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BRAC MID-TERM EVALUATION

DRAFT SUMMARY

March 2, 1992

Donor Liaison Office, Dhaka

NB: For Discussion Purposes only.

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1. INTRODUCTION

Background

1.1 The Mid-Term Evaluation (MTE) has been undertaken on schedule, as required in the RDP II and RCP Project Document. It has been preceded by an Annual Review (November 1990) and by five special reviews focussing on institution-building: the Non-Formal Primary Education (NFPE) programme; BRAC's training capacity; savings and credit activities; and selected economic investments among VOs. A decision was made by the DC to select consultants who were not familiar in detail with BRAC. The aim was to permit the most objective possible assessment of BRAC's efficiency and effectiveness, against a background of existing and planned expansion.

Methodology

1.2 The MTE has organised its work as follows:

- * Review of information, data and analysis from within BRAC.
- * Review of secondary sources, related to BRAC and to the context in which BRAC is operating.
- * Interviews with senior managers and programme specialists in Dhaka.
- * The commission of a Special Study on Credit Repayment, focussing on credit discipline during calendar 1991 and covering a total of 400 borrowers from two relatively new RDP Area Offices and two RCP Branches.
- * Brief field visits to as many different parts of BRAC's operating areas as possible. Field work included interviews at new and old Area Offices(AO); RCP Branches; VOs; NFPE schools and parent meetings; with both individual and group members and borrowers and the participants of a Women's Advisory Committee (WAC) Workshop. Interviews were held also with a few non-BRAC members.

1.4 Limitations of the evaluation The MTE has exercised caution in interpreting information based on limited exposure to BRAC, its activities and members. The MTE has not conducted either research or an audit. At the time of writing some data gaps remain.

2. OBJECTIVES AND OPERATIONAL PERFORMANCE

Goals and Objectives

2.1 BRAC pursues two main development goals: alleviation of poverty and empowerment of the poor, specifically the landless and poor women. The specific objectives of the present three year funding period 1990-92 are to implement a composite Rural Development Programme (RDP II) and to establish a self-supporting credit institution, the BRAC Bank (BBP).

Resources and Performance

2.2 The total donor resources committed were \$ 49m. Performance to physical targets is summarised in Annex Table A.1. In terms of number of AOs, VO's, members, loans, disbursements, gross loans O/S and savings, BRAC has exceeded its forecast. Table A.2 sets these achievements in perspective over 1971-1991.

2.3 Table A.3 and A.4 lay out financial performance to budget for RDP 2 and RCP, Table A.5 states RCP Income, from January through December 1991. Table A.6 sets out BRAC Staff position (provisional) at 31.12.91.

2.4 Under the NFPE, BRAC opened 6003 schools with 180090 students against a targets of 6000 schools for 1991. Performance data for Training have not been determined. (For sectoral programmes see Section 3).

Financial Overview

2.5 Performance to budget BRAC tracks its performance and reports to the donors relative to the most recent donor-approved budget. BRAC compiles results from the original funding date, January 1, 1990. Variances between performance and budget are not extreme which reflects on BRAC's financial management and the updating of the budget to meet actual results achieved to date. The notable items in BRAC's financial performance are as follows:

Loans:

- (i) disbursements are on target but higher than anticipated outstanding loans implies that more long-term loans have been made and that repayment of principal is slow.
- (ii) disbursements are on budget, although there's was a large increase in the fourth quarter of 1991, due to seasonal increases.
- (iii) disbursements per branch are behind budget because the number of branches is above budget.
- (iv) the distribution of loans among long, medium and short is different than projected: there are more long and short, while BRAC has discouraged medium loans.

RDP-specific:

- (iv) RCP Costs: As discussed below, RDP bears the cost of training at RCP branches for two years after their sale. The cost of RCP training was Tk 4 million over budget. This may indicate that the ongoing training costs will be higher than anticipated.
- (v) Sector Programmes: Overall, this was Tk 7 million over Budget due, in part,⁵ to increase in lending Irrigation programs.
- (vi) Branch and Regional Operating Costs: Due to higher salaries this was Tk 15 million over budget.
- (vii) TARC: New TARC centres were not built as planned, resulting in a Tk 18 million under budget item. However, the land and development cost is overbudget, suggesting that the finished construction cost may be over budget.
- (viii) NEPE: Overall, NEPE is Tk 4 million over budget. The results show that Field Supervision and Travelling are significantly over budget, whereas Teacher Training and Salary are under budget, signalling training bottlenecks.
- (ix) Management Development: As with the TARCs, construction of a Principal Training Facility and a Rural Campus were budgeted but not yet constructed. Land and development costs are already over budget, and therefore the finished cost also may be over budget.

RCP-specific:

- (x) Fixed Assets: Tk 13 million under budget for unknown reasons.
- (xi) Members' Savings and Interest on Deposits: Savings were Tk 11 million over budget, and consequently RCP earned Tk 1.7 million more than budgeted.
- (xii) Members' Current Accounts and Project Accounts: This consists of members' funds that are temporarily held on their behalf. This was not anticipated in the budget, and it increased BRAC's access to liquid funds.
- (xiii) Branch, Regional and H.O. Operating Expenses: These were a combined Tk 1.5 million over budget, without explanation.

3. PROGRAMME SPECIFIC ISSUES

Financial Aspects of RDP/RCP

3.1 Financial Reporting : Loan Quality and Methods of Calculating Repayment: BRAC's methodology for tracking loan quality does not provide senior management with sufficient information to identify a deteriorating situation in a timely enough manner to take corrective action. Loans are classified as:

- (i) Current, meaning that the loan is in its original term regardless of whether all repayment instalments are paid up-to-date;
- (ii) Late, meaning that the original loan has matured and the remaining outstanding balance has been re-amortised;
- (iii) Overdue, meaning that the borrower has not repaid the re-amortised amount.
- (iv) NYT or Not Yet Transferred, meaning that the borrower refused to re-affirm his/her obligation when BRAC adopted more rigid credit policies a few years ago.

3.2 Under this system, a true loan repayment rate cannot be calculated. As an approximation, we examined trends in the percentage of total loans that are Overdue and NYT, on the assumption that these were the most difficult to collect (perhaps uncollectible). In the third quarter of 1991, Overdue plus NYT as a percentage of cumulative disbursements increased from 1.3% to 1.6%. This trend suggests a deterioration in the loan portfolio's quality. In addition, the evidence suggests that the longer term collective loans are not paying regularly. The severity of the problem is masked, however, as these loans are still classified as Current, even if numerous instalment payments have not been made, on the basis that the maturity date has not yet been reached. BRAC currently maintains a loan loss reserve of 2% of cumulative disbursements. While it does not appear that BRAC faces imminent danger due to loan defaults, the existing monitoring system does not yield the necessary information to be certain if the current reserve is adequate.

3.2 BRAC has already designed a much-improved Ageing By Account report that should be usable by March, 1992. This report requires some fine-tuning, but it will be a substantial improvement in monitoring loan repayment.

Recommendation: An internationally accepted method for the calculation and presentation of a loan delinquency ageing rate should be adopted and applied to better manage the loan portfolio's quality. This report should separate collective and individual schemes.

3.4 A properly prepared delinquency ageing system will report on both (1) the collective discipline of the lending operation, and (2) the amount of risk in the portfolio

(principal outstanding of delinquent loans as a percent of total principal outstanding),	(ie actual instalments received as a percent of total instalments expected)
------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------

Both measurements should be made for all categories of late loans.

3.5 Write-Offs and Loan Loss Provision. As a matter of prudent accounting, a policy should be adopted for the timely "write-off" of loans that are least likely to be collected. This accounting policy efforts to collect the loan in the field. In addition, a formula should be adopted to determine and maintain the adequacy of a reserve for unanticipated loan losses.

3.6. Branch-wise Accounting. At present, BRAC utilizes a "cash flow" form of branch accounting (also including depreciation expense). At the end of each month, the RDP and/or RCP branch manager prepares a statement which lumps together such diverse items as loan disbursements and repayment, interest collections, savings balance increases, and operating expenses. The bottom line shows whether the branch requires more funding or not. The statement does not show the amount of operating loss or profit; there is no balance sheet to carry forward the accumulated operating results from prior periods.

3.7 BRAC should install a system of branch office accounting based upon internationally accepted principles. Such a system would contribute significantly to the achievement of several BRAC and donor objectives:

- (i) Branch performance could be measured over time in absolute and relative terms; the efficiency of resource utilization could be measured;
- (ii) Trends in the cost per member of providing RDP services could be monitored and planned over a multi-year term;

- (iii) Long-term donor assistance could be quantified and projected;
- (iv) Breadth versus depth assistance trends could be monitored;
- (v) Financial condition at the time of transfer from RDP to RCP could be objectively and uniformly managed.

3.8 Budgets. To accommodate the devaluation of the taka and BRAC's demand for funds, the budget for RDP has changed twice (May and December 1991), and the budget for RCP has changed once (December 1991).

This updating of the budget distorts the financial management process because the budget is adjusted to meet actual performance.

Recommendation: Do not update the budget. Its integrity is necessary to measure performance and planning capacity. When necessary, "forecasts" and funding schedules can be adjusted.

Income Generating Activities

3.9 Cumulative loan disbursement through RCP/RDP increased from Tk.473 mn in December 1989 to T.1276 mn in September 1991, an increase of 170% in 21 months. The 24 month increase of Tk.987 million to December 1991 is reported in Table A.1. Outstanding loans amounted to Tk.213 mn in 1989 and Tk.520 mn in September, 1991.

Table 3.1 RDP/RCP Loan Disbursement by Sectors

TABLE 1 RDP/RCP DISBURSEMENTS BY SECTOR (Tk.000)						
	Cumul. Dec. 89	Per Cent	1/1-90 31/12-90	Per Cent	1/1-91 31/9-91	Per Cent
Agriculture	57330	12.1%	5253	1.3%	7691	1.9%
Irrigation	34038	7.2%	29203	7.4%	35634	8.7%
Fisheries	4810	1.0%	2002	0.5%	5279	1.3%
Livestock	81999	17.3%	115924	29.5%	71983	17.6%
Rural Industry	26147	5.5%	21046	5.3%	18850	4.6%
Rural Transport	15223	3.2%	29169	7.4%	21669	5.3%
Rural Trading	181366	38.3%	164758	41.9%	226284	55.3%
Food Processing	71714	15.1%	25719	6.5%	20779	5.1%
Health	0	0.0%	353	0.1%	619	0.2%
Miscellaneous	820	0.2%	27	0.0%	237	0.1%
TOTAL	473447	100.0%	393454	100.0%	409025	100.0%
Collective Loans	43571	9.2%	32521	8.3%	33344	8.2%

Source: RDP/RCP Statistical Reports, Dec. 89, Dec. 90, Sept. 91

Analysis

3.10 Rural trading has significantly increased its share of total disbursements to 55% during the first nine months of 1991. Collective loans have decreased slightly in relative terms, and rural industry - often assessed as typically higher value added sector - has remained stable around 5%. The 12 most important individual activities represent 92% of total disbursement from January to September 1991.

3.11 A key reason for the increased share of rural trading loans is the rapid expansion in new borrowers. In view of the objective of expansion in breadth, the

increased concentration is not assessed as a problem at this stage though more attention is needed by BRAC to the consequences of such concentration. Rural trading in general provides a reasonable return with average repayment performance. Available evidence also suggests that the portfolio becomes more diversified as areas/branches age. Rural Trading in RCP constitutes 38% while it is 52% in RDP.

3.12 Rural trading, rickshaws and DTW account for 68% of male borrowing while trading, livestock rearing and paddy husking account for 80% of female borrowing, by activity.

3.13 The quality of the loan portfolio is in general satisfactory with one important questionmark, namely DTW loans. Most other activities appear to provide a net profit, and available repayment evidence suggests few major problem areas. Loans to irrigation are increasing in importance from 11.5% in December 1990 to 12.7% or Tk.66 mm by September 1991 of total RDP/RCP loans outstanding.

3.14 BRAC has had a mixed experience with collective loans, and especially loans that comprise groups with more than 10 people. The management and organisational problems inherent in such ventures have proven to be considerable, and BRAC has reduced its commitment to collective schemes other than DTW's. Of the current loans classified as collective, DTW-related loans constitute 93% of all disbursements in the 21 months to September 1991. Based on the problems encountered, collective loans must be carefully reviewed with particular attention to group size.

IGVGD

3.15 The number of beneficiaries of the IGVGD Programme increased from 38,000 at the end of 1990 to 60,000 by December 1991. The Programme has yielded substantial positive effects for the target group, including increases in income, by promoting low-risk high-return activities. Poultry is manageable for women at their homestead and the outputs normally in high demand. BRAC collaborates with GOB in the Programme, and the cooperation has been effective.

Paralegal Programme (PLP)

3.16 The PLP in 1991 expanded by 200% over 1990, and in terms of PLP learners the achievement was 57% of target, or 20,158 against a target of 23,050. The underachievement of target in 1991 is due to drop-outs in the first half of the year. Overall, the programme is 9% above target in terms of learners. Over 80% of PLP learners and close to 65% of PLP Gram Shebikas are women. BRAC studies suggest that the training of paralegals, the teaching of group members, and the materials used are effective in transferring key information to members.

Non-Formal Primary Education (NFPE)

3.17 In December 1991 there were 6003 schools - 3170 NFPE schools and 2833 schools - with 160,000 students and 5300 teachers. Low drop-out rates, low rate of absenteeism and good performance of the students indicate that the NFPE is emerging as an efficient educational system for the target group. The drop-out rate of teachers is likewise very low, only 5%. The demand for BRAC schools continuously has grown and at present BRAC can only meet about 40% of the demand from eligible children.

Support Services

3.18 Sector Programmes. BRAC has created a sophisticated and innovative support structure within the Sector Programmes in Sericulture, Livestock & Poultry and Fisheries that involves both BRAC staff and members. BRAC has shown real innovation in training and supporting borrowers to take on extension tasks themselves. Using borrowers creates jobs, ensures services and enhances the sustainability of activities by integrating the support services into the rural environment.

3.19 The achievements of the sector programmes vary, with Livestock & Poultry and Sericulture overachieving or coming very close to targets. There were over 58,000 Livestock rearers and 95,000 poultry rearers by the end of 1991, or 104% and 98.5% of cumulative 1991 targets respectively. Fisheries have done less well: i.e. the number of Sherputi ponds was only 50% of the cumulative target in 1991. Sericulture has expanded significantly, and produced 3 tonnes of silk in 1991, or approximately 10% of the total production in Bangladesh. Sericulture appears to be one sector with

potential for rapid expansion, with the ability to employ a large number of members. Irrigation has had severe problems in 1991. Only 10% of the DTWs earned income to service individual loan obligations, assuming a 100% distribution of income to members. Further, BRAC intends to increase the number of DTW's from the current 600 to 950. A February 1992 report by Mott McDonald on the DTW issue lists a number of actions necessary within credit recovery training, management and operations in BRAC to address the current problems. The MTE is concerned that an expansion will absorb an increasing amount of management and personnel resources which might have negative effects on other parts of BRAC operations. The MTE therefore endorses the conclusion of the Mott McDonald report to consolidate DTWs and to thoroughly screen any additional units.

Rural Enterprise Programme (REP)

3.20 REP performance has improved during 1990 and 1991. Twelve projects can be assessed as "successful" in terms of being transferred to RDP/RCP mainstream operation. The only substantial failure has been the Power Tiller project. Rural restaurants, apiculture, and small fish hatcheries (the first two almost exclusively for women), are providing encouraging results. Positive features of the current operation are attentiveness to field experiences and close cooperation with the sector programmes. However, REP may be spreading its efforts too thinly and would benefit from deciding priorities and tasks in a more structured manner.

Women's Advisory Committee:

3.21 The WAC was established January 1991 with 10 members, expanded to 15 to include all main programme areas and representation from AOs and TARCs. The WAC reports to the Executive Director on the 'gender adjustments' which might be required to further improve the working conditions of BRAC female employees so that they have scope for development equal to their male counterparts, and to draw attention of Programme Heads to any shortfalls in 'gender performance'.

3.22 Among its accomplishments to date has been the identification of the need for further staff training on gender issues, and the development and introduction of a one-day module on Partnership and Development. It has initiated a programme of six field workshops with female staff through 1991-92; a number of matters raised so far already

are receiving attention. The MAC will report at the end of 1992 on an action plan, and recommend appropriate organizational and procedural mechanisms for the future of MAC, or its successor body, its mandate and scope of work.

Organisational Position of Monitoring and REP

3.23 There are two units within the current headquarters structure whose locations could be modified in the interests of greater clarity - the Monitoring Department (MD) and the REP. Both are shown as occupying line management positions, the MD under the Commercial Director and REP under the Director, RDP. Yet both are serving in a staff function to RDP and RCP. The staff role of the MD is particularly clear. At headquarters it designs monitoring systems and formats (principally for RDP and RCP but also on behalf of other programmes) and compiles, analyses and feeds back the results from the field to RDP and RCP management. It has PO field monitors based in Regional Offices (currently 16, scheduled to increase to 22 in March, 1992). But at the operational level it is RDP and RCP staff who collect the necessary information. In the case of REP, the 1990 Review recommended that it should serve both RDP and RCP and that it should be merged with the technical (sectoral) support teams. In practice REP is serving both RDP and RCP and it is cooperating closely with sectoral specialists (though it has not formally merged with them in a Development Support Programme as recommended by the 1990 Review).

Research and Evaluation

3.24 The RED is staffed by competent researchers and already has gained an international reputation for its work. Its current share of less than 1% of the RDP budget is not excessive but RED suffers from not being an integral part of BRAC's large and growing operational activities compounded by RED's physical isolation from the hub of the organisation. The MTE has reviewed the design of the Village Studies Project and some of its emerging results; examined some 25 studies prepared by RED; and has discussed RED output with senior operational managers. The conclusions are that the principal tasks for RED are to strengthen the relevance of research subject matter to BRAC programmes; operationalise its output more clearly; and make output more accessible to operational managers. In line with this, the recommendation is to follow a sequence of steps as outlined below.

- * Review and clarify the mandate that RED is currently fulfilling.
- * Modify the procedures by which RED puts forward, justifies and gains approval for individual research and evaluation studies.
- * Through this modification, strengthen the relevance of research subject matter to operational and field issues.
- * Then (but not before) improve the accessibility of research results by translations into Bangla and by the presentation of self-contained abstracts giving details of conclusions, recommendations and sufficient explanation of methodology and analysis to demonstrate their validity.
- * Allocate (initially) a modest component of RED resources to a research programme based on a customer-contractor relationship with operational staff and the Monitoring Division, permitting 'customers' to participate in the design of diagnostic, trouble-shooting or other studies they feel they need.

The Management Development Programme

3.25 The MDP began in January 1990 and is not expected to become fully operational until the end of 1992, with the planned opening of another new Management Training Centre (MTC) in Dhaka. The Rajendrapur MTC started in May 1991, with a reported capacity of just under 10,000 participant-days per year. The May 1991 review of BRAC's training capacity found it difficult to clarify the MDP role in relation to internal training for BRAC staff. Specifically, it reported that some training of TARC staff was being relocated away from the Rajendrapur MTC back to TARC's. The current situation is even less clear. Initially it was intended that 50% of MTC capacity would be reserved for non-BRAC training. But although capacity utilisation at Rajendrapur was about 90% from May to December, nearly 70% of throughput was for BRAC training. Of this BRAC throughput, over 52% was for TARC courses, suggesting that at present the MTC is acting more in the role of a TARC. This is an issue which is taken up under Section 6.

4. SOCIO-ECONOMIC EFFECTS AND IMPACT

Distinguishing Effects from Impact

4.1 The MTE has attempted to distinguish effects from impact, both in substance and time frames. Measurable effects should be discernible in the relatively short run, including, for example, gains in income, and literacy rates among NFPE students. The nature of impact has to do with structural changes which require significantly longer time periods to become evident. Impact is more difficult to achieve and to measure. BRAC itself regards a time frame of 10 years as still relatively short-term, a view which the MTE endorses.

The Context

4.2 Poverty alleviation and empowerment in Bangladesh must be placed in context. Poverty is endemic, pervasive. Low incomes, low productivity, poor health and high levels of illiteracy are compounded by social and political forces which inhibit economic and social progress by the poor. Over the past 30 years the incidence of poverty has fallen only marginally, from 44% to 38%. With population growth, the absolute number of people in poverty has risen. Poverty is compounded by savage inequality.

4.3 Inequality in gender relations is deeply rooted. It is measurable in terms of inferior incomes; lower rates of literacy; and inferior nutrition, health and social status of women. It adds to the burdens of poverty while restricting women's access to alternatives. Against this background, BRAC has correctly identified the lack of access to resources and lack of choice or control over activities, especially among women, as being at the heart of the problems of poverty and inequity.

BRAC's Strategy and Policy

4.4 BRAC has chosen a poverty alleviation and empowerment strategy which targets the poor and landless, benefitting women preferentially. Through time its experience has shown that training, technical support and credit are

essential to the poverty alleviation objective. They also contribute to empowerment - but they are not sufficient. BRAC operationalises its empowerment strategy by providing the VO as a forum. Through ongoing functional education, training and discussion, it provides mechanisms to enhance awareness about the causes of and means to overcome poverty and inequity.

4.5 BRAC's policy is to extend its core programme activities to new areas rather than attempting to intensify efforts and benefits among a limited number of members. The MTE endorses this approach. Those that can and wish to utilise higher levels of credit and undertake more complex management tasks, must be given the time to extend their horizons of choice and scale.

4.6 The policy of breadth rather than depth means, it is unrealistic to judge the effectiveness of BRAC's work in terms of its contribution to the alleviation of nation-wide poverty and inequity. In the short run, BRAC is not able to achieve the scale that would be necessary. Even at a steady rate of growth in new members of 15% per annum compound it would take BRAC 25 years to organise about 20 million poor people.

Evidence of Economic and Social Effects

4.7 The MTE has found considerable evidence of economic and employment benefits from income generation activities supported by BRAC. The Research and Evaluation Division itself has produced more than 20 study reports measuring these effects. The results are positive and robust. A 1991 BRAC study reported income increases among BRAC members some 26% above those of non-members with increases in employment of 19% - 34% more among women.

4.8 A cost-benefit analysis by the MTE of the IGViiD programme demonstrates strong evidence of a highly beneficial programme reaching some 60,000 women, representing the poorest 3% of the income scale. More cursory analysis of employment generation and incomes for sericulture has produced evidence of relatively high returns - up to 100% on investment - and imputed daily wages in the order of Tk.40, significantly above prevailing wages for rural women. Sericulture involves a number of low-risk and manageable activities. It offers

the potential for rapid expansion and continuing vertical integration from tree nurseries, planting and cocoon-rearing through silk-reeling, spinning, weaving and textile production - all under the control of poor rural women.

4.9 These findings confirm a growing body of literature showing that well-managed, well-targeted credit, training and services can have positive economic benefits that can be sustained. BRAC's own research, and field visits made by the MTE, confirm that BRAC beneficiaries, particularly women, are successfully borrowing, saving and managing their own enterprises. Less is known with certainty about progress toward chosen examples or indicators of empowerment or effects within the household but the MTE found no evidence of any negative social consequences arising from the credit or other services provided by BRAC.

Overview of BRAC's Performance on Gender Issues

4.10 BRAC's record over the decade on gender issues has been one of continuing advance. On grounds of need, equity and effectiveness, BRAC has responded to the logic of its own experience to increase women's participation, absolutely and in relation to men, in all programme areas. It has made strong and largely successful efforts to support individual entrepreneurship among women, including their move into non-traditional occupations. The benefits, both potential and actual, across a broad spectrum of socio-economic indicators, are positive.

4.11 BRAC has considered but rejected focusing exclusively on women members. Prevailing structural and normative conditions in Bangladesh suggest that such a move would be counter-productive. BRAC has set itself the more challenging task of bringing men to share the task of transforming oppressive patriarchy, within household relations, members' organisations, and BRAC itself. Female members' present share (around 70%) of total membership will increase, but at a slower rate than over the last decade, and is unlikely to exceed 80%.

Gender issues within BRAC

4.12 This record has been achieved largely through the male staff supported by female field workers, in itself evidence of BRAC's determination to

challenge social norms. The recent expansion in female staff members, in particular the recruitment of university-educated women to PO levels, and their deployment in non-traditional areas of activity, demonstrates BRAC's continuing commitment to provision of opportunity to women within its own organisation. The expansion has created some difficulties between male and female staff, between an older generation of BRAC female staff and the new, and for female staff themselves. These are receiving attention but BRAC is aware that more needs to be done.

4.3 Women form less than six percent of middle and senior management. Further increase will take time as the new entrants mature but an active 'high flyer' promotion policy is being pursued. Two women became Area Managers in 1991.

5. SUSTAINABILITY

Financial Sustainability and the Inter-Relatedness of RDP and RCP

5.1 The RDP-RCP progression is based on the principle that RCP branches should become self-financing. As reported in the 1991 review of credit and savings, RCP is currently covering the operating costs of delivering credit. As originally planned in the 1989 Project Document, for two years after conversion to RCP, the costs of training in Institution-Building and Skill Support are paid for by RDP. Thereafter, RCP cannot expect to rely on the funding of these services by RDP. In 1990, RCP was not able to cover its operating costs, registering a negative net income of Tk.5.1 million. If the costs of support services paid for by RDP are added in, the RCP deficit amounted to Tk.7.7 million. In 1991, however, RCP revenues exceeded operating costs. Indeed, even if the cost of RDP services had been debited to the RCP account, RCP would still have earned a surplus of Tk.9.2 million.

Table 5.1 RCP Net Income and Support Costs: 1990/91
(Taka million)

	<u>1990</u>	<u>1991</u>
RCP Net Income	(5.1)	17.9
RDP Inst'l Support	(1.2)	(3.9)
RDP Skill Training Support	<u>(1.4)</u>	<u>(4.8)</u>
Adjusted Net Income	(7.7)	9.2
Number of RCP Branches	10	30
Adj. Net Income / Branch	(0.7)	0.3

5.2 BRAC's target is that eventually all costs - both for delivering credit and for providing technical support - will be paid for by RCP or by the VO members. This will be accomplished through a cost recovery system for RDP with a fee schedule chargeable to RCP. The RCP branches will then be responsible for collecting fees from the VO members.

5.3 This, however, is not the case at present. RDP technical POs supervise and consult to RCP projects. These costs are not charged to RCP and not easy to determine. BRAC management does not believe that these costs could be borne by RCP or its members. BRAC states that the branches created before 1990 are not as well-disciplined. The reason for this that RDP sectoral training has improved. In addition, the estimates for the number of fee-payers needed to cover the cost of technical support have increased (eg with poultry). The MTE recommends a specific timetable for the transition of a 'model branch' to full financial self-sufficiency. All branches should then be monitored against this schedule. The pre-1990 branches may require a separate timetable.

5.4 Two exceptions deserve mention. First, fees for technical support to DTWs will be borne by the farmer-customers of the DTW schemes, rather than by the VO-shareholders. Secondly, if technical programmes are developed in new activities or industries, the cost of disseminating and introducing these programmes to RCP branches may require donor support, through RCP or any other part of BRAC (RDP, REP or the technical support service).

5.5 The MTE endorse BRAC's intention to make RCP branches and the associated technical support self-financing. But the transition must be planned and monitored carefully. At present only the beginning of such a monitoring system is under design. Until the progression to self-financing is more clearly defined, progress cannot be monitored accurately. The transition to self-financing status is central to the RDP/RCP concept. The need for careful branch-wise accounting, including RDP sector-programmes cannot be overstated.

Sustainability of VOs

5.6 Mainstream VOs have shown themselves to be sustainable in terms of their use and repayment of credit. The only reservations are with respect to VOs involved in collective lending, principally for DTWs. Because of their responsiveness to credit and to the work of GSs and POs they are also sustainable as organisations of the rural poor. But they cannot yet be seen as institutions in their own right. In this respect, the work of the RCP is regarded by the MTE as having only just begun. Only as RCP develops, with the reduction in

separately-funded support services as noted above, will it be possible to test VO institutional sustainability. Similarly, the socio-economic changes that RDP and RCP have started to bring about are as yet not fully developed. BRAC is collecting data on VO activities through its 20 indicators and this should provide at least some of the answers in the future. It is still too soon to be sure that even the changes which have been achieved will be sustainable by the VOs themselves and their members. The MTE did not undertake a definitive examination of the federation process with respect to VOs. Nevertheless, it is clear that BRAC is aware of the risk of de-personalisation in the federation process and is approaching the issue with caution.

Loan Portfolio

5.7 The majority of activities financed in the current loan portfolio are profitable, viable and sustainable. Most are traditional activities with proven records of operation in rural Bangladesh. The target group has generally both the necessary skills and the required market knowledge to operate and to adapt to changing circumstances. The livestock and trading sectors are typical examples. Essential support services have likewise been integrated in the rural economy and individual activities within the traditional category have a high degree of independence. The most prominent exceptions are the DTWs which appear to require a high input of subsidies and support services to operate profitably. This further underlines the recommendation of consolidation in DTW operations. An expanding, non-traditional sector like sericulture, as well as in poultry, will require a substantial amount of input for some years to come, but most links in the production chain have very good prospects for becoming increasingly profitable. The sector is also assessed as one with a comparatively high potential for growth.

6. ORGANISATIONAL CAPACITY FOR GROWTH

The Management of Expansion

6.1 BRAC still has a positive capacity for growth. The management system and culture retains much of the openness and personal contact with which it began. Most job titles in middle and senior levels encompass more than one grade. POs, for example, occupy seven grades (II to VII) while Area Managers occupy two. Moreover, of the 2,308 current regular staff in grades II-VII, some 35% are in grade VI, from where POs can be promoted to Senior PO and be put in charge of an Area Office. Beyond this, there is an informal system of 'marking' Area, Branch and Regional Managers for promotion as and when growth requires it.

6.2 There are, nevertheless, some signs of strain as BRAC continues to grow. BRAC is fully aware of them. The issues include the integration of female staff; housing and other conditions of employment; the criteria for promotion as between qualifications and experience; uncertainty about ensuring initiative at lower levels; and different work schedules required in different programmes. It has not been possible, however, to identify any specific effects in terms of the performance of operational programmes. More specifically, such strains are not causing, and cannot be traced to, any increase in the rate of staff loss. Among regular staff in 1990 there was a loss of just under 11.5%. In 1991 only 4% were lost, while the total of regular staff had grown by nearly 27% to over 3000. The MTE registers the indications of strain only. Further discussion with BRAC would be necessary to explore them in more detail. The Appraisal Mission should attempt to do this.

Training

6.3 At an early stage in RDP-II BRAC recognised that it would have to increase training capacity to keep pace with demand from its expanding activities. The 1990 Review noted the request for an increase in the overall RDP budget for 1990-92 of 43% to Tk 827 million. Within that revised budget (which has subsequently again increased) the largest proportional increase was a near-doubling of the programme infrastructure component, largely for the MDP facility at Rajendrapur

and for expanding TARC capacity. By late 1990 the shortage of training capacity had not affected throughput which in fact exceeded targets.

6.4 BRAC has still not been able to eradicate the backlog in expanding training capacity. The 1991 review of training capacity noted the backlog in capacity but was optimistic about the possibility to eliminate it by the end of 1992. The MTE cannot share this optimism. For 1991 the most significant absolute and proportional underspending against budget was for TARCs - a shortfall of Tk 17.8 million representing 45%. Land costs have been higher than expected and this may have contributed to the delay. Meanwhile, BRAC is trying to cope with the demand. For example, the Rajendrapur facility which was intended specifically for the MDP seems to have been used partially in the role of a TARC, as noted earlier. In the short run Rajendrapur could continue to contribute to meeting the demand from the field. If it were necessary for it to do so, it would be at the possible cost of slowing the development of mainstream MDP training.

6.5 It is reported that there have been some adaptations in the schedules, specifically for skills training, and that at least part of the reason is BRAC's attempt to keep up with training requirements in the NFPE programme and in the basic training of new members. The over-utilisation of, and pressure on, trainers noted by the 1991 review is not reported to have changed significantly. It is probably too soon, and the MTE has not been able to identify any effects of these factors in the quality of performance in other programmes. In fact, it is not yet clear to what extent the adaptations in training schedules reflect a forced cut back below targets and schedules or a quite separate adjustment not attributable to expansion in NFPE or new members. Further clarification of this would be needed from BRAC.

6.6 BRAC sets its own schedules, targets and budgets for training and in budgetary terms at least it is not keeping up. The MTE has not been able to trace any immediate effects on quality of operational performance nor determine how long it might take for training capacity shortfalls to work their way through to affect quality. But BRAC recognises that there is a risk. The first step must obviously be to do all possible to catch up with physical capacity targets.

Thereafter, BRAC should review lead times for the expansion of training capacity in case it is necessary to adjust plans and projections for training capacity in relation to the expansion of operational programmes.

Expansion of NFPE

6.7 Growth of the NFPE programme in the context of the RDP poses no problems. The model is simple, lead times for opening new schools are quite short and the NFPE does not rely on the performance or rate of expansion of other BRAC programmes. But the overall planned expansion of NFPE extends significantly beyond the targets and resources for RDP-II. Even for the current year target of a further nearly 6,000 new schools to be opened, the RDP is expected to cover only a quarter. In the future, an increasing share is expected to be financed from World Bank and other sources.

6.8 It is in the context of the overall growth of NFPE that there could be repercussions on the achievement of training targets for RDP-core and other programmes being supported by the consortium. As mentioned earlier, it is already reported that there has been some adaptation in training schedules while maintaining the supply of training services to NFPE and other areas of expansion. If there is a trade-off between NFPE expansion and the quality of other programmes, and if the expansion of training capacity noted above will still take some time to catch up with targets, BRAC will have to adjust on one or other front in the overall expansion of operational programmes.

Evolution toward BRAC Bank

6.9 RCP currently operates as a part of BRAC, an NGO without a bank charter. In the near future, consistent with the existing plan, BRAC intends to apply for a bank charter. The HTE endorses that intention and recommends that management move as expeditiously as the political environment permits. A properly chartered bank, following generally accepted norms for safe and prudent management, will help to insure the maintenance of a permanent credit-granting and savings mobilization institution.

6.10 However, the mission has noteworthy concerns about the adequacy of BRAC loan administration and financial management systems. It is clear that BRAC staff are competent. They are open to new ideas and to a process of trial and error to discover the systems necessary to succeed in the implementation of BRAC strategies. It is less clear whether large scale credit and savings programmes can be operated effectively within an NGO structure. This makes the chartering of a BRAC Bank imperative.

6.11 In addition, BRAC should take further steps to segregate banking activities while it operates RCP within BRAC and to utilize additional systemwide management procedures to manage risk and protect member deposits. A list of problem areas is compiled in the attached Table A.7. It is drawn from the experience of other lenders, observations during this and earlier missions, and concerns expressed in the 1989 appraisal, 1990 review, and 1991 credit/banking review. Solutions are proposed in the Table. Additional work is needed to confirm the existing situation and devise new systems.

7. FINDINGS AND CONCLUSIONS

7.1 The evaluation team endorses the objectives, approach and work of BRAC. BRAC's targeting of benefits to women has proven effective and equitable. BRAC is a professionally-managed and competent institution with few peers in Bangladesh. Its programmes are achieving significant results within the constraints of rural Bangladesh and donor support to BRAC for RDPII/RCP is fully justified.

7.2 The specific findings and conclusions of the MTE are:

(i) NFPE The planned expansion of the NFPE in the context of the RDP through the project period is feasible and desirable.

(ii) Monitoring and assessment of operational performance needs to be further developed including the promotion of a demand-oriented Management Information System (MIS). This is especially important in the area of loan portfolio quality and repayment rates. The MTE notes with some concern that this point has been made before to BRAC, most recently in the 1991 Review of credit and savings.

(iii) Audit At present the Audit Unit is operating with considerable independence, through it is shown in a line management position.

(iv) REP needs to continue tightening its performance in respect of determination of priorities and tasks.

(v) Loan administration and financial management: it is unclear if large scale credit and savings can be operated effectively within an NGO structure. Steps are needed to segregate banking activities while RCP operates under BRAC.

(vi) Loan Portfolio The majority of activities financed in the current loan portfolio are profitable, viable and sustainable. Most are traditional activities with proven records of operation in rural Bangladesh and which the target group has the necessary skill to operate and to adapt to changing circumstances. An expanding sericulture programme will require substantial inputs for some years to come, but most links in the production chain have very good prospects for becoming increasingly profitable. The MTE assesses that sericulture has a comparatively high potential for growth.

(vii) Gender Issues BRAC's record over the decade on gender issues has been one of continuing improvement. BRAC has increased women's participation on grounds of need, equity and effectiveness. It has made strong and largely successful

efforts to support individual entrepreneurship among women, including their move into non-traditional occupations. The benefits across a broad spectrum of socio-economic indicators, are positive. Recent effort to increase the proportion of women staff are commendable and appropriate to BRAC's Mission. BRAC is on track to promote more women to middle and higher management levels by end 1994.

(viii) VOs have shown themselves to be sustainable in terms of their use and repayment of credit. The only reservations are with respect to VOs involved in collective lending, principally for DTWs. Because of their responsiveness to credit and to the work of GSs and POs they are also sustainable as organisations of the rural poor. But they cannot yet be seen as institutions in their own right. In this respect, the work of the RCP is regarded as having only just begun. Only as it develops, with the reduction in separately-funded support services, will it be possible to test VO institutional sustainability.

8. RECOMMENDATIONS

8.1 The MTE endorses the general conclusions of the DTW review (February 1992) and believes that BRAC should install new wells only in those areas where VO development, credit history, training, and managerial capacity - the key elements to support the potential of these wells - can be demonstrated to be a reasonable credit risk. At the same time, the team recommends that BRAC establish an agreed framework with the donors to incorporate financial, economic and social criteria including women's participation into evaluating DTWs. As a start it would be advisable to agree on terminology, and the relevant financial and accounting parameters. Further research on group size and repayment issues is urgently required.

General Recommendations to BRAC

8.2 BRAC should

- (1) continue to support the work of the MAC and address its findings at the end of 1992;
- (ii) continue to expand the recruitment of female staff as POs;

- (iii) where merited, the experience of female project staff (mainly WHDP) who have been transferred to Regular staff functions, be reflected in salary scales commensurate with those of new university-qualified POs;
- (iv) implement the planned expansion of the PLP;
- (v) establish an operationally focussed MIS and stronger monitoring systems;
- (vi) concentrate functional and management responsibility for training and MDP in a single person;
- (vii) establish the Audit Unit as a truly independent unit, with consideration given to locating it as a staff function to the Executive Director;
- (viii) Pursue its application for bank charter as expeditiously as possible;
- (ix) instal an internationally-accepted method for the calculation and presentation of a loan delinquency again rate;
- (x) adopt a system of branch office accounting based upon internationally accepted principles;
- (xi) maintain the integrity of budgets; any adjustments should be confined to forecasts and funding schedules;
- (xii) tighten the performance of REP in respect of determination of priorities and tasks by introducing annual planning procedures and mechanisms.
- (xiii) implement the planned expansion of NFPE within RDP II;
- xiv) develop formulae to forecast detailed trends in loans outstanding based in variable disbursement rates; the distribution of loan maturity; and average loan size - these formulae to be incorporated into detailed medium-term financial projections that can be reviewed periodically.

Recommendations to the Donor Consortium

The Donor Consortium should seek:-

- (i) a balance in evaluation missions between consultants familiar, and not as familiar, with BRAC. Smaller, more focussed reviews would be more effective;
- (ii) to hold the next DC meeting at a BRAC Area Office with time devoted to visiting BRAC operations in the field.

9. KEY ISSUES FOR APPRAISAL MISSION

9.1 In the view of the MTE, there are three key issues which the Appraisal Mission should address:

- (i) the depth and extent of the staffing issues noted in 6.2, and the procedures for monitoring and managing the tensions between and among staff that inevitably will arise during a period of rapid expansion;
- (ii) the present training performance, training schedules, capacities and constraints, in the light of warning signals noted under 6.5;
- (iii) further clarification of VO performance, especially the rate of non-functioning VOs, the current status and prospects for VO federation, and the options for sharpening the contribution of activities such as the monthly issues meetings.

THE 1994 END-OF-PROJECT EVALUATION MISSION

9.2 The MTE recommends the 1994 Evaluation focus on:

- (i) the evolution of the RCP, including the access of women to credit, and the financial sustainability of the RCP/BBP;
- (ii) the evolution of the VOs, in terms of BRAC's Monitoring indicators and manifestations of empowerment;
- (iii) RED's progress forward providing relevant and accessible research results on socio-economic impact, in particular the comparative experiences among sectoral programmes;
- (iv) the relationship between, and roles of, RED and the Monitoring department;
- (v) BRAC's progress toward incorporating women into middle and senior management, and the development of organizational capacity for ongoing gender adjustments in programmes and staff relations;
- (vi) progress toward establishing sericulture and poultry as vertically-integrated industries owned and managed by women.

BRAC Bank

RCP currently operates as a part of BRAC, an NGO without a bank charter. In the near future, consistent with the existing plan, BRAC intends to apply for a bank charter. The mission endorses that intention and recommends that management move as expeditiously as the political environment permits. A properly chartered bank, following generally accepted norms for safe and prudent management, will help to insure the maintenance of a permanent credit-granting and savings mobilization institution.

However, the mission has noteworthy concerns about the adequacy of BRAC loan administration and financial management systems. It is clear that BRAC staff are competent. They are open to new ideas and to a process of trial and error to discover the systems necessary to succeed in the implementation of BRAC strategies. It is less clear whether large scale credit and savings programs can be operated effectively within an NGO structure. This makes the chartering of BRAC bank imperative. In addition, BRAC should take further steps to segregate banking activities while it operates RCP within BRAC and to utilize additional systemwide management procedures to manage risk and protect member deposits. A list of problem areas is shown in Table A.7 at the end of this Annex. It is drawn from the experience of other lenders, observations during this and earlier missions, and concerns expressed in the 1989 appraisal, 1990 review, and 1991 credit/banking review. Solutions are proposed. Additional work is needed to confirm the existing situation and devise new systems.

Table A.1
RDP II and RCP:
Operations, Credit and Savings Performance
January 1, 1990 through December 31, 1991

	Dec/89	RDP II		RCP		Total	
		Forecast	Actual	Forecast	Actual	Forecast	Actual
No. of Area Office	80	90	90	30	30	110	120
No. of Villages	4,238	3,600	3,516	1,500	1,682	5,100	5,198
No. of VO's	8,263	7,200	7,689	3,000	3,687	10,200	11,376
Male	40%		34%		35%		
Female	60%		66%		65%		
No. of Members	460,764	378,000	397,005	150,000	201,118	528,000	598,123
Male	36%		33%		31%		32%
Female	64%		67%		69%		68%
No. of Loans	401,377						771,085*
Male	47%						38%
Female	53%						62%
Disbursements (Tk. million)	460	670	656	318	331	988	987
Savings (Tk. million)	45	90	111	72	96	162	207

Source: RDP and RCP Statistical report (Dec/90)
Monitoring Department Dec/91 Preliminary Report
Finance Department Dec/91 Quarterly Financial Report
RDP and RCP Budgets Prepared Nov/91; approved by Donor Consortium Dec/91

* Statistics on Total Number of Loans available only through September 1991.

INDICATOR	F/M	GDP							BCP	BCP/GDP
		1979	1981	1983	1985	1987	1989	1991	1991	1991
No. of VOs (cum)	F	1	105	315	507	1777	3642	5062	2403	7489
	M	20	168	393	518	1629	2582	2827	1248	3811
No. of Members	F	122	3558	14808	240361	80843	217939	297570	136404	405974
	M	804	8473	22245	27371	77982	137708	129435	62714	192149
F as % Total Membership		11.89	29.8	39.8	46.75	53.8	61.77	67.38	68.8	67.8
Average No. of Members per VO	F	122	33.89	46.37	47.71	57.12	54.84	73.46	57.59	54.38
	M	45.2	51.04	56.8	53.04	47.87	47.79	49.27	50.25	49.13
Average No. of VOs per Area	F	10.0	13.13	18.53	25.35	32.58	44.98	55.2	80.1	82.2
	M	0.50	20.75	22.11	25.80	35.54	35.58	31.27	41.6	34.30
TRAINING										
FE %	F	-	5.3	27.2	44.23	50.2	49.0			
	M	100.00	84.6	82.8	55.74	49.7	51.0			
Human Devt./ Management %	F	-	15.7	54.7	58.3	57.8	50.0			
	M	-	84.3	45.2	41.6	42.3	50.0			
Occupational %	F	-	70.00	54.0	40.0	30.0	51.0			
	M	-	30.0	46.0	60.0	70.0	49.0			
CREDIT										
Average Savings per capita Tk.	F	8.18	57.1	80.07	190.69	286.42	175.0	200.52	358.27	254.84
	M	8.18	23.67	95.1	190.46	246.47	354.06	182.64	301.92	221.97
% Share Loan Disbursement	F	-	29.8	29.0	34.0	43.0	53.0	54.4	68.8	66.5
	M	-	70.4	75.0	66.0	57.0	47.0	35.3	31.3	33.3
Average Loan Disbursed per Loanee Tk.	F	-	508.7	482.5	867.7	797.6	1180.0	2221.4	3294.2	2673.2
	M	-	508.4	450.7	1508.0	1239.0	1828.0	2087.0	3328.3	2507.0

Table A.2
Summary: Gender-Disaggregated
Trends, 1979-1991
GDP and BCP

Source : RED data, various publications.
Report No.1, Institution Building, BRAC, December 1991
Report No.2, Credit, BRAC, December 1991

Table A:3

Financial Performance of RDP II
January 1, 1990 through December 31, 1991
(Tk. Million)

	Budget*	Actual	Over/ Under	Variance Amount	%
A. Core Program					
A.1 Institutional Building	28.2	31.2	Over	3.0	11%
A.2 Employ. and Income Generation	50.7	57.6	Over	6.9	14%
A.3 Branch and R.O. Op'g Expense	114.3	128.5	Over	14.2	12%
A.4 Branch, R.O. and H.O. Capital Investment	56.7	56.6	Under	(0.1)	0%
A.5 Loan Revolving Fund	177.2	169.4	Under	(7.8)	-4%
A.6 Support Service					
A.6.1 Expansion of Existing TARC's	9.5	9.4	Under	(0.1)	-1%
A.6.2 TARC's	39.2	21.4	Under	(17.8)	-45%
A.6.3 REP	8.8	8.0	Under	(0.8)	-9%
A.6.4 Research and Evaluation	5.4	5.8	Over	0.4	7%
B. Sectoral Program					
B.1 Non-Formal Primary Edu.	125.5	129.5	Over	4.0	3%
B.2 Development of Rural Mgrs.	59.3	47.5	Under	(11.8)	-20%
B.3 IQVGD	26.8	29.45	Over	2.6	10%
Total Funds Expended	701.6	694.3		(7.3)	-1%
Net Interest Income	(48.5)	(50.2)		(1.7)	4%
Funded by BRAC		(3.9)		(3.9)	
Total Funding Required	653.1	640.2	Under	(12.9)	-2%

* This budget is used by BRAC for reporting purposes.
It reflects the original budget plus two revisions approved by the donors in May and December 1991.

Source: BRAC Quarterly Financial Report (Dec/91)

Table A:4

RCP Financial Performance to Budget

Balance Sheet
As of December 31, 1991

	Budget*	Actual	Over/Variance	Under Amount	%
Assets					
Cash	6.1	2.9	Under	(3.2)	-52%
Investments	281.1	289.2	Over	8.1	3%
Current Assets	0.0	79.6	Over	79.6	ERR
Net Loans	275.0	272.4	Under	(2.6)	-2%
Fixed Assets	53.9	38.4	Under	(15.5)	-29%
Acc. Depreciation	6.7	4.2	Under	(2.5)	-37%
Net Fixed Assets	47.2	34.3	Under	(12.9)	-27%
Total Assets	609.4	678.4	Over	69.0	11%
Liabilities					
Members Savings	86.2	97.1	Over	10.9	13%
Group Tax	25.4	24.7	Under	(0.7)	-3%
Total Deposits	111.6	121.9	Over	10.3	-9%
Current Liabilities	0.0	15.3	Over	15.3	ERR
BRAC Loan	487.0	528.3	Over	41.3	8%
Total Liabilities	598.6	665.6	Over	67.0	-11%
Equity					
Excess for 1990	(5.1)	(5.1)	Over	0.0	0%
Excess for 1991	15.9	17.9	Over	2.0	13%
Total Capital	10.8	12.8	Over	2.0	19%
Total Liabilities and Capital	609.4	678.4	Over	69.0	11%

* This budget is used by BRAC for reporting purposes. It reflects the original budget plus two revisions approved by the donors in May and December 1991.

Source: BRAC Quarterly Financial Report (Dec/91)

Table A:5

RCP Financial Performance to Budget
Income Statement
January 1, 1990 through December 31, 1991

	Budget*	Actual	Over/Variance Under Amount	%
Income				
Investment Income	22.8	21.3	Under (1.5)	-7%
Loan Interest Income	38.1	40.1	Over 2.0	5%
Total Income	60.9	61.3	Over 0.4	1%
Interest Expense				
Interest on Deposits	6.3	8.0	Over 1.7	27%
Net Interest Income	54.6	53.3	Under (1.3)	-2%
Operating Expenses				
Branch Operating Expense	22.9	24.2	Over 1.3	6%
Regional Operating Expense	1.5	1.6	Over 0.1	7%
Head Office Operating Expense	2.5	2.3	Under (0.2)	-8%
Branch Depreciation Expense	3.5	1.0	Under (2.5)	-71%
Regional Depreciation Expense	0.6	0.2	Under (0.4)	-67%
Head Office Depreciation Expense	0.9	0.3	Under (0.6)	-67%
Loan Loss Provision	5.4	5.0	Under (1.4)	-22%
Staff Training	0.4	0.7	Over 0.3	75%
Total Operating Expenses	38.7	35.4	Under (3.3)	-9%
Net Operating Profit	15.9	17.9	Over 2.0	13%

* This budget is used by BRAC for reporting purposes. It reflects the original budget plus two revisions approved by the donors in May and December 1991.

Source: BRAC Quarterly Financial Report (Dec/91)

Table A.6
BRAC
STAFF POSITION AT 31.12.91
[PROVISIONAL]

Programme	Regular			Project			Service			Total			Per Cent F
	M	F	Total	M	F	Total	M	F	Total	M	F	Total	
HCP	14	0 (0)	14	36	0 (0)	36	4	0 (0)	4	54	0	54	0.0
TARC	53	11 (17.1)	64	0	0 (0)	0	37	0 (0)	37	90	11	101	10.8
TDP	723	207 (22.2)	930	1135	32 (2.7)	1171	71	0 (0)	71	1933	239	2172	11.0
IGVSD	177	27 (13.2)	204	0	0 (0)	0	36	0 (0)	36	216	27	243	11.1
MPPE	372	86 (18.7)	458	0	0 (0)	0	7	0 (0)	7	379	86	465	18.5
RCP (1)	228	51 (19.2)	280	493	10 (1.9)	503	30	0 (0)	30	752	61	813	7.5
HCP	18	1 (5.2)	19	0	0	0	3	0 (0)	3	21	1	22	4.5
PCDDP	12	7 (38.8)	19	18	3 (15.7)	19	2	0 (0)	2	30	10	40	25.0
RED (2)	23	33 (58.9)	56	0	0 (0)	0	0	0 (0)	0	23	33	56	58.9
WHCP	271	172 (38.8)	443	13	6 (38.0)	21	70	0 (0)	70	354	180	534	33.7
Printers	38	2 (5.0)	40	71	0 (0)	71	4	0 (0)	4	113	2	115	1.7
Aarong	54	38 (40.0)	90	0	111 (100.0)	111	51	0 (0)	51	105	147	252	58.3
Head Office	238	57 (19.3)	295	0	0 (0)	0	34	3 (8.1)	37	272	80	352	18.1
AAF	7	9 (56.2)	16	0	0 (0)	0	0	0 (0)	0	7	9	16	56.2
Agro Industries	1	0 (0)	1	0	0 (0)	0	0	0 (0)	0	1	0	1	0.0
Cold Storage	1	0 (0)	1	0	0 (0)	0	0	0 (0)	0	1	0	1	0.0
TOTAL	2231	699 (23.9)	2930	1771	164 (9.5)	1935	349	3 (0.85)	352	4351	686	5037	18.6
Per Cent	76	24	100	92	8	100	99	1	100	83	17	100	-

Numbers in brackets denote percentages

(1) Revised figures for Regular/RCP at Feb. 1, 1992 : M: 311; F : 75; T: 386

(2) Revised figures for RED at Feb. 1, 1992

Regular			Project			Service			Codere		
M	F	T	M	F	T	M	F	T	M	F	T
30	43	82	4	4	8	0	0	0	6	13	19

Total M : 57
Total F : 60 (51.3)
Total RED : 117

Source: Personnel/BRAC.

Table A.7 Financial Management and Control : Issues and Proposed Solutions

Issue	Proposed Solution
<p>Loan performance data is stated in an overly optimistic way in external reporting. Reporting delinquent payments as a percentage of total loans advanced generates the lowest possible default percentage.</p>	<p>BRAC should select an internationally accepted accurate and conservative standard for the reporting of defaults.</p>
<p>Performance to plan reporting is inadequate.</p> <p>Expenditure budgeting is imprecise.</p> <p>Analysis of trends in growth patterns is too modest given the proposed size of the banking operation.</p> <p>Projections of loans outstanding are likely to be wrong given the complexity of a mixture of short, medium and long term loans in a changing and growing branches system.</p> <p>Ratio analysis and trend reporting is not used.</p>	<p>Create annuals plans and routinely update detailed budgets. Monitor performance against annual approved budgets.</p> <p>Prepare annual budgets in the light of prior year performance; hold line managers responsible for expenditure line items.</p> <p>Prepare and analyze RCP and RDP branch profit/loss statements and prepare comparative analyses across the system.</p> <p>Give additional attention to unit analysis (average loan size by borrower age and by sector; breakdown of data by branch age and borrower age).</p> <p>Model loan outstanding patterns and develop detailed projections with sensitivity runs until patterns are detected.</p> <p>Ratio analysis and trend reporting must be used if management is to understand what actions are required to sustain successful growth.</p> <p>It may be useful to both BRAC and donors to contract with a well-qualified Bangladesh external accounting firm to undertake additional studies and provide technical assistance in selected areas.</p>

Issue	Proposed Solution
<p>Inadequate reporting and monitoring of delinquent accounts at the HO level.</p>	<p>Install adequate ageing system to identify delinquency at the earliest stage so that the underlying cause can be identified and addressed</p> <p>Additional measures should be tried to reduce losses such as</p> <ul style="list-style-type: none"> — staff incentive systems to insure prompt loan collection; — a problem asset committee to oversee liquidation and other workouts of problem situations, especially with larger loans; — loan review systems which monitor the quality of lending decisions after the fact.
<p>The current overdue loan classifications and analysis is inadequate to make accurate conclusions about the adequacy of the reserve for loan losses. An increased expenditure to increase the loan loss reserve could be necessary.</p>	<p>When an ageing of delinquent accounts is routinely prepared and trends over time are analyzed, a policy can be developed so that the provision is always adequate.</p>
<p>Loans are not written off.</p>	<p>Bad loans should be charged off routinely to insure that the balance sheet accurately reflects asset values. After charge-off, loans should continue to be "worked" to collect delinquent payments.</p>

Issue	Proposed Solution
<p>Some donor reports do not follow generally accepted accounting standards. BRAC prepares reports tailored to programmatic concerns and donor disbursement schedules. As a result some reports are incomplete or show a mixture of income/expense and funds flow statements.</p>	<p>BRAC program reports should include all accrued income and expense and conform to generally accepted accounting standards.</p> <p>Funders of a banking operation must focus on overall financial viability and also review BRAC's financial condition from time to time.</p>
<p>Central cash management techniques may be inadequate for a geographically disbursed operation. Incentives may be necessary to encourage branch, area and regional managers to maximize investment income by moving cash to interest earning accounts as quickly as possible.</p>	<p>We understand that BRAC may have recently begun to assess a charge to branch offices for use of funds. This and other efforts to allocate costs fully and provide incentives to maximize investment income on excess funds is weakened.</p>
<p>Written policies and procedures are inadequate to assure uniform quality control.</p>	<p>A draft accounting manual should be completed and continually updated. It should be reviewed to assure that adequate dual control procedures have been instituted to achieve effective cash management.</p> <p>The internal audit manual should be continually updated and should also be available in English for donor review.</p> <p>An investment policy should be written and approved to govern prudent risk management of depositor funds.</p>
<p>BRAC Bank will need talented senior management.</p>	<p>The BRAC Bank will require focussed management committed to BRAC's objectives and excelling in bank management. BRAC executes a comprehensive strategy of which banking is just one part. The bank requires superior, specialized management.</p>