCTP will operate or likely to expand in the future.

Staff Training: RCTP staff, who will usually be inexperienced college graduates, with hardly any idea of the mechanics of credit operations, will undergo three months of financial training.

Discussions are being held with the Bangladesh Institute of Bank Management and BRAC to develop the appropriate curriculum and arrange for the training.

The staff will also be trained in rural development which will include communications, leadership development, project planning, socio-economic conditions etc.. Every staff member will acquire a working knowledge in the major occupations of his area and specialised skill in at least one occupation. Thus, the worker will not only be able to conduct loan operations, he will also be qualified to supervise the venture and offer technical assistance. For particularly difficult problems outside his competence, he can utilise the expertise of his colleagues in his branch or a nearby branch.

Borrower's Training: Borrowers will be trained in funds management, cooperatives management, production planning, and occupational skills.

The larger TARC will provide training of longer duration, say one or two months in teaching occupational skills, such as HYV rice cultivation, duck/poultry raising, pisciculture, composting and

fertilizer usage, vegetable growing, sericulture, bee keeping and use of appropriate technology. The trainees and trainers will live and work together. It is expected that the vegetables, fish and fruits produced in TARC will meet the major consumption needs of the trainees and trainers while in TARC.

The regional centres will be used for borrowers who will normally live at home and come to the centre during the day or evenings. Training will be mostly in farm management, cooperative management, and refresher or short courses on agricultural techniques.

Staffing the Training Centres: BRAC has developed a core team of trainers on general development issues and skills trainers in poultry, duckery, rice production, pisciculture and horticulture. Other skilled trainers will be gradually recruited and developed. For other types of skills, resource persons outside RCTP or BRAC will be brought in from time to time.

Borrower's training in the regional training centres will be conducted mostly by RCTP's field workers or resource persons available locally or arranged for by TARC.

Warehousing and Marketing: One warehouse with a capacity of storing one hundred tons of grain will be constructed in each of three selected branches. The warehouse will be built on the same compound as the branch and staff quarters. The warehouse will be used for storage of inputs and for storing repayments received in kind.

Farmers will be able to repay in produce or to hold their produce in the warehouse as interim repayment or as a collateral for taking loans.

Warehousing and marketing will be essentially viewed as customer service and not as a source of income for RCTP. As such, these activities will be carried out on a cost recovery basis. The branch staff will operate the warehouse and no additional establishment cost will be involved. Since trading in commodities is speculative in nature, a conservative marketing policy will be followed.

FINANCIAL OPERATIONS

For a traditional commercial bank, the ultimate test is that it should not only be self sustaining but must also produce sufficient return on investment. This very goal puts serious constraints on a commercial bank to function as a rural development bank. In rural development banking, the bank must assume a higher degree of risk in lending. In addition, the cost of extension work and borrower training to increase productivity is also substantial and cannot be entirely covered by the profit from lending. To cover this cost would require charging a rate of interest which would be higher than other commercial rates and may even exceed the income potential of the undertaking. Since RCTP Credit Policy is to give only self-liquidating loans, the cost of extension work and borrower training must be outside the income prospects of an undertaking.

The financial statements given as Annexure I - XVIII show that RCTP will be able to break even in the fifth year and earn a profit of Tk.26,000.00 in the fifth year on its lending operations but will not be able to cover the entire cost of extension work and borrower training. This is not to say that these costs can never be covered. If RCTP expands to a position where it has a large number of branches and borrowers are getting a much higher return after deduction of all costs it may be possible to convince the borrower that the high return is due to the extension work and therefore the recovery of these costs is economically justified. However for the purposes of the present proposal RCTP's operating income from credit operations will make only a partial contribution towards the extension and borrower training and the rest must be in the shape of grants from external sources which will be viewed as rural development expenditure.

The financial operations of RCTP are based on the assumption that 4 branches will be set up in the first year, 4 branches in the second year and another 6 branches in the third year, raising the total number

of branches to fourteen. It is also envisaged that RCTP will set up one training centre at Savar, Dacca in the first year besides setting up 3 regional training centres attached to 3 branches in the first three years. Technical services in the shape of warehouses have been assumed to be developed over the first three years.

Furthermore it is envisaged that some baseline survey has to be undertaken in the particular thana where RCTP proposes to open a branch. Such a survey will cost approx. Tk.1,00,000 for each branch as per details given in Annexure - XVIII. It is also envisaged that in the first year Tk.4.0 million will be given as loans and advances, Tk.8.0 million in the second year, Tk.14.0 million in the third year, Tk.17.0 million in the fourth year and Tk.20.0 million in the fifth year.

On the above basis, quarterly fund requirement for a single branch has been prepared for Tk.1.0 million as per Annexure - X. Based on this, total fund requirement for loans and advances of RCTP in the first year for four branches has been given in Annexure - XI.

Total loans and advances for all RCTP branches have been shown in the Cash Flow Statement (Annexure - VII) for five years on the basis of quarterly disbursements.

Repayment of loans and advances for single branch for Tk.1.0 million has been shown in Annexure - IX assuming 60% recovery on time, followed by 20%, 10% and 5% recovery in the subsequent quarters/years. 5% of loans and advances have been assumed to remain as bad & doubtful debts. From the above Annexure it may be observed that loans disbursed in the first year will be recovered to the extent of 99% by the 3rd quarter of the fifth year. On the above basis a consolidated repayment projection for RCTP for all loans and advances have been given in Annexure - VIII.

Interest income for a single branch on loans and advances of Tk.1.0 million given has been shown in Annexure - VI assuming an interest rate of 12% per annum on the basis of which a consolidated projection has been made for all branches of RCTP over the five year .

Period in Annexure - V. A cumulative total interest income of Tk.6.914 million over the first five years of RCTP operation has been shown again in income projection Annexure - II.

In the Income Projection from credit operations, besides 18% interest income from loans and advances, 1% income on loan amounts sanctioned/dispursed have been assumed from short-term investments which comes to a cumulative total of Tk.0.630 million.

A cost and return analysis of major occupations for which RCTP loans will be extended has been given in Annexure - XIX to XXVI at various interest rates on loans.

All yearly depreciation costs of Head Office and branches have been added to respective recurring costs and shown in the Income Projection (Credit Operations) as in Annexure - II. It may however be noted that 50% of branch recurring costs and 75% of Head Office recurring costs inclusive of depreciation have been charged to credit operations and the rest have been allocated to training centre and technical services in the Budget Summary given in Annexure - I.

From the Budget Summary it may be seen that an amount of Tk.27.037 million will be required in cash to extend loans of Tk.63.000 million over five year period. However after taking into account all development costs, recurring costs, baseline survey costs and operating income/(loss) the total fund requirement of RCTP comes to Tk.55.176 million which is equivalent to US \$3.805 million.

It should however be kept in mind that all the projections have been made on cash basis and assuming no radical change in the internal and external factors affecting RCTP operations. We have also left out of the calculations the income or loss of warehousing and marketing activities. Wherever the need and demand for warehousing is fairly established, marketing will be a considerably difficult undertaking. Perishability of produce, effect of weather, pest problems and market potentials will be important criteria in deciding which types of produce can be accepted as repayment in kind. It may be necessary to set up a small sales and marketing department to market the repayments in kind.

IV

EXPECTED OUTCOME AND EVALUATIONExpectations:

The primary goal of this project is to increase the income of small farmers by making available good quality production loans at a reasonable cost. A by-product would be the emergence of an efficient mechanism for rural credit financing as an integral part of rural development.

Increased income will be generated by giving loans to create employment, bring into productive use the unutilised existing resources of the rural areas and introducing more efficient technologies and techniques.

Increased income for the small farmer would also result from reducing or eliminating the exploitative non-institutional credit prevalent in rural Bangladesh.

A more efficient mechanism for rural credit financing would emerge as a result of a total reorientation of the approach to rural development and the role of credit. The mechanism would consist of simplifying the lending formalities, strengthening supervision, increasing the capabilities of the lender and user of funds, and instituting a stricter discipline in end-use and repayment.

Evaluation:

Since this project is a pioneering venture into a most difficult field, constant review and evaluation will be necessary in controlling the operations to fulfill the objectives.

The Deputy General Manager of Operations will be directly responsible for review and analysis of operations on an on-going basis. There will be a highly qualified and demanding executive heading a mobile audit team who will evaluate the performance of each branch.

The Senior Management team (G.M. and the D.G.M's) will review the findings of the audit team every month with the objective of improving the performance of the organization. The team members will visit the branches regularly and discuss the activities of the branch first-hand with the borrowers.

Criteria for measuring the effectiveness of both policy and performance will be developed in detail and a system for their evaluation will be instituted.

Each Field Supervisor's performance will be evaluated by the Branch Manager on the basis of individual performance criteria to be set up jointly by Field Supervisor and his Branch Manager. Career advancement or termination will be based on the evaluation of his performance.

Similarly, the Branch Manager's performance will be evaluated by the Deputy General Manager (Operations).

An annual report on KOTP's performance and achievements will be submitted to the funding agencies and the Government of Bangladesh.

A socio-economic survey will be conducted in the fourth year to measure the impact of the previous three years. Evaluation will include comparison of the findings of this survey with the baseline surveys conducted prior to the opening of a branch. Since the opening of the branches would have been staggered over the previous three years, the socio-economic survey would be able to chart the course of KOTP's rural credit financing at different stages of development.

The socio-economic evaluation will be conducted by an international team consisting of one representative each from KOTP, Donor Agencies and the Government of Bangladesh.

Based on its findings, the team will recommend measures for improving the performance of KOTP.

A similar evaluation will be conducted at the end of the fifth year of operations, based on which KOTP will either go for expansion on a major scale or aim at growth at a modest rate.

Budget for the two evaluation surveys is not included in this

BRCT
ORGANISATIONAL STRUCTURE

A brief outline of the proposed organisational structure of the BRCT operation is enclosed. The purpose of this exposition is to clarify our concepts.

1. The entire network of branches to be established will be grouped in areas, as shown in the chart corresponding to distinct geographical locations.
2. It is expected that there will be roughly four branches to an area. Should the number of branches in an area exceed 10, thought will have to be given to the possibility of setting up an Area Office as well but this consideration, of course, is for the future.
3. For the first year of the BRCT operation it has been tentatively decided to work ⁱⁿ one or two areas comprising about fourteen branches.

HEAD OFFICE STRUCTURE

1. General Manager of the organisation has two senior officers reporting to him, Deputy General Manager (Operations) and Deputy General Manager (Credit) of roughly equal authority and rank.
2. Roughly speaking, the DGM (Operations) is responsible for the mechanics of the lending operation while the DGM (Credit) is responsible for the quality, content and quantum of the lending operation.
3. Another important component of the Head Office is the Chief Officer, Audit & Evaluation who is responsible for all audits and evaluation. He will report to DGM (Operations). His primary concern will be to evaluate the implementation in the light of the goals and objectives set in the project proposal.
4. There will be one Regional Manager to control branch operation

II. Administering the Loan Projects:

This will consist of the following tasks:

1. Documentation obtained: The borrower's signature to certain basic security documents will be obtained -- reporting to Operations Officer.
2. Other security obtained, as applicable -- reporting to Operations Officer.
3. Disbursement of loan: The funds will be made available to the borrower -- reporting to Operations Officer.
4. Instruction of Loan Projects, all the necessary inputs to be linedup, finalisation of logistics support and project standard -- reporting to Manager.

III. Monitoring the Loan Project:

This will consist of the following tasks:

1. Execution of Project: The Loan Officer is responsible for the smooth running of the project over its whole life and will take part in or supervise field work as necessary -- reporting to Manager.
2. Survey of stocks and other inputs: Over the life of the project all inputs will be checked and quantities verified from time to time. Once the project has begun producing, the output will also be checked and quantities verified from time to time -- reporting to Operations Officer.
3. Comparison of actual income generated with the initial projections. An assessment to be made periodically of the extent to which the loan project is materialising successfully by judging its repayment potential -- reporting to Manager.
4. Repayment continuously as arranged. The loan is periodically adjusted over the life of project -- reporting to Operations Officer.

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1. Documentation obtained: The borrower's signature to certain basic security documents will be obtained -- reporting to Operations Officer.
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3. Comparison of actual income generated with the initial projections. An assessment to be made periodically of the extent to which the loan project is materialising successfully by judging its repayment potential -- reporting to Manager.
4. Repayment continuously as arranged. The loan is periodically adjusted over the life of project -- reporting to Operations Officer.

under the DGM Credit in H.O.

5. There will be a Chief Accountant reporting to DGM (Operations).
6. There will be a Chief, Personnel and Training, who will be responsible for staff recruitment and personnel administration. Since training is an integral part of this project, he will also be responsible for arranging all staff and borrowers training in BRAC's training centre and other institutions.

BRANCH STRUCTURE

Loan Officer

The tasks of each Loan Officer will be three-fold:

- I. Identifying worthwhile loan projects
 - II. Administering the loan projects
 - III. Monitoring the loan projects
- I. Identifying worthwhile loan projects:
1. Credit investigation of borrower (individual or group) meaning that the borrower's antecedents are checked with particular regard to his/her suitability or unsuitability for the loan project for which he/she is being considered. An assessment of the character and moral integrity of the borrower will also be made.
 2. Credit proposal submitted to Manager meaning that the Loan Project will be written up with particular reference to two aspects:
 - a. Use of funds i.e., the exact purpose of the advance.
 - b. Loan repayment arrangement along with a projection of the income to be generated by the Loan Officer reporting to Manager.
 3. Sanction of loan project obtained - reporting to Manager and Operations Officer.

