

March 8, 2004

## **Final Report**

**Review of Integrated Rural Development Project-2 Implemented by  
Community Development Program,  
Gaibandha**

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**January 2004**

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## **ACRONYMS**

CDP	Community Development Program
ED	Executive Director (of CDP)
GOB	Government of Bangladesh
ME	Microenterprise
SF	Stromme Foundation
IRDP	Integrated Rural Development Project (of CDP)

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## **ACKNOWLEDGEMENT**

I would like to thank Zahirul Islam of Stromme Foundation for giving me the opportunity to study the activities of IRDP2 project of CDP. His colleague Joel Das was also very helpful. The Executive Director of CDP deserves my sincere thanks for coordinating our study. The Branch Managers of Sadar and Dhubni branches and their colleagues have been very cooperative during the review. I thank them for their help and hospitality extended to me and to my associate. I am very grateful to the group members for sharing their views and time.

## **1. BACKGROUND AND METHODOLOGY**

### **1.1 Introduction**

The Community Development Programme (CDP) has been working in Gaibandha since 1984. Stromme Foundation (SF) has been supporting a project called Integrated Rural Development Project- 2 (IRDP2) since 1999. The duration of the project is five year ending December 2003, which includes several activities such as institution building, microfinance, sanitation awareness and disaster preparedness awareness building. A midterm review was conducted in July 2002 by B. Nath. This review is end of the project review. However, SF has changed its policy of project financing. Instead it has decided to finance partner organizations. That will mean SF will be reviewing the organization to see the performance for determining its funding level. Accordingly the focus of the review has been on institutional capability in addition to project performance, which covers activities funded by SF during 1999-2003. The review was planned for December 2003 instead it was conducted in January 2004 at the request of CDP.

### **1.2 CDP Activities in Gaibandha**

The Community Development Program (CDP) has been implementing the IRDP-2 project since 1999 with the assistance from SF. It operates in 19 Unions (82 villages) in three Upazilas --Sadar, Sadullahpur and Dhubni, of Gaibandha district. It has a very small operations comprising of three branches having approximately 4000 members. The objective, as stated in the project proposal of CDP, is to ‘bring positive changes in socio-economic conditions of the landless poor and marginal families through participation and empowerment into development activities, so that they can attain sustainable development in health, wealth and dignity.’”

The IRDP-2 project has four components:

- **Group mobilization and institution building:** Women from landless and marginal poor families are mobilized into groups of 15 to 25, which is used as a platform for launching other development activities such as microfinance, sanitation and disaster preparedness awareness building.
- **Income generation:** A regular savings and credit program has been managed since the inception of the project. Members make weekly savings and receive loans from CDP.
- **Sanitation:** An awareness program has been launched regarding adverse effects of poor sanitation and assistance for promoting sanitary latrines. As explained later, this program is practically stopped.
- **Disaster preparedness:** Gaibandha is a flood prone area, which causes loss of crop, livestock, houses and extreme hardship to the poor during annual flood. A campaign was launched to encourage member make extra savings and develop good houses. This program has also been abandoned.

### **1.3 Methodology of the review**

From the outset it was agreed with SF that the present study will not be a rigorous quantitative evaluation of the project. It will more of a review based on discussion and observations of the activities of CDP in two areas Gaibandha Sadar and Dhubni branch areas. The Terms of Reference of the review is given in Annex 1. Based on that understanding, the review was conducted by following the methodology outlined below:

- a) The microfinance programs in two branches namely Dhubni and Sadar were visited during the review, i.e. two out of three branches were studied. Activities of microfinance, sanitation and disaster preparedness programs were observed.
- b) Among the three branches Dhubni is better performing branch in terms of loan recovery. It was included along with Sadar branch to get a fair view of microfinance program. Four groups from Dhubni and six groups from Sadar branch were visited. Discussions were held with the members at group meetings to collect their views about the programs and their impact.
- c) Accounting and MIS system in Dhubni and Sadar branches were examined. Since CDP follows uniform accounting and MIS, it was adequate to make conclusions about CDP's system.
- d) Discussion meetings were held with all staff members in two branches and Head Office to collect their views about the program management and impacts.
- e) Project proposals and annual reports submitted by CDP, audit report prepared by external auditors and previous evaluation report by an external consultant were reviewed.

## **2.0 FINDINGS OF THE REVIEW**

### **2.1 Concept of the program**

The focus of CDP has been formation of groups for implementing development activities such as microfinance, sanitation awareness and disaster preparedness. All these three components of CDP activities are justified given the poverty, very low sanitation coverage and adversity faced by the poor people of Gaibandha every year due to floods. However, as explained later, activities of CDP have been concentrated on microfinance. Other two areas, sanitation and disaster preparedness remained limited to discussions on these issues on group meetings.

### **2.2 Microfinance Program**

The microfinance program of CDP is facing an extremely difficult situation. An evaluation of impact of CDP's program is of not much use at this situation. The focus of the review has been to see the gravity of problems in microfinance program. The issues and findings related to the microfinance program are summarized below:

*Target groups and outreach:* At the end of December 2003, the total number of members was 3,870 of which 3710 were borrowers. Visits to 10 groups in two branches (Sadar and Dhubni) indicate that members generally belong to the poor families in the villages.

Gaibandha is one of the poorest districts in Bangladesh. CDP has been successful in reaching the very poor households in the working villages. Discussion with the staff members show that they earlier focused on mobilizing the very poor. But now they think it is one of the reasons for poor recovery rate. However, the author thinks it could be strength if properly managed.

*Loan recovery rate and portfolio quality:* CDP has failed to maintain a good recovery rate. Currently the overall loan recovery rate is 69%, which is not acceptable for any well performing MFI. Two branches have even lower rate of recovery (Sadullahpur 63% and Sardar 64%). Although branch managers are trying to improve the rate, no significant improvement has been achieved. The current focus is to maintain 100% recovery for new loans and try to recover old loans. The situation has resulted very poor portfolio quality – 32% of loan outstanding is overdue loans. This has created serious constrains on cash flow. On one hand it has to repay SF's loan installment on the other hand CDP has to maintain disbursement to the good performing borrowers. Unless it can maintain its disbursement to the good borrowers there is possibility of break-down of trust, which may lead to further default. Although CDP has overdue of Taka 3,006,360 of which Taka 1,666,122 has crossed loan period, the loan loss provision is Taka 20,000 only. This is way below the required provision normally practiced by MFIs and recommended by PKSF. That means the loan outstanding is overstated. Given the recovery rate, overdue loans and limited opportunity to increase capital (in fact CDP has to repay loan installments to SF which will further reduce capital) the credit program is practically unsustainable. Unless CDP dramatically improves its portfolio quality it will be extremely difficult to maintain a reasonable program.

CDP has taken some steps to improve recovery rate such as (a) not to allow any default on new loans, (b) reduce loan size, (c) adjust loan outstanding with savings, (d) remove defaulters from groups, (e) persuade defaulting members to attend meetings and start savings, and (f) visit groups second time in the afternoon. The Branch Managers will be the key people for implementing the steps. The improvement will depend very much on their ability to motivate all Field Organizers to give extra efforts to arrest default and recovery overdue loans.

*Savings mobilization:* It has Taka 4.46 million as savings. To increase funds CDP has introduced four different savings products including 'DPS type' products for 7 and 14 years period. Although this drive may improve funding situation, the move is rather expensive and risky. It is risky for small and financially unviable NGO like CDP to venture into long-term deposit mobilization from members. It is more viable and reasonable to try to improve the portfolio quality and try to borrow from wholesale lenders such as SF and PKSF.

*Credit products:* CDP provides one loan per year. Current average loan size is Taka 4000. Members normally borrow between Taka 2,000 to Taka 5,000 for various purposes such as petty trade, rickshaw van, and crop production. It has been reported that Field Organizers did not conduct due diligence while selecting borrowers and estimating amount of loan needed for the members. That has led to disbursement of loans more than necessary, which is one of the reasons from poor recovery rate.

*Financial Viability:* The credit program of CDP supported by SF is not yet financial viable. It depended on SF's administrative subsidy to cover expenses. With the falling portfolio size and poor recovery rate it will be extremely difficult to cover full operating expenses. CDP must improve recovery rate, recover default loan, increase capital and reduce expenses to have any chance of making the program financially viable.

*Accounting system:* CDP follows double entry accounting system. It maintains all necessary books of accounts and entry are properly classified according to transaction category. Accounting and reporting system appear to be adequate. But it should introduce appropriate loan loss provision system.

*Management Information System:* CDP has elaborate reporting and consolidating system for program and financial information. It currently rates each group using a format with too many indicators, which makes it practically impossible to make any conclusion. It should be modified using a few indicators such as group-meeting attendance rate, regularity of savings and loan recovery rate. Utmost importance should be placed on these three indicators to manage a successful microfinance program.

*Internal control:* Currently the accounts officer from the Head Office checks accounts of each branch office. Branch office has an accountant. That should allow branch managers visit group more frequently and improve loan recovery. There have reports of corrupt practices by staff members. The Executive Director assures that these have been stopped.

*Human resources:* Our discussions with the ED and Branch Managers indicate that they did not have prior knowledge of managing microcredit. They have learned microcredit by trial and error method. That may partly explain the problems they are facing now. There should be skill training on microcredit management for all level of staff members.

*Impact of microfinance program:* The impacts of microfinance program as reported by the members at the group meetings during the visits are summarized below:

- Members' dependence on moneylenders has been reduced, who charge 120-140% per year compared to CDP's 30%.
- They could begin some income generating activities as well as expand existing businesses by accessing loan from CDP. This has created employment opportunities.
- Members have the opportunity to save regularly and can access the savings in case of emergency.
- Members reported increase in income as well as consumption. They have increased their assets. Some members have improved their houses.

### **2.3 Sanitation Program**

CDP in its project proposal mentions about sanitation awareness program. Discussion with groups indicates that Field Organizers did discuss this issue during group meetings. This has raised awareness about the need for having sanitary latrines. But the actual cover of sanitary latrine is poor. Given the financial situation of CDP it is unlikely that it will be able to launch any meaningful program to address this issue.

## 2.4 Disaster Preparedness

Gaibandha is a flood prone area. Similar to sanitation program CDP conducted an awareness program by emphasizing the need for good housing and extra savings as a means for disaster preparedness. It had even introduced an extra savings, which is now stopped due to inconvenience of managing two different savings. There is no housing program, but some members improved housing by borrowing from CDP.

## 2.5 SWOT Analysis

Informal discussion with the staff members, discussions in the meetings and observations of the reviewers reveal the following:

<i>Strengthen of the CDP</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> <li>• Organized groups, which provide the platform for the development of the poor people;</li> <li>• CDP has gained trust and confidence of the group members and people in general.</li> <li>• Has mobilized very poor people.</li> </ul>	<ul style="list-style-type: none"> <li>• Large amount of default loan; Poor loan recovery rate;</li> <li>• Very small credit funds for making the program financially viable; Credit fund is declining;</li> <li>• Staff members will need more training.</li> <li>• No apparent source of additional funds for credit program due to current poor performance.</li> </ul>
<i>Opportunities</i>	<i>Threat</i>
<ul style="list-style-type: none"> <li>• CDP may be able to expand its credit program provided it has additional funds.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no significant threat to its existence from outside.</li> </ul>

## 3.0 CONCLUSION AND RECOMMENDATION

### 3.1 Conclusions

CDP is facing serious financial crisis due to its poor portfolio quality, poor recovery rate and gradually declining credit funds. It has taken some steps to improve the situation. The success of its drive to improve the program very much depends on the ability of the branch managers and field workers. Extra resources will be necessary to maintain the disbursement level, which is expected to assist the recovery drive. It has improved credit policies, and possessed good accounting, internal control and management information system.

Sanitation and disaster preparedness programs are not of any significance. The present strategy should be consolidation of the credit program.

### **3.2 Recommendation for CDP**

#### ***3.2.1 Microfinance***

- a) Improve the loan recovery rate and quality of portfolio by recovering default loans.
- b) Raise additional funds to maintain the level of disbursement for the three branches to make the present scale of operation of CDP financially viable.
- c) Introduce appropriate loan loss provision.
- d) Use simple but effective indicators such as attendance rate, regularity of savings and loan recovery rate to monitor the performance of groups.
- e) CDP should be very cautious in introducing long-term savings. This may be risky for unsustainable organization like CDP, whose loan operation is way below desirable level.

#### ***3.2.2 Human Resources Development***

- a) Additional training on microfinance development should be given to staff members.

### **3.3 Role of Stromme Foundation**

- a) From a lender's point of view the program of CDP is unviable given the quality of portfolio. Unless CDP dramatically improves its portfolio quality, it is recommended that SF consider stopping lending to CDP.



**Strømme Foundation Asia**

**Terms of Reference for Microfinance Program Review**

**1. Introduction**

As per the Agreement of Cooperation signed between the Partner and Strømme Foundation (SF), SF will organize periodic review of each project (MFI). SF's policy is to review the performance of each 5-year project twice: a mid-term review and a final review towards the end of the project period. A 3-year project is reviewed once towards the end of the project. After reviewing its approach, SF has decided to lend to its partner on a long-term basis to capitalize microfinance programs. That means SF will not treat its partners as projects rather they are organizations. The implication of this approach on performance review will be profound. SF will review the partners to consider refinancing the organizations.

**2. Scope of Review**

The performance review is a tool useful for both the Partners and Strømme Foundation. The findings from the review will help the Partner to see the areas of their successes and deficiencies in project planning, implementation and commitment of inputs, as well as the drawbacks and weaknesses of the staff and management. For SF this will help weighing the impact of the program, achievements compared to planned objectives, cost effectiveness of the program, and guide SF in reviewing future support strategy. The overall objective of the review is to gather insights into the performance of the partner in the management of the program, impact of the program and the future direction of the program.

**3. Detailed Terms of Reference**

**3.1 Scope of Review**

The general objectives of the review are:

- To study whether the partner has implemented the program as planned in regard to selection of target people,
- training, strategy and management;
- To get an overall view and salient features, special characteristic, strengths and weakness of the project;
- To examine and assess the effects and impact of the project;
- To assess specific objective of the program in relation to how income and employment generation have helped the participants;
- To comment on the extent the program has helped in achieving its the objectives;
- To identify and suggest future course of direction

**3.2 Detail Terms of Reference**

### 3.2.1 Aims and objectives of the program

- a. Assess the degree of achievement of the program objectives;
- b. Idea (conceivability) of program aims and objectives by the staff and program beneficiaries; and
- c. Recommendations.

### 3.2.2 Program management

- a. Is the project period sufficient to effect an economic development among the target number of beneficiaries?
- b. Was the monitoring and follow-up system of the management accurate and sufficient?
- c. Were accounts and records keeping system of the organization compatible for the project?
- d. What are the strength and the weakness of the organization?
- e. Recommendations

### 3.2.3 Staff capability and discharge of responsibilities

- a. Was the number of worker sufficient?
- b. Interest/Morale of staff in carrying out own responsibilities
- c. Strengths and Weaknesses of staff in carrying out job responsibilities
- d. Recommendations

### 3.2.4 Organizational efficiency

- a. Fund management (portfolio management)
- b. Staff efficiency
- c. Risk management
- d. Repayment/overdue management
- e. Cost efficiency
- f. Operational/Financial sustainability

### 3.2.5 Impact assessment

- a. Assess the level of achievement of the Project in terms of poverty emancipation/ economic sustainability of the beneficiaries?
- b. Capacity of project in mobilization and capacity building of the project participants.
- c. Development of members' awareness, leadership and participation
- d. Development of members' skills in different trades to improve income.
- e. Capability of members to utilize credit for income generation.
- f. Capacity of members to utilize earned income for family development.
- g. Sustainability of the project.
- h. What lessons can be learned both positive and negative, particularly for planning and implementing a similar project by the partner?

## **4. Methodology**

### **4.1 Composition of Review Team**

The review is aimed to be fully participatory. The Review Team is formed with representatives from the Partner, Participants and Strømme Foundation. The Team will be headed by an External Resource Person having the skill and experience in development projects, especially in monitoring and evaluation.

### **4.2 Terms of Reference**

The Partner will draft the Terms of Reference (TOR) for the review in consultation with staff and participants. The TOR will be finalized after review and comments by SF.

### **4.3 Review Process**

The review will primarily involve gathering of qualitative information from group members and Partner staff members to compliment information gathered through regular monitoring system. Due to time and resource constraints, the review is NOT meant to follow rigorous statistically valid method of project evaluation. It also NOT meant to be only quantitative in necessary. The objective is to arrive at reasonably valid conclusion about the performance of the partner.

The review process will include following steps:

- Review of program documentation, audit report, previous review reports (if available);
- Collection of secondary data at the Partner/SF office;
- Field visit for data source review;
- Conduct group discussion with group members for impact assessment;
- Discussion with staff and management on findings of the review;
- Submission of Draft report
- Comments by Partner, SF and team members;
- Submission of Final Report

### **4.4 Data Collection**

The data/information collected in the process of the Review needs to be sex-disaggregated. Further, with regard to impact, the indicators need to relate also to gender/gender equality and empowerment.

### **4.5 Report**

The External Resource Person (Team Leader) will write a brief and concise report which will primarily include the findings and recommendations. The report and all data should be in English. The final report should incorporate observations on the draft report by SF and the Partner. The summary of the findings and any relevant section of the report will be translated into Bengali by the Partner to ensure participation and effective feedback by field staff and project participants

#### **4.6 Time for the review**

The Team Leader is expected to spend three days in the program area and spent 2 days for drafting the report. An additional two days are allocated to travel between Dhaka and the program area. That is a total of seven days are allocated for review of one partner.

#### **5.0 Deliverables by the Team Leader**

5.1 The Team Leader will submit a brief and concise final report in English. He/she is expected to debrief SF and the Partner.

#### **6.0 Time Frame**

The review should be completed by December 2003.

#### **7. Costs and Payments**

The cost of the review is built in the Annual Budget of each SF supported program. However, payment of fees to the Team Leader will be negotiated and paid directly by Strømme Foundation. Any logistic arrangements made by the Partner during the review should be invoiced to Strømme Foundation for reimbursement.