Chars Livelihoods Programme

An Evaluation of the Microfinance Loan Products Piloted Under CLP-1

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CHARS LIVELIHOODS PROGRAMME
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Acronyms and Abbreviations

ALO	Assistant Livestock Officer
AMDO	Assistant Market Development Officer
ARCHES	Association for Renovation of Community Health Education Services
CLP	Chars Livelihoods Programme
IMO	Implementing Organisation
MF	Microfinance
MFI	Microfinance Institution
PKSF	Palli Karma-Sahayak Foundation
RDRS	Rangpur, Dinajpur Rural Service
SKS	Swayam Krishi Sangam
TSP	Triple Super Phosphate
ROI	Return on Investment
RMC	Rural Microcredit
UMC	Urban Microcredit

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1. Executive Summary

Unlike many areas of mainland Bangladesh, where microfinance institutions (MFIs) offering services to the poor are ubiquitous, credit options for *char* dwellers are limited. Microfinance (MF) needs on the *chars* remain largely unmet as the mainstream supply of MF services is not suitable for households on the remote island *chars*, who usually lack a regular and reliable income source.

This report set out to evaluate the three CLP supported *chars* specific credit products that were piloted in 2008/2009 under CLP-1. These loan products were funded by Palli Karma-Sahayak Foundation (PKSF) and implemented by three of the implementing organisations (IMOs) working with the Chars Livelihoods Programme. The three loans were:

- **Improved Chilli Cultivation Loan in Sirajgonj:** Association for Renovation of Community Health Education Services (ARCHES)
- **Beef Fattening Loan in Gaibandha:** Swayam Krishi Sangam (SKS) Foundation
- **Land Lease Loan in Kurigram:** Rangpur, Dinajpur Rural Service (RDRS)

The research was designed to address the results and performance of the loan products in terms of their financial viability, strengths and weakness, targeting and to identify whether the pilot was scaled-up and if not, why not. The report also presents the key facts and rationale behind the loan product and outlines the lessons learnt from these pilots and recommendations for improvement. Additionally the microcredit needs, opinions and experiences of borrowers were assessed. This evaluation was achieved firstly through a review of secondary reports, followed by interviews with relevant IMO staff engaged in the implementation of each loan product and interviews with a sample of borrowers to assess their experiences of the loan.

The key findings for each loan product are:

Improved Chilli Cultivation (ARCHES):

- Chilli cultivation on the *chars* is a profitable economic activity, however has yet to reach optimal level;
- Due to lack of access to credit and extension officers marginal farmers and sharecroppers often face difficulty in timely supply of inputs such as fertilisers and pest management and irrigation;
- All borrowers repaid the entire loan with interest at the end of the loan period;
- Overall the borrowers found the loan useful, appropriate and worthwhile;
- Borrowers reported that the training provided was very useful and relevant and the most favoured feature of the loan product was the one-time instalment upon loan maturity;
- The loan size (Tk. 5000 on average) was too small and insufficient and not based on the economic need and demand of the clients;
- Selection of the clients did not follow the original targeting, as most of the clients belonged to the upper strata of *char* dwellers;
- Post disbursement tracking of the loan was not incorporated in the project design, this should have been implemented to show returns from chilli cultivation;
- The loan product was not scaled up.

Beef Fattening (SKS)

- Small scale cattle rearing is popular among poor *char* households, however purposive beef fattening is not a widespread practice on the *chars*;
- Beef fattening is suitable economic activity for ultra-poor and poor landless *char* households if sufficient credit is provided for investment and maintenance of healthy cattle;
- All borrowers repaid the entire loan with interest at the end of the loan period;
- Overall the borrowers found the loan useful, appropriate and worthwhile;
- The female clients claimed to have greater control over the revenue generated from this activity;
- Borrowers liked that the loan provided them with a tangible asset and loan repayment after the 6 month loan period was easy due to the lump sum received from the sale of the cattle;
- The loan size (Tk.14,000 on average) was insufficient to meet the average investment costs and was not based on a cost-structure analysis of the economic activity;
- Not all clients met the targeting criteria;
- This pilot conducted on the mainland did not provide sufficient insight into whether a similar loan would be successful on island *chars*;
- Post disbursement tracking of the loan was not incorporated in the project design, this should have been implemented to show returns from homestead beef fattening;
- The loan product has been scaled-up by SKS.

Land Lease (RDRS)

- Leasing in and leasing out land is common practice on the *chars*.
- Leasing in land is a suitable economic activity for poor and ultra-poor households on the *chars*;
- All borrowers acknowledged that they benefited economically from cultivating crops on the land leased;
- The borrowers liked the loan product because it enabled them to engage in cultivation of their 'own' land rather than agricultural day labour;
- Borrowers expressed preference for the loan duration to be 2 years instead of 1 and the desired repayment schedules and size of loans varied among clients depending on their economic needs;
- RDRS adhered to the targeting criteria in their selection of clients;
- Borrowers were satisfied with RDRS's processing and disbursement of the loans, as well as their useful training and field support;
- Monitoring, maintenance of records and follow-up provided by RDRS was satisfactory and on time recovery of loans was 100%, with no money overdue.

All three IMOs achieved 100% recovery rate and overall the clients claimed that they benefited from the loan and were satisfied with the IMO's implementation of the loan. From the lenders' and the clients' perspectives, seasonal loans are a viable MF option in the *char* areas. Borrowers reported that the one-time repayment of the loan upon loan maturity is the most preferable option for a seasonal loan.

As outlined in the report, the design of all 3 loans could be altered slightly to make the loan more suitable for *char* dwellers. The beef fattening and land lease loans were deemed appropriate for ultra-poor as well as poor clients on the *chars*. Training and a strong post disbursement tracking system are important components of the loan package.

2. Background

2.1 Microfinance on the Chars

The Chars Livelihoods Programme (CLP) works to reduce extreme poverty and improve the livelihoods of people living on the erosion and flood-prone island *chars* of North West Bangladesh. The first phase of CLP (2004-2010) provided 55,000 of the poorest households with an asset of the household's choice, accompanied with an integrated package of support. The second phase CLP-2 (2010-2016) expanded to 5 new working districts and directly targets 67,000 households.

Unlike many areas of mainland Bangladesh, where microfinance institutions (MFIs) offering services to the poor are ubiquitous, credit options for *char* dwellers are limited and dominated by the perception that *char* dwellers are too poor to be good microfinance (MF) clients. Not only do the *char* households live in extreme poverty but vulnerability to natural disasters, including flood and river erosion forces *char* dwellers to migrate frequently, making it difficult for MFIs to establish groups for collateral and follow up repayments, rendering them risky clients. Furthermore, transporting cash on boats across the river is risky for MFIs and the river brings high transaction costs for communication and access to markets.

CLP does not select households which have an outstanding loan from an MFI as its core participants, or allow its implementing organisations (IMOs) to lend to core participants. However, *char* dwellers are encouraged to join a CLP village savings and loans group, which provides members with a safe place to save and a fund from which they can access small loans at a low interest rate (5%).

MF needs on the *chars* remain largely unmet as the mainstream supply of microfinance services is not suitable for households on the remote island *chars*, who usually lack a regular and reliable income source. Therefore CLP supported the piloting of three *char* specific loan products to three Palli Karma-Sahayak Foundation (PKSF) partner organisations.

2.2 Objective of Piloting the Three Loan Products

CLP provided technical support to three PKSF funded organisations (SKS Foundation, RDRS and ARCHES) to pilot three different, *char* specific Mproducts for the poor marginal farmers living on the *chars*. These loans were designed to offer unmet MF needs on the *chars* through a more demand-driven loan product. These seasonal loans, required just one repayment instalment and the management system included careful selection, training and monitoring of the borrowers, tailoring the loan to the *char* context to ensure full repayment.

As per CLP's logframe, the objective of piloting these loan products was to increase the outreach and quality of appropriate and competitive financial services accessible to *char* households. The range and flexibility of the products were designed to equal or exceed the MF industry standards on the mainland.

The pilot project aimed to improve the capacity of the IMOs by supporting links with PKSF and providing sector specific training to individual microcredit borrowers on existing practices. Successful implementation was intended to result in the clients' enhanced individual agricultural and income generating skills to increase and improve

their income and livelihoods, as well as to expand accessible and appropriate high quality MF services in the *chars,* which could be scaled-up and offered by other IMOs.

The seasonal loans piloted were:

- Improved Chilli Cultivation (ARCHES)
- Beef fattening (SKS)
- Land Lease Loan for cultivation or housing (RDRS)

All loans were funded by PKSF at a small rate of interest (4.5%) and the IMO was responsible for the disbursement, supervision and realisation of the loan. CLP provided and financially supported:

- sector specific training to each client;
- one field officer for the pilot period;
- a bicycle for the field officer;
- orientation and training for implementing staff;
- a consultant to review and assess the product, identify risks and provide recommendations for improvement of the portfolio quality;
- exposure visits to orient other interested CLP-IMOs on the product.

3. Objectives of the Study

As per the pilot project proposals, external assessments of each product were conducted by consultants during the pilot period; however no final evaluation was carried out at the end of the pilot period. This report evaluates the CLP supported *chars* specific products to assess the opinions and experiences of IMO staff and clients regarding the loan and identifies the microcredit needs on the *chars*.

This study supplements a study of the coverage of MF on the *chars* and an assessment of the suitability of the existing MF products available to *char* dwellers. The findings will help CLP and MF agencies operating on the *chars* to recommend the future pathway of MF on the *chars* and identify suitable interventions to improve credit facilities for poor and extreme poor households living on island *chars*.

4. Methodology and Limitations

Several methods were used to evaluate the implementation and outcome of each loan product. First key data and background information were drawn from secondary reports: the project proposals submitted by each IMO and the assessments provided by the external consultants. Second, the senior IMO staff and those engaged in the implementation of each product were interviewed using a combination of structured and semi-structured questions to validate the basic loan product details and assess their experiences of the loan product. The IMOs assisted in locating the clients who took the loan product during the pilot period and for each loan product 10 clients randomly selected and were interviewed by an external MF consultant and 2 trained data collectors. Semi-structured questionnaires were used to collect key basic information about the loan client, the amount of loan that he or she took and his or her experiences of the loan to give an assessment of the profitability and suitability of the loan.

The loan products were piloted in 2008 – 2009, therefore the accuracy of details of the loan taken and the subjective experiences of both the clients and staff members recalled at the time of this study in November/ December 2011 are limited. Similarly not all of the IMOs were able to provide monitoring reports or evidence of loan recovery from the pilot period, which inhibited an accurate financial and cost-benefit analysis of the loan products. Due to financial and time constraints only 10 clients from each product were interviewed, this small sample may not be representative of the experiences of all clients, nor can it provide a detailed impact analysis. Nonetheless interviews with the clients do provide useful insight into clients' experiences of the loan and case studies are presented to demonstrate a 'typical' client.

The following sections of the report evaluate each of the 3 loan products separately, providing an overview of: the key facts, rationale, implementation, results, financial viability, strengths and weaknesses, targeting, performance and a summary of what happened after the pilot. Each section concludes with recommendations for the loan in question and the report concludes with a summary and recommendations for potential loan products suitable for char households based on the lessons learned.

5. Improved Chilli Cultivation - ARCHES

Chilli Cultivation - ARCHES

Type of loan:	Improved chilli cultivation
Target clients:	Male marginal farmers with at least 1 *bigha* of land and experience in chilli cultivation
Location of clients:	Sirajgonj (Kazipur Upazila)
Number of clients:	75
Disbursement date:	November/ December 2008
Recovery rate:	100%
Range of size of loan:	Tk 2000 – Tk 6000
Duration of loan:	6 months
Interest rate:	25% declining (12% flat)
Repayment schedule:	After the product cycle: 5-6 months
Savings:	Tk 100 per month
Training:	Technological training on chilli cultivation, post-harvest technology and market linkages

Improved chilli cultivation and the rationale for MF support: Chilli cultivation is one of the main economic activities among the *char* dwellers and provides a major source of seasonal income and employment for marginal farmers and sharecroppers. In Sirajgonj, *char* farmers grow chilli on around 40-60% of their cultivable land during the chilli season (September – February). The *chars* are particularly suitable to chilli cultivation due to the rich soil resulting from the silt deposited by the river. However, farmers mainly use local seed varieties and follow indigenous techniques in their farming system. As a result, the chilli yield has never reached optimum level. Additionally improper handling, transportation and lack of storage lead to higher post-harvest losses compared with the mainland and the potential profits from chilli cultivation are further decreased by weak market linkages.

Like other crops chilli is exposed to various risks such as disease, hail, flooding and river erosion; farmers report that such risks occur infrequently (once every 5-7 years), when major losses are incurred. The main problems faced by chilli farmers on the *chars* are the limited credit availability and the lack of agricultural extension services, which render it difficult for marginal farmers and sharecroppers to ensure the timely supply of inputs, such as good quality seeds, fertilisers, pesticides, and irrigation. Sources of borrowing on the *chars* are limited, the prevalence of MFIs on the *chars* does not meet the demand and often the only option for *char* dwellers is to borrow money from a traditional money lender at a high cost of 120-200% per annum.

Despite these limitations chilli cultivation is still highly profitable on the *chars*. Extending MF support to sharecroppers and marginal farmers in the *chars* for the purpose of chilli cultivation was piloted by ARCHES, with financial support from PKSF and represents a needs based initiative. Improved chilli cultivation through provision of timely access to capital for inputs and the transfer of technological skills and knowledge could increase the incomes of marginal farmers and sharecroppers on the *chars*.

Implementation: An Assistant Market Development Officer (AMDO) funded by CLP provided technical support to farmers at field level and training on improved production techniques including high yield varieties, post-harvest technology and market led

intervention. Trained ARCHES staff met with the clients on a monthly basis to collect savings, ensure correct use of the loan and discuss social awareness issues such as early marriage.

Results: In total Tk 300,000 was disbursed and ARCHES achieved 100% recovery of the loan, with no money overdue. The borrowers reported the loan to be worthwhile, useful and appropriate (except for the amount of the loan).

Financial Viability of Chilli Cultivation: The borrowers interviewed spent the loan on inputs such as fertiliser, irrigation and labour. Interviewees reported that a farmer can earn more than Tk 30,000 in a season (3-4 months) from cultivation of chilli in 1 *Bigha*[1] of land if all possible risks are avoided. The accounts of farmers for cultivating chilli in 1 *Bigha* of land are presented below:

Cost of Production (Farmers' Calculation):

Input	Amount	Cost
Land lease	1 *Bigha* = 33 decimals	Tk.8,000
Seed	2kg x Tk.200	Tk.400
Land preparation	Lump sum	Tk.2,000
Fertiliser:		
Urea	50kg x Tk.15/kg	Tk.750
TSP (Triple Super Phosphate)	50kg x Tk.24/kg	Tk.1,200
Potash	50kg x Tk.24/kg	Tk.1,200
Irrigation	6 times x Tk.300/time	Tk.1,800
Insecticides	Lump sum	Tk.500
Labour	80 labourers x Tk.200/labour	Tk.16,000
Harvesting	Lump sum	Tk.1,800
Total		**Tk.33,650**

Chilli Yield from 1 Bigha of Land: 10 *Monds*[2]

Sales value of chilli: (10 monds x Tk.6,000/monds)	= Tk.60,000
Minus cost of production:	= Tk.33,650
Net profit in one Season:	= Tk.26,350

$$\text{Return on Investment (ROI):} = \frac{\text{Tk.26,350 x 100}}{\text{Tk.33,650}} = 78.31\%$$

Strengths and Weaknesses of the Loan Product and Performance:

Strengths	Weaknesses
• Borrowers reported that the loan was useful; • One time repayment after harvesting the crop and maturity of the loan was convenient and realistic for the borrowers (most favourable feature); • The interest rate (25% declining) was low and therefore attractive;	• The average loan size (Tk.5000) was extremely small and inadequate, compared to the farmers' need and input costs which exceed Tk30,000 per Bigha; • Poor borrowers were still borrowed from local moneylenders at a high cost, or sold household assets to meet the capital and inputs required;

[1] *Bigha* is unit of measurement for an area of land. In Bangladesh 3 *bigha* is approximately 1 acre.
[2] *Monds* is a unit of measurement for weight. In Bangladesh 1 *monds* is approximately 37.32kgs.

Strengths	Weaknesses
• The training provided was useful to the farmers and many of them applied the knowledge and learning in situ; • Timely processing and disbursement of loan; • 100% recovery rate.	• Weak tracking system of pilot loan.

Targeting: The chilli loan was intended for marginal farmers and sharecroppers who are relatively poor. Yet all 10 borrowers interviewed by the review team were from higher economic groups among the *char* dwellers, each cultivating 3 – 6 *Bigha* of chilli, and owned of livestock assets, at least one tin house and other cultivable land (see appendix).

Performance: The overall performance of ARCHES in offering and managing the chilli loan was good. However a strong tracking system should have been in place to monitor and provide financial analysis to determine the profitability and economies of scale in chilli cultivation on the *chars*. Borrowers were satisfied with the ARCHES timely supply of loans with easy terms and conditions. All borrowers repaid their loans on time with no money overdue.

Scaling-up: Despite the 3 year projection to scale-up the loan product on the mainland and island *chars* PKSF discontinued funding for this loan at the end of the pilot. Cessation of this loan was due to the weak recovery rate in other loan portfolios, particularly the Urban Microcredit Loan. Instead, PKSF continue to fund Rural Microcredit (RMC) and Urban Microcredit (UMC) loans on the mainland.

Recommendations:

- Loan size should be determined by financial analysis of the chilli growers and the size of the land intended for chilli cultivation. In general loan size should be increased to minimum Tk.10,000 – 30,000.
- Loan support should be limited to the marginal farmers and sharecroppers who cultivate chilli not more than 2 *Bigha* land, instead of wealthier farmers cultivating over 3 *Bigha*.
- A strong post disbursement loan tracking system should be put in place and ARCHES should conduct an investment analysis of the borrowers to determine the economic scale of chilli cultivation and calculate the return on investment.
- The training on chilli cultivation should be continued and scaled-up to introduce better farming systems to maximize yield.
- Emphasis should be placed on bringing government agricultural extension services to the *chars* to make the extension services and improvement of agricultural practices sustainable.
- Exclusive marketing interventions to get optimum price of the outputs should be included by the loan provider. Such interventions include collecting and disseminating market related information to the borrowers on specific inputs and outputs, identifying potential markets, negotiations with potential wholesalers and linking producers with sellers.
- The prevalence of MF services providers should be increased on the *chars* to meet the credit demands of the targeted chilli growers in *chars*.
- Loan insurance mechanisms could be piloted to cover crop losses, for example refinancing the borrower and allowing them to repay in the following year after harvest.

Conclusion: This loan has the potential to be successful for poor and marginal farmers; however it is not suitable for the ultra-poor due to the size of cultivable land required. The most useful component of this loan was the specific training on improved cultivation and storage; the repayment upon loan maturity was the most favoured feature. The actual financial input provided was useful but did not make a significant impact on the farmers, as it was an insufficient amount in relation to their inputs and profits. This loan was disbursed only to male clients, with a 100% recovery rate, which is unusual given that woman are usually the preferred and more reliable clients.

6. Beef Fattening - SKS

Beef Fattening - SKS

Loan type:	Beef fattening
Location of clients:	Gaibandha (Shaghata and Fulchari Upazilas)
Number of clients:	50 (50 women)
Target clients:	Female marginal, small and landless farmers with experience in livestock and physically fit to rear cattle
Disbursement date:	March 2009
Recovery rate:	100%
Loan size:	Tk 10,000 – Tk 15, 000
Duration of loan:	6 months
Interest rate:	10% flat
Repayment schedule:	Weekly instalments to repay the interest for the first 4 weeks, then repayment of principal at the end of the loan period
Savings:	At least Tk 5 per week for 4 weeks before receipt of loan
Training:	2 days beef fattening training prior to receipt of loan

Beef fattening and the rationale for MF support: Cattle rearing is popular among *char* households as it provides an alternative source of income to agricultural day labour. Traditionally on the *chars* cattle are used to plough land and are sold when large enough to make a surplus income; however purposive fattening is not a widespread practice, perhaps due to the lack of information and knowledge gaps among *char* dwellers. Milking cows can provide a continuous income stream for 5-6 months, or households may consume the milk. Socially, cattle rearing is an important household activity because women can tend to their cow or bull alongside their day to day housekeeping. Female clients often claim to have greater control over the revenue generated from the sale of this asset.

Many ultra-poor households and some poor households on the *chars* are unable to engage in this activity due to the lack of capital required to purchase a cow or bull and meet other related costs. Yet beef fattening is highly attractive for poor and extreme *char* dwellers who are landless and assetless, as only a small amount of homestead land is required to rear one or two cattle. Based on this, the beef fattening loan was designed to provide credit and livestock training to support loan clients to invest and rear cattle for the purpose of selling. With the appropriate training to disseminate technological information and credit availability beef fattening has the potential to be a suitable economic activity for poor and ultra-poor *char* households.

Implementation: CLP recruited an Assistant Livestock Officer (ALO) who was responsible for training the beneficiaries on beef rearing and fattening, holding monthly group meetings to discuss good practices in beef fattening, as well as providing practical knowledge and technical support. The ALO also ensured vaccination and de-worming of the cattle, and smooth operating of the project.

Results: In total Tk. 700,000 was disbursed and SKS achieved 100% recovery of the loans from all borrowers, with no money overdue.

Financial Viability of Beef Fattening: The project lacked a cost-structure and profitability analysis, therefore it was difficult to provide an accurate profit analysis. To provide a general understanding of the costs entailed and the profitability of the activity the below calculations are based on rearing 1 bull.

Cost of Rearing 1 Bull (Estimation based on information from Staff and Borrowers):

Fixed costs (for new rearers)	Cost
Cattle shed (to house 1-2)	Tk.4,500*
Rope, bowl and others	Tk.500
Subtotal	**Tk. 5000**
Variable cost**	**Cost**
Bull (1 standard size)	Tk.15,000
Feed (daily Tk.25 x 30 days x 6 months)	Tk.4,500
Vaccine and medicine	Tk.500
Subtotal	**Tk.20,000**
Total	**Tk.25,000**

**Ultra-poor and CLP core participants use a lower cost shed, or often keep cattle in their own house.*
***This calculation does not account for labour time spent rearing the cattle or collecting grass for cattle feed.*

Sales value 1 bull 6 months after purchase	= Tk.35,000
Minus the fixed and variable costs:	= Tk.25,000
Net profit in one season:	= Tk.10,000

$$\text{Return on Investment (ROI):} = \frac{\text{Tk.10,000} \times 100}{\text{Tk.25,000}} = 40\%$$

Given that the loan in question was disbursed almost 3 years ago, it was difficult for the interviewees to recall the details accurately. Most of the borrowers interviewed reported that they did not purchase the average Tk.15,000 bull and instead spent Tk.9000 – Tk.12,000 and kept the rest of the loan on food, medicine and treatment of the cattle. Although it was difficult for clients to disaggregate their financial gain from cattle rearing from their household economy many clients claimed that after the 6 months loan period they used the surplus for house repairing or construction; others reported that they purchased a calf or reinvested in livelihood activities such as crop cultivation on sharecropped land. SKS staff reported that the average net profit made by each client was Tk.4000 – Tk.5000, yet no empirical evidence was provided.

Strengths and Weaknesses of the Loan Product and Performance:

Strengths	Weaknesses
• Convenient and realistic loan repayment of principal after the 6 month product cycle; • Borrowers were happy to receive the lump sum upon sale of their asset; • Many of the women engaged in an income earning opportunity which was not previously open to them, resulting in an additional income for the household and appeared to empower women giving them a greater decision-making role for women; • Appropriate for ultra-poor and poor who have little household land; • Regular group meetings in the weeks leading up the final repayment helped ensure clients were ready to make the full repayment; • Clients reported their satisfaction with a very physical form of loan product; • Processing and disbursement of loans was quick and delivered as per plan; • Borrowers claimed that the livestock training they received was useful and benefited them (although many were unable to explain the processes and techniques to the review team); • 100% recovery rate.	• The average loan size (Tk.14,000) did not meet the costs required to purchase a bull and meet the other set up and input costs required (20,000 - 25,000); • Borrowers purchased cattle less than the average price Tk.15,000, therefore they may have been of a lower quality or suitability; • SKS did not provide any technical support in the selection and purchase of appropriate cattle; • Up-front payment of interest within the first 4 weeks after disbursement of loans was an unnecessary burden on the poorer clients; • The poorest clients struggled to provide enough food for the cattle; • No insurance was offered to cover risks such as theft or death of cattle; • No cost-structure or profitability analysis in the design and monitoring of the loan product; • Weak targeting and follow-up resulted in diversion of the beef fattening credit for other purposes in some cases.

Targeting: The beef fattening loan was intended for marginal small and landless farmers, however those interviewed belonged to relatively upper social and economic groups with multiple sources of income. The borrowers were located on mainland embankment areas or attached *char* areas as opposed to island *chars*. As a result it is difficult to know whether the loan product would be as successful on island *chars*, where access to livestock services are very limited and operational costs are higher. Moreover the current loan product design excludes the ultra-poor as the loan size is insufficient and the targeted clients require a cattle-shed in order to take the loan.

Performance: The overall performance of SKS in offering and managing the loan was good as disbursement was on time and on-time loan recovery was 100%. However the review team were unable to assess whether borrowers repaid the loans by selling their cattle or whether they retained it beyond the 6 months and repaid the loan with other sources of income. Selection and tracking of clients was a weakness, as some of the loans were received by non-target clients and some used the loan, or part of it for purposes other than beef fattening. Additionally there was no tracking of what types of cattle were purchased by the borrowers and for how much, or what value these were sold for.

Most of the borrowers purchased their bull for Tk.9000 – Tk.12,000, which raises questions over the suitability of the cattle for beef fattening. Instead of offering loans based on a cost-structure analysis, SKS followed conventional mainstream MF offering

loans between Tk.10,000 – Tk.15,000 without following up the utilisation of these loans and ensured that all loans were repaid fully on time.

Scaling-up: The beef fattening loan product was scaled-up by SKS and is offered in 9 of the SKS Foundation's 11 mainland branches. As of November 2011, SKS had almost 400 outstanding loan clients in 3 districts and 19 Upazilas, including 3 in *char* areas and offers loans between Tk 15,000 and 30,000. The beef fattening loan is not offered in any of the 4 branches in more remote locations on the *chars* due to the perceived high risks such as flooding. Although de-worming and vaccination are promoted and training is provided to clients, not all cattle are guaranteed to receive vaccination and de-worming. SKS is also piloting an insurance scheme to safeguard clients' investments in the case of theft or disease, which employs 1 livestock officer to cover all clients.

Recommendations for improvement:

- Market segmentation and targeting the right clients must be in alignment with the project goal and objectives;
- Loan size should be enlarged to an amount determined by a cost-structure analysis;
- A borrower should receive the full amount of loans so that he/she does not have to borrower from another MFI or moneylender to cover costs of the beef fattening;
- Loan interest should be repaid at the end of the loan period along with the principal;
- IMOs/ MFIs should assist with the selection and supply of the right variety of cattle for fattening, especially where clients are ultra-poor and illiterate;
- Better monitoring and follow-up systems to track borrowers' investments should be employed to prevent utilisation of loans for alternative purposes;
- IMOs/ MFIs should be involved in the marketing of the cattle so that the borrowers can obtain the optimum price and gain from their investment;
- Credit staff in the field should have sufficient livestock knowledge to support the clients;
- The IMOs/ MFIs should have a separate business plan, accounting and MIS for the beef fattening loan, especially during the pilot period;
- Beneficiary training on beef fattening could include accounting and expenses entailed in rearing cattle and ALOs should ensure that clients plan how they will provide enough food the cattle;
- Loans should be dispersed in areas where there is sufficient access to livestock medical support; this will need to be increased in many island *chars* areas.

Conclusion: Overall this loan product has been successful, as evidenced by the scaling-up and the clients' satisfaction. If the loan size is enough to cover the input and set-up costs then the product is appropriate for extreme poor and poor *char* dwellers as little land is required. However, sufficient vaccination and de-worming to ensure cattle health is essential and given the limited medical support on the *chars*, an insurance scheme could improve this product. Other alterations include payment of interest upon loan maturity instead of in the first 4 weeks and better monitoring and follow-up of the utilisation of loans is necessary.

7. Land Lease Loan - RDRS

Land Lease - RDRS

Loan type:	Land lease for seasonal crop cultivation/ housing
Location of clients:	Kurigram (Rajibur and Chilmari Upazilas)
Target clients:	Male and female ultra poor, marginal farmers and sharecroppers with less than 1 acre, physically able to do agricultural labour, permanent residents in project area, agriculture is the main occupation
Number of clients:	150 (145 women, 5 men)
Disbursement date:	January 2009
Recovery rate:	100%
Range of size of loan:	Tk 5,000 – Tk 15,000
Duration of loan:	1 year
Interest rate:	10% flat
Repayment schedule:	Six-monthly (2 instalments)
Savings:	At least Tk 5 per week for 4 weeks before loan receipt

Land leasing and the rational for MF support: Leasing in and leasing out land refers to the temporary ownership of land, and is a common practice on the *chars*. Landowning households temporarily lease out their cultivable land during times of need for one season, one year or longer on a mutual agreement to provide cash in emergencies. Those who lease in the land are provided with an opportunity to grow seasonal crops and earn revenue. Yet extreme poor households lack the credit to take advantage of this economic opportunity and instead work as day labourers for the minimum wage and temporarily migrate for work when little agricultural work is available. Furthermore it is these extreme poor who are most vulnerable to river erosion and flooding and face frequent displacement, making acquisition of land to live on and/ or cultivate very difficult.

Usually the marginal farmers with small amounts of land lease out their land during financial crises and wealthy groups with the necessary capital lease in the land. A loan designed to enable the extreme poor with little or no land to cultivate seasonal crops on leased land or construct a house for internally displaced and repay the loan upon harvest is ideal for the poor and extreme poor *chars* dwellers. However, because it is the marginal farmers rather than the rich who lease out their land, this could bring unintended negative consequences such as an increase in dowry among marginal farmer households.

Implementation: CLP trained implementing staff to train all 150 clients on a wide range of agricultural activities and recruited 2 Programme Technical Assistants (1 in Chilmari and 1 in Rajibpur) to monitor the loans and provide field support. The long-term strategy was for RDRS to continue to receive funding from PKSF to implement the land lease product following the pilot. RDRS staff assisted with the process of signing a bilateral written agreement between the leaser and the lessee.

Results: In total Tk.16.68 *lakh* (Tk.1.668 million) was disbursed and RDRS achieved 100% recovery of the loan, with no money overdue.

Financial Viability of Land Leasing: The financial benefits from the leased land depend on the type of land and how the lessee uses the land. Generally 1 *Bigha* of cultivable land in the *chars* is leased at Tk.20,000 – Tk.30,000 depending on the location and quality of the land. The lessee can usually produce 2 cycles of crops in this land over a period of 12 months. The ROI on the land lease loan, which is approximately 65% is higher than many other traditional economic activities and has potential to increase further if land is used more efficiently. Below is an approximate estimation of the cost of cultivating paddy and vegetables during a 12 month land lease.

Cost of Cultivating Paddy and Vegetables on 1 Bigha of land

Yield from 1 Bigha of Land: 15-20 *Monds* per season

Sales value of crop: (15,000 for 20 *Monds*)	= Tk.15,000
Minus cost of production: (5,000)	= Tk.10,000
Net profit in one season:	= Tk.10,000
Net profit in two seasons:	= Tk 20,000

$$\text{Return on Investment (ROI):} = \frac{\text{Tk.20,000} \times 100}{\text{Tk.30,000}} = 66.67\%$$

The mid-project assessment conducted by an external consultant found that in almost all cases beneficiaries had some margin of profit over their investment, however this excludes their own labour and the highest profit has been from chilli and onion cultivation[3]. The same study found that among the project beneficiaries 80% used to migrate seasonally away from their area in search of work, yet after commencement of this project, the seasonal migration rate reduced to 20%[4].

Strengths and Weaknesses of the Loan Product and Performance:

Strengths	Weaknesses
• Clients consumed part of the produce and earned a reasonable income from the land, claiming they benefited economically; • Good ROI; • Loan provided access to land for ultra-poor and poor, some with no cultivable land of their own, therefore appropriate for ultra-poor; • The written agreement is an important step towards formalising the agreements and establishing the rights of the lessee that has been replicated; • The training provided on the use of leased land and the cropping system in the *char* context was reportedly useful to the borrowers and helped them achieve a good ROI; • Perceived as a secure loan as the written	• The borrowers expressed a higher loan size which is based on the needs analysis of the client not standard Tk5,000 - 15.000; • Inflexible repayment systems: • -Some borrowers preferred to repay the loan in quarterly instalments; • -Some borrowers found it difficult to repay the loan in 2 instalments and preferred to repay the full amount upon loan maturity; • Most borrowers expressed preference for the loan period to be increased to 2 years instead of 1 to enable greater ROI.

[3] Nath, B (2009). Assessment of Land Lease Loan Product to Island Char Dwellers.
[4] No information is supplied on a control group.

Strengths	Weaknesses
agreement ensures that there is little risk of losing the principal investment; • RDRS appeared to follow the selection criteria closely, and processed and disbursed all the loans on time; • The support, monitoring and follow-up provided by RDRS staff was appreciated by the borrowers; • RDRS maintained sufficient records and reports on loan disbursement and realisation; • 100% recovery rate with no overdue or delayed repayment.	

Targeting: The clients interviewed were ultra-poor and poor, meeting the original targeting criteria and were located on island *chars*. However, to maintain the ultra-poor clients a supplementary seasonal loan is needed to enable them to use the land productively. Among the borrowers interviewed, all of them used the whole amount of the loan taken for land, or part of it for land and the remaining small portion for inputs to utilise the land.

Performance: RDRS successfully followed the proposed criteria for selecting the appropriate clients and processed and disbursed the loans on time. The records and reports maintained were sufficient and on time loan recovery rate was 100%. The support provided to the clients in the form of needs based training on social and economic issues, monitoring and follow-up was praised by the clients. The groups formed under the pilot have continued and the borrowers are saving in the group.

Scaling-up: This loan product has been scaled up. As of November 2011, 1800 RDRS clients have an outstanding land lease loan in 3 Upazilas. PKSF have continued to fund this product implemented by RDRS, as well as a further 6 implementing organisations. However, RDRS are no longer able to provide the crucial training component when disbursing the loan. Additionally as the product is scaled up, monitoring becomes increasingly difficult and a sufficient supply of agricultural officers is required to ensure positive results.

Recommendations for improvement:

- The training embodied in the pilot project should be continued and strengthened further with the diversity of the land use;
- A study on who leases out land and who leases in is required to understand whether this loan product has a negative impact on the marginal farmers;
- A loan to protect leasing of land by marginal farmers might be needed;
- Considering the present market situation of land leasing in the *char* areas, the loan size needs to be revised to make it appropriate to enable borrowers to lease a reasonable amount of land;
- Duration of the loan should increase to 2 years as the leasers do not usually release the land within a year. A survey could be conducted to investigate this;
- Ultra-poor borrowers may need a supplementary seasonal loan to enable them to use the land productively, this could be assessed during selection of clients before disbursement;
- More specific selection criteria should be developed to ensure that the loans are used effectively after leasing;

- A sufficient number of agricultural officers should be deployed to monitor loan use effectively.

Conclusion: The full repayment rate and scaling up of the product within RDRS is evidence of the overall success of this loan. The loan is suitable for both extreme poor and poor *char* dwellers to give them the opportunity to cultivate land and early findings showed that it is likely to reduce seasonal migration. However training, guidance and a sufficient supply of agricultural officers are required to ensure the correct utilisation of the loan and the full recovery. Replication of the written land lease agreement is an unintended positive impact that the IMO can bring to the wider community, not just land lease clients.

8. Conclusions and Recommendations

All three IMOs attained an impressive 100% recovery rate on the loan products piloted, and 2 of the 3 pilots have been scaled-up. This suggests that from the lender's perspective seasonal loans used for the purposes of beef fattening, crop cultivation and leasing land are viable in the *char* areas. Overall the clients interviewed claimed to have benefited from the taking the loan. For the land lease loan and the beef fattening loan, borrower satisfaction is demonstrated by the pilot clients' continuing as loan clients after the initial pilot period.

The seasonal one-time repayment method appeared to work well for both clients and lenders, however some SKS clients struggled to pay the interest at the beginning of the loan period and preferred to repay the principal and interest upon maturity of the loan. All 3 loan products had components in the product design which could be altered slightly to offer a more needs-based loan. The findings suggest that product design, such as the size of the loan taken should be based on the clients' specification, e.g. for chilli cultivation: the amount of land they own; this could result in a higher ROI. If products are adequately designed they can be suitable for ultra-poor, as well as poor borrowers on the *chars* as in the case of the land lease loan.

Utilisation of the loans for their intended purposes seemed high, except in a few instances regarding the beef fattening loan, when parts of the loan were used for other purposes; this could have been prevented by better tracking and monitoring. Appropriate selection and follow-up of the clients is essential to ensure the intended and effective utilisation of the loan.

In all three pilot projects the clients reported that the training was beneficial and helped them to increase their profits from the economic activity. The absence of a client's training component in the loans which have been scaled-up is a concern for the IMO staff and the clients who have taken the loan again.

Key recommendations include:

- Specific training for borrowers in the economic activity;
- Repayment of interest and principal should be upon loan maturity and not before;
- A strong post disbursement loan tracking system should be put in place and relevant follow-ups made by field staff.

These recommendations increase the cost of delivering the loan. In order for this to be viable for some MFIs, supplementary funding may be required. To make MF loans appropriate for the *char* households, lenders need to shift away from conventional mainstream approaches to lending and instead offer loans more aligned with the clients' needs. These pilots have made a start but there is room for improvement.

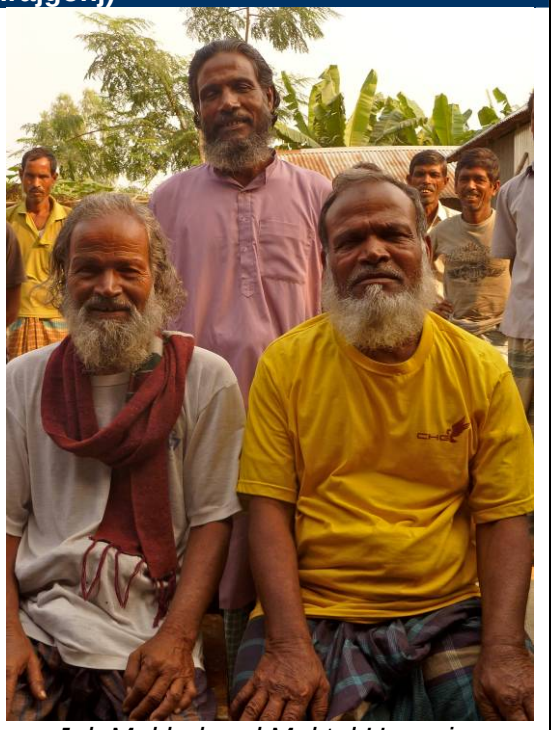
Appendix 1

Improved Chilli Cultivation Loan
ARCHES (Sirajgonj)

Name: Jel Hossain Mondal
Age: 60

Village: Fulzore Char
Union: Natuarpara
Upazila: Kazipur
District: Sirajgonj

Household members: 12
Homestead land: 2 *Bigha* and 7 tin houses
Cultivable land: 25 *Bigha*
Assets: 5 cows, 4 goats, 15 chickens
Food security: the household has a large grain storage house and consume food from their own land all year round, crops include paddy, maize and chilli
Income: farming and remittances from 1 son working in garments in Dhaka and 2 sons working in Malaysia.



Jel, Mokbul and Moktal Hossain

Jel's family has been living in Fulzore Char for five generations. Similar to his brothers Mokbul (55) and Moktal (53), Jel took the Tk.5000 chilli loan from ARCHES in 2008 and repaid the principal and interest with no problems at the end of the 6 month loan period. Jel used the loan to contribute to fertiliser and irrigation costs for his 6 *Bigha* land allocated for chilli cultivation.

Usually Jel stores the produce in his storage house and sells the chillies gradually in Natuarpara market but sometimes traders come to the *char* to purchase in bulk. He has used his profit from chilli and other crop cultivation to purchase land in Sherpur.

The brothers are not members of any other MFIs or NGOs and there are no other MFIs working in Fulzore Char. Jel's brother Mokbul emphasised the demand for access to microfinance credit, insurance and savings services and reported that there is a demand for a microfinance branch on the their *char*.

Appendix 2

Beef Fattening Loan
SKS (Gaibandha)

Name: Nasima Begum
Village: Line Bazar
Union: Gajaria
Upazila: Fulchari
District: Gaibandha

Household members: 5
Homestead land: 12.5 decimals
Cultivable land: none
Assets: 1 cow, chickens, a poultry shed, 2 tin houses, 1 boat, and 1 power tiller

Food security: purchase food supply year round
Income: multiple sources: hardware shop, prepare and sell sanitary latrines, seasonal bamboo business.

On the surface Nasima's and her husband (a local UP candidate) seem to be relatively wealthy and her husband has a large hardware shop. However the household spent Tk.200,000 competing in the Union Parishad election. Although the couple fully repaid their loan from SKS, they claimed that they also have membership with BRAC and Grameen Bank, as well as a loan from a moneylender. The household estimate their total debt to be over Tk.200,000 and pay over Tk.8000 in interest per month. They don't know how they will ever repay this debt. Their story demonstrates the dangerous cycle of debt that microfinance loans can lead to.

Name: Jobeda
Age: 40
Village: Nikuti
Union: Baratkahli
Upazila: Shaghata
District: Gaibandha

Household members: 3
Homestead land: 8.5 decimals
Cultivable land: 132 decimals (sharecropping)
Assets: 3 cows, 5 chickens, tin house

Food security: food grain stock for the whole year
Income: multiple sources: day labour, husband's agricultural work and her son earns Tk.6000 per month in a local saw mill.

Jobeda claims that she used her Tk. 15,000 loan from SKS for the intended purpose i.e. beef fattening and sold the bull after 5 months for approximately Tk.20,000. She paid the interest with income from daily labour and repaid the principal loan after selling the bull. She reinvested some of the profit in crop cultivation and continues to rear 3 cows on her homestead. Jobeda has taken another beef fattening loan but is not a member of any other MFI, nor was she at the time of taking the SKS pilot loan.

Appendix 3

Land Lease Loan
RDRS (Kurigram)

Name: Moyna
Age: 45

Village: Mudafat
Union: Austomirchar
Upazila: Chilmari
District: Kurigram

Household members: 4
Homestead land: none, live on leased land
Cultivable land: none
Assets: 3 small tin shed houses, 1 cow, 1 goat
Food security: food stock all year round
Income: Moyna's husband works as a day labourer and her son constructs and repairs local houses

.Moyna took a Tk.10,000 loan to lease 15 decimals of land land for crop cultivation. Whilst she cannot remember which crops she cultivated she claims that she benefited from the loan and her family are now able to eat 3 times a day and can repair their houses. Since her initial loan, she has taken another Tk. 10,000 loan from RDRS and has Tk. 2,500 savings with RDRS

There are no other MFIs working in her village, therefore if she wanted credit to lease in land using credit other than RDRS, she would have to borrow from the local moneylender at a rate of approximately 120% per annum. Moyna expressed her desire for more MFIs to work in her village and for the availability of flexible savings schemes to allow her to build savings safely.