

People's Republic of Bangladesh

Microfinance for Marginal and Small Farmers Project Project Performance Assessment

Executive Summary

1. **Background.** In Bangladesh, following the establishment of the Grameen Bank in late 1970s and its growth, the microcredit sector had been well developed in particular with support from non-governmental organizations (NGOs) which act as microfinance institutions (MFIs). Influenced by the Grameen model, NGO-MFIs have adopted a similar service delivery modality based on a group approach and, with the aspiration to contribute to poverty reduction; their services primarily targeted the landless poor. However, there was also a high level of poverty amongst those with small landholdings (the so-called "marginal" and "small" farmers). The services by NGO-MFIs were not sufficiently catering to small and marginal farmers, and at the same time, poor farmers had limited access to credit for agricultural purposes from banks.
2. In the above context, the Microfinance for Marginal and Small Farmers Project was conceived to introduce an innovative approach to deliver financial services to the farming community, in partnership with Palli Karma-Sahayak Foundation (PKSF), which was established by the Government of Bangladesh in 1990 as a not-for-profit company and as the apex organization providing funds to MFIs. Covering 14 districts in north-west and north-central Bangladesh, the main project target group was small and marginal farm households.
3. Project implementation was built on the well-established system in Bangladesh of channeling microcredit funds to beneficiary groups organized by NGO-MFIs. Thirty-five NGO-MFIs, or "partner organizations" (POs), were selected and participated in project implementation. The project also provided support to POs to develop their capacity in lending for agriculture and to link farmers to providers of technical services. Implemented over six years as envisaged, the actual project cost was US\$29.81 million, almost 100 per cent of the initial estimate.
4. **Assessment summary.** The project's overall achievement was satisfactory. This was a well-designed project relevant to the country context, and to small and marginal farmers. These farmers may not have been the poorest, but a significant proportion of them were poor, and even those above the poverty line continue to run the risk of becoming poor again due to unexpected events. The project made important and innovative contributions to enhancing access to finance by marginal and small farmers, who had previously had little access to credit from either banks or NGO-MFIs. The project introduced a lump-sum repayment modality that could better match the borrowers' cash flows, in place of the weekly repayments that had normally been practised with NGO-MFI microcredits. While the project was still under implementation, PKSF incorporated "seasonal loan" and "agriculture sector microcredit" products as part of their core programme, and restructured its lending policies to POs. This means that with PKSF being a major source of funding for most of the POs' microcredit operations, NGO-MFIs have a sustainable source of funding for seasonal and agricultural lending, and they have also mainstreamed such loan products to serve rural populations.
5. At project completion, the membership supported under the project stood at 208,868 (84 per cent women), largely achieving the project target of 210,000, and over 80 per cent of the members were borrowing, with 1,717 million Bangladeshi

Taka (BDT) (US\$25 million) outstanding in loans. The proportion of seasonal lending (providing for lump-sum repayment instead of weekly instalments) increased steadily during the project. Loan recovery rate was sustained at a high level throughout the project period (98.36 per cent at project completion).

6. The delivery model through NGOs supported by their institutional strengthening, as well as combining credit provisions with technical capacity-building support for beneficiaries, was relevant and effective. Most loans extended with project support were used for productive purposes. Combined with technical support, the project contributed to improved agricultural production. The technologies promoted were found to be useful, and contributed to yield increase and cost reduction. Important technical support – training and veterinary services – was provided in conjunction with a livestock insurance pilot scheme for beef fattening activities.
7. While the inclusion of marketing and business development support in the project was appropriate, there could have been better integration and synergy of this element with microfinance services and technical capacity-building. The combination of loans and technical support contributed to crop/livestock diversification to some extent, but the promotion of real profitable enterprises – on- or off-farm – was rather modest.
8. Good progress was made towards gender equality and women's empowerment through mobilizing women, microfinance interventions, and social development and technical training.
9. The prospect for sustainability is positive and assessed as satisfactory overall, including the sustainability of PKSf operations and its services to cater to small and marginal farmers, as well as the agricultural technologies promoted. Two issues require attention. First, a relatively high dropout rate in groups was experienced, which could compromise efficiency and sustainability as long as a group-based approach continues to be used. The high rates appears to have been caused by a couple of factors: "graduation" of some borrowers from microcredit, as well as an underlying factor that the major drive for people to join NGO-MFI groups is to access loans and/or training when there is project support. NGO-MFI operations are also focused on disbursing loans and they consider groups principally as a means for delivery of loans. Second, the combination of social mobilization, microfinance and technical support and training by NGO-MFIs with project support was effective, but the question remains how to enhance sustainability of these non-financial services.
10. The project was implemented with high efficiency and competency, benefiting from the experience of PKSf and POs and their prior working relations. This was the case in terms of the timeliness of implementation, appropriate PO selection based on an established system and working experience, an established progress reporting system from POs to PKSf, and PKSf's existing management information system. Effective handholding of POs and guidance by PKSf contributed to project success. POs' previous presence in the area, and experience in microfinance, social development and to some extent agriculture, complemented project-supported activities and contributed to project success.
11. **Recommendations.** Provided below are some key recommendations for consideration by IFAD, the Government, PKSf and POs:
 - **Support for strengthening commercial orientation and business skills of borrowers.** NGO-MFIs are not in a position to prescribe what kind of activities should be financed by microcredit, but along with credit and technical support, facilitative support should be provided for potential borrowers to better appreciate how to identify and invest in viable farming and off-farm enterprises, in addition to specific business skills development. Such support may not necessarily be provided by NGO-MFIs or PKSf. It would

be important to pursue partnerships with appropriate organizations that are in a position to provide such services.

- **Service delivery modality and products by NGO-MFIs.** More emphasis should be placed on strengthening groups to be more than a means to access credit; it should – or could – also be an entry point (or a means) for other services, socio-economic empowerment of the poor or other collective activities. At the same time, consideration could be given to the context and in what manner mobilizing "groups" and using a "group approach" for individualized liabilities would still be appropriate. Demand-driven product development by NGO-MFIs - not only credit but also other financial services such as savings, insurance and transfer - should be given attention, and PKSF could also play a role in facilitating such a process. If the combination of microfinance services and technical support is a long-term strategy for NGO-MFIs to promote growth and profitability, and to enhance portfolio quality, then they may need to carefully review the efficiency of service provisions and find ways to incorporate the cost of technical support into core operations (i.e. financial services).
- **Measuring results and impact.** The surveys undertaken provided valuable information, but there were also questions on the methodologies used and hence on the reliability of some findings. The importance of carefully reflecting at the onset on key selected expected results and impact to be measured cannot be overemphasised. IFAD would have an important role in providing support at all stages – including proposing the solid basis for monitoring and evaluation in project design reports, terms of reference for consulting services, reviewing proposed methodologies and draft reports.