

Bangladesh: Income generating measures by RDRS

Ex post evaluation

OECD sector	24040 – Informal and semi-formal financial intermediaries	
BMZ project ID	1996 65 886	
Project-executing agency	Rangpur Dinajpur Rural Service (RDRS)	
Consultant	(1) Gerhard Rupprecht (civil engineer) (2) Dr Aldo Benini (Monitoring Consultant) (3) Acnabin & Co (Auditors)	
Year of ex-post evaluation	2006	
	Project appraisal (planned)	Ex-post evaluation (actual)
Start of implementation	Q3 1998	Q1 1999
Period of implementation	4 years	6 years
Investment costs	EUR 7.11 million	EUR 7.15 million
Counterpart contribution	EUR 0.97 million	EUR 1.01 million
Financing, of which Financial Cooperation (FC) funds	EUR 6.14 million	EUR 6.14 million
Other institutions/donors involved	None	None
Performance rating	3	
• Significance / relevance	3	
• Effectiveness	3	
• Efficiency	4	

Brief description, overall objective and project objectives with indicators

The project consisted of providing an FC subsidy amounting to approx EUR 6.14 million to finance training centres and to enable the non-governmental organisation Rangpur Dinajpur Rural Service (RDRS) to carry out vocational training and microloan measures. Setting up a revolving credit fund was intended to provide microloans to promote poor households organised in groups. The total cost of the project was EUR 7.15 million. The FC financing contribution was EUR 6.14 million.

The overall objective was to contribute to making a lasting improvement in the standard of living of the target group of rural poor people in six northern districts of Bangladesh (no indicator). The project objective was to use training and microloan measures to boost the income situation of the project beneficiaries. The following indicators of the achievement of the project objective were established during the project appraisal:

(a) Increase in income: During the four years of the project 80% of the beneficiaries will experience a real increase in their income one year after completing the training course. Further real income increases of 10% per annum will be expected in the following three years. As measuring income and income increases is not without difficulty, the following auxiliary indicators proposed by the Monitoring Consultant were adopted in addition to the monetary

quantification: development of food security and assets in the households surveyed, e.g. land, housing, livestock, bicycles, radios and television.

(b) Sustainability of the revolving credit fund: Rate of repayment of amounts due at least 93%. As the rate of repayment is not “state of the art”, the development of the “portfolio at risk” was used as an indicator in the ex post evaluation instead.

(c) Infrastructure: On completion, on average at least 85% of the building capacities are used. As the indicator was not operationalised further at the time of project appraisal, as part of the ex post evaluation the following definition was considered appropriate: on average, 60% – 70% of the rooms are used for an entire day on 80 days per quarter (corresponds to an average of 27 days a month).

Programme design / major deviations from the original programme planning and their main causes

The following measures were financed as part of the infrastructure component:

- Building and equipping seven new district training centres, each with a usable floor space of approx 520 or 780 m², particularly for training measures for the target group.
- Building and equipping two new zonal training centres, each with a usable floor space of approx 1,040 m², particularly for basic and further training measures for RDRS staff and trainers and accommodation for people attending courses.
- Procuring equipment for demonstration purposes (22 demonstration farms) for training measures.
- Support for the project executing agency by a local consultant and a German engineer/adviser.

The buildings were constructed between January 2000 and April 2001. Overall the standard of the buildings can be said to be appropriate in the local context and easy to maintain. Four years after completion they are in a good condition. Repairs and maintenance work are carried out regularly.

In connection with the training component, RDRS conducted courses in first 22 and then 10 training areas to prepare people for self-employment in the informal sector. The courses dealt mainly with jobs in the fields of mechanics and construction, clothing and textiles, agriculture and animal husbandry, orientation and practical skills for jobs in agriculture and a basic understanding of how to deal with loans. Depending on the training area concerned, the courses lasted between 7 and 200 days in response to demand. They were geared to the learning criteria of the beneficiaries, their limited mobility and time available. Participants were originally supposed to contribute between BDT 60 and 725 depending on the length of the course. However, as many in the target group were not able to find this amount themselves, RDRS paid a flat-rate transport fee which could also be used to pay the course fees. During the target group interviews, however, around 67% of those surveyed said that they had not paid any course fees. We therefore conclude that at least in part no attempt was made to enforce a contribution by the participants. By the end of the project in June 2004 around 42,900 course participants (of whom 74% were women) had been trained. According to information from RDRS, 70-80% of the course participants use the knowledge they acquired to generate an income.

In the field of microloan components a revolving credit fund was set up with an FC contribution of EUR 2.8 million (BDT 141.7 million). This was used to offer microloans to those completing courses in order to ensure that these funds were invested in income generating activities in the agricultural or non-agricultural sector. By June 2004, 39,757 borrowers (of whom 76% were women) had been given a loan from the FC fund; by the end of December 2005 the number of borrowers had risen to 45,948. The loans generally have an effective interest rate of 30% and a maturity of one year. Owing to the weaknesses in the loan technology, the portfolio at risk was more than 30% throughout the entire period of execution. This meant that the credit fund did not double as anticipated in the project appraisal but experienced a real loss in volume (end-2005: the real value was 80% of the original amount). RDRS acknowledged this problem and carried out a significant reorganisation of the microloan area in 2004. The provisional accounts for 2005 show a distinctly positive development. However, the loss in value represents a significant

impairment of the sustainability of the fund. With better fund management and the funds from repayments being lent out promptly again, far more end-borrowers could have been reached. Instead, a large amount of the repayments (currently BDT 81 million) was invested in long-term government paper.

The project measures were carried out as planned in the project appraisal but the implementation period was extended by two years to allow the project executing agency more time to achieve the training and credit objectives.

Key results of the impact analysis and performance rating

The project target group comprised roughly 36,000 landless or virtually landless households with property amounting to no more than 0.6 ha (1.5 acres) of land and/or households in which the main breadwinner spent at least 90 days a year working as a day labourer. The direct beneficiaries, who were aged between 18 and 45, were organised in groups of 15-40 people in their villages. Separate groups were formed for men and women and, besides matters relating to loans, social topics such as health, hygiene and education were addressed. In order to spread the income-increasing effects as widely as possible, only one member of each household could be allocated directly to a group. The number of beneficiaries at the end of the project in 2004 was 42,900 for the training component and 39,757 for the loan component (December 2005: 45,948 borrowers). At 74% in the training component and 76% in the field of loans, the minimum share of women's groups targeted by RDRS of 60% was clearly exceeded. Overall, some 230,000 – 250,000 people in the programme region benefited from the measures.

According to information from RDRS, the baseline survey showed that average nominal household income in the beneficiary households rose from BDT 16,609 to BDT 33,200 (in real terms, to BDT 29,219) by the fourth year of project implementation. In the same period, the number of food secure days went up from 251 to 352, property ownership from an average of 0.35 ha (87 decimals) to 0.58 ha (145 decimals), the average livestock figures from 1 to 3.6 goats and the average number of simple huts (generally one room per hut) from 2 to 3.5. These increases are mainly due to the income generating measures. The data collected through interviews conducted during the ex post evaluation mission in a random sample of 26 households supported the view of the project executing agency that there had been a substantial increase in the income of the target group. This indicator can therefore be seen as having been satisfactorily achieved.

Because of RDRS's suboptimal loan technology, which, with regard to the way operation was organised and the inadequate establishment of incentive systems, was well below the local best practice standards and asserted no rigid loan discipline, the portfolio at risk figure at the end of the project – 66% of the total microloan portfolio – was extremely high. Owing to massive depreciation amounting to BDT 114.3 million and the collection of overdue loans amounting to some BDT 45.23 million, the portfolio at risk was reduced from 50% in 2004 to 14% in 2005. According to provisional figures and taking account of interest payments until 2005, the volume of the revolving credit fund financed with FC resources fell in real terms to around 80% of the amount provided; in nominal terms the fund capital was maintained. If appropriate loan technology were used and the funds channelled promptly, in real terms an increase in the fund volume of 200% of the original value could be expected. We rate the performance as slightly inadequate.

After completion and by the end of the project period, the training centres recorded capacity utilisation figures of 90-100%. After completion of the training activities in the FC project, however, the capacity utilisation figures slumped back, to roughly 60% because there was no utilisation concept. The main reason was that fewer courses were provided and the average training period was reduced from 20 to 4 days per course. RDRS has been endeavouring for some time to increase the capacity utilisation of the buildings by providing more courses and by renting them out to other NGOs. Hence, after a low of 60% in the first quarter of 2005, capacity utilisation went up in the following quarters to 65% and 75% and in the last quarter of 2005 to 83%. Despite the decline in utilisation, the indicator can be seen as having been achieved satisfactorily.

To sum up, it can be observed that, from today's perspective, the project design was not optimal. For example, given that there was no medium-term utilisation concept for the

infrastructure component, it would have been more efficient to build a smaller number of training centres and to have rented premises and to have held decentralised courses in the project villages. In the training component, given that only 60-80% of the course participants use the knowledge acquired in their work, the question arises as to whether it made sense to make compulsory attendance at a training course a pre-requisite for granting a loan. If the programme had been made more flexible, attendance at the courses voluntary and perhaps the personal contribution maintained in a modified form, the funds for the training component might have been used more efficiently and a higher degree of utilisation of the knowledge imparted might have been achieved. In connection with the credit component, the early implementation of an accompanying measure would have solved the repayment problems that existed from the beginning more promptly and clearly increased the success of the credit component by limiting the loss in value of the fund. Despite this reduction in sustainability, owing to the success achieved after the microfinance area was restructured in 2004, it can be assumed that the fund volume will continue to grow with sustainably good performance and that it can be used intensively for some years to come.

Overall, we assess the developmental effectiveness of the project as follows:

Effectiveness

The project objective was to use training and microloan measures to boost the income situation of the project beneficiaries. Since the project began in 1999 FC funds have been used to train roughly 42,900 people and to grant 45,900 microloans. In addition, RDRS used its own funds to finance around 20,000 further training measures. These people will receive microloans progressively from the revolving credit fund. Measured in terms of the target indicators, the project objective has been achieved satisfactorily as far as income growth is concerned. This is mainly due to the income generating measures. RDRS analyses show that in the medium term between 60% and 80% of the persons trained are using the acquired skills. However, the credit fund has not performed sufficiently and, even after restructuring, is subject to sustainability risks. Overall we classify the project's **effectiveness** as just **sufficient (sub-rating 3)**.

Relevance/Significance

The overall objective was to contribute to the sustainable improvement of the living standard of the target group (no indicator). Through training courses and the provision of loans, the project contributed to achieving the overall objective. In addition to substantial increases in monetary income (household income doubled within four years), there was a noticeable improvement in the standard of living and the "prosperity" of the approx 45,900 households. The project was relevant, as the inadequate supply of vocational training and the insufficient capital endowment of the rural households are still major hindrances to income generation among rural households. With regard to the credit component, after restructuring it is assumed that the fund will last for some years and be used intensively. Owing to the increasing usage rates of the buildings, sustained use can also be assumed with regard to the infrastructure component. With regard to the vocational training component, the project is sufficiently significant. From a financial perspective, the significance is limited as there was only a minor structural impact on the financial sector. Overall, we classify the project's **significance and relevance** as **sufficient (sub-rating 3)**.

Efficiency

We assess the production efficiency of the infrastructure and training component as appropriate; despite the not entirely satisfactory use of the knowledge acquired, the allocation efficiency is sufficient. We assess the production efficiency of RDRS's microloan component during the project period as insufficient. With regard to the mainly cost-intensive business of microloans in the agricultural sector, operational efficiency was satisfactory, but the lack of management and control of the loan portfolio resulting in a real loss of value for the fund was problematic. Given the lack of loan monitoring and the lack of incentives for borrowers to repay the loans within the period stipulated combined with inadequate liquidity management, far fewer loans were granted than would have been theoretically possible. The loan conditions were in line with the market. We also assess the allocation efficiency of the microloan component during the project period as insufficient as the interest collected does not cover the risk. Overall, we assess the **efficiency** of the project as **slightly insufficient (sub-rating 4)**.

In a summary assessment of the above impacts and risks, we judge the developmental impact of the project to be **sufficient (overall rating 3)**.

Conclusions and recommendations

The success indicators used to assess the achievement of the project objective and overall objective should be formulated unambiguously and distinctly.

The “state of the art” indicators should be used for projects in the financial sector.

During interviews with other microfinance institutions and donors it became apparent that the microfinance sector in Bangladesh is quite broadly developed and includes more and more alternative sources of funding (savings deposits by borrowers, commercial banks, government funds via PKSf). The need for refinancing by the donor community thus tends to be reduced. Future project designs in the financial sector in Bangladesh should take this into account.

Assessment criteria

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental efficacy
Rating 3	Overall sufficient degree of developmental efficacy
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental efficacy
Rating 5	Clearly insufficient degree of developmental efficacy
Rating 6	The project is a total failure.

Criteria for the evaluation of project success

The evaluation of the “developmental efficacy” of a project and its classification during the ex-post evaluation under one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Have the **project objectives** been achieved to a sufficient degree (project **effectiveness**)?
- Does the programme generate sufficient significant developmental effects (project **relevance** and **significance** measured in terms of the achievement of the overall developmental policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses that were and are being employed/incurred appropriate** with a view to achieving the objectives and how can the programme’s microeconomic and macroeconomic impact be measured (efficiency of the programme design)?
- To the extent that undesired (**side**) **effects** occur, can these be tolerated?

We do not treat **sustainability**, a key aspect to consider when a project is evaluated, as a separate evaluation category, but rather as an element common to all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are/is able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities independently and generate positive results after the financial, organisational and/or technical support has come to an end.